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No Great Depression II, but 2009 was a tough year

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Turns out that pundits in the alarmist camp — who whined at the beginning of the year about this recession being the next Great Depression — clamored and threatened for naught.

It's been a rough year, that's undeniable — but hundreds of thousands of people are not standing in line for one loaf of bread while their children perish from starvation.

Nationally, bailout and stimulus packages abounded, as economists, investors and academics argued whether federal interventions were necessary, downright communist or the salvation of the national/global economy.

In the Pikes Peak region, voters declined to increase taxes, while consumers modified their spending habits. But restaurants, bars, malls and movie theaters were crowded, and parking spots were still hard to find.

Here's a sampling of banking and finance news covered in CSBJ during 2009.

Not even military's might can stop economic peril

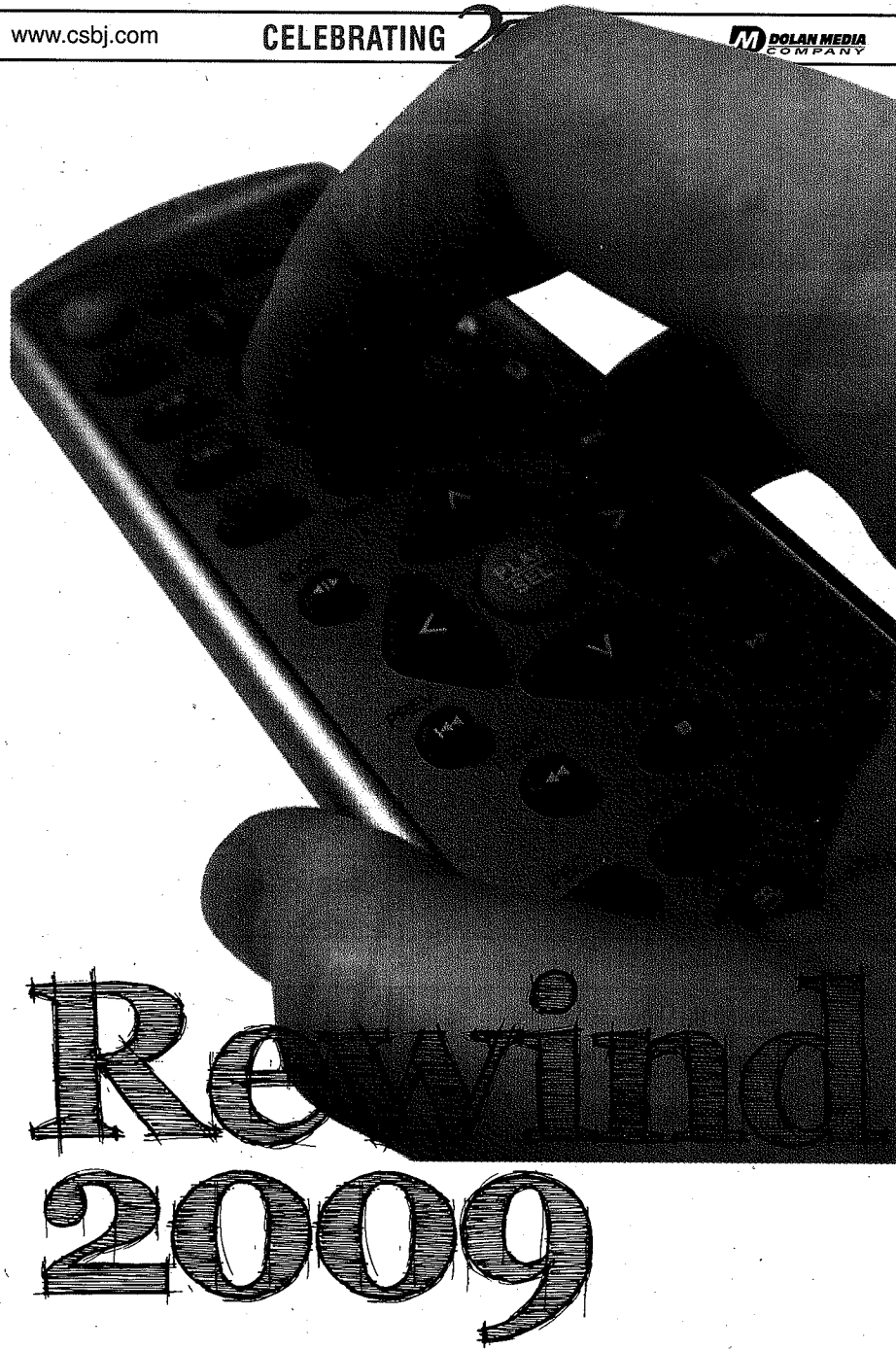
While much of the economic stability in the Pikes Peak region is a result of the military, and the 54,000 jobs — a significant percentage of the community's 330,000 — created by military expenditures, falling sales tax revenue is something that neither the Army, Navy, Air Force nor the Marines can conquer.

