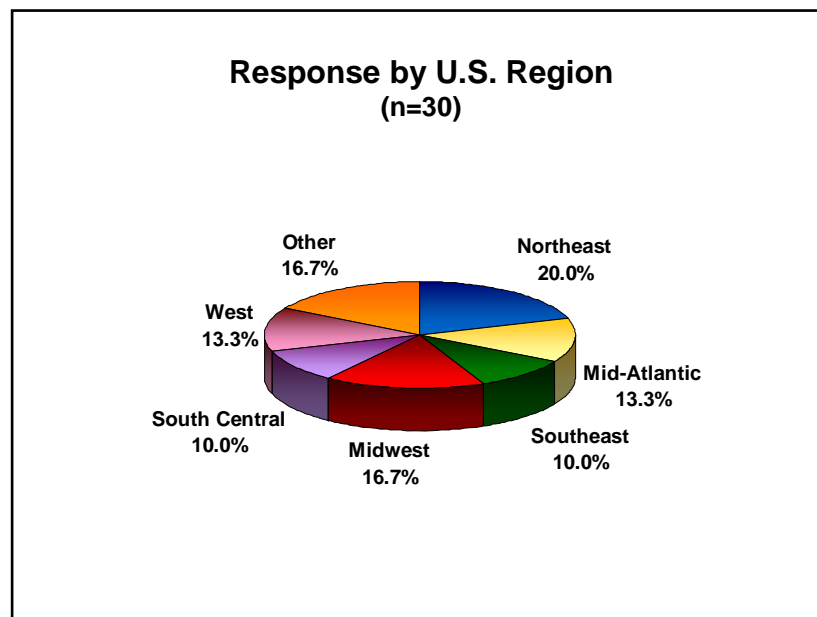


## IT SERVICES BUSINESS TRENDS REPORT DECEMBER 2010

**PROJECTIONS FOR Q1, AND 2011, TURNED UP. Q1 IS ALWAYS POSITIVE, BUT THIS TURN HAS BROAD SUPPORT. SLOWER GROWTH AND THE INABILITY TO RAISE MARGINS IS THE NEW REALITY. DEMAND IS EXPECTED TO INCREASE IN THE NEAR TERM, AND BILLING RATES APPEAR TO HAVE STABILIZED WITH SOME ELASTICITY. SEVERAL FIRMS ANTICIPATE DOUBLE DIGIT REVENUE GROWTH IN 2011, DRIVING THE OVERALL PROJECTION TO 10%. THE IT SERVICES CONFIDENCE INDEX IS AT 47.0, ITS HIGHEST LEVEL IN 3 YEARS.**

