

SMB Job Generation Outlook

Q1 2014



The Lucas Group Job Generation Outlook is an innovative approach to traditional hiring and employment surveys, gauging both recent and planned activity in the United States small to mid-sized business market. This, our fifth national report of SMB executives, examines top-level perspectives on critical issues facing the American SMB marketplace, including economic developments, employment trends, legislative initiatives, political environments, and the tangible impact these issues have on business and employment planning.

The SMB Job Generation Outlook has surveyed more than 1,100 SMB executives over the past year, and is conducted in coordination with Polaris Marketing Research and Dr. Goutam Challagalla, Associate Professor at Georgia Institute of Technology College of Business. The Outlook is the only economic and employment survey that captures noteworthy trends – directly from the visions and priorities of the highest SMB executive offices.

Quantitative results and key findings from the Q1 2014 SMB Job Generation Outlook survey were analyzed, and through a series of graphs and charts, the statistical relationship of trends in the small to mid-sized business market has been illustrated. A detailed narrative of the data analysis follows the illustration on page 11.

Lucas Group will continue the SMB Job Generation Outlook on a quarterly basis via online surveys with invited top executives from a variety of SMBs around the country and across industry segments.

The Lucas Group survey is quickly becoming the outlook standard for the American SMB market, heralded in our national discourse as the jobs engine for economic revitalization.

We encourage you to retain this report for reference and consider how this information may impact you – now and throughout the following year. As always, please feel free to contact us. We welcome your questions and feedback.

Thank you for your interest in this important analysis of the SMB economic and employment outlook across major industries and around the nation.

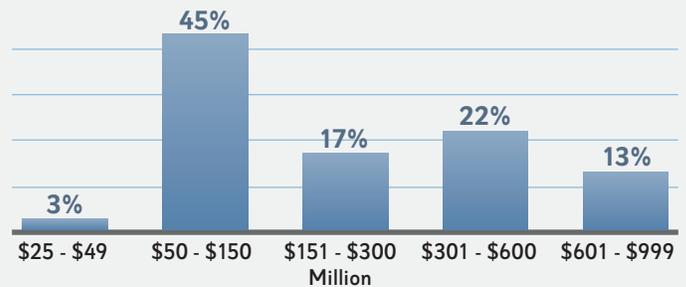


TITLES & COMPANY REVENUE

Compiling more than a year of data and including over 1,100 executives, the Lucas Group SMB Job Generation Outlook is recognized as a trusted, insightful resource for gauging the economic opinions and hiring plans of America's small to mid-sized businesses. This report provides a trending outlook on the issues and topics most pertinent to today's SMB market. From Manufacturing and Business Services to Health Care and Information Technology, the Q1 2014 Outlook report includes responses from 400 SMB executives whom knowledgeably represent the foundation of the U.S. economy and workforce.

Forty-five percent of the survey's Q1 2014 respondents reported 2013 corporate revenues between \$50M-\$150M. Another 39 percent reported revenues between \$151M-\$600M, and 13 percent of respondents are in the largest financial segment with \$601M-\$1B in 2013 revenues. Three percent represented the smallest sector of the SMB, with 2013 revenues between \$25M-\$49M.

2013 company revenues of responding executives:



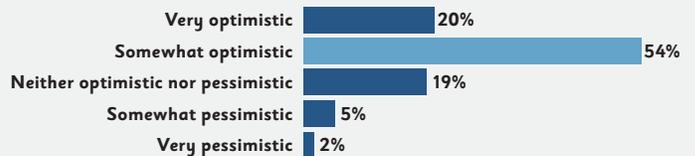
ECONOMIC PROSPECTS FOR COMPANIES & COUNTRY

SMBs are reporting the highest levels of economic optimism regarding their own companies since early 2013. In Q1 2014, 74 percent of SMB leaders say they are somewhat or very optimistic about their companies' economic prospects, up nine points from Q4 2013. This increase is balanced with a comparable decrease in the percentage of SMBs reporting pessimism about their own economic prospects. In Q1 2014, pessimism hit an Outlook history low, with only seven percent reporting negativity about their own company and its economic prospects. This is down seven points from a year ago.

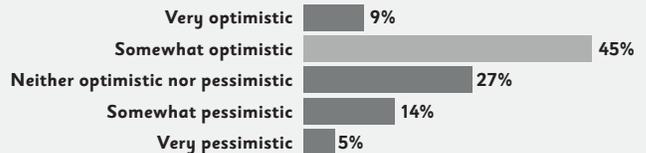
The trend toward optimism continued with national economic perspectives (though at a lower overall level), with 54 percent of SMB leaders reporting they are somewhat or very optimistic about economic prospects for the U.S. in the coming quarter. This is up 10 points from six months ago. When looking at national pessimism trends over the course of the past year, a greater drop is reported. While 34 percent report being somewhat or very pessimistic about the U.S.'s economic prospects a half a year ago, that number dropped 15 points to 19 percent in Q1 2014. This is the Job Generation Outlook's lowest rate of recorded economic pessimism.

Indicate your feelings about the following:

> ECONOMIC PROSPECTS FOR YOUR COMPANY



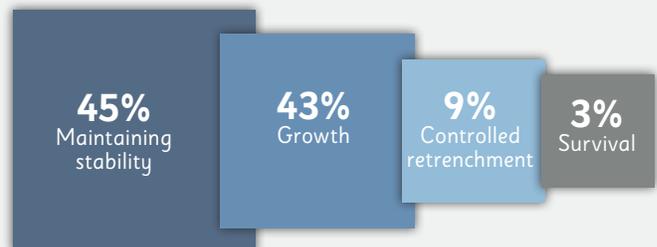
> ECONOMIC PROSPECTS FOR THE UNITED STATES



COMPANY POSITION

While the total percentage of SMB leaders who report a company position of "maintaining stability" or "growth" did not change from last quarter, the make-up of that 88 percent looks better. While 38 percent reported a growth position in Q4 2013, that number grew to 43 percent this quarter, taking five points from the stability maintenance column. SMBs considering themselves in a position of "controlled retrenchment" or "survival" remained steady at 12 percent, rates held since Q2 2013.

Select the statement that *best describes* your company's position.



