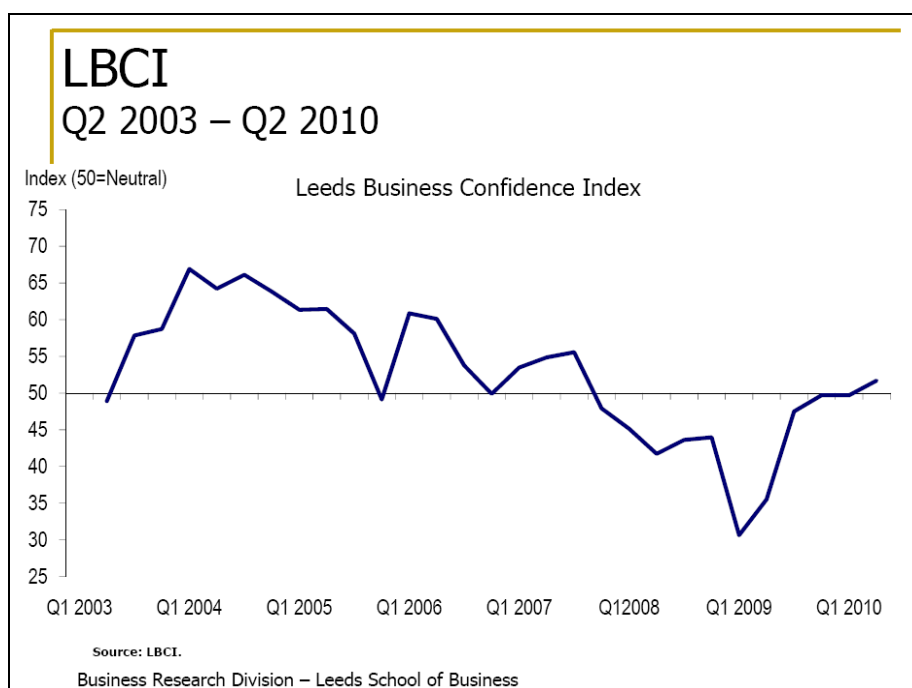


Overview — Hiring and Spending Remain Slow Despite Improved Confidence

Colorado business leaders see an overall improved economy in second quarter 2010. The LBCI posted a reading of 51.7, up from 49.7 last quarter. This is the first time since Q3 2007 that the index registered above the neutral mark of 50, indicating that business leaders believe that sustained economic growth is likely to occur in the months ahead. Four of the six index components recorded moderate gains, one remained flat, and one declined. Business leaders remain cautious about the prospects for increased investment in both labor and capital, as well as the overall performance of the U.S. economy.



National and State Economies — Colorado Outperforms Nation

In Q2 2006, the component measuring expectations for the national economy posted a value of 55.7. It has registered below 50 in all but one quarter since then as Colorado business leaders expressed concerns about the performance of the national economy well before the recession

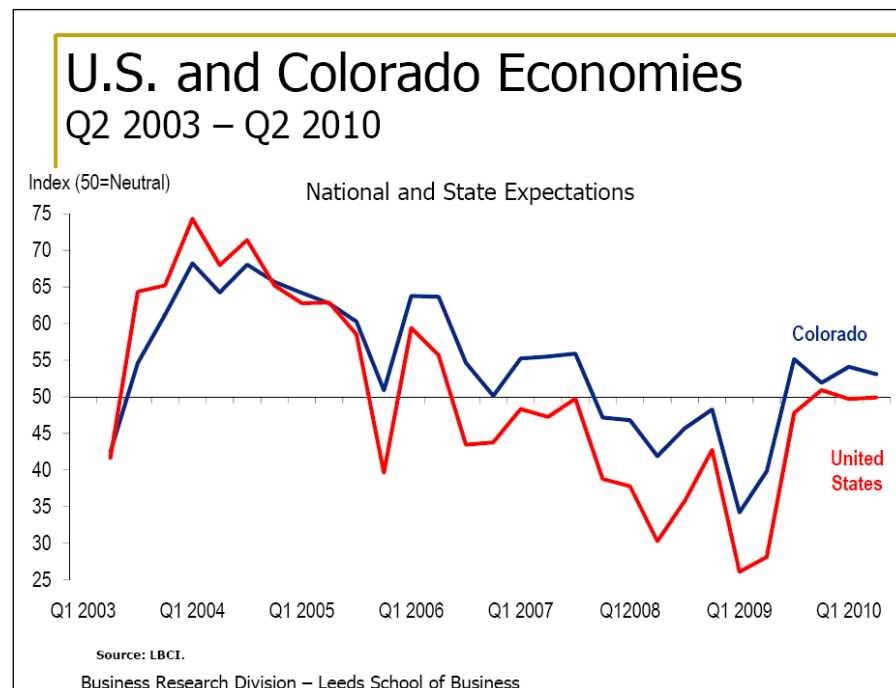
officially hit. This component has hovered around 50 during the last four quarters, suggesting that the recovery will be gradual.

