CFO Signals™

What North America's top finance executives are thinking – and doing

High-Level Summary

1st Quarter 2011

Results at a glance

Career

What are your top three job stresses? Strategic ambiguity (49%), major change initiatives (48%), and changing regulatory requirements (47%) are the top three. Pressures from poor company performance are a rapidly rising concern. **Page 8**.

What responsibility do you have for the non-core finance functions? As companies revisit strategies and embark on major change initiatives, CFOs are increasingly adding strategic planning and business development to their traditional responsibilities. **Page 9.**

Finance Organization

What are your finance organization's top three challenges? Providing metrics/info/tools for business decisions is the dominant challenge (47%), followed closely by influencing business strategies and operating priorities (43%) and ensuring initiatives achieve desired business outcomes (36%). **Page 10.**

Your perspective regarding finance talent: Demand for skilled finance talent is outstripping the supply. While 43% are actively recruiting new talent, 37% can't find the right people for the jobs. **Page 11.**

Company

What are your top company-specific challenges? Revenue growth from existing markets (55%) and new ones (34%) far outpace cost-cutting initiatives. Framing and/or adapting strategy is a close third (33%). **Page 12.**

What is your company's strategic focus for the next 12 months? The shift toward growth continues this quarter with an average of 47% of companies' strategic focus now on revenue growth/preservation. Only 14% of the focus is on direct cost reduction and just 13% is on overhead cost reduction. **Page 12.**

Compared to the past 12 months, how do you expect your performance, spending and hiring to change over the next 12 months? CFOs are positive about performance, projecting gains of 8.2%* for sales (6.5% last quarter), 12.6%* for earnings (12.0% last quarter) and 11.8%* for capital spending (8.7% last quarter). Still, domestic hiring projections remain low at 1.8%*. **Page 13.**

How does your optimism regarding your company compare to last quarter? Optimism rebounded with 62% of CFOs saying they have a more positive outlook, up from 53% last quarter. Only 16% are less optimistic, the lowest level ever recorded in the four quarters of this survey. **Page 14.**

Company (continued)

Looking forward a year, which of your company's growth factors will change the most compared to before the financial crisis and recession? CFOs expect the strongest differences to be around revenue from new products/services (73% expect gains) and revenue from foreign markets (68% expect gains). **Page 15.**

What factors are impacting your investment of available cash? Nearly two-thirds of CFOs cite concerns about the economy and consumer demand, and 60% cite uncertainty around industry regulation. **Page 15.**

What factors would increase your rate of domestic hiring? Only when companies experience a 20% revenue gain do 90% indicate a strong uptick in hiring. A 5% increase would have little or no impact for 70%. **Page 16.**

What one potentially high-impact risk are you worried about the most? Recession fears have given way to detrimental government policy/regulation as the biggest risk CFOs worry about. Internally, they are very concerned about investment and execution missteps. **Page 17.**

Industry

What are your company's top three industry challenges? Industry regulation/legislation (52%) is by far the biggest industry concern, followed by pricing trends (40%), and new competitive tactics (26%). **Page 18.**

Economy

What are your company's top three economy challenges? Social policy/spending/investment (45%), unemployment (41%), environmental policy (40%) and inflation (25%) are the top concerns. **Page 19.**

If you could remove one government regulation that you believe places an unnecessary burden on businesses, what would it be? CFOs would target the complexity and burden of the tax system as well as health care reform. **Page 20.**

Which of your business practices do you expect to be substantially affected by the Dodd-Frank Act? Executive compensation practices (54%), governance practices (50%), whistleblower approaches (35%) and disclosure practices (32%) are expected to be substantially affected. **Page 21.**

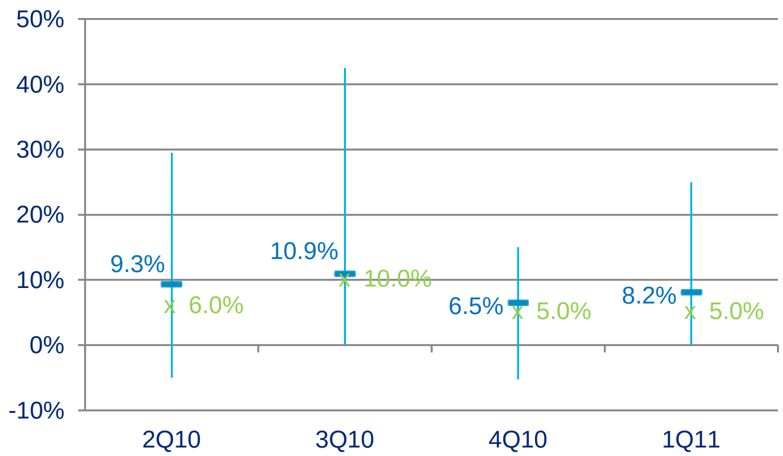
For which of the FASB's and the IASB's proposed GAAP/IFRS changes will you start to prepare in the next 12 months? Driven by the convergence of U.S. accounting standards with international standards, 70% of CFOs are starting to prepare for changes to revenue recognition and 65% are beginning to prepare for changes in lease accounting. **Page 21.**

***All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.**

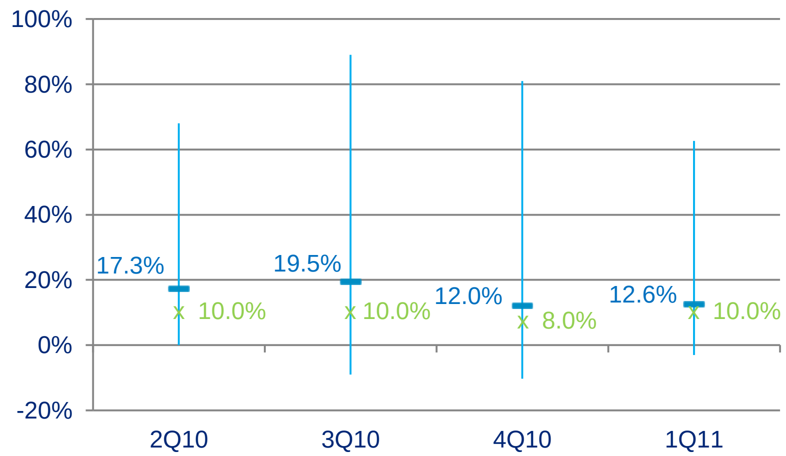
Growth Metrics

Expected year-over-year increases in each growth metric

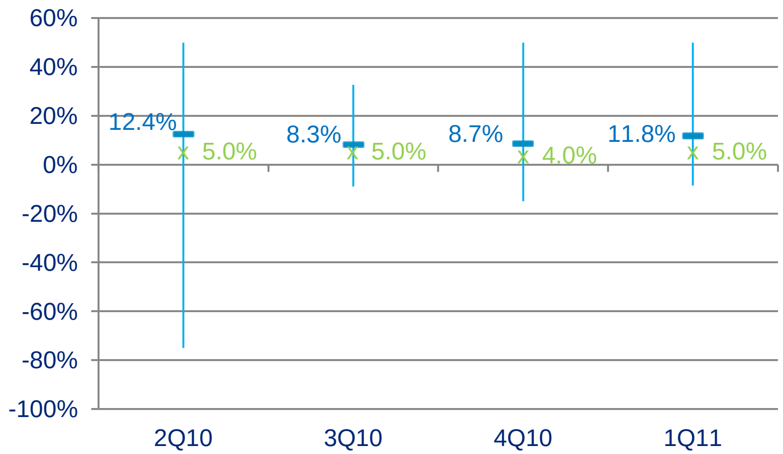
Revenue Growth



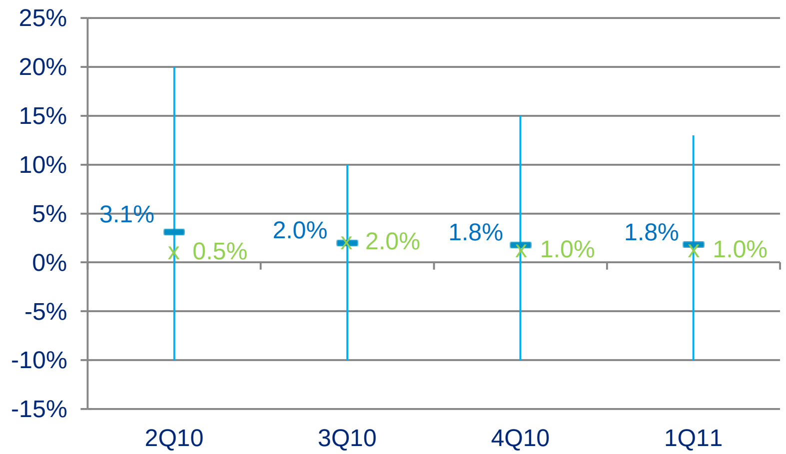
Earnings Growth



Capital Spending Growth



Domestic Employment Growth



Vertical lines indicate range for responses between 5th and 95th percentile.
Horizontal marks indicate outlier-adjusted means.
X's indicate unadjusted medians for all responses .