That's the word from Fred Crowley, senior economist, to the audience at the 13th Annual Southern Colorado Economic Forum on Oct. 30 at the Antlers Hilton.



Crowley

See Banking page 6



Banking: Military one-fifth of Springs economy

From page 1

More than 500 executives, academics, small business owners and professionals gathered to hear the latest global, national and local economic news, presented by the University of Colorado at Colorado Springs and the College of Business and Administration Graduate School of Business.

"The military is responsible for one out of every five dollars generated in the community," Crowley said.

And El Paso County unemployment is 7.4 percent, versus the national rate of 9.8 percent.

"The good news with the military is that we don't have all those tech jobs to lose — we can only lose them once, I suppose," he said, as the audience laughed.

The region has lost 17,000 high-paying, but volatile, jobs in manufacturing and technology sectors since 2000.

These losses were replaced by jobs in the service sector, which are more stable, but pay lower wages.

The region will not have a rapid recovery, "but it will be a recovery without a double dip — we hope," Crowley said.

Aleman keeps crowd laughing

A spoonful of humor helped ease the dose of bitter medicine during the

Southern Colorado Economic Forum.

Like a prizefighter-turned-comedian, Eugenio J. Aleman, Wells Fargo's senior economist, interspersed his one-two jabs of truth with humor to take the sting out of the punches.

"I have a lot of bad news for you," Aleman told the audience. "You want the good news first? We're closer to our recovery today than we were yesterday."

Although third quarter gross domestic product results were spectacular at 3.5 percent, it was, er, the result of unprecedented federal stimulus.

"I call this growth 'assisted living,'" Aleman said. "The amount of money we've put in, in order to achieve this growth, was impressive. The expenditure package created 650,000 jobs. If we divide that by the amount of money spent — each job cost American taxpayers \$234,000."

The U.S. GDP is \$14 trillion per year. All the stimulus and bailout packages — committed or spent — total \$11 billion, nearly 90 percent of GDP.

"We have a cushion of \$11 trillion to be able to produce \$14 billion," Aleman said. After the laughter quieted, he continued, "I'm not saying it didn't have to



Aleman

be done. The alternative wasn't really an alternative."

Solving the city's budget woes not a simple task

Last week, voters told city leaders to find a way to secure Colorado Springs' long-term sustainability that doesn't include raising taxes.

To do that, economic development needs to be integrated and diversified. But getting there won't be easy.

"We cannot continue to work around the fringes. We have to say the tax structure in the state of Colorado is broken — and it has to be fixed somehow," said Tom Zwirlein, director of the Southern Colorado

Economic Forum. "We have to have a presence from El Paso County and the Pikes Peak region (in the capital) to make recommendations to improve the state's tax structure. Gallagher is a problem. TABOR (the Taxpayer's Bill of Rights) and Amendment 23 are a problem."

The city's Sustainable Funding Committee report, the Operation 60Thirty-Five study, Pikes Peak United Way's Quality of Life Report and the Dream City



Zwirlein

2020 study provide numerous options for improving infrastructure, the city's tax base and primary job growth.

But the recommendations are useless without any action.

