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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

FEB 29 2016

SEC FILE NUMBER
8-35721

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 1/1/15 AND ENDING 12/31/15  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Zions Direct, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

One South Main St., 17th Floor

(No. and Street)

Salt Lake City

Utah

84133

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

James Christensen

(801) 844-7776

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Ernst & Young LLP

(Name - if individual, state last, first, middle name)

178 Rio Grande, Suite 400

Salt Lake City

Utah

84101

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

**FOR OFFICIAL USE ONLY**

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

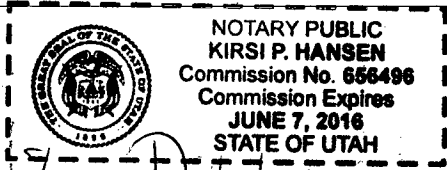
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Handwritten initials: NW

Handwritten initials: JB

OATH OR AFFIRMATION

I, James Christensen, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Zions Direct, Inc. as of December 31, 2015, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



[Handwritten signature of Kirsi P. Hansen]
Notary Public

[Handwritten signature]
Signature

SVP/FINOP
Title

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Zions Direct, Inc.  
(A Wholly-Owned Subsidiary of ZB, National Association)

Statement of Financial Condition

Year Ended December 31, 2015

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## Report of Independent Registered Public Accounting Firm

The Board of Directors  
Zions Direct, Inc.

We have audited the accompanying statement of financial condition of Zions Direct, Inc. (the Company) as of December 31, 2015. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Zions Direct, Inc. at December 31, 2015, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

February 25, 2016  
Minneapolis, Minnesota

Zions Direct, Inc.  
(A Wholly-Owned Subsidiary of ZB, National Association)

Statement of Financial Condition

December 31, 2015

**Assets**

Cash and cash equivalents	\$ 1,084,935
Restricted cash	100,120
Cash deposits with clearing organizations	3,350,627
Receivables from brokers, dealers, and others	1,172,508
Receivables from affiliate	148,821
Trading securities owned, pledged as collateral, at fair value	7,957,577
Fixed assets, at cost, less accumulated depreciation and amortization of \$672,457	91,970
Accrued interest receivable	92,915
Net deferred income tax assets	274,335
Prepaid expenses	84,127
Other assets	25,226
Total assets	<u>\$ 14,383,161</u>

**Liabilities and stockholder's equity**

Payables to brokers, dealers, and others	\$ 1,187,388
Payables to affiliate	109,980
Payable to customer	50,374
Employee compensation payable	94,977
Severance payable	105,913
Other liabilities and accrued expenses	171,745
Total liabilities	<u>1,720,377</u>

Stockholder's equity:

Common stock (50,000 shares authorized, issued, and outstanding; \$1 par value)	50,000
Additional paid-in capital	27,388,410
Retained deficit	(14,775,626)
Total stockholder's equity	<u>12,662,784</u>
Total liabilities and stockholder's equity	<u>\$ 14,383,161</u>

*See accompanying notes to Statement of Financial Condition.*

Zions Direct, Inc.  
(A Wholly-Owned Subsidiary of ZB, National Association)

Notes to Statement of Financial Condition

December 31, 2015

**1. Organization and Ownership**

Zions Direct, Inc. (the "Company") is a wholly-owned subsidiary of ZB, National Association ("ZBNA" or "Parent"). ZBNA was formerly known as Zions First National Bank. ZBNA is a wholly-owned subsidiary of Zions Bancorporation, a bank holding company with operations in several western states. The Company is a member of the Financial Industry Regulatory Authority ("FINRA") and is registered as a broker and dealer under the Securities Exchange Act of 1934.

The Company provides comprehensive brokerage services to its client base, including soliciting and effecting transactions in fixed income products, mutual funds, equities, unit investment trusts, annuities and insurance policies, municipal securities, and various other investment products. Trades for options are effected but not solicited.

The Company operates *zionsdirect.com*, an online brokerage service. The Company also has registered representatives in its principal markets of Utah, Idaho, Nevada, Arizona, California, Colorado, and Washington.

The Company offers certificates of deposit (CDs) for ZBNA and affiliate banks through its online auction platform. For primary securities issues, the Company receives an auction service provider fee from the underwriter based on the total amount auctioned. The Company can also receive a fee from the underwriter when participating in the selling group. The Company also acts as principal in auctioning secondary securities offerings including CDs, corporate bonds, municipal bonds and agency bonds.

