BUSINESS LEADERS BLCI CONFIDENCE INDEX®

Colorado
Second Quarter 2007
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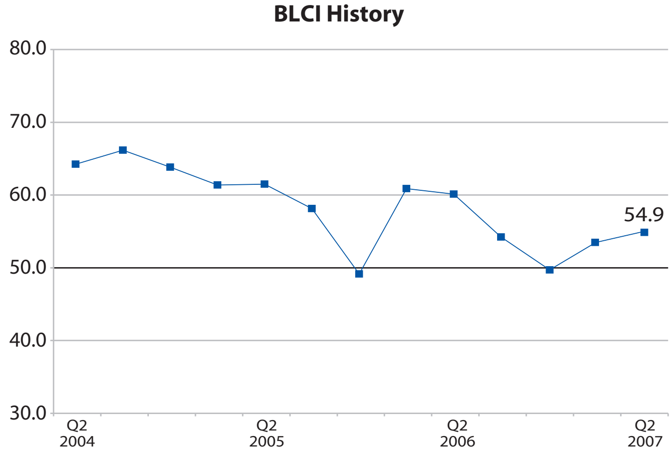
Index Nudges Forward on Optimistic Outlook for Sales and Profits



The second quarter Colorado *Business Leaders Confidence Index®* (BLCI) edged upward primarily on the strength of projected sales and profits. The index, which measures expectations for the upcoming quarter, moved from 53.5 to 54.9. On another positive note, five of the six index components increased and only one of the six indicators registered below 50. The fact that the BLCI is above the neutral point of 50 implies that economic growth should continue to expand in the short term.

Of greatest concern is that Colorado business leaders continue to express apprehension about the performance of the national economy. Although real GDP registered a solid growth rate of 3.3% in 2006, a closer look at the quarterly data shows that the expansion was anemic during the second half of the year. This below-potential growth level of the national economy is expected to continue in the first half of 2007 due to the impacts of rising interest rates, the slumping housing market and the prolonged higher costs of foreign oil.

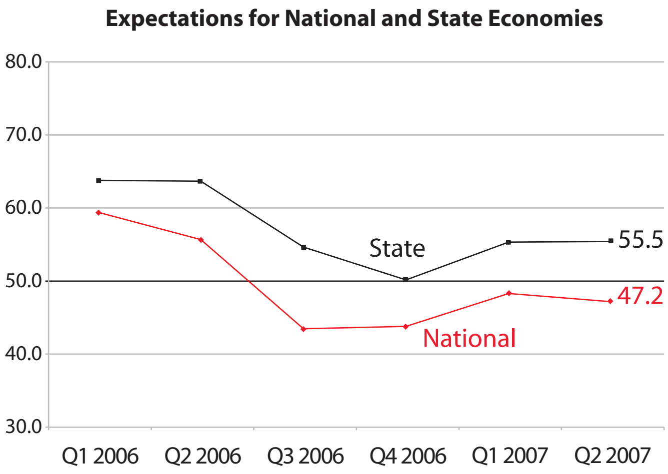
Six months ago, the most optimistic projections for 2007 real GDP growth were 2.6%. As conditions indicate stronger than expected improvement during the second half of 2007, forecasts are now pointing to real GDP growth of 2.6% to 3.0% this year.

Colorado Continues to Outperform the U.S.

Although the performance of the Colorado economy is closely linked to the U.S. economy, for the past two years Colorado business leaders have shown more confidence in their state. As business leaders look ahead to the second quarter, the gap between their expectations for the two economies has widened.

As previously mentioned, real GDP growth in 2007 will be slower than previous years for a myriad of political and economic reasons. Politically, there is concern about the management and costs of the wars in Iraq and Afghanistan. Certain U.S. policy decisions may be delayed until 2008 because both political parties will insist that key policy and economic issues be resolved during the election.

For the second quarter of 2007, about 31% of the panelists believe the national economy will grow more slowly or decline, while 47% expect no change. Only 22% foresee an improving national economy. This component of the index inched lower, from 48.3 to 47.2



On a more positive note, approximately 38% of the panelists believe the state economy will perform better, and only 18% expect it to slow. Roughly 44% of the respondents think the performance of the state economy will remain unchanged. This component of the index increased marginally, to 55.5.

