

JEFF ATWATER



FLORIDA'S CHIEF FINANCIAL OFFICER

FLORIDA'S BOTTOM LINE

Inside Track on Florida's Financial Health

**SPRING
EDITION 2015**

A blue-tinted photograph showing the silhouettes of three business professionals (two women and one man) walking away from the camera in a modern office setting with large windows in the background.

BOOMING BUSINESS:

Florida's Middle Market Companies

MISSION

To provide a one-stop shop for the latest news and valuable insight on Florida's economy and financial health

RESOURCES

Chief Financial Officer Jeff Atwater is committed to making Florida more consumer and business friendly by ensuring consumer rights and protections, reducing regulatory burdens, and fighting fraud.



FLORIDA'S BOTTOM LINE

Inside Track on Florida's Financial Health



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CEO LETTER

Dear Fellow Floridians:

Middle market companies are a dynamic force within Florida's economy, but they often fly under the radar. Defined as a business with annual revenues between \$10 million and \$1 billion, middle market companies can be found in most major industries. Florida is home to more than 7,000 middle market companies that generate \$275 billion in total revenue annually. While relatively small in number, middle market companies pack a mighty punch, employing one in every five Floridians, and oftentimes, they are the business success stories in our neighborhoods and communities.

A key reason why middle market companies are such an important piece of our economy is the unique niche that they occupy: middle market companies are large enough to make significant capital investments, yet small enough to be innovative and flexible in an ever-changing marketplace. It is also common for the company's founders to remain at the helm and guide their business toward continued growth and success. All of these characteristics make middle market companies a rich source of economic growth and diversification.

This edition of *Florida's Bottom Line* highlights middle market companies, defines their presence, and shares some of Florida's homegrown success stories. Inside, you will find insight from the leading national authority on the middle market sector as well as testimony from a few of Florida's middle market companies and the factors that have contributed to their success. Additionally, you will find analysis and updates on Florida's economy, information on the Florida Accountability Contract Tracking System (FACTS), and insight on a growing trend in technology known as the *Internet of Things*.

I invite you to read about the importance of middle market companies in Florida and their impact on our state's economy. Florida's commitment to fostering a competitive business climate through curbing taxes and reducing regulations provides the opportunity for businesses to expand and flourish, thus creating jobs and prosperity for families across the state. We will work to continue to create the environment whereby this vital segment of our economy will continue to thrive and grow.

Sincerely,

Jeff Atwater
Chief Financial Officer
State of Florida

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BUSINESS & FINANCE

What are Middle Market Companies?

By Thomas A. Stewart,

Executive Director of the National Center for the Middle Market



To hear people talk, you'd think that the American economy consists of entrepreneurial startups and Fortune 500 giants. What's in the middle—the economy's core and heartbeat—is often forgotten. The middle third of the private sector consists of about 200,000 companies with annual revenues between \$10 million and \$1 billion. Bigger than small, smaller than big, this group collectively contributes about a third of non-government GDP and employment. They're not startups: Their median age is 31. They're in every state and every industry; compared to the economy as a whole, middle market companies are more likely to be manufacturers and less likely to be financial services companies.

Many of them are famous: Elmer's Glue, Tootsie Roll, Callaway Golf, and every professional sports team, for instance. But thousands of law firms, logistics companies, franchisers and dealerships, agribusiness companies, and others are middle market, too. Just 15% are publicly traded. Of the rest, about a third are family owned; another third are owned in whole or part by private equity; the rest take other forms—sole proprietorships, partnerships, and so on.

Because they're private, not much is known about them. Data about their performance isn't fed to economic prognosticators. Their concerns are often not presented to policy makers—small companies have their small business association, big shops their lobbyists, but mid-sized companies mostly go about their business.

Yet the middle market is where the growth is. In 2014, according to data collected by the National Center for the Middle Market (NCMM), these companies delivered top-line, year-on-year growth of 7.2%, while revenues of the S&P 500 grew just 4.9%.



Thomas A. Stewart is the Executive Director of the National Center for the Middle Market.



**NATIONAL CENTER FOR
THE MIDDLE MARKET**

Employment in middle market companies grew 5%; big-company payrolls increased 2.2%. Among small business, those legendary job creators, there is also a lot of job destruction because the failure rate is high. Net-net, small business job growth last year was the same as it was among big companies, 2.2%. Strong, sustained growth happens in the middle—among the unsung heroes of the American economy.

Mid-sized businesses go to market with characteristic strengths and constraints. They're the right size to be closely managed. The CEO isn't remote from the shop floor—she may walk it every day. When problems crop up, they're not swept under the rug—there is no rug. Customers are people, not data sets. NCMM research shows that middle market companies are likely to measure the impact of operational improvements first and foremost by how much they improve customer satisfaction; indeed, they are four times more likely to emphasize satisfying customers than cutting costs.

