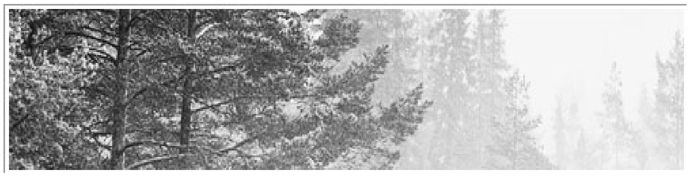

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M&A The Right Way.

Valuation & Deal Insights®

Second Quarter 2010

Industry Coverage — IT Services, BPO and IT Supply Chain Services

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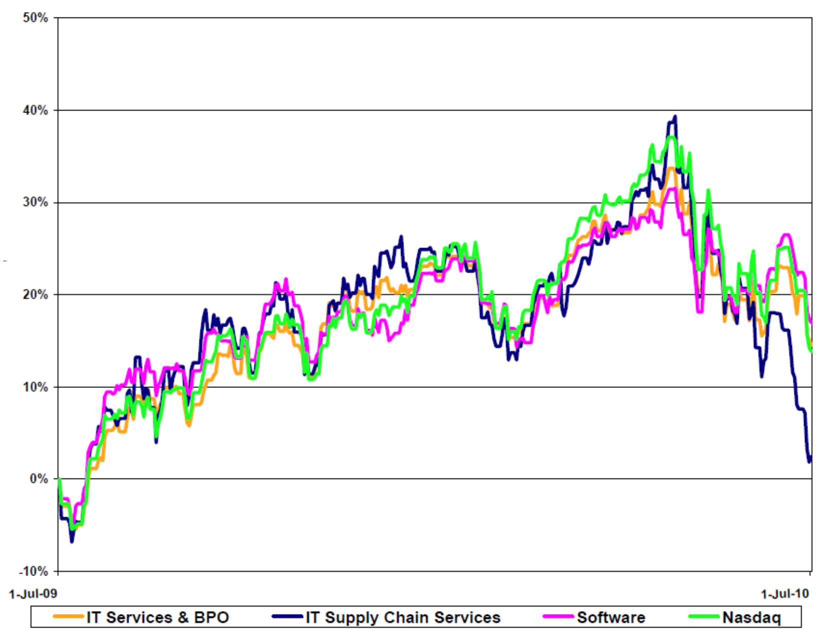
MWS Index® vs. NASDAQ Composite Index



Transaction Highlights

IT Services

7/1/2010 Innovative Process Administration, LLC. (IPA) has been acquired by Mercer, LLC. IPA provides automated employee self service enrollment and related administration for employers and benefit administrators. **Martin Wolf Securities advised the seller for this transaction.**

6/4/2010 Jacobs Engineering Group Inc. (NYSE: JEC) signed a definitive agreement to acquire TechTeam Government Solutions, Inc. from TechTeam Global Inc. (NasdaqGM: TEAM) for an implied EV of $59 million in cash.

5/3/2010 International Business Machines Corp. (NYSE:IBM) acquired Cast Iron Systems, Inc. Cast Iron Systems, Inc., a software-as-a-service integration appliance vendor, provides integration appliances for large and midsize companies.

4/23/2010 2e2 Group plc made an offer to acquire Morse plc (LSE: MOR) for an implied EV of £66.2 million, 0.2x LTM 12/31/2009 Revenue, 3.1x LTM 12/31/2009 EBITDA. Morse provides business applications services, and infrastructure services and technology in the United Kingdom, the United States, the Asia Pacific, Spain, and Ireland.

Managed Services

6/8/2010 SARCOM, Inc. substantially acquired all assets of Network Services Plus, Inc. (NSPI) for an implied Enterprise Value (EV) of $9.1 million. NSPI provides outsourced managed information technology (IT) support services for commercial businesses in the United States.

6/1/2010 SAVVIS Inc. (NasdaqGS: SVVS) entered into a definitive agreement to acquire Fusepoint, Inc. from M/C Venture Partners and other shareholders for an implied EV of $120 million in cash or 2.9x LTM 12/31/09 revenue.

