



AICPA Business and Industry Economic Outlook Survey 3rd Quarter 2011

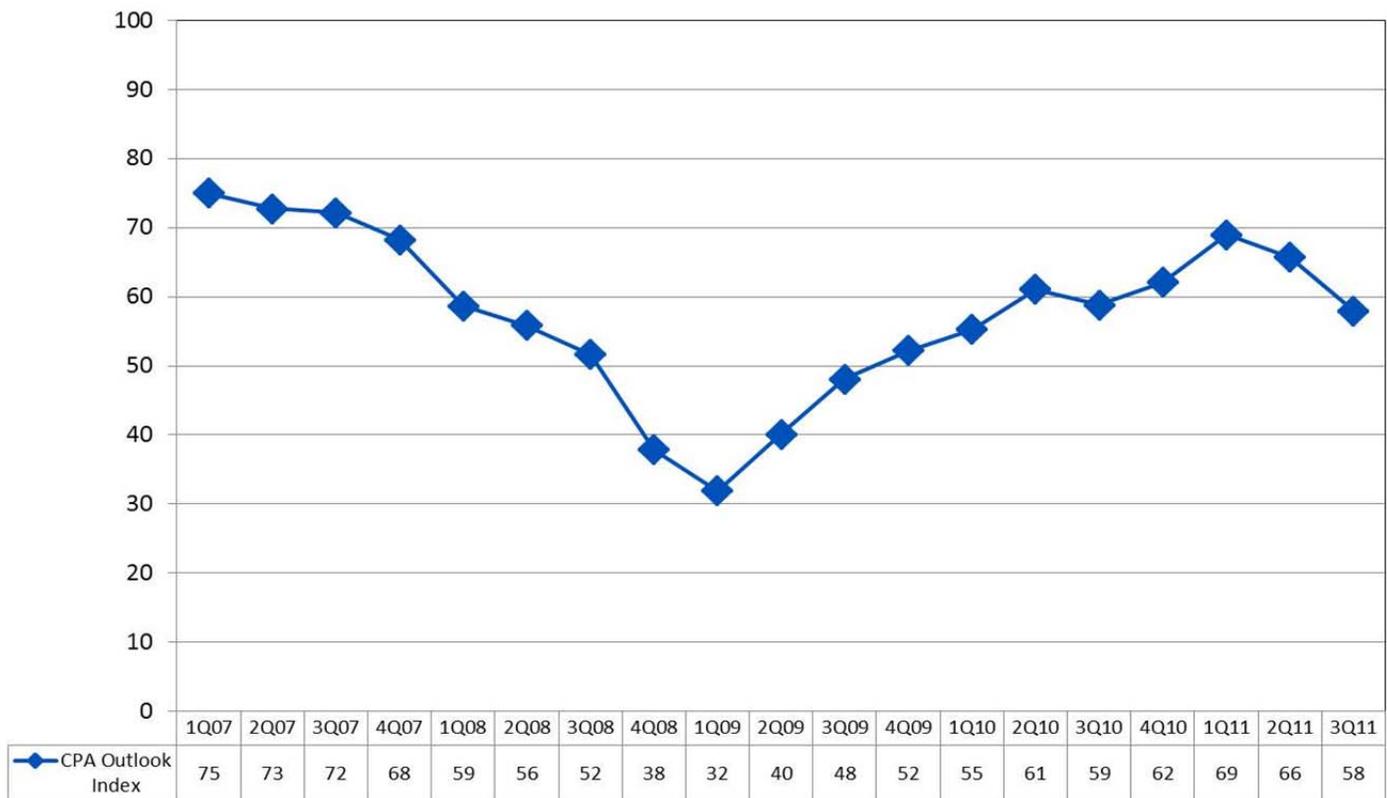


The CPA Outlook Index

In 1Q 2011 the AICPA Business & Industry Economic Outlook Survey introduced the CPA Outlook Index (CPAOI). It is a broad-based indicator of the strength of US business activity and economic direction that reflects the views of CPAs who are AICPA members in Business & Industry holding executive positions in both public and privately-owned organizations of all sizes, and across a broad spectrum of industries.

