



SMB Job Generation Outlook

Q4 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 eighth national survey 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 over 2,000 SMB executives, and is conducted in coordination with Polaris Marketing Research and Dr. Goutam Challagalla, Associate Professor at the Georgia Institute of Technology Scheller College of Business. Both an economic and employment survey, the Outlook captures noteworthy trends--directly from the visions and priorities of the SMB's top executives.

Quantitative results and key findings from the Q4 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 12.

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

The American SMB market is heralded in our national discourse as the jobs engine for economic revitalization, and the Lucas Group survey has become an outlook standard for this critical business sector.

We encourage you to retain this report as a reference point. Consider how this information may impact you—now and in the future. 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.



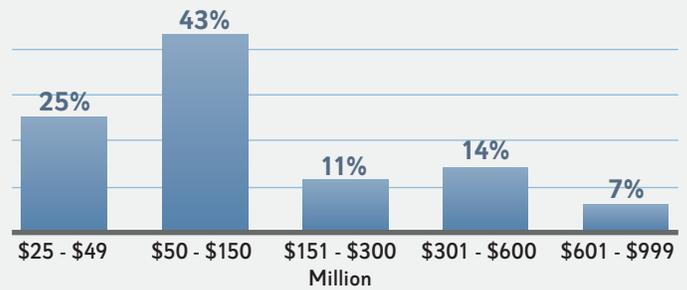
TITLES & COMPANY REVENUE

The Lucas Group SMB Job Generation Outlook provides insight into the issues and topics most pertinent to today's small to mid-sized business market. Encompassing two years of economic and market data and over 2,000 executives polled, the survey is a trusted resource for gauging current economic opinions, trends, and business plans of small to mid-sized companies. The Q4 2014 report includes responses from 400 SMB executives from across industries and geographic regions. These leaders knowledgeably represent the foundation of the American SMB and have a pulse on the health and vitality of the sector.

Sixty-eight percent of the survey's Q4 2014 respondents reported projected 2014 corporate revenues under \$150M. One-fourth reported revenues between \$151M-\$600M and seven percent of respondents are in the largest financial segment of the SMB with

\$601M-\$1B in projected 2014 revenues. The Q4 2014 report reviews the eighth edition of the Lucas Group SMB Job Generation Outlook.

2014 company revenues of responding executives:



JOB GROWTH PROSPECTS FOR COMPANIES & COUNTRY

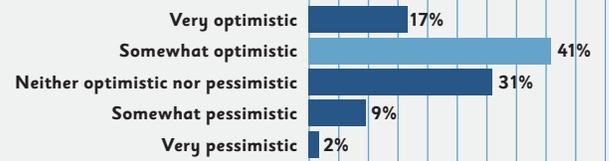
After a mid-year dip, 58 percent of Q4 respondents reported being somewhat or very optimistic about job growth prospects for their own companies. This is a 6-point gain from last quarter, and with 17 percent feeling very optimistic (a survey high), SMBs are welcoming 2015 with greater positivity. Slightly less than one-third of SMBs are in the neutral position, with 31 percent reporting neither optimism nor pessimism regarding their own company's job growth prospects for the coming months. While down slightly from the annual average of 33 percent, self-neutrality has remained essentially consistent over the past year. On the other end of the spectrum, the percentage of SMB leaders who express feeling somewhat or very pessimistic about their job growth dipped from 13 percent in the previous quarters to tie the survey's historical low at 11 percent in Q4.

In terms of job growth prospects for the national landscape, SMBs reported a significant jump in positivity during the Q4 survey. Passing the halfway mark for the first time in the survey's two-year history, 52 percent of SMB executives report feeling somewhat or very optimistic about national job prospects for the coming months. This is an increase of 14 points from the same time last year and nine points from last quarter alone. The percentage of SMBs reporting neutrality regarding national job growth dipped to 30 percent, slightly lower than the 32 percent annual average.

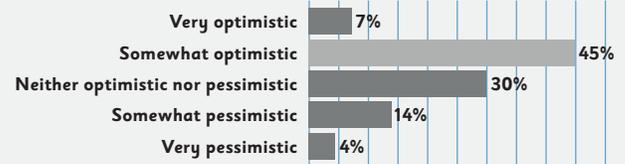
Looking back one year to Q4 2013, these national optimism/pessimism numbers showcase a significant change in the country's overall mood. Whereas 52 percent reported optimism in Q4 2014, only 38 percent did so at the end of 2013. Likewise, Q4 2014 saw record lows in terms of job growth pessimism among SMB leaders, with only 18 percent feeling somewhat or very pessimistic. This negativity is down 11 points from last year.

Indicate your feelings about the following:

> JOB GROWTH PROSPECTS FOR YOUR COMPANY



> JOB GROWTH PROSPECTS FOR THE UNITED STATES



ECONOMIC PROSPECTS FOR COMPANIES & COUNTRY

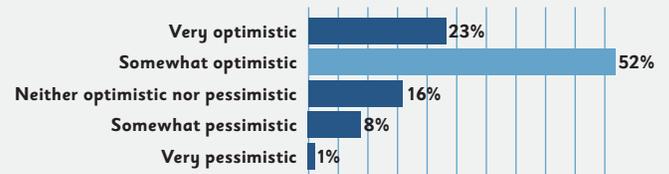
Economic optimism reached a two-year high in Q4, with 75 percent of responding SMBs reporting they are either somewhat or very optimistic about economic prospects for their particular company in the coming quarter. Having reached a previous high of 74 percent in Q1 2014, optimism dipped, ending Q3 at 68 percent of respondents feeling somewhat or very optimistic. With 23 percent saying they are very optimistic, Q4 maintained a small, though steady increase in those being very optimistic. Up six points from last quarter, slightly more than half (52 percent) report being somewhat optimistic. Only 16 percent report being neutral (the lowest in survey history), and in Q4, the percentage of SMBs who report feeling pessimistic about their company's economic prospects dropped to under 10 percent.

In terms of the nation's economic prospects, Q4 followed past patterns and witnessed a drop in optimism among SMB leaders when considering the U.S. economy as a whole. However, while optimism numbers remained lower at the national level than at the company level, Q4 saw historically high rates of economic optimism among SMB leaders. Fifty-seven percent report feeling somewhat or very optimistic about the country's overall economic prospects. This remains 18 points off reported company-specific optimism, but it also represents a

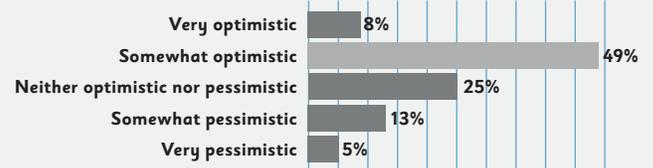
national outlook high and a 13 point jump from the same time last year. One-quarter of SMBs report a feeling of neutrality regarding national economic prospects, and 18 percent (lowest in survey history) report feeling somewhat or very pessimistic.

