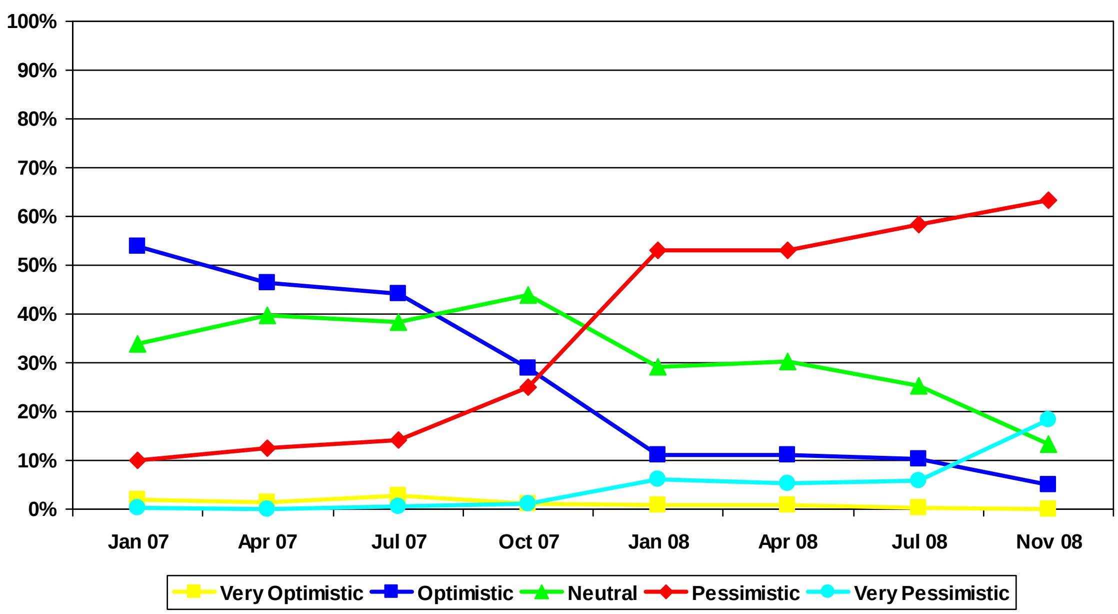
AICPA/UNC Kenan-Flagler Economic Outlook Survey

Fourth Quarter 2008

The results of the 4Q AICPA/UNC Kenan-Flagler Business and Industry Economic Outlook Survey are decidedly negative. Pessimism is at an all time high with pessimists outnumbering optimists by a ratio of 16 to 1. Eighty-two percent of respondents indicated they were pessimistic or very pessimistic up from 62% who responded that way in 3Q and 18% indicated that they were Very Pessimistic up from 6% who felt that way in 3Q. Respondents don't see any change in the near term as only 9% expect the economy to begin to improve before the 2nd half of 2009 and 49% expect that it will be 2010 or later before the economy improves. Despite this the majority (54%) of respondents do not think Congress should pass a second economic stimulus.

Outlook for US Economy



The primary drivers of the increased pessimism are the credit crisis and increasing unemployment. While a fair number of respondents also mentioned the recent election results they were about equally divided on whether they felt that the results were a reason for pessimism or optimism. Respondents were also divided on their opinion of government involvement in the economy and the bailout. . Other factors

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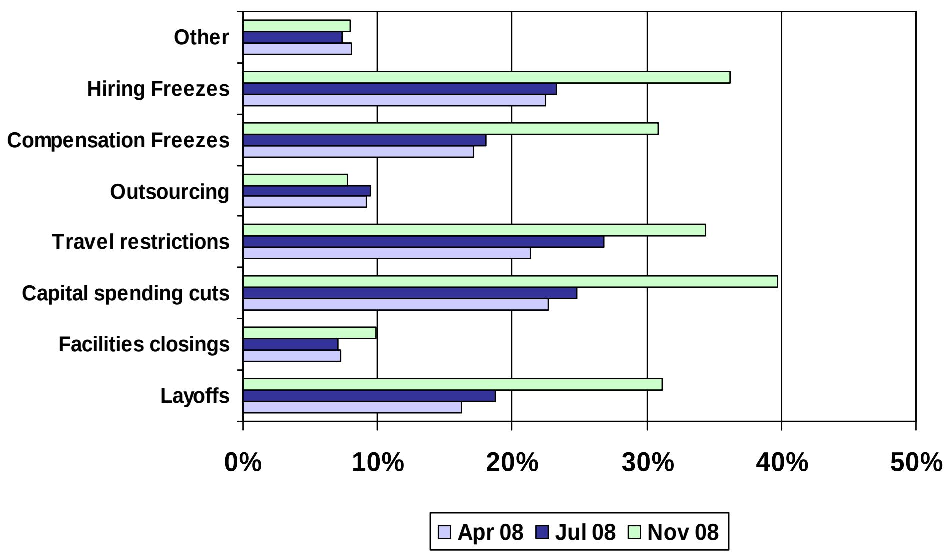
mentioned declining consumer spending, consumer confidence, instability and uncertainty.