The CPA Outlook Index (CPAOI) decreased by 8 points this quarter from 66 in Q2 2011 to 58. The largest contributor to the drop was the outlook for the US Economy which declined by 28 points although all of the other 8 components of the index experienced smaller declines.

CPA Outlook Index ↓ 8



| Component | 1Q11 | 2Q11 | 3Q11 | ΔQ to Q |
|--------------------------|------|------|------|---------|
| U.S. Economy Optimism | 65 | 53 | 25 | ↓ 28 |
| Organization Optimism | 70 | 68 | 60 | ↓ 08 |
| Business Expansion Plans | 77 | 73 | 66 | ↓ 07 |
| Revenues | 77 | 72 | 67 | ↓ 05 |
| Profits | 69 | 64 | 62 | ↓ 02 |
| Employment | 63 | 62 | 58 | ↓ 04 |
| IT Spending | 70 | 72 | 68 | ↓ 04 |
| Other Capital Spending | 66 | 66 | 60 | ↓ 06 |
| Training & Development | 64 | 62 | 56 | ↓ 06 |

The CPA Outlook Index

The CPAOI is a robust measure of sentiment about the US economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans for spending and employment.

The CPAOI is a broad-based composite index that captures the expectations of our members and their plans for a breadth of indicators of economic activity. It is a composite of the following nine measures at equal weights:

- **US Economy Optimism** - Respondent optimism about the US economy.
- **Organization Optimism** - Respondent optimism about prospects for their own organization.
- **Business Expansion Plans** - Respondent expectations of whether their business will expand over the next 12 months.
- **Revenues** - Expectations for revenue over the next 12 months.
- **Profits** - Expectations for profits over the next 12 months.
- **Employment** - Expectations for headcount over the next 12 months.
- **IT Spending** - Plans for IT spending over the next 12 months.
- **Other Capital Spending** - Plans for capital spending over the next 12 months.
- **Training & Development** - Plans for spending on employee training and development over the next 12 months.

Each individual component indicator is calculated by taking the percentage of respondents who indicated that their opinion or expectation for the metric is positive or increasing, and adding to that half of the percentage of respondents indicating a neutral or no-change response. A reading above 50 indicates a generally positive outlook with increasing activity. A reading below 50 indicates a generally negative outlook with decreasing activity.

As an example, if 60 percent of respondents indicate an optimistic or very optimistic view, and 20 percent express a neutral view, the calculation of the component indicator would be 70 [60% + .5 x 20%].

Outlook for the US Economy and Organizations

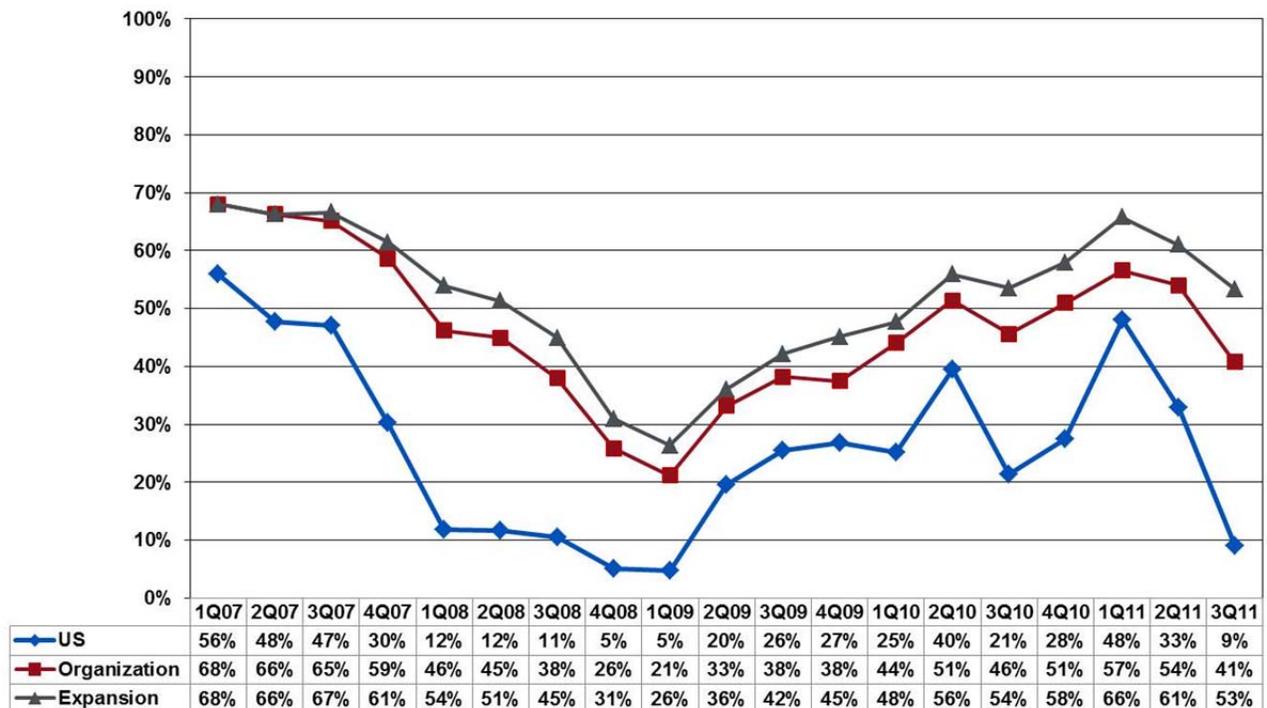
Outlook for US economy turns pessimistic; organizations lower expectations but not as sharply