Indicate your feelings about the following:

> ECONOMIC PROSPECTS FOR YOUR COMPANY



> ECONOMIC PROSPECTS FOR THE UNITED STATES



COMPANY POSITION

In Q4, more small to mid-sized companies reported their businesses are in a positive, healthy condition of "growth" than was reported one year ago. While in Q4 2013, only 38 percent of SMBs reported a position of "growth," that number has increased to 46 percent in Q4 2014 (a survey high). Another 44 percent of SMB executives self-report a position of "maintaining stability". These positions have together remained near 90 percent for the past year. Fewer than one in ten SMBs consider themselves in a position of "controlled retrenchment", and executives who reported their companies in "survival" mode hit a survey low of two percent.

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



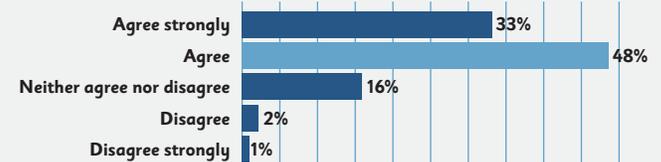
JOB GENERATION

Supporting its national prominence as a vital hub of American job growth and economic revitalization, 81 percent of small and mid-sized businesses view their market sector as the job generator for the U.S. economy. This highly positive quarterly response rate has remained steady in the high 80s throughout the survey's history. Sixteen percent of SMBs remain neutral regarding the belief, and only three percent of respondents disagree with the statement that SMBs are job generators for the economy.

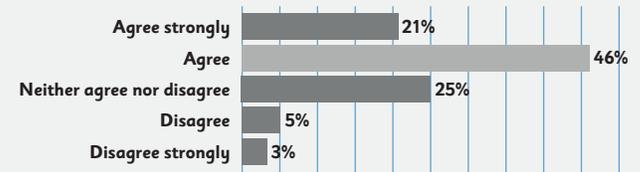
While the SMB market views its national job generation role positively, executives report less agreement to the position as a job generator when asked specifically about their own companies. After dropping to 60 percent in Q3, the number of executives agreeing that their own company was a job generator increased to 67 percent, similar to levels from previous quarters. Neutrality to the statement also dipped, from a survey high of 29 percent last quarter to 25 percent, the same as one year ago. In Q3 2014, 11 percent of SMB leaders disagreed with the individual assertion of job generation, but that number also fell back to more consistent levels in Q4, with eight percent of SMB leaders reporting they do not view their own companies as a job generator.

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



HIRING OR DOWNSIZING IN NEXT QUARTER

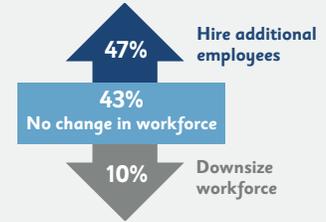
In general, the percentage of SMBs planning to hire has increased slightly. In Q4, 47 percent of SMBs reported plans to hire during early 2015. One year ago, 41 percent responded similarly. Having witnessed small increases throughout the year, this 47 percent represents the highest quarterly hiring plans in the survey's two-year history.

The percentage of SMBs reporting plans to downsize in the coming months dropped a single point this quarter to 10 percent, the average over the course of the past 18 months. Forty-three percent of SMBs do not plan any appreciable change in their workforce over the next few months.

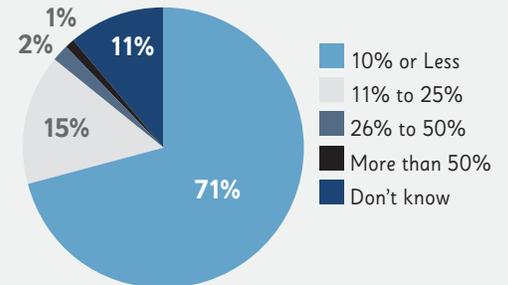
While overall hiring plans have not changed significantly, those SMBs reporting plans to grow are doing so at a more moderate level than in the past several quarters. Seventy-one percent who report plans to hire in the coming months say their planned increases represent less than 10 percent of their total workforce. This is an 11 point increase from one year ago and a seven percent increase from last quarter alone. Another 15 percent plan to hire between 11 percent and 25 percent, and only three percent report increases greater than 26 percent of their total workforce.

On the other side of the hiring equation, those planning to downsize in the coming months also report plans to do so at more moderate levels. Sixty-five percent report downsizing plans will affect less than 10 percent of their workforce, and 17 percent project decreases between 11 percent and 25 percent of total workforce. Thirteen percent report plans to enact downsizing in the coming quarter of more than 25 percent of workforce.

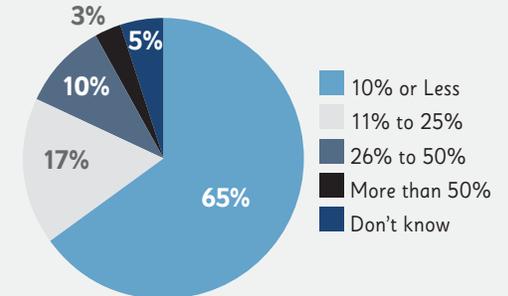
Looking ahead, share your hiring or downsizing plans for the next quarter.



Percentage change these hiring plans represent of your total workforce.



Percentage change these downsizing plans represent of your total workforce.



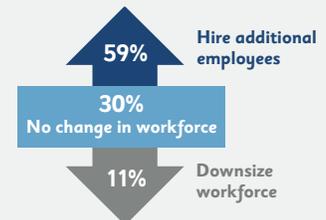
HIRING OR DOWNSIZING IN NEXT 12 MONTHS

Looking ahead 12 months, SMB hiring optimism increases. In Q4, executives reported the highest level of hiring plans for the year ahead, with 59 percent saying they planned to grow. Up slightly and similar to past quarters, the percent of SMBs who expect to hire during the next 12 months is consistently gauged over half. At 59 percent, this quarter is up eight points from the beginning of 2014. Dipping back down a few points in Q4, only 11% of responding SMBs reported plans to downsize in the next 12 months. While 43 percent of SMBs report no plans to hire or to downsize in the next quarter, those neutral numbers thinned to 30 percent when considering the longer 12-month period.

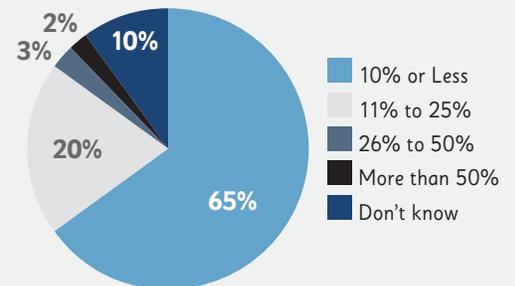
Similar to quarterly hiring plans, 12-month plans are relatively moderate in scope. When asked about how hiring or downsizing plans affect overall workforce numbers, 65 percent say their plans to hire represent less than 10 percent. This moderate response rate is up 11 points from last quarter and 16 points from middle of 2014. Twenty percent say their plans affect between 11 and 25 percent, and only five percent of respondents report plans to increase their workforces by more than a quarter.

