First Niagara/Siena College Research Institute:
Survey of Pennsylvania Business Leaders
1/26/10

The Siena College Research Institute (SRI) in partnership with First Niagara Bank conducted the first annual Survey of Pennsylvania Business Leaders between November 12 and December 22, 2009. This report summarizes the survey methodology, presents the data from the 755 survey respondents, reports the "Index of Pennsylvania Business Leaders", groups and analyzes current and future confidence among executives and describes the measured difference in the attitudes and expectations of business leaders in Western and Eastern Pennsylvania.

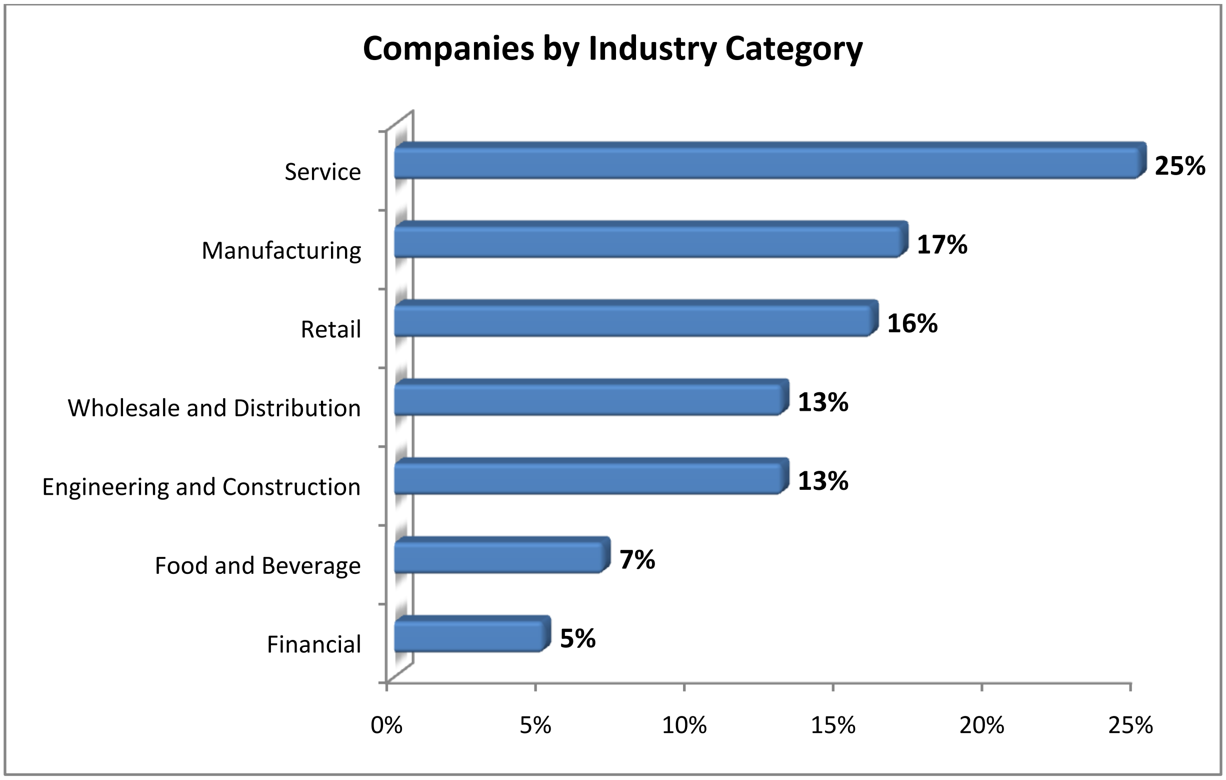
SRI has for three years conducted a similar study in Upstate New York. Executives, economists, academics, journalists and all those interested in business have found these measures to be both valid and reliable economic indicators. This report provides measures of current and future confidence among CEO's of private for-profit business across Pennsylvania with annual sales between $5 million and $200 million. Additionally, this study reports the expectations of those business leaders for their firm's revenues, profitability, fixed asset acquisitions, and workforce size as well as their current assessment of their top areas of concentration and concern.

Methods and Data Collection

SRI developed a universe of businesses from across Pennsylvania including the metropolitan statistical areas (MSA's) of Allentown, Erie, Harrisburg, Lancaster, Reading, Philadelphia, Pittsburgh, Scranton and York. The universe included private, for-profit businesses with yearly sales of $5 million to $200 million according to publicly available records. Prior to contacting any of the businesses to request participation, the list was cleansed using the telephone and internet to verify addresses and names of appropriate contacts. Each business received an announcement card that described the project followed two weeks later with a survey invitation that included this year's survey.

Each business had the opportunity to respond to the survey by 1) returning the paper survey in an enclosed prepaid envelope, 2) completing the survey on a website developed for that purpose (www.siena.edu/sri/paceo) or 3) completing a requested telephone interview. Those businesses that did not respond to the mail invitation were then called via telephone with an additional invitation.

A total of 755 unique Pennsylvania business leaders completed the survey this year, a response rate of five percent. In this report, all businesses located in either the Philadelphia or Allentown MSA (n=271) are reported as Philadelphia/Allentown or Eastern; those located in Pittsburgh or Erie (n=222) are reported as Pittsburgh/Erie or Western; and those from the remaining MSA's (n=262) are not reported as a unit but rather grouped together with all respondents to construct the overall state of Pennsylvania sample. This decision was made so as to feature the three meaningful groups or areas, Western, Eastern and statewide and also given that the remaining MSA's do not represent an analytically meaningful area on their own but rather serve to proportionately represent their share of the state. In addition, while the number of respondents overall and from both the Philadelphia and Pittsburgh areas is sufficiently large to draw valid conclusions, the relatively smaller number of respondents from the other MSA's yields a higher margin of error if reported separately. Still, with the sample size caveat, we do report significant points of variation between individual MSA's and the overall statewide numbers when they warrant attention.



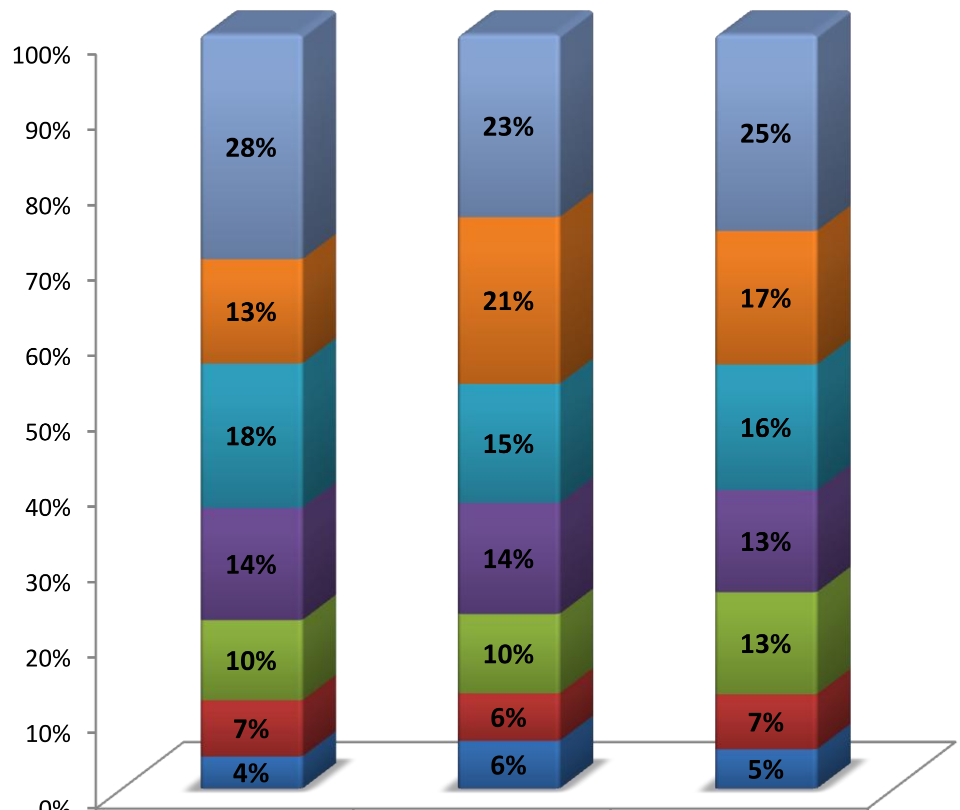
Description of the Sample

Businesses from the Eastern region (Philadelphia/Allentown) represented 47 percent of the initial sample and 36 percent of the respondents. Businesses from the Western region (Pittsburgh/Erie) were 27 percent of the sample but 29 percent of the respondents and the other MSA's comprised 26 percent of the sample and 35 percent of the respondents. The response rate was highest in the MSA's of Harrisburg, Lancaster, Reading, Scranton and York, followed by Pittsburgh/Erie.

The 755 respondents from the state of Pennsylvania represent seven major industry categories. Service (25%) is the industry sector yielding the highest percentage of respondents. Service was followed by Manufacturing (17%), Retail (16%), Engineering /Construction (13%), and Wholesale/Distribution (13%). Food/Beverage and Financial were represented but each comprises only 7 percent and 5 percent respectively of the sample.

Respondents by industry were similarly distributed across the two regions with some variation. Manufacturing was high in Western PA but lower than the state figures in the East. Service was slightly higher in the East but lower than the statewide figure in the West.

Companies by Industry by Region



	Philadelphia /Allentown	Pittsburgh /Erie	Total
Service	28%	23%	25%
Manufacturing	13%	21%	17%
Retail	18%	15%	16%
Wholesale and Distribution	14%	14%	13%
Engineering and Construction	10%	10%	13%
Food and Beverage	7%	6%	7%
Financial	4%	6%	5%

Confidence in the Economy

A major goal of the survey is to measure the current and future confidence of these business leaders in the economy of Pennsylvania in general, and specifically, as that climate impacts their industry. Each respondent answered a sequence of four questions that addressed their attitude towards the current economy, as compared with six months ago, both in general and within their industry as well as questions that probed their expectations of the state of the economy as we move into and through 2010 both in general and in their specific industry. Each of these four questions had identical response categories.

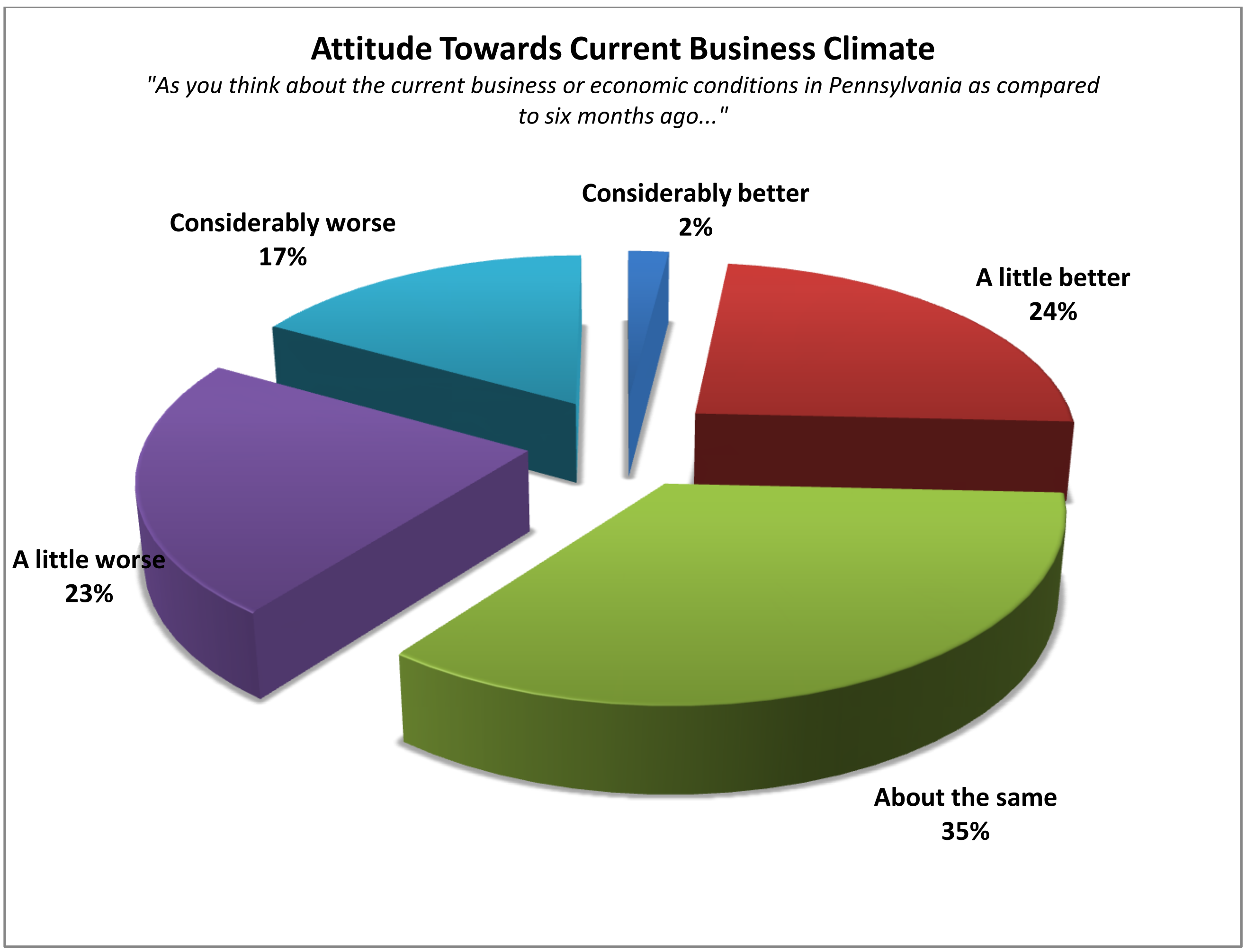
- As you think about the current business or economic conditions in Pennsylvania as compared to six months ago, would you say they are considerably better, a little better, about the same, a little worse, or considerably worse?
    - ___ Considerably better
    - ___ A little better
    - ___ About the same
    - ___ A little worse
    - ___ Considerably worse

- Looking forward from today through next year, that is, the entire 2010 year, how would you describe your expectations for the economy in Pennsylvania?