CONTINUED ON PAGE 3

3 QUESTIONS WITH... Florida's Homegrown Middle Market Companies

FBL: Mr. Koenig, what factors have contributed to your company's success in Florida?

City Furniture had a humble beginning. My brother, Kevin Koenig, saved up a few thousand dollars while working his way through FAU as a bellman. He used that money to open a small waterbed store in 1971 and named it Waterbed City. He sold waterbeds in the store during the day and after hours he cut wood planks into waterbed frames. We built a great team and brought what we learned in business school to the crazy waterbed industry. Then the waterbed industry started to nosedive and we re-invented our business into City Furniture. Now, we have 15 City Furniture showrooms and 11 Ashley Furniture HomeStores with over 1200 associates and are the #1 seller of furniture in South Florida.

Many factors have contributed to our success in Florida:

- The basics: we have rule of law, private property rights, a safe and just society, ease of opening and doing business, and good government.
- We enjoy affordable, quality public education.
- The opportunity for growth has always been a part of Florida.
- Most importantly, we were able to develop a wonderful team. The biggest strength of Florida is the wonderful people that live here.

We are blessed to live in Florida.



KEITH KOENIG
President of City Furniture



ROBERT ABASCAL
Founder and CEO of
AVT Simulation



FBL: Mr. Abascal, what factors have contributed to your company's success in Florida?

Several factors play into AVT Simulation's success in Florida. To start, AVT had the opportunity to partake in the University of Central Florida Incubator Program. The program provided AVT Simulation the opportunity to have its start in a very grounded, financially stable manner. In addition, AVT Simulation is centrally located in Research Park—a large modeling and simulation hub in Central Florida. This location has afforded us the opportunity to network with customers and competitors alike. There are also many informational meetings on a monthly basis within Research Park, providing pivotal business intel on upcoming or ongoing opportunities.

By and far, the main reason for AVT's success in Florida are our people—our customers and our employees. AVT Simulation has had the opportunity to work on some of the largest, most influential training programs directly affecting our nation's soldiers on the front lines, allowing them to improve and thrive. Behind these programs are the customers that afford us the opportunity to do so, and our employees who work tirelessly to ensure the program's success.

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FBL: Mr. Withers, what factors have contributed to your company's success in Florida?

As a fifth-generation Floridian, managing a business started by my great grandfather, our deep roots and ties to the community are certainly among the principal factors of our success.

In the early days of our company, moving and storage was a fairly uncomplicated business. Today, however, we manage complex logistics on a world-wide scale. While investing in technology plays a key role in allowing us to meet the needs and expectations of our clients, it is our investment in human resources that make us who we are.

Creating a comfortable work environment and reducing stress levels have led to increased productivity and greater job satisfaction. From tuition programs, to assist employees seeking to advance their knowledge and skills, to flex-time scheduling in recognition of the unique challenges dual-income families face when it comes to childcare or other shared family responsibilities, we are fully committed to our people — a commitment reflected in our high staff retention rates and customer satisfaction. And that is a key factor in our success and our longevity.



CHIP WITHERS
President of Withers
Transportation Systems



Continued from Page 1

BUSINESS & FINANCE

What are Middle Market Companies?

They're also financially conservative: They tend to hold a lot of cash and by wide margins prefer to pay for investments from retained earnings rather than with borrowed money. Three out of five have a debt-to-assets ratio under 15%. It's a hypothesis, but perhaps this combination of customer focus and financial conservatism means that middle market companies tend to make smart, focused bets rather than spread investment around.

Their conservatism is a mixed blessing, however. Research conducted by the NCMM in partnership with the Brookings Institute suggests that middle market companies have been too risk averse when it comes to exporting and otherwise participating in global markets. Survey data from our partners at General Electric reveals that middle market companies lag big companies in using new innovation tools and technologies (such as open innovation, 3-D printing, and data analytics). They are closely managed—but also thinly managed—and lack the resources to deploy teams to work full time researching new opportunities.

It's also clear from our studies that these companies are ignorant of or reluctant to use state and Federal programs that could help them. Washington—even Tallahassee—seems far away and complicated. Indeed, complexity—whether of the tax code or regulations—is a bugbear for middle market companies. They rarely enjoy the exemptions offered to small firms and cannot employ armies of lawyers and clerks to lobby for or exploit loopholes.

