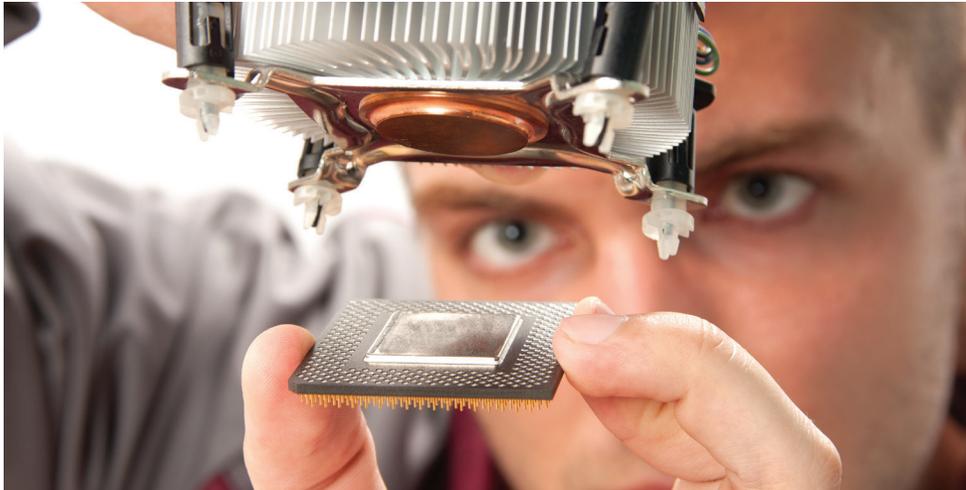


2013 BDO TECHNOLOGY OUTLOOK



TECH COMPANIES ON THE REBOUND AS M&A ACTIVITY INCREASES

Volatility in consumer demand and fierce competition is forcing technology companies to innovate like never before to maintain market share. As a result, mergers & acquisitions (M&A) are on the rise as a strategic tool to maintain or advance competitive advantage and tap into the innovation capital and intellectual property of acquisition targets. New technologies, like cloud computing and mobile, are also providing technology CFOs additional opportunities to make strategic moves to enhance their

company's offering and be able to compete in a global marketplace.

This sentiment was captured from December 2012 to January 2013, when BDO conducted its sixth annual **Technology Outlook Survey** of 100 chief financial officers (CFOs) at U.S. technology companies. The survey asked them to consider the challenges and opportunities ahead and provide their predictions for the industry in 2013.

THE 2013 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.

The report has been cited in a number of media outlets including: *The Wall Street Journal*, *Investor's Business Daily*, *NJ BIZ*, *CIO*, *PCWorld*, *IT Business Edge* and *Nearshore Americas*.

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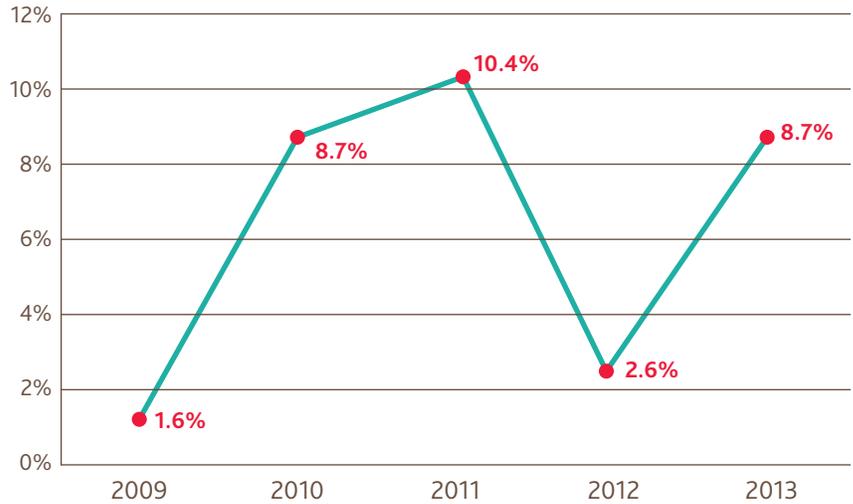
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► REVENUE ON THE REBOUND

Technology CFOs were optimistic heading into 2013, with 58 percent of technology CFOs expecting a revenue increase this year. CFOs foresee overall revenue increases of 8.7 percent – an increase of 6.1 percentage points from the 2.6 percent growth that was anticipated when the 2012 survey was conducted. Of those CFOs who anticipated revenue growth, 20 percent expect their business' bottom line to increase by 5 to 9 percent; only about one in 10 CFOs surveyed expect revenue to decrease.

