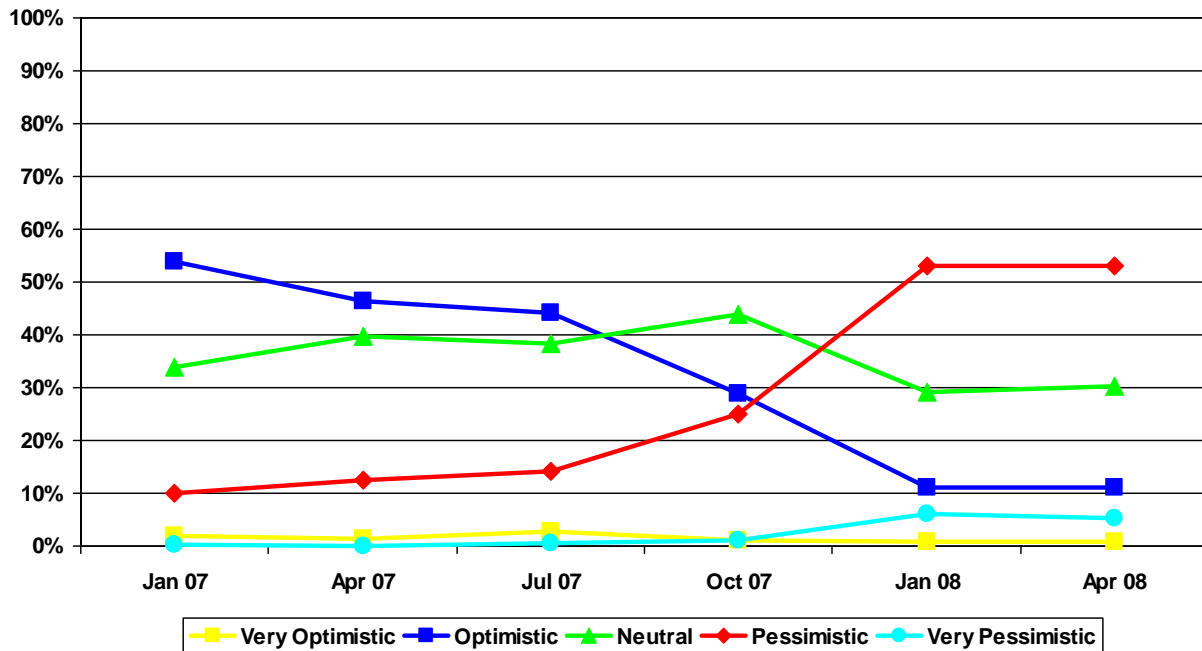


AICPA/UNC Kenan-Flagler Economic Outlook Survey

Second Quarter 2008

While things are not getting any better neither are they getting any worse – that is the message of the 2Q 2008 AICPA/UNC Kenan-Flagler Economic Outlook Survey of CPA Financial Managers. Respondents to the survey continue to expect economic difficulties over the next 12 months but the amount of pessimism has not increased since the 1Q 2008 survey ending a year long erosion of confidence in the US economy. Responses to the 2Q survey were virtually unchanged from the 1Q survey with 57% percent of respondents indicated that they were pessimistic or very

Outlook for US Economy



pessimistic in their outlook for the US economy and 12% saying they were optimistic or very optimistic versus the 59% pessimistic and 12% optimistic responses in the 1Q survey. As in previous surveys respondents continue to be much more optimistic in their outlooks for their own organizations than about the US economy with optimists outnumbering pessimists by a two to one margin. In 2Q 2008 45% of respondents indicated that they were optimistic or very optimistic about their organizations prospects while only 22% are pessimistic or very pessimistic.



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Organizations expectations for expansion and contraction continue to support these more optimistic views with 51% indicating that they expected their business to expand this year.

