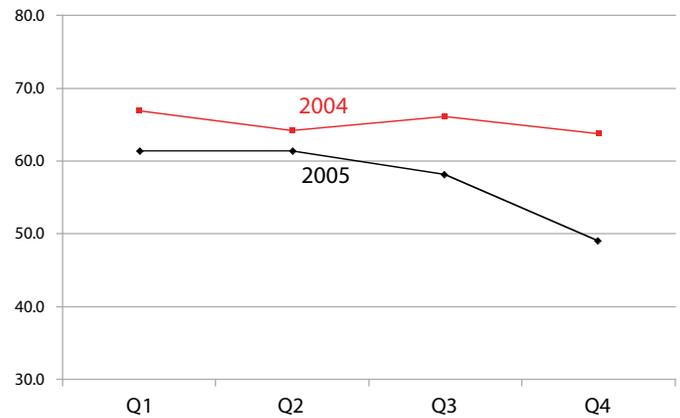


Index Falls Sharply Reflecting the Impact of Katrina The Colorado Business Leaders Confidence Index® (BLCI) declined in three of the four quarters during 2005, reflecting a solid but slowing national economy. The fourth quarter index is noteworthy as it dropped 9.0 points, to 49.1. Decreases in all six components of the index reveal uncertainty from a variety of factors, which led the index to fall below the neutral point of 50 for the first time since the beginning of the war in Iraq in early 2003.

The fourth quarter survey period opened on September 1st, hours after hurricane Katrina wreaked havoc on southeastern United States. In addition to the loss of lives and extensive damage to homes and businesses, the storm disrupted energy production, refining capabilities, and shipping activity at ports located in the Gulf Coast. As a result, gasoline prices passed \$3.00 per gallon in most parts of the United States. As the survey period drew to a close on September 20th and southeastern residents began cleanup efforts, the announcement of hurricane Rita created additional concern in many of the previously affected areas. On a more positive note, a review of the BLCI survey results shows greater optimism from respondents who completed the survey near its closing date. The impact of Katrina will undoubtedly have a significant impact on southeastern United States; however, it is believed that the U.S. economy is solid enough that the destruction caused by recent hurricanes will have only a short-term effect on the national economy. The BLCI results are consistent with similar consumer and business indicators that measure short-term economic expectations.

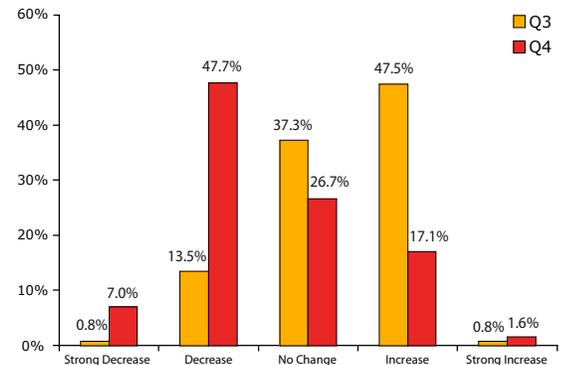
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Colorado BLCI - 2004 vs. 2005

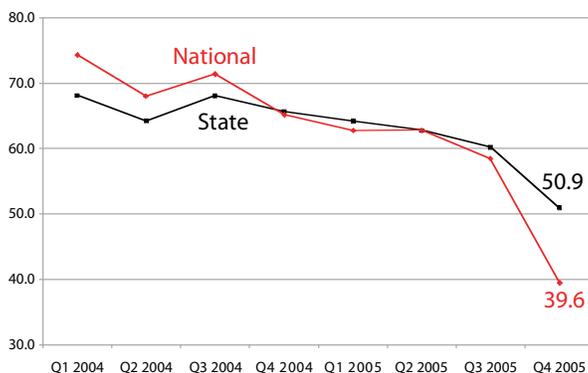


Fiscal Impact of Katrina Stronger Outside Colorado Expectations for the national economy fell by 18.9 points, to a record low of 39.6 for this component. This marks the third quarter in 2005 that this component index registered a decrease. During the survey period, the Federal Reserve boosted interest rates for the 11th consecutive time, raising concerns among some economists that controlling inflation has become a greater priority than sustaining current economic growth. At the moment, it is believed that interest rates will be increased by 25 basis points in each of the two remaining FOMC meetings this year. In addition, growing uneasiness with the cost of the wars in Iraq and Afghanistan may also be partially responsible for declining confidence. Concerns about these issues were exacerbated by the impact of Katrina.