CFO Signals

About the CFO Signals survey

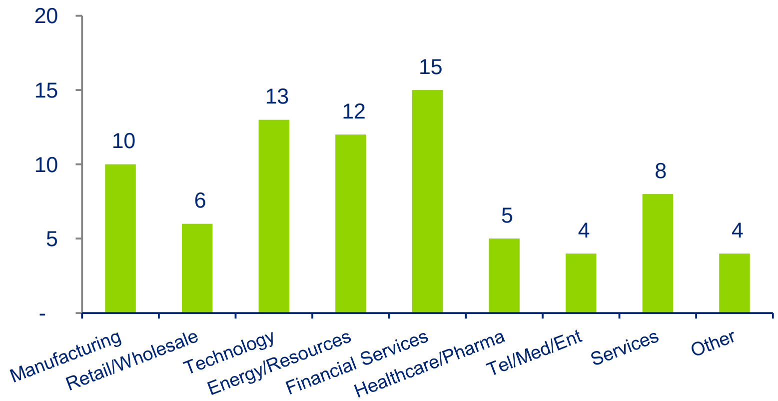
Each quarter, *CFO Signals* tracks the thinking and actions of CFOs representing many of North America's largest and most influential companies. This report summarizes CFOs' opinions in five areas: CFO career, finance organization, company, industry, and economy.

This is the first quarter report for 2011. For more information, please see the methodology section at the end of this document or contact nacfosurvey@deloitte.com.

Who participated this quarter?

Seventy-seven CFOs responded during the two weeks ended February 25. Three-fourths are from public companies, and three-fourths are from companies with more than $1B in annual revenue.

Participation by Industry



IMPORTANT NOTES ABOUT THIS SURVEY REPORT:

All participating CFOs have agreed to have their responses aggregated and presented.

Please note that this is a "pulse survey" intended to provide CFOs with quarterly information regarding their CFO peers' thinking across a variety of topics. It is not, nor is it intended to be, scientific in any way, including in its number of respondents, selection of respondents, or response rate, especially within individual industries. Accordingly, this report summarizes findings for the surveyed population but does not necessarily indicate economy- or industry-wide perceptions or trends. Except where noted, we do not comment on findings for segments with fewer than 10 respondents. Please see the Appendix for more information about survey methodology.

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This document is a high-level, cross-industry summary

Also available is a full report, which includes detailed charts, industry highlights and more information about survey methodology and respondent demographics.

For access to the full report, please contact NACFOSurvey@deloitte.com

CFO Signals

Companies are focused on generating post-recovery momentum.

The fourth quarter of last year appears to mark a turning point in the economic recovery for large-company CFOs. With capital supply and efficiency gains largely accounted for, companies now appear focused on creating their own thrust in a post-recession world.

The shift is reflected in CFOs' more conservative expectations for sales and earnings, which have moderated after several quarters of very strong growth expectations. In addition, companies appear to be making a pronounced shift in focus away from cost cutting and toward revenue growth, with new products and services, newly-acquired entities, and foreign markets seen as major growth drivers. While this increased focus on growth is expected to drive rising investment, it is not expected to generate large increases in domestic hiring.

This heightened growth focus is causing a corresponding shift in companies' most pressing challenges and concerns. In particular, while the state of domestic economies is still worrisome, companies are increasingly concerned with the government's effects on their growth plans. They are also more focused on inflation and rising input prices, as well as the possibility of execution missteps that could thwart their growth plans.

As companies' strategic focus and challenges change, CFOs and their organizations are clearly playing broader and deeper roles. The demands are changing and, as our past surveys have indicated, the stereotype of a "guardian-personality" CFO playing a narrow "steward" role rarely applies in today's large companies.

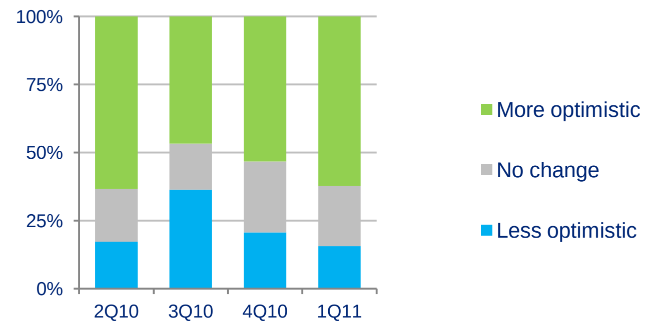
Expectations continue to stabilize

CFOs optimistic, but sales and earnings expectations are moderating

Last quarter we posited that, after a rather pessimistic 3Q10, optimism appeared to be rebounding or at least settling into a narrower range. This quarter's results seem to confirm this hypothesis with 62% of CFOs reporting increased optimism compared to 53% last quarter. Moreover, growth in pessimism is now at its lowest level in the last 12 months with just 16% saying they are less optimistic (21% last quarter).

Own-Company Optimism

CFO optimism relative to previous quarter



CFOs' optimism is being buoyed by improving assessments of both the macro-business environment and company-specific factors. Thirty-six percent of CFOs are more optimistic this quarter primarily because of factors external to their companies, and 26 percent are more optimistic primarily because of internal factors.

Although CFOs are largely optimistic, their expectations for sales and earnings are moderating. Last quarter, after two quarters of rising expectations, CFOs began projecting lower year-over-year sales and earnings growth. Although projections rebounded a bit this quarter, they are still more in line with last quarter than with previous quarters -– possibly indicating that 4Q10 marked a dissipation of the recovery's tailwinds and the end of the easiest performance gains.

CFOs expect improvements in year-over-year revenue growth (8.2%* this quarter versus 6.5%* last quarter) and earnings growth (12.6%* versus 12%* last quarter), but high variability again suggests significant variability in companies' circumstances. Median expected sales growth is still just 5% (the same as last quarter) and median expected earnings growth is 10% (up from 8% last quarter).

***All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.

CFO Signals

Shift from recovery to growth

Capital spending, M&A, and R&D are rising

Results from this quarter's survey indicate that many companies are nearing or already beyond a major shift from recovery to growth. CFOs say their companies' strategic focus has shifted toward revenue growth and away from cost reduction and that revenue growth is now their dominant company challenge (revenue growth from existing markets and from new markets rank first and second, respectively). Nearly 30% of CFOs say they are focused on M&A activity and 40% expect revenue from recently or soon-to-be acquired entities to be higher within the next year than it was before the recession.

More than 70% of CFOs expect revenue from new products and services to be higher a year from now than it was before the recession, and their expected investment appears to be rising accordingly. Capital spending growth estimates rose to nearly 12%* this quarter (up from 8.7%* last quarter) and expected R&D growth rose to nearly 6%* (up from 4%* last quarter). Meanwhile, dividends are expected to rise 4.4% over the next year.

Looking to foreign markets

Domestic competition and slow growth appear to drive foreign markets focus

Expected sources of new growth are also shifting. Slow economic growth and stubborn unemployment are elevating competition for domestic growth, with pricing trends and new competitive tactics now top industry-level challenges. Consequently, companies are increasingly looking to new geographies for growth.

Two-thirds of CFOs expect revenue from foreign markets to be somewhat or markedly higher within the next year than it was before the recession. CFOs also expect growth in foreign staffing to increase at roughly twice the rate for domestic staffing. In addition, more than half expect higher revenue from new or greenfield operations.

New challenges and concerns

CFOs worry government policy and talent shortages will impede growth

As companies adjust to post-recovery conditions and look for growth, they are increasingly faced with adapting business strategies and the successful selection and execution of important initiatives. Strategic ambiguity is again the top career stress for CFOs, and finance organizations are heavily focused on influencing strategy and informing business decisions. Potential investment and execution missteps are now among CFOs' top worries.

Companies also appear increasingly concerned that the government will impede their progress. In 3Q10 (the last time we asked about CFOs' most worrisome risks), CFOs were most worried about further economic turmoil (a "double-dip") with detrimental government policy a distant second. The order reversed this quarter with increased and unexpected regulatory changes becoming CFOs' most pressing risk. Regulatory factors are now both a top industry-level concern and a top CFO career-level concern.

As global economies continue to recover and competition for resources intensifies, inflation and rising commodity prices are becoming bigger concerns (input price expectations jumped markedly this quarter). CFOs are also increasingly worried about attracting and retaining the talent necessary to execute on growth strategies, with talent availability now a top company- and industry-level concern.

Growth would spur investment, but not necessarily jobs

Uncertainty around regulation and the economy makes fewer investment options attractive; even significant growth won't cure unemployment

Despite their growth agendas, companies are wary of unleashing the more than $2T in collective balance-sheet cash that has remained on the sidelines since the recession. CFOs cite continuing concerns about the economy and consumer demand, concerns about industry regulation, and a shortage of attractive investment opportunities as the main reasons for constrained spending. Corporate tax and health care policy are not markedly impacting cash investments.

*****All numbers with an asterisk are averages that have been adjusted to eliminate the effects of stark outliers.

Companies are also cautious around hiring. In our 4Q10 survey, CFOs indicated they believed a structural shift in employment was taking place, implying that a return to normal revenue levels would not generate a return to normal employment levels. This quarter's results support this assertion.