Viewpoint

Marty Wolf — President

The M&A noise has gotten so loud recently that I have started wearing my heretofore airplane commissioned use only sound canceling earphones at the office. As a firm, we are the busiest we have been in three years, which is good, and many marquis deals have been completed, but it is as hard as ever to get to the finish line for a myriad of reasons; some market based, others self inflicted.

In terms of valuations, Q4'09 averaged approximately 5.2x EBITDA for PE investments, down 15% from the prior year. Business services averaged less than 6x TTM EBITDA and distribution at 5.5%. This was a pretty narrow range, but an improvement in comparison to Q4 2008.

Some noteworthy deals in the IT sector have been closed recently; Decision One by Goldyne (BSE:532672), an Indian buyer; Intelligroup (OTCBB:ITIG) by NTT Data (TSE:9613), a Japanese company; Sybase (NYSE:SY) by SAP (DB:SAP), a German company; Tivit (BOVESPA:TVIT3), a Brazilian company, by Apax Partners Worldwide LLP, a British Private Equity Group; and Adventity by Sutherland, another Indian company. Do you notice a pattern here?

Three takeaways:

1) For many midsize+ firms, the buyers are not U.S. based. It's not just Western Europe and India that are buying. Think Latin America, where there are many aggressive and fast growing private IT conglomerates with comparative advantages. Also, think China and think targeted smaller strategic deals over the next 12 months. I will be meeting with a number of Chinese executives next quarter in Beijing and Shanghai, and for many IT veterans, they bring a different perspective and a compelling business proposition. I encourage you to explore it. Better, faster, cheaper, wins the race.

2) There is way too much capacity, and margins will continue to be depressed unless we see real top line growth, which is not something most should plan on. Some of the most favorable managed service segments are seeing pricing pressure on renewals.

3) There are still too many small public companies, primarily, but not exclusively based in the U.S. Some circumstances exist where it makes sense to combine, but make sure you really understand what you have afterwards. We were recently approached by a small U.S. public company, and based upon the current valuation of the parent, no appreciation could realistically be expected in the equity piece of a transaction unless the market EBITDA multiple expanded by 100%. Not.

One last note, since our last VDI was published, Jerry York passed away on March 18th. He was 71. In addition to being ex CFO of Chrysler, and leading the turnaround and sale to Daimler at a huge valuation in the 90's, only to see them go bankrupt a decade or so later under their leadership, he then assisted Lou Gerstner at IBM as CFO and together they turned the IT behemoth around and away from a profitless hardware focus, towards higher value offerings of software, services and outsourcing. He was there when IBM went from dead to cool. He was also prescient with his views towards GM and resigned from the board of directors in 2006 as it was clear they preferred bankruptcy to the hard work of improving the business and earning real profits. As if he wasn't busy enough, he sat on Apple's board, was Vice Chairman of billionaire Kirk Kerkorian's Tracinda Corp., managed a personal fortune through his Harwinton Capital PE group, he also took a personal, and long term interest in mentoring me. I will forever be grateful, and am sorry we were not able to make our planned May get together; I looked forward to every time we had the opportunity to physically meet. While he may have been a son of the South, and a West Pointer, he will always be a Michigan man. God bless you Jerry.

Happy selling,

Marty

Don’t negotiate yourself into trouble

Many factors affect the sale of a company: Is the owner getting close to retirement age and looking to transition out of the business? How many partners are there and can they come to a consensus on value? Which advisor do you choose - a close friend or third party? These factors and countless more affect your decisions throughout the M&A process. Successfully negotiating a company sale is a very difficult task to accomplish and is affected by multiple variables. Knowing when and how to push for top value can be the difference between success and failure.