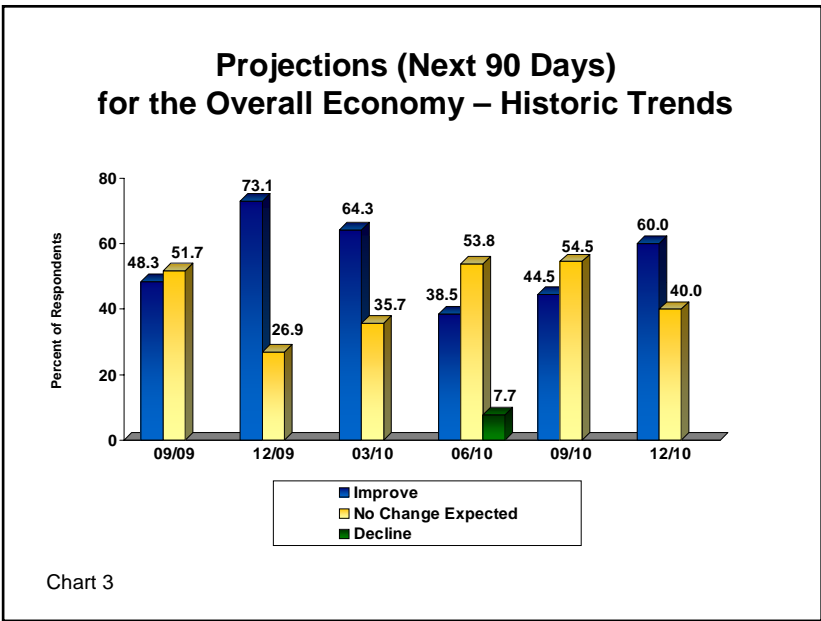
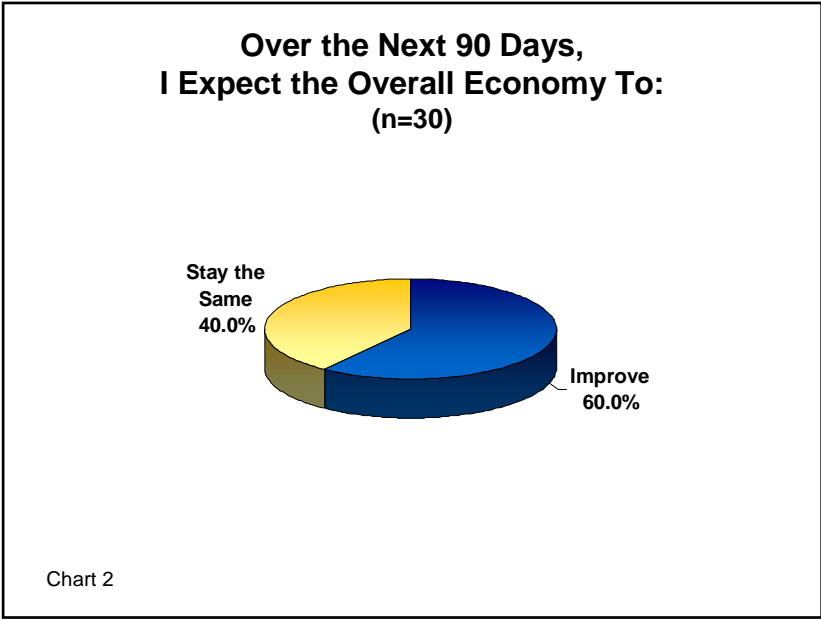
This is year 10 of quarterly, nationwide IT Services trend surveys conducted by Specifics, Inc. and Fairmount Partners. These surveys are designed to tap into several key, high-level IT Services metrics and track them on a regular basis in order to help you plan and forecast your business activities. The number of respondents to this survey is 30 firms and almost all are predicting a better 2011.

The data for this survey were collected between December 15 and December 30, 2010. The 30 respondents, from all regions of the United States (see Chart 1) represent companies from all areas of the U.S. Respondents include providers of all types of IT services, and represent an estimated 20% of total U.S. IT Staffing Services industry revenue.