The report shows that compared to 10 other cities by PFM index, Colorado Springs (at \$402) had the second lowest general fund tax revenue per capita for the 2009 budget. Denver was the highest, at \$1,008 per capita.

Compared to the average of the 11 cities, Colorado Springs collects about one-third less.

And lodging and rental car taxes paid by tourists and business travelers are much lower than in comparable cities.

But the Springs' challenges aren't just on the funding and revenue fronts. It also needs stable, primary employers, in certain industries that have significantly higher tax multipliers per job than others.

Adams explains the FDIC, current banking climate

Adams Bank & Trust's breakfast and Colorado Economic Forum was held at Cheyenne Mountain Resort, during a stunning pink and lavender Rocky Mountain sunrise.

The keynote speaker was Todd S.

See **Banking** page 7

Banking: Veil of venture capital lifted away

From page 6

Adams, chairman and CEO of Adams Bank & Trust, and a board member of the Omaha Branch of the Federal Reserve Bank of Kansas City.



Adams

As a prelude to discussing current economic conditions, Adams gave the audience some background information about the purposes and functions of the Federal Reserve System.

It was established on Dec. 23, 1913 and — unlike other central banks — it is independent, reports to Congress and any earnings or assets are returned to the Treasury Dept.

There are 12 regional Federal Reserve Banks which are responsible for operating a nationwide payments system, distributing the nation's currency and coin, regulating and supervising member banks/holding companies and serving as a banker for the U.S. Treasury, including processing Treasury bills, notes and bonds.

The Federal Open Market Committee meets every six weeks to help set interest rates.

Currently, there are 416 banks, with \$300 billion in assets, on the "problem" list, so the pace of bank closures is going to rise, he said.

As for the banking industry, not only has the cost of insurance gone up, but the Federal Deposit Insurance Corp. recently required insured institutions to pre-pay their estimated quarterly risk-based assessments — not only for the fourth quarter of 2009, but through 2012.

This should bring in an estimated \$45 billion to strengthen the FDIC's position.

"In its 75 years of existence, the FDIC has never cost taxpayers a dime," Adams said. "Healthy banks like us have to pay a part of that (covering bank failures) — but that's the cost of doing business."

'Sticky,' not 'risky,'

The veil shrouding venture capital funding was "peeled back" by Catharine Merigold, founding general partner of Vista Ventures, during a Peak Venture Group breakfast last week at the Garden of the Gods Club.



Merigold

As a venture capitalist who vets companies and entrepreneurs' business plans as part of an ordinary work day, she brought a realistic perspective to the audience.

"My hat's off to you — being an entrepreneur is not easy," Merigold said. "What you do is riskier than what we do. When we make an investment, we choose from a basket of 200 — when you make an investment, you choose from a basket of one."

That said, she advises entrepreneurs to pursue or contemplate other forms of funding first, because venture capital is the "most expensive capital there is."

Currently, it is rare for "really early-stage or seed-level — still in proof-of-product" — companies to receive venture capital.

For courageous souls who are undeterred by such news, the next bit of wisdom regards choosing an industry.

"Don't even think about what's 'hot

these days," Merigold said. "You need to start a business with what you're good at and passionate about. Unless you're really good at it, you have a higher probability of being roadkill if you're in a 'hot' sector," such as clean technology or solar technology.

To give the audience an idea about how intense the competition for venture capital is, she told them, "I say 'no' to 99 out of a 100 good ideas."

But there is a smidgen of hope — the majority of successful businesses are created without venture capital.

"At the end of the day — unless an irrational market lifts all boats — it is management that's responsible for success," Merigold said.

When looking for prospects, she prefers what she terms "sticky entrepreneurs": The type of business owner who can get people, employees and advisers "to stick with" them.

And, remember that "financing is a process, not an event," Merigold said. Be tenacious, and "go for the incremental 'yes.'"

Don't ignore retirement plan when career path changes

Roll it, take it, leave it or move it.

Those are the options — if you're part of the 8.1 percent of people in El Paso and Teller counties (as of June) who are unemployed, or if you're changing jobs.

In the interests of being linear — much like no one in his or her right mind would hike Democrat, Cameron, Lincoln and Bross in the reverse order — we'll start with "roll it."