Seventy percent of CFOs say a five percent rise in revenue would have little or no impact on their hiring, and the rest say it would increase hiring only somewhat. Even a 10% gain in revenue (a notable dollar gain for a company already generating $1B+ in revenue) would substantially impact hiring for only about 10% of companies, and nearly one-third say it would have little or no impact. It's only at a 20% revenue gain that 90% of CFOs say they would markedly elevate domestic hiring.

Given these findings, it is not surprising that CFOs' current 8.2% projection for year-over-year sales growth is not translating into strong employment gains. Expected year-over-year gains in domestic hiring this quarter are just 1.8%, unchanged from last quarter.

CFOs say hiring could be jumpstarted at least somewhat by a lowering of corporate tax rates and the revision of labor contracts. Improved hiring incentives would not help much and, although CFOs are wary of health care reform (see the Economy section, page 20), they admit that its repeal would not substantially impact their own hiring.

Tax and health care policies burdensome

Industry-specific impediments abound, but tax and health care policies are CFOs' most cited barriers to growth

To see if other regulations are adversely impacting growth, we asked CFOs which government rules place unnecessary burdens on their business. Although the top answers varied by industry, the common ground seems to be around taxes and health care reform.

CFOs regard current tax systems as burdensome, with most citing the high complexity of the tax code, excessive corporate tax rates, and taxes on repatriated earnings. Health care reform's second place finish seems to indicate that, although CFOs believe the policy will not substantially impact investment or hiring, they do think it will add an implementation burden that will likely outweigh any business benefits.

Broadening and deepening roles for CFOs and Finance

Rapid and extensive change is raising the need for finance talent

As we head deeper into 2011, changing business environments continue to force companies to change strategies, select and launch initiatives, and manage a broad range of risks. In response, CFOs are playing a stronger role in each area. While they clearly have not ceded responsibility for their core functions, their defining roles now transcend operations and stewardship to include catalyzing growth and facilitating strategy.

CFOs' broader roles are driving the need for new, highly-skilled finance talent, but the hiring challenges evident in the broader economy are particularly acute for finance organizations. One-third of the 45% of CFOs who are actively recruiting finance talent are having trouble filling open positions, and nearly 60% are taking new steps to keep key talent.

Optimism and opportunism

Companies and CFOs are making the most of shifting opportunities

Conditions at home and abroad remain fluid as CFOs and their organizations work through structural changes already altering the business landscape. Since the conclusion of this quarter's survey, political change across the Middle East has escalated and oil prices have risen sharply. And if the scope and evolution of CFO concerns in this survey over the past year is any indication, the rate of change is not slowing.

Despite persistent turmoil and uncertainty, the CFOs in this survey have been predominantly and consistently optimistic over the past year, heavily focused on driving the long-term effectiveness and efficiency of their finance organizations and broader companies. Our 4Q10 findings showed that half of CFOs claim a predominantly "driver" working style, which should serve them well as they continue to help their organizations assess business conditions, revisit strategic choices, and spearhead change.

CFO career

Post-recovery challenges create heavy change-related stress.

Top job stresses

CFO career stresses again center on big-ticket change

Change is again at the heart of CFOs' main job stresses. The same three stresses have boiled to the top each quarter (strategic ambiguity, major change initiatives, and changing regulatory requirements) with the rank order changing only slightly each quarter. All three garnered even more attention this quarter.

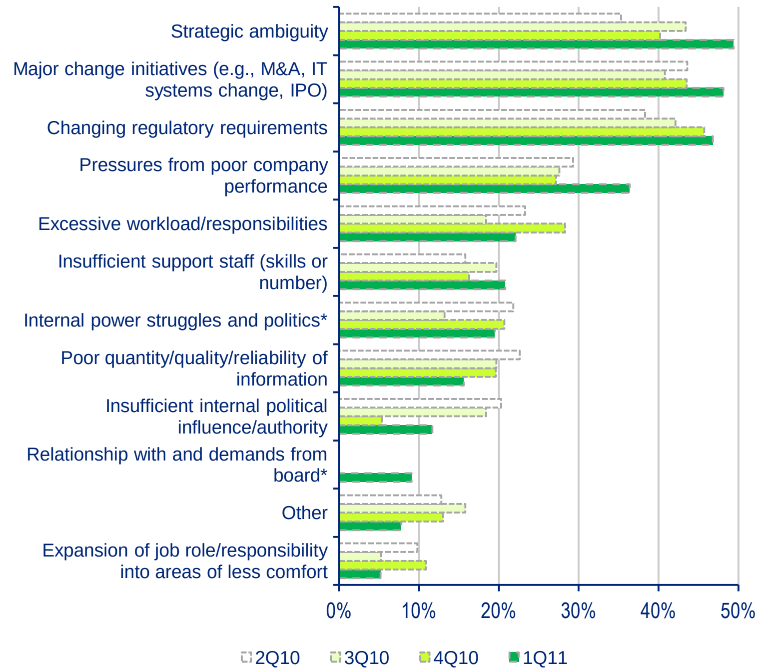
Strategic ambiguity is the top concern this quarter – highly dominant within Energy/Resources, Financial Services and Healthcare/Pharma. Major change initiatives are just behind, driven largely by heavy weighting within Technology and within companies with over $10B in annual revenue. Changing regulatory requirements are also a top stress, especially within Energy/Resources and Healthcare/Pharma.

More than one-third of CFOs cite pressures from poor company performance, driven mostly by the sentiments of Manufacturing CFOs.

Other notable findings: Internal power struggles are most cited within Retail/Wholesale and Energy/Resources and least cited within Manufacturing.

Job Stresses

Percent of respondents who place each option in their top three



* *"Relationship with and demands from board"* is an option that was not offered in the past surveys.
* *"Internal power struggles and politics"* replaces the option "*Internal power struggles*" offered in the past surveys.

Please see Appendix for deeper insights around industry-specific findings

CFO career

Scope of CFO/Finance responsibility

Heightened strategic, transactional, and risk responsibilities

In our 2Q10 survey, we asked CFOs about their relative time spent in the roles of “operator,” “steward,” “catalyst,” and “strategist” as well as their preferred allocation. The main findings were that, during the depths of the credit crisis and recession, CFOs were spending more time than they’d like in the operator and steward roles.

In our 4Q10 survey, we asked CFOs about their natural working styles, and more than half indicated they considered themselves to be predominantly “drivers” as opposed to “pioneers,” “integrators,” and “guardians.”

Together, these findings left us to posit that the nature of CFOs is shifting both in terms of base personality type and organizational role. The stereotype of a “guardian-personality” CFO playing a fairly narrow “steward” role seemed to be fading, and findings from this quarter’s question around CFO responsibility further support this hypothesis.

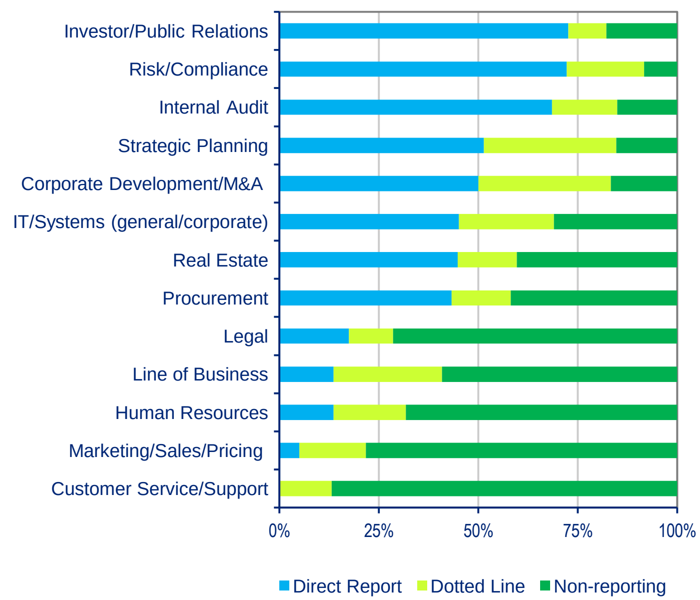
While CFOs and finance organizations have clearly not ceded responsibility for their traditional functions, they do appear to be taking on broader and deeper roles in the wake of considerable capital-market and economic turmoil. Changing business environments are forcing companies to change strategies, select and execute major change initiatives, and manage a broad range of risks, and CFOs appear to be playing an increasingly strong role in each area.

CFOs are now routinely in charge (at least on a dotted-line basis and frequently on a direct-report basis) of a broad range of regulatory, governance, and strategy functions, especially investor/public relations, strategic planning, corporate development, and M&A. They are also frequently taking stronger leadership roles around risk, transactions, and IT.

Although few CFOs indicate formal authority for customer service/support, marketing, sales or pricing, feedback from write-in comments and CFO Forums indicates Finance is being involved earlier and more frequently in decisions relating to these areas.