As markets improve, CFOs note more confidence in these predictions. Nearly all (86 percent) feel about the same (50 percent) or better (36 percent) about their ability to forecast revenue with confidence compared to previous years.

Year-Over-Year Revenue Projections



Source: BDO Technology Outlook Survey

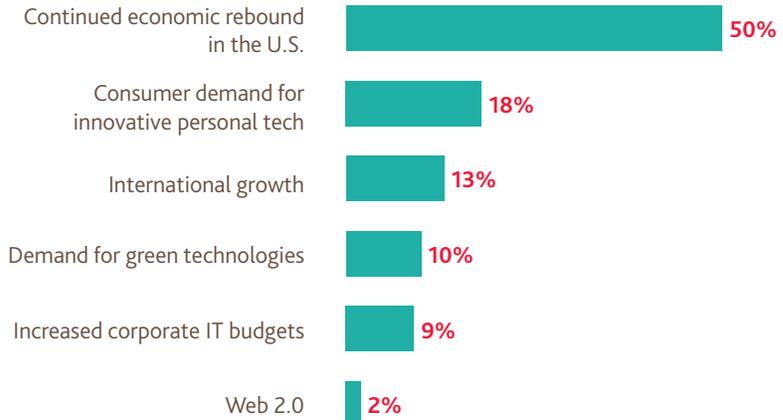
► U.S. ECONOMIC REBOUND TO DRIVE THE TECH INDUSTRY FORWARD

Amid improving expectations for revenue growth, technology CFOs point to a steady economy and increased consumer demand as key drivers of growth in 2013. Over one-third of CFOs (37 percent) believe that economic improvement in the U.S. will once again be the most important factor for industry growth this year.

Despite economic challenges abroad, more CFOs (23 percent vs. 13 percent in 2012) believe that growth in the global marketplace will "make or break" U.S. companies' ability to reach their growth targets in 2013. In addition, 28 percent of CFOs expect that consumer demand for innovative personal technologies will be another top driver of industry growth this year.

As tech companies pursue growth opportunities, it is no surprise that fierce competition once again remains the top concern in 2013. Increasing demands for innovation are leading 45 percent of CFOs to say that competition will be their greatest obstacle this year. Eighteen percent of CFOs cited recruiting and retaining workforce talent as their biggest challenge for the coming year.

Most Important Factors Driving Industry Growth



Source: BDO Technology Outlook Survey

Macroeconomic challenges are also facing technology companies. With more healthcare reform mandates expected to be implemented this year, 40 percent of CFOs believe that rising costs and new administrative requirements associated with U.S. healthcare reform legislation will prove challenging.

"With customer demand for innovative products and services on the rise, we expect more technology companies will face greater challenges from competitors looking to be the first to supply those demands," said **Hank Galligan, director and national Software practice leader at BDO.**

► CFOs TURNING TO PRIVATE DEBT, PRIVATE EQUITY TO RAISE CAPITAL

In a shift from 2012, 64 percent of technology CFOs (compared to 38 percent in 2012) are planning to seek additional capital in 2013.

The CFOs of companies seeking capital are looking to private debt (52 percent) as their primary fundraising method. However, private equity gained additional footing in 2013 with 42 percent noting that it serves as their primary fundraising strategy, up 13 percent from 2012 (35 percent). Fewer CFOs say they will look to public equity (4 percent) or public debt (1 percent).