National Economy - Q3 2005 vs. Q4 2005



Expectations for National and State Economies



Business leaders expressed less uncertainty about the state economy than its national counterpart, suggesting that business leaders feel the impact of the hurricanes and other factors will be greater on areas outside Colorado. The current potential threat to the Colorado economy is the outcome of the November election regarding Referenda C and D. The component index for the state economy remains 11.3 points higher than its national counterpart, despite a drop of 9.3 points to 50.9 for the state economy.

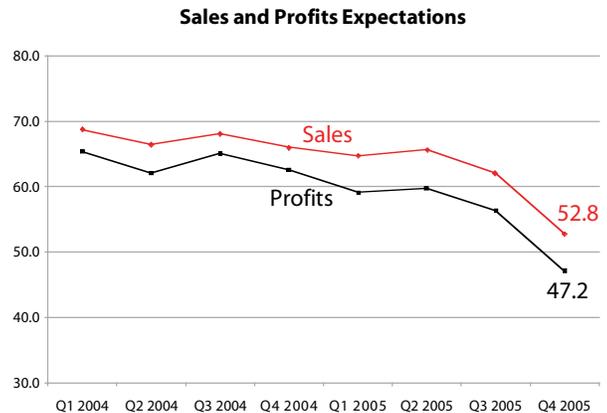
At the national level, over half (54.7%) of the BLCI panelists believe the national economy will grow at a slower than anticipated rate in the fourth quarter, while nearly 27% expect no change. Only 18.7% foresee an improving national economy during the final quarter of 2005.

About 37% of the panelists believe the state economy will perform better in the fourth quarter, while 34% expect it to decline from last quarter's level. Approximately 30% of the respondents think the state economy will remain unchanged.

Projections made by Colorado leaders for a downturn in the national economy are shared by Treasury Secretary John Snow. He estimates that the impact of Katrina will decrease the GDP by 0.5 percentage points over previously projected levels. On a brighter note, Snow believes that during the first quarter of 2006 the economy will be stimulated by rebuilding efforts equating to about 0.5 percentage points above previously projected levels. GDP growth for 2005 is now expected to be 3.3%, with slightly stronger growth of 3.5% in 2006.

While the devastation associated with the hurricanes is tragic, it appears that the greatest economic impact will be regional in nature. It now seems that damage from Katrina to the port facilities and energy production and refining sites in the Gulf Coast was not as great as originally feared. If this proves to be the case and no further damage is incurred from other hurricanes this season, then the sharp declines in the national and state economic components of the index may prove to be aberrations.

Gap Remains between Profits and Sales Despite solid national and state economic growth during 2005, the component indices measuring expectations for sales and profits posted declines in three of the four quarters during 2005. The most significant drop occurred in the fourth quarter as both component indices fell by about 9 points. Over the past year, pressures from rising costs of health care, fuel and energy, and other inputs have made it increasingly difficult for businesses to maintain profit margins. As a result, the gap between sales and profit expectations widened to 5.5 points in the first quarter and has remained at that level for the entire year. This suggests that many companies are being forced to absorb all or some of their rapidly rising costs.

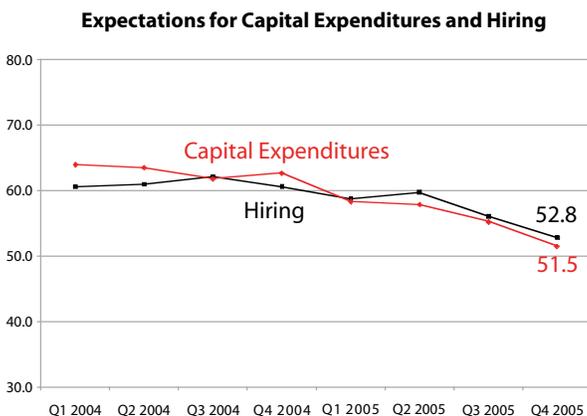


"Over the past year, pressures from rising costs of health care, fuel and energy, and other inputs have made it increasingly difficult for businesses to maintain profit margins."

