



SMB Job Generation Outlook

Q1 2015



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 ninth 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 2,500 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. The Outlook is the only economic and employment survey that captures noteworthy trends—directly from the visions and priorities of SMB executives.

Quantitative results and key findings from the Q1 2015 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 14.

Lucas Group will continue the SMB Job Generation Outlook survey on a quarterly basis via online surveys with 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 for reference. 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.



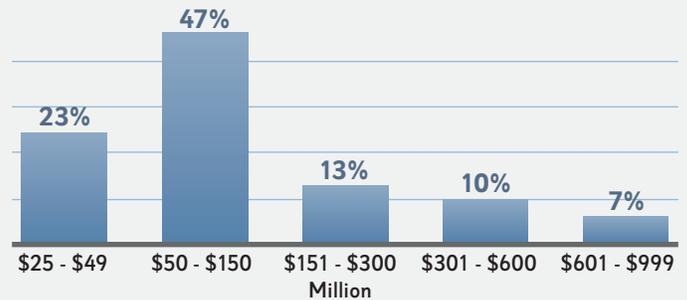
TITLES & COMPANY REVENUE

Encompassing more than two years of economic and market data and with over 2,500 executives polled, the Lucas Group SMB Job Generation Outlook is a trusted and insightful resource for gauging the current economic opinions and business plans of small to mid-sized companies. The Q1 2015 report includes the responses of executives from SMBs across industries and geographic regions and delivers a trending outlook on the issues and topics most pertinent to today's SMB. These leaders knowledgeably represent the foundation of the American SMB and have a pulse on the health and vitality of the sector.

Sixty percent of the survey's Q1 respondents reported projected 2015 corporate revenues under \$150M. Twenty-three percent reported projected revenues between \$151M-\$600M and seven percent of respondents are in the largest financial segment of the SMB with

\$601M-\$1B in projected 2015 revenues. The Q1 2015 report reviews the ninth edition of the Lucas Group SMB Job Generation Outlook.

2015 projected revenues of responding companies:



JOB GROWTH PROSPECTS FOR COMPANIES & COUNTRY

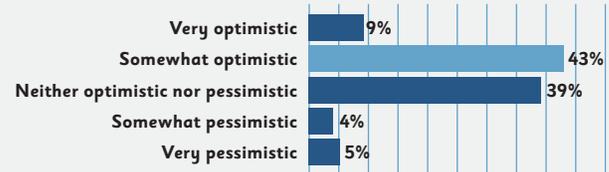
In Q1 2015, executives appear to be moving to the neutral middle in their expressions of job growth optimism and pessimism. While Q4 2014 saw a 6-point pop in executive optimism regarding job growth prospects for their companies over Q3, Q1 2015 respondents weren't as strong in their confidence. Fifty-two percent of respondents reported being somewhat or very optimistic about job growth prospects for their own companies, down from 58 percent at the end of last year and several points below the survey's historical average. Only nine percent said they were very optimistic, marking the first time in two years that those uber-hopefuls have dropped below 10 percent. More executives (43 percent) reported being somewhat optimistic than any other position and another 39 percent expressed neutrality regarding their company's job growth prospects. The chill in optimism was not, however, met with an increase in pessimism. Those reporting being somewhat or very pessimistic about job growth prospects of their company also dropped from previous quarters to under 10 percent.

In terms of job growth prospects for the national landscape, SMBs expressed a similar lessening of extremes. Those saying they felt very optimistic dropped to only three percent (down four points from last quarter) and those being somewhat optimistic dropped from 45

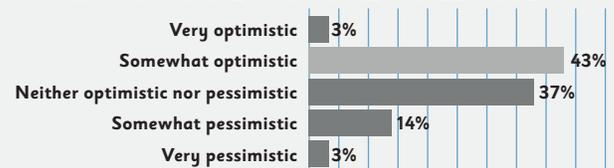
percent in Q4 to 43 percent this quarter. Again, position neutrality increased this quarter, growing seven points from three months ago to hit 37 percent of SMB executives feeling neither optimistic nor pessimistic about the nation's near-term job growth prospects.

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 at the end of 2014, with 74 percent of responding SMBs reporting they are either somewhat or very optimistic about economic prospects for their particular company in the coming quarter. Dipping slightly in Q1 2015 to 71 percent, SMB executives continue to feel positive about the months ahead. More than half are moderately optimistic and one in five report being neutral. Less than one in ten expressed pessimism about their economic futures, down a few points from the past six months but on par with the survey's historical data.

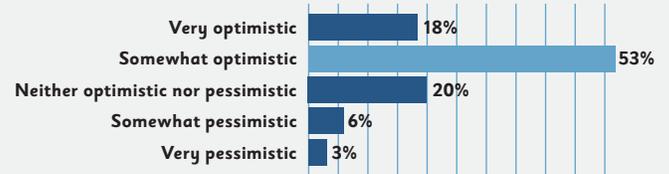
Throughout the past two years, participants of the SMB Job Generation Outlook have consistently expressed more optimism about their own companies than about national economics. The beginning of 2015 fared no differently. After hitting a survey high in Q4, with 57 percent reporting feeling somewhat or very optimistic about the nation's overall economic prospects, the opening of 2015 saw a return to moderate optimism. Half of this quarter's responding executives shared optimism about the country's economic prospects and another 35 percent (more than any quarter in the past two years) felt neither optimistic nor pessimistic.

While overall optimism rates dropped, the increase in neutrality also included gains from pessimists. Down 11 points from two years ago and

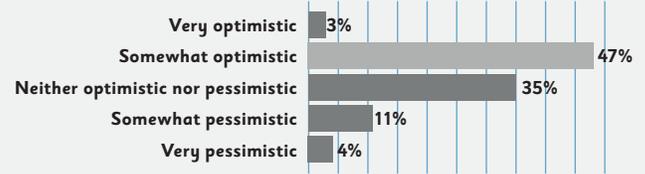
four points from last year, the percentage of respondents who said they were either somewhat or very pessimistic about the nation's economy reached its lowest level in survey history at 15 percent.

Indicate your feelings about the following:

> ECONOMIC PROSPECTS FOR YOUR COMPANY



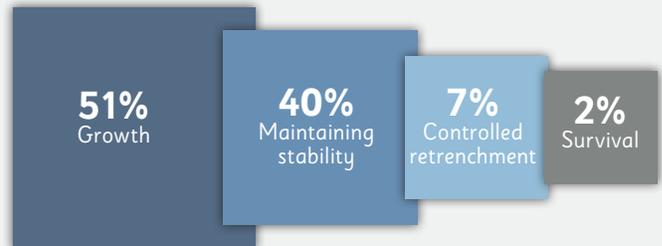
> ECONOMIC PROSPECTS FOR THE UNITED STATES



COMPANY POSITION

Overall, SMBs are feeling strong. Two years ago, 40 percent of small to mid-sized companies reported their businesses were in a positive, healthy condition of "growth". One year ago, that number had increased slightly to 43 percent. Today, more than half (51 percent) of SMBs report a position of company growth, and another 40 percent of SMB executives self-report a position of "maintaining stability". For the first time in two years, these positions have together topped 90 percent. Only seven percent of SMBs consider themselves in a position of "controlled retrenchment", and executives who reported their companies are in "survival" mode maintained last quarter's survey low of two percent.

