Provided Courtesy Of
URISH POPECK
accountants and consultants

2012 BDO TECHNOLOGY OUTLOOK

EXECUTIVE SUMMARY

THE 2012 BDO TECHNOLOGY OUTLOOK SURVEY is a national telephone survey conducted by Market Measurement, Inc., an independent market research consulting firm, whose executive interviewers spoke directly to chief financial officers. Market Measurement used a telephone survey performed within a scientifically developed, pure random sample of U.S. technology companies in the software, hardware, telecommunications, Internet and information technology services subsectors.

For more information on BDO USA's service offerings to this industry vertical, please contact one of the regional service leaders below:

TIM CLACKETT, Los Angeles
310-557-8201 / tclackett@bdo.com

SLADE FESTER, San Jose
408-352-1951 / sfester@bdo.com

HANK GALLIGAN, Boston
617-422-7521 / hgalligan@bdo.com

AFTAB JAMIL, Silicon Valley
408-352-1999 / ajamil@bdo.com

DOUG SIROTTA, Silicon Valley
408-278-0220 / dsirotta@bdo.com

RYAN STARKES, Woodbridge
732-734-1011 / rstarkes@bdo.com

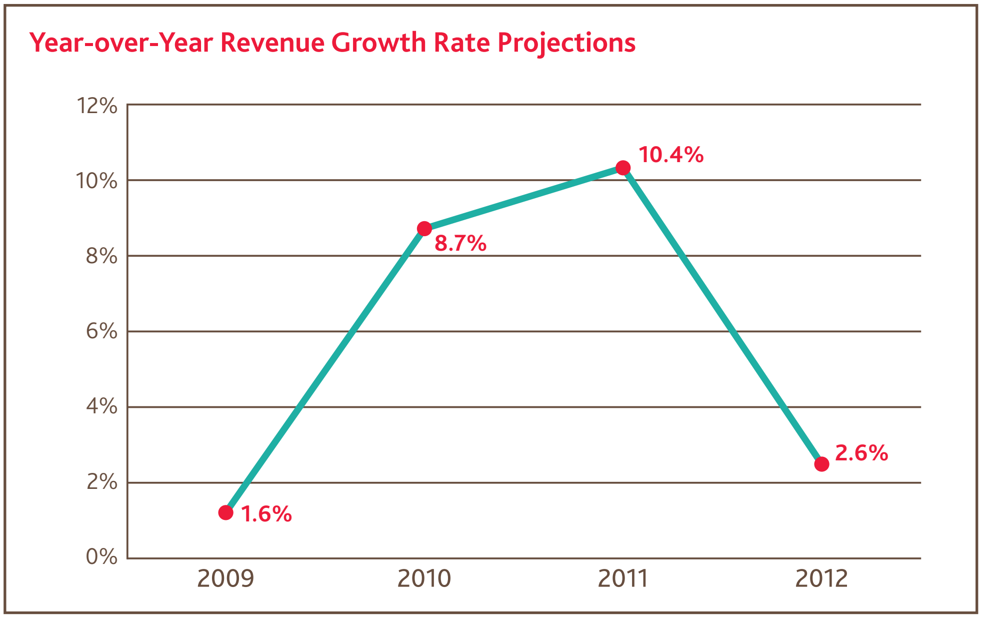
DAVID YASUKOCHI, Orange County
714-913-2597 / dyasukochi@bdo.com

