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Equity Advisors, LLC

IT Services Industry M&A Update for 2008

“Strategic buyers will drive IT services M&A transactions in 2008”

Overture Equity Advisors, LLC

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"Strategic buyers will drive IT services M&A transactions in 2008"

M&A Update for 2008 and Recap of 2007

The IT services M&A market announced approximately 210 transactions in calendar year 2007 in the U.S. This represents an 11% decrease over 2006. In the fourth quarter of 2007, there were 56 transactions, a decrease of 19% over the fourth quarter of 2006 but a 12% increase over the third quarter of 2007.

While the government sector continued to be the most active in 2007, activity was significantly lower than that recorded in 2006. Total sector deal activity in the fourth quarter encompassed 12 transactions and just 21% of aggregate deal flow. The most active buyer during the quarter was **Accenture (ACN)** with its acquisitions of **Gestalt** and **Maxim Systems**. Accenture also acquired **Corliant** in the network services sector during the quarter.

On a negative note, two large IT services firms had failed takeover attempts by private equity firms in 2007, **Axicom Corp. (AXCM)** and **Affiliated Computer Services (ACS)**. For **Axicom**, **Silver Lake** and **ValueAct Capital Partners** agreed to settle for a \$65 million fee to terminate the \$3 billion merger agreement. Next, the failed \$6.1 billion takeover attempt of **ACS** by **Cerberus** (the second failed attempt by a buyer) has also created havoc among the IT outsourcing marketplace (and **ACS** shareholders and employees), including the recent ouster of top executives.

Regardless, we expect M&A to remain fairly active in 2008, although slightly down in deal flow from 2006 and 2007. The operative word this year will be "strategic". Large deal activity will likely be the hardest hit, as the "mega-buyouts" will have difficulty securing financing, particularly in the first half of the year. Yet overall, private equity firms are still willing buyers of strong companies with plenty of capital to put to work, and the key to the 2008 M&A market will be the health of the economy. Foreign buyers will play an increasing role as large foreign companies seek to take advantage of the cheap dollar to expand their global capabilities.

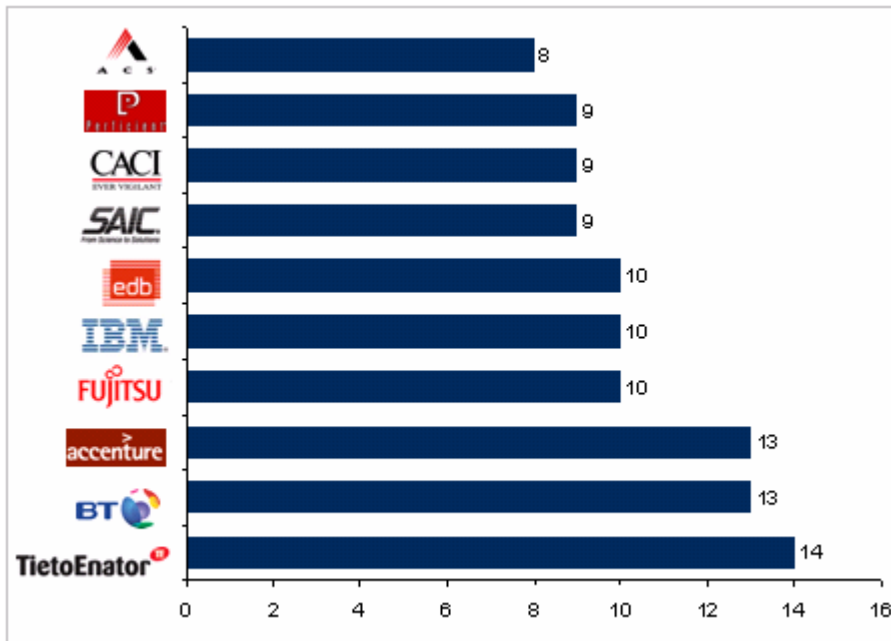
Certain IT services companies have been extremely active buyers in recent years. The 10 buyers have accounted for 105 Services M&A transactions since the beginning of 2005. These acquirors represent a cross-section of subsectors tracked by Overture Equity Advisors– Outsourcing (**ACS**), Consulting (**Accenture**), Systems Integration (**Perficient**) and Government (**CACI**) – with the notable exception of Offshore Outsourcers. **Wipro** led the Offshore Outsourcers, but failed to make the top 10 most active IT services buyers, having announced 7 services M&A transactions since 2005. But **Wipro's** relatively large acquisition of publicly-traded **Infocrossing**, coupled with rumors circulating about its management's desires to do a very large deal, indicate to us that we may see more pronounced M&A activity emanating from **Wipro** and from **India** in 2008.