Non-Core Finance Responsibilities

Nature of CFOs’ non-core responsibilities



Scope of Finance Responsibilities

Regulation & Governance	Strategy & Execution	Performance & Decisions	Risk & Capital	Close, Consolidate & Report	Transaction Processing	Systems & Information	Policy & Process	Talent & People
• Investor/public relations	• Strategic planning • Corporate development/ M&A • Line of Business • Marketing/Sales/ Pricing • Customer service/support	• **Financial planning and analysis** • **Budgeting/fore-casting**	• **Corporate finance** • **Working-capital management** • **Treasury** • Risk/compliance • Legal	• **General accounting and close** • **Financial/tax reporting**	• **AR/AP** • Procurement • Real estate	• IT/systems	• Risk/compliance • Internal audit	• Human resources

- **Core Finance functions**
- Frequent additional formal responsibility
- Common additional formal responsibility
- Occasional additional formal responsibility
- Uncommon additional formal responsibility

Finance organization

Heightened and broader responsibility drives the need for top finance talent.

Top challenges

Driving business decisions and success of initiatives is the priority

Survey Note: *We made a change this quarter to how we address the finance organization's role in major change initiatives. Because the former option – "Supporting a major change initiative" – encompassed topics ranging from M&A to ERP implementations to IPOs, it has been difficult to provide much insight about where finance organizations are really focused. To give better insight, we have replaced that option with three, more refined options: "Supporting a major infrastructure initiative," "Supporting a major business initiative" and "Supporting a major transaction."*

Finance organizations' top challenges again revolve around managerial decision-making. Providing information, analysis, and metrics is the dominant challenge (especially within Retail/Wholesale), followed closely by influencing decisions related to strategy and operational priorities (particularly within Services, Healthcare/Pharma and Financial Services).

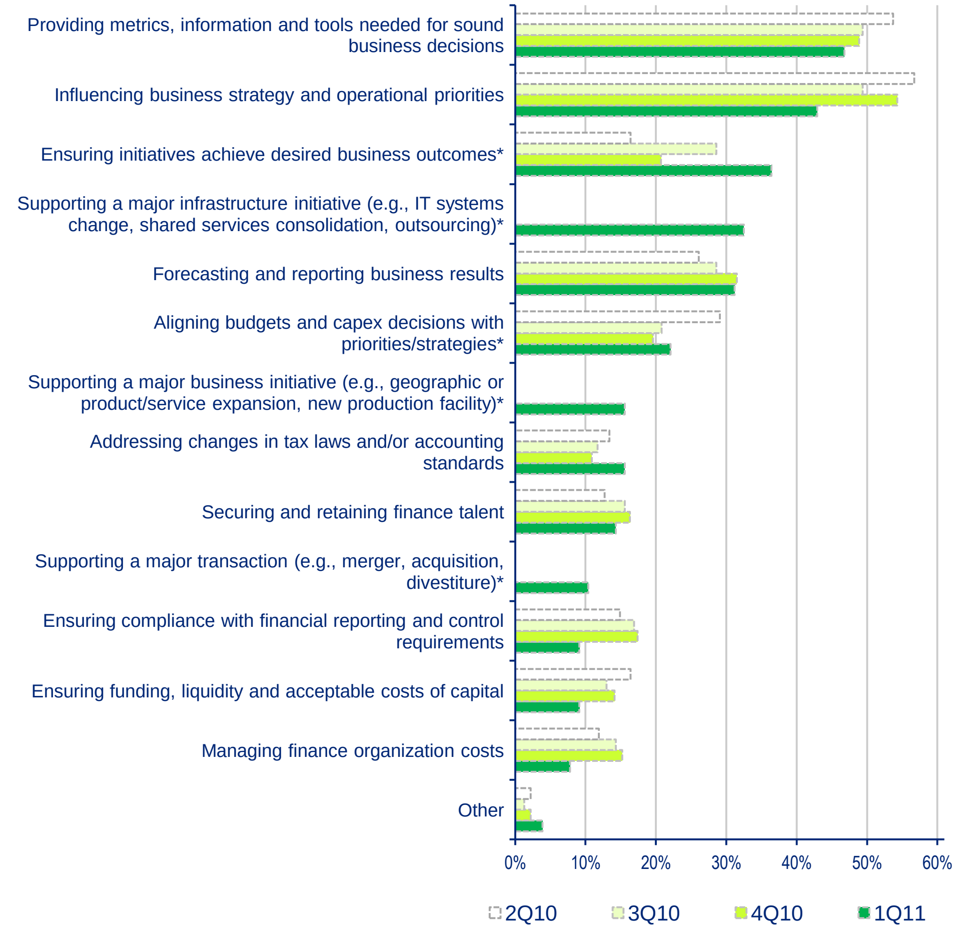
Consistent with companies' increasing capital investment over the past year, responsibility for ensuring that initiatives achieve desired outcomes gained substantial ground this quarter, and responsibility for aligning budgets/capex with strategies remained a strong concern (driven largely by Energy/Resources). Forecasting and reporting business results continued its rise this quarter, likely in response to sustained strategic ambiguity, evolving government policy, and changing post-recovery business environments as expressed in the Company and Economy sections of this survey.

Where we sought additional insight into which major change initiatives CFOs support, one-third of respondents citied infrastructural/back-office initiatives (driven heavily by Manufacturing and Telecommunications/Media/Entertainment ("T/M/E"); more than 15% named business expansion (also driven largely by T/M/E); and 11% mentioned mergers, acquisitions, and divestitures.

Other notable findings: Finance organizations from companies with the highest proportion of revenue from North America appear most likely to have a strong focus on supporting business expansion initiatives.

Finance Organization Challenges

Percent of respondents who place each option in their top three



**** Changes for this quarter:***

- "Ensuring initiatives achieve desired business outcomes" replaces the option "Ensuring investments achieve desired business outcomes."
- "Aligning budgets and capex decisions with priorities/strategies" replaces the option "Allocating financial resources to maximize ROI."
- "Supporting a major change initiative (e.g., M&A, IT systems change, IPO)" has been broken out into three options: "Supporting a major infrastructure initiative", "Supporting a major transaction," and "Supporting a major business initiative."

Please see Appendix for deeper insights around industry-specific findings.

Finance organization

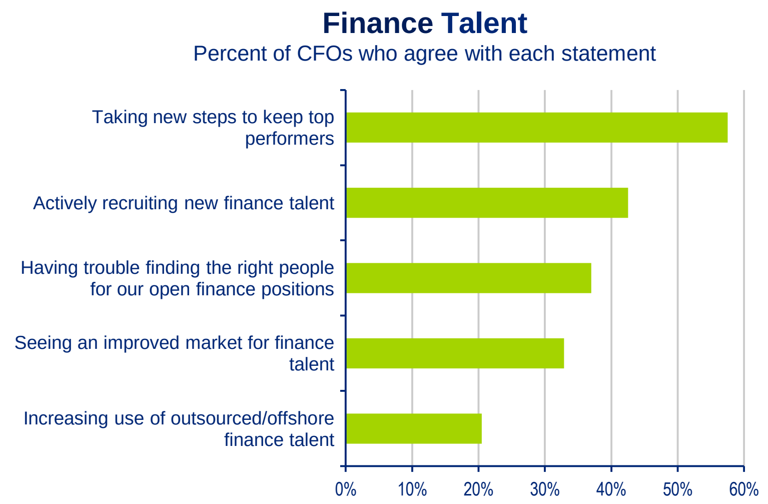
Finance talent

Higher needs and tighter availability

In our 4Q10 survey, we asked questions about unemployment and companies' ability to find the talent they need. The strong message was that, despite unemployment levels that are high by historical standards, the elevated skill sets companies now require are not easy to find. Moreover, findings in this quarter's survey show that talent availability is a top-four concern at both company and industry levels.

With Finance's depth and scope of responsibility growing, there is clearly an increased need for new, highly skilled talent. In fact, nearly 45% of all CFOs say they are actively recruiting (27% in Canada). However, identifying skilled finance talent remains elusive. One-third of CFOs say they are having trouble filling open positions, and nearly 60% are taking new steps to keep top performers.

One in five organizations is increasing its use of outsourced/offshore finance talent, with companies above $5B in annual revenue doing so at approximately twice the rate of the rest.



Please see Appendix for deeper insights around industry-specific findings.

Company

With costs in check, companies eye revenue growth in existing and new markets.

Top challenges

Cost reduction is giving way to top-line, strategy, and talent concerns

Survey Note: *We made a change this quarter in how we address the topic of revenue growth and operating margins. Because the former options – "Raising/maintaining customer demand" and "Improving/maintaining margins" – are quite comprehensive, it has been difficult to provide specific insight around these topics. To give better insight, we have replaced each of the old options with two more refined options. "Revenue growth/preservation in existing markets" and "Revenue growth/preservation in new markets" now address the revenue concept, and "Direct cost reduction" and "Overhead cost reduction" now addresses the topic of operating margins. We believe this change will provide a more refined picture of where companies are focused.*

Companies are now solidly focused on top-line growth as opposed to cost reduction. Revenue from existing markets is a top concern for more than half of all companies (only Energy/Resources is below 50%), and revenue from new markets is a top concern for one-third of companies (70% of Technology companies). On the other hand, overhead-cost reduction is a top concern for less than 20% of companies (more than 40% of Healthcare/Pharma and Retail/Wholesale companies), and direct-cost reduction is a top concern for only 10% of all companies (more than 20% of T/M/E and Services).