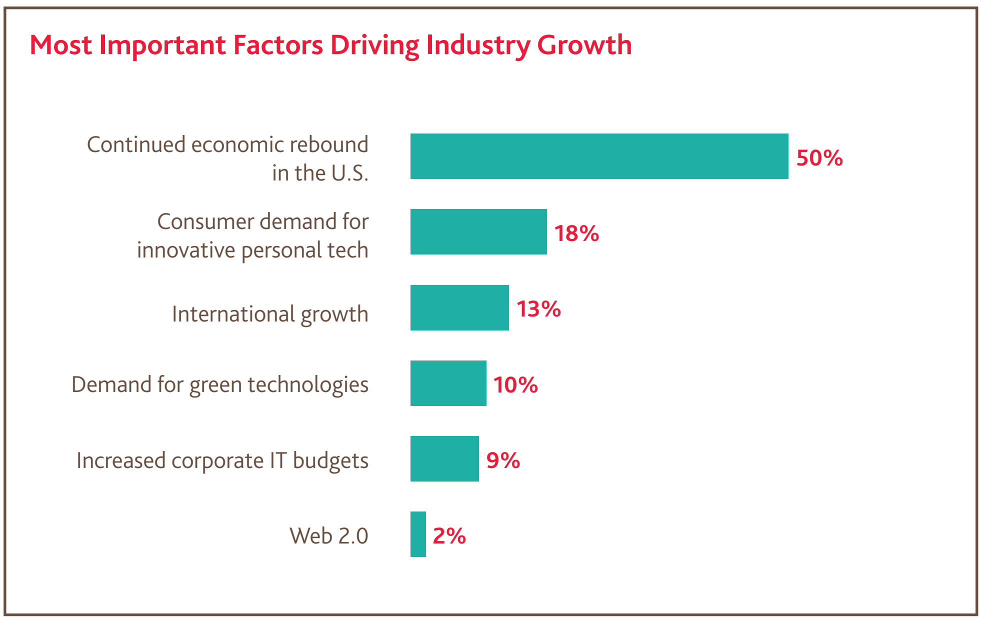
TECH COMPANIES RESPOND TO FIERCE COMPETITION WITH CONFIDENCE AND PLANS FOR GROWTH

Mixed news in recent months about the U.S. marketplace has painted an uncertain picture of where the economy is headed this year. Amid this flux and heightened competition in the industry, technology companies are focusing more on long-term goals. 2012 looks to be another banner year for M&A as companies are working to grow their bottom lines, acquire intellectual property assets and increase headcount through strategic transactions.

From December 2011 to January 2012, BDO conducted its fifth annual survey of 100 chief financial officers (CFOs) at U.S. technology companies. The survey asked them to look back at the challenges and opportunities in 2011 and provide their predictions for the industry in 2012.

Read more





"Most technology companies have been very strategic in preserving cash and liquidity to sustain their business activities through cash generated from operations. That is leading fewer CFOs to look for capital externally."

– Aftab Jamil, partner and director of the Technology and Life Sciences practice at BDO USA, LLP.

▶MORE MODEST REVENUE PROJECTIONS

CFOs said that the continued rebound of the U.S. economy will be the most important factor driving tech industry growth in 2012, while still recognizing the various geopolitical issues that could hinder the recovery process. As a result, CFOs are more cautious with revenue projections this year. Although 73 percent of CFOs expect revenue to increase in 2012, their estimation of a 2.6 percent revenue increase is markedly lower than in 2011 when respondents projected a 10.4 percent rise.

Still, as markets stabilize, CFOs note more confidence in these predictions. Nearly all (91 percent) feel about the same (46 percent) or better (45 percent) about their ability to reliably forecast revenue compared to previous years.

▶CFOs WILL TURN TO DEBT AS PRIMARY FUNDRAISING TOOL

While revenue growth predictions may be down from 2011, CFOs are increasingly more confident in their ability to access capital. In this year's survey, 93 percent of CFOs noted that they are feeling better (76 percent) or the same (17 percent) about their ability to access capital and credit. However, 13 percent fewer respondents expect to seek out additional capital in 2012 (38 percent vs. 43 percent in 2011).

For those who intend to fundraise, public and private debt will be the primary means of raising capital for 55 percent of tech CFOs. This is the first time in the history of the survey that the majority of respondents have chosen debt over private equity as their top fundraising tool. Still private equity remains a popular option, with 35 percent of CFOs (vs. 43 percent in 2011) saying it will be their main tool to raise capital. Interest in public equity also dropped; just 9 percent of CFOs cited it as their primary source of funding, down from 19 percent in 2011.

▶ Read more

"Historically low interest rates on U.S. government securities are driving fixed income investors to seek higher yields elsewhere, and the public debt market is an attractive option. However, this trend will not last forever. At some point, government rates will increase or rather revert to the mean, leading to higher interest rates in public debt markets and forcing investors down other fundraising avenues."

– Mike Kuczborski, partner in the Private Equity practice at BDO USA, LLP.