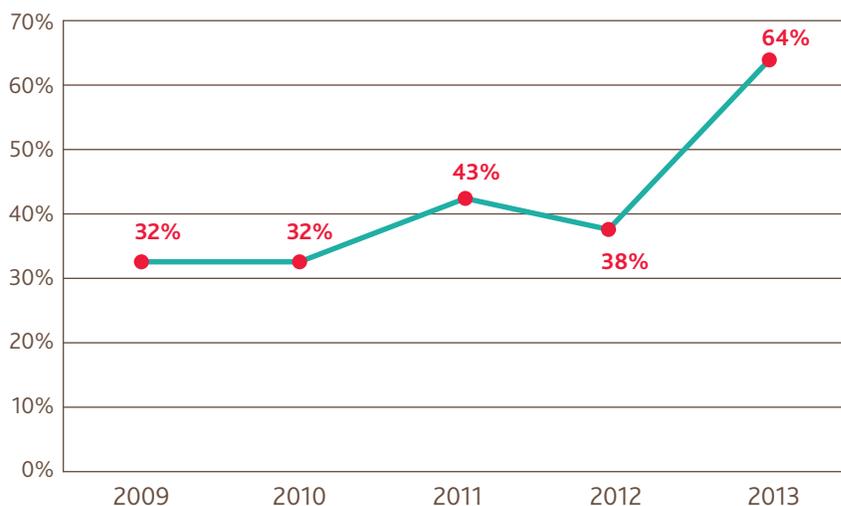
“2012 was a strong year for private equity investment in the technology sector,” said **Lee Duran, partner and national Private Equity practice leader at BDO**. “Software, especially cloud computing and SaaS-based technologies, along with IT services, drove deal flow. As we look forward to 2013, we can anticipate larger conversations around valuations as the industry works to establish more realistic figures based on achievement and rooted in potential for future growth.”

► M&A ACTIVITY ON THE OFFENSIVE TO INCREASE INTELLECTUAL PROPERTY ASSETS

CFOs anticipate a strong M&A environment in 2013. Nearly all CFOs expect M&A activity will increase (60 percent) or remain the same (25 percent) as 2012 levels. CFOs predict that M&A activity will be primarily offensive (72 percent), with financial officers identifying access to technology assets and intellectual property as the primary driver for M&A, followed by revenue and profitability, and market share.

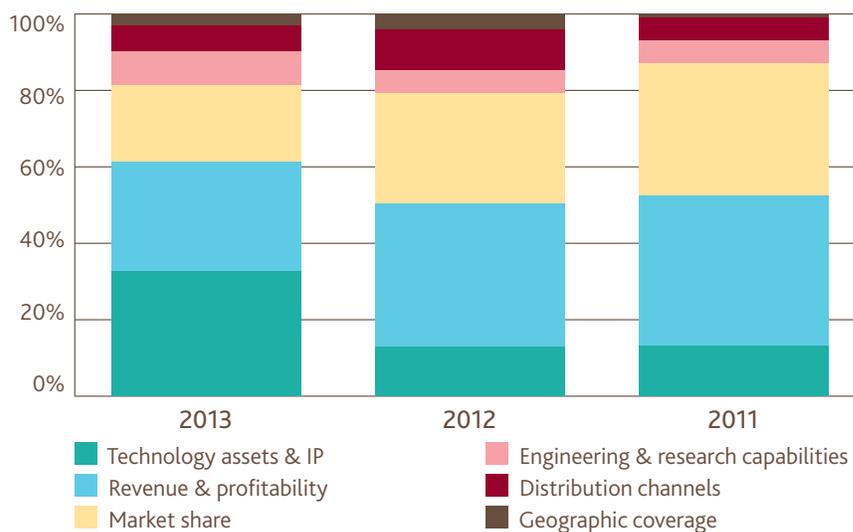
While access to technology assets and intellectual property (IP) has always been a factor for technology companies' acquisition strategy, this is the first time in survey history

Companies Seeking Capital Year-over-Year



Source: BDO Technology Outlook Survey

Primary Driver for Acquisitions Year-over-Year



Source: BDO Technology Outlook Survey

that CFOs cited it as the primary reason for M&A activity.

The cloud computing sector will drive the most M&A activity with 63 percent expecting it to lead deal activity, a 62 percent increase from 2012. Hardware (13 percent) and social media (10 percent) rounded out the top three areas of focus.