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The following table lists the most active buyers of IT services companies since 2005:

Most Active Buyers of IT Services Companies Since 2005



The following summarizes recent IT services M&A transactions that have been announced, as of January 2008:

- January 8, 2008 – SunGard Data Systems, Inc., a specialist provider of software and services to financial services firms, agreed to buy **Financial Technology Integrators** for an undisclosed sum.
- January 9, 2008 – Just two months after a deal to take it into private hands failed, **Affiliated Computer Services** has agreed to buy **Syan Holdings**, a UK-based IT outsourcing firm, for around \$60m. Dallas, Texas-based ACS, which also provides outsourcing services, said it will pay cash for Syan, which will be re-branded as ACS Syan and continue to be run by its present management team. ACS said the deal will help to expand its international presence by adding two data centers in Shropshire, UK as well as subject matter experts. Syan's services include collocation, server hosting and management, application management, desktop management, high-availability solutions and call center/help desk operations. Syan will also boost ACS' services geared around IBM mid-range and Intel server infrastructure and information security. Syan is reported to have generated approximately \$75m over the past year.
- January 10, 2008 - **Computer Sciences Corp.** has completed its \$365 million purchase of **First Consulting Group**. The all-cash transaction, which was announced October 31, was valued at \$13 a share. About 2,500 First Consulting Group employees are expected to transition to CSC. About 1,200 will be located in offshore locations including India and Vietnam, while the remainder will be located in the U.S. and Europe, according to a release. First Consulting Group shareholders approved the transaction Jan. 10. Long Beach-based First Consulting Group provides outsourcing, consulting, systems implementation and integration services and software products for healthcare, pharmaceutical and other life sciences organizations.

- January 11, 2008 - EMC division **VMware** has snapped up privately-held IT services firm **Foedus** for an undisclosed sum.
- January 16, 2008 - **BT Group** completed another medium-sized IT services acquisition after agreeing to a 68.5m Euro (\$97m) deal to buy French consulting company **Net2S**. So far this year, BT has already snapped up including Latin American network services vendor **Comsat**, Belgian network integrator **INS**, and UK mid-market services organizations **Lynx Technology** and **Basilica Computing**. In August, it tabled a 60m-euro (\$85m) cash offer to acquire the infrastructure services division of French IT services supplier CS Communications & Systemes. BT has exclusive negotiation rights with CS until the end of November. If the Net2S takeover goes ahead, it will be rolled into BT's existing systems integration and consulting capabilities in the country which are built around its purchase of the local operations of KPMG Consulting in 2002. Net2S has 800 employees providing IT consulting and engineering services to clients in the financial services, telecoms, and manufacturing sectors. The majority of its workforce is based in France, but it also has offices in the US and Morocco. The target company made full-year 2007 sales of 77m euros (\$109m) and in the first half of this year, it increased its net profit to 1.4m euros (\$2m) from 100,000 euros (\$141,000) in the year-ago period, on sales that rose 13% to 44.4m euros (\$63m). Its operating margin climbed to 4.9% from 1.5%, which it attributed to an increased focus on its consulting and integration business. BT has been given exclusive takeover negotiation rights until the end of the year for its proposed 5.27 euro (\$7.45) per share deal.
- January 16, 2008 - US technology and marketing consultancy **Ascentium** has bought UK-based **Artemis** to bolster its Microsoft SharePoint expertise and to give it a direct presence in Europe. The financial terms of the transaction have not been disclosed.
- January 17, 2008 – According to *Datamonitor Computerwire*, **Wipro** has formally denied that it is in talks to acquire French IT services company **Capgemini**. It made the statement in response to a request by French securities regulators Autorite des Marches Financiers, which was clearly worried about continued speculation that past denials had done little to dampen. Investment banking "sources" have been telling the French media that a bidder is in the final stages of due diligence. Another Indian services provider, **Infosys**, has also been linked with a possible bid even though analysts have been skeptical as to the logic of a fast-growing, high-margin operator acquiring a vast, mature operator.
- February 26, 2008 - **Dell** has acquired data storage consultancy the **Networked Storage Company** for an undisclosed amount. The move follows its \$155m agreement to buy email archiving services company MessageOne, and its \$1.4bn acquisition of EqualLogic, its biggest acquisition ever. Stephen Murdoch, vice president for global infrastructure consulting services at Dell, said: "IT infrastructure management and maintenance continue to be increasingly complex and costly. The Networked Storage Company's Point of Proof methodology is targeted right at the heart of this problem – enabling us to offer customers a simple, cost-effective, and manageable route to robust infrastructure solutions." Dell said the Point of Proof methodology is primarily implemented with storage networks, but can also be extended across the entire IT environment, which can reduce overall costs and complexity of IT infrastructure maintenance and management.
- March 5, 2008 - **BSG Alliance**, the on-demand platform for next generation enterprises, announced the acquisition of **Iconixx Corporation**. Financial Terms were not disclosed. Iconixx is a leading provider of on-demand solutions for global talent management in large and mid-sized enterprises. With the people, on-demand applications and customer base of Iconixx, the company has significantly increased the scope and size of Agile TalentSM - one of several offerings in its subscription-based, on-demand portfolio. Headquartered in Houston, Texas, Iconixx Corporation has delivered more than 300 solutions in human capital management, enterprise compensation management and sales performance management since 1995. Iconixx leverages on-demand technologies to help clients like Allstate, Humana and many others increase sales and profits by improving sales force execution, channel management, customer service and management decision making.