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



JOB GENERATION

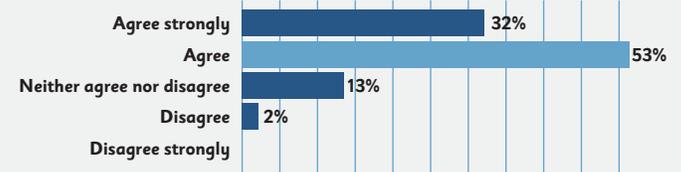
Quarter after quarter, SMBs have consistently supported the idea that the small to mid-sized business market serves as a vital hub of American job growth and economic revitalization. This highly positive quarterly response rate has remained steady, above the 80-percent mark throughout the survey's history. It persisted in Q1, with 85 percent of responding executives viewing their market sector as the job generator for the U.S. 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. On par with the survey's historical average, the number of executives agreeing that their own company was a job generator was 67 percent at the end of 2014. In the start of 2015 however, executives reported a five-point dip, with 62 percent expressing that they view their own company as a job generator.

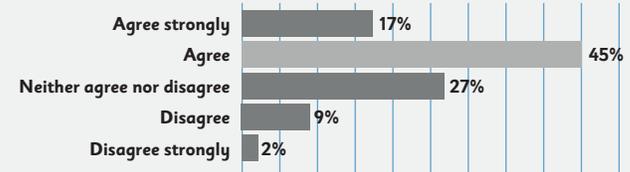
The percentage of leaders who, in hypothetical terms, envision their companies as job generators consistently outpaces the percentage who share optimism about specific job growth plans. Theoretical optimism is stronger than actual job growth prospects.

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 both philosophical outlook regarding prospects and actual business plans, SMBs have opened 2015 with a noticeable move to the middle. Marking a survey high, half of Q1's SMB leaders report no near-term changes to their workforce.

Over the past nine quarters, the percentage of SMB leaders who report plans to hire in the months ahead has fluctuated, generally between 40-50 percent. In Q1 2015, 43 percent said they plan to hire in the coming months. This response is down three points from the end of 2014 and two points lower than the survey's two-year average. The number of companies reporting plans to downsize soon decreased three points from last quarter as well, from 10 percent to seven percent.

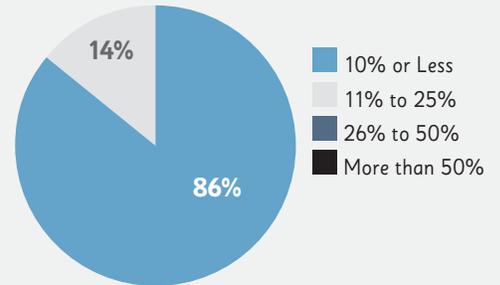
Of the 43 percent planning to add employees in the coming quarter, a strong majority (86 percent) report that their growth plans represent less than 10 percent of their overall workforce. This is the most moderate planned job growth reported to date by the SMB Job Generation Outlook. The remaining 14 percent say their growth plans represent between 11 and 25 percent of total workforce.

On the other side of the hiring equation, fifty-seven percent of respondents planning to downsize in the coming months report these plans will affect less than 10 percent of their workforce. Nearly three in ten project decreases between 11-25 percent of total workforce. Fourteen percent report plans to downsize more than 25 percent of their workforce.

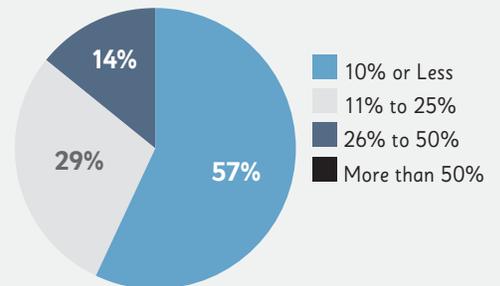
Looking ahead, share your hiring or downsizing plans for the next quarter.



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

SMB hiring optimism is consistently stronger when we ask respondents to look ahead one year versus one quarter. Fifty-five percent said they'd hire in the coming year, whereas 43 percent reported plans to hire in the coming quarter. This is down four points from Q4 2014. Q1 also witnessed a noticeable move to the middle – companies planning no hiring or downsizing changes in the coming year. Thirty-five percent plan to remain steady for the next 12 months.

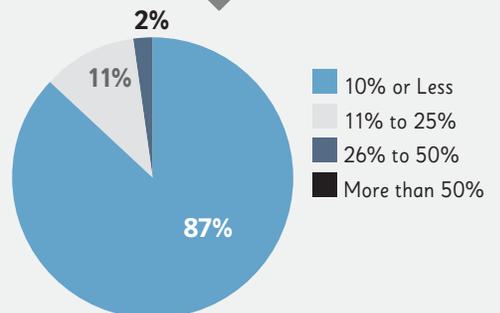
According to Q1 responses, 12-month plans are increasingly more conservative in scope than in past quarters. When asked about how hiring or downsizing plans affect overall workforce numbers, a record-high 87 percent say their plans to hire represent less than 10 percent. This moderate response rate is up 22 points from last quarter and 34 points from the same time last year. Only 11 percent say their plans affect between 11 and 25 percent, and a mere two percent of respondents report plans to increase their workforces by more than a quarter. Ten percent were unsure of their plans for the coming year.

The trend to moderation continued with the companies planning to downsize over the next year. Seven out of ten 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. This response is 20 points higher than one year ago and the lowest reduction rate in the survey's history.

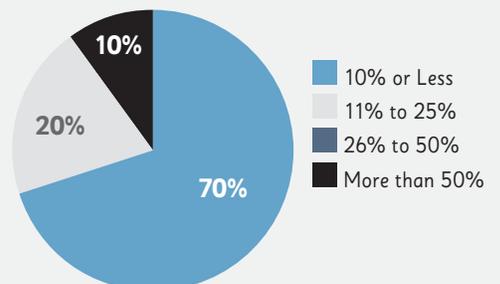
Looking ahead, share your hiring or downsizing plans for the next 12 months.



Percentage change these hiring plans represent of your total workforce.



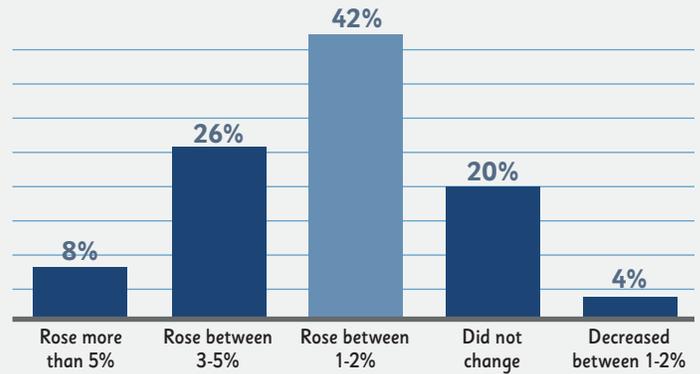
Percentage change these downsizing plans represent of your total workforce.