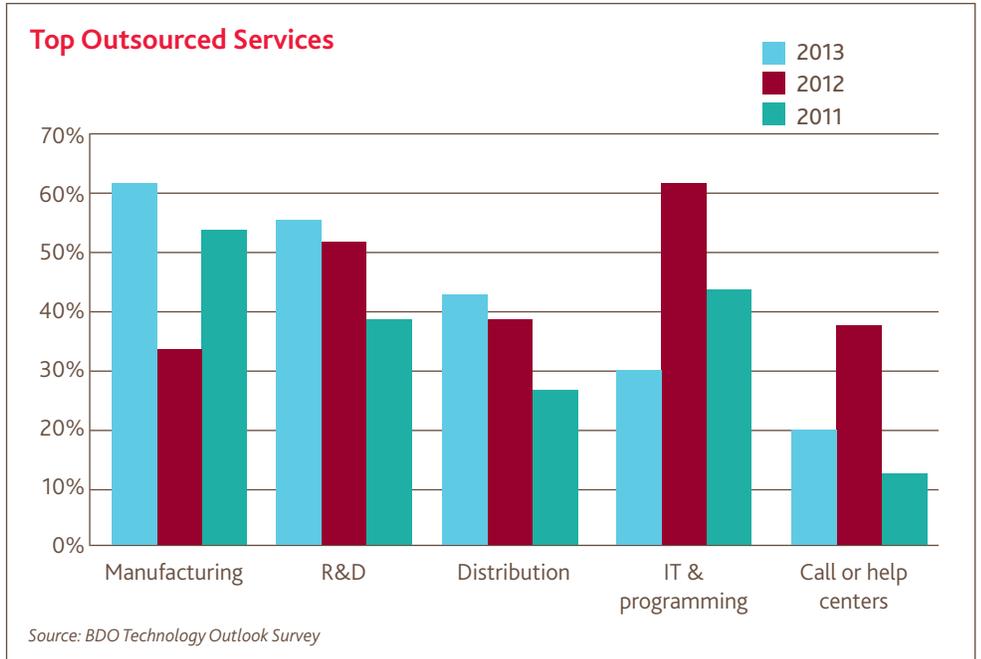
“I would expect a hunger for technological assets to drive deals over the next few years,” **Aftab Jamil, partner and Technology & Life Sciences practice leader at BDO** told *The Wall Street Journal*. “If a bigger company can't develop the technology internally but can identify a smaller company that has managed to leapfrog them, they are looking to go in and take them out.”

“We are at the beginning of a new ecosystem in the tech industry. The ‘acquire or retire’ mentality is growing among technology companies who see acquisitions as a way to enhance their IP and gain access to talent that will advance their brand and product portfolio,” said **Aftab Jamil, partner and Technology & Life Sciences practice leader at BDO**. “Acquisitions by Facebook and Google are excellent examples of recent M&A trends that focus on the acquisition of talent and IP as the primary strategic drivers.”

► IPO ATTITUDES IMPACTED AFTER A CHALLENGING 2012

2012 was an interesting year for technology IPOs. From success in the enterprise technology category with IPOs from Workday and Splunk, to more challenging IPOs from Facebook and Digital Domain, it is not surprising that two-thirds of CFOs believe that the problems characterizing IPOs in 2012 will impact IPO activity this year. While 48 percent anticipate IPO activity will increase, this is down from 63 percent who forecast an increase in 2012.

This trend mirrors recent findings published in the annual *BDO IPO Outlook Survey* that predicted slower growth in IPO activity in 2013. While the JOBS Act attempts to reduce the regulatory burden for emerging growth companies seeking to launch IPOs and was enacted to open additional streams of capital for private companies, 79 percent of technology CFOs feel that it will have no impact on IPO activity in 2013.



► OUTSOURCING ON THE RISE AGAIN

For the first time in three years, CFOs reported an increase in outsourcing, with 63 percent planning to outsource or manufacture products outside of the U.S. this year. This marks the highest number of U.S. technology companies outsourcing since the inception of the survey in 2008. Interestingly, of the companies that are not currently outsourcing, 84 percent said they are not likely to do so this year.

Sixty-one percent of CFOs say manufacturing will be, once again, the most heavily outsourced function for U.S. technology companies, despite recent rises in U.S. manufacturing in other industries. There have been a few notable examples of technology companies – including Apple, Lenovo and GE – bringing manufacturing back to the U.S.

China remains the top outsourcing destination with 38 percent of technology CFOs reporting current operations in the country. However many CFOs are condensing the regions where they outsource. In 2012, CFOs reported they were outsourcing to eight different countries; in 2013, CFOs surveyed noted outsourcing to only six countries, excluding Western Europe and Latin America in this year's results. Most

outsourcing dollars are still directed toward Asia, with India as the second most popular destination followed by Eastern Europe and Russia (29 and 16 percent, respectively).