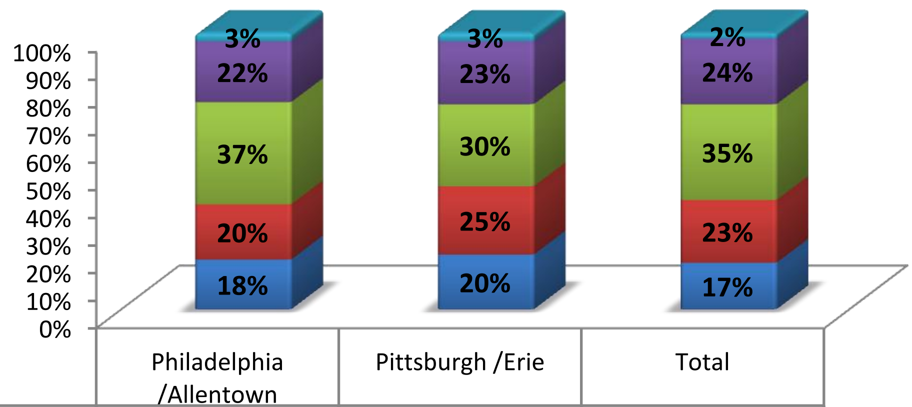
- Now thinking specifically about your industry, how would you describe the current business or economic conditions in Pennsylvania as compared with six months ago?

- And looking forward from today through the next year, how would you describe your expectations for your industry here in Pennsylvania?

We first show the percentage responses to these questions among the entire sample followed for each question with the percentage breakdown by region for each question. We then describe the manner in which the responses have been combined to construct the "Index of Pennsylvania Business Leaders" and report and compare the index by region, industry and outlook.



Companies by Region: Attitude Towards Current Business Climate



	Philadelphia /Allentown	Pittsburgh /Erie	Total
Considerably better	3%	3%	2%
A little better	22%	23%	24%
About the same	37%	30%	35%
A little worse	20%	25%	23%
Considerably worse	18%	20%	17%

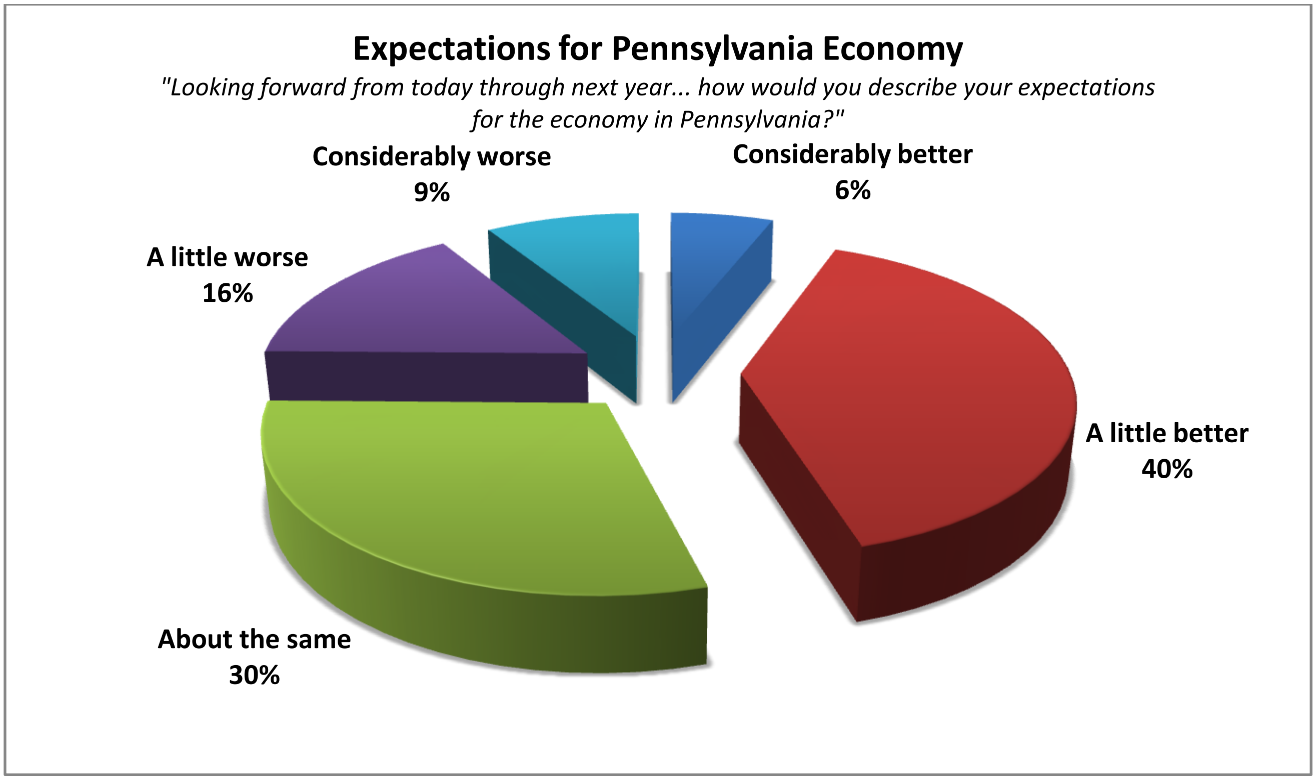
At first glance these numbers, the current assessment among CEO's of the state of the economy, that is, have things gotten better or worse, may be discouraging. More CEO's (40%) indicate the economy has worsened of late than those (26%) that believe conditions have improved. Still, over 6 in ten now say that things have either stayed "about the same" or gotten better. By comparison, last year in New York, 83 percent said as 2008 ended that the economy had worsened while only 2 percent then saw improvement. Today, 47 percent of Upstate New York business leaders say the economy has worsened as compared to 28 percent that believe it has improved. Given the similarity of today's numbers between Upstate NY and Pennsylvania, as well as our knowledge of economic conditions over the past year, it follows that Pennsylvania's numbers would have been significantly lower a year ago as well.

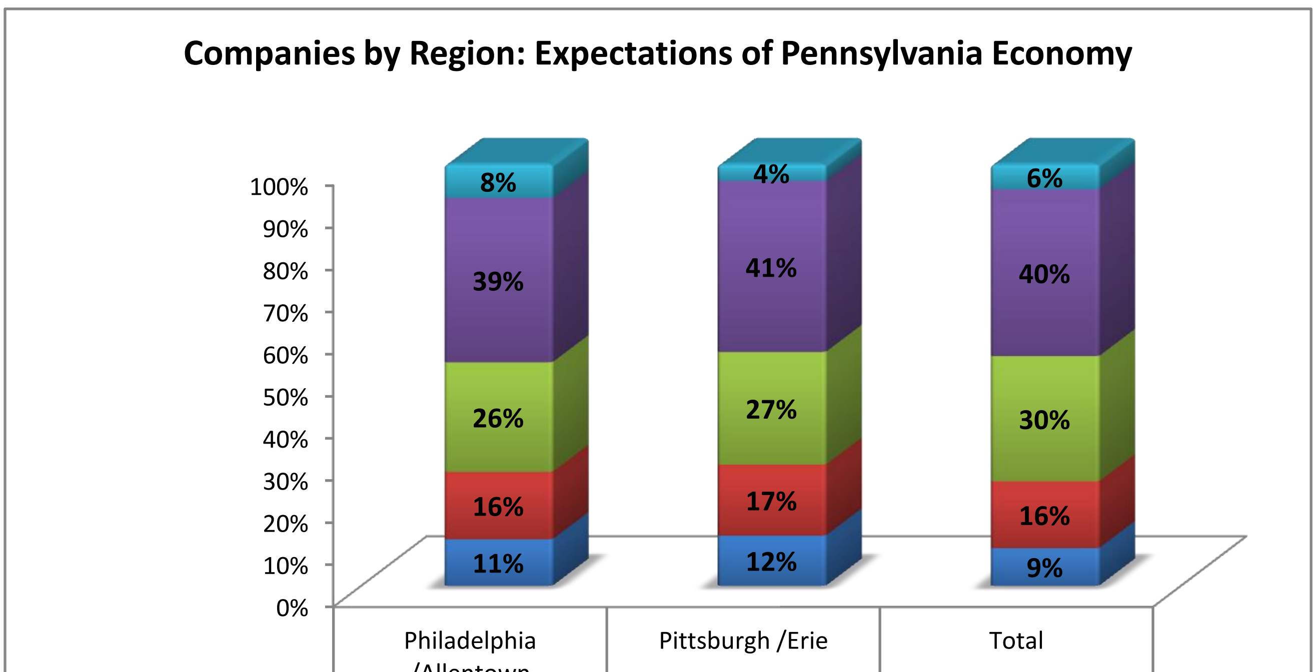
We note little difference by geography on this question with the exception of Pittsburgh/Erie reporting a slightly higher negative assessment of current conditions.

The second index construction question assesses CEO's expectations for the state economy. Although only 6 percent anticipate this year being considerably better, 40 percent of CEO's expect conditions to be at least a little better. Given that 30 percent anticipate conditions remaining the same, we note that more CEO's anticipate better conditions than those (25%) that believe economic conditions will worsen.

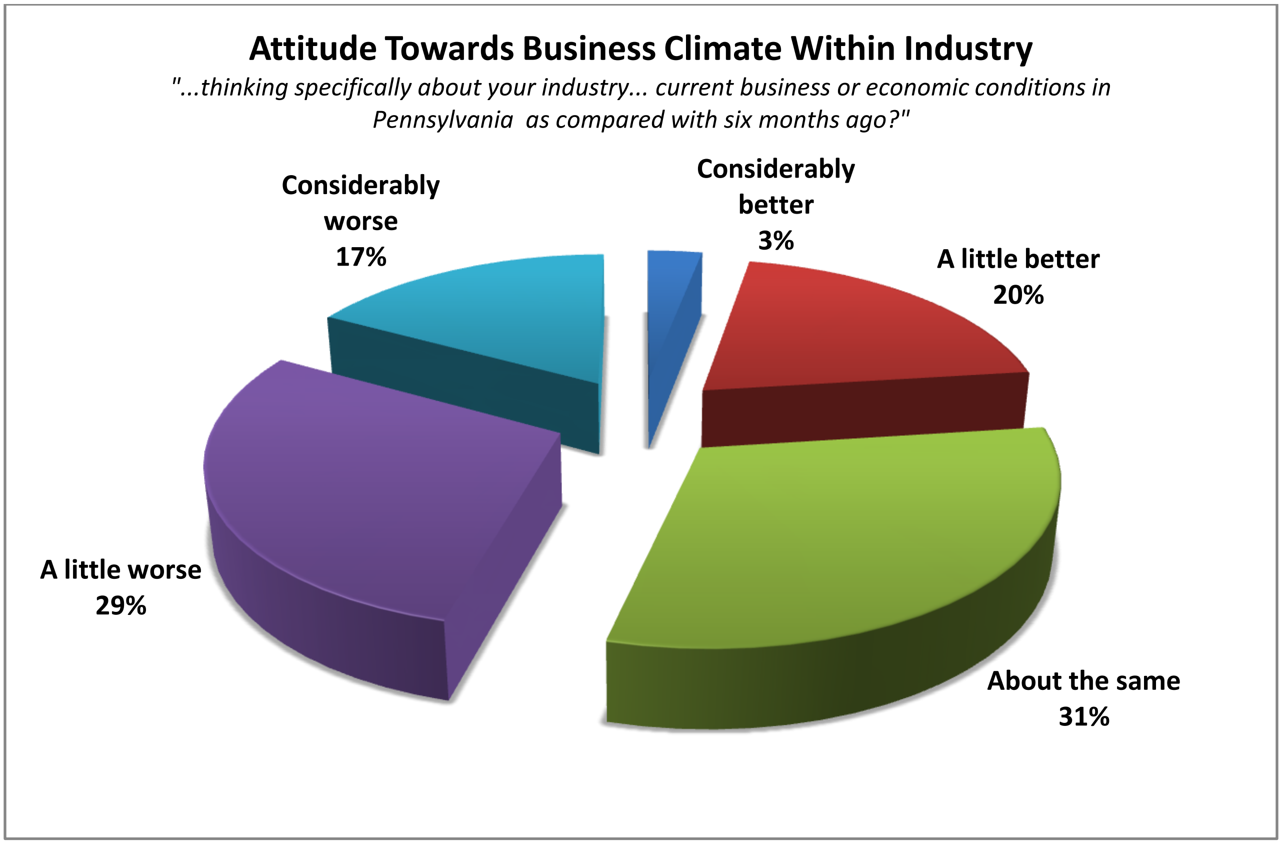
While it remains concerning that 25 percent of Pennsylvania CEO's expect another worsening year, we note that the optimism reflected in this question is greater than that of New York CEO's (32% better, 27% same, 41% worse) today and far greater than New York a year ago (11% better, 17% same, 72% worse).

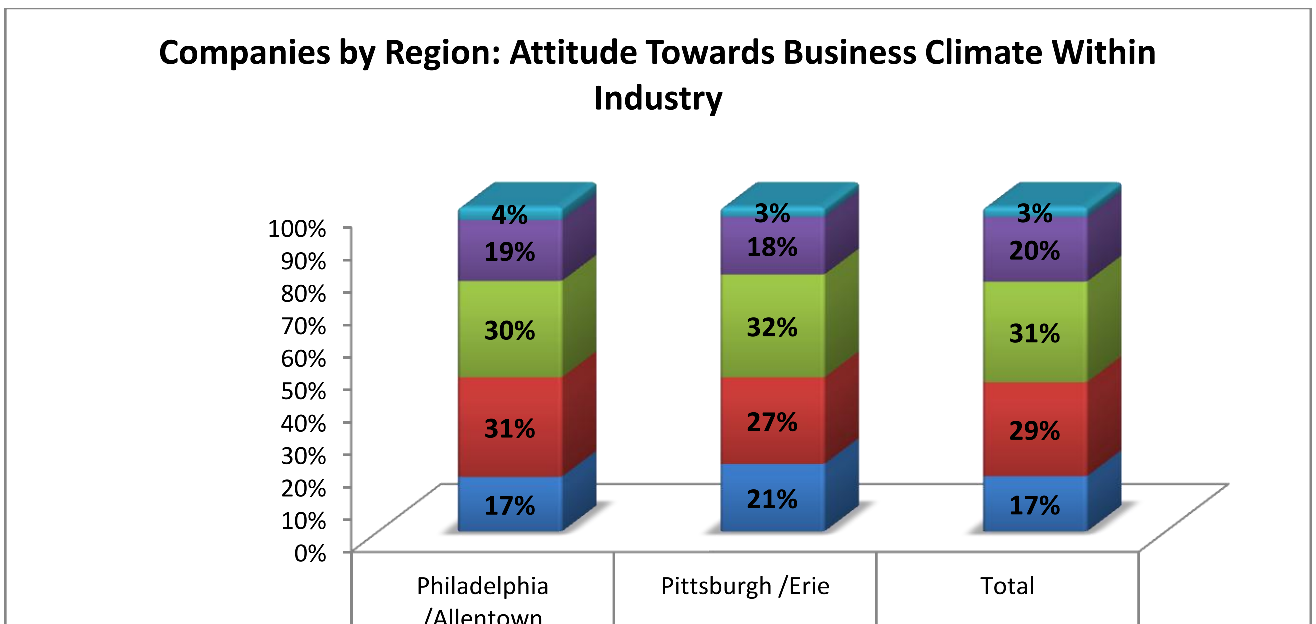
Interestingly, and perhaps reassuringly, CEO's appear to feel more optimistic about the state economy than does the general public. While nearly twice as many CEO's (46%) think the Pennsylvania economy will be better next year as those that think it will be worse (25%), among public opinion, the sentiment is far less optimistic. Among 625 randomly selected Pennsylvania adults polled in October at the same time as these surveys were taken, 28 percent expect over the next twelve months Pennsylvania will have good times financially while 51 percent anticipate bad times.