Florida is among the six states with the largest number of middle market companies and employees of middle market companies. (The others: California, Texas, New York, Illinois, and Pennsylvania.) Florida boasts nearly 7,000 middle market companies with combined revenue of about \$278 billion and

approximately 2.3 million employees: This is 25% of corporate revenue statewide and about 21% of jobs. That's a lot, but less than the nationwide percentages. Industry mix probably explains part of it: Compared to the country as a whole, Florida is light on manufacturing (16% of companies in the national middle market, vs. 11% in Florida) and heavy in construction (9% vs 12%). Tourism, so important in Florida, may skew the mix, too.

Smaller it may be, but it is mighty: Florida's middle market is outperforming the national average. In 2014, the mean revenue growth of mid-sized companies in Florida was 8.6% (vs. 7.2% nationally); employment grew 6.7% (vs. 5.0%). And these companies are poised to keep growing, with 78% saying they'd put an extra dollar of revenue to work by investing it (vs. 68% nationally). Given the influence of tourism and construction, Florida's middle market appears more cyclical than most—meaning that these stunning numbers show the state collecting a disproportionate share of the national economic upswing, but also warn that it is likely to suffer more in downturns.

Across the country and in every state we've looked at, the middle market is not just the locus of growth but an engine of it; attention paid to middle market companies pays off better than attempts to woo multinational giants (against long odds) or incubate startups (which are volatile). Policies that invest in infrastructure, logistics and distribution, and education (especially of STEM workers), that clarify regulations, and that encourage global connections and trade are all likely to drive middle-market growth and with it, growth for Florida. Above all, however, it's important for government, business associations, economic-development groups, the media, and others to hear from middle-market executives themselves—so that these heroes remain unsung no longer.

FOR MORE INFORMATION, VISIT WWW.MIDDLEMARKETCENTER.ORG

FLORIDA'S ECONOMY Spring has Sprung



Florida's economy continues to improve with strong gains in the job market, a declining unemployment rate, consumer confidence and business optimism at record highs, and a housing market that has continued to grow with the traditional homebuyer poised to take center stage.

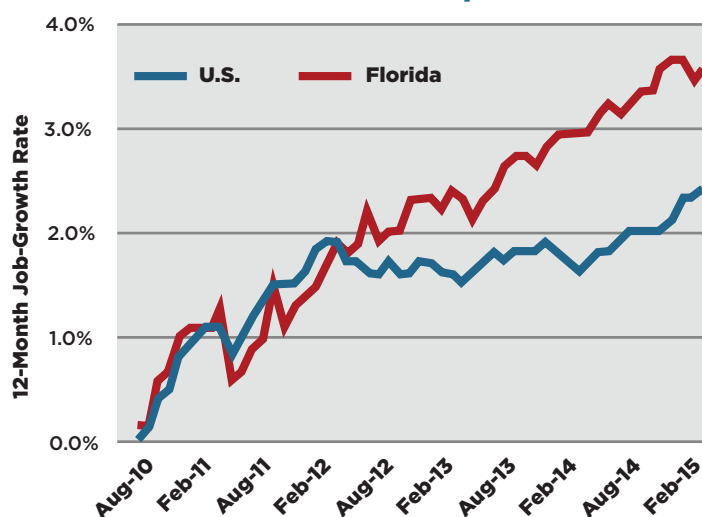
Newly revised data from the Bureau of Labor Statistics has shown Florida's job market saw an even more impressive and consistent job-growth rate over 2014 that has continued in 2015. Between February 2014 and February 2015, 266,600 non-farm jobs were generated across the state, relating to an annual job-growth rate of 3.5 percent. This annual job-growth rate is above that of the national rate of 2.4 percent and is one of the highest rates of job-growth since March 2006.

Recent job-growth in Florida has also been widespread with all major industry areas reporting over the year job-growth, with the exception of the information industry. The four industries that had the highest growth were Construction (7.7%); Other Services (4.5%); Leisure and Hospitality (4.4%); and Professional and Business Services (4.3%).

Following the recession, both Florida and the nation began to see job-growth for the first time in August 2010. Since that time, Florida's job-growth rate has been consistently accelerating. After keeping roughly the same pace with U.S. job-growth between 2010 and early 2012, Florida's job-growth rate began to exceed the national average and it has continued to do so without pause. The resulting gap that has been widening for close to three years is evidence that Florida's job market has pulled far ahead of the national recovery.