The trend to moderation continued with the companies planning to downsize over the next year. Sixty-one percent of SMBs reporting plans to cut workforce in the coming 12-month period say their decreases will affect less than 10 percent of their total workforce, also the lowest reduction rate in the survey's history.

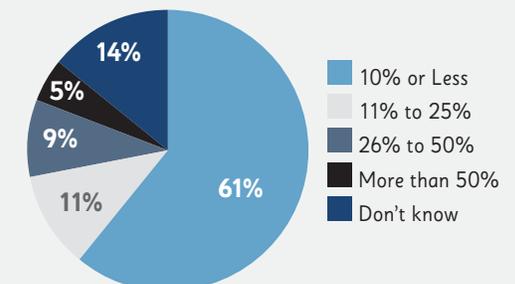
Looking ahead, share your hiring or downsizing plans for the next 12 months.



Percentage change these hiring plans represent of your total workforce.



Percentage change these downsizing plans represent of your total workforce.

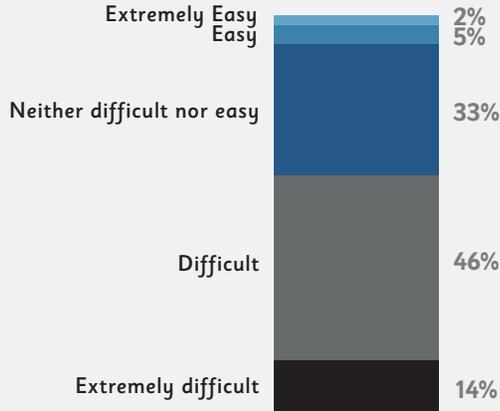


HIRING DIFFICULTY

Finding qualified talent for open professional and management positions has been an increasing challenge for SMBs across the country. Each quarter, the Outlook surveys executives in order to gauge the ease and/or difficulty SMBs face when seeking to hire qualified talent in key business functionalities. Since early 2013, the survey has tracked a widening in the available talent gap for SMBs. In Q2 2014, the percentage of executives who reported finding talent as somewhat or very difficult reached a survey high of 64 percent. In Q4, the number dipped slightly to 60 percent and included the 14 percent of SMBs who reported talent acquisition as extremely difficult. This intense level of difficulty matched Q2's record number and is up five points from one year ago. Only seven percent of SMB leaders report their businesses have no difficulty finding and hiring qualified candidates for open professional and management positions.

As has been the case for most quarters, Sales remained the most difficult to fill, with 38 percent of SMBs reporting finding and hiring

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



TOP ISSUES FACING SMBs

The SMB Job Generation Outlook seeks to identify and learn more about the chief challenges today's small to mid-sized businesses face in the marketplace. Since early 2013, SMB leaders have reported health care costs to be of chief concern to their businesses. That remained true in Q4, with 32 percent of SMBs citing health care costs as their #1 concern.

However, the challenge gap between health care costs and talent availability has been closing, and after reaching its smallest difference in Q3 at only three points, it remained narrow in Q4. Matching last quarter's survey high, 29 percent of Q4 respondents cited talent availability as their chief business concern. This narrowing is consistent with the findings that SMBs are reporting increasing difficulties in finding qualified professional talent, with 60 percent reporting hiring difficulty in Q4.

Health care costs and talent availability represent the top concerns for 61 percent of the SMBs in our survey, but several other key issues remain most important to the other 39 percent. Slightly more than one in five SMBs report that competition from domestic and international markets is their #1 concern and another 10 percent cite uncertainty

qualified Sales talent as problematic. Allowing for multiple responses, the survey also showed that Information Technology—which surpassed Sales only once in Q1 2014—remained in second place in Q4 with 31 percent of leaders citing IT as difficult. Accounting and Finance each presented difficulty for 17 percent of responding executives and Manufacturing Management and Marketing were challenges for 21 percent and 16 percent, respectively.

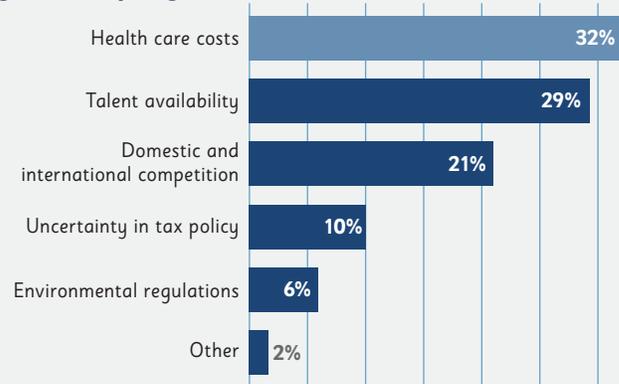
Human Resources may be an area to watch, as finding qualified HR talent has increased in difficulty for SMBs throughout 2014. Beginning the year at nine percent, HR ticked up consistently throughout the year, ending at a survey high of 13 percent. Legal dropped to its lowest level of difficulty in survey history, with only four percent of businesses reporting trouble finding attorney talent. A quarter of SMBs responded they also have trouble in “other” areas of professional and management recruitment.

Indicate which area of open positions are most difficult to find qualified candidates.



in tax policy. Environmental regulation concerns have historically been the least ranked top concern, with only six percent reporting this issue as a chief concern in Q4 2014.

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



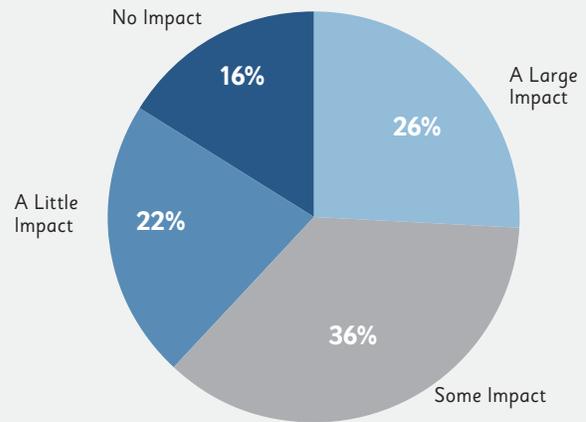
IMPACT OF PATIENT PROTECTION AND AFFORDABLE CARE ACT

In addition to gauging top concerns, the SMB Job Generation Outlook surveys executives about their planning and expectations for changes in the market. Each quarter, the survey asks SMB leaders about their projections concerning the Patient Protection and Affordable Care Act (Obamacare) and the economic impacts the law's requirements will have on their businesses.