Business leaders are generally optimistic about their expected sales for the final quarter of 2005 as 42% anticipate an increase and 29% believe sales will remain unchanged. While still optimistic, these results reflect a sharp decrease from the prior quarter when about 59% of the panelists expected sales increases and 27% indicated sales would remain unchanged. This decline in confidence is reflected in early projections that call for modest retail sales in the upcoming holiday season. These forecasts suggest that retail sales will be 5% to 7% higher than last year; this is well below growth for the first half of the year. On the profit side of the equation, 39% of the panelists expect profits to decrease, while only 31% expect them to increase during the fourth quarter.

Smaller Declines for Hiring and Capital Spending The component indices measuring expectations for capital spending and hiring plans both declined in the fourth quarter, albeit at a substantially lower rate than other BLCI components. The fact that both components remain above the neutral point of 50 illustrates that companies will continue to make careful investments in labor and capital projects as a means of reaching sales and profit goals.

"State employment will increase by about 2.1%, or 44,000 jobs, in 2005."



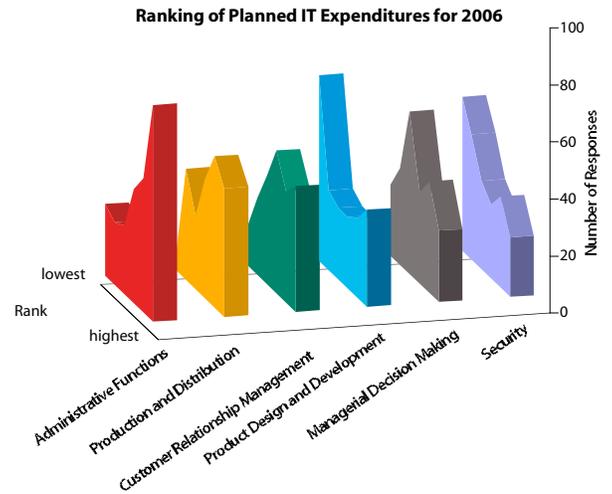
Expectations for capital expenditures declined in each of the quarters during 2005. This is consistent with various national forecasts that show solid but slower growth in the economy as a result of lower real business investment, smaller business inventories, moderate government spending, and a reduced rate of personal consumption growth. Approximately 31% of the panelists project moderate or strong increases in capital spending in their industry during the fourth quarter, while 45% expect no changes.

By comparison, roughly 32% of the panelists anticipate increases in their industry's work force, whereas about 48% expect no change. Despite the drop in the BLCI and each of its components, the Business Research Division remains optimistic about future employment growth in Colorado and projects state employment to increase by about 2.1%, or 44,000 jobs, in 2005.

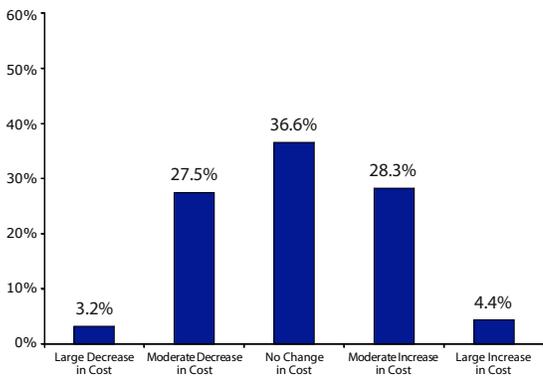
Impact of IT Investments on Colorado Businesses The topical questions this quarter asked Colorado business leaders to provide insight into their IT expenditures for 2006. Respondents also shared their perceptions of the impact of their IT expenditures over the past three years on the cost and quality of their products and services, as well as the ultimate impact on company revenues.

Administrative Functions Top List of IT Expenditures

Panelists were asked to rank (from 1-6, according to size) their planned IT expenditures for 2006 in six categories. Of those surveyed, 31% indicated that administrative functions would be their largest expenditure, followed by production/distribution and customer relationship management with 18% each, then product design/development with 14%, managerial decision making with 10%, and security with the final 9%.