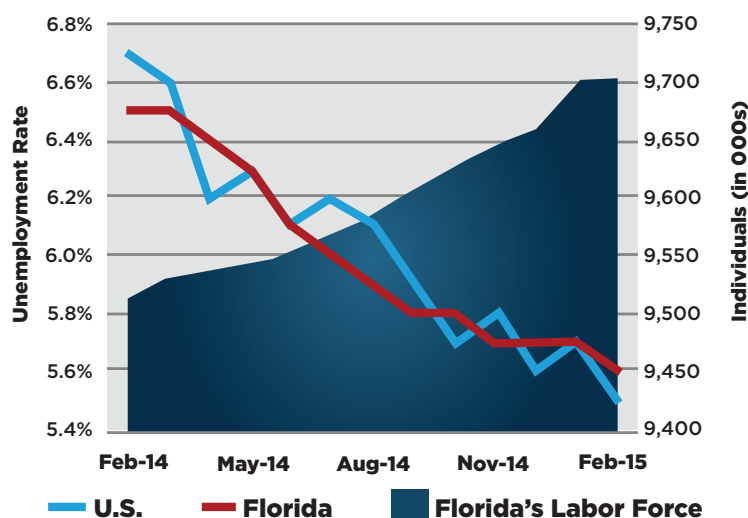
This job-growth acceleration has helped to drive down the unemployment rate despite the upward pressure of a growing labor force. As of February, Florida's unemployment rate has declined to 5.6 percent, which is 0.1 percentage points above that of the national rate (5.5%). The last time Florida's unemployment rate was this low was in September 2002 during an economic upswing. Over the year, Florida's unemployment rate has declined by 0.9 percentage points from 6.5 percent in February 2014. This drop is significant considering that Florida's labor force has increased by 183,000, or 1.9 percent during the same time.

Florida's Job-Growth Outpaces the Nation's



Source: U.S. Bureau of Labor Statistics

Florida's Unemployment Dives as Labor Force Soars



Source: U.S. Bureau of Labor Statistics

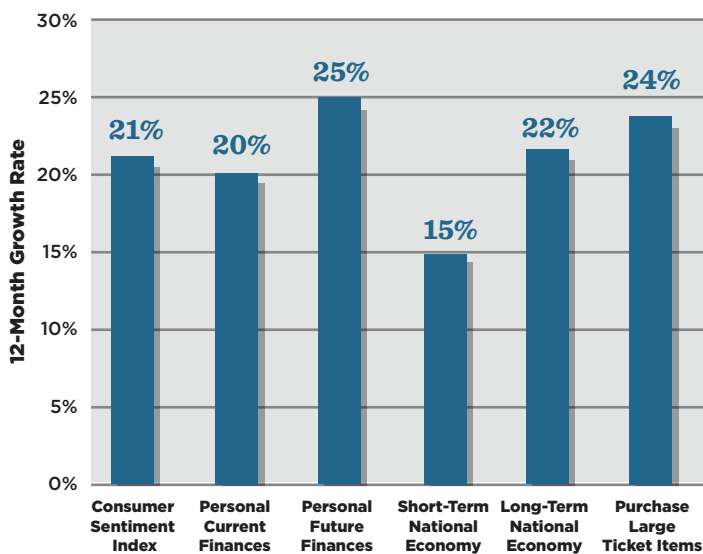
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This decline in the unemployment rate is a clear sign of a large demand for workers in Florida. Business's desire for workers is captured in the National Federation of Independent Businesses (NFIB) Small Business Optimism Index, which has grown 7.2 percent over the year in February. In their February 2015 report, 29 percent of businesses noted having job openings that they could not fill in the current period, which is the highest reading since April 2006.

The job openings reading is also one of the highest in 40 years which indicates that labor markets are tightening and that there will be more pressure on compensation in the coming months. Fortunately, there are signs that compensation-growth has begun to occur. In 2014, personal income in Florida increased 4.6 percent, the highest annual growth since 2011, and is a higher rate of growth than that of the U.S. (3.9%).

With businesses being more optimistic and seeking to hire more Floridians, the impact of the growth in jobs is having a direct influence on consumer's confidence. According to the University of Florida's Bureau of Economic and Business Research, Floridians are more confident in their current economic situation than at any time since 2005 with the Consumer Sentiment Index up 21 percent over the year. While this large increase is partially due to a change in survey methodology, March's value is the eighth consecutive month where a new post-recession peak has been reached. Floridians felt especially confident in their current financial situation as compared to last year, with a year-over-year increase of 20 percent. In addition, consumer's perception of their financial standing over the next five years increased 25 percent over-the-year. As consumers' continue to find jobs and with wage hikes expected in the future, the financial optimism of Floridians is likely to continue, with the result of this optimism spilling over into Florida's housing market.

Consumer's Optimism Reflects Economic Prosperity



Source: Bureau of Economic and Business Research
March 2015

Currently, Florida's housing market is seeing growth with one of the main indicators, the median sales price of single-family homes,

rising 9.1 percent over the year in February. Likewise, the number of closed sales are up 19 percent over the year and new home building permits in Florida are up 16.4 percent over the same timeframe. Further, these three key indicators have seen consistent year-over-year growth each February since 2012, and are currently at their highest levels yet for this time of year.