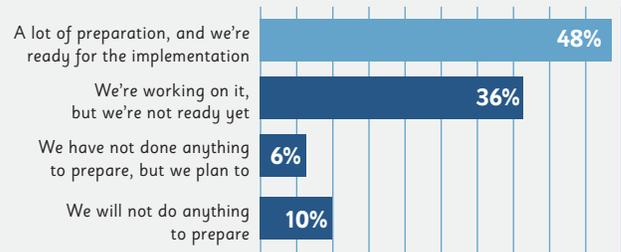
In Q4, the survey found that 84 percent of respondents predict Obamacare will have at least some level of business impact (a "little", "some" or "large" impact). While seemingly high, it represents the second to lowest expectation found during the survey to date. Up six points from the same time last year, the percentage of executives who expect no impact from the ACA reached a survey high of 16 percent in Q4.

In addition to impact, the survey also asks businesses to qualify their preparedness. Having tracked this number for two years, the survey has shown readiness consistently increasing as the law's various requirements were enacted. The percentage of SMBs who report their businesses are ready for Obamacare hit a survey high in Q4 at 48 percent. This represents an 18 point increase from one year ago. Another 36 percent report they are working on preparations and six percent say they have not done any preparations but plan to in the future. Down slightly from last quarter, 10 percent of SMBs report in Q4 that they have not and will not do anything in preparation for Obamacare.

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?

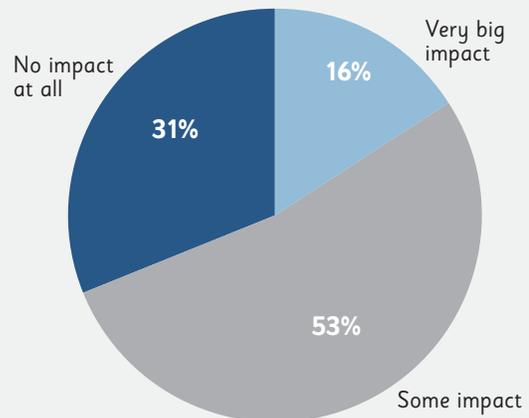


BABY BOOMER RETIREMENT

As more and more members of the Baby Boomer generation reach retirement age—enabling millions of professionals to leave the workforce over the next decade—the impact felt by these mass retirements will be significant to the economy. Every month, over a quarter million Americans turn 65, and the SMB Job Generation Outlook asks leaders to qualify the impact projected Boomer retirements will have on their individual businesses.

One year ago, slightly over half (54 percent) of SMBs reported expecting to experience some level of impact from the retirements of Baby Boomers, and 43 percent were expecting no impact. Today, those expectations has clearly shifted. Nearly seven out of ten SMBs are projecting a business impact from Baby Boomer retirements, and the percentage of companies who expect no impact at all has fallen 12 points, to 31 percent in Q4.

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



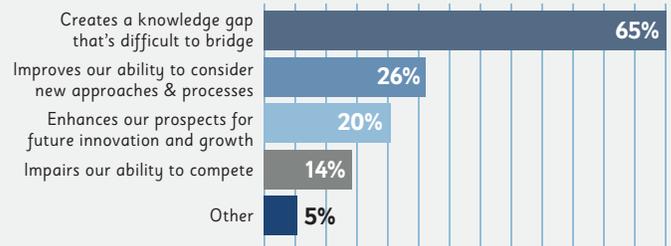
IMPACT OF RETIRING BABY BOOMERS

With an estimated 10,000 Baby Boomers retiring from the workforce each day, SMBs are beginning to recognize the types of impacts retirements are having, or will have, 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, reaching a survey high of 65 percent in Q4 2014. SMBs are much more concerned about the knowledge gap created by retirements than any perceived loss of competitiveness in the marketplace. Only 14 percent of SMBs report that Boomer retirements impair their ability to compete.

Allowing for multiple responses, SMBs also note several positive effects. While down from last quarter, these positive expectations are still higher than one year ago. In Q4, one in five SMBs reported

that retirements will enhance their prospects for future innovation and growth (up from a survey low of 17 percent in Q3 2013) and 26 percent predict that retirements will improve their ability to consider new approaches or processes.

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



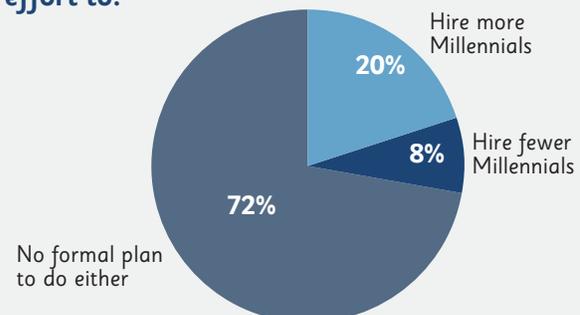
HIRING MILLENNIALS

Moving into business as Baby Boomers move out, America's estimated 80 million Millennials are quickly becoming the largest workforce generational pool. Despite predictions that nearly half of the American workforce will be comprised of Millennials by 2020 and the sociological acknowledgement that this next generation has professional goals and expectations different from their elders, the majority of SMBs continue to hire Millennials into their teams without formalizing plans to recruit, develop or retain.

The SMB Job Generation Outlook asks business leaders what—if any—plans their companies have in place related to Millennial hiring. According to Q4 2014 data results, 72 percent of SMBs surveyed do not have any formal plans to specifically recruit Millennial candidates. Only 20 percent of SMBs report that they plan to specifically target Millennials in the coming quarter for hire, and eight percent report a planned effort to actually hire fewer candidates from this growing workforce population. The SMB Job Generation Outlook will continue

to survey leaders regarding this topic and consider the effects that Baby Boomer retirements and new Millennial candidates exert upon one another.

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

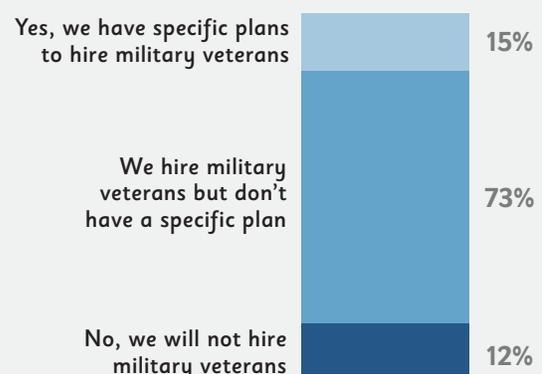


HIRING VETERANS

Workforce issues and job programs for veterans remain topics of national, state and local discourse, even as unemployment rates among veterans continue to outpace the general population. 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, SMBs do not appear to be focused on or prepared for this influx of talent into the corporate market.