Headquartered in Austin, Texas, BSG Alliance is an on-demand business innovation platform that enables companies to become next generation enterprises. Through its offerings in Agile TalentSM, Agile & Collaborative TechnologiesSM and Customer-Driven InnovationSM, BSG Alliance works with forward-thinking companies and their C-level executives to help them achieve sustainable success in today's hyper-competitive global economy. Customers that subscribe to the company's Next Generation Enterprises on demand platform include a marquee list of Global 2000 companies in a range of industries.

Note: Aaron Solganick of Overture Equity Advisors, LLC advised Iconixx Corp. in its sale to BSG Alliance

- March 10, 2008 - Mid-market IT services firm **Chelford Group** has received a cash offer from **Solarsoft**, the private equity-backed outfit formed last year by the merger of **CMS Software** of Toronto, Canada, and UK-based **XKO Software**. The 215p (\$4.33) per share offer values Chelford at 16.1m pounds (\$32.4m) and is at a premium of 25% to yesterday's closing share price. The company's management, who hold 30% of Chelford's equity, are recommending the offer.
- March 21, 2008 - **Cidron Services**, a subsidiary of Nordic Capital Fund VI, has made a public tender offer for all the outstanding shares and stock options in **TietoEnator** for 15.50 euros (\$23.90) per share. The offer values TietoEnator at 1.1bn euros (\$1.7bn), and represents a premium of 38% to the closing price of last trading day preceding this announcement. According to Cidron, the completion of the offer is subject to shareholders' acceptance, which represents at least 90% of the shares and votes of TietoEnator. The acceptance period is expected to begin on April 2 and end on April 28.
- March 21, 2008 - **EDS** has acquired the assets of **Nexagent**, a privately held developer of service provisioning solutions across multiple carrier networks. Financial terms were not disclosed. Founded in 2000, Reading, UK-based Nexagent was one of those firms that won accolades as an up-and-coming technology provider from the likes of Red Herring and Tornado Insider but never quite achieved mainstream adoption of its products. Its solution responds to a widespread need, nonetheless. Service providers regularly have to provision services for customers across networks from different carriers. The context behind the acquisition is EDS's ongoing push to establish competitive advantage versus those players (such as IBM, CSC, and Capgemini) that are relying on carriers to a greater extent to provide their network management function. EDS is betting that its more hands-on approach to the network will give it improved provisioning times and service management. Nexagent's technology looks to be a useful tool, and henceforth presumably an exclusive one, in this strategy.



The following tables provide a comparison of U.S.-based publicly listed Management Consulting and IT Services companies (Source: Capital IQ and Overture Equity Advisors, LLC Research):

Management Consulting Public Comparables

(\$ in millions)

Company	Ticker	3/26/2008		Market Cap	Cash	Enterprise Value ⁽¹⁾	LTM Revenue	LTM EBITDA	EV/ Revenue	EV/ EBITDA
		Closing Price	Shares Out.							
Accenture Ltd.	ACN	\$ 35.4	640.3	\$ 22,652.2	\$ 2,472.4	\$ 20,724.29	\$ 22,388.35	\$ 3,062.72	0.9x	6.8x
Advisory Board Co.	ABCO	54.3	17.9	970.5	29.1	930.7	211.3	43.2	4.4x	21.5x
Bearingpoint Inc.	BE	1.8	215.2	385.2	466.8	893.1	3,455.6	(148.5)	0.3x	NM
Corporate Executive Board Co.	EXBD	41.0	34.8	1,427.3	47.6	1,355.6	532.7	127.6	2.5x	10.6x
Diamond Management & Technology Consultants, Inc.	DTPI	6.4	29.6	184.6	65.1	119.5	205.4	20.7	0.6x	5.8x
Heidrick & Struggles International Inc.	HSII	32.2	17.3	563.6	260.6	280.7	648.3	96.4	0.4x	2.9x
Management Network Group Inc.	TMNG	1.6	36.1	61.2	10.0	34.1	71.9	2.4	0.5x	14.5x
MAXIMUS Inc.	MMS	38.1	18.5	697.0	62.3	636.4	779.5	93.3	0.8x	6.8x
SM&A	WINS	4.3	19.0	83.9	5.4	67.9	98.3	12.9	0.7x	5.3x
The Hackett Group, Inc.	HCKT	3.9	42.6	164.6	20.1	137.5	177.0	9.8	0.8x	14.0x
Thomas Group Inc.	TGIS	3.1	11.0	35.1	12.0	23.1	55.9	11.0	0.4x	2.1x
Watson Wyatt Worldwide Inc.	WW	58.4	42.2	2,358.5	103.6	2,361.9	1,632.8	277.2	1.4x	8.5x
Mean									1.1x	9.0x
Median									0.7x	6.8x