JOB GENERATION

Consistently remaining above 80 percent each quarter, SMB leaders across the country generally agree with the statement that small and mid-sized businesses are the job generators of the U.S. economy. In Q1 2014, 84 percent of respondents agreed or agreed strongly with that position, and only 3 percent disagreed. While the combined agreement totals have varied insignificantly over the past several quarters, the make-up of that 84 percent has shifted. In Q3 2013, the 81 percent agreement response rate was essentially split down the middle between agreement (40 percent) and strong agreement (41 percent). In Q4, a separation occurred with 48 percent agreeing and 36 agreeing strongly. That difference increased in Q1 2014, with 52 percent agreeing that SMBs are the job generators of the U.S. and only 31 percent agreeing strongly with the same statement.

Agreement with the statement that leaders see their own SMBs as job generators continues to hold favor among the majority, though softer in conviction than national SMB positioning. In Q1 2014, slightly more than two-thirds (69 percent) of respondents reported seeing their own businesses as job generators and seven percent disagreed with the position.

JOB GROWTH PROSPECTS

In Q1 2014, SMB leaders reported an increased level of optimism related to job growth prospects for their own companies. Fifty-seven percent report feeling somewhat or very optimistic, and while this continues to be off from its Q3 2013 high of 60 percent, it does represent a higher than average positivity over the past five quarters. Similar to last quarter, approximately one-third of SMBs are neither optimistic nor pessimistic regarding their own company's job growth prospects. For the second quarter in a row, the percentage of SMB leaders who express being either somewhat or very pessimistic about job growth declined, this quarter tying the Q2 2013 low of 11 percent.

SMBs are also feeling more positive about national job growth than they were six months ago. While still less optimistic than their opinions regarding company-specific prospects, the past two surveys have recorded positive change on the national level. In Q3 2013 only 35 percent of respondents reported feeling somewhat or very optimistic about national job growth prospects and 37 percent expressed pessimism. It was the only time in the Outlook's five-quarter history that national job growth pessimism outpaced optimism. That relationship reversed in Q4 2013, with 38 percent reporting optimism and 29 expressing pessimism. The trend continued in Q1 2014. Forty-

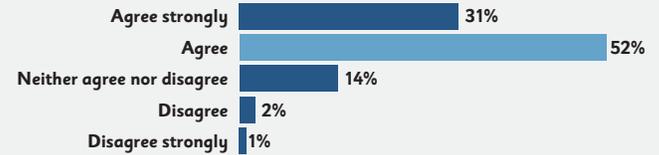
HIRING OR DOWNSIZING IN NEXT QUARTER

The percentage of SMBs planning to hire in the coming months extended its positive three-quarter trend, increasing from 38 percent in Q3 2013 to 42 percent in Q4 and 45 percent in Q1 2014. Forty-three percent of SMBs (the smallest percentage in the past four quarters) do not plan any change in their workforce over the next few months, and 12 percent say they will downsize next quarter.

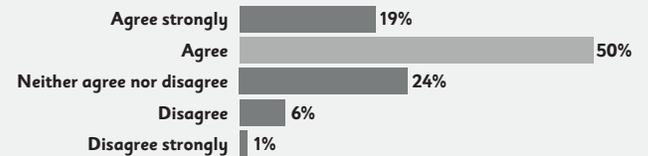
Of those companies planning some change in workforce, the vast majority of those changes represent 25 percent or less of the SMB's total workforce. Twelve percent of SMBs planning to hire will increase more than 25 percent of their current workforce. A more notable percentage, however, is reported in the reductions. Of those SMBs planning to downsize in the coming quarter, 22 percent will do so at a rate higher than 25 percent of their current workforce.

Indicate the extent to which you agree or disagree with the following statements.

> SMBs ARE THE JOB GENERATORS OF THE U.S. ECONOMY



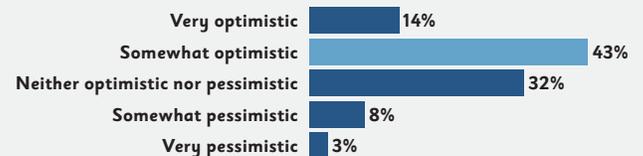
> I SEE MY COMPANY AS A JOB GENERATOR



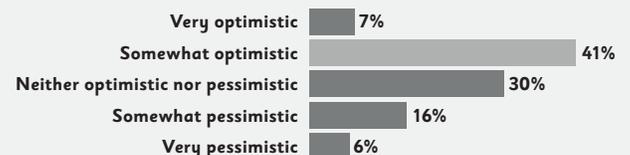
eight of Q1 respondents report feeling optimistic about national job growth prospects, while only 22 percent expressed being somewhat (16 percent) or very (6 percent) pessimistic. This is the lowest reported pessimism in the Outlook's history.

Indicate your feelings about the following:

> JOB GROWTH PROSPECTS FOR YOUR COMPANY



> JOB GROWTH PROSPECTS FOR THE UNITED STATES



Looking ahead, share your hiring or downsizing plans for the next quarter.



HIRING OR DOWNSIZING IN NEXT 12 MONTHS

When asked about hiring plans for the coming year, positive growth ticked up slightly, from 45 percent looking to hire in the coming quarter to 51 percent planning to hire in the next 12 months. This longer-term optimism was a consistent trait among SMBs throughout 2013. Each quarter, SMBs have projected a higher growth plan for the coming year than for the coming quarter. Downsizing plans, however, vary only slightly when asked in terms of quarterly versus annual expectations.

Looking ahead, share your hiring or downsizing plans for the the next 12 months.