Achieving the highest value for your company is one of the ultimate goals in any sale. The proper handling of this price negotiation is a crucial part of achieving that goal for any transaction. Positioning the company in the best possible light can go a long way towards maximizing value. Knowing when to interact directly with another principal and when to have an intermediary have the conversation can also go a long way. Although every owner wants to be intimately involved in the process, it can often be more effective when a third party has the “difficult conversations.” This way the intermediary can take the heat for the decisions and the principals can avoid tough discussions. They will thus stay focused on building rapport and a strong relationship that will be necessary for a successful merger.

Negotiations are not always just between the buyer and seller. One of the biggest influences on a transaction is the ownership structure. We recently completed a deal with 10 owners. Trying to even get 10 people to agree on what they want for dinner can be difficult enough, let alone *if* they want to sell their company and if so at what price. Strong leadership is crucial in this situation as a confident and magnanimous CEO can help build consensus and orchestrate what would otherwise be a very difficult transaction. We have had experience with ownership structures where even two partners can’t agree on value and a transaction can fall apart in the final stretch.

As closing approaches, knowing how to avoid a purchase price reduction and occasionally getting an increase is a crucial part of negotiations. During due diligence, virtually every buyer will look for negative aspects of a deal and use these to try and reduce the purchase price. In another recent deal, certain unforeseen liabilities arose during diligence. We were able to negotiate the purchase agreement so that escrow accounts were setup to cover the potential for these liabilities, but avoid a direct purchase price reduction if the liabilities never were fulfilled.

My final example: while working with a public company, we were once blindsided with a ~10% price reduction at the closing table. The buyer had no cause or explanation; they just had lowered the value of the company. They walked away. Not everyone would have the courage or confidence to do so. Knowing “when to hold ‘em and when to fold ‘em” is important for any company.

M&A Tips: Post Closing Covenants Not to Compete and the Choice of Law

When a privately held company is sold, it is customary for the buyer to ask that owners and key employees of the company to agree to covenants not to compete. Such covenants, or promises, generally prohibit the sellers from engaging in a similar business for a specified period of time, and are considered critical to protecting the value of the goodwill purchased. They are also frequently heavily negotiated, including the territory the covenant will be applicable to and the duration of the covenant.

Such covenants are generally considered a restraint on trade, and therefore are also generally disfavored by all courts. However, the specific considerations to determining whether such a covenant is enforceable is determined by state law, and the various states have adopted different approaches, which can lead to dramatically different results.

California, for example, probably has the most restrictive approach to the enforceability of such covenants. Basically, its law (at Business and Professions Code section 16600 et. seq.) states that such covenants are per se illegal, unless a clear statutory exception exists. Fortunately for M&A practitioners, one of those statutory exceptions is that such covenants will be enforceable if it is entered into in connection with the sale of dissolution of a corporation, partnership or limited liability company.

Purchase and sale agreements typically include what is known as a "choice of law" provision, and aggressive buyers sometimes attempt to enforce the covenant not to compete by pointing to and insisting that the law chosen under that choice of law provision is applicable. Such choice of law provisions are generally enforceable....as a general rule, courts try to respect freedom of contract.

Does that mean that a New York based corporation that buys a California based business can insist that New York law apply, and that therefore all provisions of the purchase agreement, including covenants not to compete, are to be interpreted under New York law?

The answer is generally that it cannot, at least not in California. Such issues – which lawyers characterize as "conflicts of laws" issues – are addressed by California courts by looking at what is known as the "Restatement of Laws." The Restatement provides that the agreement by parties to a contract of which state law to apply will generally be respected. It goes on to note, however, that the court will disregard that choice if it would be CONTRARY TO A FUNDAMENTAL POLICY OF A STATE WHICH HAS A MATERIALLY GREATER INTEREST THAN THE CHOSEN STATE.

So, for example, in the situation suggested by the question posed above, California courts have consistently held that the state of California's interest in free competition and against restraints on trade requires the application of California law, NOTWITHSTANDING any alternative choice by the parties. Accordingly, the California courts have consistently required that some exception to the restrictions against covenants not to compete (i.e. it was entered into in connection with the sale of a business) be identified before it will be enforced. (Moreover, the California courts will not attempt to rewrite the non-compete in a manner to make it enforceable.)

