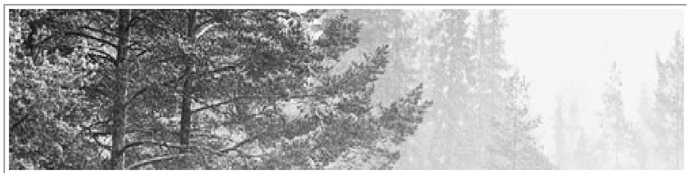

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M&A The Right Way.

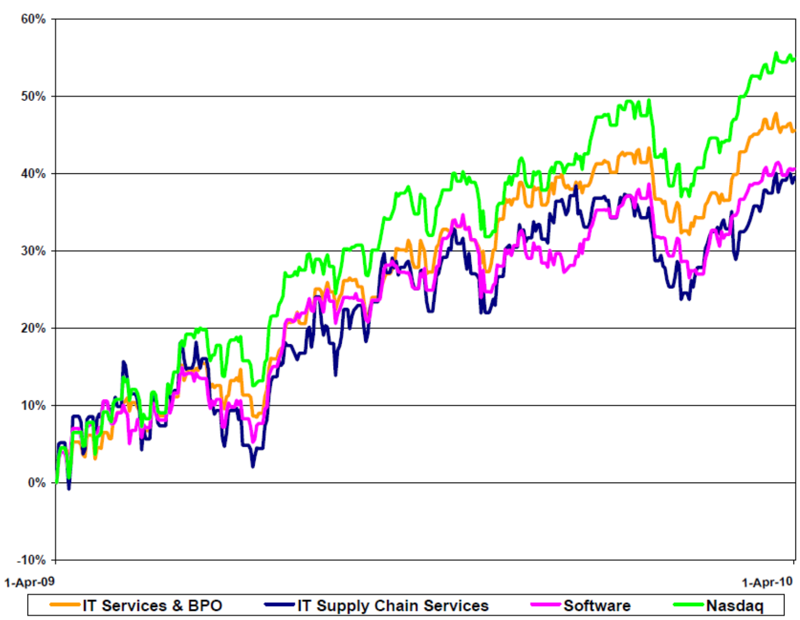
Valuation & Deal Insights®

First Quarter 2010

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

Inside this Issue

MWS Index® vs. NASDAQ Composite Index



Transaction Highlights

IT Services

- **3/31/10** Virtustream, Inc. acquired NaviSite Inc., Co-Location Data Centers in San Francisco and Vienna, VA for an implied EV of $5.4MM or 1.38x LTM 12/31/09 revenue.
- **3/29/10** Perficient Inc. (NasdaqGS:PRFT) acquired Kerdock Consulting, LLC for an implied EV of $6.0 million or 0.75x LTM 12/31/09 revenue. Kerdock Consulting, LLC operates as a systems integrator for Oracle enterprise performance management and e-business solutions.
- **3/29/10** Platinum Equity, LLC acquired OAO Technology Solutions, Inc., a provider of managed information technology (IT) solutions to corporations, outsourcers, and government agencies.

Business Process Outsourcing

- **3/29/10** Cap Gemini S.A. (ENXTPA:CAP)acquired the remaining 49% stake in Capgemini Business Services (India) Limited from Hindustan Unilever Ltd. (BSE:500696). Capgemini Business Services Limited provides business process outsourcing services in finance and accounting in India.
- **3/25/10** Ness Technologies Inc. (NasdaqGS:NSTC) made an offer to acquire Gilon Business Insight Ltd. for an implied EV of $20 million or 0.91x LTM 12/31/09 revenue. Gilon Business Insight, Ltd. provides enterprise business intelligence (BI) consulting, products, and solutions in Israel.
- **1/18/10** Molina Healthcare Inc. (NYSE:MOH) signed a definitive agreement to acquire Unisys Corporation, Health Information Management Business for an implied EV of $135 million or 1.23x LTM 12/31/09 revenue.

IT Supply Chain Services

- **3/28/10** Avnet Inc. (NYSE:AVT) signed an agreement to acquire Bell Microproducts Inc. (NasdaqGM:BELM) for an implied EV of $596.5 million or 0.20x LTM 12/31/09 revenue and 10.9x LTM EBITDA. Bell Microproducts Inc. distributes storage products and systems, and computer products and peripherals worldwide.