Going forward, there are clear signs that Florida's housing market is due to heat up later this year. With strong job gains over the year and increasing personal income, traditional homebuyers in Florida are on a steadfast financial footing, which means more Floridians are able to afford a home. Additionally, 30-year mortgage rates have been falling, down 12 percent since February 2014 at the same the median sales price is increasing, which is helping to keep the real cost of purchasing a home stable for traditional homebuyers.

As Housing Prices Rise, Mortgage Rates Fall



Source: Sales Price-Florida Realtors, Mortgage Rate- Federal Reserve Economic Database

When considering Florida's rapid job growth, growing consumer confidence, and stable housing costs, the trend toward a stronger, more robust housing market in Florida this year becomes evident with the traditional homebuyer leading the way.

Overall, Florida's economy continues to show marked improvements thus far in 2015; however, there are factors that could cool Florida's boiling economy. Negative economic conditions outside of the U.S. could have an impact on economic activity in Florida as the economies of the European Union, several South American Countries, and Asia show slower growth. Additionally, interest rate hikes by the Federal Reserve later this year will add short-term volatility to financial markets and also raise the cost of borrowing. Accounting for these headwinds though, it is unlikely that these will have any significant long-term negative impact on Florida's economy.

STATE & NATION

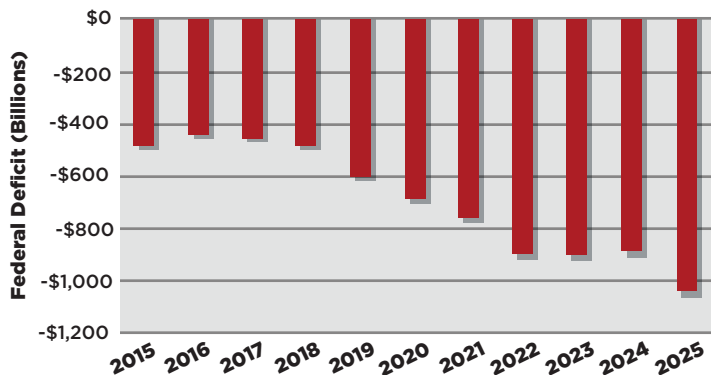
Federal Finances a Growing Problem



Florida's financial horizon continues to brighten as the economy thrives. The necessary choices that occurred in the wake of the recession have resulted in the current financial prosperity of Florida. Government transparency, disciplined spending, and targeted investments have allowed for the state to have greater financial flexibility as revenues strengthen because it is no longer burdened by rising debt. By doing so, Florida provides the framework for businesses to focus on the tasks at hand, and for consumers to keep more money in their wallets. Unfortunately, the same cannot be said for the federal government.

According to the Congressional Budget Office (CBO), the federal government continues to spend more money than it takes in. The federal deficit, or the amount by which the federal government's spending exceeds its revenues, for the 2015 fiscal year is expected to be \$486 billion, amounting to approximately 2.7 percent of the nation's gross domestic product (GDP). To put this into perspective, the projected federal deficit in 2015 alone is approximately six times the size of Florida's total current budget. The CBO also expects that this trend in higher spending will continue into the future with annual federal deficits surpassing the \$1 trillion mark by 2025. Over time, the cumulative federal deficits are projected to total \$7.2 trillion from 2016-2025.

Federal Deficits will Double in Size by 2025



Source: Congressional Budget Office

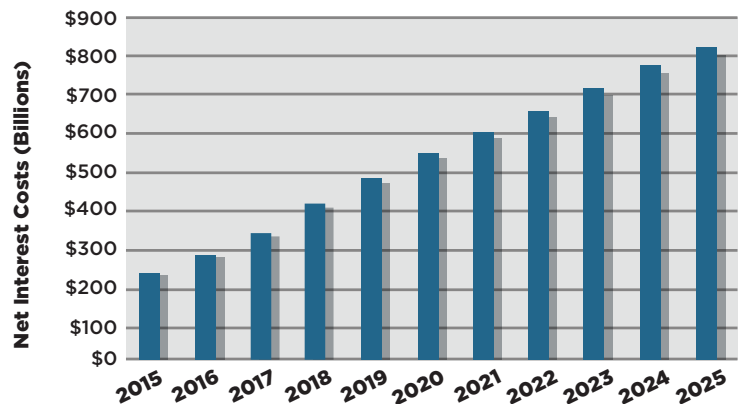
Key drivers of the growing federal deficits are increasing healthcare burdens and larger social security obligations. The combined impact of healthcare and social security payments will increase mandatory spending substantially over the next decade due to the aging population demographic of the nation. By 2025, the expected

costs of these programs are expected to total \$3.2 trillion, and will account for 52 percent of total federal spending in that year.