Probably the most cost-effective option is to rollover a 401(k) or similar plan to

a traditional Individual Retirement Account, said Donna O'Bryant, financial adviser with Edward Jones.

"The most proactive thing to do is to immediately elect to rollover the account and direct the employer's sponsor plan to send it directly to your personal IRA," O'Bryant said.

A rollover avoids penalties for early withdrawal — not to mention Uncle Sam's chomping incisors.

"Everything continues to grow tax deferred, and your investment choices are almost unlimited," she said.

"Take it" with you — as in cashing out one's benefit plan — is usually the first thing people think of when they're under the "financial stress of losing a job. Sometimes you don't have a choice," O'Bryant said, "but if you have any other financial resources — you shouldn't take it."

Here's why: "In many cases, the taxes, at 20 percent, and the penalties (for early withdrawal if you're under age 59 ½) are far more than a year's worth of credit card interest.

"It seems like the easiest thing to do at the time — but it's the most expensive thing to do," she said. "This should be the last money you touch."

Option three is "leave it." This "may or may not be a pleasant situation to deal with your former employer," she said. "And, if you do that too many times — you'll have assets in several different employer-sponsored plans, which leaves you rather fragmented."

Last, but not least, is "move it" to the new employer.

"If you really like the investment choic-

See **Banking** page 18

Banking: Bankruptcies

From page 7

es, moving money to the new employer is an option," she said. "But — this may be your last chance (if you stay with the employer until the end of your career) to have more money in an IRA."

And most employer-sponsored plans have limited investment options, versus a personal IRA.

Bankruptcy, foreclosures and living the life thereafter

When homeowners are confronted with impending foreclosure, they often will file for bankruptcy.

The act of filing for bankruptcy causes an "automatic stay," which stops creditors from taking action, thus preventing a foreclosure, said Michael Sousa, assistant professor at Denver University's Sturm College of Law.

Sousa said that if homeowners have unsuccessfully tried other means to ameliorate their debt, there are good reasons to file bankruptcy.

"Generally speaking, if you elect Chapter 13, it permits you to rehabilitate yourself and pay some of your debt back, and, theoretically, you won't lose your home," he said.

Chapter 13 bankruptcy requires, among other things, filing a plan with the bankruptcy court, including "a synopsis of how you will treat your creditors."

Homeowners then have three to five years to repay their debts and then, say, six months of mortgage payments that

attempt to live without using credit."

Forget identity crisis, entity crisis is much, much worse

Entrepreneurism is in the air. It was the week for how-to-choose-a-business-entity seminars in Colorado Springs.

Here are two of this week's highlights.

One: It's OK to structure your business so that you legally pay the least amount of taxes possible, according to Chris Blees, CEO of BiggsKofford P.C., who gave a presentation at Laid Off Camp-COS.

Two: If you don't establish a business entity, neither proclaimed innocence nor stupidity will save you.

"A partnership is the default when no other entity is established," said JoAnn Schmitz, founder of Schmitz Law Firm LLC. (Note that her company has an entity.)

She and Mark Patterson, tax partner at Stockman Kast Ryan and Co. LLP, were co-presenters at the final seminar in the Investor Ready Series, hosted by Peak Venture Group and the Colorado Springs Technology Incubator.



Patterson

Don't go it alone

Running a business without an entity is akin to climbing up partially snow-covered Class 3 talus on Mount Lindsey's north face at 4 p.m., despite hovering black storm clouds.

Oh wait, yours truly actually did that

"Generally speaking, if you elect Chapter 13, it permits you to rehabilitate yourself and pay some of your debt back, and, theoretically, you won't lose your home."

Michael Sousa

are in arrears.

Now, before you run — like a mountain goat down Class 4 terrain in search of a moss/lichen du jour — to the nearest bankruptcy attorney, at least hear what else he has to say.

"If you file Chapter 13 to save your home, the question then becomes: Do you have the ability to make the mortgage payments, pay the arrears, pay your ongoing bills (utility, insurance, etc.), and pay some of the bills to your creditors (as required by the court)?"