Viewpoint

Marty Wolf — President

Over the last quarter, activity in the IT mid-market M&A space has clearly heated up. So far, it's more heat than light, but we are moving in the right direction. Having said that, we clearly are not out of the woods. Mid-size deals have much more difficulty in closing today than larger ones, and that is unique to the current environment. Large deals are getting done, the growth in size of deals has outpaced the growth in number of deals; but, they are now using more equity than before, witness Berkshire Hathaway's acquisition of Burlington Northern Railroad. Small firms by definition are normally private, so they rely less on exchanging shares and more on debt and creative finance.

More deals are breaking down at the last minute and taking a lot longer to close than anytime in recent memory. We have tracked two deals since September '09, a buy and a sell, and both died very late last month due to delays in getting finished timely. In one case, the buyer's CEO was replaced. Since the deal was not closed, and three months late, the new guy killed it a few days before it was supposed to close, again. In the other, the seller, after creating two more months of delay, decided at closing to eliminate certain reps and warranties, unilaterally and without warning. The buyer then walked because he could no longer trust the seller. In both cases each deal would have closed if they hadn't been extended. In both cases, by the way, neither company had advisors to assist.

It's not uncommon today for a four month assignment to extend a quarter or two longer. This is unprecedented. It's harder, longer, and more difficult to get closed for many reasons. Why is this? Here are five themes we are seeing often:

Firstly, due diligence is lasting longer than ever. Everything has to be locked down and the margin for error is less. Secondly, sellers are having a harder time achieving the forecasted profitability and revenue, and extended diligence draws more emphasis to these misses. Anyone who thinks a growth company's valuation isn't severely impacted by a narrow miss prior to closing is going to experience a real life lesson.

Thirdly, we are experiencing more international buyers, and this slows the process down due to logistics, cultures and communications. While having more alternatives is generally better, it does require different skills and more patience.

Fourthly, while credit availability has improved, it is still more difficult to achieve conventionally, so many more deals today are being completed with seller financing. Earnouts are a typical component of deal consideration, and that part is not new. What is new, is that oftentimes the bridge to completing a deal is a piece of seller financing—and that can slow things down. Agreeing, then properly documenting the concept, can be exhausting.

Finally, there are a lot of tire kickers out there today, and any time invested in working with them just slows the entire process down. Out with the bums!

Happy selling,

Marty

Accounting Change on the Horizon

Over the last few years, the debate on switching United States accounting standards from GAAP to international financial reporting standards (IFRS) has continued to accelerate. The SEC is committed to moving US companies to the IFRS. In their November 2008 publication, they had proposed 2014 as the first year when US companies could file under IFRS. As globalization becomes more prevalent, it will continue to bear pressure on the US to adopt international standards. The SEC is approaching change slowly, and many believe will ultimately propose a revised timetable. In that vein, accounting authorities and regulatory bodies are working to bring GAAP and IFRS closer together.

The international and US accounting boards are working on convergence projects in several areas to bring GAAP and IFRS in line. These projects include, defining liabilities and equity, modifying financial-statement presentations, and revamping revenue-recognition rules.

What does the change to IFRS mean for US companies? Clearly US companies need to stay up to date on the IFRS developments. In the next few years these companies will encounter a high rate of financial reporting change as converged IFRS and GAAP standards take hold. Companies with foreign subsidiaries and significant foreign trade need to be prepared to move to the new standards.

In summary, US companies should start planning and analyzing the potential impact of change to IFRS. The change will impact processes, people, taxes, and systems. It will take time and expense. By getting ahead of the curve, those companies may ensure that their financial reporting and processes are well positioned for any capital and M&A activity in their future.

M&A in Emerging Markets

In late 2008, when financial markets in the United States and Europe began to break down, there were serious questions about whether emerging markets would be affected. Today, the answer is clear – No. Despite the continued crisis in developed countries, emerging market IPOs have been performing strongly. The three biggest performers in this area are China, India and Brazil. Morgan Stanley estimates that Asian issuances alone were about $100Bn in 2009. Chinese IPOs alone have raised four times as much capital as IPOs in the United States and Europe.

For example, a subsidiary of Sohu (SOHU), Chinese gamer Changyou.com (CYOU) soared 25% on its first day of trading last year. In India, outsourced products developer Persistent Systems Limited's IPO in March received over-whelming response from investors and was multiple times oversubscribed. Brazil produced the world's biggest IPO to date with the Brazilian arm of Banco Santander SA of Spain (ES:SAN) listing in both Sao Paolo and New York.