	Philadelphia /Allentown	Pittsburgh /Erie	Total
Considerably better	8%	4%	6%
A little better	39%	41%	40%
About the same	26%	27%	30%
A little worse	16%	17%	16%
Considerably worse	11%	12%	9%





	Philadelphia /Allentown	Pittsburgh /Erie	Total
Considerably better	4%	3%	3%
A little better	19%	18%	20%
About the same	30%	32%	31%
A little worse	31%	27%	29%
Considerably worse	17%	21%	17%

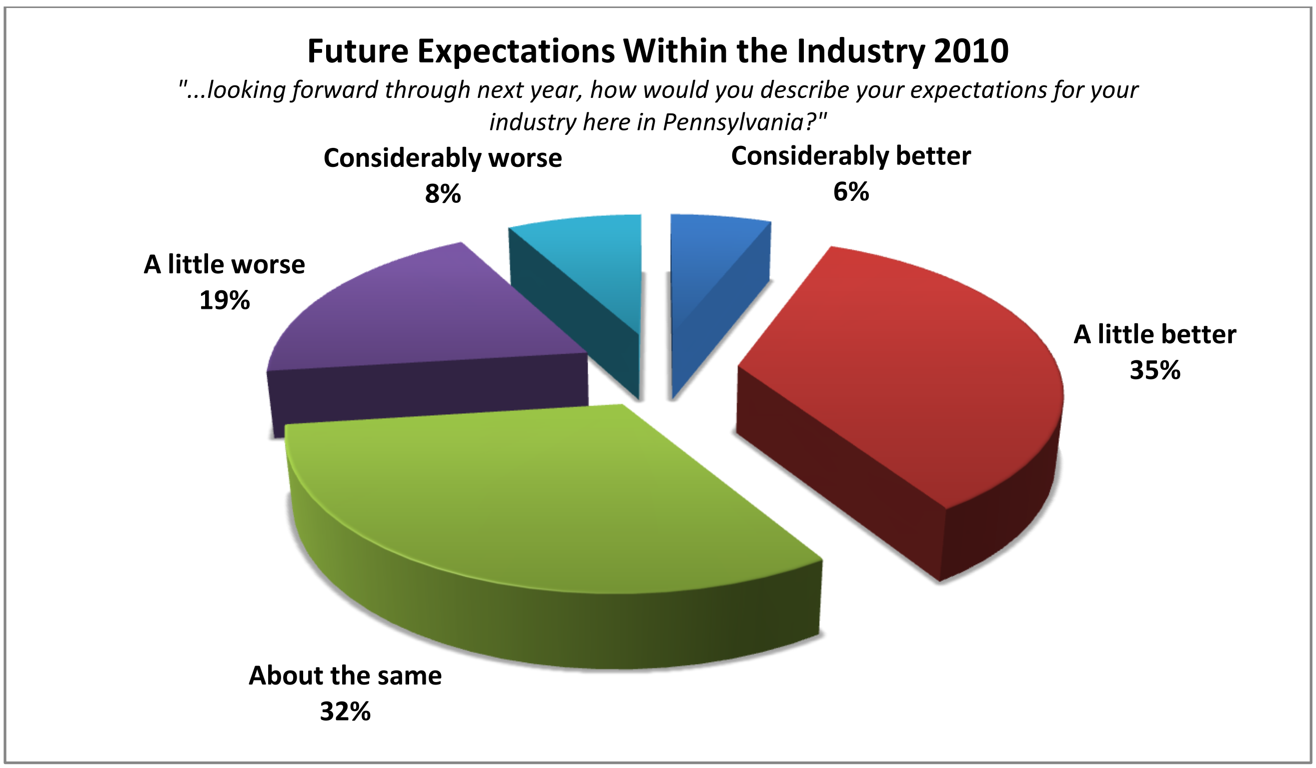
The third and fourth index construction questions asked respondents to focus on their industry. In the first of those two questions, CEO's assess the current impact of the state economy on their industry and in the last, the expectations they have over the coming year for their industry in Pennsylvania.

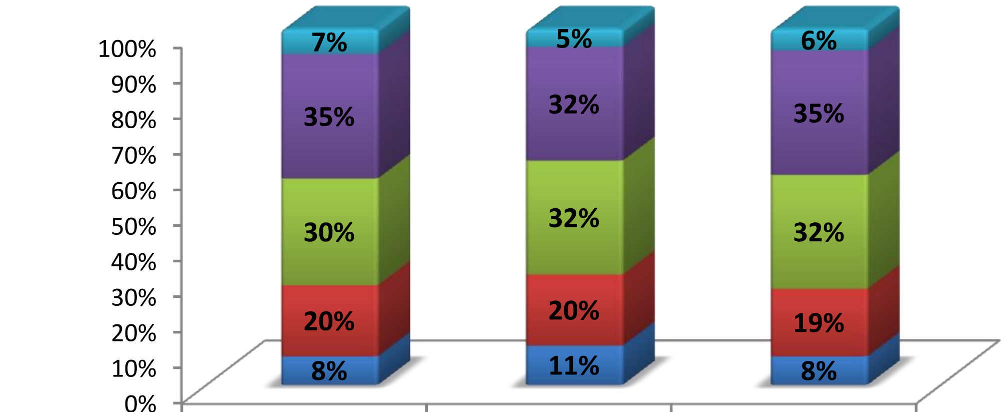
The current assessment of improvement as opposed to worsening economic conditions relative to their industry among CEO's is slightly worse when compared to their current assessment of the overall state economy. Where 26 percent feel that the state economic conditions have improved of late, only 23 percent feel that those conditions have improved for their specific industry and where 40 percent feel that overall economic conditions have worsened 46 percent say that conditions of late have worsened for their industry. Overall, CEO's see recent conditions as more difficult for their industry than for the economy as a whole.

The following table shows the percentage of CEO's by industry that both feel as though conditions have either improved or worsened currently or expect those changes in the future relative to their industry.

Industry	Current Impact of Economy on Industry		Future Expectations for Industry	
	Better	Worse	Better	Worse
Eng/Const	23% (7%)	50% (18%)	39% (6%)	30% (7%)
Manufacturing	28% (2%)	42% (22%)	39% (5%)	24% (7%)
Retail	23% (4%)	47% (15%)	49% (8%)	28% (8%)
Service	22% (2%)	48% (16%)	36% (4%)	33% (11%)
Whole/Dist	23% (0%)	44% (15%)	39% (2%)	21% (10%)

() indicate percent that stated considerably better/worse





	Philadelphia /Allentown	Pittsburgh /Erie	Total
Considerably better	7%	5%	6%
A little better	35%	32%	35%
About the same	30%	32%	32%
A little worse	20%	20%	19%
Considerably worse	8%	11%	8%

CEO’s have an optimistic appraisal of the next twelve months within their industry at a ratio of approximately 3:2 with 41 percent arguing that expectations for their industry are either a little or considerably better as compared to 27 percent that expect conditions in their industry to get a little or considerably worse. About one-third expect conditions to remain the same. Expectations are slightly higher in the Philadelphia area as compared to the Western part of the state. Still, overall there is striking regional similarity.

By industry, Manufacturing has the most positive outlook on how recent conditions have affected their industry with 28 percent saying things have gotten better as compared with 42 percent saying conditions have worsened. Engineering/Construction and Service expressed the most negative current position with more than twice as many CEO’s saying that conditions have worsened compared with those within those industries that say conditions have improved.

Looking to the future, every industry has more CEO’s saying that they expect conditions to improve over the next twelve months than those that expect conditions to worsen. Leading the industries is Retail with 49 percent anticipating better times this year as against only 28 percent that predict bad times. Service stands out as the least optimistic with only 36 percent anticipating better conditions compared to an almost equal 33 percent still thinking economic conditions will worsen.

Overall, despite large numbers of CEO’s continuing to anticipate worsening conditions, the fact that a plurality believe conditions will improve within their industry demonstrates a growing albeit guarded optimism in the Pennsylvania economy. More and more CEO’s despite all that has taken place now think the economy and their place in it will improve.

Index of Pennsylvania Business Leaders

CEO’s in Pennsylvania have withstood an economic tsunami. In looking at the two “current” questions, it is clear that more CEO’s still say that economic conditions have worsened over the last six months as compared to those that say things have gotten better. But, when treating those that now say things have either stayed the same or improved whether overall or in their industry, 75 percent or more indicate that the worst is in their view, over. Looking to the future, over 40 percent now say that over the next year the economy will improve and 73 percent or more say that Pennsylvania and their industry within the state economy will not have a worsening year. These individual questions point to growing confidence among CEO’s in Pennsylvania.

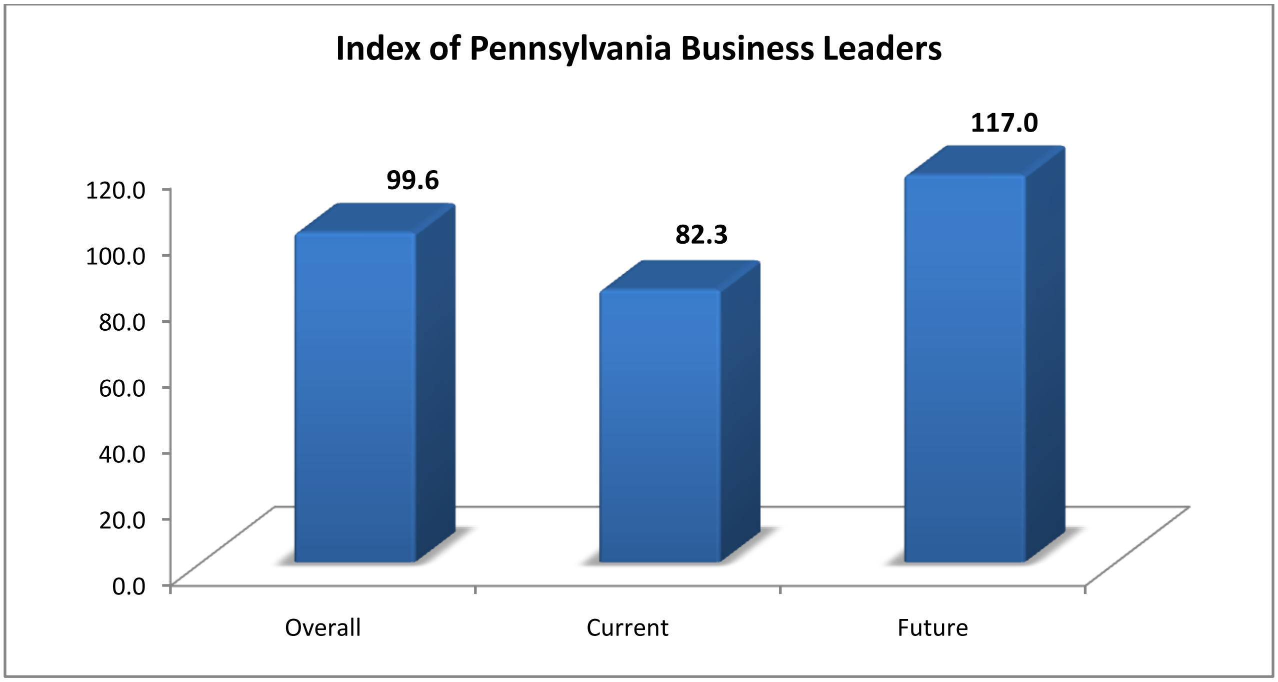
In order to facilitate discussion of this data as well as to compare business leaders in one MSA or region, and in one industry with another, we construct and report the Index of Pennsylvania Business Leaders. The index is based on these four questions that measure current attitudes and future expectations both of the state economy and within industry prospects. We build the index by establishing a relationship between the percentage of respondents that see or expect improvement with those that recognize or anticipate decline. The index for the entire sample or of any identified subset can be determined and ranges from an absolute low of zero to a high of 200. If equal numbers of respondents indicated “better” and “worse” on the four questions the index would be 100. Therefore any score below 100 points demonstrates more respondents seeing and/or expecting things to worsen as opposed to improve.

In constructing the Index of Pennsylvania Leaders, we provide three separate indices; the overall, the current (based on the two questions that assess attitudes towards the current climate as compared to six months ago) and the future (based on the two forward looking questions).

The overall Index of Pennsylvania Business Leaders is 99.6 in 2009. As a measure of overall confidence, Pennsylvania CEO’s sit right at the midpoint between optimism and pessimism. By comparison, New York’s overall index is considerably lower at 86.4 in 2009 but up from a frightening low 39.0 in 2008. While Pennsylvania’s overall index rests securely at the index scale midpoint, the current index remains below the index breakeven point of 100 at a rate of 82.3. It is the collective confidence in the future as measured by the future index of 117.0 that draws the overall index score higher.

Interestingly, New York’s current index (78.1) is relatively similar to Pennsylvania’s at 86.4. The large difference is in future confidence where New York remains below the 100 mark at 94.8 while Pennsylvania’s CEO’s record 117.0

No doubt seeing a current index below 100 remains an honest assessment of today’s marketplace. For many, conditions have worsened over the last year or six months. Still, as that index moves towards 100 we see that fewer CEO’s are saying that conditions continue to deteriorate. Looking to the future, however, and seeing an index well over 100 indicates that far more CEO’s expect overall and industry specific conditions to improve over the next year than to worsen. Recovery is a product of future confidence that moves from a sentiment to a reality which ultimately will be validated with increasing current confidence. Today, Pennsylvania demonstrates an overall optimistic sentiment that will assist in a recovery.