▶M&A ACTIVITY: ACQUIRE OR BE ACQUIRED

2011 saw strong levels of M&A deal-making, and 95 percent of CFOs expect that activity to increase (75 percent) or remain the same (20 percent) this year. With respondents pointing to competition as their greatest challenge, it's no surprise that the majority (77 percent) expect M&A deals to be a primarily offensive pursuit. For companies engaging in M&A transactions, the top goals are to bolster revenue, profitability, market share and the breadth of technology and IP assets.

"Last year the industry entered into growth mode, and while that is largely positive, it also fueled rivalry. In 2012, the battle is on for talent, intellectual property and market share as companies look to emerge as leaders in the industry."

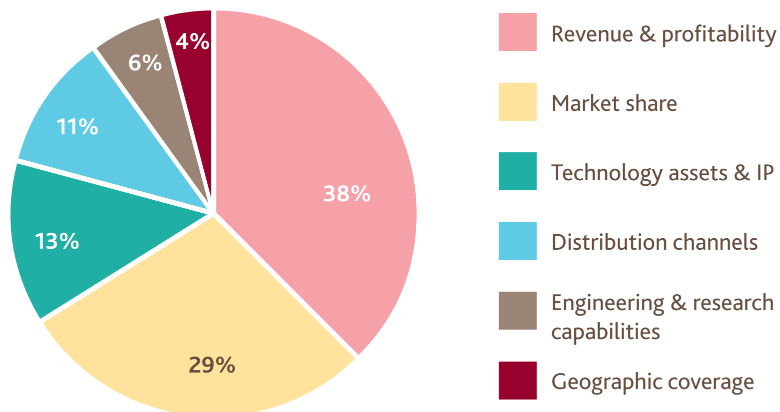
– Hank Galligan, leader in the Technology and Life Sciences practice at BDO USA, LLP."

Amid high levels of competition among cloud and software-as-a-service (SaaS) providers, 39 percent of CFOs project traditional software companies will see the most M&A activity, followed by the media/telecom sector. The biotech and life sciences, hardware and cleantech sectors are also expected to be top areas for deal flow.

"The fiercely competitive environment is pushing companies to target the best and brightest technologies. Among middle-market tech companies, in particular, there is an 'acquire or be acquired' mentality."

– Aftab Jamil

Primary Drivers for Acquisitions



▶CFOs FORECAST AN UPTICK IN IPO ACTIVITY

Despite talks of a "tech bubble" last year, 2012 looks to be another busy year for public offerings. Shortly before Facebook's notable filing, 63 percent of CFOs predicted an increase in tech industry IPO activity for 2012. This is consistent with BDO's 2012 IPO Outlook Survey, which found that 73 percent of capital markets executives expect to see an increase in IPO activity in the technology sector this year.

▶TAX SYSTEM CAUSES CONCERN, HINDERS ABILITY TO COMPETE GLOBALLY

Complex U.S. tax reform continues to weigh heavily on the minds of technology CFOs. Thirty-one percent of respondents cited corporate tax rates as the area of reform they are most concerned about. Aggressive state tax laws were also listed by 23 percent of CFOs, as were taxation of overseas activities (19 percent) and transfer pricing (11 percent). Additionally, more than half of respondents (57 percent) noted that the U.S. tax system hinders their ability to compete on a global level.

Expiring tax incentives were not among the top worries for CFOs in this year's survey, cited as a concern by only 16 percent, and the majority of respondents (68 percent) said that the R&D tax credit had very little impact on their R&D activities.