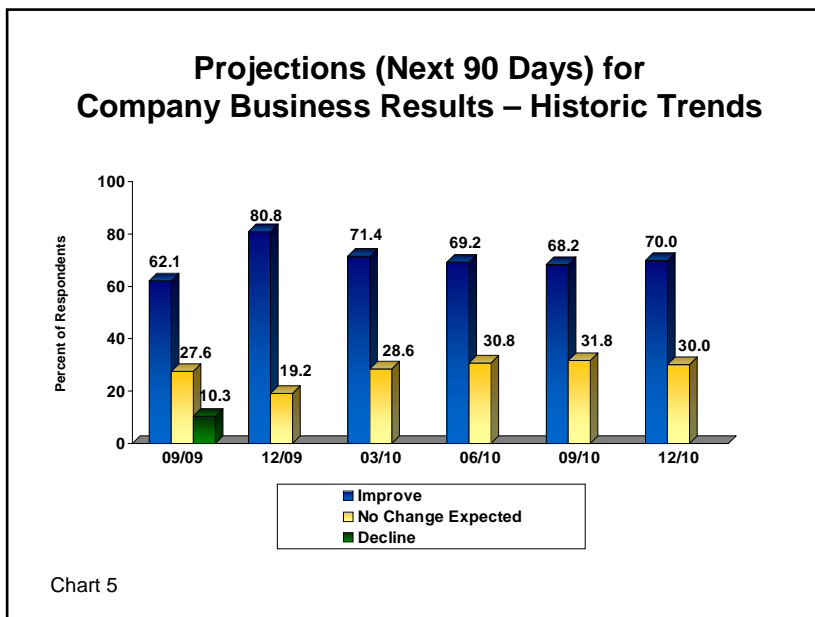
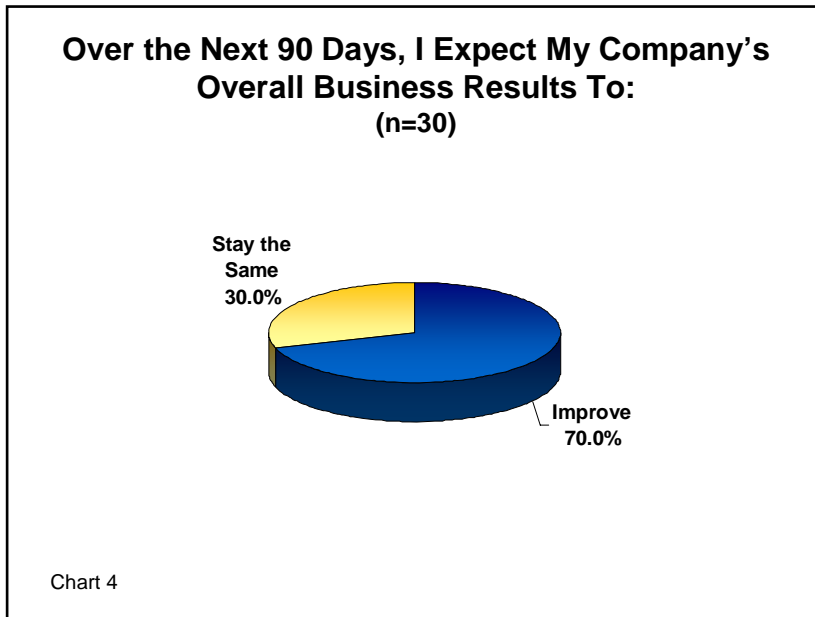


**THE ECONOMY**

60% of respondents believe that economic conditions will improve over the next 90 days. 40% respondents see no economic improvement, and no respondents see a worsening economy. The shift upward is very gratifying and yet it is not near the levels 10 years ago. Companies see a complex road ahead to produce any real profits. Once again, noted in this report, there is the return of the Financial Services Industry as a major source of revenue in 2011, and all segments of the country continue to see some improvement there. Billing rates have bottomed, stabilized, and there is the potential for a slight increase, but these are minimal increases on stable compensation, and margins in staffing will remain tight.