The ever increasing size of these government programs and federal deficits will have long-term implications for the level of federal debt held by the public ("federal debt"). In 2015, the federal debt is expected to rise above \$13.4 trillion and will be equivalent to 74.2 percent of the nation's GDP; the highest level since the 1950's. By the year 2025, the federal debt will increase by 58.5 percent to \$21.2 trillion, or 77 percent of the nation's GDP.

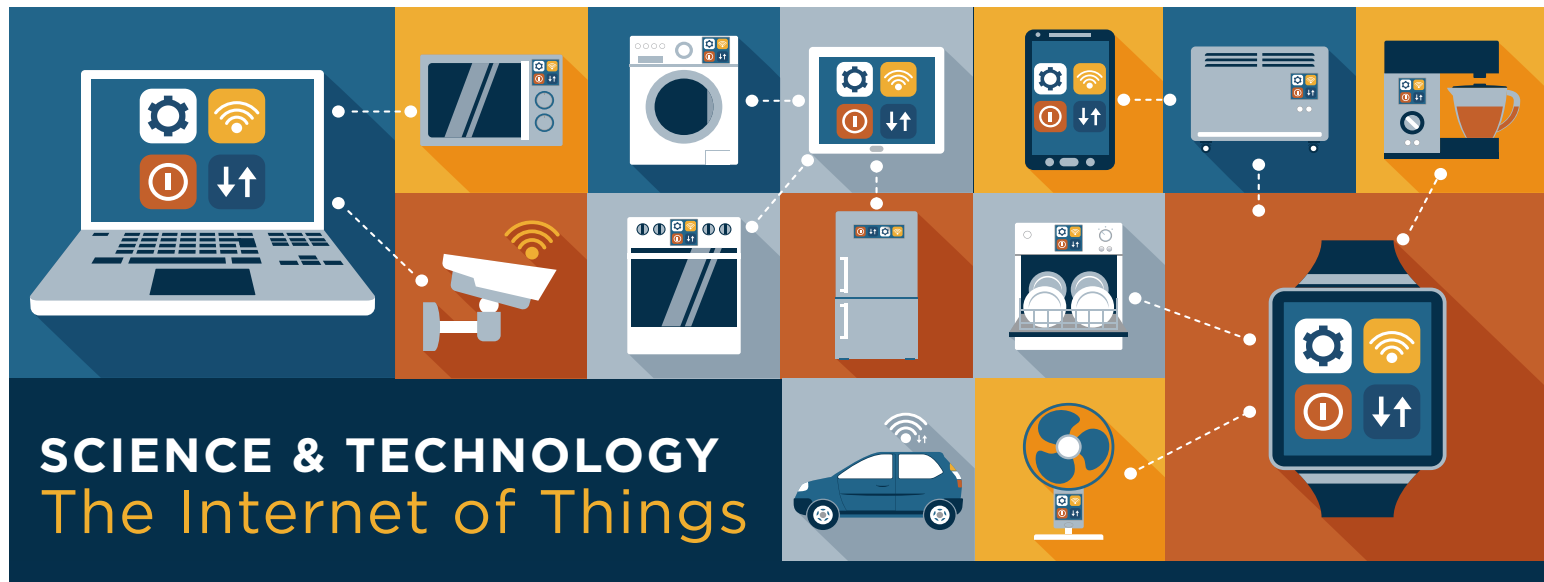
Such high and rising federal debt has serious consequences for the nation: When interest rates return to their more typical higher levels, net interest costs will more than triple from \$229 billion in 2015 to \$808 billion in 2025.

Net Interest Costs will Triple Between 2015 and 2025



Source: Congressional Budget Office

Moreover, because federal borrowing reduces national saving over time, the nation's capital stock would ultimately be smaller and productivity and total wages would be lower than they would be if the debt were smaller. In addition, lawmakers would have less flexibility than otherwise to use tax and spending policies to respond to unexpected challenges. Finally, a large federal debt increases the risk of a fiscal crisis, during which investors would lose so much confidence in the government's ability to manage its budget that the government would be unable to borrow at affordable rates. By comparison, Florida continues to improve its financial outlook by paying down its long-term debt, keeping its budget balanced, and storing excess reserves for a rainy day.



What is the Internet of Things?

Imagine a world where your customers' lawns decide to water themselves without intervention or their coffee pots start brewing because their alarm clocks told them to start. Many products used today will soon have sensors and the ability to communicate data to provide convenience, save money, or improve health. This technological transformation is known as the Internet of Things (IoT).

The IoT can be defined as the computerization and connection of devices that have previously not been connected to the internet and each other. These devices have the ability to sense, monitor, interact, and report changes in their environment. The products becoming connected range from televisions and home appliances to manufacturing equipment and medical devices.