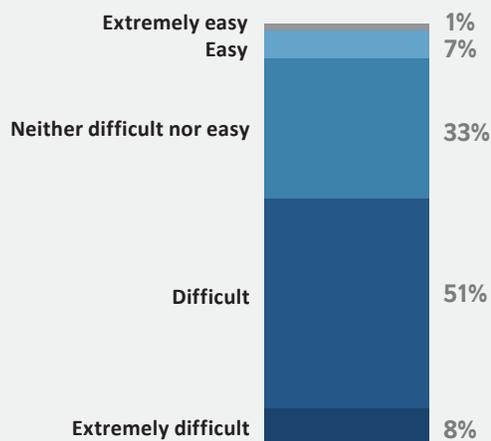


HIRING DIFFICULTY

While approximately half of SMBs surveyed in the Q1 2014 Outlook plan to hire in the coming months, the challenge of finding suitable professional talent continues to plague the sector. Almost 60 percent of all respondents report difficulty or extreme difficulty in finding qualified professional and management talent for open positions. One-third of SMBs report finding it neither easy nor difficult, and only eight percent say identifying qualified talent is easy. These numbers remain essentially unchanged from last quarter and consistent with responses from throughout 2013.

When asked which functional roles are most difficult to fill with qualified candidates, Information Technology surpassed Sales for the first time since Q2 2013, with 37 percent reporting challenges in finding top IT professionals. Sales talent continues to be of great concern, however, with a third of respondents reporting difficulty in hiring Sales professionals. SMBs continued to report the least difficulty in finding Human Resources and Legal talent, with nine percent and 10 percent reporting recruitment difficulty in each of these functions, respectively. Manufacturing Management, Accounting, Finance, and Marketing remained bundled in the middle (between 18 percent and 23 percent reporting difficulty). Fourteen percent of SMBs responded they have trouble in "other" areas of professional and management recruitment.

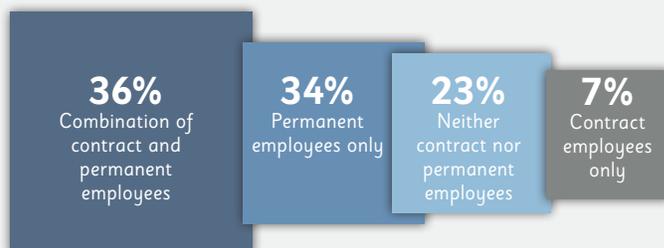
Rate the level of difficulty your company faces in finding qualified candidates for professional and management positions.



CONTRACT OR PERMANENT EMPLOYEES?

Despite discourse related to the implementation of the Affordable Care Act and the suggested drop in employers' willingness to hire permanent employees due to healthcare and insurance costs, plans to hire permanent employees continue to far outpace contract employee plans. Of those SMBs considering adding employees over the next quarter, 34 percent are hiring only permanent employees while another 36 percent are considering a combination of permanent and contract employees. Only seven percent (the lowest in a year) report considering only contract employee additions. Twenty-three percent of respondents say their SMBs will add neither in the coming months, the second highest reported "no change" number in the past five quarters.

Describe the type of employees your company is considering adding in the next quarter.

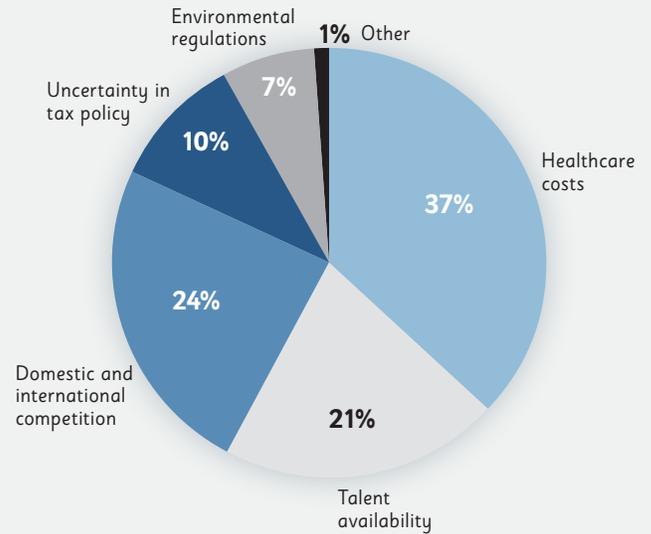


TOP ISSUES FACING SMBs

Healthcare costs continue to be of chief concern to SMBs around the nation. When asked about top business challenges SMBs expect to face in the coming months, 37 percent rank healthcare costs as their principal concern. This #1 ranking has increased from 25 percent one year ago, and another 24 percent of SMBs reported healthcare costs in the #2 spot.

While healthcare concerns have pulled away into a clear lead, worry about uncertainty in tax policy has dropped from 19 percent in Q1 2013 reporting it was their chief concern to only 10 percent in Q1 2014. Twenty-four percent of Q1 2014 respondents reported business competition as their primary challenge, and another 21 percent stated talent availability to be their lead concern. Only seven percent cite environmental regulations as a principal concern.

Please rank the following issues from top to bottom based on the challenge they represent to your company:



BIPARTISANSHIP

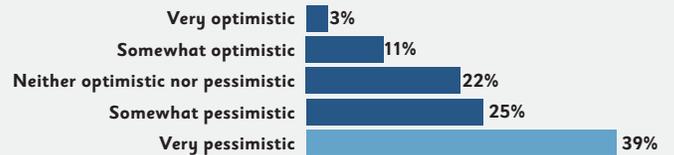
SMB pessimism regarding bipartisanship in the federal government has consistently remained between 60 and 70 percent throughout the past year. While the percentage of SMB leaders who report being somewhat or very pessimistic about federal bipartisanship again landed within that range in Q1 2014 at 64 percent, the conviction of that pessimism appears to have lessened over the past four quarters. Respondents who report being “very pessimistic” shrunk from 55 percent in Q2 2013, to 51 percent in Q3, to 49 percent in Q4, and again in Q1 to reach an Outlook historical low of 39 percent. While optimism rates, in comparison, did not witness notable gains, the percentage of SMBs who moved to the neutral middle rose a few points over the past three quarters, to reach 22 percent in Q1.

Consistent with historical Outlook data, SMBs report being somewhat less pessimistic about bipartisanship at the state level than they are at the national level. Following a similar trend in the strength of pessimistic conviction as seen toward Washington, SMBs reporting to be “very pessimistic” about state bipartisanship has dropped nine points the past few quarters – from a Q3 2013 high of 37 percent to a survey low of 26 percent in Q1 2014. This drop again does not translate into increased optimism, however, with those numbers remaining statically unchanged. The impact, as with opinions regarding federal

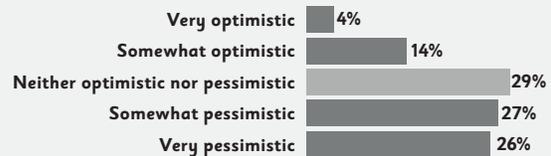
bipartisanship, was captured as an increased move to the middle and higher reports of being neither optimistic nor pessimistic about government cooperation.