The component measuring expectations of the national economy in Q2 edged up slightly, from 49.7 to 49.9. Despite strong Q4 real GDP growth (5.6%), business leaders remain concerned about continued high unemployment rates, and debt associated with the federal stimulus

package and other programs.

Respondents are split fairly evenly about the prospects for the national economy. About 35% expect the U.S. economy to improve in Q2, while 34% project no change. The remaining one-third of panelists are pessimistic.

Last quarter we reported that the nation would likely “experience below potential growth in the



range of 2.0%-2.5% during 2010.” On a positive note, we observe that many economists have moved that range upward, to 2.5%-3.0%, supported by stronger prospects for both consumption and fixed investment. Consumers will remain focused on savings and paying down debt. The projected savings rate is in the neighborhood of 4% for the year. Business growth will be largely determined by access to funding and the ability to ramp up quickly when increased demand occurs.

State business leaders remain optimistic about the prospects for the Colorado economy. Q2 is the fourth-consecutive quarter that this index component has been above 50, although it moved downward, from 54.1 to 53.1, for the upcoming quarter. While it is likely that the Colorado economy will outperform the U.S. economy in the months ahead, growth will be constrained by the slow expansion of the national and global economies, as well as by budget constraints felt by the state government.

In mid-March state officials announced that general fund revenue budget projections have finally stopped declining and are leveling off. It may be necessary to reallocate funds to prevent the need for reducing or eliminating critical services.

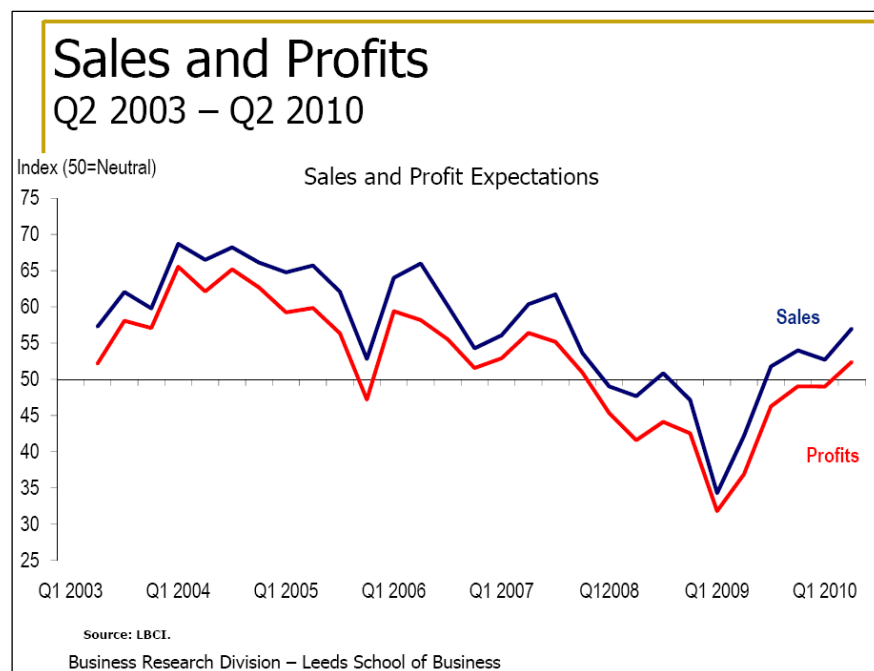
At the state level, about 38% of business leaders are optimistic about the prospects for the state economy. Approximately 39% anticipate no change, and 23% foresee a decline.

Sales and Profits — Business Leaders Remain Optimistic

Business leaders are optimistic about the outlook for their industry. Although the sales expectations component for Q2 remained about 50 for the fourth-consecutive quarter, it posted a significant increase, from 52.7 to 57.0. Nearly 49% of respondents expect industry sales to increase during Q2, while about one-third believe sales will stay about the same. About 19% of respondents are pessimistic about their Q2 sales prospects.