	Overall Index	Current Index	Future Index
Pennsylvania Overall	99.6	82.3	117.0
Western, Pittsburgh/Erie	94.0	77.0	111.0
Eastern, Philadelphia/Allentown	98.7	80.6	116.8
Allentown	97.4	74.5	120.4
Erie	90.6	77.5	103.8
Harrisburg	108.1	93.2	122.9
Lancaster	98.7	86.2	111.2
Philadelphia	99.0	82.0	116.0
Pittsburgh	94.8	76.9	112.6
Reading	93.5	79.0	108.1
Scranton	110.3	88.8	131.9
York	116.4	95.7	137.1

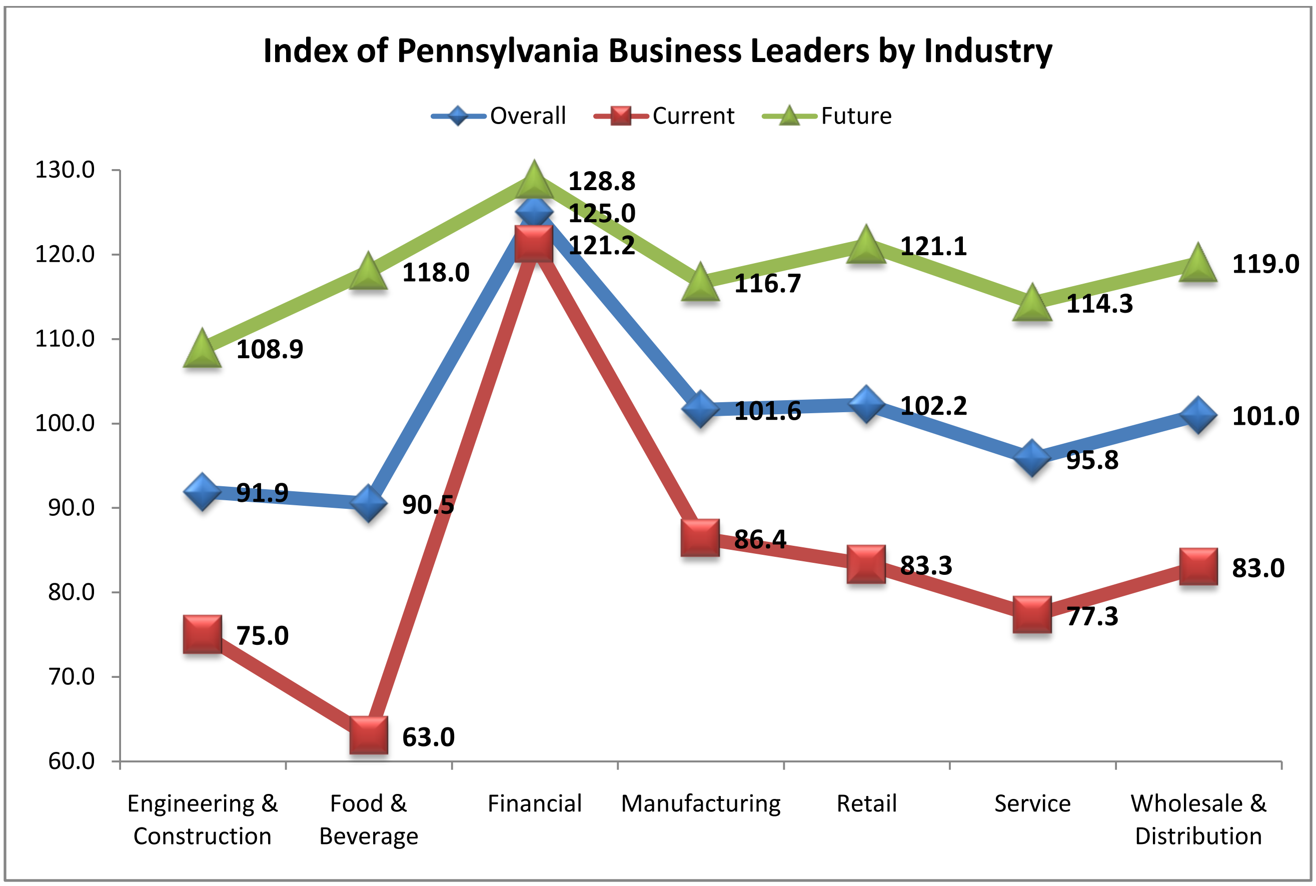
Overall, current and future confidence is slightly greater in Eastern than it is in Western Pennsylvania. Still, both Eastern (Philadelphia/Allentown) and Western (Pittsburgh/Erie) are lower than the state as a whole given the higher confidence of Harrisburg, Scranton and York. Among those MSA's with over 50 respondents (Harrisburg (59), Scranton (58) and Lancaster (58)), Scranton has the greatest overall confidence at 110.3, Harrisburg the greatest current confidence at 93.2 and York the highest future at 137.1

Interestingly, the lowest confidence of any single MSA is Erie at 90.6 overall, 77.5 current, and 103.8 future. These numbers are more similar to Upstate New York's 86.4 overall, 78.1 current and 94.8 future. Still Erie's 9 point margin in future bodes well for it when compared to all of upstate New York and even more so when compared to Buffalo, New York's 79.6 overall, 71.8 current and 87.4 future.

In addition to looking at the variation in the index between the regions of Pennsylvania, we now report the index by each of the seven industry categories.

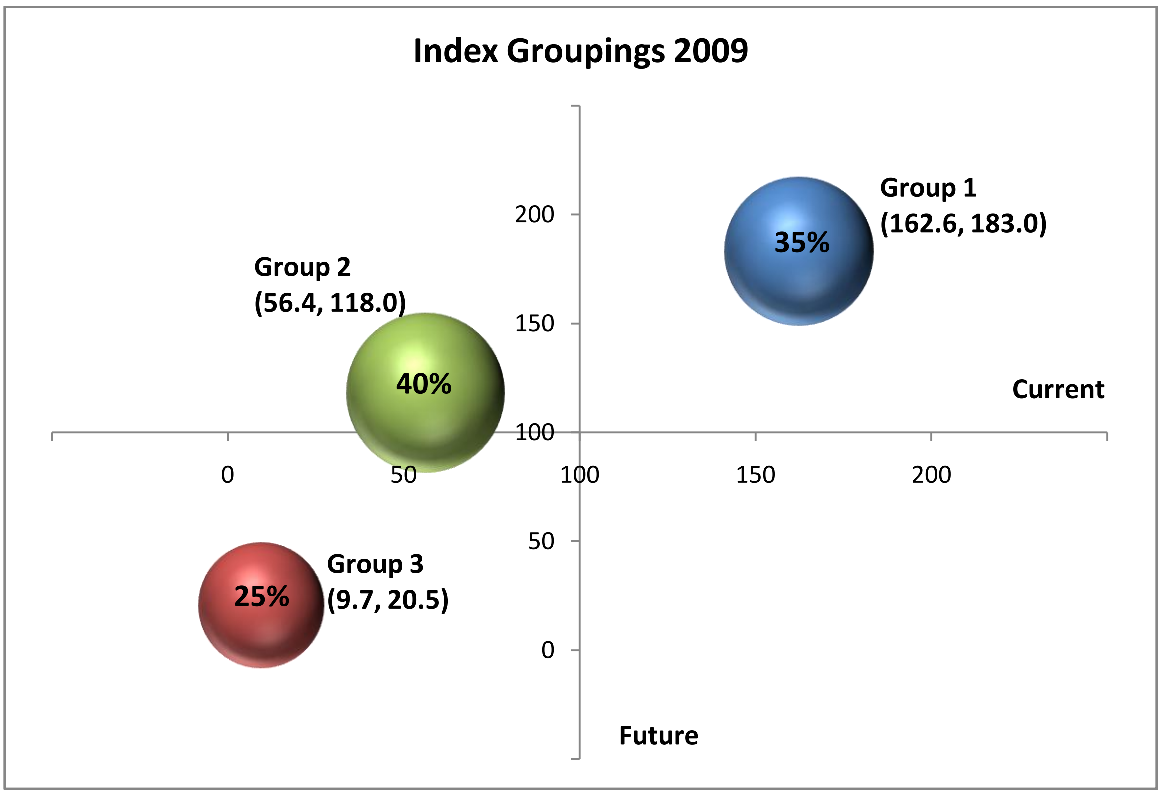
	Eng/Const	Food/Bev	Financial	Manufacturing	Retail	Service	Wh/Dist	Total
Overall	91.9	90.5	125.0	101.6	102.2	95.8	101.0	99.6
Current	75.0	63.0	121.2	86.4	83.3	77.3	83.0	82.3
Future	108.9	118.0	128.8	116.7	121.1	114.3	119.0	117.0

Overall confidence is highest in the Financial sector at 125.0, over twenty points higher than any other industry. CEO's in Financial clearly are reporting the success that industry has begun to have over the last two quarters. This finding must be slightly muted due to the small percentage of financial businesses in the sample (5%), however it resonates with the marketplace and still represents the reports of 34 executives. Lowest overall and current confidence is in Food/Beverage reflective of more frugal consumers cutting back on entertainment spending. The other sectors, Engineering/Construction, Manufacturing, Retail, Service and Wholesale each report future confidence that exceeds current by between 30 and 38 points. Each industry is still reporting more CEO's that have experienced more worsening than improvement over the last six months but looking to the future, more CEO's now expect 2010 to be a year of improvement than the lessening number that continue to see declining conditions.



In order to further examine the confidence of Pennsylvania CEO's and to make sense of the attitudes and plans of this group of important business leaders, we have submitted the individual responses of all 755 respondents on the four index questions to cluster analysis. In so doing we have identified three distinct groups of CEO's.

We display the graphic depiction of all CEO's grouped into the cluster determined by their responses to each of the four index questions. The x-axis is a representation of the current confidence and the y-axis is the future confidence. The point in the center, 100, 100, is the breakeven point at which a group would share a level of confidence at which optimism and pessimism both current experience and future expectations are balanced. The quadrant in the upper right is home to those that have both current and future confidence above that point while the quadrant in the lower left is the location for those that describe both the current and future negatively. The quadrant in the upper left is home to those that describe the current conditions as worsening but are optimistic about the future. Pennsylvania, as a whole, with a current of 82.3 and a future of 117, would fall in that upper left quadrant.

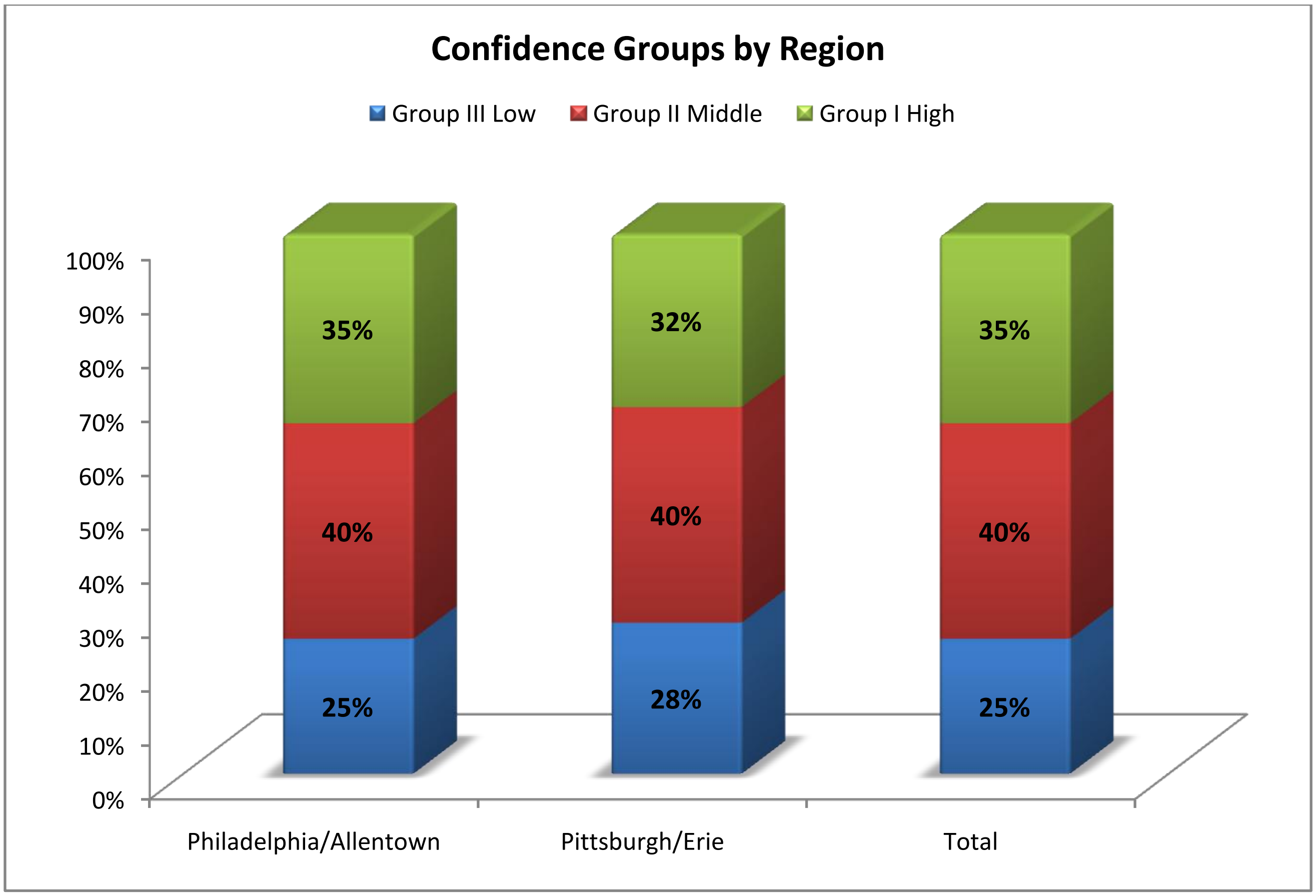


Clearly, any economy's hope would be to have 100% of business leaders located in the quadrant in the upper right. Conversely, an economic system in which all leaders felt things had gotten worse and expected continuing deterioration would not only be located in the lower left quadrant but would not be expected to continue to operate for very long. An economy in which all or most CEO's recognized that the recent past had seen declines but were hopeful that the next year would improve (the upper left quadrant) is at least moving in a recovery mode. Conversely, an economy in which CEO's describe a high current but low future confidence (the lower right quadrant) would be one expecting a decline or recession.

Currently, we identify 35 percent of CEO's as being firmly located in the upper right quadrant. As such they as a group have experienced the beginnings of a recovery already in that they now describe conditions as better than before and their expectations for the future are for increasingly better conditions.

A slightly larger group, 40 percent of CEO's continue to say that the current economic conditions have worsened but as a group they believe the economy will improve to some degree over the next year. Their experience of the current economy is far more difficult than the members of Group 1 and their level of future optimism is less. Still, this largest group appears to be saying that the worst they believe is over and they expect next year to be a better business year. While this group represents only 40 percent of all CEO's, its average is quite similar to the overall state average with a nearly identical future confidence but lesser current.