While saying they are open to the idea of hiring veterans, the majority of surveyed SMBs continue to report having no specific plan to recruit or hire post military. Seventy-three percent of SMBs are open to hiring vets, yet take no specific actions. Only 15 percent of responding SMBs say their companies have a plan in place to hire veterans, and another 12 percent of SMBs say they do not plan to hire military veterans.

Do you have specific plans to recruit and/or hire military veterans in the next quarter?



MINIMUM WAGE

American SMBs are regularly cited as a critical business sector that could be negatively affected by a potential federal mandate to raise the minimum wage. As business leaders, politicians and economic experts continue to debate the topic, the SMB Job Generation Outlook seeks to unveil what business executives believe. In Q4 2014, the Outlook once again asked SMB executives about the potential impacts that a federal minimum wage increase to \$10.10 per hour would have on their companies. Over half of executives (54 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, about one in five reported that a wage raise would result in an increase of pricing to their end customers. Allowing for multiple responses, the Q4 2014 survey also revealed that a \$10.10 minimum wage would create some level of negative hiring effect for 35 percent of SMBs. Sixteen percent would reduce current hiring plans and seven percent would eliminate all new hiring. Twelve percent of respondents report that a \$10.10 minimum wage increase would lead them to reduce current workforce numbers.

To a business, the most drastic consequence of a minimum wage increase would be if wage adjustments led to the business having to

shut its doors. Over a four-quarter history of asking this question, the survey revealed that between one and three percent of leaders predict that their businesses would fail, should the proposed \$10.10 per hour minimum wage become law. Based on data from past five quarters, the mean workforce for SMB respondents is approximately 2,350 people per business. At a two percent fail rate for those companies, the jobs loss from business closings alone could near 60,000.

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



(Multiple responses allowed)

IDEAL MINIMUM WAGE

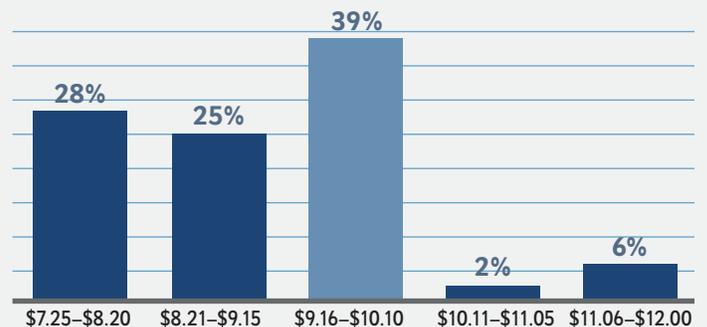
The question “How much is the right amount?” plays a critical part in the complicated and multi-faceted issue of minimum wage. Over the course of the past year, SMB executives appear to show an appetite—to some extent—for increasing the minimum wage, with a Q4 ideal mean minimum wage of approximately \$9.20 an hour.

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. While 28 percent wished to keep the rate between its current \$7.25 per hour and \$8.20 per hour, that option remained down six points from its Q2 high. At 64 percent, two-thirds of Q4 respondents felt that the \$8.21–\$10.10 (the rate proposed by the White House) range was most ideal. The higher end of that range (from \$9.16 to \$10.10) saw a 20 point increase from six months ago, with 39 percent of Q4 respondents placing the ideal minimum wage in this spectrum.

Despite early 2014 numbers that reflected notable interest in a wage higher than the proposed \$10.10, Q4 saw a reduction in the number of SMBs who would willingly place the minimum wage above that benchmark. Only eight percent of SMB leaders went beyond the

proposed \$10.10 rate to choose a range of \$10.11–12.00. This was a significant drop from previous quarters, including last quarter's response of 24 percent to the same question.

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



CONTRACT OR PERMANENT EMPLOYEES?

American SMBs continue to demonstrate a desire to hire permanent employees into their companies. One-third of SMB leaders say their companies will hire only permanent employees in the coming months and another 31 percent report planning to hire a combination of permanent and contract workers. Eight percent are looking to hire contract workers only, and 28 percent of respondents don't specifically plan to hire either next quarter.

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



IMMIGRATION REFORM

Immigration reform has been—and continues to be—a hotly debated and often divisive topic across America. Despite the ongoing struggles between Congress and the White House on this issue, SMB executives have consistently reported moderate support—of at least some action—for restructuring the U.S. immigration system.

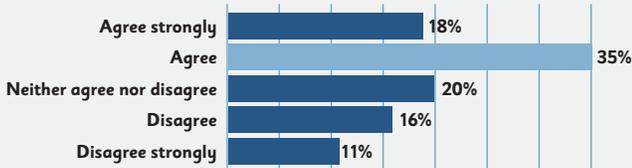
Slightly over half (53 percent) of SMB leaders agree with the statement that the U.S. should ease immigration requirements for skilled workers in IT, science, and other high-demand fields. This number is up six points from six months ago and just slightly above the average over the past 18 months. Disagreement to the statement has risen seven points since Q4 2013, ending last year at 27 percent disagreeing with the proposal to ease requirements for highly skilled workers. Thirty-five percent of SMB leaders maintain a neutral position regarding immigration for this skilled professional set.

Consistent with past quarters, support for immigration reform drops when considering other population sets. However, Q4 saw a notable increase in the percentage of SMB leaders who agree with the statement that the U.S. should ease requirements for skilled laborers in manufacturing. Forty-seven percent (a survey high) agreed in Q4, with 30 percent in disagreement. Only 23 percent stated a position of neutrality, the fewest recorded in the past two years.

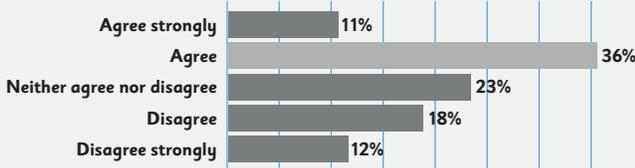
SMB support for easing immigration requirements plummets when considering either immigrants already living in the U.S. or all immigrants, now and in the future. In both instances, more SMB leaders disagree with easing requirements (48 percent and 59 percent, respectively) than agree, and one in five respondents report being neutral to either consideration.

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

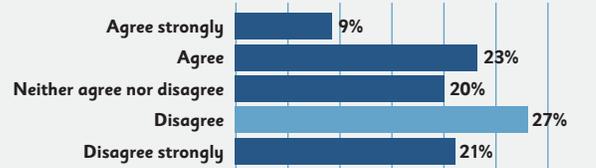
> THE U.S. SHOULD EASE REQUIREMENTS FOR SKILLED WORKERS IN IT, SCIENCE AND OTHER HIGH-DEMAND FIELDS.



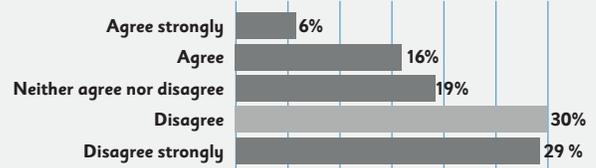
> THE U.S. SHOULD EASE REQUIREMENTS FOR SKILLED LABORERS IN MANUFACTURING.