Overall respondents may be anticipating slightly tougher economic conditions with expectations for revenue and profit growth drifting downward slightly but not significantly and expectations for input price increases heading upward without a corresponding expectation for increases in prices charged. Overall the responses on these questions are still positive with the majority of respondents expecting some revenue growth and 39% expecting revenue growth of at least 5%. Profit expectations show the impact of the higher costs with 49% expecting profit growth. But even here almost one third of respondents (32%) expect profit growth to exceed 5%. The good news for workers is that almost three quarters of respondents continue to expect to maintain or increase current employment with 35% expecting growth in the number of employees. Similarly over three quarters of respondents expect salary and benefit (not including healthcare) increases. Spending plans have also remained stable.

The top challenges facing organizations continued to be customer demand, the availability of skilled personnel and employee healthcare costs. Edging up slightly in importance this quarter were energy costs, supplies and materials costs and collecting receivables. These increases matched up well with the aforementioned increase in the number of respondent comments concerning increased costs particularly fuel costs.

Impacts of Current Economic Conditions

This quarter respondents were asked about the impact of economic conditions were having on their organizations. When asked about the credit market crisis 45% answered that their organization was not experiencing any changes while 20% were experiencing problems with customer collections. Nineteen percent indicated that they were experiencing higher credit costs and 14% said that previous sources of financing were no longer available. In comments a number of respondents also mentioned that they were experiencing an indirect impact as their customers were reducing spending due to tightening credit. On a related question concerning strategies being used in response to the credit market crisis, 50% of respondents said they had not changed strategies. When asked about the actions they were taking in response to the current economic conditions, there was no dominant answer. Many organizations were not doing anything while others were implementing multiple strategies. The most common strategies were capital spending cuts, hiring freezes and travel restrictions.

The declining value of the dollar does not appear to be having a large impact on organizations. In response to a question concerning the declining value of the dollar 51% of respondents

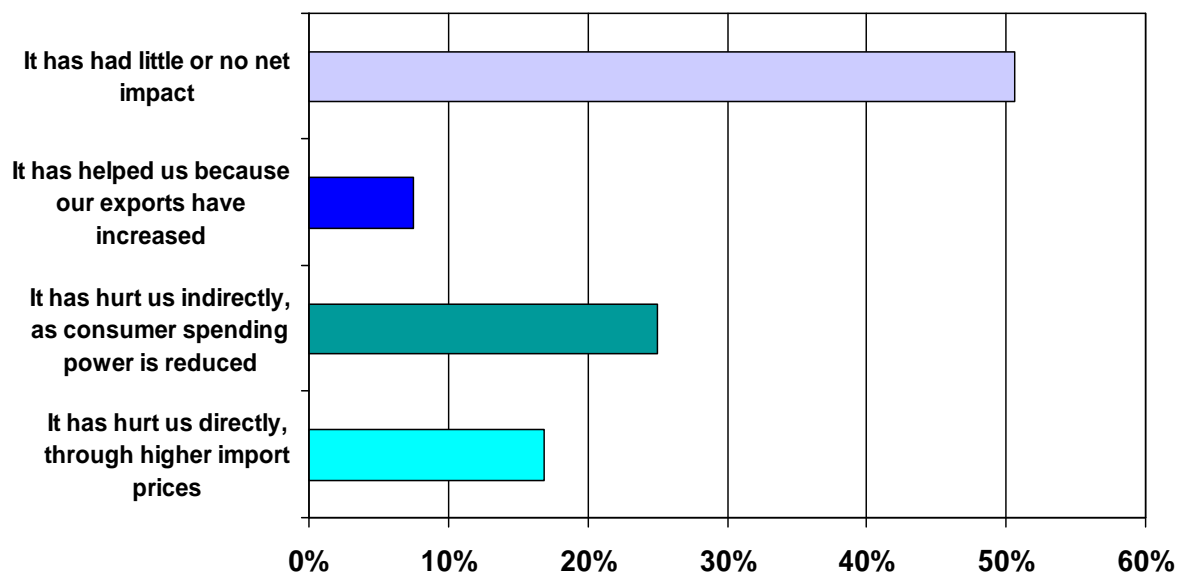


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answered that it had little or no net impact on their businesses. Eight percent said that it had helped due to increased exports while 17% were hurt by increased import prices. A quarter of respondents said that they had been hurt indirectly by reduced consumer spending power.