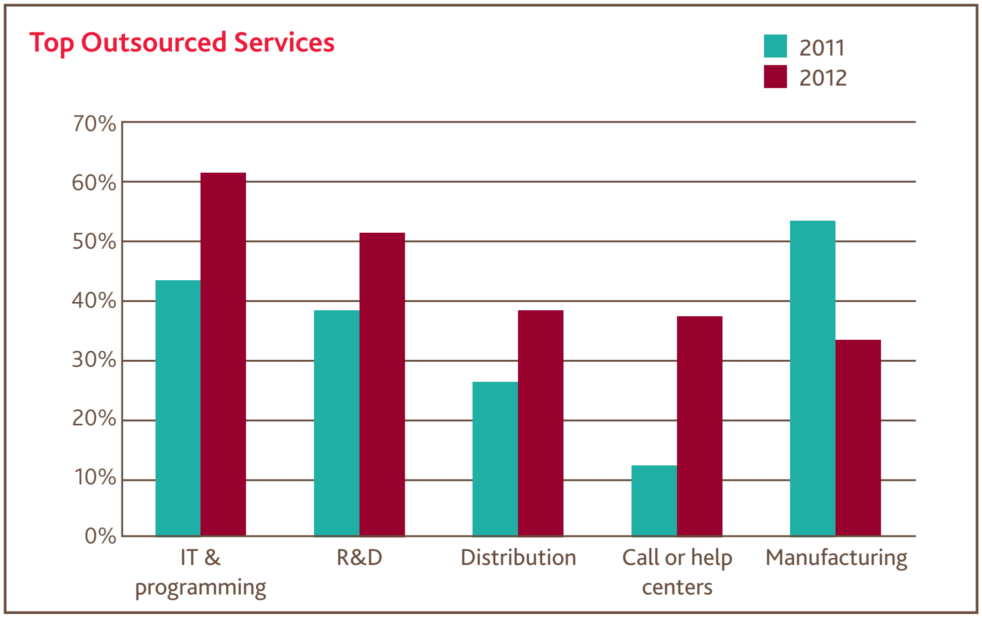
"It's unsurprising that most tech CFOs aren't concerned with the expiration of the R&D credit. While it's clear that the credit is valuable - particularly for job creation - tech companies simply haven't been able to count on it when planning R&D activities."

– David Yasukochi, partner in the Technology & Life Sciences practice at BDO USA, LLP.

▶EVOLVING INDUSTRY STANDARDS PROVE THEIR WORTH

The relatively new FASB standards attempting to provide clarity on revenue recognition issues have proved, for many tech CFOs, a useful and productive endeavor. While the majority of respondents in the survey noted that the new rules governing revenue recognition did not have a major impact on their organization's selling practices, 55 percent feel that the new accounting rules have resulted in more consistent pricing. Another 42 percent report more streamlined compliance processes and 4 percent noted better alignment across their sales department.

When considering the ongoing debate over IFRS versus GAAP, CFOs are split. Fifty-five percent said they would prefer to stay with GAAP, while another 45 percent favored either a full or gradual adoption of IFRS. However, when looking at public versus private companies, the majority of public companies (61 percent) would prefer either a full or gradual adoption of IFRS, while 52 percent of private companies would elect to stay with GAAP.



"We believe that tech companies are keeping jobs closer to home for economic reasons," **Paul Heiselmann, partner in the Technology and Life Sciences practice at BDO USA, LLP,** told *Global Services*. "The cost of labor in India and China has risen significantly over the past few years, and we're seeing more availability in the U.S. workforce and relatively steady wages. Add to that the time differences, travel costs, supply chain concerns and communications issues, and outsourcing for emerging and middle-market companies becomes an even less attractive option."

▶OUTSOURCING CONTINUES TO DECLINE

While 60 percent of tech CFOs noted that their company operates globally, fewer are outsourcing services and manufacturing. In this year's survey, 32 percent of tech CFOs said they were currently outsourcing services and/or manufacturing overseas. This marks a continued decline from 2009 when nearly twice as many companies (62 percent) were outsourcing.

The most popular services currently being outsourced are IT and programming (63 percent), R&D (51 percent), distribution (38 percent) and call or help centers (37 percent). By contrast, manufacturing, which historically has been cited as the most commonly outsourced function, fell to the bottom spot this year. Amid a push from Washington and major supply chain issues overseas, manufacturing jobs are slowly returning to the U.S.

▶INDIA REEMERGES AS THE TOP OUTSOURCING DESTINATION

After declining in popularity from 2008-2011, India now leads the list of countries to which companies are currently outsourcing. In fact, 62 percent of companies outsourcing report that they source services from India, a major increase from 2011 (29 percent). India remains a powerhouse in the outsourcing community largely due to its more established and talented workforce. Other popular destinations include China, Western Europe and Southeast Asia.

▶CFOs LOOK TO LATIN AMERICA FOR FUTURE OUTSOURCING NEEDS

Among the CFOs who indicated that their organization is currently outsourcing, Latin America was chosen for the first time as the most popular location for potential future outsourcing – a nod to the value CFOs are placing on the advantages of proximity and a skilled workforce. Western Europe was also cited as a potential future outsourcing location by 20 percent of CFOs, as were China (19 percent) and India (12 percent).