Indicate your feelings about the following:

> BIPARTISANSHIP IN FEDERAL GOVERNMENT



> BIPARTISANSHIP IN STATE GOVERNMENTS



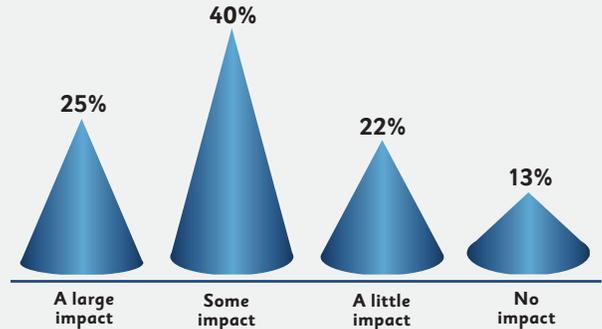
IMPACT OF PATIENT PROTECTION AND AFFORDABLE CARE ACT

For more than a year, healthcare costs have been reported in the SMB Job Generation Outlook as the #1 challenge facing SMBs in the United States. In conjunction, the Outlook has also been asking SMB leaders about their companies' preparations toward the implementation of the Patient Protection and Affordable Care Act (Obamacare) and their expectations regarding the impact the law will have on their businesses.

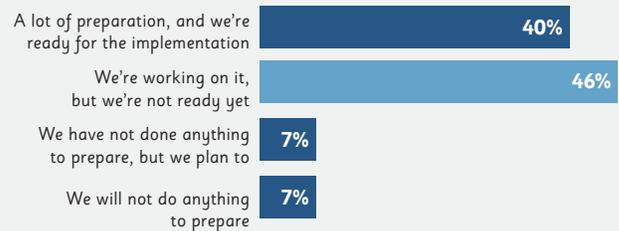
The vast majority of respondents (at or near 90 percent) have consistently reported that they expect Obamacare to have at least some level of business impact (a "little", "some" or "large" impact). However, the percentage of SMB leaders who report that the law's implementation will have a "large" impact has decreased each of the past three quarters, from 34 percent in Q3 2013 to its lowest of 25 percent in Q1 2014.

As companies prepare for the law, they appear to be less concerned about its level of impact. In addition to the decrease in a projected "large" impact, the Outlook notes rise in the percentage of SMBs who report that their companies have made preparations and are ready for the law's implementation. The majority of reporting SMBs are actively preparing for Obamacare, and the percentage of leaders who say their companies are ready has increased steadily the past four quarters. Only 18 percent reported readiness in Q2 2013, whereas 40 percent claimed readiness in Q1 2014. Similarly, the percentage of SMBs who report that they have not and will not do anything in preparation of the law's implementation reached a survey low of seven percent in Q1.

How much of an impact will the Patient Protection and Affordable Care Act have on your business plans?



How much preparation have you made for the implementation of the Patient Protection and Affordable Care Act in your business?



MINIMUM WAGE

As various political players in both state and federal government debate policies regarding raising the minimum wage, American SMBs are regularly cited as a critical economic business sector that could be negatively affected by such increases. In Q1 2014, the Outlook asked SMB executives about the potential impacts a federal minimum wage increase to \$10.10 per hour would have on their companies. Slightly more than half (52 percent) reported that an increase to \$10.10 would have no impact – neither positive nor negative – on its business.

Of those SMBs citing some level of impact, the largest percentage (26 percent) reported that a wage raise would result in an increase of pricing to their end customers. Allowing for multiple responses, the survey also revealed that 19 percent would reduce current hiring plans and seven percent would eliminate all new hiring. Fourteen percent of respondents report that a \$10.10 minimum wage increase would lead them to reduce current workforce numbers. Three percent of surveyed SMBs feel they would not be able to stay in business should the \$10.10 per hour minimum wage become law.

Another hotly debated question related to minimum wage is "How much is the right amount?" Survey respondents were asked to use a sliding scale to provide an opinion on where they would ideally like to see the minimum hourly wage set. Their responses appear to show an appetite – to some extent – among SMBs for increasing the minimum wage. While 35 percent wished to keep the rate between its current \$7.25 per hour and \$8.20 per hour, 45 percent of respondents felt that the \$8.21–\$10.10 (the rate proposed by the White House) range was most ideal. Interestingly, a full one-fifth of SMB leaders chose answers in the rate range of \$10.11–\$12.00 as most ideal – going beyond the proposed \$10.10 increase.

If the minimum wage was to increase to \$10.10 per hour, what impact would that have on your business?



*Multiple Responses were Allowed

Using the sliding scale below, where would you ideally like to see the minimum hourly wage set at?

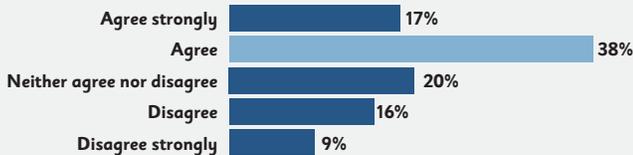


IMMIGRATION REFORM

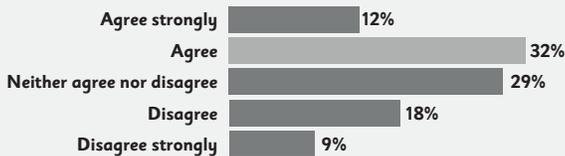
On the topic of immigration reform, SMBs remain in favor of at least some action toward restructuring immigration policies. More than half (55 percent) of SMBs surveyed agree with the statement that the U.S. should ease immigration requirements for skilled workers in IT, science and other high-demand fields. Twenty percent express no opinion and a quarter disagree. When asked about easing immigration requirements in the manufacturing sector, agreement drops 11 points, to 44 percent and neutrality increases to 29 percent.