Framing and/or adapting strategy is a close third this quarter, particularly strong within Healthcare/Pharma, Energy/Resources and Financial Services. Prioritizing investments is still a top concern for more than one quarter of companies and for more than 40% of Manufacturing and Services. Consistent with findings elsewhere in this survey, talent is a rising challenge; it is a top three concern for 30% of all companies and for 70% of Manufacturing companies.

Other notable findings: M&A is a major concern in T/M/E and Services. Addressing government policy and regulation has faded somewhat, but it is still a top focus for 60% of Energy/Resources companies. Companies with more than 80% of their revenue from domestic markets are considerably more concerned about M&A and less concerned than average about new markets and talent.

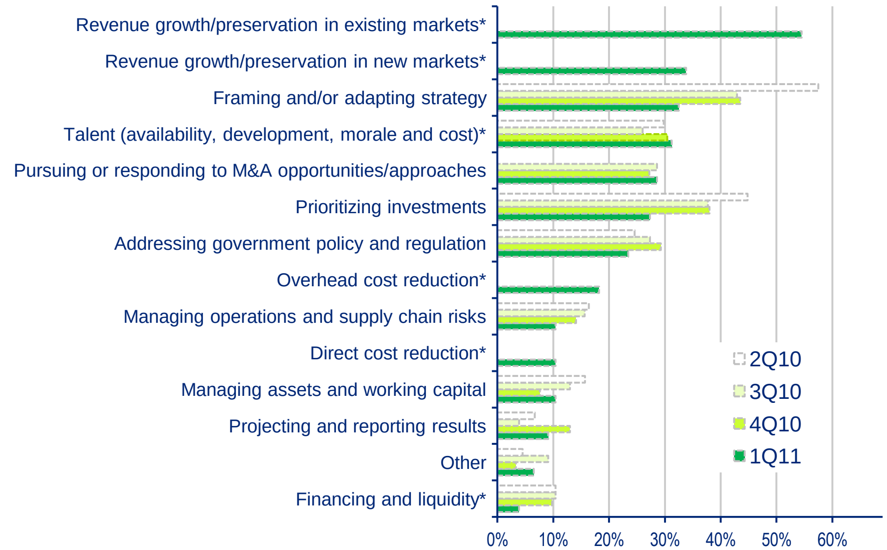
Strategic focus

Revenue growth trumps all else

Consistent with findings from the "top company challenges" question above, revenue growth appears to be a growing concern as companies adjust to post-recession realities. This quarter, 47% percent of companies' strategic focus is on revenue growth and preservation. Manufacturing is the exception with a comparatively small focus on revenue growth and a comparatively high focus on asset efficiency and financing/liquidity.

Company Challenges

Percent of respondents who place each option in their top three

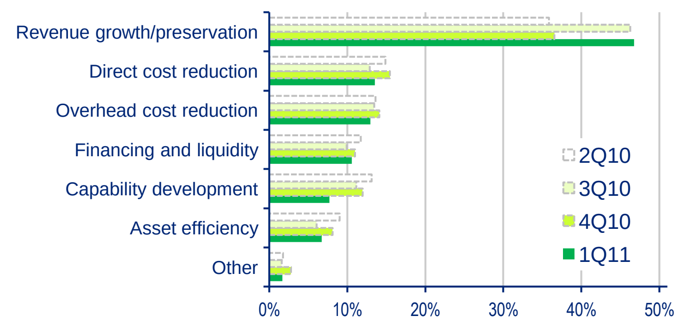


**** Changes for this quarter:***

- "Raising/maintaining customer demand" has been broken out into two options: "Revenue growth/preservation in existing markets" and "Revenue growth/preservation in new markets."
- "Morale and staff reductions" and "Talent (availability and cost)" have been combined into "Talent (availability, development, morale and cost)."
- "Improving/maintaining margins" has been broken out into two options:"Direct-cost reduction" and "Overhead-cost reduction."
- "Financing and liquidity" replaces the option "Sourcing capital."

Company Strategic Focus

Distribution of company focus among respondents



Please see Appendix for deeper insights around industry-specific findings.

Company

Expected sales and earnings

The easiest gains appear to be behind us

After two quarters of very strong sales and earnings projections, last quarter's projections slipped notably. This quarter's results, although more optimistic, are not as strong as they were a few quarters ago.

CFOs now project average year-over-year sales gains of 8.2%* (versus 6.5% last quarter) and earnings gains of 12.6%* (versus 12% last quarter). Similar to last quarter, variability of expectations is high. Median sales growth is again 5%, and median earnings growth has climbed from 8% to 10%. All industries are projecting sales and earnings improvements; only four companies are projecting declines in either one.

Built into these earnings projections are expected commodity cost increases of 3.4%, up notably from 2.6% last quarter. Wage/salary projections are very consistent with those from previous quarters, and expected employee benefits cost increases moderated this quarter.

Expected dividends, capital spending and employment

Investing for growth, but not hiring at home

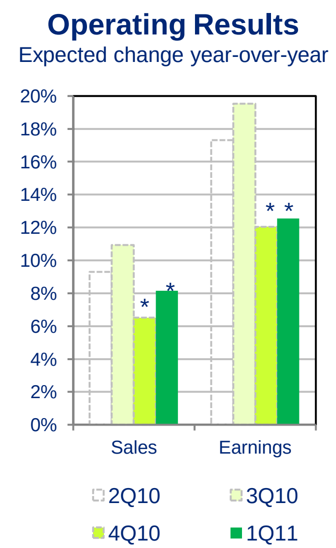
CFOs' expected dividend increase of 4.4% is similar to last quarter but markedly below CFOs' 2Q10 and 3Q10 expectations. Energy/Resources is again the exception, projecting nearly 9% dividend growth.

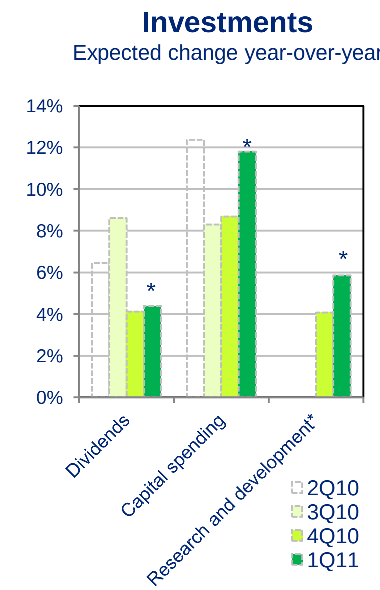
As dividend growth has slowed, investment in capital and R&D appears to be rising. Capital spending is expected to rise an average 11.8%* (up from 8.7% last quarter), but the median expectation is just 5%. All sectors expect increases on the whole, but most of this growth is driven by Manufacturing (projecting a 17% mean and 20% median increase in capital investment) and Energy/Resources (projecting an 18% mean and 15% median).

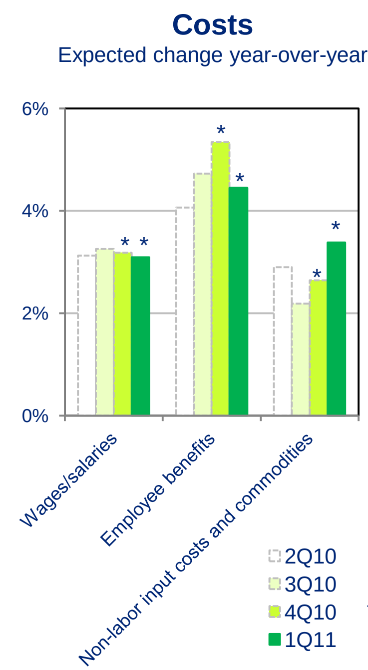
R&D spending, a new metric last quarter, is expected to rise nearly 6%, up from 4% a quarter ago. Manufacturing expects gains approaching 11%.

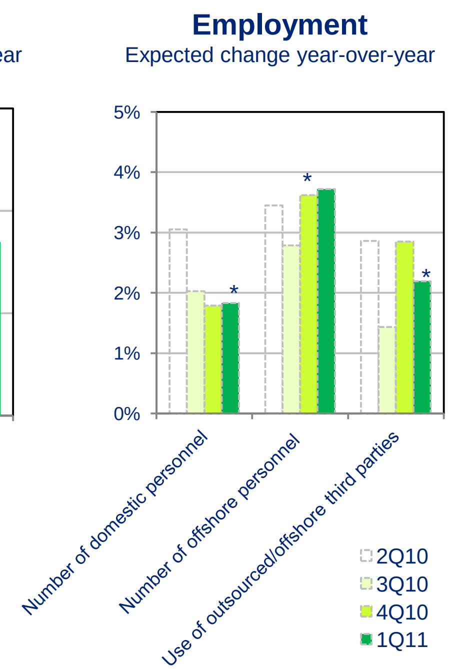
Domestic hiring expectations of 1.8% are consistent with those from the fourth quarter, and the median expectation is again 1%. The outlook for offshore and outsourced employment is better with an expected 3.7%* increase in offshore personnel (3.6% last quarter) and a 2.2%* increase in outsourced staffing (2.8% last quarter).