> THE 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.



BIPARTISANSHIP

Leading into mid-term elections, SMB pessimism regarding bipartisanship at both state and federal government levels set survey record highs. After reaching 78 percent in Q3, Q4 pessimism regarding federal bipartisanship dropped back to 66 percent of executives saying they were somewhat or very pessimistic about national lawmakers and governmental officials being able to demonstrate bipartisanship.

After mid-terms, SMBs seemed to rebound somewhat in their positivity about bipartisanship, realigning the position of SMBs with percentages recorded in previous quarters. In Q3 2014, less than one in ten SMB leaders felt optimistic about Washington. That number rose to 13 percent in Q4, and mirrored SMB optimism from one year prior. One-fifth of respondents were positioned in the middle, saying they felt neither optimistic nor pessimistic about bipartisanship in the federal government.

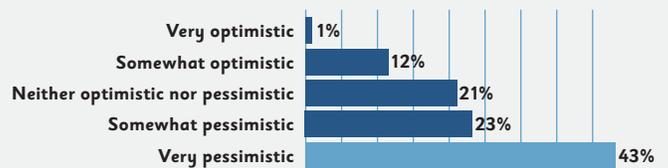
Throughout the survey's history, between 50-60 percent of SMBs have generally reported being somewhat or very pessimistic about state politics. Leading into mid-terms however, that number jumped in Q3 to 67 percent of SMB executives saying they were pessimistic about state bipartisanship. Similar to current opinions regarding federal bipartisanship, the survey marked a rebounding of optimism in Q4, with just over half now reporting that they are somewhat or very pessimistic about state cooperation. While still 14 points below the national negativity of 66 percent, SMBs consistently express less

skepticism about state government than they do federal.

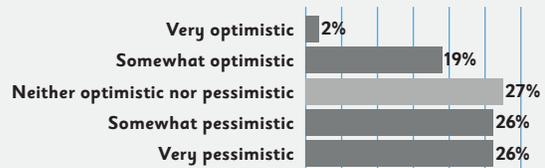
In correlation, the percentage of SMB leaders who report feeling somewhat or very optimistic about cooperation at the state level increased nine points in Q4 to 21 percent, marking a new survey high. Nineteen percent expressed moderate optimism whereas two percent felt very optimistic.

Indicate your feelings about the following:

> BIPARTISANSHIP IN FEDERAL GOVERNMENT



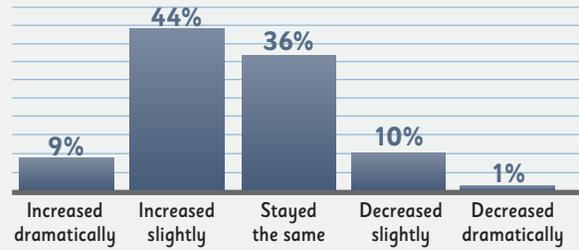
> BIPARTISANSHIP IN STATE GOVERNMENTS



CHANGE IN WORKFORCE AND FULLY-BURDENED EXPENSES

Slightly over half (53 percent) of responding SMBs reported that their company's workforce and fully-burdened expenses have increased, with 44 percent of SMB leaders reporting a slight increase and nine percent reporting a dramatic increase. Thirty-six percent reported no change to workforce related expenses, and 11 percent reported decreases, with one percent citing those decreases as dramatic. These overall numbers are similar to data reported the past several quarters and mark no significant change.

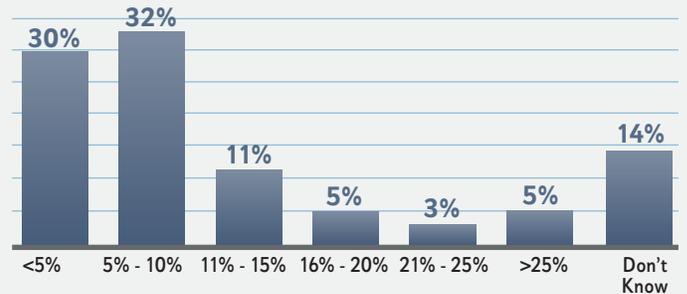
Describe how your workforce and fully-burdened expenses changed last quarter.



WORKFORCE (IN FTES) INCREASES OVER LAST QUARTER

For those SMBs reporting increases to their workforce and fully-burdened expenses last quarter, many experienced less significant changes than in the past several quarters. Sixty-two percent saw increases of less than 10 percent to their total costs, up 13 points from one year ago. Sixteen percent reported increases between 11 and 20 percent, down from 29 percent one year ago, and with 14 percent of respondents unsure of their company's specific increases, eight percent report significant increases (greater than 21 percent) to their workforce and fully-burdened expenses.

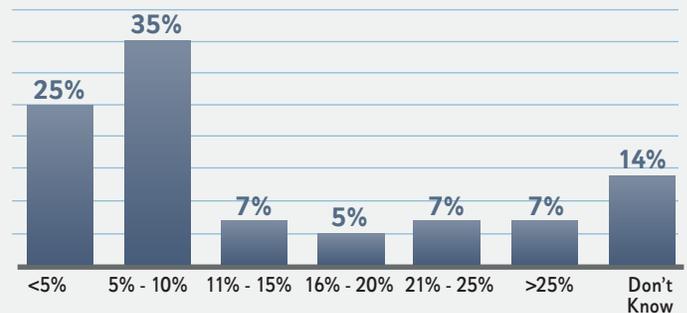
For those expenses that increased, select the percent they increased.



WORKFORCE (IN FTES) DECREASES OVER LAST QUARTER

While almost 90 percent of SMBs reported either no change or an increase in workforce and fully-burdened expenses in Q4, 11 percent of survey respondents reported decreases to their expenses. With the exception of a spike in decreased expenses during Q2 2014, these overall percentages have changed only slightly over the past year and a half. This past quarter, three out of five SMBs who report decreases identify them at less than 10 percent of their total costs. Twelve percent reported an 11 to 20 percent decrease, 14 percent of SMB expense decreases represented greater than 21 percent of overall expenses, and another 14 percent were uncertain.

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



INDUSTRY

Representing a cross-section of U.S. industries, Q4 2014 Outlook respondents reported working in close to 20 different business sectors. Manufacturing, Financial/Insurance/Real Estate and Business Services showed the greatest representation, with Information Technology, Transportation Services, Construction and Health Care in the second tier.