Responding to Economic Conditions

Companies are increasingly taking actions to respond to economic conditions. The actions are reflective of the top concerns about the economy with capital spending cuts and hiring freezes being the top actions and layoffs being the fourth response following travel restrictions.

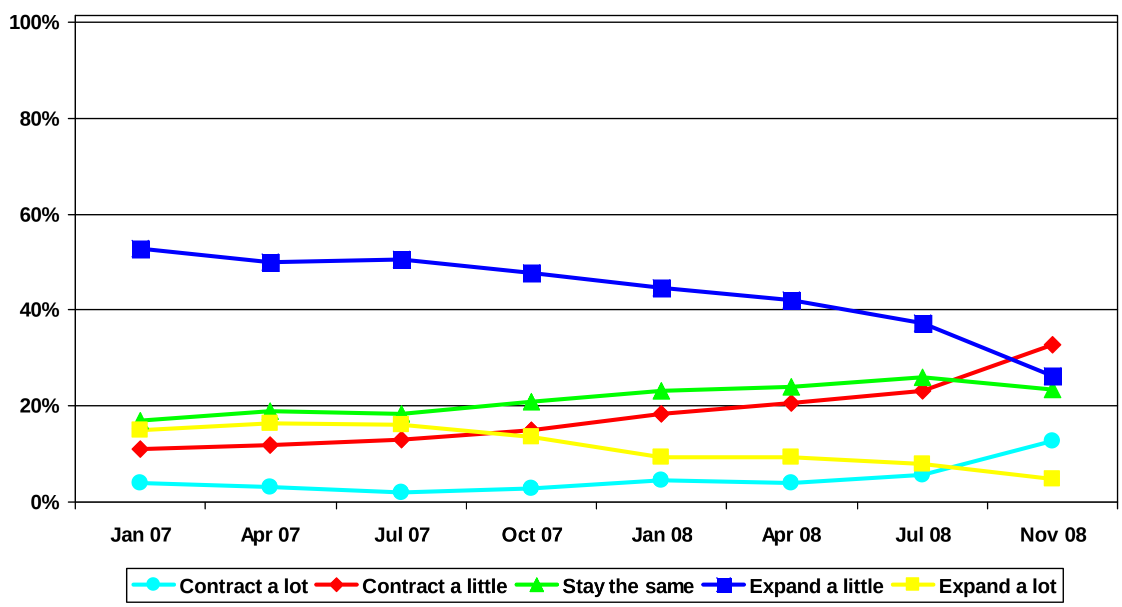
Response to Economic Conditions



Optimism for Organizations

For the first time, the number of CPAs with pessimistic outlooks for their own organizations exceeded the number who remain optimistic about their own prospects. . Forty-one percent of respondents were pessimistic or very pessimistic while 26% were optimistic or very optimistic. This marks a reversal of the 3Q survey when 27% were pessimistic and 38% expressed optimism. This trend is mirrored in the expectations for business expansion or contraction with 45% of respondents now expecting their firms to contract. In one small nugget of good news 31% of respondents still expect some expansion in the next twelve months. As with past surveys the CPAs surveyed are still more optimistic about the prospects for their own organizations than they were for the US economy.

Expectations for Expansion and Contraction



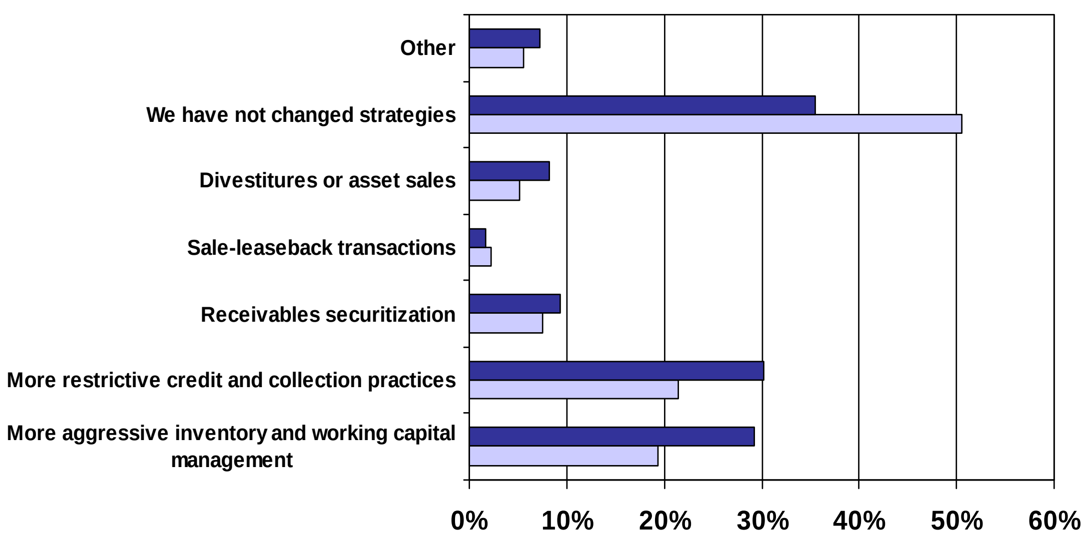
Expectations for revenues, profits and employment showed their sharpest decline yet with 50% of respondents expecting revenue decreases and 55% expecting profit decreases. Only 19% expect to be able to hire more employees, down from 38% who expected to be able to do so in January 2008. The good news for employees is that 61% of companies still plan on increases in the average salary and benefit package (excluding healthcare). Healthcare costs are also expected to rise. In a separate question asking how organizations plan to manage health care costs in 2009, 33% of respondents indicated that they didn't plan to make any changes while 30% expected to increase the employee contribution. From a spending perspective 41% of organizations expect to reduce capital investment while 23% expect to increase it. Research and development is the area least likely to be cut but still 21% of organizations expect cuts in that area. Information Technology is the area most likely to see spending increases with 28% of organizations expecting to spend more on IT.

