

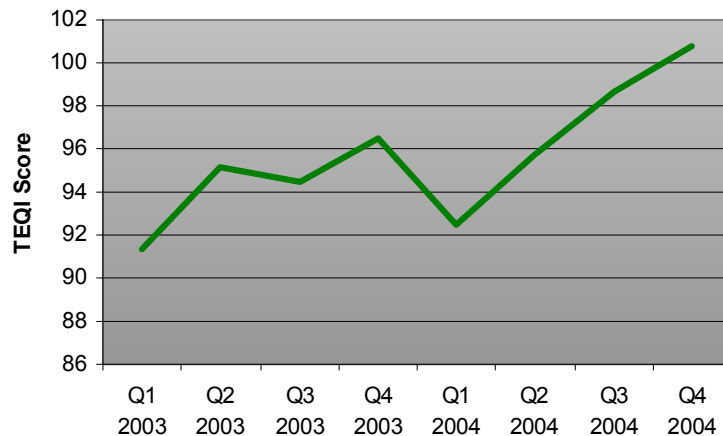
Tech Environment Quality Index

The 108th Congress - Improving the Environment for Tech Entrepreneurs

As the 108th Congress passes the baton to a new Congress, the environment for technology entrepreneurship is clearly better than when the body took office in 2002. Over the course of the 108th Congress, the TEQI realized a dramatic gain of nearly eleven points. These improvements were particularly important after the efforts of the 107th Congress nearly put small technology businesses on the *Endangered Species List*. During the 107th Congress, the Tech Environment dropped precipitously from the baseline number of 100 to 90, due to growing barriers to e-commerce, broadband deployment and competition.



108th Congress TEQI



While there were many ups and downs during the past two years, important legislative, regulatory and judicial actions improved the overall health of the Tech Environment. Important victories on issues ranging from intellectual property protection to e-commerce are creating a better legislative and regulatory climate for innovation, competition and growth. The effects of this improving environment can already be seen in positive industry trends that are now becoming evident.

The Tech Environment and the TEQI

While it is often overlooked both inside and outside the Beltway, the actions of government can have profound effects on the technology industry. In fact, the collective system of laws, regulations and judicial actions that affect the technology industry create a “Tech Environment” that can drastically alter the industry’s market forces. Changes in the Tech Environment have their greatest effect on the smaller, entrepreneurial companies that are the driving force behind innovation and job growth in America.



To better understand these environmental factors, the Association for Competitive Technology developed the Tech Environmental Quality Index (TEQI, pronounced “techie”). The TEQI quantitatively measures the health of the Tech Environment from the perspective of businesses that create and deploy, and consumers who choose and use, technology. Using a risk-based approach, the TEQI examines relevant legislative, regulatory, and judicial activity at the state and federal level.

A Healthier Tech Environment - Six Booster Shots



The Internet Tax Nondiscrimination Act

While the industry was hoping for a permanent ban, this bill bars until October 2007 any multiple or discriminatory taxes on Internet access. It will spur use of the Internet, benefiting ISPs, hardware manufacturers, and e-Commerce merchants. This will fuel the continued adoption of high-speed Internet access by consumers and expand Internet market opportunities.



American Jobs Creation Act/Pro Grow ACT

This is a large piece of legislation with several key provisions for the information technology industry. Most importantly, it extended the Research and Development Tax Credit that gives corporations a 20% tax credit for qualified R&D expenditures. This is critical to the future of innovation and growth in the industry.



Department of Energy High-End Computing Revitalization Act of 2004

After Japan launched its Earth Simulator super-computer, America’s competitive supremacy in super-computing was questioned. This Act will fund critical R&D focused on training and development of applications and tools that would allow the US to regain the top seat in high-end computing. This type of investment will fuel innovation throughout the industry.



Controlling the Assault of Non-Solicited Pornography and Marketing (CAN-SPAM) Act

The flood of spam clogging user and corporate mail systems is annoying to consumers and costly to American business. While it was never expected to end spam overnight, this legislation provides new tools for law enforcement while preventing a patchwork of state-level spam regulations that could stifle e-commerce. One year later, CAN-SPAM is beginning to generate cases and convictions against spammers, adding a powerful deterrent effect to complement the anti-spam efforts undertaken by industry.

**Free Trade Agreements with Chile, Australia and Singapore**

These FTAs further open up three large and important markets for information technology, products, services and e-commerce. The agreements include provisions to remove tariffs on digital goods that will open up e-commerce and state-of-the-art intellectual property protections that will stimulate continued investment and innovation.

**The Jobs and Growth Tax Relief Reconciliation Act of 2003**

The most valuable part of this economic stimulus package entrepreneurial tech businesses was the tripling of the expensible portion of information technology equipment costs. This reduces costs for businesses and stimulates spending on information technology.