Meanwhile, as a twin sister of IPO offerings, M&A deals have emerged this year in India, China and other developing countries in a new wave of transactions. Flooded with cash from fast-growing economies, many emerging-market companies are ready to expand their reaches from various domestic and overseas acquisitions. At the same time, facing drying-out deal flows in the west, investors are opening their wallets to grab new resources, customers, and growth opportunities in those markets. "This will be the century" of the emerging markets, said David Viniar, Goldman Sachs's chief financial officer, as he addressed investors in February. Many other investment bankers have made similar predictions for increases in emerging market deals lead by the usual suspects: China, India and Brazil. The takeover are both driven by market growth and an increasing desire to enter into emerging markets.

Of the $395 billion in global M&A activity announced this year through March 3rd, $135 billion — or 34 percent — included at least one emerging market party, according to Thomson Reuters data. It would be 43% if Thomson included the Prudential-A.I.A. deal, the largest targeted emerging market deal on record. According to Dealogics, the volume so far this year is 152% higher than the corresponding period a year ago.

Deals in emerging markets often run into difficulties due to government intervention, cultural barriers, transaction funding, and a lack of transparency. Past events prove that emerging markets are not immune from the financial crisis. With the right advisors that understand the landscape and carefully planned approaches, more deals will overcome these barriers and flourish in these markets than anywhere else.

M&A Tips: Capital Gains and the Health Care Bill?

The effect of the capital gains tax rate is critical to most of our sell-side clients. Significant changes in those rates could kill some deals; in others it could easily become the most important factor on how to structure the deal.

Most individuals (those who pay ordinary income taxes as the 25% rate or higher) have "enjoyed" a long term capital gains rate of 15% in recent years, but historical rates have been as high as 28% (and even higher for certain high income taxpayers when combined with other tax provisions). So the issue for most individuals with a substantial ownership interest is ever present: when should they sell in order to avoid what undoubtedly will be higher capital gains taxes sometime in the future?

We do not, of course, have a crystal ball for such matters, and we have previously expressed the view that capital gains will likely increase; but, a review of the current situation is nevertheless helpful.

First, keep in mind that we are addressing the issue generally – almost all of our clients are in fact taxed at the ordinary income tax rate of 25% or higher, and almost all have held their ownership interest for more than twelve months. Accordingly, our focus is on the long-term capital gains rate for a seller of his business interest. (Nevertheless, it is important to remember that individual circumstances differ, and it is critical that you consult with your own tax advisor).

For the last few years, sellers have generally paid capital gains at the rate of 15%, but that provision is scheduled to expire at the end of this year, and, assuming that Congress does not act, most such taxpayers will pay capital gains at the rate of 20% going forward. That in and of itself is a sizable increase. An increase of that amount for many owners – typically those that owned their business for a long time and have almost no basis in their interest – could reduce all of what they take away from the sale of by as much as 5%.

Of additional concern, however, is the potential effect of certain provisions of the health-care overhaul plan. The Obama Administration has proposed a 3.8% new Medicare tax on investment income to generate an estimated $210 billion. The new tax would apply to interest, dividends, capital gains and rents for individuals who earn more than $200,000 annually and joint filers reporting more than $250,000. While some business owners may not routinely surpass those thresholds, virtually all of our clients surpass those thresholds in the years in which their business interests are sold.

This first time Medicare tax would start in 2013; accordingly, in that year, and assuming there has been no change in the aforementioned 20%, the effective rate for most sellers of their businesses would be 23.8%. That is effectively a 58%+ increase (from 15% to 23.8%) in the capital gains rate.

Can we be sure that such increase will take effect? Certainly not. If we have learned anything in the last couple of years, it has been the unpredictability of our financial markets, and the government will need to be responsive, including on how and when it makes tax increases. One thing we are confident about however; taxes on the sale of your business will not be decreasing in the immediate future. While it is impossible to predict precisely when and how much capital gains will increase, you can be confident that you will not be taxed at a lower rate than is presently in effect in any of the next few years.

Are the Credit Markets Easing?

This fundamental question affects every business owner. Whether they are trying to increase a Line of Credit to add to their payroll, starting up a second location and need a mortgage, or in need of financing to fund an acquisition; the credit markets are the grease of the American economic machine. Recent news coverage would make it easy to believe that the credit markets are easing and we are returning to a period of economic prosperity. The Dow is hovering near 11,000 and large M&A deals are in the news.