On a brighter note, the expectations component for profits bumped up, from 49.0 to 52.4. This is the first time since Q4 2007 that the profit component has registered above 50. This is also the first time since late 2007 that this component has a shown a slight upside bias (i.e., the number of positive responses is greater than the number of negative

responses). About 38% of respondents project an increase in profits, another 36% expect no change, and the remaining 26% anticipate a decline. While layoffs and the lack of inflation have helped keep many costs under control, many businesses are faced with tighter margins that have occurred as a result of heavy discounting.

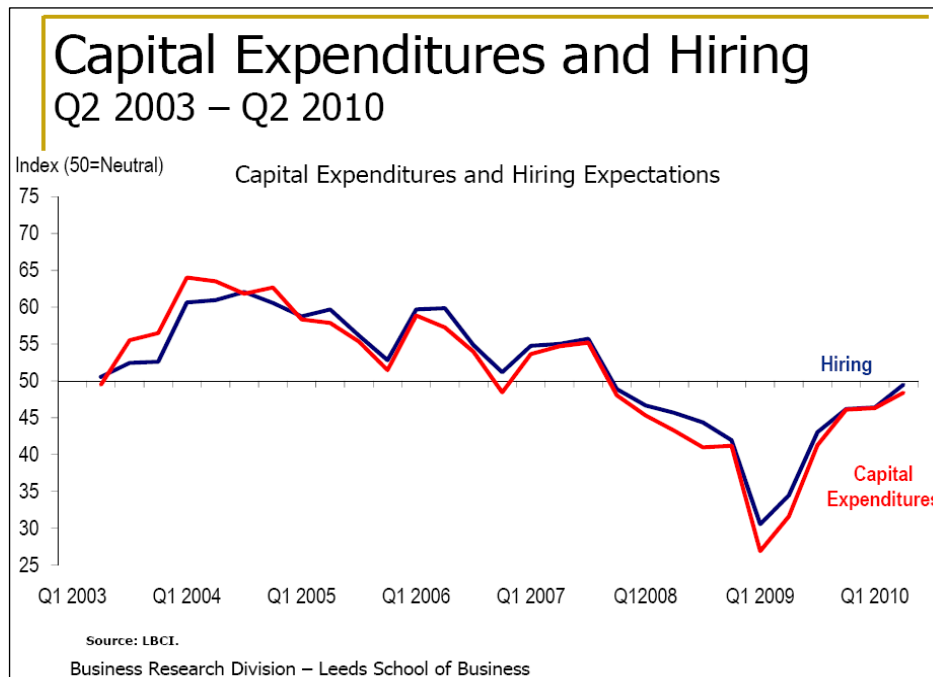


Capital Expenditures and Hiring Plans — Expansion Plans Still on Hold

While there are a number of encouraging signs that the economy is improving, a full recovery will require business leaders to be more confident about making investments in capital goods and labor. The values for the components measuring expectations of both components have been well below 50 since Q4 2007.

For the upcoming quarter, the values for both components showed slight, but insignificant, gains. Both remain below the neutral point of 50, suggesting a lack of increased confidence in the short term.

The component measuring expectations for Q2 capital expenditures edged forward, from 46.3 to 48.4. Roughly 24% of panelists foresee moderate or strong increases in capital spending, while 52% anticipate no change. About 24% project moderate or strong decreases in capital spending during Q2.



The expectations for hiring produced similar values, with an increase from 46.4 to 49.5. About 24% of Colorado business leaders believe that hiring will increase in Q2, while approximately 54% project no change. Roughly 22% of respondents anticipate decreased hiring in Q2.

In mid-March, Colorado's Labor Market Information group provided final revisions to 2008 nonfarm employment data and preliminary updates to 2009 data. Projections for 2009 employment point to job losses of -4.5% compared to the prior year. Looking around the state, the largest percentage declines were recorded by Grand Junction (-6.4%), Greeley (-5.0%), and Boulder (-4.8%). Pueblo and Fort Collins fared the best, with employment declines of -2.4% and -3.2%, respectively.

The current outlook for 2010 employment shows continued employment losses, in the range of -0.5%. However, the preliminary data also suggest a brighter future in the months ahead with job growth in Healthcare and Professional Business Services. As projected at the 2010 Colorado Business Economic Outlook, the year is starting out slow, but we are optimistic that more jobs will be added in the months to come. Although unemployment in the state will remain high by Colorado standards, it will likely be at least two points lower than the national rate for much of the year.