Optimism for the US economy fell this quarter to its lowest level since the first quarter of 2009. Only 9% of respondents indicated they remain optimistic about the U.S. economy, while fifty-nine percent said they were pessimistic, an increase of 32 percent from Q2 2011. The increase in pessimism was driven primarily by concerns about the political process in Washington, continued unemployment, the size of the U.S. debt & budget deficit, government spending and uncertainty.

While the outlook for respondents' own organizations is not as rosy as it was earlier this year, it has not dropped as sharply as the outlook for the US economy. Optimists also still outnumber pessimists, with 41% of the CPA decision-makers indicating that they are optimistic about the outlook for their own organizations over the next 12 months, while only 21% are pessimistic. Expectation for expansion also dropped again this quarter but a majority of respondents (53%) still expect to expand at least somewhat in the next 12 months. This is down from 61% who expected expansion last quarter.

This combination of a sharp decline in US optimism that is paired with more muted declines in organizational optimism and expansion plans mirrors what occurred between 3Q 07 and 1Q 08 as the economy was entering the recession. It has yet to be seen if this decline portends a double-dip recession. However many of respondents would believe it may, as 61% of respondents consider a double-dip recession either somewhat or very likely.

Outlook for the US Economy, Organizations & Expansion



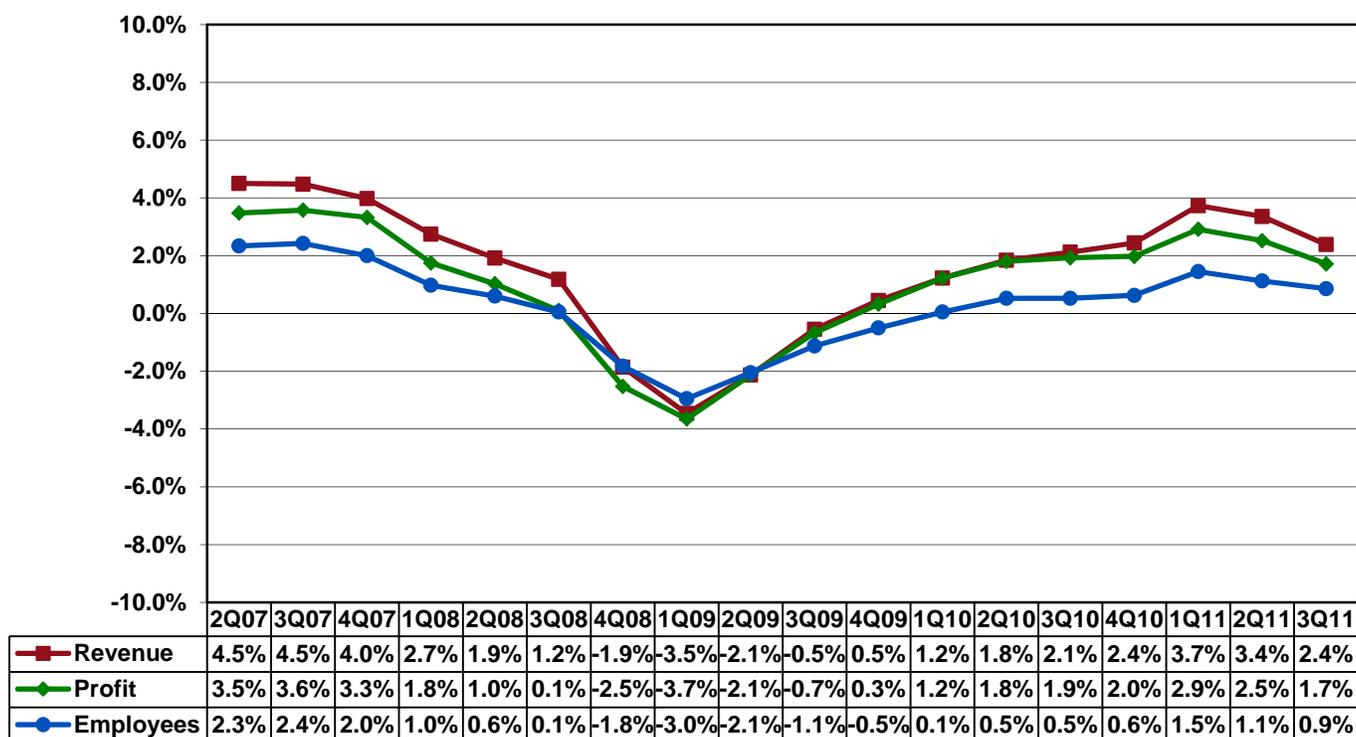
