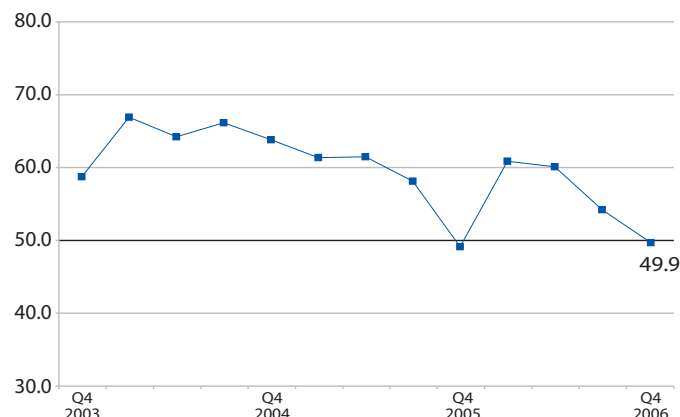


Outlook for Growth at a Slower Pace

The Colorado *Business Leaders Confidence Index*® (BLCI) decreased for the third consecutive quarter to a reading of 49.9, indicating that the economy is expected to grow at a slower rate in the months ahead. The forward-looking indicator has a neutral value of 50, with greater values representing an economy that is expansionary and lesser values characterizing one that is in a contractionary mode. Although the fourth quarter index reading falls below the neutral point, it is our belief that given the current strength of the economy, a slowdown is much more likely than a contraction in the short term. At the national level, 25% of the economists surveyed in a poll conducted by the National Association for Business Economics believe there will be a national recession at the end of 2007. In other words, the chance of a recession is greater today than in previous quarters.

Business Leaders Confidence Index History



Economic Growth Expectations for the State Outshine the Nation

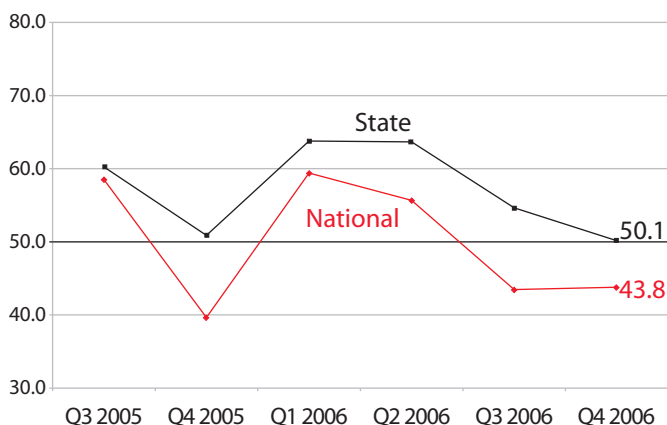
The fortune of the Colorado economy is closely linked to the performance of the national economy, and it appears that the two economies are experiencing similar growth patterns this year. As expected, first quarter real GDP growth was much stronger than normal. This result is anomalous, attributable to the rebuilding associated with the hurricanes in Louisiana and neighboring states. This was followed by 2.9% growth in the second quarter. A slightly lower rate is expected for the subsequent quarters, which will result in real GDP growth of about 3.5% for 2006. The U.S. economy is projected to continue growth in 2007 at a rate similar to that of the second half of this year, in the range of 2.5%–3.0%.

While Colorado's growth pattern may parallel the U.S. economy, its growth rate in many areas has outperformed the national economy. For the better part of the last two years, Colorado business leaders have had higher expectations for the state economy than the U.S. economy. It is worth noting that during this period, the U.S. economy has enjoyed real annual GDP growth in the range of 3.5%–4.2%.

The 50.1 rating for state economic expectations was higher than national index component which registered at 43.8. The BLCI panelists are divided about the prospects for continued growth in the state. Approximately 27% of the panelists believe the state economy will show strong or moderate growth during the fourth quarter. This is down from last quarter and is

matched by the number of respondents who think the economy will show a strong or moderate decrease this quarter. Roughly 46% of the respondents believe the state economy will remain unchanged in the short term.

Expectations for National and State Economies



The outlook for the nation is less optimistic. Only about 18% of the panelists expect to see strong or moderate growth in the U.S. economy, while 40% anticipate no change. Unfortunately, approximately 42% of the business leaders foresee a declining national economy in the months ahead. This suggests our panelists see below-trend growth ahead, in line with national forecasts. Based on research and anecdotal evidence, the Business Research Division (BRD) concurs with this view. While factors such as higher interest rates and energy prices may dampen personal

consumption, business investment and government spending, we think there is sufficient momentum to ensure a relatively smooth transition to an economy that allows for real GDP growth in the range of 2.5%–3.0% in 2007.