Nationally, the weak housing market and the recent downturn in the equities market raise concerns that negative wealth effects will weigh on consumption growth. First quarter retail sales were slower than projected primarily because of weaker job growth and abnormal winter weather, particularly in Colorado. Looking ahead to the second quarter, improved weather conditions should boost the potential for increased retail spending; however, some of this growth may be offset by higher energy prices.

Recently, the Colorado treasury has seen strong growth in retail sales taxes and personal income taxes. Within the past month, state officials revised their budgets downward to reflect a much flatter rate of growth in these tax receipts, a sign that state employment and income will grow at a slower pace in 2007.

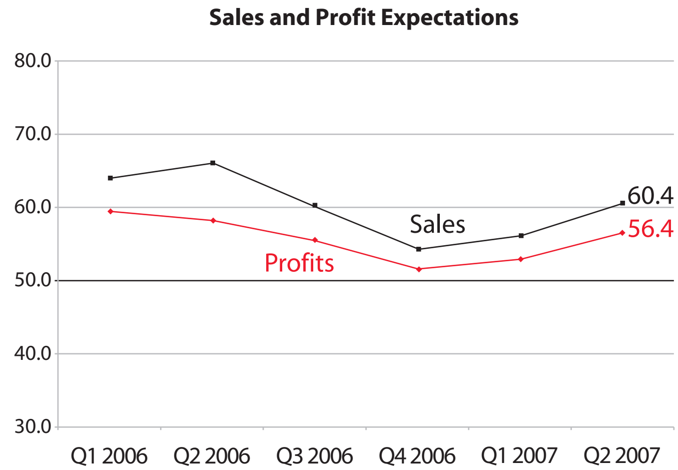
Nationally, the recent FOMC meeting was the sixth consecutive meeting that the Fed did not alter the target rate. In its post-meeting statement, the Fed inferred that it is currently more focused on below-potential growth. Inflation risks have subsided; however, they remain a major policy concern. Overall, most analysts are optimistic that a rate cut is now more likely than a rate increase, but the timing remains unknown.

Within the past month the turmoil surrounding subprime mortgage markets has drawn national attention. For the most part, this is old news to Colorado. Opinions vary on the potential impact of this financial catastrophe, but it seems that this will have the greatest impact on individuals directly involved and will not pull the country into a recession.

A final concern is the slump in home sales. At the moment, home sales appear to have leveled off, although risks remain that high inventories of unsold homes will continue to exist. As a result, home prices may decline slightly for the coming year. Again, this is old news for Colorado, which has seen lower than average appreciation in the housing market for the past five years.

Sales Expectations Outpace Profit Expectations

The index components that measure expectations for sales and profits were the only index components to rise significantly. Because sales expectations grew faster than those for profits, the gap between profits and sales expectations increased. This gap is below the average for the past four years, implying that many companies may be managing pressures from the increasing costs of healthcare, energy, and other inputs.



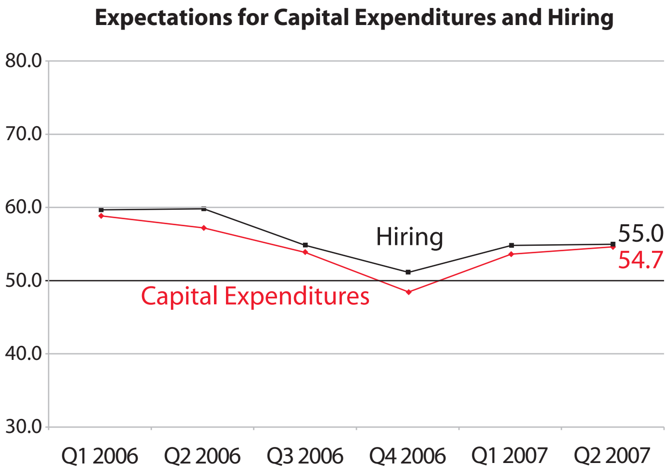
About 53% of the panelists anticipate an increase in sales, 32% believe sales will remain unchanged, and 15% expect a decline in sales. The sales component of the BLCI increased from 56.1 to 60.4.