What does that mean for you as a potential buyer or seller of a privately held company? First, understand that choice of law provisions are almost always included in purchase and sale agreements. Second, to the extent that covenants not to compete are entered into for any period following the closing, consider the choice of law provision carefully. While all parties are interested in simplicity and a choice of law of a single state may seem rational, it may not be respected by all courts. It may be more appropriate to have the covenant not to compete governed by different law than that applicable to the general provisions of the purchase and sale agreement. And, as a general rule, it is probably most reasonable to have the law of the jurisdiction in which the former owner previously worked govern the future restrictions.

Private Equity back in business?

One school of thought believes we are in the eye of the storm and another wave of market instability is headed our way. However, many in the industry believe that the storm has passed and the private equity market is slowly but steadily getting back to normal. For some, the global outlook is the dawn of a new era while others believe it is a reminder of a harsh reality that things will never be the same again. The recent improvement in the supply of liquidity in the credit market, at least for medium-sized private equity deals, is one of many signs which point to the beginning of an upswing in the markets and deal flow in general. This return to lending by the credit markets has encouraged leveraged buy out investors to slowly return to deal making across the spectrum from small scale buyouts to mega LBOs.

With some signs pointing to an economic recovery, private equity buyers are now back in the market with lots of dry powder, estimated at $500 billion, in the form of unused committed capital and new fundraising. Optimistic private equity holders are putting their money to work for both platform deals and add-on or tuck-in acquisitions.

There is a growing consensus among private equity holders that prices are rising, but they are nowhere near the historic levels of 2007 and 2008. In spite of mixed valuation opinions, firms are being acquired at strikingly high prices. In 2009, IT companies managed to get on average 6.6 times EBITDA as compared to 5.8 times in 2008. The IT Services sector alone attracted over 50 large leveraged transactions in 2009. The competition among financial sponsors to buy quality companies has resulted in higher valuations. For example, the $3.4 billion acquisition of Interactive Data Corporation (IDC) by private equity firms Silver Lake and Warburg Pincus was valued at 10.6 times EBITDA with a premium of 32.9%. Many small companies that found no takers in 2007 and 2008 are being sold today.

Although credit availability and deal volume is picking up, most firms may not be able to earn the kind of returns that they made prior to the recession. Current market conditions require many firms to hold their investments longer than desired in order to make a similar return to a 2006 vintage investment. The IPO market is still relatively calm and exit opportunities are harder to come by than in the past. The current M&A market demands firms focus more on running businesses efficiently and growing organically as exit opportunities are still scarce.

For the past 12 months or so, acquisitions have been made based on the strategic soundness of the investment rather than from profit due to financial engineering. However, leverage and financial engineering are starting to reappear in the marketplace. Recent conversations we have had with private equity groups have expressed the willingness of lenders to give at least 3x of leverage for normal deals and upwards of 5.5x for top deals. Generally speaking, we are not back to the go go days of 2006-2007, but the market has reawakened. Additionally, the Mezz markets have picked up and even PIK (payment in kind) toggle features are beginning to reappear on deals. However, stricter covenants are still being required by lenders and the quality of due diligence done by private equity investors is remarkable. Financial forecasts and quality of earnings are subject to higher scrutiny now than ever before.

The continued economic weakness, in spite of the uptick in PE M&A activity, has brought increased due diligence, tighter lending standards, and other potential hindrances to a timely closing. A quality investment banker is more important than ever as the M&A process has become longer and more involved. The guidance of a professional is necessary today to guide a ship through the choppy waters of M&A in 2010 and ensure a successful outcome.