In other words, is your plan, according to bankruptcy court terminology, "feasible"?

Most people who choose bankruptcy do so for two reasons: To save their home and to get a chance to start over.

"But statistically, two-thirds (of all Chapter 13 plans) fail," Sousa said. Why? Because filers default on the mortgage again, or they can't keep up with creditor obligations.

Bankruptcy is a useful tool, but may not be the end victory in and of itself. You have to make significant changes going forward," Sousa said.

"The best advice — bar none — is to

on July 12 — but at least I'm not foolish enough to start a business without first forming an entity.

Here's why.

"It's very easy to argue that someone has formed a partnership with you — just by meeting and talking," Schmitz said.

But there are options, of course. If you're planning to own and operate the business by yourself, without employees, there is the sole proprietorship option.

"Depending on what you're doing, this entity could be good, but in most cases, we advise against it," Patterson said. The disadvantage is that business taxes are reported on a Schedule C, filed with your personal Form 1040, which saves on tax preparation costs. "But the IRS tends to audit Schedule Cs more often, because that's where a lot of abuse is."

And there's the possibility that "the IRS could create a partnership between you and another person," he said.

A better option for single-member (one owner) companies is a limited liability corporation.

"LLCs are the queen currently win-

See **Banking** page 19

Banking: Exit strategies and protecting brand

From page 18

ning the beauty contest," Schmitz said, unless your company needs venture capital or is close to an initial public offering.

LLCs are popular because they offer flexibility in structuring income allocations, cash distributions, etc. They can be managed



by members, managers or structured for a single-member, and, as the name implies, the entity offers the protection of limited liability for owners.



Until the entity is formed, an entrepreneur is operating with personal capacity and risk.

Truth be told, there really is no easy exit strategy

As soon as entrepreneurs buy or start up a business, they should have an exit strategy.

Reality, however, is that many business owners only realize this much farther down the road — say, about the time they realize they don't want to run a company every single day for the rest of their lives.

Trekking in the Himalayas, anyone? Safari in Africa? Or perhaps time to run in the sprinklers with the grandchildren. Whatever life holds, business owners need to prepare.

"Planning Your Exit: Transitioning Your Company Successfully" was fourth in the Investor Ready Seminar Series presented by the Peak Venture Group and the Colorado Springs Technology Incubator.

"We're definitely in a buyers' market," said Austin Bucket, mergers and acquisitions manager for BiggsKofford. "More deals are done with up-front, detailed due diligence than before."



Bucket

But it's still possible for sellers to garner substantial return on investment, although not via liquidation — "that's not something you want to do," he said.

Different exits create different results and value.

Public offerings were popular during the late 1990s and early 2000s, Bucket said, "but it's very complex and costly — you have to be a big company to go down that road."

And employee share option programs or successions — selling to family — do not create as much value as selling to a third party.

The two most common exit strategies are sales to strategic buyers or sales to financial buyers.

Strategic buyers are looking for companies that add synergy and value to their existing operations, whereas financial

buyers, as the name implies, are interested in a company's cash flow and equity as a long-term investment.

Usually, business owners need one to three years to add value to their company and prepare it legally and financially before selling.

Loren Lancaster, managing director of Core Capital Group, said business owners need to remember they are trying to sell a business — it's not a simple matter of taking the first offer or, God forbid, telling people you want to sell, thereby losing employees, vendors and clients in the process.



Lancaster

The "universe" of potential buyers is "much greater" than the number of people whom you know or those who know about your business.

"You have to create people who are clamoring for your company in your market," Lancaster said. "There's a well-known methodology and dance — a well-established process, that people expect to see when they look to buy your business."

Delivering the right materials, at the right time, with the right message shows a seller is working with professionals.

"If you don't, you'll tip your hand that you're an amateur," Lancaster said, "and they'll start licking their chops."

And the data room, whether virtual or physical, needs to be analyzed internally and externally — by "your legal team and financial team" — because the buyer's due diligence team will "tear your company apart limb by limb looking for every tiny piece — the more so if you're asking for high value," Lancaster said.