Environmental Effects – How Entrepreneurial Tech Firms Fared

The TEQI analyzes each action in the Tech Environment based on how it affects 10 key factors contributing to the health of entrepreneurial tech companies. To better illuminate key industry trends, ACT has broken out separate tracking numbers for these key factors over the 108th Congress. These numbers show that while the TEQI rose strongly over the past 2 years, some aspects of the Tech Environment were harmed by government actions over this period. These downward swings were far outweighed by growing market opportunities, decreasing market intervention, and improved incentives to innovate. These trends also track well with the industry economic trends that emerged over the past two years.

TEQI Tracking Indices	
Costs Of Doing Business	↓ .90
Market Opportunities	↑ 5.73
Impact On Small Tech Firms	↓ 2.85
Government's Role In Markets	↑ 2.35
Small Firms & The Regulatory Process	↓ .05
The Markets & Investments (VC, Street)	↓ .35
Incentives to Innovate	↑ 3.5
Consumer Spending	↑ 2.63
ROI & Business Spending	↓ .30
Workforce	↑ 1.00

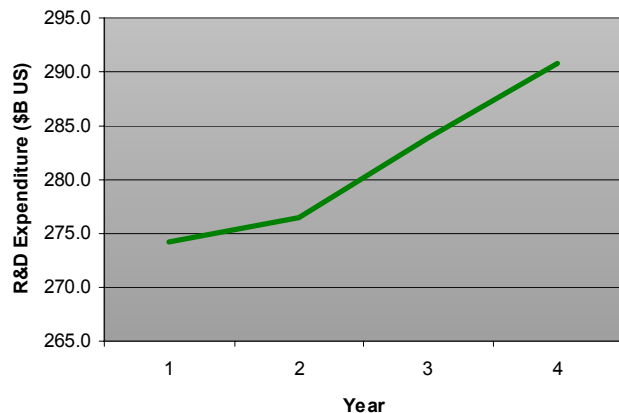
Improved Environment for Tech Entrepreneurs Sees Return of Venture Capital Funds

The implosion of the dot-com era and the damage done by the 107th Congress to the Tech Environment combined to create a precipitous drop in venture capital funding during 2001 and 2002. According to the PriceWaterhouseCoopers MoneyTree survey, venture capital investments in the information technology industry during 2002 were cut in half—from \$21.4 billion in 2001 to \$10.3 billion. During the tenure of the 108th Congress, however, the level of venture capital investment rose in six out of eight quarters. If the 109th Congress can continue to promote a healthy Tech Environment, venture capitalists will continue to return to the information technology industry for investment opportunities.

R&D Budgets Swell as Environment for Innovation Improves

With *Market Opportunities* and *Incentives to Innovate* on the rise, research and development budgets among U.S. Companies are following suit. Trade agreements with Chile, Singapore and Australia not only opened these foreign markets up for more free trading, but also added intellectual property protections that will reduce piracy and illegal copying. In addition, Congress passed several pieces of legislation to push innovations information technology, supercomputing and nanotechnology.

The result is an environment that encourages investment in innovation, as can be seen in the most recent numbers on U.S. R&D expenditures. The National Science Foundation and R&D magazine announced that investment in R&D by U.S. companies has grown steadily over the past four years, from \$274.2 billion in 2001 to \$290.8 in 2004.



Compliance Costs Grow, Entrepreneurial Tech Firms Feel the Brunt

On the downside, the TEQI identified a dangerous trend of rising costs of regulatory compliance. A report from the Small Business Administration supports this finding, showing a rise in compliance costs for small businesses, from \$1.9 billion in 2002 to \$2.5 billion in 2003. Even worse, these compliance costs usually inflict disproportional harm on the small entrepreneurial companies that are so important to the information technology industry.

109th Congress - Still Room to Grow, but Dangers on the Horizon

Undoubtedly, the actions of the 108th Congress nurtured a healthier tech environment, but some important and unanswered questions remain. The timeframe for meaningful patent reform and the particulars of spyware regulation are still unknowns. E-commerce businesses are nervous about the collection burdens they may face for remote sales taxes. And the European Union can't agree on positive reforms to its software patent system, while their antitrust authorities want to restrict and regulate how U.S. technology firms bring innovation to the European marketplace.

Governments in the U.S. and abroad must protect the tech environment. Tech firms, especially the smaller ones, will be the primary engine of job growth and R&D spending as the world recovers from the economic slowdown of recent years. Overt government action coupled with regulatory restraint in others will nurture a tech environment where opportunity abounds for continued investment and innovation.