

# BDO Tech

THE NEWSLETTER OF THE BDO SEIDMAN TECHNOLOGY PRACTICE

SUMMER 2008

## The Big Picture

### RISKY BUSINESS FOR TECHNOLOGY COMPANIES

**What keeps management of U.S. technology companies up at night? Many companies believe that the slowdown of the U.S. economy is of chief concern. However, *The BDO Seidman 2008 RiskFactor Report for Technology Businesses*, which analyzed the risk factors listed in the 2007 fiscal year 10-K SEC filings of the 100 largest U.S. public technology companies, found that risks associated with regulatory changes and international operations were top of mind of U.S. technology CEOs.**

BDO Seidman's research identified strong competition (92%) and changes to federal, state and local regulations, including tax (87%) as the most common risk factors among the 100 largest U.S. public technology companies. More interesting, major technology companies cited risks associated with international operations (85%) more frequently than risks related to U.S. general economic conditions (73%).

As companies look to carefully expand abroad, serve developing markets and strengthen U.S. operations, they are concerned with the challenges of managing current and future M&A transactions (86%), the inability to develop or market new products or services (84%) and intellectual property infringement (84%).

"We created The 2008 BDO Seidman RiskFactor Report to serve as an annual benchmark of the changing concerns at major public technology companies. This initial study shows that technology companies are much more concerned with the impediments to international growth and operations over the challenges they face at home with the struggling U.S. economy," said Doug Sirota, a Partner in BDO Seidman's Technology Practice. "While companies are combating regulatory changes and continuingly



addressing cost cutting, pricing and margins, they are also alarmed by issues relating to intellectual property infringement, legal proceedings, supplier/vendor quality and product liabilities. Management is communicating to shareholders that attention must be given to these issues before they impact customer confidence and, consequently, sales."

CONTINUES ON PAGE 2



**BDO Seidman, LLP**  
Accountants and Consultants

## The Big Picture

# RISKY BUSINESS FOR TECHNOLOGY COMPANIES

(CONTINUED FROM PAGE 1)

### The following is the list of the Top 20 Risk Factors of the 100 Largest U.S. Public Technology Companies:

1. Competition and consolidation in technology sector.....	<b>92%</b>
2. Changes to Federal, State and Local regulations, including tax.....	<b>87%</b>
3. Management of current and future M&A or divestitures.....	<b>86%</b>
4. Risks associated with international operations.....	<b>85%</b>
5. Inability to develop or market new products/services.....	<b>84%</b>
6. Intellectual property infringement.....	<b>84%</b>
7. U.S. general economic conditions.....	<b>73%</b>
8. Inability to attract or retain personnel, including management.....	<b>72%</b>
9. Pressures on pricing, margins and cost cutting.....	<b>71%</b>
10. Legal proceedings.....	<b>70%</b>
11. Cyclical revenue (and subsequent fluctuating stock price).....	<b>69%</b>
12. Product liability, quality and safety issues.....	<b>68%</b>
13. U.S. and foreign supplier/vendor concerns.....	<b>68%</b>
14. Inability to acquire capital or financing.....	<b>66%</b>
15. Predicting customer demand.....	<b>65%</b>
16. Financial risk of customer.....	<b>58%</b>
17. Failure to properly execute corporate growth strategy.....	<b>52%</b>
18. Changes to accounting standards/regulations.....	<b>47%</b>
19. Internal controls and Sarbanes-Oxley compliance.....	<b>45%</b>
20. Indebtedness.....	<b>44%</b>

Further findings in The 2008 BDO Seidman RiskFactor Report for Technology Businesses include:

### Pricing, Costs and Growth Strategies

In an unpredictable U.S. business climate, companies point to the pressures on pricing, margins and cost cutting (71%) and their cyclical revenue (and subsequent fluctuating stock price) (69%) as roadblocks to meeting earnings expectations. As companies look to tackle these issues, many are concerned with the failure to properly execute their existing corporate growth strategies (52%).

### Legal and Product Liabilities

Ranking high among technology companies' concerns are risks associated with legal proceedings (70%). Furthermore, sixty-eight percent cited risks associated with suppliers/vendors in the U.S. and internationally and over three-fifths (68%) cited product liability, quality and safety issues, as a concern.