Concerns about inflation moderated this quarter. Thirty-eight percent (down from 61%) responded that they are concerned about the possibility of inflation for their business over the next 6 months. Concerns about deflation remained low but rose from 4% to 13%. Raw material costs remain the primary concern of respondents who did consider inflation a threat. Rising labor costs surpassed energy costs and interest rate concerns to become the second most significant risk. Almost half of respondents (48%) do not expect to be able to pass increased costs on to customers

Key Performance Indicators

Organizations still expect growth but lower expectations across the board

While CPA executives still expect their organizations to grow, their expectations for revenue, profits, staffing and spending all declined. Respondents expect revenue to grow an average of 2.4% in the next 12 months (down from 3.4% in Q2 and 3.7% in Q1); profits are now only expected to increase 1.7% (down from 2.5% last quarter and 2.9% in Q1). The average increase in staffing levels over the next 12 months is now only expected to be 0.9% down slightly from 1.1% in Q2 to 1.5% in Q2. However this is still better than 4Q10 when the average was 0.6%. Only 19% of respondents expect staffing to shrink in the next twelve months.

Expectations for Revenues, Profits and Headcount



Paralleling the decline in concerns about inflation, respondents' expectations for price increases are also down slightly this quarter. Respondents continue to expect that the prices they pay will increase more than the prices they can charge. Prices paid are expected to increase by 2.3% (down from 2.8% in Q2) over the next twelve months while prices charged are only anticipated to increase by 1.2% (down from 1.5%). Expectations for salary increases are also down this quarter with respondents expecting an average 1.9% increase in salary and benefit costs down from 2.2% last quarter and 2.0% in Q1. Healthcare costs are expected to increase 6.4% over the next year.