The Challenge of Credit

While customer demand remained the top challenge for businesses, capital cost and availability and receivables collection moved up to take the #2 and #3 spots. When asked if the credit crisis was impacting their company directly, 66% indicated that their organizations were being impacted in some way. This is up from 55% that were experiencing issues in April. Twenty-eight percent are experiencing problems with collections, 25% are experiencing higher credit costs and/or stricter terms and 21% are finding that previously available sources of financing are no longer available.

Companies are also changing their strategies to deal with the credit crisis. In April only 49% of organizations had changed strategies, now 64% have. The most frequent changes are to implement more restrictive credit and collection practices and to manage inventory and working capital more aggressively.

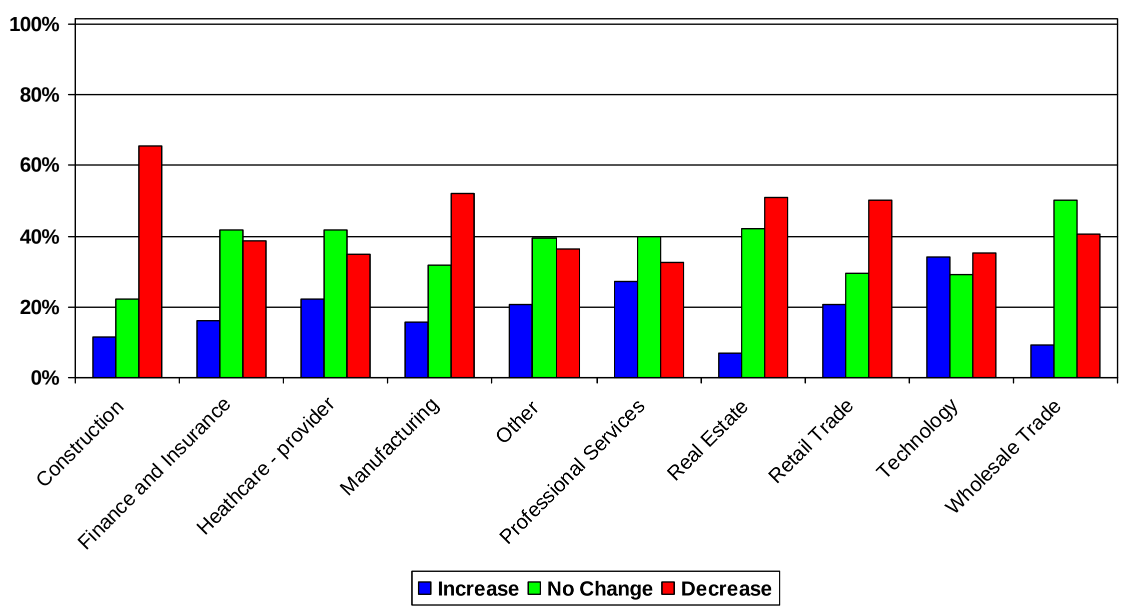
Responding to Credit Issues



Industry Results

Expectations about the US Economy were fairly uniform across all industries with about 80% of respondents identifying themselves as pessimistic. With respect to the outlook for their own organizations, the Professional Services Industry was the only group with more optimistic than pessimistic responses. Respondents from the Real Estate industry were the most pessimistic. only. This pessimism was further reflected in employment plans with 50% of respondents from the construction, real estate, retail and manufacturing industries expecting a decrease in the number of employees. No industry was more likely to expect to increase rather than decrease the number of employees. Employment prospects did appear best for healthcare providers, technology and professional services industries where over 60% expected to at least maintain employment

Expected Number of Employees



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Survey Background

The survey was conducted of AICPA Business & Industry members between November 5, 2008 and November 17, 2008 and had 1606 qualified respondents. Almost half the respondents (49%) were CFOs, 25% were Controllers and 17% were CEOs or COOs. Sixty-eight percent of respondents came from privately owned entities, 13% from public companies, 11% from government, education and not-for-profits and 4% from foreign owned companies. Nine percent came from organizations with annual revenues of 1 billion or more, 21% from organizations with $100 million to under $1 billion in annual revenues, 44% from organizations with $10 million to $100 million and 27% from organizations with under $10 million in revenues.