The IoT's Opportunities

The IoT's impact is expected to be significant by all future estimations. Depending on the source, experts believe anywhere between 15-50 billion IoT enabled devices will be sold by 2020 and the estimated value of these items will be measured in trillions of dollars.

Middle market companies will benefit from the IoT through internal process improvements, which increase their efficiency as well as the products they produce for their customers. IoT product developers will enhance their offerings with:

- Innovative products for new markets
- Enhanced existing products through added capabilities (many of these products are not currently thought of as high technology)
- Identifying process efficiencies for themselves and their customers

Current IoT product examples include smart phone applications which allow for consumers to interact with companies on a more intimate level. Firms will benefit from this closer relationship by gathering customer specific data to better refine products and marketing strategies.

The health industry in particular has quickly embraced the IoT and its capabilities. Health IoT devices have the capability to record and monitor data in real-time and relay the information back to the medical office for review. Patients benefit by having key health indicators monitored (e.g., blood pressure, glucose) by the physician in between office visits.

In addition, the IoT will provide a number of operating benefits to businesses. Manufacturing operations will collect significant amounts of production line data in real time, highlighting areas for improvement. Businesses will also be able to monitor high value assets in real time to better define and predict maintenance, saving them money. For example, commercial truck manufacturers are now using sensors and software to diagnose problems with their vehicles as they run—minimizing down-time.

The IoT Will Create Challenges

For all of the IoT's promise, there are some challenges and concerns middle market companies need to be aware of as this technology becomes more widely available. For example, one of the IoT's anticipated benefits is interaction and communication between devices. However, there is no current communication standard for IoT devices. Businesses will have to work together to determine a common communication standard otherwise, the IoT's full benefits may not be realized.

Firms utilizing IoT technologies would also be astute to determine their ability to secure the data collected by their IoT systems. In fact, some of the more significant concerns regarding the IoT for middle market companies focus on device security and data privacy. The sheer number of devices available to companies will also make it difficult for companies to develop security protocols for each individual device it purchases or an employee brings to work. Some middle market companies may have the dual problem of securing the data they generate with their IoT devices and data they collect with IoT devices they sell to customers.

Like many new technologies, the IoT presents new options for companies and their consumers while at the same time creates potential challenges. It will be up to each firm to decide how they want to take part in the IoT.

BUSINESS BULLETIN

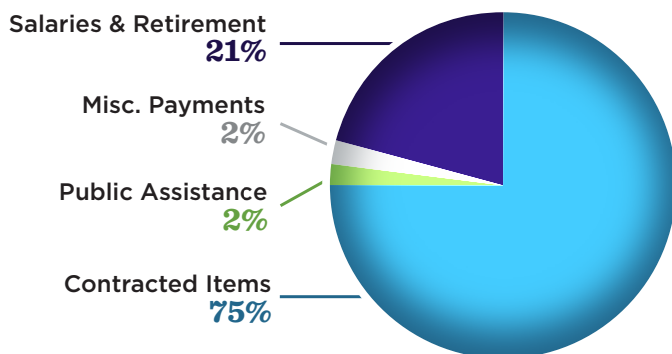
Sunshine in State Contracting

Floridians across the state work hard for every dollar they earn. If they don't do their job, they don't get paid. Similarly, businesses must offer a desirable product or service to generate revenue, or else they will lose customers. This reality is well understood by people who run a business, but government plays by a different set of rules. Government does not "earn" revenue. The only money available to government is what it takes or borrows out of your pocket. This is done under the pretense that government is spending your money wisely, but this can't be left to chance.

Making government transparent is not an option, it is an obligation. Government must be transparent and offer convincing proof that it is up to the task. It's your money, and you have a right to know how every penny of it is spent. In the past, this would have required sifting through mountains of paper, but technology has revolutionized government accountability by enabling the public to have unprecedented and easy access to government spending.

Florida has taken advantage of this opportunity by publishing state spending data and contracts online through the [Florida Accountability Contract Tracking System \(FACTS\)](#). Developed by the Department of Financial Services, FACTS is a comprehensive online tool that offers Floridians greater visibility into what their government is doing. With the click of a mouse, you can find and download detailed information about active state contracts, grant agreements, purchase orders, vendor payments, state spending, and even local government budgets and spending. Considering

Total State Spending



Fiscal Year 2013-2014

Source: FL Dept. of Financial Services



that three-fourths of the state's budget is spent in the form of a contract, it is critical that taxpayers can inspect public contracts and grant agreements.

Launched in 2012, FACTS marked the first time that the state's contracting process could be tracked through a centralized, statewide system. Today, FACTS is a user-friendly, interactive portal where the public can easily access and download more than \$80 billion in government contracts and grant agreements. Through FACTS, users are able to search for state contracts by agency, vendor, dollar amount, date, and commodity or service type provided. Further, the contract information in FACTS is regularly updated and audited with more contracts being added every day.