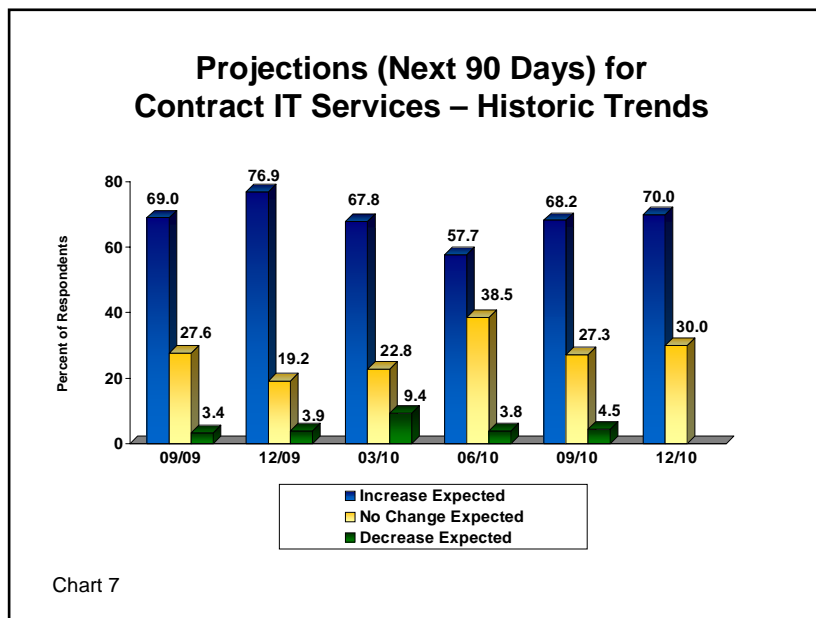
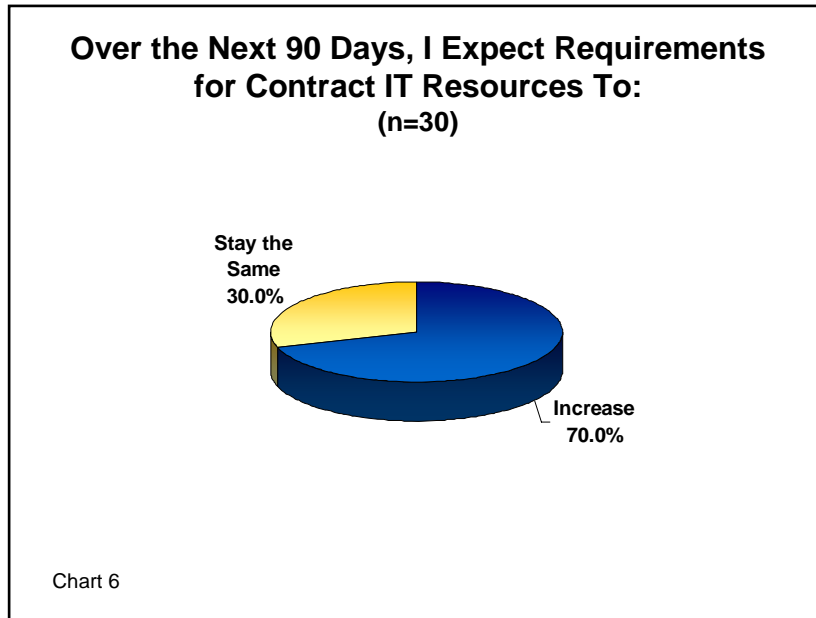


Projections for individual company results usually track projections for the economy as a whole, and this quarter's results show similar results. 70% of respondents this quarter believe that their companies' results will improve in Q1, but it will not be easy growth. No firms believe their company results will worsen. The balance believes their results will stay the same in Q1.