Selected Transactions

Closed - 5/12/10: Glodyne Technoserve Ltd (BSE: 532672) acquires DecisionOne Corporation

Target	DecisionOne Corporation offers onsite services, including data center maintenance, workgroup maintenance, deployments, managed desktop services, network and communications maintenance and support.
Buyer	Glodyne Technoserve Ltd
Implied Enterprise Value	$104 Million
Implied EV/Revenue	0.52x LTM 12/31/09 Revenue
Implied EV/EBITDA	NA
Synopsis	Glodyne Technoserve Ltd (BSE: 532672) entered into definitive agreement to acquire DecisionOne Corporation for approximately $100 million on May 12, 2010. The acquisition will be funded through a mix of cash, debt and equity -- including preferential sale worth about $23 million to private equity funds. DecisionOne reported revenues of $200 million. Following the acquisition, DecisionOne will continue to be led by its Chief Executive Officer, Neal Bibeau, who will also join Glodyne's executive council.
Transaction Highlights	DecisionOne is one of the largest pure-play Technology IMS companies in North America, with a revenue of $200-million and EBITDA margin of 8.1 per cent in CY 09. DecisionOne has extensive capabilities in providing infrastructure management services in the US and Canada Among its key clients are marquee Fortune 500 clients, the release stated. Glodyne expects great business synergies and operating leverage from this acquisition because of complements in the business portfolio and expansion of the business model. The business synergies of the acquisition should significantly enhance Glodyne's position in the $524-billion global technology IMS marketplace and strengthen its global reach with a robust onsite-remote IMS global delivery model.

Announced - 6/14/10 NTT Data International LLC (TSE:9613) acquires Intelligroup Inc. (OTCBB:ITIG)

Target	Intelligroup offers end to end services, including advisory, implementation, testing, application management services, and support services of enterprise resource planning (ERP) solutions from SAP and Oracle.
Buyer	NTT Data International, L.L.C
Implied Enterprise Value	$173.8 Million
Implied EV/Revenue	1.3x LTM 3/31/2010 Revenue
Implied EV/EBITDA	10.7x LTM 3/31/2010 EBITDA
Synopsis	NTT Data International LLC entered into a merger agreement to acquire Intelligroup Inc. (OTCBB: ITIG) for approximately $200 million in cash on June 14, 2010. As reported under the terms of the agreement, NTT Data will commence a tender offer for a period of 20 days to acquire all the issued and outstanding shares and options of Intelligroup Inc. for $4.65 per share. Following the acquisition, Intelligroup will operate as a wholly owned subsidiary of NTT Data.
Transaction Highlights	Intelligroup provides services to corporations primarily related to applications from software giants SAP AG , Oracle and Microsoft. Besides the U.S., Intelligroup has customers in the U.K., Denmark, Japan, India and the Middle East. NTT Data said the purchase will complement its services/solutions business and customer base for such services while giving it "access to Intelligroup's blue-chip client base and specialized knowledge of SAP and Oracle." NTT Data also noted Intelligroup is focused on the life sciences, high-tech and discrete manufacturing sectors.