CHANGE IN TAKE-HOME WAGES

One year ago, 89 percent of SMBs reported being in a stable or growth position, and just over half expressed plans to hire during 2014. In addition to hiring/downsizing plans, the SMB Job Generation Outlook also gauges how worker compensation – particularly take-home pay – is changing over time. Three-quarters of Q1 2015 respondents reported that collectively and companywide, their employees' take-home wages rose during 2014. Forty-two percent saw minimal increases between one and two percent. A quarter of respondents reported take-home and wage increases between three and five percent, and eight percent rose even more. One in five Q1 respondents reported that their employees experienced no change in their take-home wages, and four percent said that overall, take-home wages decreased for their employees during 2014.

Collectively and companywide, how did your employees' take-home wages change last year?



TOP ISSUES FACING SMBs

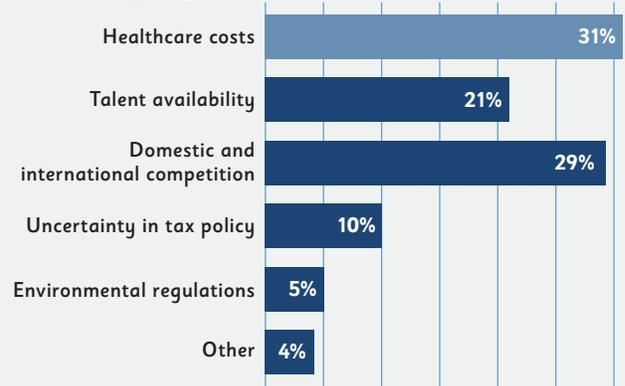
The SMB Job Generation Outlook seeks to identify and learn more about the chief challenges today's small to mid-sized businesses face in the marketplace. Since early 2013, SMB leaders have reported healthcare costs to be of chief concern to their businesses. That remained true in Q1, with 31 percent of SMBs citing healthcare costs as their #1 business issue.

However, for the first time in survey history we saw a shift in the #2 concern, away from talent availability to challenges regarding domestic and international competition. Talent availability, which has consistently held a close #2 behind healthcare costs, dropped to 21 percent in Q1 and was surpassed by competition concerns being cited as chief concern by 29 percent. This shift does not align with continued increases in reported difficulty finding qualified professional talent (see Hiring Difficulty). Perhaps an anomaly, the Job Generation Outlook will continue to monitor this recent shift and watch the balance of top SMB issues closely.

Healthcare costs, competition and talent availability concerns top the list for 81 percent of SMBs. Rounding out the market, 10 percent cite uncertainty in tax policy as their chief concern, five percent worry

most about environmental regulations and four percent of responding SMBs cited other unidentified concerns.

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



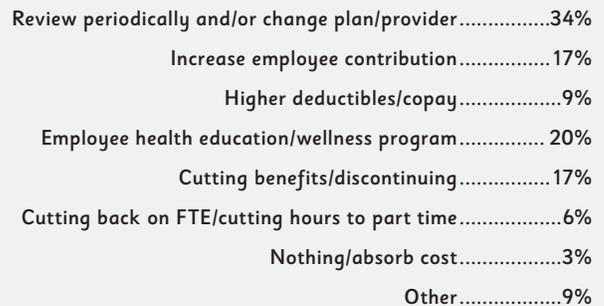
MANAGING HEALTHCARE COSTS

The escalation of healthcare costs is being felt by SMBs across the country. When asked what their businesses are doing to combat/manage rising costs, only three percent said they were making no changes and absorbing the increase internally. The vast majority of small to mid-sized businesses are making decisions to battle the rising prices with active changes.

One-third of respondents said they are reviewing their healthcare plans periodically and changing plans or providers to stay ahead of the challenge. Allowing for multiple responses, one in five responding SMBs are focusing on lowering costs by increasing the overall health of their employees through health education and wellness programs in conjunction with providers and community partners. Seventeen percent are increasing employee contribution to coverage and still others are cutting back on benefits, increasing copays or discontinuing certain coverage plans. The issue of healthcare costs does not seem to be making a large impact on hiring or workforce levels. Only six

percent said they were considering cutting back on FTEs to alleviate the cost of employee benefits.

What is your company doing to address healthcare costs? (multiple responses allowed)



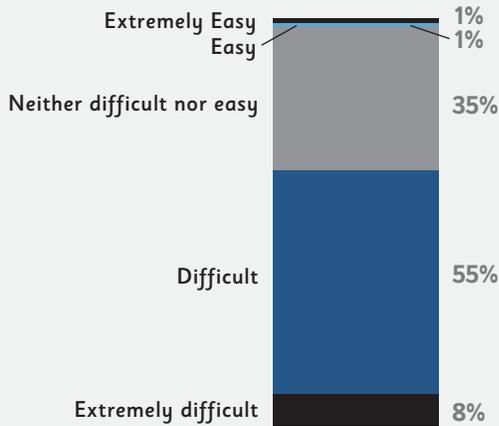
HIRING DIFFICULTY

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 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 found the available talent gap widening for SMBs.

Over the past two years, those reporting talent availability as “easy” or “extremely easy” has averaged just over six percent. In Q1 2015, however, the percentage of SMBs reporting similarly hit a survey low, with only two percent of responding executives having no trouble with talent identification and acquisition. Those finding talent availability as “difficult” or “extremely difficult” crossed the 60-point mark in Q2 2014 and has remained north ever since. In Q1 2015, 63 percent of leaders say finding qualified talent is a struggle. Thirty-five percent of SMB executives fell in the middle, saying talent availability was neither easy nor difficult.

In Q1, the survey asked leaders to think back one year and provide a retrospective on how hiring challenges have changed for their specific company. Forty-eight percent of SMB leaders said hiring has become a “little harder” or “much harder” since early 2014. Forty-five percent reported that hiring difficulty hasn’t changed and seven percent said it’s become easier to find and hire qualified talent.

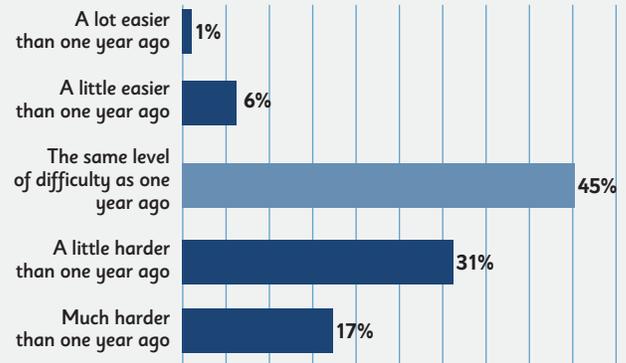
Rate the level of difficulty your company faces in finding qualified candidates for professional and management positions.



For only the second time in the survey’s history, Information Technology edged out Sales as the functional position most difficult to fill. Allowing for multiple responses, the survey showed that IT—which surpassed Sales only one other time in Q1 2014—was a challenge for 30 percent of SMBs. Sales followed closely behind in Q1, with 25 percent citing it as problematic.