(1) Enterprise Value (EV) = Market Capitalization + Interest Bearing Debt + Preferred Stock - Cash

IT Services Public Comparables

(\$ in millions)

Company	Ticker	3/26/2008		Market Cap	Cash	Enterprise Value ⁽¹⁾	LTM Revenue	LTM EBITDA	EV/ Revenue	EV/ EBITDA
		Closing Price	Shares Out.							
Accenture Ltd.	ACN	\$ 35.4	640.3	\$ 22,652.2	\$ 2,472.4	\$ 20,724.29	\$ 22,388.35	\$ 3,062.72	0.9x	6.8x
Affiliated Computer Services, Inc.	ACS	50.5	96.0	4,899.5	297.8	7,012.9	5,964.8	1,052.1	1.2x	6.7x
Bearingpoint Inc.	BE	1.8	215.2	385.2	466.8	893.1	3,455.6	-148.5	0.3x	NM
CACI International Inc.	CAI	45.7	30.1	1,382.7	11.7	2,018.3	2,124.8	187.9	0.9x	10.7x
CIBER, Inc.	CBR	5.2	60.1	311.9	31.7	493.6	1,082.0	72.2	0.5x	6.8x
Cognizant Technology Solutions Corp.	CTSH	30.6	288.3	8,811.9	339.8	8,141.5	2,135.6	435.4	3.8x	18.7x
Computer Sciences Corp.	CSC	41.3	158.7	6,600.3	589.1	9,097.7	16,059.2	2,393.5	0.6x	3.8x
Computer Task Group Inc.	CTGX	4.1	18.8	75.7	4.3	71.4	325.3	9.6	0.2x	7.4x
Diamond Management & Technology Consultants, Inc.	DTPI	6.4	29.6	184.6	65.1	119.5	205.4	20.7	0.6x	5.8x
Edgewater Technology Inc.	EDGW	5.3	13.3	70.7	7.6	48.7	68.5	6.8	0.7x	7.2x
Electronic Data Systems Corp.	EDS	16.9	509.3	8,770.5	3,139.0	9,127.5	22,134.0	2,534.0	0.4x	3.6x
International Business Machines Corp.	IBM	116.9	1,384.3	163,309.5	14,991.0	182,437.5	98,785.0	19,993.0	1.8x	9.1x
ManTech International Corp.	MANT	47.7	34.5	1,594.3	8.0	1,751.3	1,448.1	127.9	1.2x	13.7x
Stewart Information Services Corp.	STC	30.9	18.0	570.0	109.2	585.2	2,106.7	-4.0	0.3x	NM
Perficient Inc.	PRFT	7.4	31.9	223.4	8.1	215.3	218.1	33.7	1.0x	6.4x
Perot Systems Corp.	PER	15.3	120.3	1,861.3	187.0	1,864.3	2,612.0	306.0	0.7x	6.1x
Pomeroy IT Solutions Inc.	PMRY	6.0	12.3	72.2	13.3	84.1	586.9	-7.9	0.1x	NM
SRA International Inc.	SRX	24.9	58.0	1,433.5	104.6	1,379.0	1,389.9	132.7	1.0x	10.4x
Syntel Inc.	SYNT	27.6	41.7	1,179.8	61.6	1,063.6	337.7	76.0	3.1x	14.0x
Unisys Corp.	UIS	4.6	353.4	1,661.0	830.2	2,093.5	5,652.5	440.9	0.4x	4.7x
Virtusa Corp.	VRTU	9.4	22.9	216.1	45.0	120.6	155.4	21.6	0.8x	5.6x
Mean									1.0x	8.2x
Median									0.7x	6.8x

(1) Enterprise Value (EV) = Market Capitalization + Interest Bearing Debt + Preferred Stock - Cash





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