How much do you agree or disagree with the following proposals for immigration reform?

> THE U.S. SHOULD EASE REQUIREMENTS FOR SKILLED WORKERS IN IT, SCIENCE AND OTHER HIGH-DEMAND FIELDS.

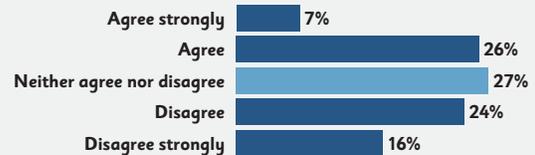


> THE U.S. SHOULD EASE REQUIREMENTS FOR SKILLED LABORERS IN MANUFACTURING.

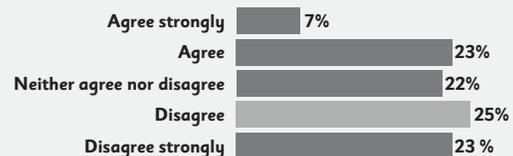


The agreement scale flips when SMBs are asked about whether the U.S. should ease requirements for all immigrants already living in the U.S. or for all immigrants in the future. In both instances, more SMBs report being in disagreement with easements than in favor. On all scenarios presented by the survey, SMB opinions regarding immigration have remained essentially unchanged throughout 2013 and into 2014.

> THE U.S. SHOULD EASE REQUIREMENTS ONLY FOR IMMIGRANTS WHO ARE ALREADY LIVING IN THE U.S..



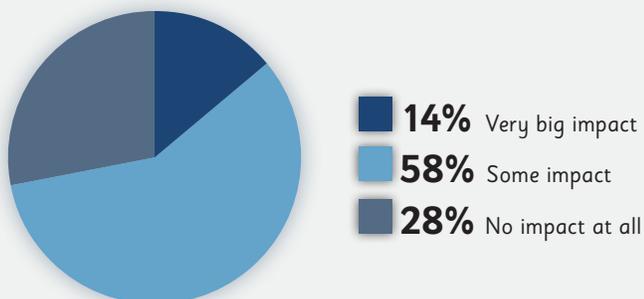
> THE U.S. SHOULD EASE REQUIREMENTS FOR ALL IMMIGRANTS, NOW AND IN THE FUTURE.



IMPACT OF RETIRING BABY BOOMERS

There is much national discourse about Baby Boomer retirement and its potential effects on American businesses over the coming decade. While the influence of retirements may not be truly felt by businesses yet, according to the Q1 2014 Outlook, the expectation of impact may be on the rise. For the past two quarters more than 40 percent of SMB leader reported that retirements have no impact on their businesses. In Q1 2014, however, responses to that same question dropped to 28 percent, the lowest in the survey's history. Similarly, the percentage of SMB executives who expect retirements to have some level of impact on their businesses has risen to 62 percent, and the percentage who predict a "very big impact" reached a survey high of 14 percent in Q1.

Describe the level of impact that Baby Boomer retirement has on your company.

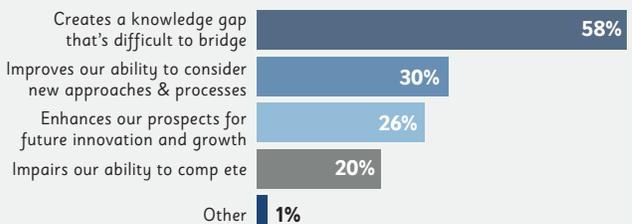


HOW RETIREMENT IMPACTS COMPANIES

SMBs are beginning to express that Baby Boomer retirements are having, or will have, a measurable impact on their businesses – both in potentially positive and negative ways. Since Q2 2013, SMBs have reported that the creation of a knowledge gap, or "brain drain", was the chief effect felt by or expected from retirements. This retirement consequence has far outpaced others for nearly a year. While the knowledge gap concern again remained top choice (with 58 percent predicting it will affect their business), the Outlook saw a notable uptick in the percentage of SMB leaders who also foresee other retirement effects. In addition to brain drain concerns, the percentage of SMBs who believe retirements impair their ability to compete in the marketplace rose 10 points, to 20 percent in Q1 2014.

Retirements, however, appear to be a mixed bag. In addition to knowledge and competition concerns, SMBs also reported an increase in positively perceived effects. Twenty-six percent reported that retirements enhance their prospects for future innovation and growth (up from 18 percent in Q4 2013) and 30 percent predict that retirements will improve their ability to consider new approaches or processes (up 13 points from Q4).

Describe how the retirement of Baby Boomers impacts your company. (multiple response allowed)

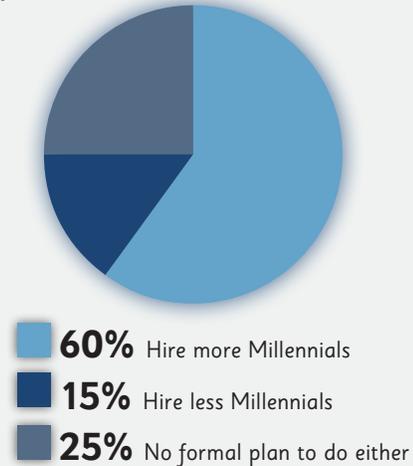


HIRING MILLENNIALS

Closely related to SMB hiring plans and Baby Boomer retirement effects is the relationship these topic have with the Millennial workforce. With unemployment rates consistently higher than the average population's, Millennial job opportunities continue to a hot bed of discussion. In Q1 2014, the SMB Job Generation Outlook asked business leaders what – if any – plans their companies have in place related to Millennial hiring.

Of the Q1 2014 SMB respondents planning to hire new employees next quarter, 77 percent plan on adding Millennials to their payrolls. Also, the majority of SMBs hosting specific Millennial workforce plans (60 percent) intend to actively attract and hire from this youngest professional workforce in the coming months, while only 15 percent say they'll intentionally hire Gen Y workers. Information Technology and Consumer Services companies were most likely to be making plans to attract and hire Millennials in the coming months and SMBs in the Health Care and Business Services sectors reported being least likely. Nearly half (48 percent) of all SMBs specifically planning to hire Millennials also report planning to hire a combination of contract and permanent workers. This is higher than the overall percentage (37 percent) of SMBs who report plans to combination hire.