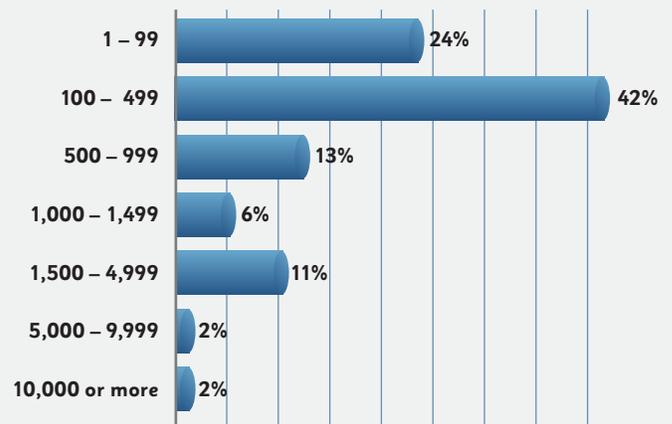
Select your company's industry.

1% Agriculture & Mining	6% Information Technology
3% Arts, Entertainment & Recreation	1% Legal Services
3% Automotive	24% Manufacturing
7% Business Services	3% Nonprofit & Membership Organizations
6% Construction	1% Telecommunications
1% Consumer Services	6% Transportation Services
4% Energy, Oil, Gas & Utilities	1% Pharmaceuticals
13% Finance, Insurance, Real Estate	15% Other
5% Health Care / Medical	

COMPANY SIZE

Sixty-six percent of Q4 respondents were from small businesses with fewer than 500 employees. Thirty percent of respondents reported mid-sized workforces, employing between 500 and 4,999 people. Four percent represented the largest sector of the SMB with more than 5,000 employees.

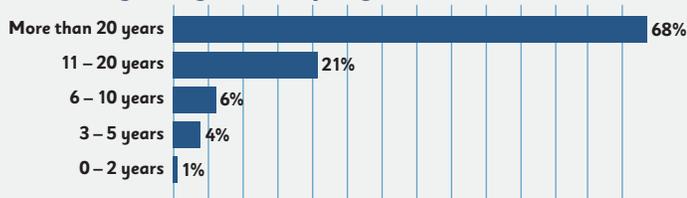
Select the number of workers your company currently employs.



LENGTH OF TIME IN BUSINESS

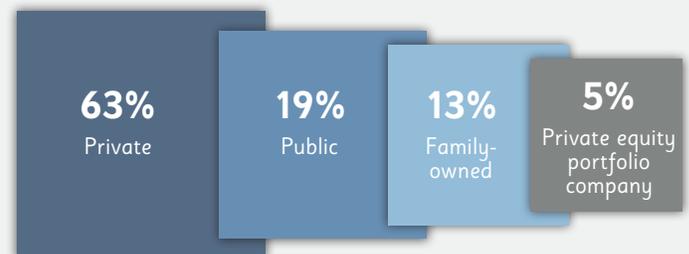
The SMB Job Generation Outlook showcases that longevity of the SMB sector. Sixty-eight percent of Q4 respondents have been in business for more than 20 years. Another 21 percent have been in business from 6-20 years and only five percent have been newly founded within the past five years.

How long has your company been in business?



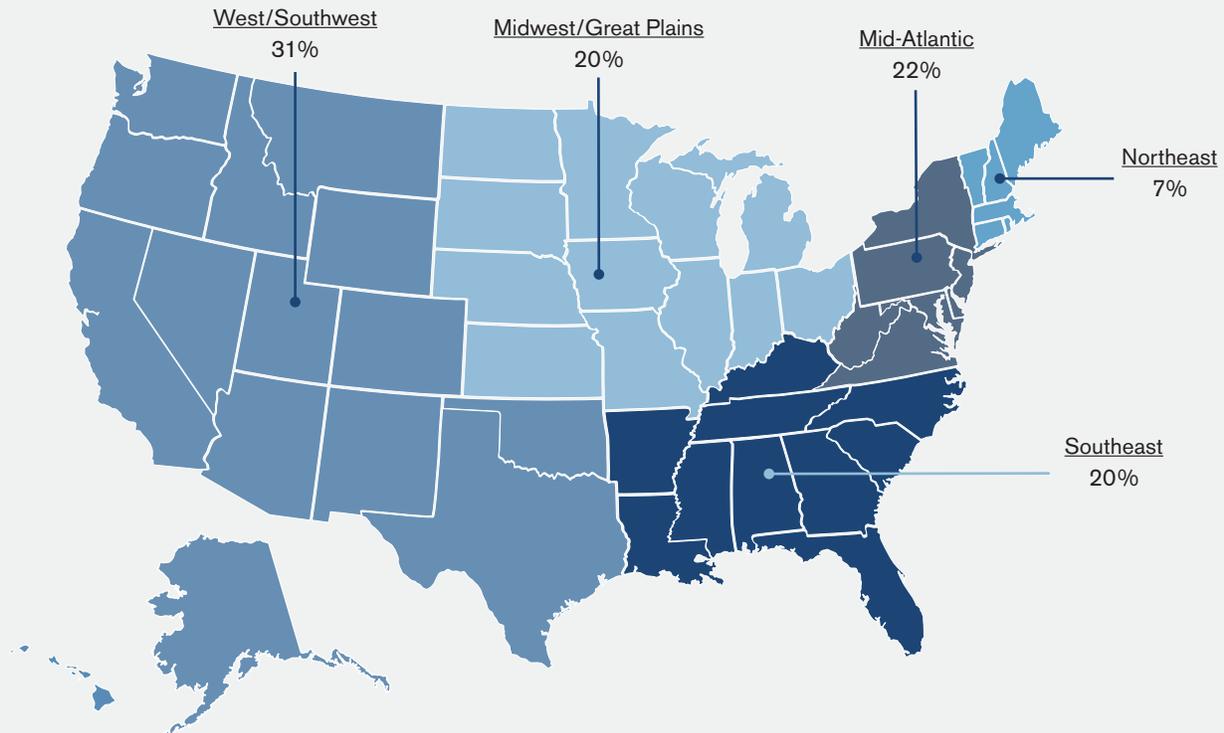
TYPE OF COMPANY

Describe your company's ownership structure.



LOCATION OF COMPANY

Diverse and wide-ranging, the Q4 2014 SMB Job Generation Outlook surveyed business leaders from 45 states, with the strongest concentrations of respondents from California, Texas, New York, Florida and Illinois.



Lucas Group SMB Job Generation Outlook Survey Q4 2014 Closing Remarks

Several years ago, Lucas Group searched the market for a comprehensive, executive-level survey that provided both current opinions and future planning trends for America's small to mid-sized business sector. As an executive recruitment firm serving the SMB and mid-tier markets, we partner with companies across the nation to deliver talent solutions that solve business challenges. As such, we wanted to study our market more deeply through research. When we couldn't find a survey that covered economic and job trends as well as hot topic issues, we developed a survey that would provide this useful insight into the SMB. The SMB Job Generation Outlook addresses an array of significant topics, including the economy's health, employment trends, political issues and SMB-specific growth plans.