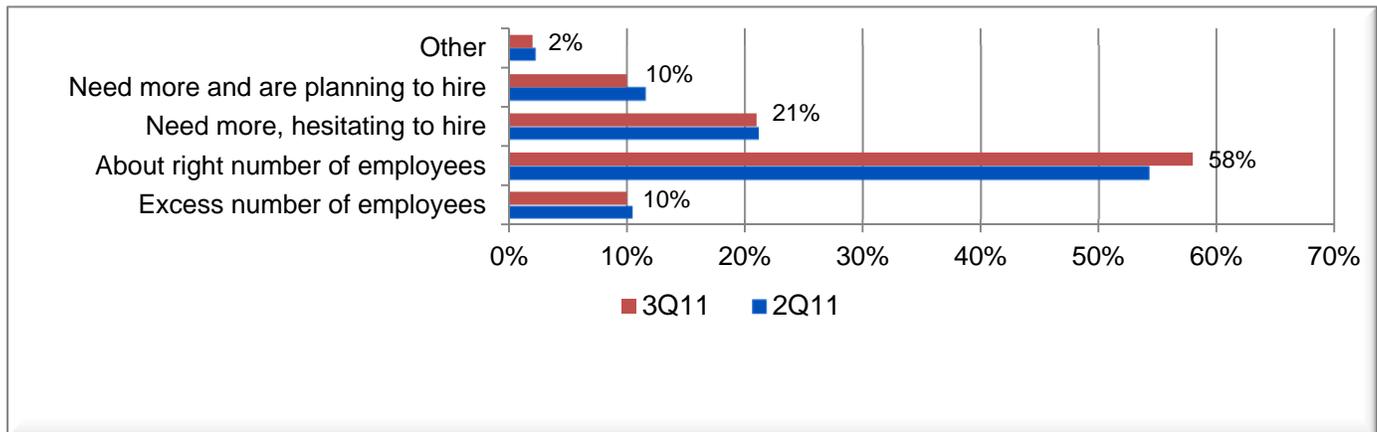
While organizations still expect to increase spending across all categories in the next 12 months, the size of the increases is down across all areas. IT spending is now expected to increase by 2.0% down from the 2.6% increase expected last quarter. Other capital expenditures and spending for training and staff development will also increase by lesser amount. Expectations for spending on Marketing are down to 1.1% from the 1.5% increase reported last quarter and growth in R&D expenditures is now only expected to average 0.8% down from the 1% expected last quarter.

Hiring Plans

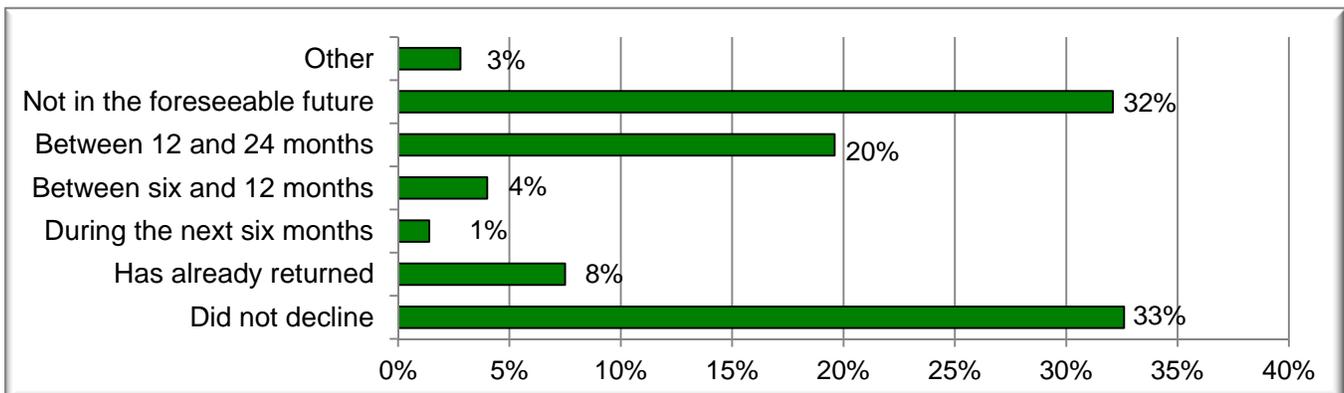
No near term recovery in hiring is expected

Only 10% of respondents indicated that their organizations have plans to hire in the near term. This is down insignificantly from 12% last quarter. Ten percent of respondents feel they have excess employees while the majority of respondents (58%) said they have the right number of employees. There is still some pent up demand for hiring as 21% feel they have too few employees but are hesitating to hire. Organizations also continue to push out their expectations for when they expect their staffing to return to pre-recession levels – only 5% expect it to occur within the next year and 52% expect it will be at least 12 months before that occurs with almost a third of those indicating that staffing will not return to pre-recession levels in the foreseeable future.