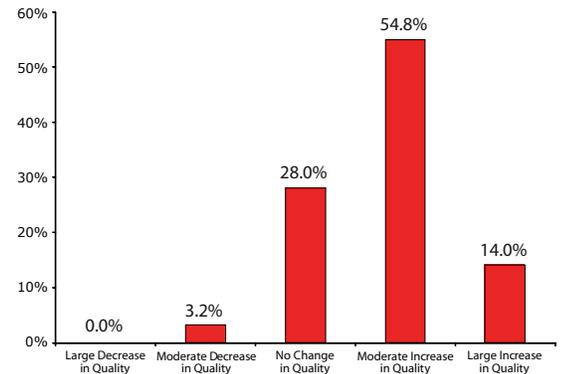
Impact of IT Expenditures on Product / Service Cost



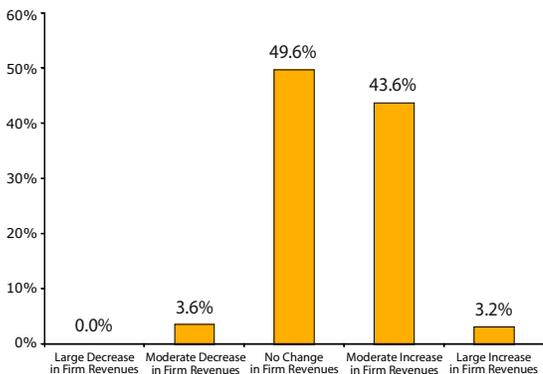
Ambivalence Among Panelists Concerning Costs Business leaders are evenly divided in terms of the impact that IT investments have on the cost of producing their products and services. Of the panelists surveyed, almost 37% said that their costs have not changed due to IT investments, 30.7% indicated that costs decreased, and 32.7% indicated that costs increased. Panelists who said that their IT investments increased costs indicated that they placed a higher priority on security and production/distribution functions, and a lower priority on administrative functions.

IT Investments Improve Quality More than two-thirds (68.8%) of the panelists indicated that IT investments improved the quality of the products and services offered by their companies. Only 3.2% of panelists said that the quality of their products and services decreased, while 28% indicated that there was no change. Business leaders who stated that IT investments improved the quality of their products and services placed a higher premium on customer relationship management, production/distribution and managerial decision-making.

Impact of IT Expenditures on Product / Service Quality



Impact of IT Expenditures on Firm Revenues



Mixed Results on Revenue Generation About half of the respondents indicated that IT investments did not impact revenues generated from the sale of their products and services. Most of the remaining panelists, 46.8%, indicated that IT investments increased their firm revenues, while almost 4% told us that their firm revenues decreased. Respondents who indicated that their IT expenditures increased sales revenues placed a greater priority on administrative functions, customer relationship management and production/distribution.

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



For more details on the Colorado Business Leaders Confidence Index®, visit www.bcli.com/colorado.

Business Leaders Confidence Index History

	Q1 2004	Q2 2004	Q3 2004	Q4 2004	Q1 2005	Q2 2005	Q3 2005	Q4 2005
BLCI	66.9	64.2	66.1	63.8	61.3	61.5	58.1	49.1
<i>Component indices:</i>								
National Economy	74.3	68.0	71.4	65.2	62.8	62.9	58.5	39.6
State Economy	68.2	64.3	68.1	65.7	64.2	62.8	60.2	50.9
Industry Sales	68.7	66.5	68.2	66.1	64.8	65.7	62.1	52.8
Industry Profits	65.5	62.1	65.2	62.7	59.2	59.8	56.4	47.2
Industry Hiring Plans	60.6	61.0	62.1	60.6	58.7	59.7	56.1	52.8
Industry Capital Expenditures	64.0	63.5	61.8	62.7	58.3	57.9	55.3	51.5

A Look into the BLCI Panelists are asked to choose their responses from a five-point scale. A numerical value ranging from -2 (Strong Decrease/Much Worse) to +2 (Strong Increase/Much Better) is assigned to each of these. A score is then calculated for each question and transformed into a scale that ranges from 0 to 100. Index values above 50 indicate expectations for increases, and index values below 50 indicate expectations for decreases. The BLCI combines these six measures using equal weighting.

Both total panel membership and the number completing the survey continue to expand. Many thanks to all of our panel members for making this survey a useful and reliable indicator. We make no pretense that this survey is representative of all business leaders in Colorado. What we report here are the responses of the panelists who completed our survey. As we continue to grow the size of the panel, we will add analysis for individual industries and sub-state areas.

Please join us in early December for our First Quarter 2006 survey at www.bcli.com/colorado.