► JOB GROWTH ON THE HORIZON

Despite the growth in outsourcing, technology executives surveyed also anticipate growth in the U.S. technology job market in the year ahead. Overall, 43 percent anticipate the total number of U.S. employees will increase in 2013, while an additional 45 percent expect their workforce to remain stable.

As U.S. technology companies increase hiring, sales and marketing (32 percent) and research and development (30 percent) are the leading positions employers are looking to fill. Manufacturing is also on the rise, with 27 percent of CFOs saying they will add the most new positions in that area this year.

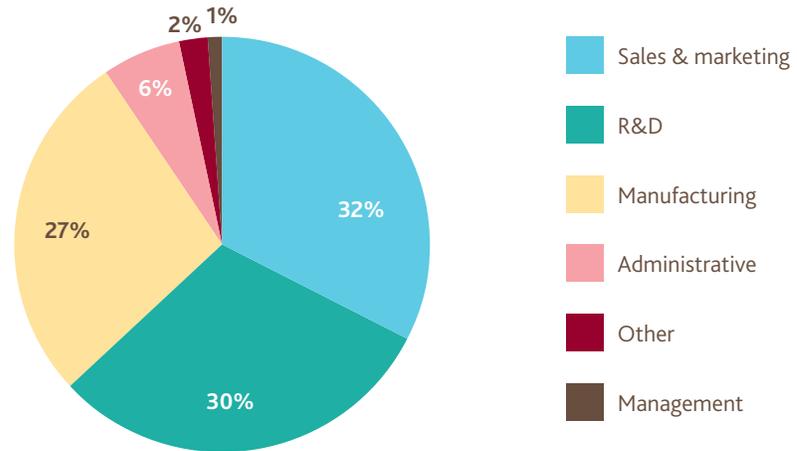
"Despite an unemployment rate still hovering near 7.7 percent, the technology industry is rapidly growing, thanks to new technologies and trends like big data, mobile applications and cloud collaboration," said **Aftab Jamil, partner and Technology & Life Sciences practice leader at BDO.** "While the drive to remain competitive has led technology companies to maintain outsourcing contracts, many are working in tandem to grow their U.S. workforce to develop new and innovative products and solutions in the U.S. while outsourcing traditional 'back office' operations."

► U.S. TAX ENVIRONMENT IS NOT HINDERING INTERNATIONAL GROWTH

Though technology companies are using outsourcing to gain a competitive advantage, 61 percent of U.S. technology executives surveyed do not believe that the U.S. tax system is hindering their ability to compete in a global marketplace. In fact, domestic tax concerns, including corporate tax rates (39 percent) followed by taxation of overseas activities (21 percent), are their primary concerns related to U.S. corporate tax reform. However, technology CFOs do not believe that a repatriation tax holiday would incentivize them to bring outsourced services and operations back to the U.S.: 72 percent of executives surveyed said it would not change their plans in 2013.

"With mobile technology and 'bring your own device' policies on the rise, the risks associated with these technologies are now top of mind for many CFOs" said **Hank Galligan, director and national Software practice leader at BDO.** "In 2013, we anticipate companies will dedicate increased time and resources to improving their IT and security surveillance techniques to better prevent threats of mobile device and computer hacks."

Job Sectors Hiring



Source: BDO Technology Outlook Survey

► MOBILE AND IT SECURITY SPENDING IS ON THE RISE

As the use of mobile technology in the workplace increases, more than half (54 percent) of the CFOs surveyed believe that mobile devices are going to have the biggest impact on their sales channels in 2013. Greater adoption of mobile technology into sales, operations and customer relations operations has seven out of 10 CFOs expecting to increase spending on their IT and security surveillances.

► INCENTIVE PLAN STRUCTURES ARE SHIFTING

Nearly two-thirds (64 percent) of CFOs polled said that they will continue to use profitability-based metrics as their primary performance measure that will apply to management's annual incentive plans in 2013. However, this represents a 15 percent decrease from last year, when 75 percent of CFOs planned on using profitability-based metrics as their primary performance measure.



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