Current Hiring Plans



Employment Return to Pre-recession Levels



Liquidity

Most respondents continue to have enough cash, but many are reluctant to deploy, and those that need cash may find it more difficult to obtain

The majority of the respondents' organizations currently have at least as much cash as they need. However, only 12% of respondents indicated having more cash than they need with plans to deploy their excess. Another 23% indicated having more cash than they currently need but are reluctant to deploy. Eleven percent of those with less cash than they need plan to raise capital; another 13% say they need additional capital, but expect availability or pricing to be a barrier. These percentages have remained steady since the end of 2010.

Overall, respondents indicated that they expect credit conditions to be more challenging, with 20% expecting it to be more difficult to obtain capital (up from 16% in Q2), and only 4% expecting it to be less difficult (down from 12%). About half of respondents expect that obtaining required financing will be neither more nor less difficult in the coming quarter.

Collections/non-performing accounts continue to represent the largest working capital management challenge followed by supplier pricing, terms and performance.

Industry, Region and Business Size Outlook

Optimism declines across most industries and regions; Retail shows most significant decline

While the Technology industry remains the most optimistic and the Construction industry continues to be the least optimistic organization, optimism by industry sector dropped across all industries this quarter. After remaining relatively positive through Q2 2011 the number of respondents in Retail Trade expressing optimism for their own organizations declined from 70% to 35% in Q3.

Expectations for hiring also dropped for most industries with the exception of Healthcare providers and Construction. Healthcare providers improved from an expectation of a 0.4% decrease to a 1.5% increase, while Construction now only expects to drop 0.6%, a slight improvement from a 1.1% expected decrease last quarter.

After varying significantly last quarter, regional results were very consistent this quarter. Optimism dropped sharply across all regions and there is no longer any significant difference between regions.

While a majority of businesses continue to expect to expand, expansion plans are not as strong as last quarter. The largest businesses were most likely to express lowered expectations with 60% of businesses with revenues over \$1 billion now expecting to expand, down from 72% last quarter. Meanwhile only half of the smallest businesses (revenues less than \$10 million) expect to expand, representing a 3% drop from last quarter. Fifty-three percent of businesses with revenues between \$10 million and just under \$100 million expect to expand, while 57% of those with revenues between \$100 million and just under \$1 billion also expect to expand.

Top Challenges

Political and economic stability jumps to #2 this quarter

For the 1st time in a year, employee health care costs has dropped from the #2 spot on the challenges list and has been replaced by political and economic stability. Employee healthcare costs dropped to #4 while regulatory requirements remained at #3. Materials and supplies costs rounded out the Top 5 for the 3rd straight quarter. The concerns about political and economic stability were also reflected in an earlier question in the survey asking respondents their reasons for their outlook for the economy where many respondents expressed their concerns about the political climate.

| 3Q10 | 4Q10 | 1Q11* | 2Q11 | 3Q11 |
|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Customer Demand |
| Employee health care costs | Political and economic Instability |
| Regulatory requirements |
| Access to capital/ cost of capital | Access to capital/ cost of capital | Political and economic Instability | Political and economic Instability | Employee health care costs |
| Collecting receivables | Materials & supplies costs |
| Materials & supplies costs | Availability of skilled personnel | Access to capital/ cost of capital | Collecting receivables | Collecting receivables |
| Availability of skilled personnel | Collecting receivables | Availability of skilled personnel | Commodity costs | Availability of skilled personnel |
| Liquidity | Liquidity | Collecting receivables | Availability of skilled personnel | Access to capital/ cost of capital |
| Employee & benefits costs | Employee & benefits costs | Commodity costs | Access to capital/ cost of capital | Commodity costs |
| Staff Turnover | Commodity Costs | Liquidity | Employee & benefits costs | Liquidity |

