



BDO Seidman, LLP
Accountants and Consultants

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Executive Summary

The BDO Seidman 2009 RiskFactor Report for Technology Businesses

BDO SEIDMAN TECHNOLOGY PRACTICE

BDO Seidman, LLP works with a wide variety of technology clients, ranging from multinational Fortune 500 corporations to more entrepreneurial businesses, on myriad accounting, tax and other financial issues.

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BDO Seidman's *2009 RiskFactor Report for Technology Businesses*, an analysis of the risk factors listed in the 2008 fiscal year 10-K SEC filings of the 100 largest U.S. public technology companies, identified competition and product development as their top concerns.

BDO Seidman's research identified the most common risk factors among the 100 largest U.S. public technology companies as strong competition and consolidation (97 percent, also ranked as the primary risk factor in 2008 with 92 percent) and failure to develop new products or services (91 percent, ranked fifth last year with 84 percent). As the technology industry faces uncertainty from the recession, businesses are increasingly concerned with risks relating to general economic conditions (85 percent, up from 73 percent in 2008), revenue and stock price volatility (83 percent, up from 69 percent last year) and an inability to attract or retain key personnel (82 percent, up from 72 percent).

Risks associated with international operations is the third most common concern for technology businesses, cited by 90 percent (up from 85 percent and fourth place last year). With the European Union's recent \$1.45 billion antitrust fine against Intel and the Obama administration's proposed changes to

offshore taxation delivering an unexpected one-two punch to the technology industry, many U.S. tech companies are wondering what comes next.

Companies mention political and tax uncertainty (such as the recent moves by the EU and Obama), currency fluctuation, rising protectionism and a corresponding decrease in global trade as potential pitfalls for fiscal year 2009. Companies are also showing increasing concern about U.S. and foreign suppliers, including managing a global supply chain – this was mentioned by 78 percent and is number 10 on the list.

Two relevant risk factors that were not ranked in 2008 made the list this year: "natural disasters, war, conflicts and terrorist attacks" at number 14 (60 percent) and "disruption of distribution of products/services" at number 16 (52 percent). In an increasingly global world, technology businesses are worried about managing far-flung organizations.

"Previous economic downturns have tended to yield significant competitive repositioning of companies within the technology industry," said Douglas Sirotta, a Partner in BDO Seidman's Technology Practice. "This year's *RiskFactor Report* confirms that this is a chief concern among technology executives. Companies' inability to manage these risks could leave them in a diminished position as we emerge from the downturn," added Sirotta. "However, there is tremendous potential to come out of the recession with better products and services, a stronger organization and greater market share – an opportunity for technology companies 'to seek advantage when others are fearful,' to paraphrase Warren Buffett."

Further findings from the *BDO Seidman 2009 RiskFactor Report for Technology Businesses* include:

Consumer Demands, Pricing and Cost-Cutting

In a downward economy, consumers purchasing software, hardware, IT, telecom and Internet products and services often demand continued innovation at lower costs. As a result, technology companies are under increased pressure to predict consumer demand (62 percent), while managing pricing, margins and cost-cutting (51 percent).

Legal Issues and Product Liability

Intellectual property infringement (86 percent, ranked sixth in 2008 with 84 percent) remains a top threat, as it is tied for the fourth most frequently cited risk factor. However, risks associated with legal proceedings (68 percent) and product liability, quality and safety issues (58 percent) rank lower than last year among technology companies' concerns. Although fewer companies mention these risks, businesses in the technology industry cannot afford legal or manufacturing problems in this economic environment.

Regulations and Compliance

As technology companies continue to worry about operational and production risks in the recession, they are less concerned with changes to federal, state and local regulations, including tax (ranked ninth, down from the second in 2008). Almost two-thirds (62 percent) cite risks associated with accounting standards and internal controls, including Sarbanes-Oxley, as a concern.

M&A, Debt and Capital Risks

The distressed financial markets continue to affect dealmaking in the technology sector and increase companies' susceptibility to indebtedness. In fact, 86 percent of technol-

Top 20 Risk Factors of the 100 Largest U.S. Technology Companies

		2008 Rank
1.	Competition and consolidation in technology sector	97% 1
2.	Failure to develop or market new products/services	91% 5
3.	Risks associated with international operations	90% 4
4.	Tie: Management of current and future M&A or divestitures	86% 3
	Intellectual property infringement	86% 6
6.	U.S. general economic conditions	85% 7
7.	Cyclical revenue (and subsequent fluctuating stock price)	83% 11
8.	Inability to attract or retain personnel, incl. management	82% 8
9.	Changes to Federal, State and Local regulations, incl. tax	81% 2
10.	U.S. and foreign supplier/vendor concerns	78% 13
11.	Legal proceedings	68% 10
12.	Tie: Predicting customer demand	62% 15
	Internal controls and Sarbanes-Oxley compliance	62% 19
14.	Natural disasters, war, conflicts and terrorist attacks	60% Not ranked
15.	Product liability, quality and safety issues	58% 12
16.	Disruption of distribution of products/services	52% Not ranked
17.	Pressures on pricing, margins and cost cutting	51% 9
18.	Indebtedness	50% 20
19.	Inability to acquire capital or financing	42% 14
20.	Inability to maintain operational infrastructure and systems	41% Not ranked

ogy companies continue to be concerned with the challenges of managing current and future M&A transactions (consistent with 2008 percentages), while half (up from 44 percent in 2008) of technology companies have concerns about their indebtedness. Meanwhile, 42 percent are concerned with the inability to acquire capital or financing (down from 66 percent last year) in the tightened credit market.

Environmental Concerns

As green issues continue to gain both local and global prominence, companies in the technology sector are increasingly concerned with risks related to compliance with environmental regulations. Forty percent cited such concerns, including potential losses from the institution of carbon cap and trade programs.

About BDO Seidman, LLP

BDO Seidman, LLP is a national professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. Guided by core values including, competence, honesty and integrity, professionalism, dedication, responsibility and accountability for almost 100 years, we have provided quality service and leadership through the active involvement of our most experienced and committed professionals.

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