For retail securities transactions, the Company operates as an introducing broker-dealer, clearing most transactions through National Financial Services (the "clearing broker"). On a limited basis, the Company self-clears a small number of annuity transactions and mutual fund transactions directly with providers and earns a commission on these transactions. The Company does not carry customer balances or act as custodian for customer securities.

For other securities transactions, the Company has contracted with its Parent to provide certain systems, clearing services, and support. The Company is a member of the Depository Trust Company (DTC) and its affiliate, the National Securities Clearing Corporation (NSCC). DTC/NSCC provides safekeeping and clearing services for the Company's securities inventory and self-cleared trades with other DTC/NSCC members.

## **2. Summary of Significant Accounting Policies**

### **Basis of Financial Statement Presentation**

The statement of financial condition has been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). The preparation of the statement of financial condition in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### **Cash and Cash Equivalents**

The Company classifies all highly liquid investments with no restrictions and an original maturity date of three months or less as cash equivalents. Cash equivalents represent funds held in a money market fund that totaled \$1,076,362 as of December 31, 2015. The Company's cash and cash equivalents are carried at cost, which approximates fair value.

### **Cash Deposits with Clearing Organizations**

DTC and NSCC require a cash deposit relative to the Company's self-clearing activity.

### **Trading Securities**

Trading securities owned consist of fixed income bonds stated at fair value with related changes in unrealized appreciation or depreciation reflected in earnings. Fair value is generally based on current market prices. If current market prices are not available, fair value is determined based on other relevant factors, including broker or dealer price quotations.

Trading securities transactions are recorded on a trade date basis.

### **Fixed Assets**

Fixed assets are carried at cost, less accumulated depreciation. Included in fixed assets are capitalized computer software costs of \$574,334, less \$494,359 of accumulated amortization.

### **Income Taxes**

Deferred tax assets and liabilities are determined based on temporary differences between financial statement asset and liability amounts and their respective tax bases and are measured using enacted tax laws and rates. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not.

### **3. Receivables from and Payables to Brokers, Dealers and Others**

Included in the receivables from and payables to brokers, dealers, and others are amounts due on unsettled principal securities transactions and payables for clearing charges.

Also included in the receivables from brokers, dealers, and others are commission amounts due from the clearing broker related to the settlement of retail securities transactions, net of payables for clearing charges.

### **4. Transactions with Customers**

For transactions in which the Company's clearing broker extends credit to customers, the clearing broker seeks to control the risks associated with these activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company and the clearing broker monitor required margin levels daily and, pursuant to such guidelines, request customers to deposit additional collateral or reduce securities positions when necessary. The Company has agreed to indemnify the clearing broker for losses that it may sustain from the customer accounts introduced by the Company. Based on experience, the Company expects the risk of such loss to be remote. At December 31, 2015, there were no amounts to be indemnified to the clearing broker for these customer accounts.

### **5. Income Taxes**

The Company is included in the consolidated federal income tax return filed by Zions Bancorporation. Generally, the Company files separate state and local income tax returns; however, where applicable, it is included in a combined state income tax return with Zions Bancorporation and certain other subsidiaries of Zions Bancorporation.

The Company's income tax provision is computed in accordance with a Tax Sharing Agreement between Zions Bancorporation and its subsidiaries. Deferred tax assets of the Company are offset with deferred tax liabilities.

As of December 31, 2015, current income taxes receivable totaled \$113,871, which is included in receivables from affiliate.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are reflected without reduction for a valuation allowance. No valuation allowance is recorded as it is more likely than not that the assets will be realized through Zions Bancorporation's consolidated tax return. Deferred tax assets of \$309,070 relate principally to deferred compensation, accrued severance, accrued value sharing, non-qualified stock options, and restricted stock. Deferred tax liabilities of \$34,735 relate principally to depreciation of fixed assets and deferred compensation.



## 6. Benefits

The Company participates in both Zions Bancorporation's 401(k) and employee stock ownership plan ("Payshelter") under which employees select from several investment alternatives. Employees can contribute up to 80% of their earnings to the Payshelter plan which will be matched 100% by the Company for the first 3% of employee contributions and 50% for the next 2% of employee contributions. Matching contributions are invested in Zions Bancorporation common stock.

The Payshelter plan also has a noncontributory profit sharing feature which is discretionary and may range from 0% to 6% of eligible compensation based upon Zions Bancorporation's return on average equity for the year. Profit sharing contributions are also invested in Zions Bancorporation common stock.