On the profit side of the equation, 44% of the panelists believe profits will increase, while only 36% expect them to remain unchanged. More than 19% anticipate a decline during the second quarter. The profit component of the index moved from 52.9 to 56.4.

Gap between Hiring and Capital Spending Closes

Although the index components for hiring and capital spending posted marginal increases, both remain below the BLCI's four-year average. This suggests that companies will continue to make careful investments in labor and capital projects as a means of reaching sales and profit goals.

The gap between hiring and capital expenditures has evaporated (i.e., the index for both is essentially at the same level), indicating that companies will have an equal tendency to support their growth through employment and capital spending. This is different from the past two years, where the trend has been to focus on investments in labor.



Approximately 35% of the panelists project moderate or strong increases in capital spending in their industry during the second quarter, while 48% expect no changes. The remaining 17% believe moderate or strong decreases will occur. This component of the BLCI increased from 53.6 to 54.7.

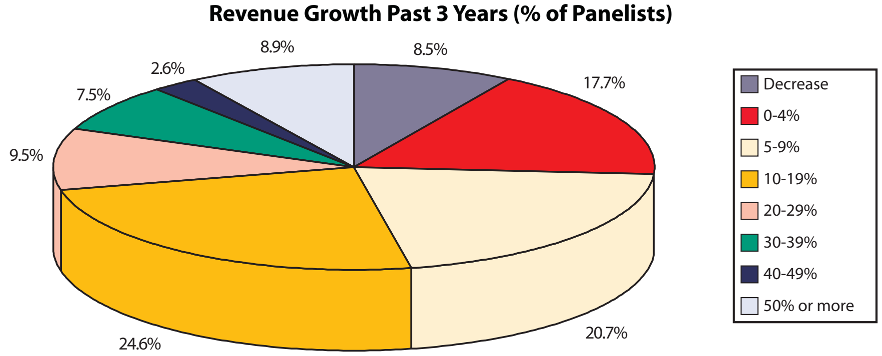
By comparison, roughly 36% of the panelists anticipate increases in their industry's workforce, whereas about 48% foresee no change. Almost 16% expect a decline. The hiring component of the index edged forward, from 54.8 to 55.0.

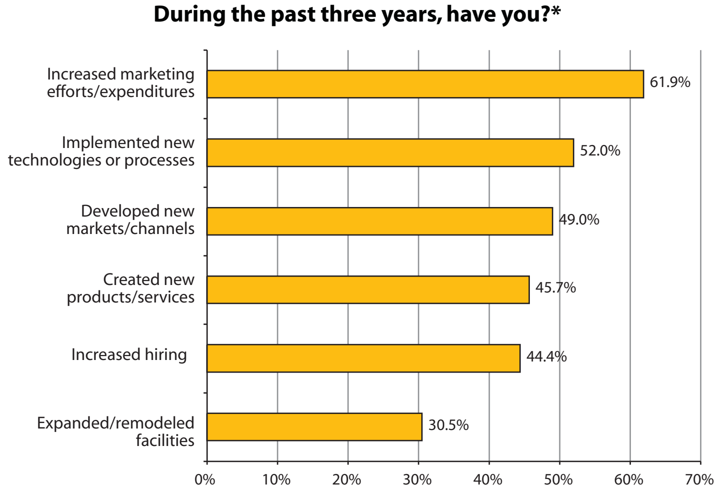
Colorado nonfarm wage and salary employment for 2007 is projected to expand at a rate of 1.9%, reflecting a gain of 42,300 jobs. The sectors of the economy with the highest absolute employment growth will be Professional and Business Services; Trade, Transportation, and Utilities; Leisure and Hospitality; Educational and Health Services; and Government. On the downside, no increases are expected in both the Information and Manufacturing sectors.