Finance talent also appears more difficult to find. Twenty-four percent cited it as troublesome last quarter, up nine points from six months ago. Manufacturing Management and Accounting were challenges for 19 percent and 13 percent, respectively. Marketing, which hit a survey high in Q1 2014 at 18 percent, dropped to 11 percent in Q1 2015. Human Resources and Legal came in as less problematic, each at ten percent or less.

Finding and hiring qualified professional talent is:



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



FINDING AND KEEPING TALENT

Businesses throughout the country and across industries are looking for effective ways to find, attract and retain qualified professional talent. As part of the Q1 2015 survey, we asked SMB executives what strategies (multiple responses allowed) they were using to recruit top talent. Thirty-seven percent of respondents said their companies were using outside recruitment firms. Twenty-eight percent reported that

they were increasing salaries, bonuses and compensation packages in order to remain competitive in the market. Online postings, including LinkedIn and traditional job board sites, are being used by 17 percent of SMB companies. Fifteen percent say they're actively pursuing networking and word of mouth opportunities, with nine percent and four percent leveraging college fairs or job fairs, respectively.

What is your company doing to attract/recruit qualified professional talent? (multiple responses allowed)



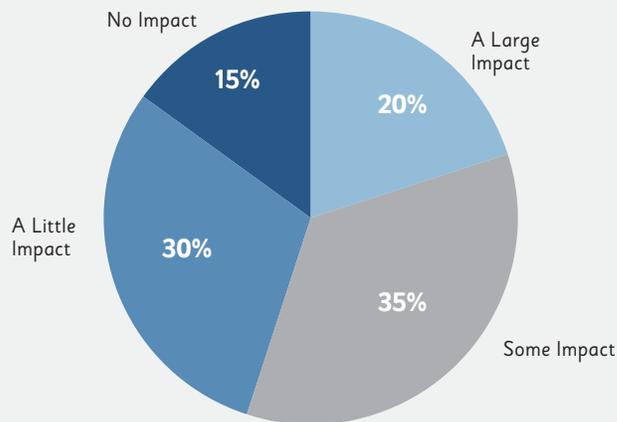
IMPACT OF PATIENT PROTECTION AND AFFORDABLE CARE ACT

In addition to gauging top concerns in the SMB market, the Job Generation Outlook surveys executives about their planning and expectations for various 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 and their planning.

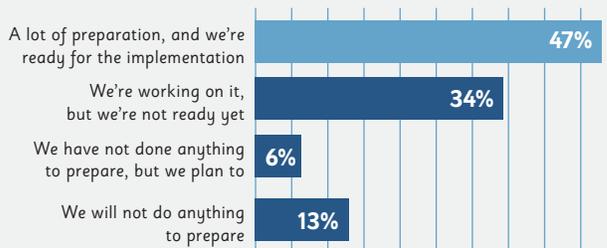
This quarter, the survey found that 85 percent of respondents report Obamacare is having at least some level of business impact (a "little", "some" or "large" impact). Included in that are the 20 percent of total respondents who say the ACA largely impacts their business planning. This is a noticeable drop from past quarters, and eight points lower than the survey's previous average. At the end of 2014, the percentage of executives who expected or experienced no impact from the ACA reached a survey high of 16 percent and that no-impact number dropped only a single point in Q1 2015.

In addition to impact, the survey also asked businesses to qualify their preparedness for managing the law's timed requirements within their companies. Having tracked this number for two years, the survey has shown readiness consistently increasing as the law's various requirements came into force. Eighteen months ago, about 30 percent of SMBs reported that they had prepared and were ready for the law's full implementation. Today, that readiness is near 50 percent, with another 34 percent saying they're continuing to work on it. A handful of respondents (six percent) report that they haven't done anything to address changes in the healthcare laws, but that they plan to do so. Thirteen percent of Q1 respondents are not concerned about or affected by the ACA's requirements and plan to make no changes or preparations related to the law.

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?

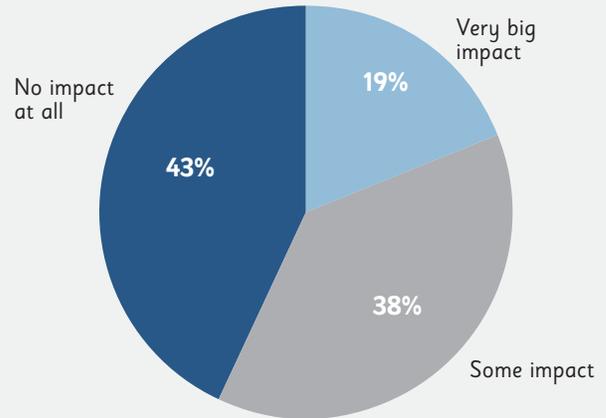


LEVEL OF BUSINESS IMPACT FROM BABY BOOMER RETIREMENTS

As more and more members of the Baby Boomer generation continue to reach retirement age—enabling millions of professionals to leave the workforce over the next decade—the impact felt by these mass retirements is projected to 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.

Throughout the past year, SMBs reporting that they expect or are experiencing moderate impact from Boomer retirements has remained near 50 percent, with those projecting a large impact sitting steady in the upper teens. Q1 2015 saw a shift in impact expectations. Forty-three percent reported that they expect no impact from upcoming Baby Boomer retirements – up significantly from previous quarters – and only 38 percent report some impact (16 points off the survey’s two-year average). The SMB Job Generation Outlook will continue to monitor these impact expectations each quarter to see if the lowered expectations reported in Q1 remain down during future surveys.

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



HOW BABY BOOMER RETIREMENTS IMPACT BUSINESSES

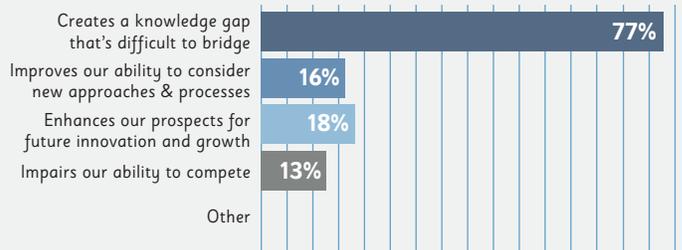
Despite indicators that a growing number of SMBs are not concerned about potential impact from Baby Boomer retirements, those that are concerned appear to be shifting toward stronger negative consequences. An estimated 10,000 Baby Boomers are eligible to retire from the workforce each day, and SMBs are expressing increasing unease that this talent exodus will usher business-critical knowledge out the door. 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 77 percent in Q1 2015. SMBs are much more concerned about the knowledge gap created by retirements than any perceived loss of competitiveness in the marketplace. Only 13 percent of SMBs report that Boomer retirements impair their ability to compete.

Allowing for multiple responses, the SMB Job Generation Outlook has also noted several positively perceived effects. In Q1 however, SMB leaders reported the lowest expectation responses in survey history for these perceived positive effects. Eighteen percent of SMBs reported that retirements will enhance their prospects for future innovation and growth (off the survey’s previous average of 24 percent and high of 27 percent measured early 2014). Similarly, only 16 percent predict that retirements will improve their ability to consider new approaches or processes (down 13 points from the previous average and a full 18 points off the survey’s high reported six months ago).