▶HIRING IS ON THE RISE

As the tech industry relies less upon international outsourcing efforts, companies are looking to increase headcounts stateside. To that end, 50 percent of CFOs anticipate increasing the number of employees at their respective organizations. Another 41 percent expect employment levels to remain steady, and just 8 percent expect to see a decrease.

The majority of these new positions will be dedicated to bolstering the product cycle: 41 percent of CFOs will increase sales and marketing roles, and 23 percent will focus on positions in research and development. Manufacturing, administrative and management job sectors are also expected to see a bump in headcount.

▶ Read more

▶PREDICTIONS OF HIGHER PAY ALLUDE TO CONFIDENCE IN COMPANY PROFITABILITY

With the Dodd-Frank Act in its third year, pay-for-performance remains a key focus among boards of directors. When asked which performance measure will have the greatest influence on executive compensation, the majority of CFOs (75 percent) pointed to a profitability-based metric as opposed to either revenue or total shareholder return. At the same time, 94 percent of CFOs anticipate that their pay will either increase (46 percent) or remain the same (48 percent) this year, indicating a high level of confidence that tech companies will meet or exceed profitability targets.

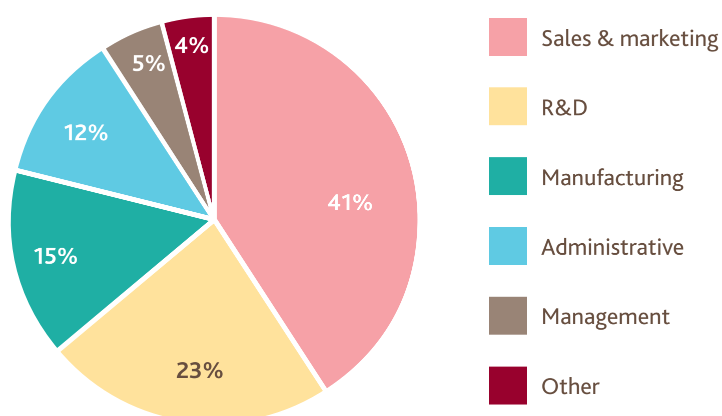
▶TECH COMPANIES HAVE YET TO EMBRACE THE CLOUD INTERNALLY

The overall marketplace demand for SaaS and cloud computing is on the rise, but many tech companies have been slow to adopt these measures internally. Forty-nine percent of CFOs stated that they are still not using cloud computing at their own organization, likely a result of the amount of time, effort and financial investment associated with integrating a system internally. When asked about factors driving the skyrocketing marketplace demand for SaaS, CFOs cited increased efficiency (46 percent), reduced IT costs (35 percent), the ability to serve a larger customer base (13 percent) and increased reliability (6 percent).

Current Outsourcing Destinations	2012	2011	2010	2009	2008
Canada	11%	9%	11%	4%	17%
China	39%	35%	44%	19%	46%
Eastern Europe	14%	9%	17%	12%	19%
India	62%	29%	36%	50%	60%
Latin America	6%	9%	22%	8%	19%
Southeast Asia	23%	24%	36%	31%	50%
U.S.	5%	6%	11%	8%	N/A
Western Europe	29%	24%	22%	19%	21%

Future Outsourcing Destinations	2012	2011	2010
China	19%	18%	32%
Eastern Europe	2%	3%	9%
India	12%	24%	21%
Latin America	23%	9%	N/A
Southeast Asia	5%	15%	18%
U.S.	1%	N/A	N/A
Western Europe	20%	3%	N/A

Job Sectors with Most New Employees



"While the past few years have seen a decline in headcount, the industry has reached a tipping point. Not having enough people to do the job is problematic, and as companies feel more optimistic about improving economic conditions in the U.S., they are more confident in their ability to hire full-time employees."

– Paul Heiselmann

BDO TECHNOLOGY & LIFE SCIENCES PRACTICE

BDO has been a valued business advisor to technology and life sciences companies for over 100 years. The firm 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.

BDO is the brand name for BDO USA, LLP, a U.S. professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. For more than 100 years, BDO has provided quality service through the active involvement of experienced and committed professionals. The firm serves clients through more than 40 offices and more than 400 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multinational clients through a global network of 1,118 offices in 135 countries.

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. For more information, please visit: www.bdo.com.