### Predicting Customer Demand

As technology companies diversify their products and services to serve developing markets and sub-industries, they are concerned with predicting customer demands (65%). They are also aware that their sales are subject to their customers' financial risks (58%), which may become unpredictable given the uncertain economy.

CONTINUES ON PAGE 3

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(CONTINUED FROM PAGE 2)

### Retaining Key Employees

The recruitment and retention of skilled personnel in the technology industry is highly competitive, especially in the Silicon Valley area. In fact, seventy-two percent of technology companies noted that the inability to attract or retain key personnel, including management, may impact companies' abilities to meet earnings expectations.

### Compliance and Governance

Almost half (47%) of the top 100 U.S. public technology companies cited risks associated with accounting standards and regulations as an issue. Within that percentage, several companies specifically cited their compliance with the U.S. Generally Accepted Accounting Standards (GAAP) and the adoption of International Financial Reporting Standards (IFRS) by their foreign competitors as an issue. Forty-five percent of the companies also cited implementation/compliance with internal controls, including Sarbanes-Oxley, as a concern.

### Debt and Capital Concerns

The tightening credit market and recent liquidity disruptions in the debt market have created distressed situations for technology companies. Forty-four percent of the technology companies in the study have concerns about their indebtedness, which they fear may collaborate with their inability to acquire capital or financing (66%) in the coming year.

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## Did You Know...

There were \$7 billion in proceeds from U.S. IPOs in the technology sector in 2007, compared to only \$2.9 billion in 2006 and \$5.4 billion in 2005, according to **Thomson Financial...**

Forty six percent of IT experts believe that security was the most important IT-related issue that their organization would need to address throughout 2008, followed by risk (15 percent), compliance (15 percent), governance (15 percent) and assurance/ audit (9 percent), according to the **Information Systems Audit and Control Association...**

The lapse of a tax credit for corporate research and development could have already cost the U.S. economy more than \$8.36 billion since expiring in the beginning of 2008, according to the **Information Technology Association of America...**

Denmark and Sweden were the top two networked economies in the world, followed by Switzerland, the U.S. and Singapore, according to the **Global Information Technology Report by the World Economic Forum and INSEAD...**

Ninety three percent of businesses that lose data during a disaster go out of business within five years, according to the **U.S. Bureau of Labor...**

A 25 percent drop in total IT deal flow was balanced out by a 25 percent jump in the median deal size, according to **Dow Jones VentureSource...**

## Mark Your Calendars...

The following is a list of upcoming conferences and seminars from the leading technology associations and business bureaus:

### JULY 2008

- July 14-16 Business Continuity & Risk Management Forum**  
New York Marriott at the Brooklyn Bridge  
Brooklyn, NY
- July 22-24 The AlwaysOn & Stanford Technology Ventures Program Summit**  
Arillaga Center, Stanford University  
Palo Alto, CA
- July 28-29 Information Systems Audit and Control Association International Conference**  
Sheraton Centre Toronto  
Toronto, ON

### AUGUST 2008

- Aug. 10-12 Information Technology Association of America 26th Annual Legislative & Regulatory Roundtable**  
Bedford Springs Resort  
Bedford, PA
- Aug. 24-26 Chief Information Officer 100 Symposium & Awards**  
The Broadmoor  
Colorado Springs, CO

### SEPTEMBER 2008

- Sept. 8-9 Information Security Management Conference – North America**  
Caesar's Palace  
Las Vegas, NV
- Sept. 15-16 IT Controls for Sarbanes-Oxley Symposium**  
Omni Shoreham Hotel  
Washington, DC
- Sept. 15-17 IT Security World Conference & Expo 2008**  
San Francisco Marriott  
San Francisco, CA
- Sept. 15-19 Web 2.0 Expo and Interop – New York**  
Javits Center  
New York, NY
- Sept. 25 Chief Information Officer Perspectives Forum – Local Connections on Global Issues**  
TBD  
San Francisco, CA

## BDO SEIDMAN TECHNOLOGY PRACTICE

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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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