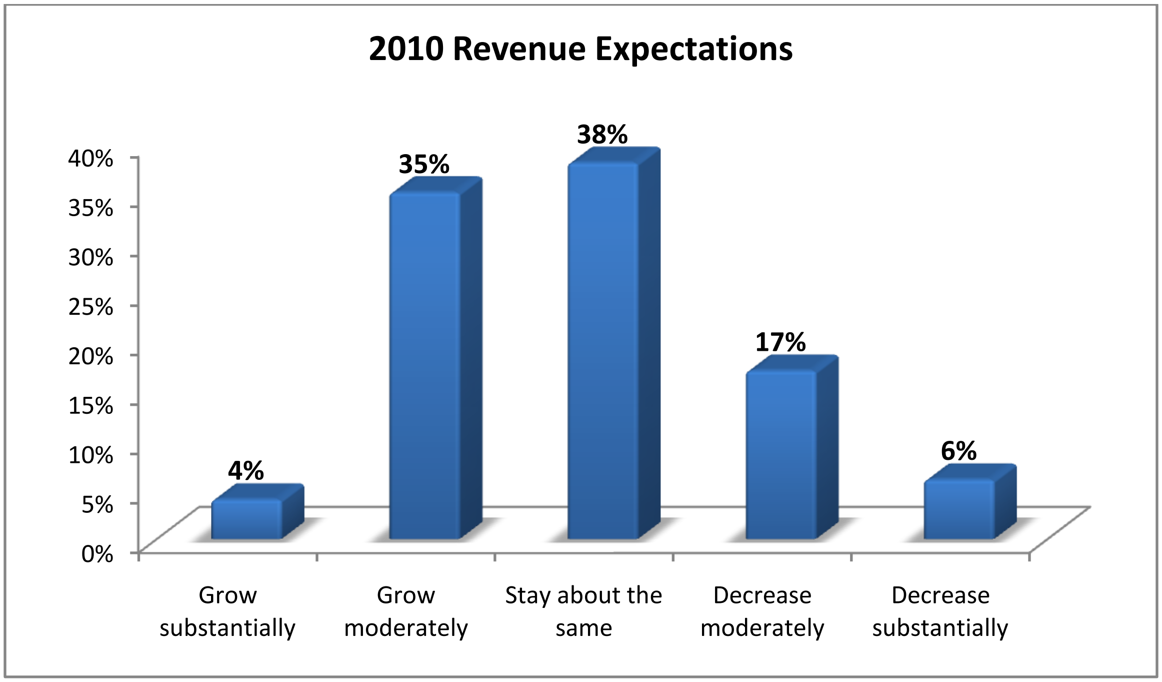
Finally, the smallest group, 25 percent of CEO's continue to be severely adversely affected by the current economy and as a group expect conditions to worsen over the coming year. They can only be described as 'hoping to survive'. While it is concerning that 25 percent of companies in Pennsylvania fall in that group, we note that last year in New York 58 percent of companies were in this lowest group. In New York, that 'survival' group has shrunk to 34 percent this year. It is safe to assume that Pennsylvania has seen a similar relative decline in the percentage of companies and CEO's that see the economic landscape this negatively.

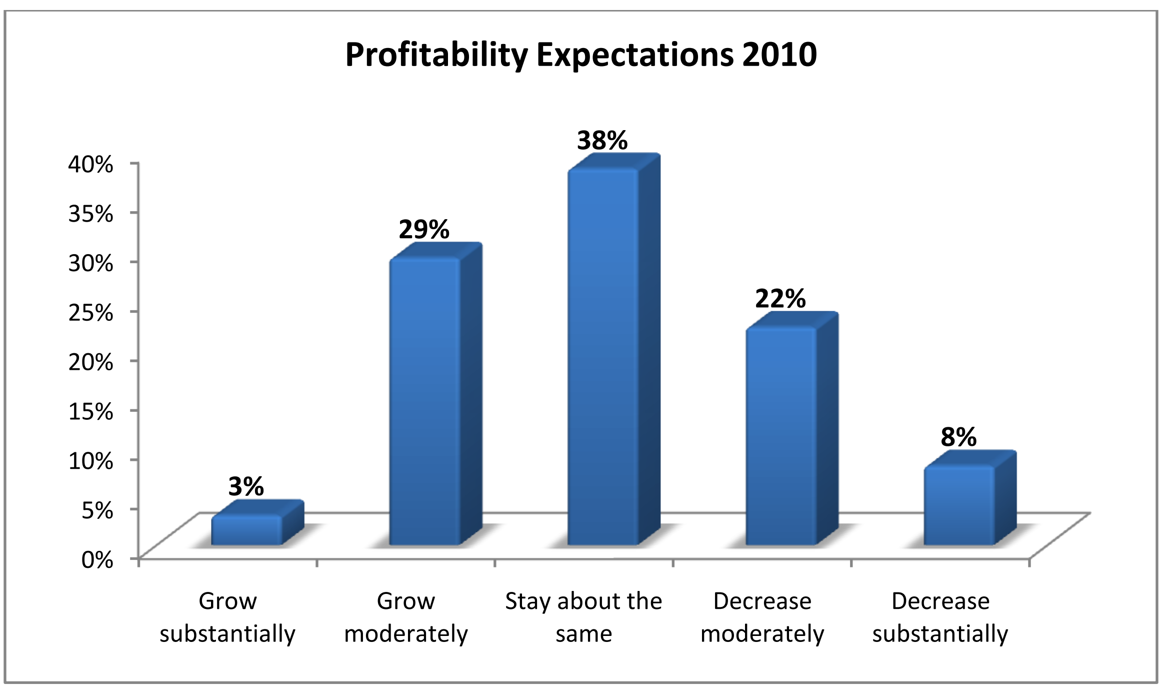


In the analysis that follows of expectations for revenue, profitability, fixed asset acquisition plans, workforce size plans, and areas of concentration and concern, we describe the views of the CEO's of Pennsylvania, by region and in some cases by these clusters of confidence. We note that the clusters were derived using the index questions so variation in revenue or profitability projections had no impact upon clustering but rather are further demonstrative of the differences between these groups or types of CEO's.

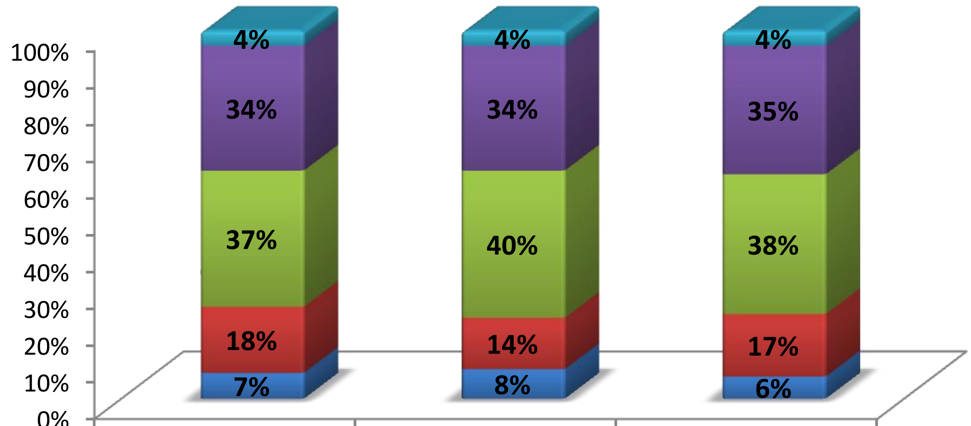
Revenue and Profits

Thirty-nine percent of all respondents (4% substantially and 35% moderately) predict that their revenues will grow this year while 23 percent (17% moderately, 6% substantially) expect revenues to decrease. Thirty-two percent expect an increase in profitability while 30 percent anticipate a decrease in profits. Both revenue and profit expectations across Pennsylvania show that greater percentages, most especially relative to revenues, expect increasing as opposed to decreasing revenue and profits this year as compared to last.



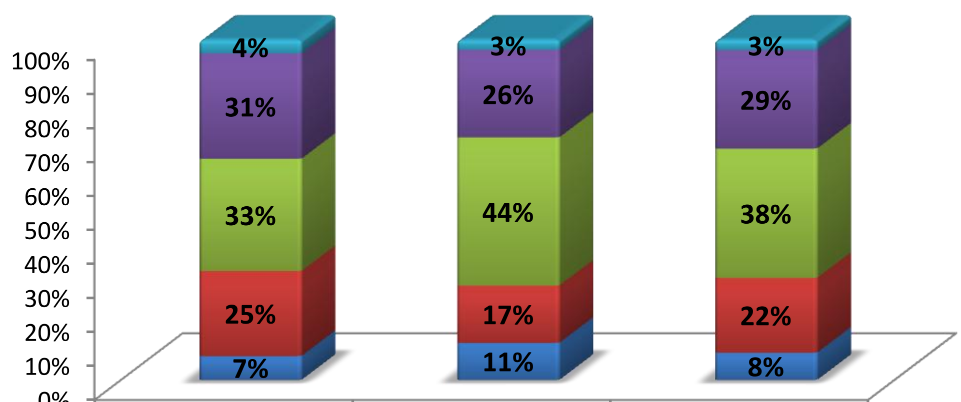


Region: Revenue Expectations 2010

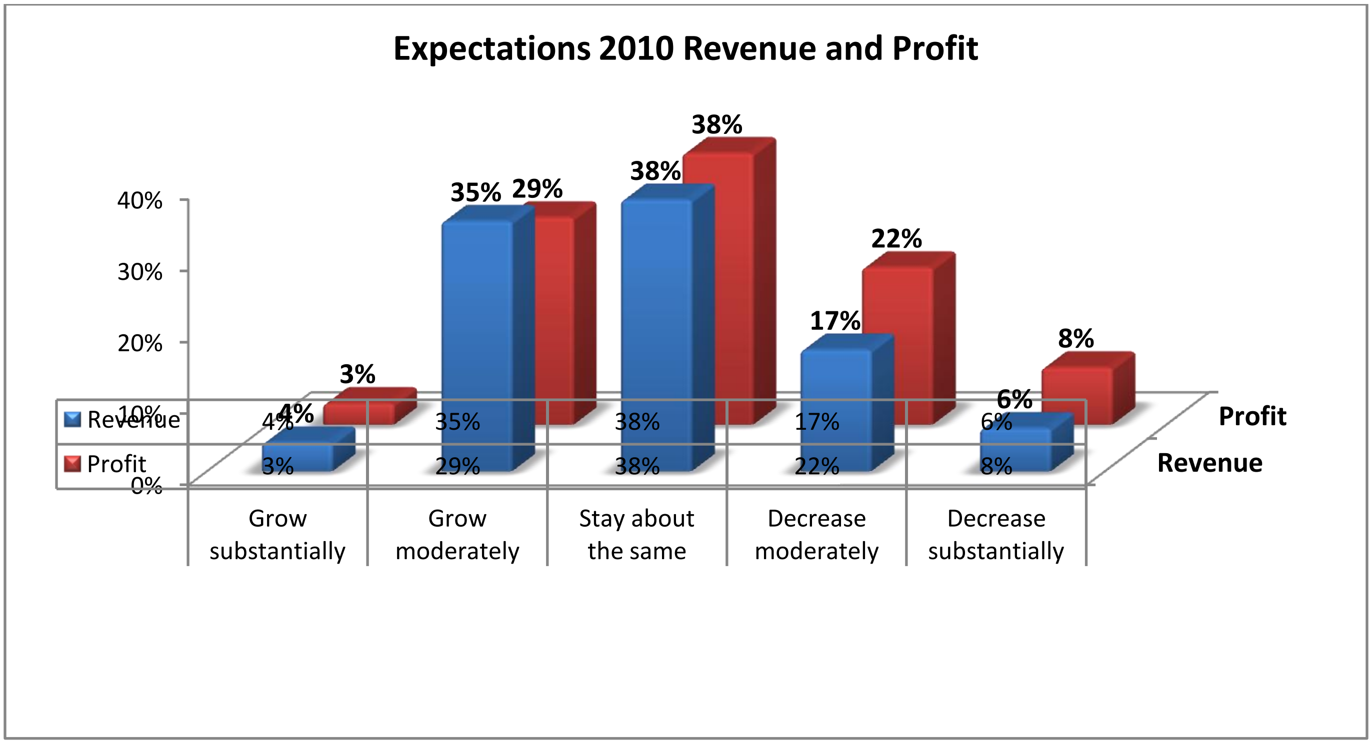


	Philadelphia /Allentown	Pittsburgh /Erie	Total
Grow substantially	4%	4%	4%
Grow moderately	34%	34%	35%
Stay about the same	37%	40%	38%
Decrease moderately	18%	14%	17%
Decrease substantially	7%	8%	6%

Region: Profitability Expectations 2010



	Philadelphia /Allentown	Pittsburgh /Erie	Total
Grow substantially	4%	3%	3%
Grow moderately	31%	26%	29%
Stay about the same	33%	44%	38%
Decrease moderately	25%	17%	22%
Decrease substantially	7%	11%	8%



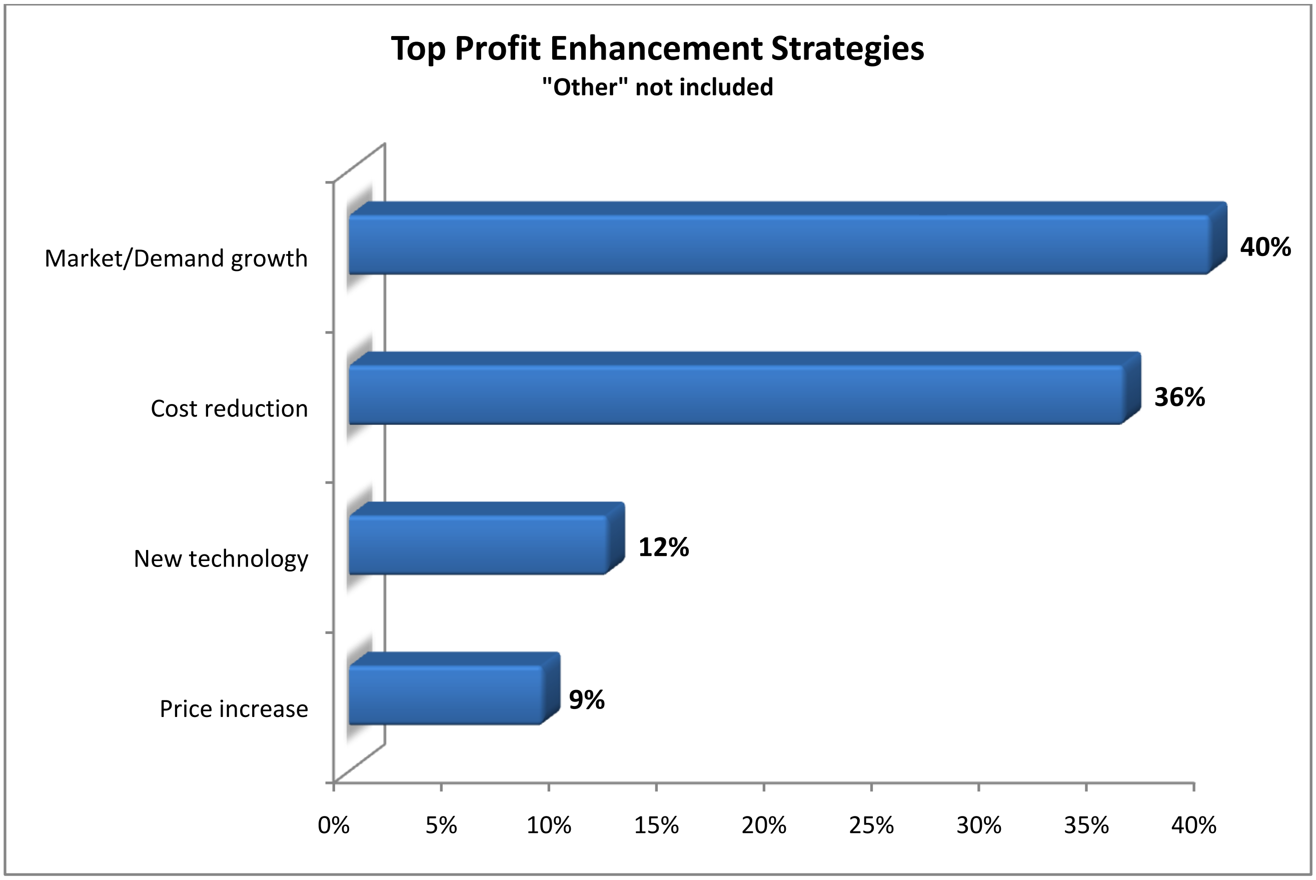
There is very little difference between the state as a whole and the two regions, Pittsburgh/Erie and Philadelphia/Allentown, on revenue and profitability projects. A far greater difference can be seen when comparing the three groups of CEO's. Those that are most optimistic as reflected in their index numbers, expect to see greater revenues and profits than those that are less optimistic.