Declining Value of the Dollar



As CPAs the respondents were also asked their opinion of Secretary of Treasury Paulson's "Blueprint for a Modernized Financial Regulatory Structure". Respondents were fairly well divided in their thoughts – 33% felt it was a good balance, 29% do not feel it addresses the current crisis, 19% feel it goes too far and 18% feel it doesn't go far enough.

Industry Differences

As with previous surveys there were some notable differences in the way respondents from different industries viewed the outlook for both the economy and their own organizations. In looking at the US Economy respondents from the Manufacturing and Construction industries were most likely to be optimistic while pessimism was spread fairly evenly across multiple industries. Respondents from the Technology sector showed the largest drop in optimism.

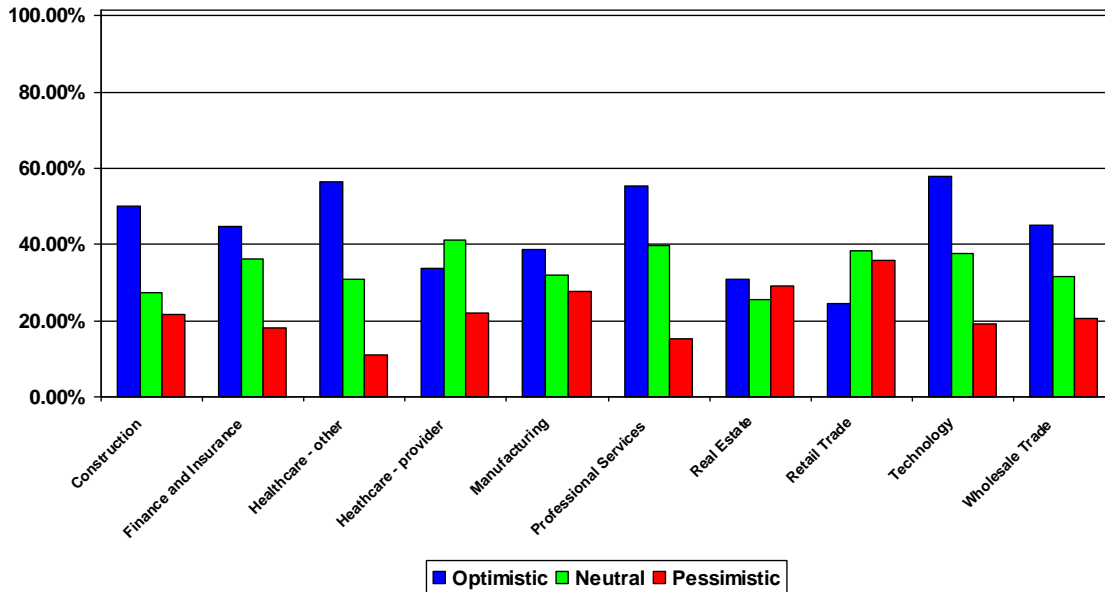


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From an organizational perspective, it appears that the Healthcare, Technology and Professional Service sectors are the strongest. Overall, respondents from these industries were more

Optimism for Your Own Organization



likely to be optimistic about their organization's prospects, expect expansion and expect to increase the number of employees. The story was different for respondents from the Retail, Real Estate and Manufacturing industries who were the least optimistic, the most likely to expect to contract and the most likely to expect to reduce the number of employees. While many media reports have focused on the slowdown in construction caused by the recent credit crisis, respondents from that industry were fairly well split between those expecting expansion and those expecting contraction.

Survey Background

The survey was conducted of AICPA Business & Industry members between April 22, 2008 and May 5, 2008 and had 1426 qualified respondents. Half the respondents (52%) were CFOs, 22% were Controllers and 14% were CEOs or COOs. Sixty-four percent of respondents came from privately owned entities, 16% from public companies, 11% from government, education and not-for-profits and 6% from foreign owned companies. Ten percent came from organizations with annual revenues of 1 billion or more, 23% from organizations with \$100



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million to under \$1 billion in annual revenues, 45% from organizations with \$10 million to \$100 million and 22% from organizations with under \$10 million in revenues.



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