Since 2012, more than 65,700 contracts and grant agreements have been made open for public inspection through FACTS, two-thirds of which include images of the contract's documents. Roughly 375,000 state agency purchase orders are also readily accessible through FACTS.

This unprecedented transparency in state contracting has already saved taxpayers millions of dollars. When government contracts and spending is visible and accessible to the public, competition is stronger. As each contract expires, competition is increased due to the public and vendor communities' awareness of the types of work and services previously performed and the historical costs and payments associated with those contracts. As a result, Floridians have saved an estimated \$40 million from the renegotiation or negotiation of state contracts since Fiscal Year 2013-2014.

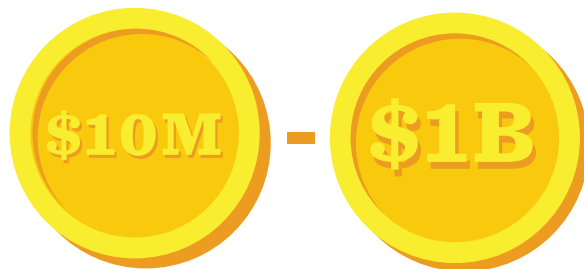
You are invited to explore the [FACTS](#) and [Transparency Florida](#) websites and see for yourself how Florida is striving to fundamentally change the relationship between the government and the people it serves.

EXPLORE FACTS & MORE AT: WWW.MYFLORIDACFO.COM/TRANSPARENCY

FLORIDA'S MIGHTY MIDDLE MARKET COMPANIES

SPRING 2015

What is the Middle Market?
Companies with Annual Revenue between



4 in every 5 Middle Market Companies in Florida Plan to Invest Instead of Save



Employ 1 in every 5 of Florida's Workforce



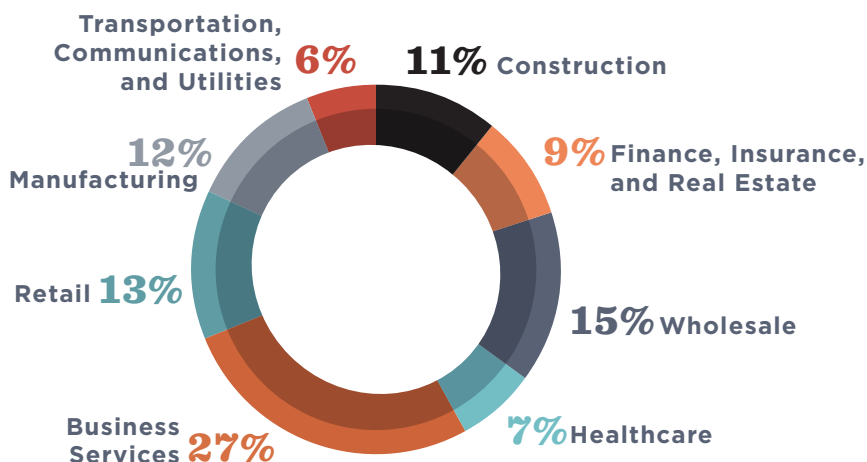
Employment Growth Past 12-Months

Florida **6.7%**
U.S. **5%**

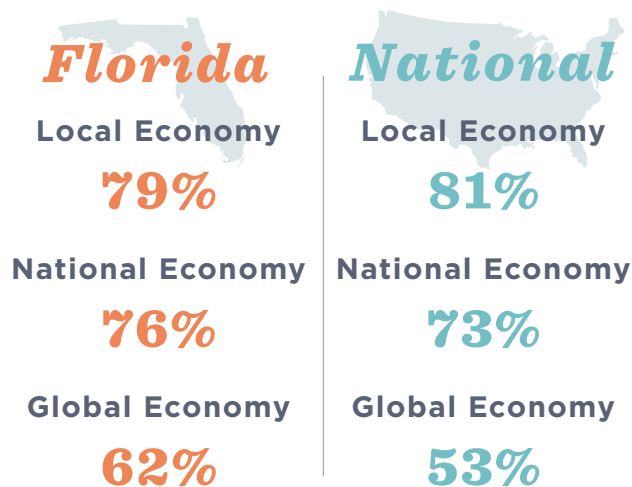
Revenue Growth Past 12-Months

Florida **8.6%**
U.S. **7.2%**

Florida's Breakdown of Middle Market Companies By Industry



Florida's Middle Market Company's Confidence



Source: National Center for the Middle Market

JEFF ATWATER
CHIEF FINANCIAL OFFICER

For more information about Florida's economy, please visit
www.MyFloridaCFO.com/FloridasBottomLine/