* Numbers with asterisks have been adjusted to eliminate the effects of stark outliers.









Please see Appendix for deeper insights around industry-specific findings.

Company

Own-company optimism

Aggregate optimism is still rebounding

In the fourth quarter, own-company optimism appeared to be rebounding after a relatively pessimistic third quarter. Optimism continued to improve this quarter with 62% of all CFOs more optimistic this quarter than last. Twenty-two percent indicated no change, and just sixteen percent indicated rising pessimism (the lowest proportion in the last year). Optimism is particularly strong for Canadian CFOs, 87% of whom are more optimistic this quarter (56% of U.S. CFOs are more optimistic).

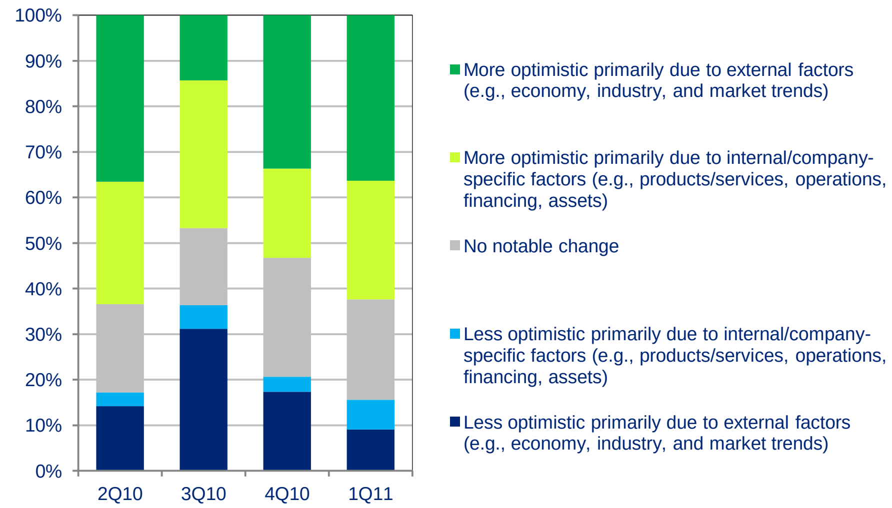
Companies' assessment of the macro-business environment continued to improve and buoy optimism this quarter, as did their views of company-specific factors. Similar to last quarter, 36% of CFOs are now more optimistic because of factors external to their companies, meaning that nearly 60% of the total rise in optimism is driven by factors in the broader economy. Manufacturing, Retail/Wholesale, and Healthcare/Pharma showed particularly strong improvements in externally driven optimism this quarter.

Last quarter, similar to previous quarters, external factors drove roughly 85% of companies' pessimism. This quarter's results display a shift in this general trend with external factors driving just under 60% of pessimism.

Improved assessments of external factors drove large gains in optimism for Retail/Wholesale and Manufacturing. The most notable pockets of pessimism were within Services, T/M/E and Healthcare/Pharma. No CFOs in Financial Services reported increased pessimism.

Company Optimism

Company optimism compared to previous quarters



Please see Appendix for deeper insights around industry-specific findings

Company

Changes in growth drivers

Foreign markets and new products/services

As slow growth persists and competition heats up, companies are challenged to find new sources of growth. Foreign markets and new products and services appear to be two of the strongest levers.

Seventy percent of CFOs expect gains in foreign revenue compared to before the recession, with thirteen percent expecting marked increases. All companies that derive less than 40% of their revenue from North America expect gains overseas, and all Manufacturing CFOs and 85% of Technology and Energy/Resources CFOs expect gains (more than 40% of Energy/Resources CFOs expect strong increases). At the same time, half of CFOs expect revenue from greenfield operations to rise.

Supporting the foreign growth projections, approximately 35% of CFOs expect to hire more foreign sales staff. Forty-seven percent say foreign production and/or service staff will rise at least somewhat. Companies that derive the greatest percent of their revenue from foreign markets appear most likely to expect gains in foreign staffing.

Companies are also evolving their products and services, with nearly three quarters expecting revenue from new offerings to rise compared to before the recession. All Technology CFOs expect increased revenue from new offerings, as do 90% of Manufacturing and Services CFOs.

More than half of CFOs say their prices for existing products and services will be higher a year from now than they were before the recession. Manufacturing and Services companies are most likely to project price increases (90% and 100%, respectively). Technology is the most notable exception around pricing, with 30% of CFOs expecting prices to be lower than before the recession.

Investment of available cash

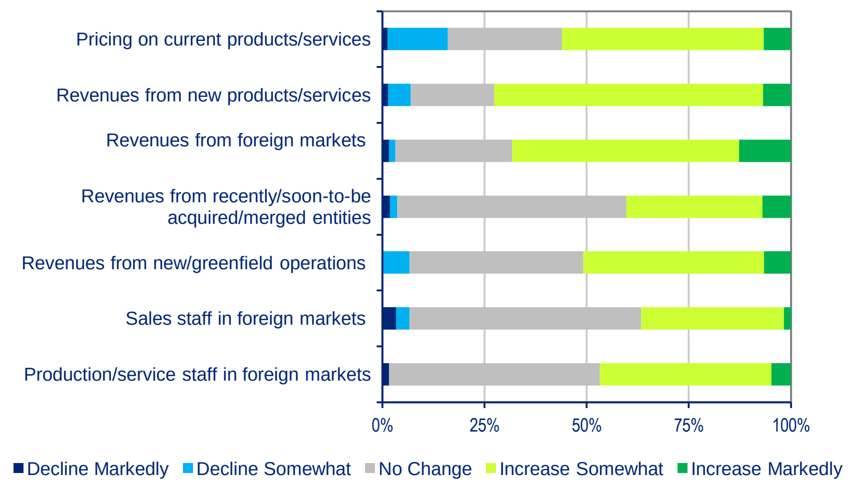
Economic and regulatory concerns drive caution

It is well-publicized that U.S. corporations have more than $2T in cash sitting on their balance sheets, and there has been much public and government speculation about why this cash remains on the sidelines. This quarter's results indicate the top impediments are concerns about the economy (and consumer demand), concerns about industry regulation, and a shortage of attractive investment opportunities. Well over half of CFOs say each of these factors is impeding investment, and well over a quarter say each is having a strong impact.

Although CFOs are very concerned about the state of corporate tax and health care policy (see the findings on page 20), they say these two factors are not markedly impacting their cash investments.

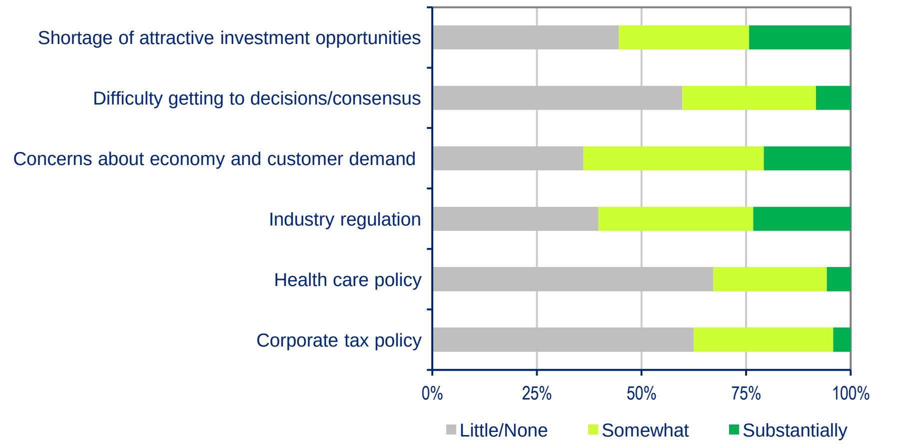
Growth Factors

Change in growth factors over the next year
(as compared to before the financial crisis and recession)



Investment of Available Cash

Degree to which each factor is affecting investment of cash



Please see Appendix for deeper insights around industry-specific findings.

Company

Factors impacting domestic hiring

Growth and policy impacts limited in the face of structural unemployment

One of the most troublesome aspects of economic recovery in North America has been the comparatively slow recovery of jobs. In our 4Q10 survey, CFOs indicated they believed a structural shift in employment was taking place -– that a return to normal revenue would not generate a return to normal employment levels. This quarter's results support this assertion.

About 70% of CFOs say a 5% rise in revenue will do little or nothing for their hiring, and the rest say it would increase their hiring only somewhat. Even a 10% gain in revenue (a notable dollar gain for a company already generating more than $1 billion in annual revenue) would substantially impact hiring for only about 10% of companies (and nearly one-third say it would have little/no impact). It is not until companies experience a 20% gain in revenue that 90% indicate that they would hire (with half saying they would make substantial hires). Given these sentiments, CFOs' current 8.2% projections for year-over-year sales growth do little to suggest improving unemployment over the next year.