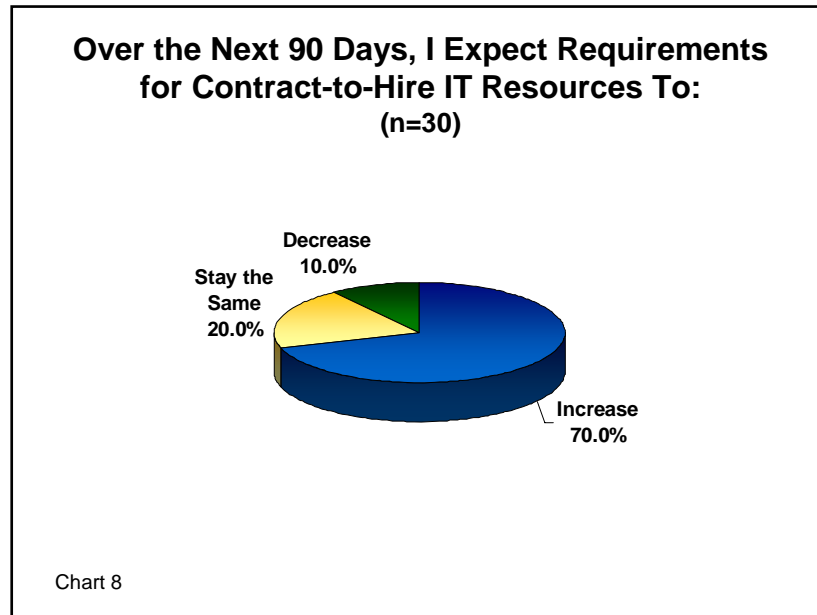


### Demand for IT Resources

Projections of near-term demand continue to improve in Q1. This quarter 70% of firms say contract demand will increase which is an increase over Q4, and no firms forecast a decrease in demand for contractors over the next 90 days. Demand to fill new positions across the board is expected to increase modestly, and companies are still optimistic about demand, but with continued pressure on margins.



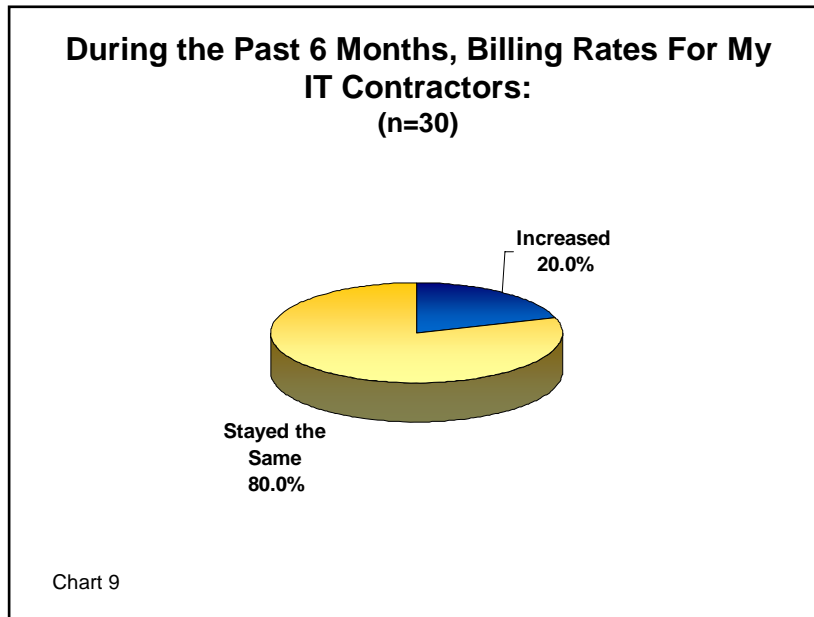
Demand for direct hires and contract-to-hire are projected to decrease slightly over Q4. Only 20% of firms forecast an increase, and 10% project a decrease in this category over the next 90 days. Demand for new positions was off in 2010, and the future looks to recover a few of these positions, but the overriding theme is that we are becoming a temp job economy.



Specifics projects that in the future many more jobs will be contract jobs, not permanent positions. The current climate in Washington and the potential increases in healthcare costs and taxes will prevent many companies from hiring full-time employees and they will favor contract workers, not just in IT, but in all jobs and job levels. The difficult issue for IT services companies is that the talent pool is the same, recruiting tools are the same, and the rates will be the same. Differentiation will continue to be very, very difficult.

### **BILLING RATES STILL PRESSURED**

Contractor billing rates in 2010 decreased by 2%, in addition to the 6% reduction in 2009, for a total of just over 8%. This has been painful to swallow, and rates are now projected stay the same 2011. Once down, getting them to rise will be extremely difficult without a killer app and increased demand. All of the gains in billing rates in the two years prior to 2008 have been dashed by the economy. Most companies traditionally do not have a good ability to forecast this area, or they often have unbridled optimism that they can eek out a rate increase. Specifics will track the firms that report an increase to monitor the trends.