And now is not the time to lose one's patience and exit ungracefully — like yours truly, staging a flying dismount off a mountain bike in Red Rocks Canyon.

"We're all crawling out from under a deep global recession. Transaction volume dropped like a rock," Lancaster said. "You're not likely to get the best outcome, compared to waiting two to three years (except for defense contractors). So now is the time to start positioning your business — two years before you're ready to sell."

FX makes Street look stable

Foreign exchange markets don't operate like Wall Street does. It's a global network of buyers and sellers exchanging currencies. Trades are executed via brokers or over-the-counter electronic networks.

"There is no centralized trading floor," said Correy S. Jones, vice president at Wells Fargo Foreign Exchange in Denver. Jones gave a presentation at a recent Office of International Affairs seminar in Colorado Springs.

By volume (97 percent), the key players in the foreign exchange market are speculators in hedge funds and central banks. Private institutions, public banks and institutional/corporate hedgers comprise only 3 percent of annual foreign exchange market volume.

"The FX market is open 24/5. New Zealand opens around noon our time on Sunday morning, and the Wells Fargo trading desk in San Francisco is the last to close on Friday afternoon. So the market

shuts down for about a day and a half, then starts over again," Jones said.

The annual volume of the foreign exchange market is staggering — 13 times that of the world's 10 stock markets combined — or \$921.6 trillion vs. \$71 trillion.

But the FX market is highly volatile because of speculation.

"Expectation and psychology are what's really driving the FX market — not supply and demand," he said.

It's a fickle market. "One of the primary drivers is interest rates," Jones said.

As for economic numbers, short-term data affects the FX market, such as unemployment, or retail sales being lower than expected or the prior month's data being downgraded.

"But one of the critical things to remember is that certain pieces of economic data come in and out of fashion," Jones said. "Something that was viewed as negative six months ago could be considered unimportant or even positive in a few months."

Don't be a fool — protect everything that you create

Protecting intellectual property is akin to traveling by air, land or water. One can reach a destination by different or multiple means.

Three panelists discussed the various ways to protect intellectual property during a Middle Market Entrepreneurs seminar at The Antlers Hilton.

There are three types of patents available: utility, design or plant (as in horticulture), said Michele B. Fagin, an attorney at Sparks Willson Borges Brandt & Johnson P.C.

Trademarks are for brand and trade identification, and copyrights protect original works of authorship, including creative works in literary, musical or dramatic genres.

A trade secret is proprietary information that cannot be legally protected unless it is maintained in confidence.

Entrepreneurs should choose a name and brand that they can protect, transfer to someone else and that someone will want to pay money for.

"If you need a patent — apply for it," Fagin said. "But at the same time, pick a killer brand. Then, if the patent falls through, you will already have the market with your brand."

The decision to apply for a patent must be made carefully.

"Trade secrets last as long as they're maintained in secret," said Brenda L. Speer, an attorney who specializes in protecting technological and creative arts. "But patents disclose what you're doing to the world."



Speer

But branding is absolutely essential because one never knows how a company will change, grow or metamorphose.

"In the future, you may want to do something different," Fagin said. "Then

you have the Radio Shack problem — when was the last time anybody bought a radio? Don't get tied to a brand that limits you."

If a name is creative and appropriate — and zany can go a long way toward both — it won't be limiting.

"What does 'Apple' have to do with computers?" Nothing, of course, but the company wanted to broach the education market, and apples are associated with education in a "warm fuzzy" way, Fagin said. And, yes, it took much longer to brand that name — "but now they are not confused with anybody else."

Forget about trees, Greek gods and such nonsense, she said.

Somebody has already been there, done that.

"You have to make up a word that's not in the English language or that's meaningless nonsense — like Bluetooth, but everybody will know what it means," Fagin said.

Speer said that the more money spent up front to market, the better the return on investment down the road. Although "you want a name your consumers will immediately connect with, if it's too descriptive — like Coppertone, Edge or Palm, then over time your legal recourse erodes," Speer said.

Beware of "marketplace creep," Speer said. "If your trademark falls into the vernacular, you've lost the trademark."