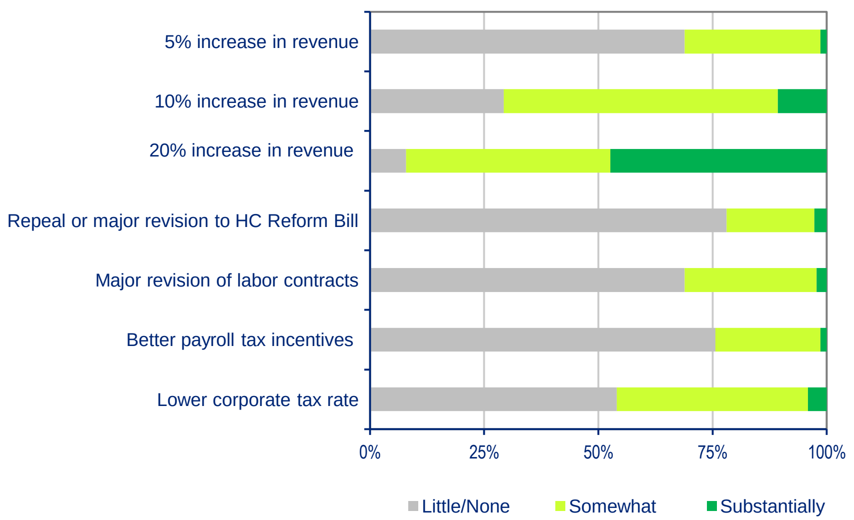
As much as CFOs do not favor health care reform (see the Economy section, page 21), they admit that its repeal would not substantially impact their own hiring, irrespective of industry or country.

Lower corporate taxes would raise hiring at least somewhat for about 45% of U.S. companies and 30% of Canadian firms. Improved hiring incentives would not help much, accomplishing roughly the same result as a 5% revenue gain. The exceptions may be Manufacturing (where a corporate tax decrease may have a stronger positive impact) and Healthcare/Pharma (where both a corporate tax decrease and better payroll tax incentives may have a stronger positive impact).

Revision of labor contracts would increase hiring at least somewhat for 30% of the 45 respondents for whom labor contracts are applicable. Manufacturing, Retail/Wholesale, Energy/Resources and Services indicate the strongest impacts, and the effects appear to be stronger in Canada than in the U.S.

Domestic Hiring

Factors impacting domestic hiring



Please see Appendix for deeper insights around industry-specific findings

Company

High-impact risks

Concerns about policy now surpass concerns about the economy

In our 3Q10 survey, CFOs rated further economic turmoil (a “double-dip”) as the high-impact risk they were most worried about, with concerns about detrimental government policy a distant second. This quarter, these two risks repeat but in reverse order.

With their rising focus on growth, companies appear increasingly concerned that the government will impede their progress. Worries around increased and unexpected regulatory changes are prevalent, especially within Financial Services and Energy/Resources. Concerns about unclear federal energy and environmental policy are also prevalent.

As companies adjust to post-recovery conditions and look for growth, they are increasingly concerned about selection and successful execution of important initiatives. Potential missteps in this area received minor attention two quarters ago, but are now a top-three risk and a particularly high concern for Energy/Resources.

Increasing competition is again a substantial concern with increased mention of competitive pricing, particularly within Technology and Retail/Wholesale. Inflation and rising commodity prices became a stronger concern this quarter, especially for Manufacturing.

Geopolitical issues (including international conflict and terrorism) emerged as a rising concern this quarter, particularly within Financial Services and Energy/Resources. Capital availability concerns are essentially unchanged and are highest in Financial Services.

Potentially High-Impact Risks

(Mentions in 1Q11 / Mentions in 3Q10)

Detrimental government policy/regulation (21/15)
Further economic turmoil/recession (13/24)
Investment / execution missteps (11/0)
Rising commodity prices (6/3)
Increasing competition / pricing pressures (5/7)
Geopolitical issues (5/0)
Worsening capital availability/cost (5/5)
Inflation (4/0)

Please see Appendix for deeper insights around industry-specific findings.

Industry

Regulation and competition are post-recovery focuses.

Top challenges

Regulation, competition, and talent

Industry regulation/legislation has been a top industry concern for the past three quarters, and this quarter is no exception with more than half of CFOs naming it a top three concern. It is the top concern for all industries except Retail/Wholesale, Technology and Services.

As many domestic markets stagnate, companies appear to be focusing on near-term performance by competing for growth and profitability. Pricing trends are a top challenge for six of the eight industries and are particularly strong concerns for Services, Retail/Wholesale, and T/M/E. New competitive tactics are a rising challenge, especially within Retail/Wholesale and Technology, and increased foreign competition is a top concern for Technology and Manufacturing.

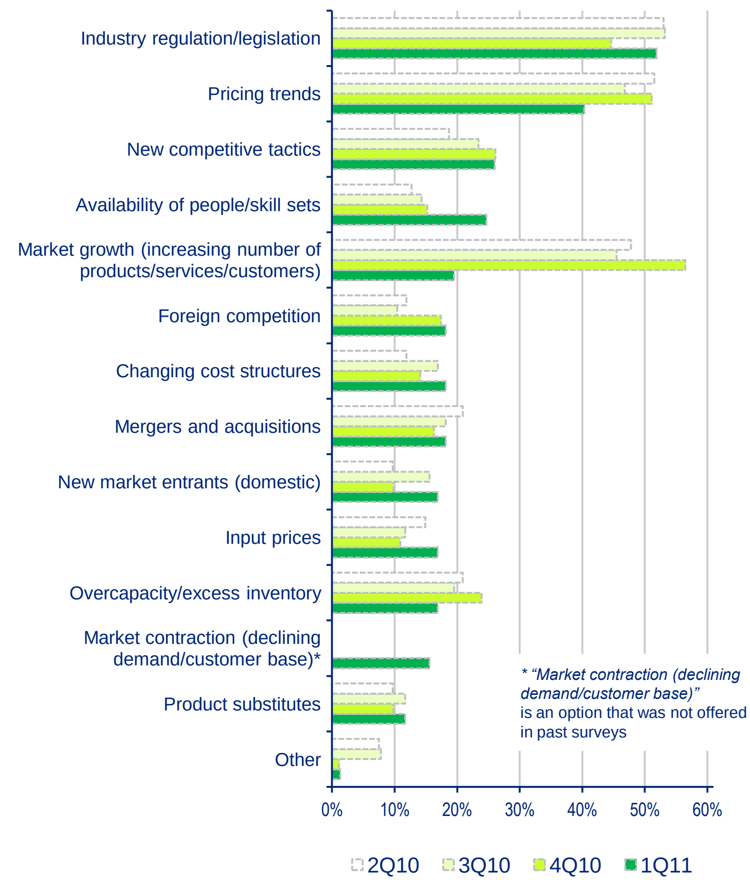
Last quarter's survey results showed that structural shifts in staffing needs are taking place and that companies' most needed skill sets are getting harder to find. This quarter's results support this finding, showing a marked jump in concerns about talent availability, particularly within Manufacturing and Technology. Changing cost structures are another rising concern, particularly within Energy/Resources and Retail/Wholesale, and input prices are a rising concern within Manufacturing, Energy/Resources and Technology.

Survey note: *We made a change this quarter in how we address market growth (which finished fifth this quarter – markedly lower than in previous quarters). In order to clarify the meaning of "market growth" (i.e., whether it refers to the idea that markets are growing), we added a separate option specifically addressing the notion of market contraction. This additional choice split responses across two selections, which dropped the relative rating of the former category. This provides a more refined picture of what is actually challenging CFOs.*

Other notable findings: Overcapacity/excess inventory is a major challenge within Manufacturing, but not in Retail/Wholesale. M&A is a substantial challenge for Services, Energy/Resources and T/M/E. New domestic market entrants are a major challenge for Healthcare/Pharma, Retail/Wholesale, and T/M/E.

Industry Challenges

Percent of respondents who placed each option in their top three



Please see Appendix for deeper insights around industry-specific findings.

Economy

Government and the domestic economies dominate company concerns.

Top challenges

Spending, regulation, jobs and currency

In the wake of U.S. mid-term elections, social policy was the top economic concern last quarter. With the new Congress now seated and debate escalating on several regulatory fronts, this concern has only intensified.