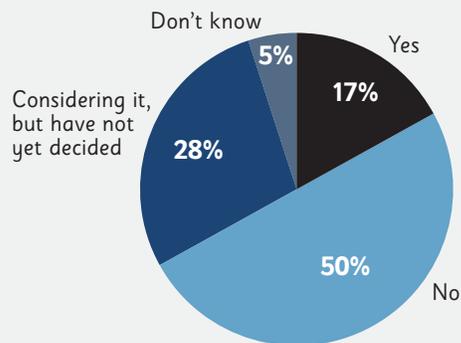
Addressing both the retirement knowledge gap and talent availability concerns, 17 percent of responding SMBs are currently rehiring retirees on a contract or hourly basis. Another 28 percent are considering it but haven’t yet decided to move forward. Half of the responding SMB leaders in Q1 2015 said their companies were not currently rehiring retirees and expressed no plans to do so. The

SMB Job Generation Outlook will continue to monitor this trend, as more and more Boomers leave the active workforce and retirement realities shape the structure and skillsets of companies across the country.

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



Are you hiring retirees back on a contract basis?



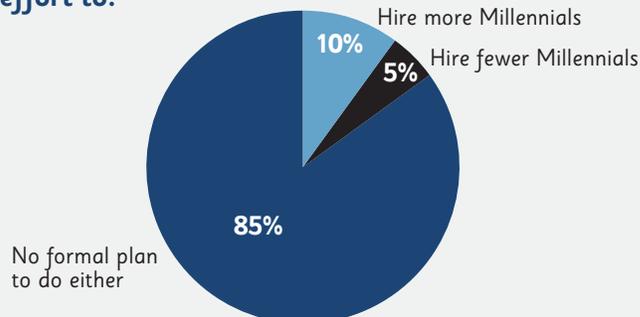
HIRING MILLENNIALS

The SMB Job Generation Outlook asks business leaders what— if any—plans their companies have in place related to Millennial hiring. 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.

According to Q1 2015 data results, 85 percent of SMBs surveyed do not have any formal plans to specifically recruit Millennial candidates over the next several months. Only 10 percent of SMBs report that they plan to specifically target Millennials in the coming quarter for hire, and five 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.

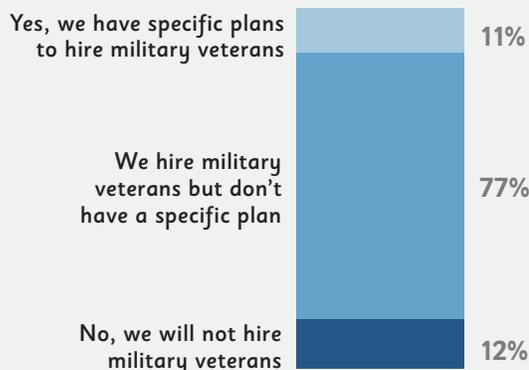
In the next quarter, are you going to make an effort to:



HIRING VETERANS

Although workforce issues and job programs for veterans remain a topic of national, state and local discourse and unemployment rates among veterans continue to outpace the general population, SMBs do not appear to be focused on or prepared for the influx of veteran 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 professionals. More than three out of four SMBs are open to hiring vets, yet take no specific actions and have no formalized hiring programs. Only 11 percent of responding SMBs say their companies have a specific plan in place to hire veterans, and another 12 percent of SMBs say they do not plan to hire military veterans in the coming months.

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



HOW MINIMUM WAGE AFFECTS SMBs

Despite heated rhetoric from multiple sides, an increase in the federally mandated minimum wage to \$10.10 per hour may not affect the SMB market as intensely as some reports suggest. Even as business leaders, politicians and economic experts continue to debate the topic, the SMB Job Generation Outlook seeks to unveil how SMB executives see minimum wage affecting their own businesses. In Q1 2015, 65 percent of executives reported that an increase to \$10.10 would have no impact—positive or negative—on their business.

Allowing for multiple responses, the Q1 2015 survey also revealed that a \$10.10 minimum wage would create some level of negative hiring effect for 35 percent of SMBs. Of those SMBs citing some level of impact, 17 percent reported that a nationwide wage raise to \$10.10 per hour would result in an increase of pricing to their end customers. Twelve percent would reduce current hiring plans and seven percent would eliminate all new hiring. Nine 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 five-quarter history of asking this question, the survey has revealed that between one and three percent of leaders predict that their businesses would close, should the proposed \$10.10 per hour minimum wage become law. On par with that history, two percent of Q1 2015 respondents believe a \$10.10 mandate would drive them out of business.

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



(Multiple responses allowed)

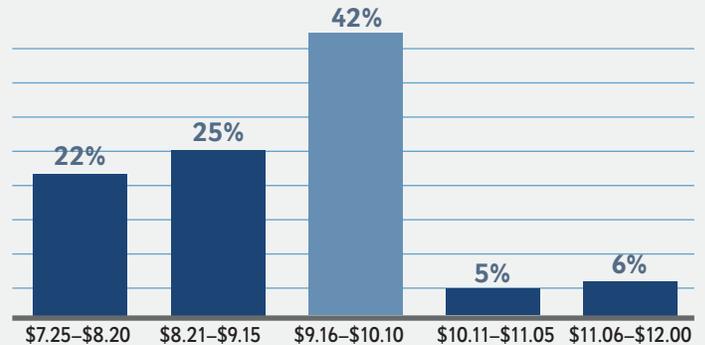
IDEAL MINIMUM WAGE

From quarter to quarter, the small to mid-sized business market has appeared to show an appetite—to some extent—for increasing the minimum wage. The critical question in this complicated and multi-faceted issue 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. According to SMB executives who responded to the Q1 survey, the ideal mean minimum wage is approximately \$9.30 per hour.

Twenty-two percent preferred to keep the rate between its current \$7.25 per hour and \$8.20 per hour, down 12 points from one year ago. One in four placed the ideal minimum wage between \$8.21 and \$9.15 per hour. The largest segment of respondents (42 percent) ranked \$9.16 to \$10.10 as most ideal, up 18 points from same time last year. Despite early 2014 numbers that reflected notable interest (more than 20 percent) 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. That lowered response

remained down during the Q1 survey, with eleven percent of SMB leaders selecting answers in the rate range of \$10.11–12.00 as most ideal—going beyond the proposed \$10.10 increase.

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



IMMIGRATION REFORM

There seems to be a dampening of support among the SMB leadership for eased immigration rules, even for skilled and hard-to-find talent. Part of our national narrative, immigration reform has been—and continues to be—a hotly contested 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. That support, however, lessened in Q1 across all survey questions related to immigration.

Across all industries, forty-two percent of SMBs agreed with the statement that the U.S. should ease immigration requirements for skilled workers in IT, science and other high-demand fields. This all-sector number represents a survey low, eight points off the historical average. However, when we consider only Business Services, Healthcare and Information Technology companies, agreement was ten points higher at 52 percent. Disagreement to the statement has risen eight points since one year ago, to 33 percent of Q1 respondents

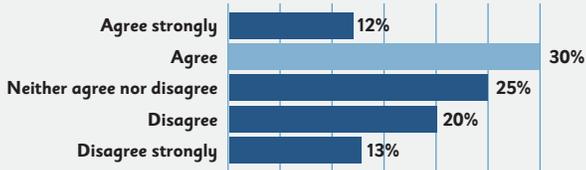
disagreeing with the position of easing requirements for highly skilled workers. One-quarter of SMB leaders maintain a neutral position regarding immigration for this skilled professional set.