CEO's in Group 1, the highest index group, report the expectation of increasing revenues next year at a rate of 69 percent as compared with only 3 percent of CEO's in that group that expect revenues to decline moderately. Similarly, a majority of CEO's in this group, 55 percent anticipate increasing profits this year while only 7 percent predict moderately decreasing profits. Clearly, in terms of revenue and profits, this group of 35 percent of all CEO's exceed the state as a whole when it comes to their revenue and profit projections for 2010.

CEO's in the middle group, Group 2, anticipate increasing revenues at a rate of 31 percent as compared with 19 percent of CEO's in this group that believe their revenues will decrease (16% moderately, 3% substantially). Twenty-three percent of these CEO's expect an increase in profits while a greater percentage, 31 percent predict declining profits this coming year. Among this large group of CEO's (40% of the total), a majority of 81 percent expect revenues to at least remain constant this year and a smaller majority of 69 percent anticipate profits to at least remain the same over the coming year. Still, despite increasing future confidence in this group, over 30 percent continue to anticipate declining profits.

CEO's in Group 3 in keeping with their low current and future confidence have very low revenue and profit expectations. A majority, 57 percent, predict decreasing revenues compared to only 10 percent that believe their revenues will increase. Sixty percent expect profits to decrease while 12 percent expect increasing profits.

While the index variation between these groups show variation in sentiment the differences between their concrete revenue and profitability projections show that these CEO's and their companies exist in different worlds.

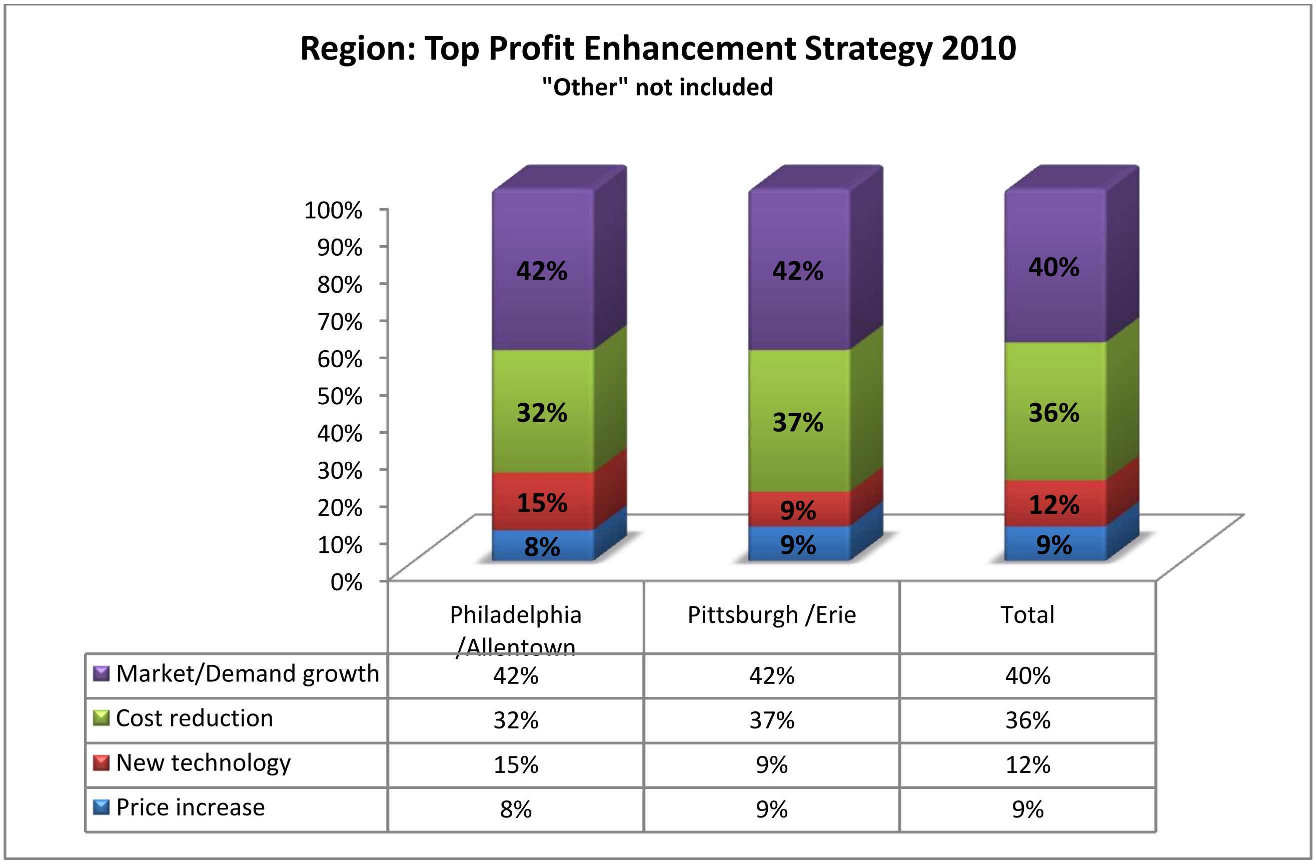


When asked to indicate which of four strategies – market or demand growth, cost reductions, new technology or price increases – would be their top profit enhancement strategy for the coming year, most CEO's selected either market/demand growth (40%) or cost reduction (36%). Fewer than 10 percent plan to raise prices to increase profits.

Although cost reductions aimed at increasing efficiency can be a prudent and advantageous strategy, we note that it can be seen as a defensive or pessimistic strategy. In fact, many CEO's we spoke with both in Pennsylvania and New York indicated that in truth they have already cut all that truly can be cut. We see focusing on growing existing markets or demand for a firm's products or services as doing the business of business and more of a sign of recovery than is being primarily engaged in cost reduction. Although only a small percentage indicate growth more so than cost reduction, we note this small plurality as part of an increasingly positive approach among Pennsylvania CEO's.

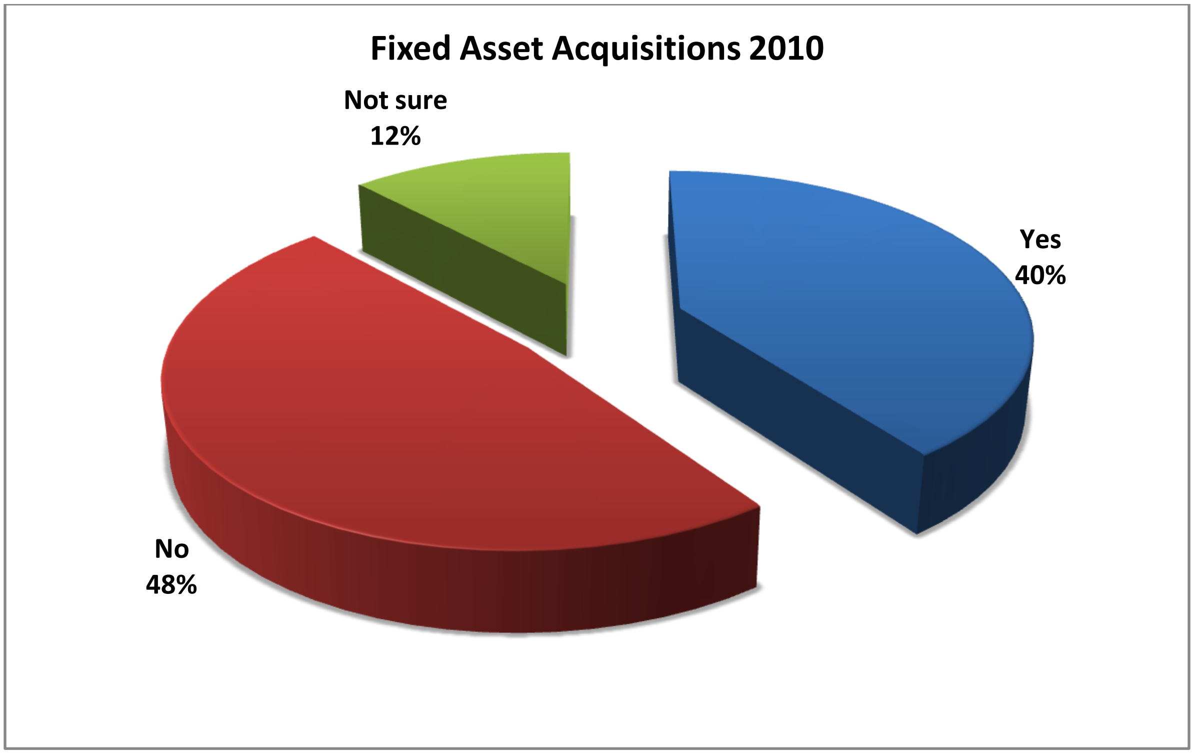
This is especially evident when we look at the three groups of CEO's. Among the most optimistic CEO's, Group 1, a majority, 54 percent say their top profit enhancement strategy this year is market/demand growth as compared to only 28 percent in this group saying cost reduction.

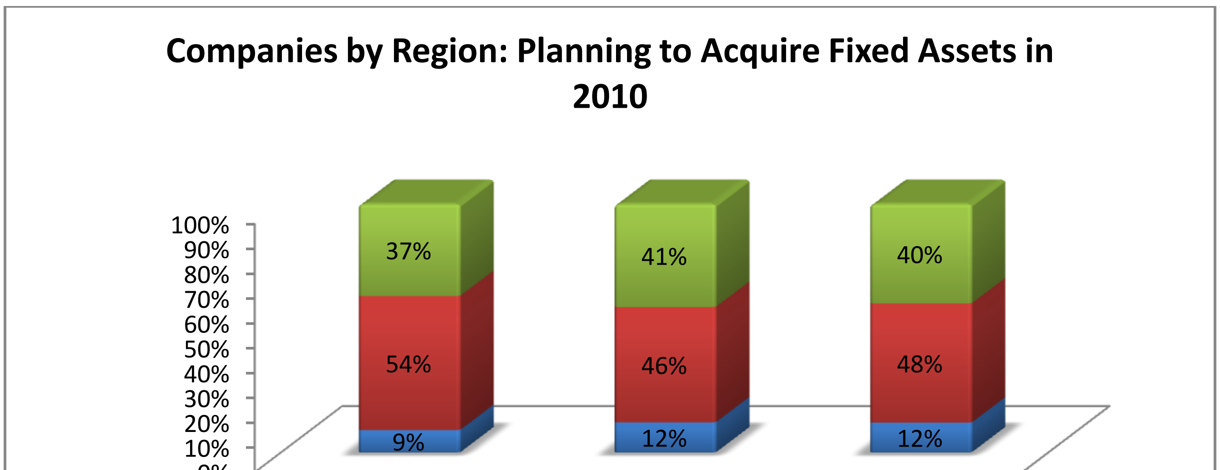
Within the middle group, Group 2, 33 percent chose growth while 38 percent indicated cost reduction and in the most pessimistic group, Group 3, only 30 percent plan to focus first on growth while 42 percent remain intent on cost reductions. Again, while not true of all CEO's in the groups, those firms run by the more optimistic CEO's clearly tend to be more focused on their customers and sales as compared with the more pessimistic businesses that are more likely to be working on cost reductions.



Fixed Assets and Labor Workforce

We see CEO's overall adopting a "lean and mean" approach and as part of the new normal approach to business holding off on new asset acquisitions until they are absolutely needed and justified. Still with 40 percent planning to acquire new fixed assets, we continue to argue that Pennsylvania is open for and doing business.