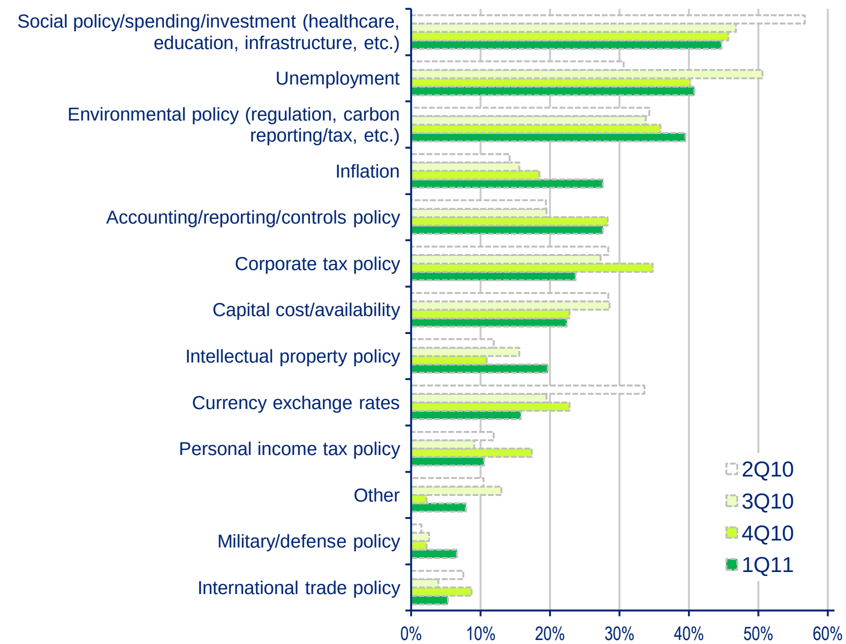
Social policy repeats as the top concern this quarter, with 45% of CFOs naming it a top three concern, and six of eight industries naming it one of their top two concerns (Energy/Resources and Retail/Wholesale are the exceptions). Unemployment ranks second, with 40% of all CFOs and six of eight industries naming it one of their top three concerns (it is the top concern for Manufacturing, Retail/Wholesale, T/M/E and Financial Services). Third overall is environmental policy, a top three concern for six of eight industries and the top concern for both Manufacturing and Energy/Resources.

Inflation concerns rose markedly this quarter with at least 25% of CFOs in all sectors except Retail/Wholesale and HealthCare/Pharma naming it a top three concern. The greatest concerns are within Services, Financial Services and Manufacturing.

Other notable findings: Corporate tax policy is a top challenge for Manufacturing, Technology, and Energy/Resources. Accounting, reporting, and controls policy is a substantial concern for Retail/Wholesale, Financial Services and Healthcare/Pharma. Concerns about capital cost and availability continue to decline but are still substantial concern in Retail/Wholesale and Energy/Resources. Currency exchange rates concerns are substantial in Manufacturing and Retail/Wholesale. Personal income tax policy is a significant concern for Financial Services and T/M/E.

Economy Challenges

Percent of respondents who place each option in their top three



Please see Appendix for deeper insights around industry-specific findings.

Economy

Unnecessarily burdensome government regulations

Tax system and health care reforms

In a January op-ed in *The Wall Street Journal*, U.S. President Barack Obama announced a review of U.S. regulations to overhaul those that stifle economic expansion without helping consumers. “This order requires that federal agencies ensure that regulations protect our safety, health and environment while promoting economic growth. And it orders a government-wide review of the rules already on the books to remove outdated regulations that stifle job creation and make our economy less competitive,” he explained, and later reiterated in his State of the Union Address.

This quarter we asked CFOs which government regulations place unnecessary burdens on business. Although the answers varied considerably by industry, the common ground seems to be around taxes and health care reform.

CFOs regard current tax systems as unnecessarily burdensome, with most citing high complexity of the tax code. Taxes on repatriated earnings were frequently mentioned as a barrier to domestic investment and growth, and CFOs from both Canada and the U.S. regarded corporate tax rates as too high. (Canadian CFOs, less subject to changing U.S. regulations, show a comparatively high focus on taxes -– corporate and personal income, sales/use, and interprovincial.)

Health care reform finished a very close second to taxes, a finding that seems to indicate that, although CFOs believe the policy will not substantially impact investment or hiring, they do think it will add an implementation burden that will likely outweigh any business benefits.

The Dodd-Frank Act was mentioned foremost by Financial Services CFOs, most of whom were more concerned about the Durbin Amendment (aimed at debit-card interchange fees and increasing competition in payment processing) than the other provisions.

Environmental regulations were mentioned primarily (although not exclusively) by Energy/Resources companies. Labor laws were mentioned mostly by Canadian CFOs.

Unnecessarily Burdensome Government Regulations

(Mentions out of 77 CFO responses)

Complexity/burden of tax system (15)

Health care reform (12)

Dodd-Frank (5)

Environmental regulations (4)

Labor laws (3)

Please see Appendix for deeper insights around industry-specific findings.

Economy

Dodd-Frank Act Impact

Not just for public U.S. Financial Services firms

The Dodd-Frank Act, although primarily purposed as a financial regulatory reform bill, will clearly have broad impact across North American companies -– across industries, regions, and ownership types.

Fifty-four percent of U.S. CFOs in this quarter's survey say the Act will substantially impact their executive compensation and governance practices – 56% for public companies and 33% for private. Half of U.S. CFOs expect changes to their governance practices (25% for public companies). The Act will affect large Canadian companies as well, with nearly 30% of CFOs expecting effects on their executive-compensation practices and more than 20% expecting governance practice impacts.

More than one-third of U.S. CFOs expect their whistleblower practices to be affected, with little difference between public and private companies. Only about 15% of Canadian CFOs expect these practices to change.

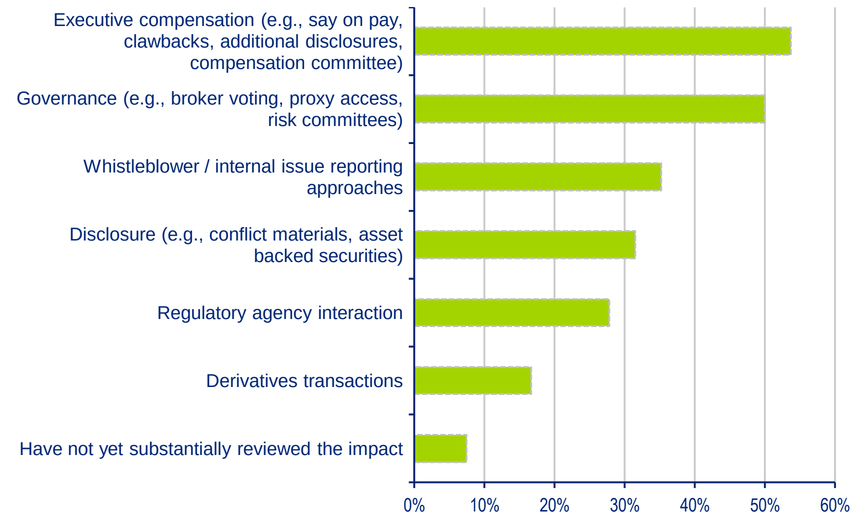
Disclosure practices are expected to change for nearly one-third of U.S. companies with public companies about twice as likely to expect changes as private companies. The pattern for Canadian companies is similar with nearly 30% expecting changes. Financial Services firms are most likely to expect an impact with 47% of CFOs expecting changes.

Changes to regulatory agency interactions are expected for 28% of U.S. companies and 21% of Canadian companies, but 60% of Financial Services CFOs expect substantial impacts. Nearly 45% of private companies expect substantial changes.

Derivatives transaction practices are expected to change for about 16% of companies with little difference by geography or ownership type. Financial Services and Energy/Resources companies are considerably more likely to be affected.

Dodd-Frank Act Impact

Percent of CFOs who expect their practices in each area to be substantially affected by the Dodd-Frank Act*



*Only responses of U.S. CFOs are included in this chart

Preparation for GAAP/IFRS changes

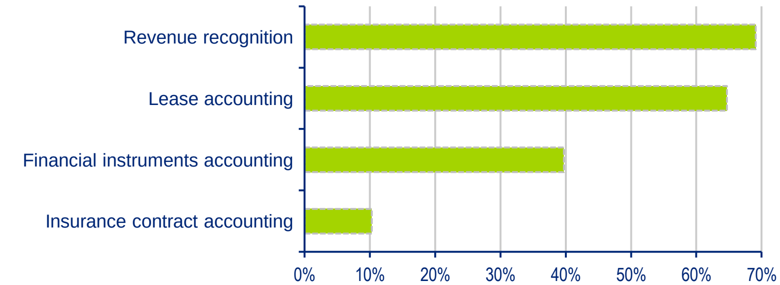
U.S. firms following convergence timeline; Canada focused on financial instrument accounting

Preparation for GAAP/IFRS changes is ramping up, with about 70% of all CFOs beginning to address revenue recognition changes over the next year and 65% starting to address lease accounting (40% for Canada).

Forty percent of CFOs said their firms will be working on financial instrument accounting changes, but with large differences between Canada and the U.S. Ninety percent of Canadian CFOs expect to address these changes over the next year, and only 30% of U.S. CFOs expect the same. Due to its more limited applicability, insurance contract accounting changes are anticipated by only 10% of CFOs (but by 42% of Financial Services CFOs).

Preparation for GAAP/IFRS Changes

Percent of CFOs who will start to prepare for each change in the next 12 months



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