The problem is, however, that the credit markets may have eased for large, multi-national organizations, but there is still limited credit available for the SMB market. Sure, Oracle has the financing capabilities to close its deal with Sun, but for the $15MM neighborhood business, even refinancing a mortgage or renegotiating lease terms is still incredibly difficult. As Blackstone reported in their 2009 year-end conference call, the credit markets are open for medium to large buyout deals but, “If you are doing a very small deal there isn’t much debt.” Recent deal statistics have shown minimal month over month gains in volume but significant increases in dollar volume as large deals hit the marketplace.

We expect credit to remain tight for the SMB market and consequently, deal volume amongst SMB buyers to remain constrained until the credit markets open up more for entrepreneurs. Large corporations are well-positioned to make acquisitions in today's market and we expect the wave of consolidations to continue in the IT space. We have seen players in both the US and India have significantly more interest today in making acquisitions than even three months ago. Not only large players like Cisco and Oracle but also mid-tier organizations with scale will benefit from the availability of credit that their smaller competitors still have trouble securing. Additionally, Private Equity firms with access to capital-both a significant amount of dry powder in equity and also access to the debt markets-are well positioned to capitalize on rollup strategies. Working with an experienced M&A advisor to capitalize on acquisition opportunities now and to stay ahead of the consolidation wave is imperative to acquire the best quality assets at the right prices.

Growth for IT Spending in 2010

The economic downturn has extended the corporate upgrade cycle (the amount of time it takes before companies upgrade their IT systems) by 1 ‑ 2 years. Given that the life cycle of PCs has been extended, companies are looking to create a more efficient IT infrastructure. We believe that the second half of 2010 and 2011 will see higher investments to support the build ‑ out of a more efficient, enterprise ‑ wide IT environment. According to recent industry research, areas of greatest rebound in IT spending are IT staffing, computer hardware, communications and networking equipment, third party professional services, and software licensing. Third party professional services showed the greatest jump with indications of significant pent-up demand. Enterprises have also increased their demand for outsourced services, from IT consulting to hardware co-location to fully managed hosted services. Consequently, it is not surprising that IT consulting and outsourcing services are currently active areas for M&A activity.

The current stabilization of the capital markets is increasing M&A activity and helping to slowly reopen the debt markets. Disruptive technology trends such as Cloud computing, SaaS, and virtualization will fuel M&A activity as large strategics look to acquire and integrate cost-efficient technologies into their offerings. Evolving data center technologies will drive consolidation in both hardware and software companies through M&A. Private equity has also started to engage again in software M&A primarily driven by attractive valuations and lower cost financing. Since February, two deal offers over a billion dollars (SkillSoft and Novell) have been announced. Further research suggests that large IT Vendors such as Oracle, Dell, IBM, and HP are considered among the most strategic vendors today due to incumbency, breadth of offerings, and ability to scale services to large enterprise agreements.

As IT spending picks up throughout 2010 and into 2011, M&A activity should as well. Research has shown that acquisitions immediately following a downturn yield strong returns but these acquisitions have higher risks. Working with a proven M&A advisor will help you evaluate an opportunity, integrate a business and navigate through transaction risks.

Selected Transactions

Closed—2/2/10: Sykes Enterprises acquired ICT Group

Target

ICT Group, Inc. provides outsourced customer management and business process outsourcing (BPO) solutions worldwide.

Buyer

Sykes Enterprises, Incorporated (Nasdaq:SYKE)

Implied Enterprise Value

$219 Million

Implied EV/Revenue

0.55x LTM 9/30/09 Revenue

Implied EV/EBITDA

8.13x LTM 9/30/09 EBITDA

Synopsis

Sykes Enterprises, Incorporated (Nasdaq: SYKE) signed a definitive agreement to acquire ICT Group Inc. (Nasdaq: ICTG) for approximately $250 million in cash and stock on October 5, 2009. Sykes will pay a combination of $7.69 in cash and $7.69 in Sykes stock (50% cash/ 50% stock), subject to a collar mechanism. The transaction is expected to make Sykes exceed its top end third-quarter 2009 earnings per diluted share outlook range of $0.31 to $0.34 and is expected, on an adjusted basis, to be earnings per diluted share accretive in 2010.

Transaction Highlights

This transaction is another crest along the IT services consolidation wave started back with IBM, continued by HP, Dell and Xerox, and now continuing with Sykes acquiring contact center specialist ICT. Management believes this acquisition will better position Sykes to compete in an industry where clients are stressing a one-stop, full-service outsourcing provider. "As clients across the industry move increasingly toward outsourcing more processes to fewer vendors, the breadth and depth of service offerings along with a strong delivery footprint are likely to become a driving force in the industry," said Sykes president and CEO Chuck Sykes. Sykes Enterprises' offer of $15.38 per share represents a 46% premium over ICT's closing share price on Oct. 5, one day prior to the deal's announcement.