In this anticipated positive growth climate, Colorado employment in 2006 is expected to climb by 2.3%, whereas employment in the United States is on target to increase 1.5%. This expected growth in employment will drive net migration slightly higher, resulting in a population increase of about 1.5% for Colorado, compared to 1.0% at the national level.

Cautious Optimism about Sales and Profits

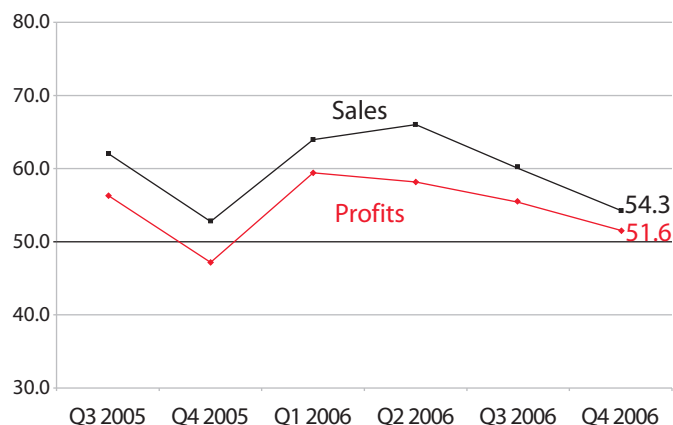
Despite concerns about the performance of the national economy, Colorado business leaders remain optimistic about the prospects for industry sales and profits, although less optimistic than last quarter. Expectations for sales measured 54.3, down from a reading of 60.2 for the third quarter. About 45% of those surveyed anticipate increased sales in the months ahead, down 12% from last quarter, while 29% expect sales will remain unchanged in the short term. Approximately 26% of panelists expect their industry to experience declining sales.

Overall profit expectations for the fourth quarter measured 51.6, down for the third straight quarter. Most likely this decrease in confidence is a result of increased costs and wage pressures from lower unemployment. To illustrate this point, the Denver-Boulder-Greeley CPI is expected to increase to 3.5% this year—a full point higher than last year—and statewide unemployment will remain under 5%.

The BLCI respondents are fairly evenly divided in their thoughts regarding the prospects of future profits. About 36% of the panelists expect to see strong or moderate increases in profits during the fourth quarter. Approximately one-third of the respondents anticipate no change in profits, while 31% project strong or moderate decreases. If energy costs and interest rates stabilize during the final quarter of the year, as currently appears to be the case, it is likely that this index component will register a more favorable reading next quarter.

At the moment, Colorado is a state with two strong sets of forces driving the economy. On the positive side, retail sales, exports, and personal income are expected to show stronger than expected growth. On the other hand, the combination of higher energy costs and comparatively high interest rates may slow consumption. Employment growth in the manufacturing and information sectors has not met expectations, although output per employee remains strong. Finally, there is concern about the outlook for construction as a result of the slowing housing market and data showing that Colorado leads the nation in per capita foreclosures. The BRD believes the positive factors will outweigh the concerns, although the concerns should not go unnoticed.

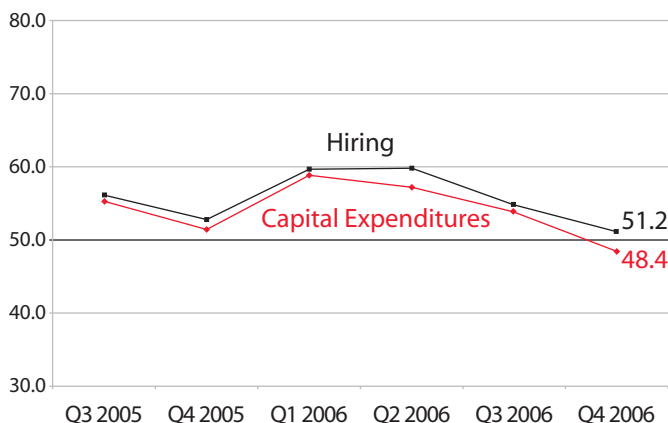
Sales and Profits Expectations



Panelist Expect Positive Growth in Hiring

This year will mark the second consecutive year that Colorado employment has grown at a substantially faster rate than the national rate. Initial projections for Colorado employment suggest that the state is on target to add about 50,000 wage and salary workers this year. Forecasts for next year range from 30,000 to 50,000 new jobs, with the consensus at the higher end of the range. Also on a positive note, August employment data reveal that the Colorado manufacturing sector increased for the first time in a number of months. In addition, the professional business services sector, the absolute leader in the number of new jobs, continues to show steady, sustained growth. If there is an area of concern it is the construction sector, which currently accounts for about 20% of new jobs added across the state. The previously

Expectations for Capital Expenditures and Hiring



mentioned high foreclosure rates, high interest rates, and potential overbuilding in pockets of the state will result in a slowdown in the number of jobs added in this sector.