A trademark should be an adjective, followed by the word "brand" and then a noun. For example, XYZ-brand soap.

"Don't fall victim to genericide (an actual legal term) — that's death," Speer said.

To avoid losing control over a name, "take the word you are marketing and integrate it with a symbol. Then, over time, you can migrate the old words out and migrate new words in," Fagin said. "Or, use a tag line with your name, so that the tag line becomes your brand and you can change/add products."

Cultural factors key to international business

Scene: A three-hour dinner in Germany, Poland or France with potential business associates, during which only politics, religion and family are discussed.

Success or waste of time?

Probably the former.

"The fundamental difference between American businessmen and Europeans, is that Americans believe that product and service is king or queen, and method is fungible," said Windham Loopesko, CEO and founder of W.E. Loopesko & Associates, an international business development firm.

He was keynote speaker during the latest Office of International Affairs seminar.

"But Europeans believe the person is much more important than the product," Loopesko said.

Eventually, in business, when they come to a "bump in the road," a European wants to know if the American will be able to

See Banking page 25

Banking: Mitigate temporary hype

From page 19

work toward a solution. Hence, it is next-to-impossible to do international business without meeting face-to-face. And, no, the Internet has not changed that, he said.

"Sitting down and breaking bread together is critical," Loopesko said. "You're absolutely doing business when you talk about family, politics and religion, as much when you talk about a product or contract. Meals are a part of getting to know a proposed business colleague, seeing how he/she reacts to different situations and probing his/her knowledge of the world. The foreigner uses the entire process to determine if the American businessman is on the same wavelength."

So, it helps to develop topics of conversation.

Because foreign business people are generally very familiar with the American political and economic scene, Americans should expect and be ready to answer "sophisticated questions" about current American events.

Titles are important and should be used when addressing a foreigner, and hierarchy will greatly influence how a foreigner behaves toward a new colleague.

Europeans also detest insincerity and will not do business with people whom they cannot trust. But the "ugly American" is yesterday's news, and in most areas

where Americans go to do business, America's 'stock' has never been higher," Loopesko said.

Skip instant info

Regular readers of this column have likely noticed that the doom and gloom stops here.

If yours truly wakes up in the morning and Pikes Peak is still there — albeit at times artfully shrouded in clouds — then it's not yet the end of the world, and there's no point in writing as if it were.

"Quite frankly, we need to quit panicking and get back to the basics," said Greg Von Berg, managing principal at Waddell & Reed. "The Chinese symbol for 'crisis' is two symbols — one for danger and one for opportunity."

In other words, it all depends on how one responds to a situation.

People are swayed by what he calls the "magazine cover effect." Investors get "euphoric" when they read about the "seven hottest stocks to buy today," Von Berg said. "They jump on the bandwagon — but they're catching something at the end of a cycle, and oftentimes the stocks tank shortly after the article is written."

He said investors ought to heed Warren Buffet's advice about buying on fear and selling on excitement, which is "exactly the opposite of what our gut tells us to do."

In Von Berg's book, "Are There Cracks in

Your Nest-Egg? A Quick and Easy Guide for Building and Preserving Wealth," he wrote about human nature.

If, say, the pens you give to clients are normally \$5 each, and they go on sale for 5 cents — "What would you do? Back up the truck and buy all you can afford. Now a couple of months go by, and you have given away all of your pens. ... The store has a big 'For Sale' banner ... and the same pens are now \$30 each. Would you buy more? Of course not. You would either find a different pen or wait until the price came back down. So here is my question. Why don't you treat stock prices the same way?"

His point being that good asset allocation, and a portfolio that is regularly rebalanced, will "save you from yourself" and mitigate the "temporary hype" and the foolish temptation to buy stocks when they are expensive.

So there you have it — a macro-overview of the banking and finance news yours truly covered during the year. I for one, will not miss a minute of 2009 — adieu, farewell, auf wiedersehen and good riddance to it. Dear readers, thank you for faithfully reading during this year. And let's lift a glass of petite sirah to 2010 — may she be better and brighter. ■ CSBJ