Announced—2/1/10 Manpower to acquire COMSYS IT Partners

Target

COMSYS IT Partners, Inc. (NasdaqGM:CITP) operates as an information technology (IT) services company.

Buyer

Manpower Inc. (NYSE:MAN)

Implied Enterprise Value

$413.4 Million

Implied EV/Revenue

0.64x LTM 1/3/10 Revenue

Implied EV/EBITDA

15.7x LTM 1/3/10 EBITDA

Synopsis

Manpower Inc. (NYSE: MAN) signed an agreement to acquire COMSYS IT Partners, Inc. (NasdaqGM: CITP) for approximately $380 million on February 1, 2010. The value of the consideration for each outstanding share of COMSYS common stock would be $17.65, for a total enterprise value of $431 million, including net debt assumed by Manpower. Shareholders have the option of receiving cash or Manpower stock for tendering their shares.

Transaction Highlights

This deal makes sense for Manpower on many levels. It continues its expansion plans in the IT Professional Staffing space. Organic growth has been hard to come by in this area for the past 12-18 months, so, for these and other strategic reasons, Manpower decided to acquire competitor COMSYS IT. This should be a great fit both strategically and culturally and lead to real cost savings. This deal expands both Manpower's breadth of service offering and geographic footprint. The combined entity will have over $2.5BN in revenue and over 25,000 employees. Manpower's offer of $15.38 per share represents a 33% premium over COMSYS IT's closing share price one day prior to the deal's announcement.

MWS Scoreboard

	Revenue Growth%	GM%	EBITDA%	Debt / Asset %	P/S	P/E	EV/Revenue	EV/EBITDA
IT Conglomerates	-6.7%	59.8%	25.6%	17.8%	2.47	23.6	2.30	9.3
IT & IT-ENABLED OUTSOURCED SERVICES								
Offshore Outsourcing > $500MM	16.4%	38.7%	23.0%	2.3%	3.00	20.8	2.79	11.4
Financial IT Services	0.1%	49.5%	23.4%	11.4%	1.91	18.9	2.15	8.9
IT Outsourcing	-5.7%	39.1%	18.1%	9.6%	1.20	19.4	1.38	7.4
Offshore Outsourcing < $500MM	0.5%	33.2%	18.3%	4.3%	1.07	8.8	1.01	6.2
Governmental IT Professional Services	9.3%	21.9%	9.0%	16.0%	0.80	16.6	0.86	9.1
Commercial IT Professional Services	-12.2%	29.9%	2.8%	0.8%	0.66	16.2	0.59	10.9
European IT & Business Services	-3.1%	22.6%	8.3%	16.1%	0.57	15.3	0.59	7.1
IT Staff Augmentation	-21.8%	20.0%	1.9%	5.7%	0.28	39.3	0.25	14.1
BUSINESS PROCESS OUTSOURCING								
Business Process Outsourcing - Non-voice	-2.0%	51.0%	23.7%	19.8%	2.04	16.5	2.06	9.5
Offshore Business Process Outsourcing	8.4%	38.3%	16.7%	4.3%	0.92	12.0	1.32	8.1
Business Process Outsourcing - Voice	-6.8%	30.8%	13.1%	9.3%	0.90	17.3	0.90	7.4
European Business Process Outsourcing	15.2%	27.9%	12.2%	22.5%	0.69	16.4	0.77	6.9
IT SUPPLY CHAIN SERVICES								
IT Retailers	-3.8%	26.3%	4.5%	16.7%	0.27	18.5	0.37	10.0
IT Resellers	-7.2%	22.8%	0.9%	32.1%	0.18	15.0	0.35	7.7
Asian IT Supply Chain	9.1%	9.5%	0.8%	15.8%	0.29	17.7	0.27	11.3
IT Products Distributors	-14.1%	11.2%	2.2%	13.9%	0.17	17.6	0.19	9.4
European IT Supply Chain	-9.1%	11.3%	2.6%	5.8%	0.26	18.6	0.19	7.2
IT Direct Marketers	-14.3%	13.7%	2.5%	5.7%	0.16	18.4	0.18	8.0

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 April 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 April 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

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

ROLTA

has acquired

piocon

December 2008

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.