The expansion of the national and state economy is driven by increased business investment in labor and capital goods. Recently, Colorado companies have placed a higher premium on investment in their workforce. This point is illustrated by BLCI survey data that indicate roughly 30% of the Colorado business leaders expect strong or moderate increases in their industry’s workforce during the fourth quarter, and about 47% anticipate no change. Approximately 23% of the respondents anticipate lower employment during the fourth quarter. In other words, about 77% of Colorado’s business leaders expect to see an economy that will allow their industry’s workforce to remain stable or show growth.

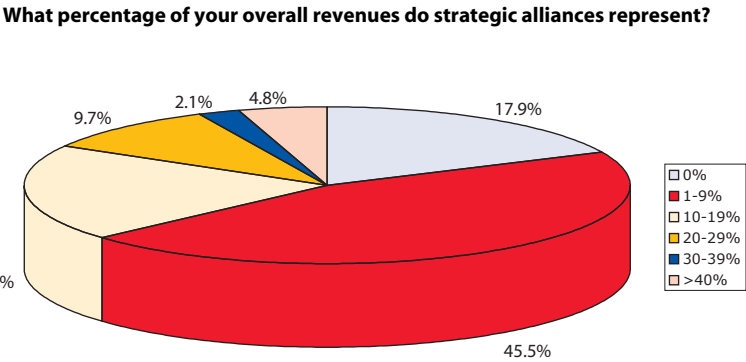
This is a positive sign from an employment perspective; however, the downward movement of the capital spending index component over the past three quarters supports national forecasts suggesting that both government spending and business investment will decrease in the months ahead. These results indicate that approximately 27% of the BLCI panelists project moderate or strong increases in capital spending during the fourth quarter, while 41% expect no changes. The remaining 32% anticipate moderate or strong decreases.

Partnerships and Strategic Alliances

In previous BLCI surveys, panelists have indicated that strategic alliances and partnerships have been effective tools for improving the bottom line. With that in mind, this quarter’s topical question series probed deeper into some of the basics of these alliances. Not surprisingly, 64% of respondents stated that they had entered into strategic alliances and an additional 12% stated that they were considering them.

Reason for Entering an Alliance or Partnership — About 60% of the businesses currently engaged in a partnership have done so because they want to enter a new market or expand their customer base, or extend their firm’s expertise and competencies. Around 55% of the companies in a partnership have done so to extend their product line or services, or to meet client demand for products or services not normally offered by their company. And approximately 29% of the companies align with other companies or groups to offset costs.

Impact of Alliances — Despite the fact that strategic alliances are important to a majority of the companies, they account for a small portion of business for most firms. Of those companies who were aware of their impact, slightly more than 63% of the panelists stated that partnerships account for less than 10% of their revenues and 20% said they were responsible for 10%-19%. About 10% indicated that 20-29% of their revenues can be attributed to partnerships, while 7% of the respondents reported that 30% or more of their revenues are generated from partnerships.



Structure of Alliances — The most common structures for strategic alliances were revenue sharing and project fees, with 51% of the companies using the former and 42% the latter. About 21% of the companies set up their alliances on a flat fee percentage and roughly 9% constructed their alliances as equity swaps.

Alliance Controls — The final question dealt with the controls that companies have put in place to protect their interests. Many companies employ multiple controls depending on the structure of the alliance or partnership. Approximately 53% of the companies have monthly or quarterly assessments in place, while 42% use contract benchmarks. About one-third of the respondents employ 30-day walk-aways and 29% have open-book reviews.

Our survey indicates that many firms view alliances as an important part of the current business environment, largely due to the desire to expand markets or bundle sales as a means of providing their customers with a more complete product or service. The vast majority of firms are currently participating in these alliances on a small scale perhaps to assess their positive contributions and shortcomings.

The BLCI is a
Compass on Business
initiative created in
collaboration with:



Index History by Component

	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006
INDEX	58.1	49.1	60.9	60.1	54.2	49.9
<i>Component indices:</i>						
Expectations for National Economy	58.5	39.6	59.4	55.7	45.9	43.8
Expectations for State Economy	60.2	50.9	63.8	63.7	54.7	50.1
Industry Sales Expectations	62.1	52.8	64.0	66.0	60.2	54.3
Industry Profits	56.4	47.2	59.4	58.2	55.5	51.6
Industry Hiring Plans	56.1	52.8	59.7	59.9	54.9	51.2
Industry Capital Expenditures	55.3	51.5	58.9	57.2	54.0	48.4

* For a complete history, visit www.bhci.com/colorado.

SAVE THE DATE!

The University of Colorado at Boulder and Compass Bank are proud to bring you the 2007 Business Economic Outlook Forum on **Monday, December 4th**. The afternoon will be filled with unique economic information as you, and your business, plan for a successful 2007. For more information, visit www.compassbank.com/cob.

Please make plans to join us.