* Political and economic instability added as a challenge choice in 1Q 2011

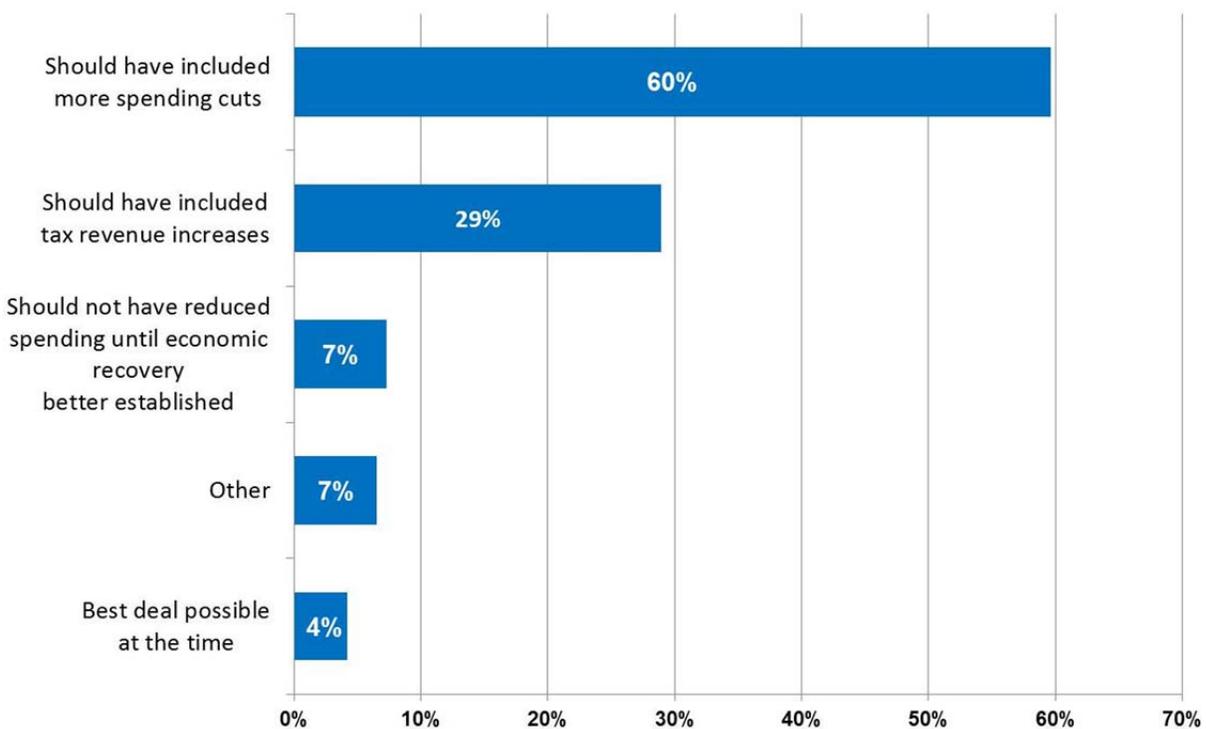
Debt Ceiling/Deficit Reduction and Reduced Spending Impacts

Respondents desire further reduced spending

This quarter's survey within a survey focused on the debt ceiling agreement and impacts of projected spending cuts. Sixty percent of respondents indicated that they felt that the debt ceiling/deficit reduction plan should have included more spending cuts while 29% felt it should have included tax revenue increases. Only 7% felt it was the best deal possible at the time and 7% felt spending should not have been reduced until the economic recovery was better established. (Percentages total more than 100% because multiple responses were allowed.)

Only 5% of respondents expected the spending cuts to have a significant direct impact on their business and another 21% expected them to have a moderate impact. For those respondents expecting significant or moderate impact the area of spending cuts expected to have the largest effect was Medicare/Medicaid spending.

View on Debt Ceiling/Deficit Reduction Plan



Survey Background

The survey was conducted of AICPA Business & Industry members between August 10, 2011 and August 29, 2011 and had 1305 qualified respondents. Forty-nine percent of respondents were CFOs, 23% were Controllers, 10% were CEOs or Presidents, 9% were VPs, 5% were CAOs, CAEs, CIOs or COOs and the remainder were Directors or Other. Sixty-five percent of respondents came from US privately owned entities, 16% from US public companies, 12% from government, education and not-for-profits and 6% from foreign owned companies. Ten percent came from organizations with annual revenues of 1 billion or more, 21% from organizations with \$100 million to under \$1 billion in annual revenues, 46% from organizations with \$10 million to \$100 million and 23% from organizations with under \$10 million in revenues.