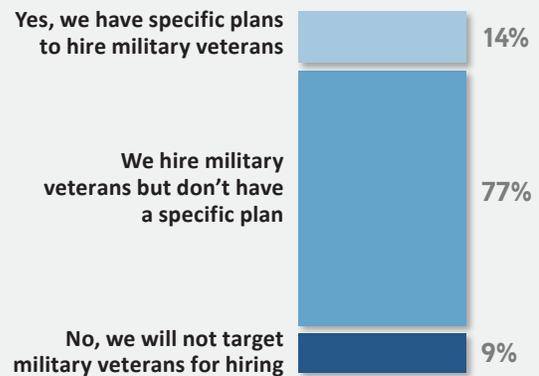
In the next quarter, are you going to make an effort to:



HIRING VETERANS

With unemployment rates among veterans continuing to outpace the general population, workforce issues and jobs programs remain a topic of national, state and local discourse. Despite estimates that three million veterans have returned from service over the past decade and another million are expected to return to civilian life in the next five years, the majority of surveyed SMBs report having no specific plan to recruit or hire military veterans. Seventy-seven percent of SMBs are open to hiring vets, yet take no specific actions. Only 14 percent of responding SMBs (the lowest among the past five quarters) say their companies have a specific plan in place to hire veterans. Nine percent of SMBs say they do not and will target veterans for hire in the coming months.

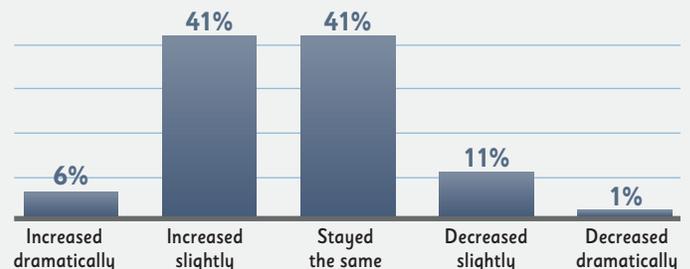
Share whether your company has *specific plans* to recruit and/or hire military veterans.



CHANGE IN WORKFORCE AND FULLY-BURDENED EXPENSES

As part of the SMB Job Generation Outlook survey, SMBs executives shared how their companies' workforce and fully-burdened expenses changed over the past several months. The majority (82 percent) were split evenly between reporting no changes or slight increases in workforce and fully-burdened expenses in Q4 2013. Only six percent reported dramatic increases, and twelve percent of SMBs said their expenses decreased to some degree last quarter. Statistically, these changes were similar to increases and decreases reported in Q3 2013.

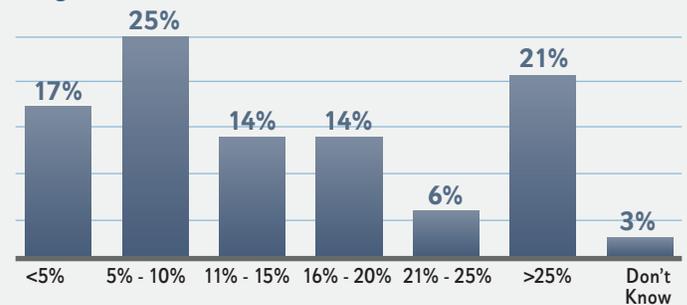
Describe how your workforce and fully-burdened expenses changed last quarter.



INCREASES IN WORKFORCE AND FULLY-BURDENED EXPENSES

Of the companies reporting Q4 2013 increases in workforce and fully-burdened expenses, 42 percent reported that those expenses rose less than 10 percent. Another 34 percent of SMB executives witnessed increases that were between 11 percent and 25 percent, and 21 percent of respondents reported increases greater than 25 percent. This highest level increase rose six points (from 15 to 21 percent) over reported Q3 2013 workforce and fully-burdened expense increases.

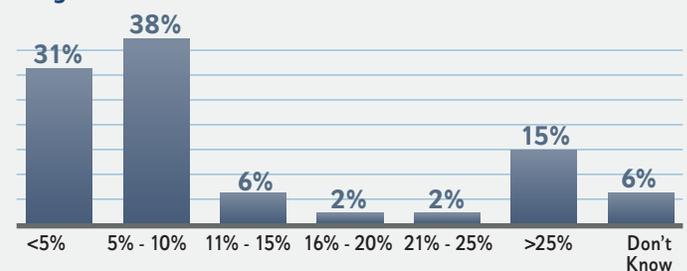
For those expenses that increased, select the percent they increased.



DECREASES IN WORKFORCE AND FULLY-BURDENED EXPENSES

While 88 percent of SMBs reported either no change or an increase in workforce and fully-burdened expenses in the final quarter of 2013, twelve percent of survey respondents did report decreases. Of those, the majority (69 percent) experienced a decrease in workforce and fully-burdened expenses of less than ten percent. Another 10 percent witnessed decreases between 11 and 25 percent. The percentage of respondents who reported a decrease in expenses greater than 25 percent rose from 12 percent in Q3 to 15 percent in Q4 2013.