MWS Scoreboard

	Revenue Growth%	GM%	EBITDA%	Debt / Asset %	P/S	P/E	EV/Revenue	EV/EBITDA
IT Conglomerates	-1.9%	60.2%	26.0%	17.7%	2.00	15.9	1.83	6.9
IT & IT-ENABLED OUTSOURCED SERVICES								
Offshore Outsourcing > $500MM	7.7%	41.5%	23.4%	0.2%	2.99	20.1	2.93	14.8
Financial IT Services	4.2%	49.4%	23.4%	8.6%	1.71	16.0	1.86	8.1
IT Outsourcing	-0.7%	45.4%	21.2%	22.8%	1.68	38.2	1.48	7.6
Offshore Outsourcing < $500MM	-6.8%	35.4%	18.3%	5.0%	1.11	8.8	1.02	6.6
Governmental IT Professional Services	13.5%	22.5%	9.0%	13.4%	0.67	14.9	0.71	8.3
Commercial IT Professional Services	-9.5%	29.1%	3.9%	0.3%	0.67	16.1	0.68	9.4
European IT & Business Services	-2.4%	23.1%	8.5%	13.3%	0.55	16.8	0.53	6.4
IT Staff Augmentation	-15.8%	19.6%	1.9%	6.5%	0.20	27.2	0.19	10.9
IT SUPPLY CHAIN SERVICES								
IT Retailers	-3.1%	26.5%	4.5%	17.4%	0.22	17.8	0.31	6.9
IT Resellers	-12.4%	22.8%	0.8%	27.4%	0.20	12.8	0.28	7.5
Asian IT Supply Chain	15.5%	9.5%	2.5%	20.5%	0.26	15.1	0.27	11.3
IT Products Distributors	-4.6%	11.3%	3.0%	14.0%	0.16	13.3	0.20	6.7
IT Direct Marketers	-6.6%	13.7%	2.8%	4.6%	0.14	12.8	0.14	4.8
European IT Supply Chain	-3.1%	12.2%	1.6%	3.1%	0.23	15.1	0.13	5.2
BUSINESS PROCESS OUTSOURCING								
Business Process Outsourcing - Non-voice	1.4%	50.0%	21.5%	19.9%	1.56	19.7	1.58	8.0
Offshore Business Process Outsourcing	11.7%	40.3%	15.9%	1.8%	0.90	13.3	1.27	9.2
European Business Process Outsourcing	10.1%	27.9%	12.4%	29.8%	0.61	24.0	0.61	5.1
Business Process Outsourcing - Voice	2.0%	29.9%	11.8%	8.5%	0.70	14.0	0.55	5.2

Key Definitions:

1. Data Source: Capital IQ
2. The defined industry categories are based on Martin Wolf Securities' in-house research
3. The MWS Index® is market-value-weighted. It starts on January 1, 2005 with a value of 1000. It includes 69 IT and IT-Enabled Outsourced Services, 25 IT Supply Chain Services, and 38 Software companies listed in US stock market. It is based on the closing price as of July 1, 2010.
4. Enterprise value = Market Cap + Minority Interests + Preferred Stock + Outstanding Debt - Cash and Cash equivalents
5. LTM means Last Twelve Months based on last reported period
6. MWS Scoreboard is based on the closing price as of July 1, 2010.
7. Revenue Growth is growth in LTM revenue compared with previous period
8. Gross Margin = LTM Gross Profit * 100 / Revenue
9. EBITDA % = LTM EBITDA * 100 / Revenue
10. Net Income % = LTM Net Income *100 / Revenue
11. Debt/Asset = LTM Total Debt / Total Assets
12. P/S = Market Cap / LTM Revenue
13. P/E = Market Cap /LTM Net Income
14. EV/Revenue = Enterprise Value / LTM Revenue
15. EV/EBITDA = Enterprise Value / LTM EBITDA

If you have any questions, or want to subscribe to our periodic intelligence information, or be removed from the distribution list, please contact Geoff Rhizor at (925) 355-0110 or email him at grhizor@martinwolf.com.

Martin Wolf Securities—Selected Transactions

Innovative Process Administration, LLC
has been acquired by
MERCER
MARSH MERCER KROLL GUY CARPENTER OLIVER WYMAN
June 2010

valtech
has accepted a tender offer from
SiegCo
December 2009

TZP GROUP
has invested in
DLT SOLUTIONS
October 2009

Platinum Equity
has acquired
CANVAS SYSTEMS
April 2009

softchoice
has acquired
OPTIMUS SOLUTIONS A Softchoice Company
$47.1 million
January 2008

ROLTA
has acquired
TUSC The Oracle Experts
$45 million
January 2008

softchoice
has acquired
Software Plus
$45.1 million
December 2007

DIRECT ALLIANCE
has been acquired by
TeleTech. The Science of Customer Management
$107.5 million
June 2006

Insight.
has acquired
Software Spectrum
$320.3 million
September 2006

Martin Wolf Securities is a leading middle market Investment Bank exclusively focused on M&A in the IT Services, BPO & IT Supply Chain Services segments.