The Company participates in the Zions Bancorporation employee stock option and incentive plan. Details of the information for the share-based payments are disclosed in the consolidated financial statements of Zions Bancorporation.

## 7. Net Capital Requirement

As a registered broker-dealer with the SEC and FINRA, the Company is subject to the SEC's Uniform Net Capital Rule 15c3-1 (the "Rule"), which requires the maintenance of minimum net capital equal to the greater of \$250,000 or 6-2/3% of aggregate indebtedness as defined. At December 31, 2015, the Company had net capital, as defined by the Rule, of \$11,781,975, which was \$11,531,975 in excess of its required net capital of \$250,000. The Company's ratio of aggregate indebtedness to net capital was 0.0472 to 1 at December 31, 2015.

## 8. Fair Value of Financial Instruments

The Company applies ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"). ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

To measure fair value, ASC 820 has established a hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs. This hierarchy, utilized by the Company, uses three levels of inputs to measure the fair value of assets and liabilities as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data

## **8. Fair Value of Financial Instruments (continued)**

Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for nonbinding single dealer quotes not corroborated by observable market data

All of the Company's financial instruments, totaling \$7,957,577 at December 31, 2015, are carried at fair value or amounts approximating fair value using Level 2 inputs defined under ASC 820, which includes, but is not limited to, broker-dealer price quotations.

Assets, including receivables from brokers, dealers, and others are carried at contracted amounts, which approximate fair value. Similarly, liabilities, including payables to brokers, dealers, and others and payables to affiliate are carried at contracted amounts, which approximate fair value.

## **9. Concentrations of Credit Risk**

The Company is involved in various trading and brokerage activities in which the counterparties primarily consist of broker-dealers, financial institutions, and other institutional customers. In the event counterparties do not fulfill their obligations, the Company may be exposed to credit risk. The risk of loss depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

## **10. Commitments and Contingent Liabilities**

From time to time, the Company is subject to other lawsuits, arbitrations, claims and other legal proceedings in connection with its business. Some of these legal actions include claims for substantial or unspecified compensatory and/or punitive damages. A substantial adverse judgment or other unfavorable resolution of these matters could have a material adverse effect on the Company's financial condition, results of operations and cash flows or could cause the Company significant reputational harm. The Company believes, based on its current knowledge and after consultation with counsel, it has adequate legal defenses with respect to these legal proceedings in which it is a defendant or respondent, and the outcome of these pending proceedings is not likely to have a material adverse effect on the financial condition, results of operations or cash flows of the Company. However, in light of the uncertainties involved in such matters, the Company is unable to predict the outcome or the timing of the ultimate resolution of these matters or the potential losses, if any, that may result from these matters.

In the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines, penalties or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's financial condition, results of operations or cash

## **10. Commitments and Contingent Liabilities (continued)**

flows. However, the Company is unable to predict the outcome or the timing of the ultimate resolution of these matters or the potential fines, penalties or injunctive or other equitable relief, if any, that may result from these matters.

## **11. Related Party Transactions**

The Company maintained \$108,693 in cash accounts with ZBNA as of December 31, 2015.

The Company's office space is located primarily in certain ZBNA banking facilities. The Company reimburses ZBNA for allocated overhead costs and periodic payroll disbursements.

The Company has a \$10 million line of credit bearing interest at one year LIBOR plus 1.45% (2.2034% at December 31, 2015) with ZBNA. The line of credit is secured by the Company's trading securities held at the DTC. In addition, Zions Bancorporation pledges collateral to cover any shortfalls. The line of credit was not in use at December 31, 2015. The line of credit is renewable on an annual basis that matures July 10, 2016. A fee based on the unused portion of the line of credit with ZBNA is calculated quarterly. The fee is equal to 0.40% of the unused amount based on the average unused balance of the credit facility for the previous quarter.

The Company, with respect to its securities business, has entered into a clearing arrangement with ZBNA cover the cost of clearance personnel and technology platforms used to settle security transactions.

## **12. Subsequent Events**

Management has evaluated subsequent events through February 25, 2016, the date that the financial statements were issued. No subsequent events were noted that would have a material impact on the financial statements.

STATEMENT OF FINANCIAL CONDITION

Zions Direct, Inc.

(A Wholly-Owned Subsidiary of ZB, National Association)

December 31, 2015

With Report of Independent Registered Public Accounting Firm