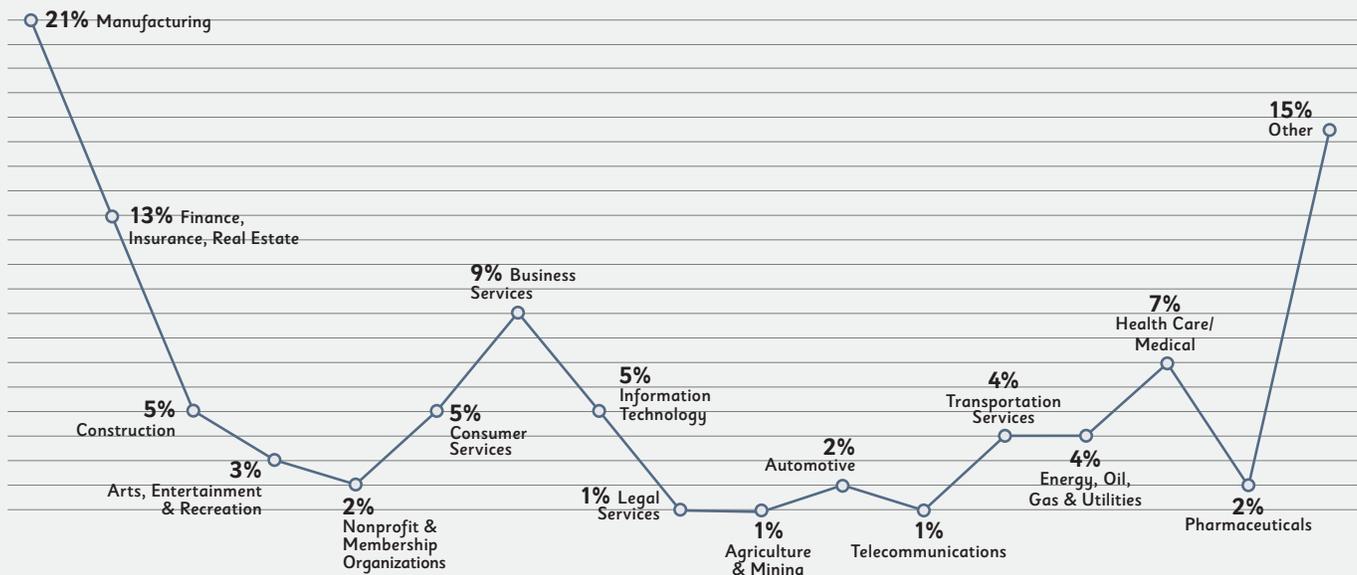
For those expenses that decreased, select the percent they decreased.



INDUSTRY

Representing a cross-section of U.S. industries, Q1 2014 Outlook respondents reported working in close to 20 different business sectors. Manufacturing, Financial/Insurance/Real Estate, Business Services, and Health Care showed the greatest representation, with Information Technology, Construction, and Consumer Services in the second tier.

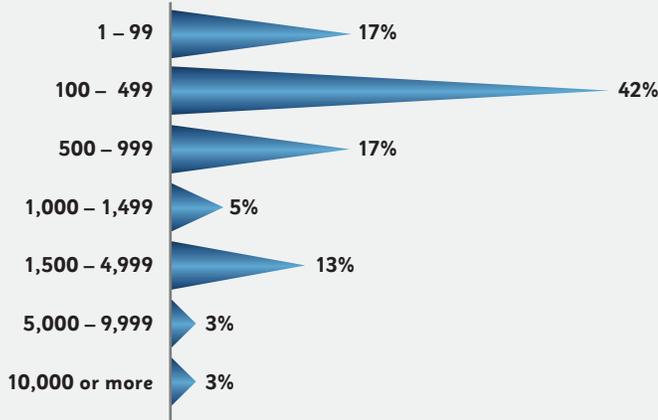
Select your company's industry.



COMPANY SIZE

Near 60 percent of Q1 respondents were from mid-sized businesses with 100-999 employees. Twenty-four percent of respondents represented the largest sector of the SMB, with more than 1,000 employees, and 17 percent of executives reported workforces of fewer than 100 employees.

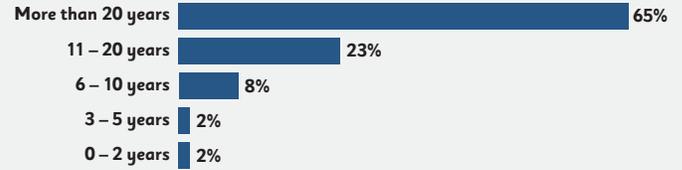
Select the number of workers your company currently employs.



LENGTH OF TIME IN BUSINESS

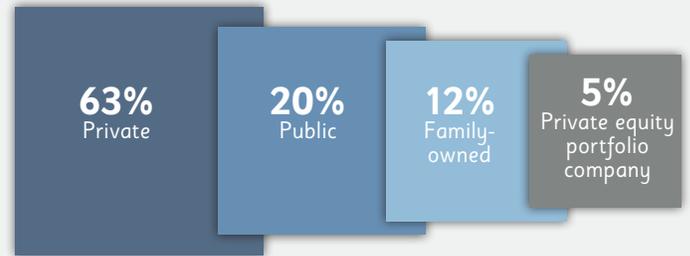
The SMB Job Generation Outlook survey group continues to be composed of long-standing businesses with 65 percent of Q1 respondents having been in business for more than 20 years. Another 31 percent have been in business from 6-20 years.

How long has your company been in business?



