



**BDO Seidman, LLP**  
Accountants and Consultants

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# Executive Summary

## BDO Seidman 2008 Technology Outlook

### 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.

For more information on BDO Seidman's service offerings to the technology industry vertical, please contact one of our practice leaders:

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*These findings are from the BDO Seidman 2008 Technology Outlook Survey which examined the opinions of 100 chief financial officers at leading technology companies located throughout the U.S. including a subset in the Silicon Valley. The technology businesses in the study had revenues ranging from more than \$100 million to \$15 billion. The survey was conducted in January of 2008.*

During the initial weeks of 2008, the U.S. economy has been battered by weak retail sales, rising unemployment, a falling stock market, dropping home values and the latest dominoes to fall in the country's continuing credit crisis. Despite these concerns, financial executives in the technology sector continue to be optimistic. A recent study by BDO Seidman, LLP, of chief financial officers (CFOs) at leading U.S. technology companies shows broad based confidence for revenue growth and continued merger and acquisition activity in 2008.

In addition, the study measured CFOs thoughts regarding changes in financial reporting standards, Sarbanes-Oxley (SOX) compliance, shareholders say on pay, international outsourcing and more.

### 2008 Projections

Almost three quarters (73%) of CFOs at leading U.S. technology businesses expect to post increased sales revenue in 2008 over 2007, while fifteen percent are forecasting flat sales and only six percent believe they will experience a sales decline in the coming year. Overall, the technology CFOs predict a 7.9 percent growth rate in 2008.

Thirty-nine percent of the CFOs cited consumer demand for innovative personal technology as the greatest growth driver in 2008, while close to a third (32%) indicated that international expansion would be the main driver.

The ability to recruit and retain talent (38%) is seen as the greatest challenge for the coming year, with risk management (23%) finishing second, followed by access to capital (15%), financial reporting and corporate governance issues (14%) and foreign competition (9%).

### M&A Activity to Continue

Most CFOs anticipate that merger and acquisition activity in the technology sector will

either pick-up (41%) or stay about the same (42%) in 2008. Only seventeen percent see M&A slowing down in this vertical. Companies based in Silicon Valley were even more optimistic, as fifty-nine percent of CFOs believe that merger and acquisition activity in the technology sector will pick up, compared to only thirty-six percent of companies not located in Silicon Valley.

According to these CFOs, the primary drivers behind acquisitions in today's technology market are increasing revenue and profitability (37%), expanding market share (26%) and acquiring technology assets (24%).

Only twenty-seven percent of the CFOs expect their businesses to seek additional capital in the coming year. In fact, most Silicon Valley CFOs (86%) do not anticipate seeking additional capital in the coming year.

### IFRS vs. GAAP

Late last year, in a continuing effort to attract more stock listings to U.S. exchanges, the SEC voted unanimously to allow foreign companies to file financial results using international

financial reporting standards (IFRS) without reconciling the figures to U.S. generally accepted accounting principles (GAAP). While well intentioned, this change may have unintended consequences on U.S. technology businesses as nearly half (49%) of the CFOs believe it puts them at a competitive disadvantage, especially in the area of revenue recognition, to their international competitors. Given the opportunity, thirty-eight percent of the CFOs surveyed would switch from GAAP to the IFRS in order to level the playing field with their international competitors.

Interestingly, a majority (69%) of the CFOs believe U.S. Generally Accepted Accounting Principles provide better revenue recognition rules for technology businesses.

## Executive Compensation Disclosure

Two-thirds (67%) of CFOs at technology businesses indicate that their company's compensation plans have been impacted by legislative and regulatory changes, such as 409A and FAS 123R, focused on improved disclosure. Of those impacted, over one-quarter (27%) described the impact as high, thirty-seven percent described the impact as moderate and thirty-six percent said low.

Despite the impact on compensation plans, the vast majority (81%) of the companies indicate these disclosure changes have had little impact on their ability to attract and retain talent. When asked which financial tool is most effective in recruiting, retaining and motivating executives in the technology industry, forty-two percent cited restricted stock and thirty-eight percent cited stock option grants. Grants of profit interest (11%) and stock appreciation rights (9%) were also cited by a number of the CFOs.

When it comes to having a "say on pay", only thirty-one percent of the CFOs indicate that their company allows shareholders to vote on their executive compensation plans, compared to more than two-thirds (69%) that do not. Yet, a majority (61%) of the CFOs personally feel shareholders should have a say on executive compensation plans, compared to over one-third (39%) who do not.

## Reporting Challenges and SOX 404

When asked which financial reporting requirement poses the greatest challenge, in terms of compliance, a large percentage of CFOs identified both Section 404 of Sarbanes-Oxley (49%) and FIN 48 (36%). Only 12% cited 409A and three percent said it was other requirements. Querying the CFOs further regarding Sarbanes-Oxley Section 404, they cited the following:

- **Benefits.** Although there has been much criticism of the difficulties involved in complying with Section 404 of Sarbanes-Oxley, almost two-thirds (65%) of the CFOs of tech businesses feel that 404 has led to improved processes, compared to just over a third (35%) who feel 404 has curtailed innovation at their businesses.
- **Risk?** While thirty-nine percent of these financial executives believe Section 404 has curtailed corporate risk-taking at their companies, a majority (59%) feel risk taking has not been impacted.
- **Costs Stabilizing.** A majority (53%) of the CFOs believe their 404 compliance costs will stabilize this year, compared to twenty-two percent who anticipate costs to climb and twenty-four percent that expect a decline.

### • Inhouse, Outsource or Co-source.

Over half (54%) of technology companies manage their Section 404 compliance functions in-house versus only eleven percent that outsource the function to an external provider: Just over one-third (35%) of the CFOs indicated they manage their 404 compliance through a co-sourcing relationship (a combination of in-house and outsourcing) with an external provider.

## International Operations & Outsourcing

Approximately four-fifths (79%) of the CFOs indicate that their business has operations outside of the United States. When asked about international growth, the CFOs cite currency risk (26%) and uncertain political/business climates (25%) as their main concerns regarding continued expansion in foreign markets. Training of international employees (17%), risk to intellectual property (14%) and international business tax regulations (12%) were less of a concern to the CFOs.

Almost half (49%) of the CFOs say their company is outsourcing some type of manufacturing or service to a company outside the U.S. Of those outsourcing, the most common functions being sent offshore are: manufacturing (74%), IT services and programming (51%), research and development (49%), distribution (45%) and call centers (35%).

The most common locations for outsourcing are India (60%), Southeast Asia (50%), China (46%), Western Europe (21%) and Latin America (19%). When asked what one location they might consider for outsourcing in the future, the CFOs cited India (30%), China (23%), and Southeast Asia (22%).

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### 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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