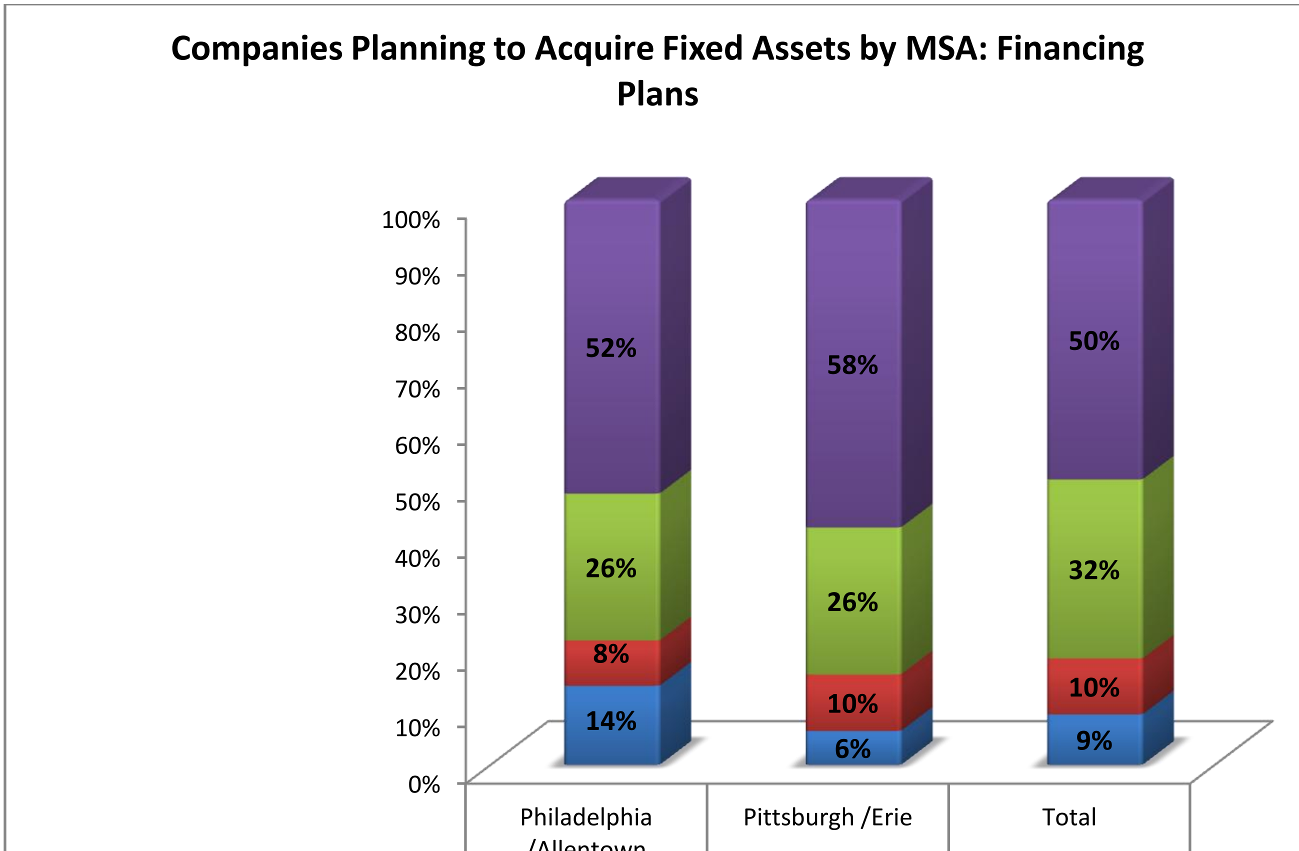


	Philadelphia /Allentown	Pittsburgh /Erie	Total
Yes	37%	41%	40%
No	54%	46%	48%
Not sure	9%	12%	12%

Plans to acquire fixed assets are slightly higher in Western PA than in the Philadelphia area. Group 1 CEO's plan to purchase assets at a rate of 44 percent, Group 2 at 42 percent and Group 3 at 32 percent consistent with their levels of optimism. While Group 1 has the greatest intent to purchase, at less that 50 percent this is another indicator of disciplined caution being practiced by these CEO's.

Additionally, of those that do plan to acquire new tools, machine, vehicles and equipment, a majority (50%) say that they will use internally generated funds rather than borrowing from a financial institution (32%) or engaging private equity (10%).

After the difficulties of the last two years, CEO's do not want to acquire until necessary and similar to consumers, do not want to increase debt preferring cash to credit. Although prudent, these attitudes are components of the new normal that ironically may slow the economic recovery.



	Philadelphia /Allentown	Pittsburgh /Erie	Total
Internally generated funds	52%	58%	50%
Borrow from a financial institution	26%	26%	32%
Private equity	8%	10%	10%
Not sure	14%	6%	9%

Despite future confidence well above the breakeven point among CEO's in Pennsylvania, these business leaders are hesitant to enlarge their workforces. Consistent with their reluctance to acquire fixed assets, only 1 percent of all CEO's intend to substantially increase their workforce and 20 percent plan to moderately increase workforce size. The vast majority, 65 percent plan to keep their workforce at the same size. This is good news for an economy and for workers that have already suffered layoffs and high unemployment. Still, 13 percent of CEO's plan to decrease their workforce in the coming year. It is noteworthy that as recently as 2007 in New York, where current hiring plans (New York: 21% increase, 17% decrease) are similar or somewhat weaker than in Pennsylvania, the ratio of hiring to layoff intent was six to one.

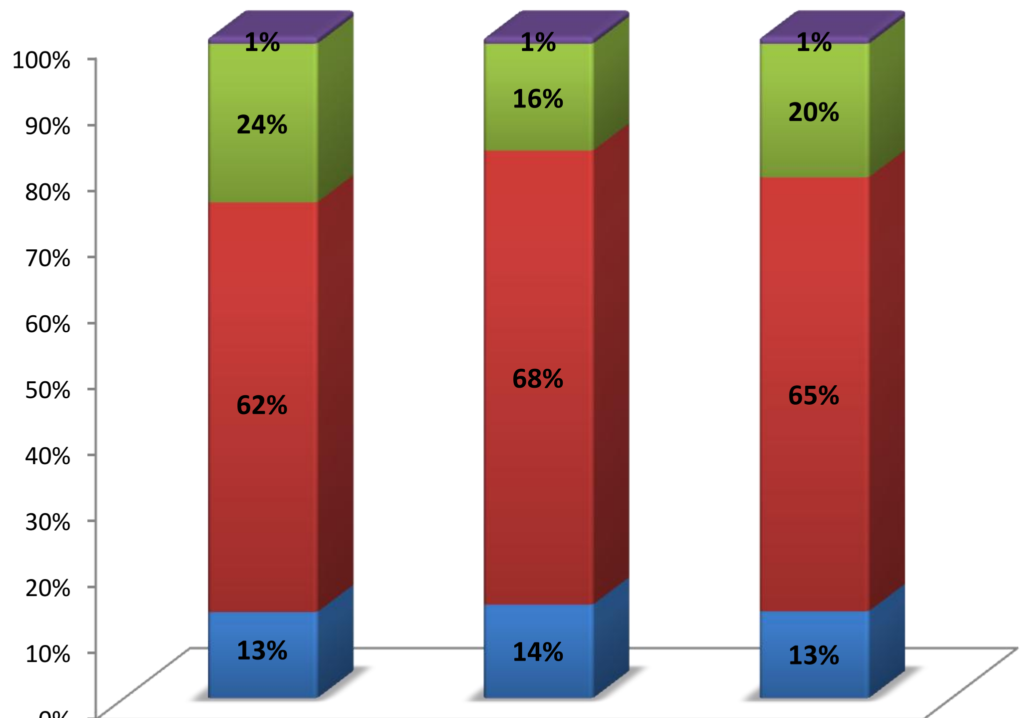
Hiring intent is somewhat greater in Eastern PA than in Western. The larger diffence again is between the three groups of CEO's. Group 1 (the 35% that are most optimistic) plan to increase workforce size at a rate of 37 percent (3% substantially) compared to only 3 percent that plan to decrease. Surely, employment prospects are far better in those firms that are both doing and expecting to do better.

Group 2 CEO's plan to hire and layoff at similar rates (16% hire, 12% layoff) while the most pessimistic and troubled CEO's in Group 3 plan to hire at only a rate of 8 percent while 28 percent of those executives plan job cuts this year.

Despite increases in confidence overall, and slow positive growth in revenue and profitability, as yet except in those companies that are most confident, there are only slight signs that these businesses overall will absorb currently unemployed workers. Secondly, while the vast majority of these businesses do plan on keeping current employees working, we continue to see some businesses among the hardest hit that still are contemplating reductions.

As part of the new normal attitude of these businesses, adding employees is a move they are hesitant to undertake.

Companies by Region: Workforce Size Plans 2010

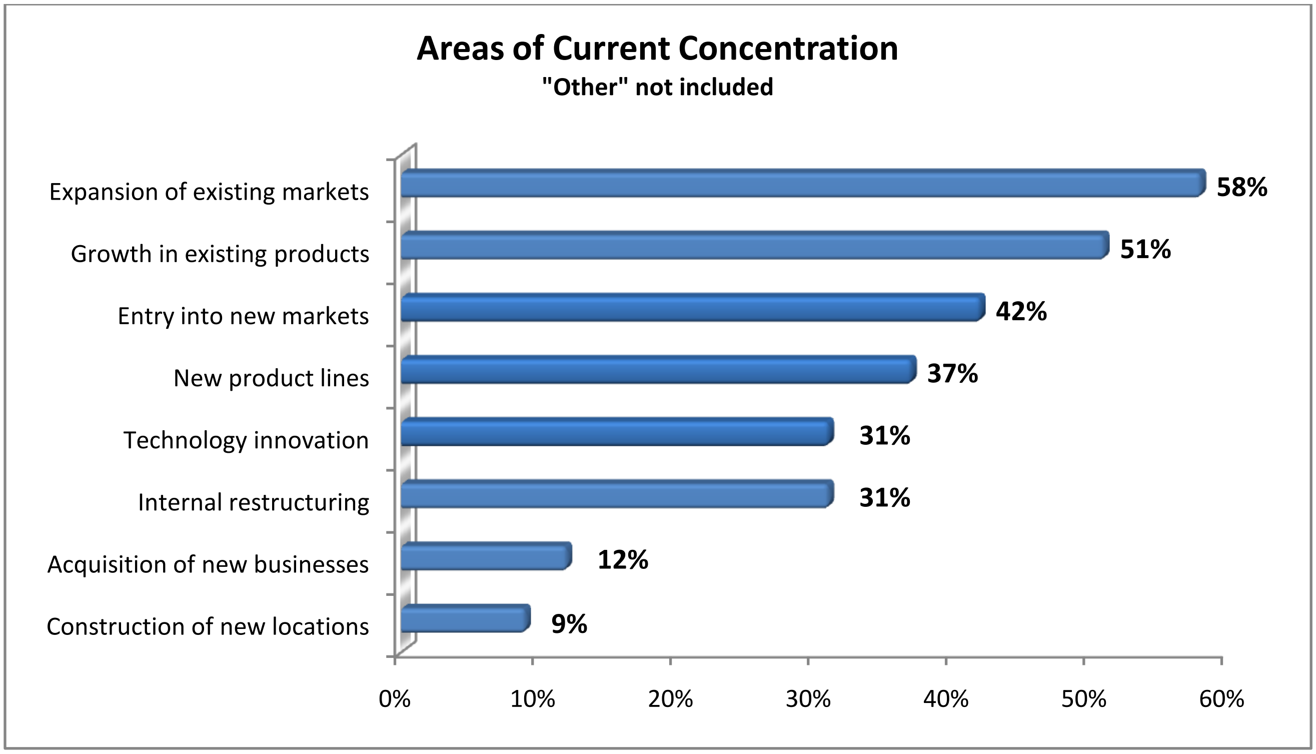


	Philadelphia /Allentown	Pittsburgh /Erie	Total
Substantially increase	1%	1%	1%
Moderately increase	24%	16%	20%
Remain about the same	62%	68%	65%
Decrease	13%	14%	13%

<u>Areas of Concentration and Challenge</u>

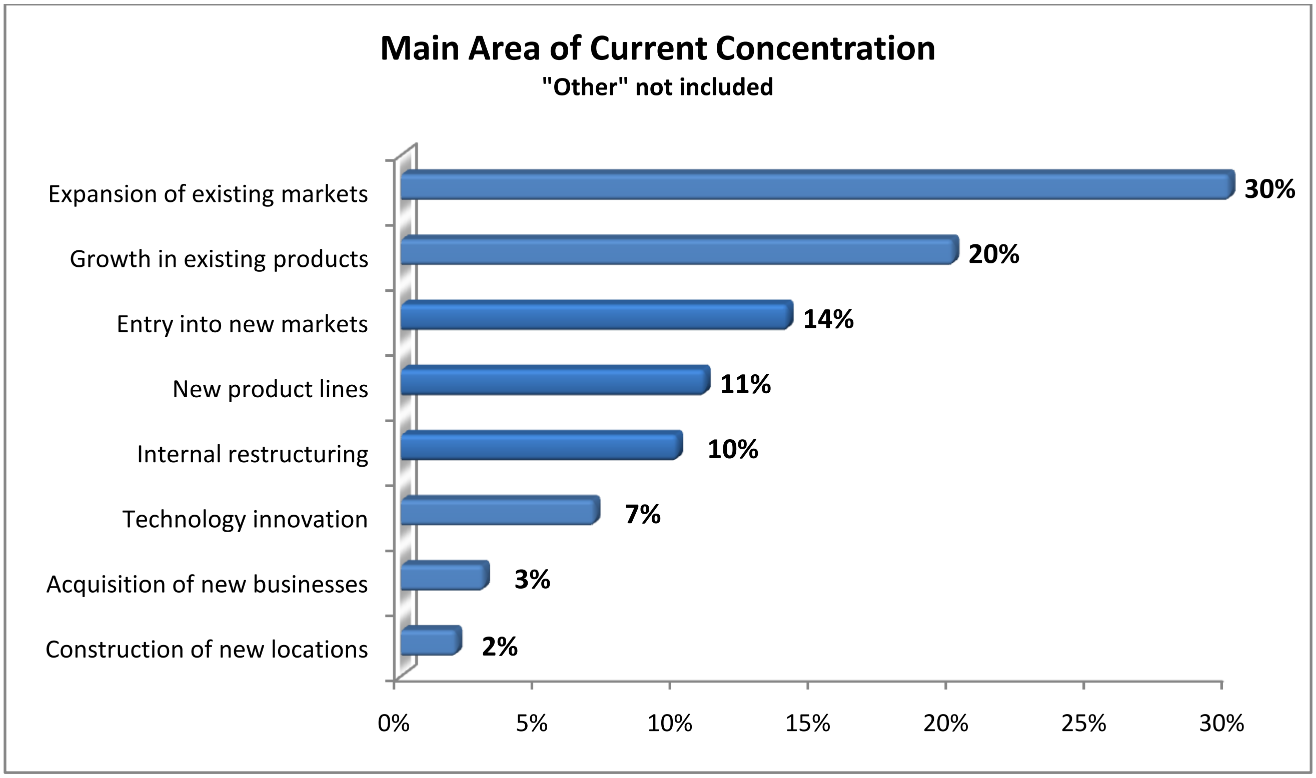
We provided these CEO's with two lists – areas of concentration and challenge – and asked them to indicate first all of the concentrations or challenges that they feel they will focus on or must address and then in each case which single concentration or challenge is the most important or significant in the coming year.

The most often cited areas of concentration were "Expansion in existing markets" and "Growth in existing products". Over 50 percent of all CEO's cite both expansion of existing markets and growth in existing products as important areas of concentration. In other words, these business leaders are focused on doing a better job with what they currently do and in the arenas they currently do business. "Internal restructuring", often code for layoffs, is cited less frequently at 31 percent but still in fifth place as an area of concentration. It is encouraging that 42 percent of CEO's mention "entry into new markets", 37 percent cite "new product lines" and 31 percent say "technology innovation" all signs of growth and forward thinking.