Consistent with past quarters, support for immigration reform drops when considering other population sets. Regarding skilled laborers in manufacturing, the SMB is about evenly split. Thirty-four percent of respondents agree with the statement that the U.S. should ease requirements for skilled laborers in manufacturing, 35 percent disagree and 31 percent remain neutral to easing immigration for skilled manufacturing labor.

When we remove qualifiers regarding professional skill, SMB support for easing immigration requirements plummets. There is less business support for 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 (50 percent and 65 percent, respectively) than agree (23 percent and 20 percent, respectively).

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

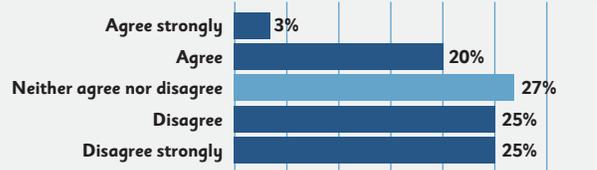
> THE U.S. SHOULD EASE REQUIREMENTS FOR SKILLED WORKERS IN IT, SCIENCE AND OTHER HIGH-DEMAND FIELDS.



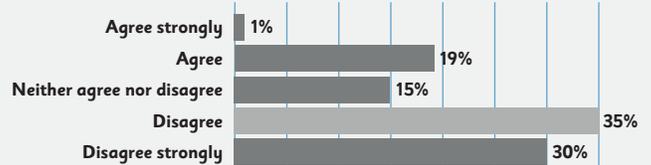
> THE U.S. SHOULD EASE REQUIREMENTS FOR SKILLED LABORERS IN MANUFACTURING.



> 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

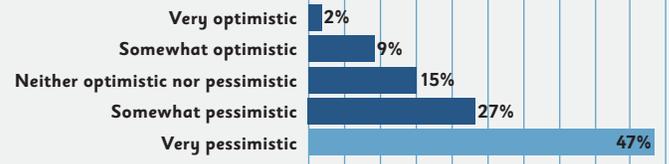
SMB pessimism regarding bipartisanship at both state and federal government levels reached survey highs during the 2014 mid-term elections, but appeared to relax in intensity by year-end. The beginning of 2015, however, saw another increase in pessimism. In Q1, three out of four SMB leaders reported being somewhat or very pessimistic about national lawmakers and governmental officials being able to work effectively together. Only 11 percent reported feeling optimistic, the second lowest optimism rate in survey history (only lower during last fall's election season). Fifteen percent remained neutral on the possibilities of party cooperation.

State bipartisanship (not charted) usually receives a better grade among SMB leaders. Throughout the survey's history, between 50-60 percent of SMBs have generally reported being somewhat or very pessimistic about state politics. Leading into 2014 mid-terms however, that negativity number jumped to 67 percent of SMB executives saying they were pessimistic about state bipartisanship. Similar

to opinions regarding federal bipartisanship, the survey marked a rebounding of optimism in Q4 that has again slipped away at the start of 2015. Seventy-four percent of Q1 respondents reported pessimism about state cooperation, 15 percent are neutral on the subject and 11 percent report optimism.

Indicate your feelings about the following:

> BIPARTISANSHIP IN FEDERAL GOVERNMENT

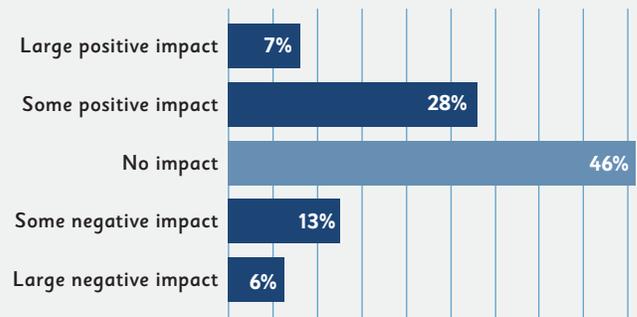


GOVERNMENTAL IMPACT

While most SMB leaders express continued pessimism about bipartisanship and cross-party cooperation – at both the state and federal levels – some may wonder if it even matters. What impact, for example, might SMBs be looking for from the newly elected Congress? It appears not much. The SMB Job Generation Outlook posed that question in Q1, and nearly half (46 percent) of SMB respondents reported that they expect the new U.S. Congress to have no measureable impact on issues related to the economy and job growth. Thirty-five percent predict Congress will have some level of positive impact, and almost 20 percent expect to see Congress impress a negative effect on the economy and workforce issues.

At the state level, where hopefulness about bipartisanship is historically stronger, SMB executives share a variety of ways state legislatures could help small to mid-sized businesses grow. Allowing for multiple responses, respondents put forth lowering or cutting business taxes, reducing regulations or red tape, and increasing subsidies and financial/tax incentives as ways in which state governments could positively affect the vitality and continued growth of the SMB.

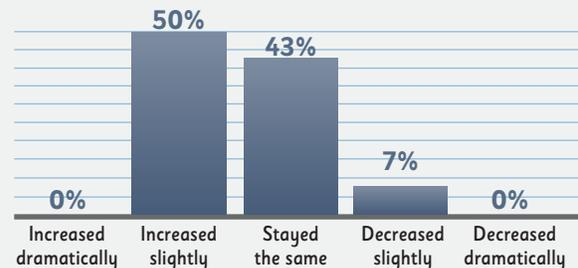
What impact do you think the newly elected U.S. Congress will have on issues related to the economy and employment?



CHANGE IN WORKFORCE AND FULLY-BURDENED EXPENSES

Half of SMBs that responded in Q1 2015 reported that their company's workforce and fully-burdened expenses increased during the final quarter of 2014, with all of those SMB leaders reporting a "slight" increase and no one reporting a "dramatic" increase. Forty-three percent reported no change to workforce related expenses. Seven percent reported decreases, and again, no one reported "dramatic" decreases. While overall workforce increase numbers are similar to data reported the past several quarters, Q1 did show a moderate move to the middle (up eight points from six months ago), and the number of companies reporting decreases in their workforce dropped below 10 percent for the first time in the survey's two-year history.

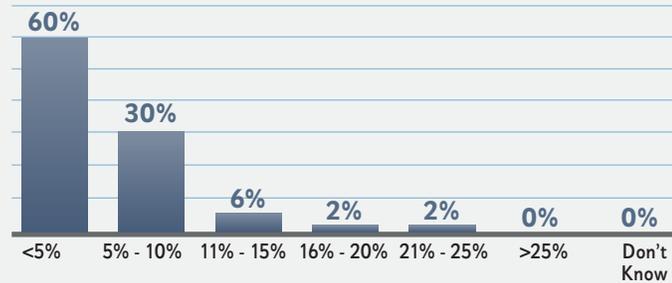
Describe how your workforce and fully-burdened expenses changed last quarter.