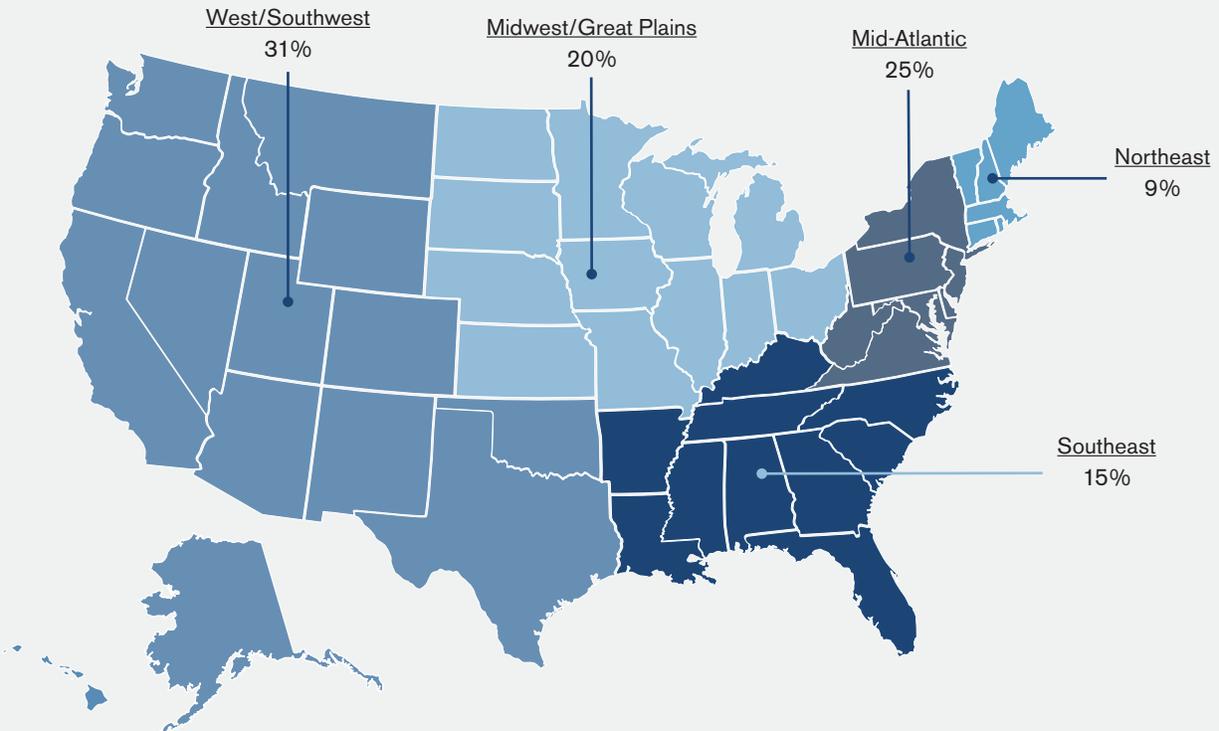
TYPE OF COMPANY

Describe your company's ownership structure.



LOCATION OF COMPANY

The Q1 2014 SMB Job Generation Outlook surveyed business leaders from 43 states, with the strongest concentrations of respondents from California, New York/New Jersey and Illinois.



Lucas Group SMB Job Generation Outlook Survey

Q1 2014 Closing Remarks

Over the past five quarters, Lucas Group has surveyed more than 1,100 small to mid-sized business executives via the SMB Job Generation Outlook. Published quarterly, the Outlook seeks to uncover, gauge and report upon the business opinions and market expectations of the SMB's highest level officers. Purposely focused on top executives – including business owners, presidents, and C-level officers – from around the nation and across industry segments, the Outlook addresses an array of significant topics, including the economy's health, employment trends, political issues, and SMB-specific growth plans.

Q1 2014 Outlook respondents represented 43 states and 20+ industries. From Manufacturing and Business Services to Health Care and Information Technology, these SMB executives knowledgeably characterize the foundation of the U.S. economy and workforce. The majority of reporting companies are long-standing businesses with more than 20 years in operation, employee workforces between 100-1,000 and 2013 corporate revenues between \$50M-\$600M.

SMB Optimism Increases in Q1

Overall, the Q1 2014 SMB Job Generation Outlook revealed that small to mid-sized business leaders are generally optimistic about opportunities in the U.S. economy as well as the SMB sector. These leaders express positivity regarding job creation, economic growth, and the health of their own companies. SMB executives who report feeling optimistic about general economic prospects, both for their own companies and for the nation as a whole, have steadily risen the past several quarters and are up six points and 10 points, respectively.

Job growth, a critical factor to continued U.S. economic recovery, has also been experiencing increased optimism in the SMB sector. Feelings about company-specific and national job growth prospects continue to rise in optimism, increasing 17 and 13 percentage points, respectively, over the past six months.

During the past three quarters, the Outlook has also recorded an increase in the percentage of SMBs who report plans to hire. Forty-three percent of SMBs reporting in Q1 say they have plans to hire, up seven points from six months ago. Hiring plans have continued their modest growth, despite 47 percent of SMBs reporting that workforce and fully-burdened expenses are also on the rise.

One area where SMBs continue to report low levels of optimism, however, is in relation to the U.S. political landscape and bipartisanship efforts. Only 14 percent of respondents report feeling optimistic about federal cooperation, and while slightly higher, the state level of optimism edges up only four points to 18 percent.

Minimum Wage Effects Vary by Sector

The SMB Job Generation Outlook survey asked executives about how an increase to the federal minimum wage would affect their

companies. Overall, 26 percent of SMBs say that a federal minimum wage increase to \$10.10 would result in increasing prices to their customers. In terms of negative hiring or workforce impacts, 29 percent say an increase would result in a reduction or elimination of new hires or a reduction in current workforce. A little more than half of SMBs report that a minimum wage increase would not affect their companies, and three percent report that a \$10.10 wage would drive them out of business.

The Financial/Insurance/Real Estate sector appears least impacted (66 percent reporting no effect) whereas Consumer Services would be more negatively impacted by an increase to \$10.10. Consumer Services companies were more likely to report that an increase would result in closing their doors and going out of business (26 percent in the sector versus three percent overall). When asked to identify an ideal federal minimum wage via a sliding scale, Consumer Services and Automotive companies were most likely to select the lowest wage bracket of \$7.25-\$8.20, and larger companies (\$300M-\$999M) were more likely to say that an increase over the proposed \$10.10 would be acceptable.

Healthcare Costs Remains Chief Concern

For the fourth quarter in a row, SMBs report healthcare costs as their #1 business concern. Thirty-seven percent of SMBs say healthcare and insurance-related costs are their principle challenge, over domestic and international competition, talent availability, uncertainty regarding tax policies, or environmental regulations. The SMB Job Generation Outlook also analyzed the effects and business planning related to healthcare, and specifically, the implementation of the Patient Protection and Affordable Care Act (Obamacare).

The vast majority of respondents (at or near 90 percent) have consistently reported they expect to experience some level of impact related to the ACA's healthcare regulations. In Q1 2014, however, SMBs were more likely to report that Obamacare will have a minimal or moderate impact (versus a large impact) than they were six months ago. The percentage of SMBs projecting a large impact from the healthcare law has dropped nine points since Q3 2013, to reach 25 percent in Q1.

Nearly half of the survey's respondents report that their companies have prepared adequately for the healthcare law's implementation and that their companies are ready. This is the highest percentage in the survey's history. Another 46 percent are in the midst of preparations, and an Outlook historical low of seven percent say that, as of yet, they have done nothing to prepare but plan to in the future. Also at a survey low, another seven percent report that they have not and will not make preparations related to Obamacare, down from a Q2 2013 high of 11 percent.



For more information regarding the
SMB Job Generation Outlook, please visit
www.lucasgroup.com/smb-job-generation