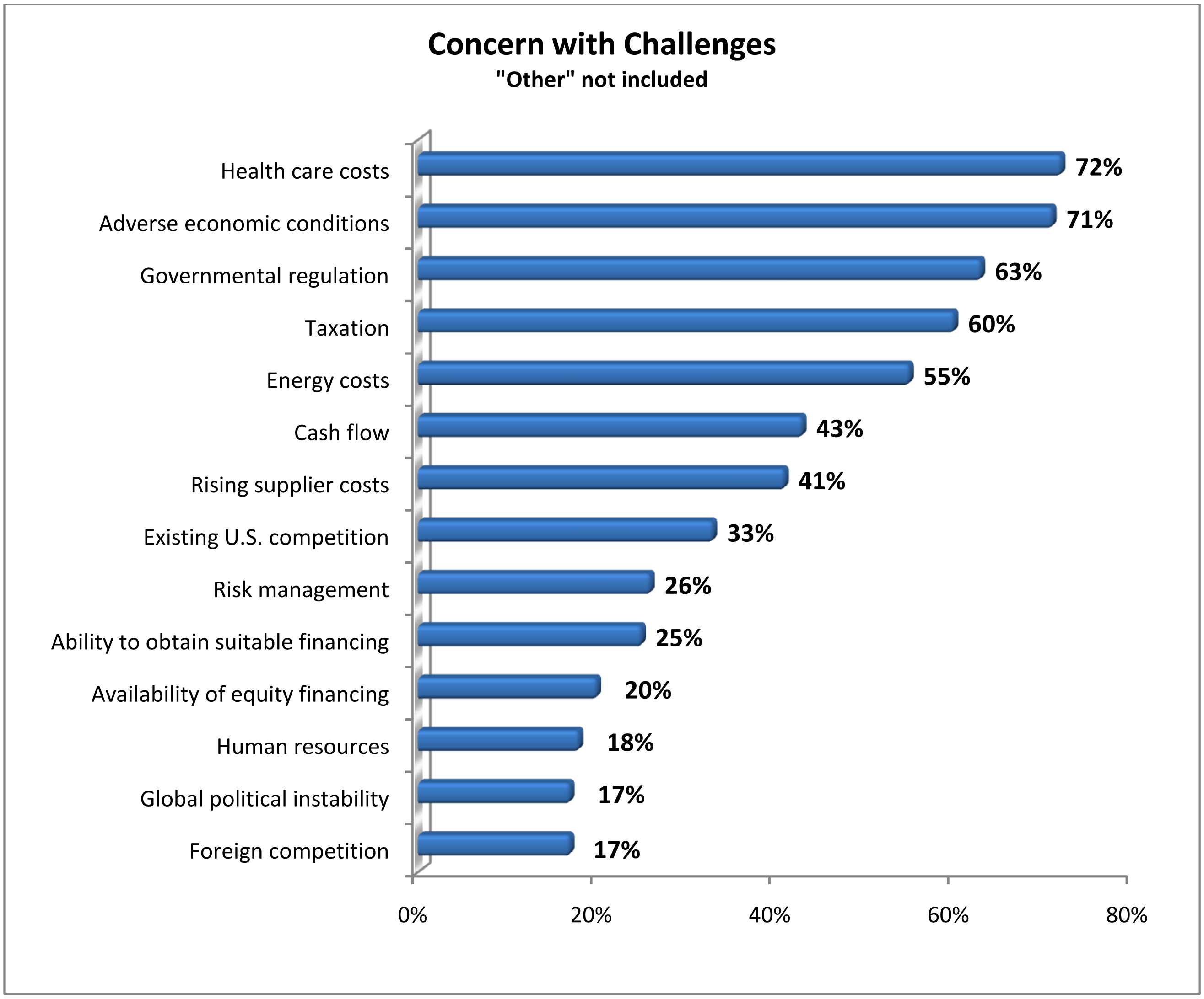


*Multiple responses accepted

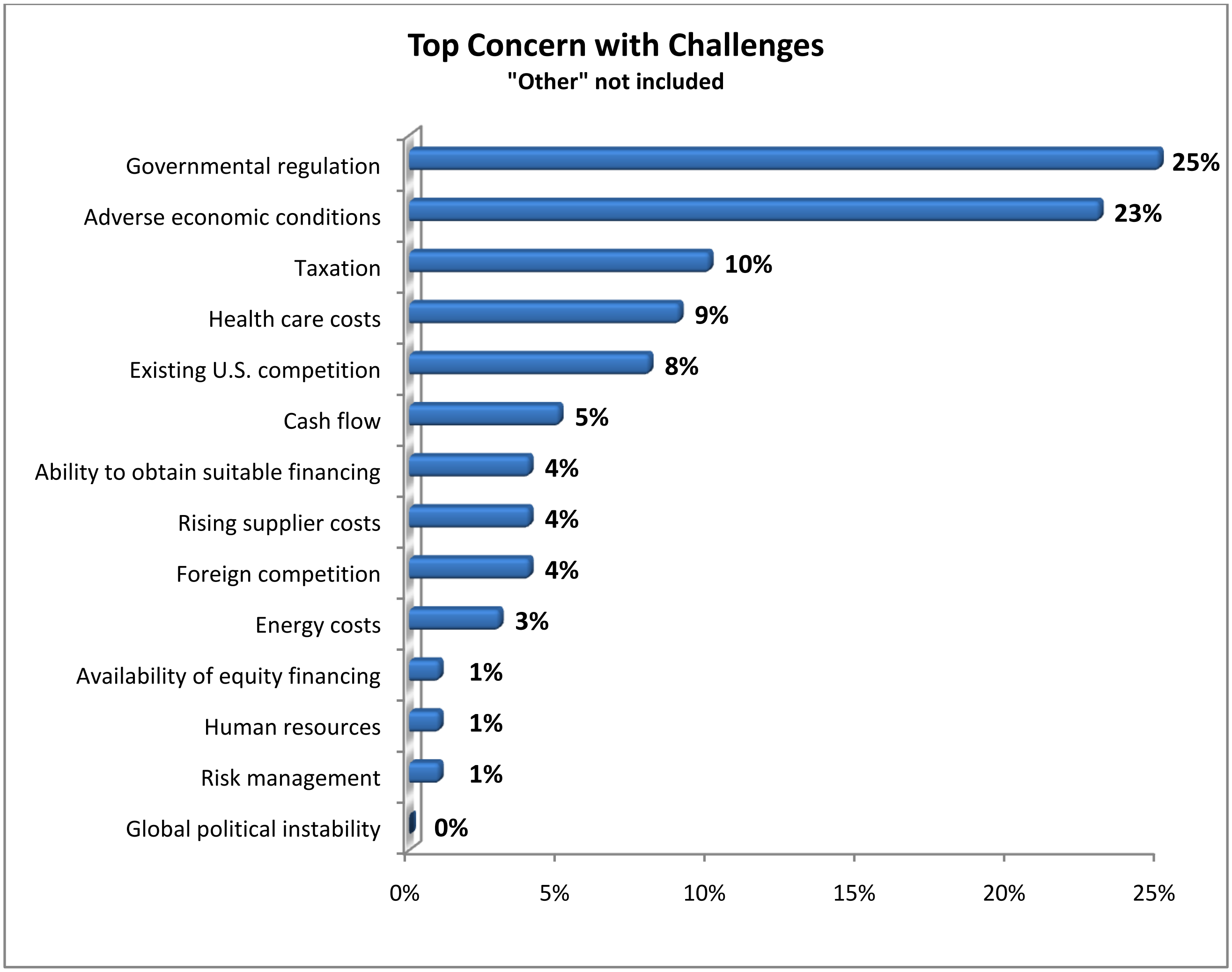
When asked to identify the single most significant area of concentration for the upcoming year, the top choice at 30 percent was "Expansion of existing markets", followed by: "Growth in existing products" 20 percent, "Entry into new markets" 14 percent, "New product lines" 11 percent and "Internal restructuring" 10 percent. Among CEO's in Group I the concentration on the core business of expanding existing markets reaches 36 percent, followed by growth in products, 21 percent, and new markets at 12 percent with internal restructuring fading to a distant 6 percent. While expanding in existing markets remains the top concentration for CEO's in Groups II and III at 27 percent and 25 percent respectively, in both cases, internal restructuring is higher at 11 percent among Group II and 13 percent for Group III.



The most often cited challenges or concerns among the business leaders when allowed to cite multiple challenges were “Health care costs”, “Adverse economic conditions”, “Governmental regulation” and “Taxation” with “Energy costs, “Cash flow” and “Rising supplier costs” also of significant concern.



Still, when asked what the number one challenge is, “Governmental regulation” tops “Adverse economic conditions” 25 percent to 23 percent. In fact, with “Taxation” third, one could combine taxation and regulation and find that 35 percent of CEO’s feel most challenged by the impact of government on their business. Day to day issues like cash flow, financing, competition and supplier costs, although important are not the number one challenge most say they face. They feel most challenged by the economy and what they experience as excessive governmental regulation and taxation.



Summary

CEO's in Pennsylvania are dusting themselves off after two difficult if not brutal years. While a majority still says that economic conditions have either stayed the same or worsened over the past six months, by over two to one more now expect 2010 to be a better year than those that anticipate more losses. In Pennsylvania, a growing number of CEO's are signaling a slow cautious recovery. Growing numbers of business leaders expect revenues and profits to rise this year but less than half plan to make capital acquisition and only one in five anticipates increasing their workforce. Still, more CEO's are focused today on growing their markets and increasing demand for their products than those that are looking for ways to cut costs and while most continue to be challenged by adverse economic conditions more are concerned with governmental regulation.

While Pennsylvania and its business leaders are by no means thrilled with their economic position today, they are open for and doing business with a cautious but growing confidence.

Appendix

1. Which of the following industry categories best describes the type of business your company is engaged in?

_____ Engineering and Construction
_____ Food and Beverage
_____ Financial
_____ Manufacturing
_____ Retail
_____ Service
_____ Wholesale and Distribution
_____ Other ___________________________

2. As you think about the current business or economic conditions in Pennsylvania as compared to six months ago, would you say they are considerably better, a little better, about the same, a little worse, or considerably worse?

_____ Considerably better
_____ A little better
_____ About the same
_____ A little worse
_____ Considerably worse

3. Looking forward from today through next year, that is, the entire 2010 year, how would you describe your expectations for the economy in Pennsylvania?

_____ Considerably better
_____ A little better
_____ About the same
_____ A little worse
_____ Considerably worse

4. Now thinking specifically about your industry, how would you describe the current business or economic conditions in Pennsylvania as compared with six months ago?

_____ Considerably better
_____ A little better
_____ About the same
_____ A little worse
_____ Considerably worse

5. And looking forward from today through the next year, how would you describe your expectations for your industry here in Pennsylvania?

_____ Considerably better
_____ A little better
_____ About the same
_____ A little worse
_____ Considerably worse

6. Now thinking specifically about your company, what are your expectations for revenue through the year 2010? Do you believe your revenue will…?
   _____ Grow substantially
   _____ Grow moderately
   _____ Stay about the same
   _____ Decrease moderately
   _____ Decrease substantially

7. Again as you consider your company and your existing customer base, do you expect to realize additional revenue from your existing customers, about the same revenue from your existing customers as you currently realize or less revenue from your existing customers than you currently do?
   _____ Additional revenue
   _____ About the same revenue
   _____ Less revenue

8. Continuing to focus on your company, please think quickly about profitability. Between today and the end of the calendar year 2010 do you expect your profits to grow substantially, grow moderately, stay about the same, decrease moderately or decrease substantially?
   _____ Grow substantially
   _____ Grow moderately
   _____ Stay about the same
   _____ Decrease moderately
   _____ Decrease substantially

9. Businesses and the executives that direct them strive to enhance profitability in many ways. Through which of the following strategies do you plan to MOST enhance your company's profitability over the next year? (PLEASE SELECT ONE)
   _____ Market/Demand growth
   _____ Cost reduction
   _____ Price increase
   _____ New technology
   _____ Other _________________________

10. Please indicate which of the following are major areas of concentration for your company now and through 2010. Please check ALL that apply.

   _____ Expansion of existing markets
   _____ Growth in existing products
   _____ Entry into new markets
   _____ New product lines
   _____ Acquisition of new businesses
   _____ Technology innovation
   _____ Construction of new locations
   _____ Internal restructuring
   _____ Other _________________________

11. Please indicate which of the following is the MAIN area of concentration for your company now and through 2010. (PLEASE SELECT ONE)

_____ Expansion of existing markets

_____ Growth in existing products

_____ Entry into new markets

_____ New product lines

_____ Acquisition of new businesses

_____ Technology innovation

_____ Construction of new locations

_____ Internal restructuring

_____ Other ___________________________

12. Do you intend to invest between today through 2010 in any fixed assets for your company designed to meet growing demand, reduce costs or enhance productivity?

_____ Yes
_____ No
_____ Not sure

13. What is the MAIN way you expect to finance those assets? (PLEASE SELECT ONE)

_____ Internally generated funds
_____ Borrow from a financial institution
_____ Private equity
_____ Not sure

14. Now thinking about the people that work for your company, do you intend to substantially increase, moderately increase, remain about the same or decrease your workforce between today and the end of 2010?

_____ Substantially increase
_____ Moderately increase
_____ Remain about the same
_____ Decrease

15. Now thinking about other challenges that your company faces, which of the following are you concerned with. Check <u>ALL</u> that apply.

_____ Existing U.S. competition

_____ Governmental regulation

_____ Taxation

_____ Foreign competition

_____ Energy costs

_____ Risk management

_____ Adverse economic conditions

_____ Health care costs

_____ Global political instability

_____ Rising supplier costs

_____ Human resources

_____ Cash flow

_____ Availability of equity financing

_____ Ability to obtain suitable financing

_____ Other ___________________________

16. Which of the challenges you selected are you MOST concerned with? (PLEASE SELECT ONE)

_____ Existing U.S. competition

______ Governmental regulation

______ Taxation

______ Foreign competition

______ Energy costs

______ Risk management

______ Adverse economic conditions

_____ Health care costs

______ Global political instability

______ Rising supplier costs

______ Human resources

______ Cash flow

______ Availability of equity financing

______ Ability to obtain suitable financing

______ Other ___________________________

17. Now allowing yourself to think about the coming year, what do you hope will be the three most significant accomplishments your company will record by the end of 2010? Please write the accomplishments in ranking order in the boxes below.

First

Second

Third

18. Please write your zip code: ___________