WORKFORCE (IN FTES) INCREASES OVER LAST QUARTER

For those SMBs reporting increases to their workforce last quarter, the vast majority experienced moderate changes, with 90 percent reporting increases of less than 10 percent of their total workforce. Sixty percent saw FTE increases of less than five percent. Thirty percent reported increases between five and 10 percent, and the final 10 percent of respondents reported more significant increases (greater than 11 percent) to their workforce.

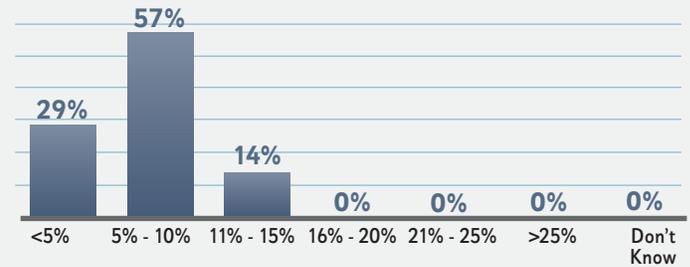
For those expenses that increased, select the percent they increased.



WORKFORCE (IN FTES) DECREASES OVER LAST QUARTER

Only seven percent of total respondents reported workforce losses during Q4 2014. Of those, 29 percent saw reductions in FTEs of less than five percent. Most of that group experienced decreases between five and 10 percent of their total workforce, and another 14 percent reduced FTEs by more than 10 percent.

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



INDUSTRY

Representing a cross-section of U.S. industries, Q1 2015 Outlook respondents reported working in a wide variety of business sectors. Manufacturing, Financial/Insurance/Real Estate and Business Services showed the greatest representation. The survey also included respondents from Information Technology, Transportation Services, Automotive, Energy/Utilities and Health Care.

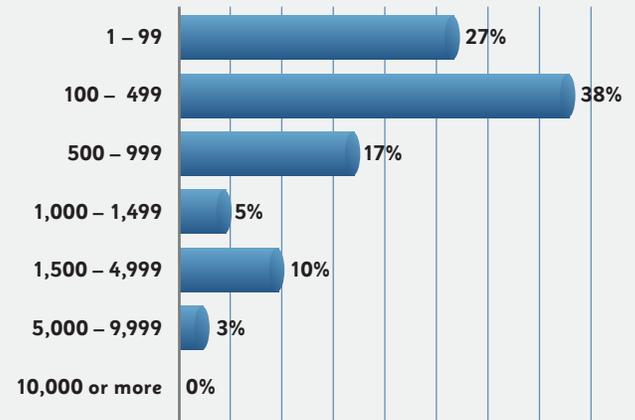
Select your company's industry.

- 1% Arts, Entertainment & Recreation
- 5% Automotive
- 8% Business Services
- 2% Construction
- 4% Consumer Services
- 5% Energy, Oil, Gas & Utilities
- 16% Finance, Insurance, Real Estate
- 5% Health Care / Medical
- 4% Information Technology
- 3% Legal Services
- 17% Manufacturing
- 5% Nonprofit & Membership Organizations
- 2% Transportation Services
- 2% Pharmaceuticals
- 15% Other

COMPANY SIZE

Sixty-five percent of Q1 respondents were from small businesses with fewer than 500 employees. Twenty-two percent of respondents reported mid-sized workforces, employing between 500 and 1,499 people, and 13 percent represented the largest sector of the SMB with more than 1,500 employees.

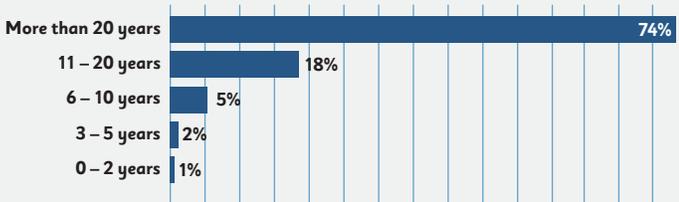
Select the number of workers your company currently employs.



LENGTH OF TIME IN BUSINESS

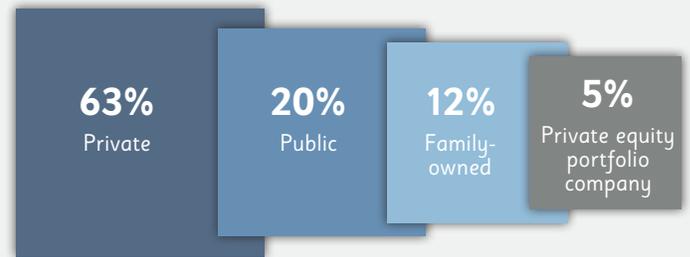
Nationwide, thousands of small to mid-sized companies demonstrate strong staying power, having weathered both economic booms and busts over the past several decades. The SMB Job Generation Outlook survey group continues to be comprised of many of those long-standing businesses, with 74 percent of Q1 respondents having been in business for more than 20 years. Another 23 percent have been in business from 6-20 years and only three percent have been newly founded within the past five years.

How long has your company been in business?



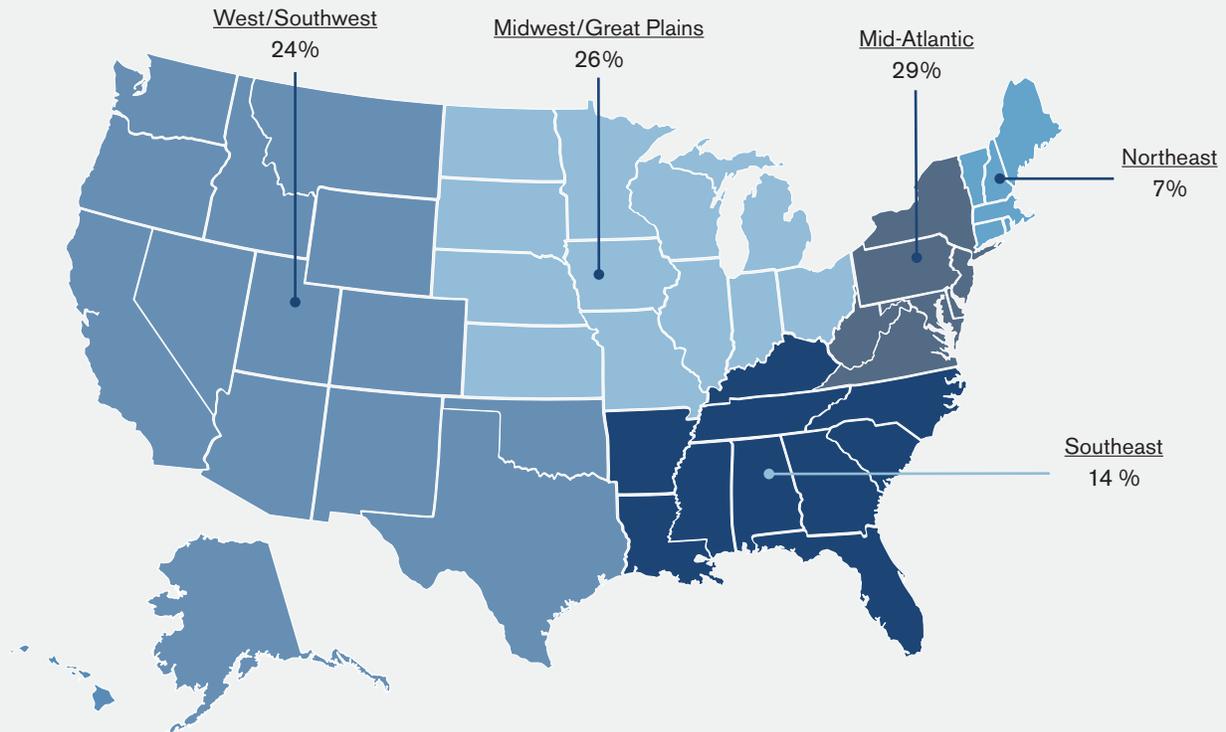
TYPE OF COMPANY

Describe your company's ownership structure.