The SMB Job Generation Outlook is focused intentionally on C-level executives and business owners. Our goal is to survey the market from a leader's perspective, reporting on the business opinions and market expectations of the SMB's highest offices. This generates a robust view of the sector and captures both the hopes and concerns of chief decision makers. For two years, Lucas Group has conducted the Outlook on a quarterly basis, surveying approximately 400 executives each quarter.

Q4 2014 Outlook respondents represented 45 states and almost 20 different industry sectors. From Manufacturing and Business Services to Health Care, Construction and Information Technology, these SMB executives knowledgeably characterize the foundation of the U.S. economy and workforce. The majority of reporting SMBs

are long-standing businesses with more than a decade in operation, employee workforces under 1,000 people and 2013 corporate revenues between \$25M-\$150M.

Overall, the survey revealed that small to mid-sized business leaders are commonly optimistic about opportunities in the U.S. economy and the SMB sector, and plans for 2015 are generally positive. Job creation, economic growth and the health of their own companies appear to be in good stead. Almost half of SMBs surveyed plan to hire in early 2015 and near six in ten SMBs plan to hire sometime this year. These healthy hiring plans reveal notable growth from the same time last year and reflect a continuation of the moderate, sustainable pace the nation's overall employment figures have shown.

SMB Optimism Increases After Midterms

Leading into last fall's midterm elections, SMB leaders expressed increasingly high levels of pessimism about the U.S. political landscape and the abilities of governmental bodies to work together on bipartisan efforts. 2014 midterms were the most expensive in history for advertising money spent at the state and local district level, with many of those ads thick with "attack" messages. Where the advertising went, so too did the market's outlook. In Q3 (before midterms) the Outlook recorded its highest levels of pessimism, with 78 percent of leaders saying they were somewhat or very pessimistic about bipartisanship at the federal level. State governments didn't fare much better; they saw a record pessimism rate of 67 percent.

Continued next page...

After midterms, the SMB market seems to have shared a collective sigh of relief and a breath of fresh optimism. Coming off Q3's record negativity, the SMB pessimism rate plummeted in Q4. At the federal level, about two-thirds of SMB leaders remained somewhat or very pessimistic about national cooperation – off 12 points from Q3's high. One-third of respondents placed themselves as neutral and 13 percent expressed bipartisan optimism.

SMB leaders have historically been more positive about collaboration at the state level. However, as gubernatorial races and congressional seat battles reached a fever pitch in many places across the country, SMB executives reported a spike in state level pessimism in Q3. Optimism rebounded after midterms, from only 12 percent of SMB leaders feeling somewhat or very optimistic in Q3 to 21 percent in Q4. The Q4 survey also marked a 15-point drop in pessimism and a 6-point increase in those leaders self-reporting as neutral.

While taken out of historical context, a 13 percent gain in political optimism may seem slight. However, it captures a 5-point gain in SMB leaders feeling somewhat optimistic about governmental functioning and sets the stage for even greater positivity regarding economic and employment prospects.

SMBs Stay Focused on Growth

In Q4, American SMBs reported increased optimism about the overall economic and employment health of the U.S. market. Fifty-seven percent of SMB leaders expressed optimism about the state of the U.S. economy, up 11 points from the same time last year. When asked about the economic vitality of their own companies, SMB executives felt even stronger. Three-quarters of leaders report they are optimistic about economic prospects for their own businesses. This bullishness marks a ten-point increase in optimism over Q4 2013.

Economics and employment go hand-in-hand, and SMBs are also feeling more positive about job prospects. One year ago, 38 percent of SMB leaders reported feeling optimistic about job prospects for the U.S. as a whole. That number has raised significantly, to 52 percent expressing national optimism in Q4 2014. Similarly, SMB executives are more positive about their own employment opportunities for 2015, with 58 percent feeling optimistic about their own job growth prospects, up seven points from end of last year.

While the general mood is improving among SMB leaders, their focus on growth continues to be paramount. Overall, SMBs view their sector as the American job creation machine. Eighty-one percent agree with the statement that “SMBs are the job generators for the U.S. economy.” However, the deeper we dig and the more specific we ask leaders to become, the less likely they are to express resounding optimism. While 81 percent of leaders agree to the SMB's job generation role at the national level, when asked about seeing their own individual companies as a job generator, that number drops to 67 percent. Relatedly, company-specific job prospects dip to 58 percent optimistic, and when asked about explicit hiring plans, the number of SMBs who say, “Yes, we are hiring” drops to 47 percent.

Reflecting these hiring plans, 46 percent of SMBs report being in a healthy corporate position of growth. This captures an eight-point increase from the same time last year. Similarly, another 43 percent of SMBs say they are maintaining stability. One in ten report that their businesses are fraught, with eight percent self-reporting a position of controlled retrenchment and two percent struggling for survival.

SMBs Face Hiring Challenges Amid Changing Generational Workforce

Via the SMB Job Generation Survey, small to mid-sized businesses report consistent and increasing challenges in finding qualified professional talent. Only seven percent of SMB leaders report that talent acquisition is currently “easy” for their company, with Sales and IT talent presenting the greatest challenges. Sixty percent report some level of difficulty in hiring, with 14 percent saying that qualified professional talent acquisition has become “extremely difficult.”

To tackle hiring challenges, SMBs are employing a variety of talent acquisition strategies. Twenty-eight percent say they are actively leveraging outside recruitment services and 21 percent are increasing salaries, bonuses and other financial incentives. Companies are also engaging online advertising and growing their networking strategies, particularly on social media platforms such as LinkedIn. In addition to external search strategies, many companies are looking internally to cultivate talent. Some report changing employment policies to better attract top talent as well as fostering corporate cultures that emphasize professional development and retention.

These changes in corporate structure and employment culture appear to be, in part, responsive to changes in the generational workforce. Census data reveals that for the next fifteen years, Baby Boomers will reach retirement age at the rate of 10,000 people each day. Essentially, the entire populations of New York, Texas, Florida and Georgia are leaving the workforce, and Millennials will replace them. By 2020, half of the American workforce will be Millennials, and the Outlook tracks how the changing generational workforce is affecting American SMBs.

Each quarter, we have asked SMB leaders about the impact they believe retirements will have on their organizations, and we have witnessed a steady rise in the percentage of SMBs who expect some level of impact from retirements. This quarter, 69 percent of SMBs reported an expected impact, up 15 points from this time last year.

Noting that the majority of SMBs surveyed each quarter are long-standing businesses – with 68 percent having been in business more than 20 years – we also asked Q4 respondents about their plans for hiring from the Millennial talent pool. Despite 65 percent of SMBs expressing concern about the “brain drain” effect of impending Baby Boomer retirements, the survey revealed that nearly three out of four SMBs have no formal plans to recruit or hire Millennials.



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