Topical Question Series: The Wealth Effect

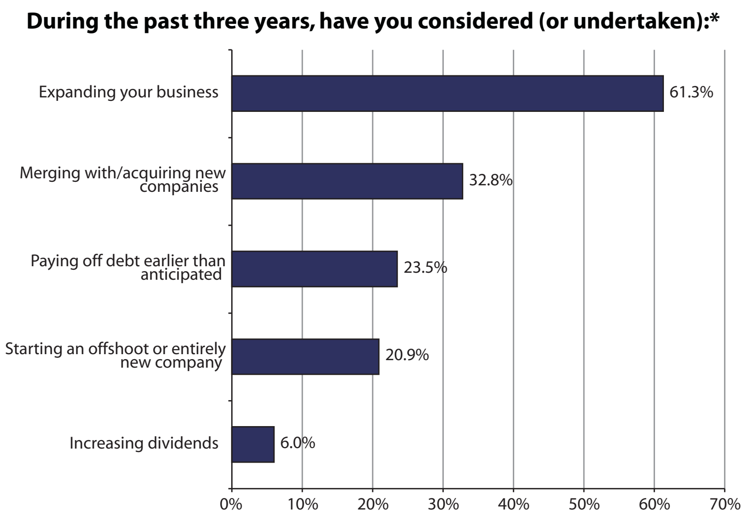
The topical questions this quarter focus on the wealth effect and how it impacts business growth. The wealth effect refers to a real or perceived increase in wealth (in absolute terms). The questions focused on three areas: revenue growth, specific business practices, and market value.

Revenue Growth: Companies were asked to identify their overall revenue growth over the past three years based on eight categories. Right at 8.5% of the companies indicated that revenue declined during this period, while revenue grew between 0 to 4% for 17.7% of companies, and 20.7% experienced growth of 5 to 9%. In essence, these companies, representing about 47% of the panelists, experienced growth at or below the rate of inflation. On a more positive note, almost one-quarter of the respondents increased revenue at a rate of 10 to 19%, 17% expanded at a rate between 20 and 39%, and 11.5% experienced a growth rate greater than 40%.





Specific Business Practices: Panelists were asked to identify how the wealth effect impacted strategic decisions that had been made in their company during the past three years. Only 12.3% of the panelists indicated their operations had been largely unchanged by the wealth effect over the past three years. More than 61% of the panelists have increased marketing efforts and 52% have implemented new technologies or processes. Nearly half have used the increase in revenues to develop new markets/channels.



In addition, panelists were asked to identify which business strategies they had considered during the past three years. While 18.2% of the panelists indicated they had not considered plans to change their operations, more than 61% have considered expanding their businesses. One-third have considered merging with or acquiring new companies and one-fifth have considered starting an off-shoot or new company. Nearly a quarter of those surveyed indicate that they are paying off debt earlier than anticipated.

*Panelists could choose multiple responses.

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Market Growth: Panelists were asked to specify whether the market value of their company had markedly improved over the past three years. In addition, they were asked to identify factors that caused the market value of their companies to change.

About 65% of respondents indicated that their companies had enjoyed a marked increase in value while about 35% of the panelists indicated that the market value of their company had remained static or decreased. The responses as to why were grouped into categories, of which the top four were:

FACTORS AFFECTING THE MARKET VALUE OF A COMPANY*	% of Panelists that indicated factor influenced market value increase	% of Panelists that indicated factor influenced market value decrease or stagnant growth
Internal Factors: Improved management, increased cost containment, greater profitability, etc.	31%	28%
Economic, Market, or External Factors: Changes in economic and market conditions, as well as changes in the regulatory environment.	23%	23%
Marketing Factors: The introduction of new products, new markets, and deeper penetration, etc.	16%	17%
Industry Specific Factors: Factors that are endemic to a specific industry - for example, energy companies may benefit from rising fuel prices, while other companies may view them as an increased expense.	15%	14%

*Panelists could provide multiple responses.

Whether the value of the company increased, remained static or decreased, internal factors were those with the greatest impact on the company's market value. This highlights the fact that business managers can, and do, influence the performance of their companies despite enduring internal cycles and industry specific changes.

It should be noted that only a handful of panelists cited the wealth effect as a reason for increased market value of their company.