LOCATION OF COMPANY

Diverse and wide-ranging, the Q1 2015 SMB Job Generation Outlook surveyed business leaders from across the nation, with the strongest concentrations of respondents from California, Texas, New York, Florida and Illinois.



Lucas Group SMB Job Generation Outlook Survey

Q1 2015 Closing Remarks

For more than two years, Lucas Group has conducted the SMB Job Generation Outlook in an effort to compile and deliver a comprehensive, executive-level report that provides both current opinions and future planning trends for America's small to mid-sized business sector. The US economy, political environment and employment strength are all deeply intertwined, and as an executive recruitment firm serving the SMB and mid-tier markets, our goal is to provide useful information to our business clients and professional candidates nationwide.

In order to continue delivering talent solutions that solve business challenges, we believe it's critical to regularly ask the market to share exactly what those top issues are and how they're affecting quarter-to-quarter and year-over-year business decisions. Focused intentionally on C-level executives and business owners, 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. This approach enables us to reliably report on business opinions and market expectations, as experienced from an SMB executive's perspective.

Q1 2015 Outlook respondents were randomly polled from across the country and a variety of industry sectors. From family-owned businesses with several hundred people to regional companies that employ a few thousand, the SMB Job Generation Outlook seeks to uncover and share what the middle market most wants, needs and worries about. SMB leaders are able to knowledgeably characterize the foundation of the U.S. economy and its workforce, and the majority of reporting SMBs are long-standing businesses with more than a decade in operation, employee workforces under 1,000 people and projected 2015 revenues between \$25M-\$300M.

Overall, the survey revealed that small to mid-sized business leaders are commonly and moderately 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, although general enthusiasm seems to have slowed a bit since the end of last year.

Forty-three percent of SMBs surveyed plan to hire in early 2015. Down slightly from past quarters, the percentage of SMBs planning to downsize their workforce has also decreased to the lowest in survey history (seven percent). Looking ahead to the next 12 months, hiring projections grow from 43 percent to 55 percent, revealing a stronger long-term optimism. These hiring plans reflect a continuation of the moderate and relatively steady pace the nation's overall employment figures have shown.

Minimum Wage Proposals and the SMB

From 2013's proposed Fair Minimum Wage Act of \$10.10 per hour to the populist Fight for \$15 movement gaining coverage in the media and potentially steam in the market, minimum wage has become a hotly debated topic at all levels of government. Cities like Seattle and San Francisco are phasing in wage increases and states including Alaska, South Dakota and Nebraska passed new wage standards during last fall's elections.

While there's much discourse in the media and business publications about whether the American SMB can support increased minimum wage requirements – and if so, how much? – the Job Generation Outlook has found that the question of minimum wage simply is not a core driver to the majority of small to mid-sized businesses nationwide.

Over the past year, an average of 54 percent of SMBs reported that a mandated wage increase to \$10.10 per hour would produce no impact on their businesses. For the remaining SMB who reported some impact, the most cited potential impacts included an increase in prices to end customers, a reduction in new hiring plans, and less often, a reduction in current workforce. Of the approximately 1,700 executives answering this question in the past year, 923 companies said a hike to \$10.10 would have no impact, versus 43 companies who predict it may push them to close their doors. And while not staggering, those business closings could potentially affect 140,000 workers nationwide.

Take-home Wages and Talent Availability

Minimum wage doesn't appear to be a critical business driver for half of the SMB market, so how has the past year fared for employee take-home wages in the sector? Collectively and companywide, take-home wages have increased in the last year for more than three out of four SMB workers. Forty-two percent saw a minimal increase between one and two percent and another 35 percent saw higher increases. One in five executives report that take-home wages at their companies did not change during 2014, and only four percent said they decreased.

What can workers expect in the coming year in terms of wage growth? One potential driver influencing future compensation may be the availability – or lack thereof – of qualified, professional talent. For the past two years, talent availability has been a pressing concern for many SMBs. Six out of ten Q1 respondents reported that finding and recruiting good talent is difficult, and nearly half report that hiring has become even more difficult in the past year.

With Sale, Information Technology and Financial/Accounting functions being most difficult to fill, we asked executives what steps their companies were taking to attract top talent. Twenty-eight percent said they were increasing salaries, compensation packages and benefits in order to offer more competitive opportunities.

Overall, SMB take-home wages are rising slightly, hiring companies are struggling to find top talent, and one in four are actively paying more to secure ideal professionals.

Rising Healthcare Costs Tops List of SMB Chief Concerns

Commonly recognized to be the most expensive employee benefit, U.S. healthcare costs have risen sharply over the past several decades – for both companies and individuals. As part of the SMB Job Generation Outlook, we ask executives to share their chief business concerns, and healthcare cost is the perpetual leader. According to the Kaiser Family Foundation's 2014 Employer Health Benefits Survey, the average premium for family coverage has increased 69% over the last ten years, and 31 percent of the Outlook's Q1 respondents cited

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healthcare costs as their #1 challenge – ahead of competition, talent availability, regulation, taxes and more.

The question naturally follows, what actions are small to mid-sized businesses taking to manage these rising costs and prepare for future increases? This past quarter, we asked SMB executives to share their strategies, and one-third reported that they regularly review their plans, changing offerings and providers to combat higher costs. In addition, employers are increasingly instituting more widespread incentives to influence workers' enrollment decisions, including attaching restrictions for spouses' eligibility if they are offered coverage at another source or providing additional compensation if employees do not enroll in health benefits.

Another strategy that's gaining momentum is the development and implementation of companywide wellness and health education

programs. Twenty percent of Q1 respondents said their companies were using such programs to better the overall health of their employees while reducing healthcare costs. These growing wellness programs offer a variety of employee assistance, including: weight loss programs, gym membership discounts or on-site exercise facilities, biometric screenings, smoking cessation programs, personal health coaching, classes and web-based resources for healthy living, flu shots or other vaccinations, and wellness newsletters.

As healthcare costs continue to rise, SMBs will keep searching for ways to balance employee benefits, corporate finances and legal requirements. As such, the SMB Job Generation Outlook will continue to monitor how these business stressors affect the U.S. small to mid-sized business sector as well as the adaptations pursued by the market.



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For more information regarding the
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