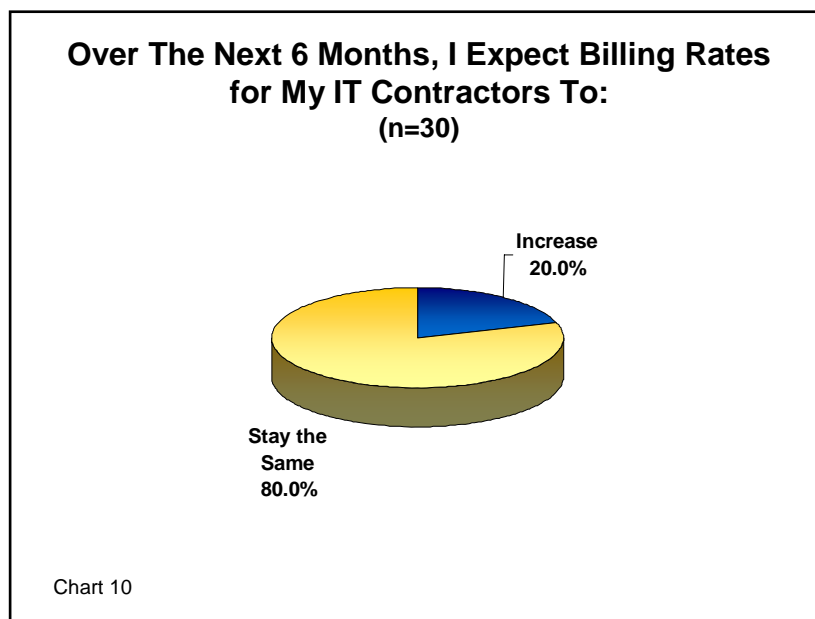


## GROSS MARGIN

The data for companies projecting changes in gross margins, which are depicted in Chart 11, are somewhat more optimistic than in Q4. A higher percentage of firms project an increase in gross margins over the next 6 months, and many fewer project a continued decrease. Gross margins for IT staffing are expected to remain in the low 20% range.

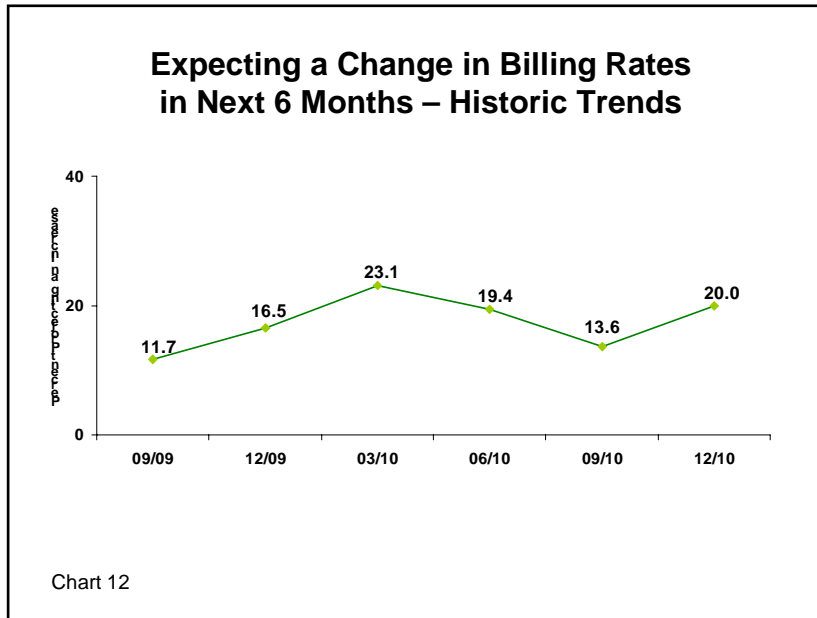
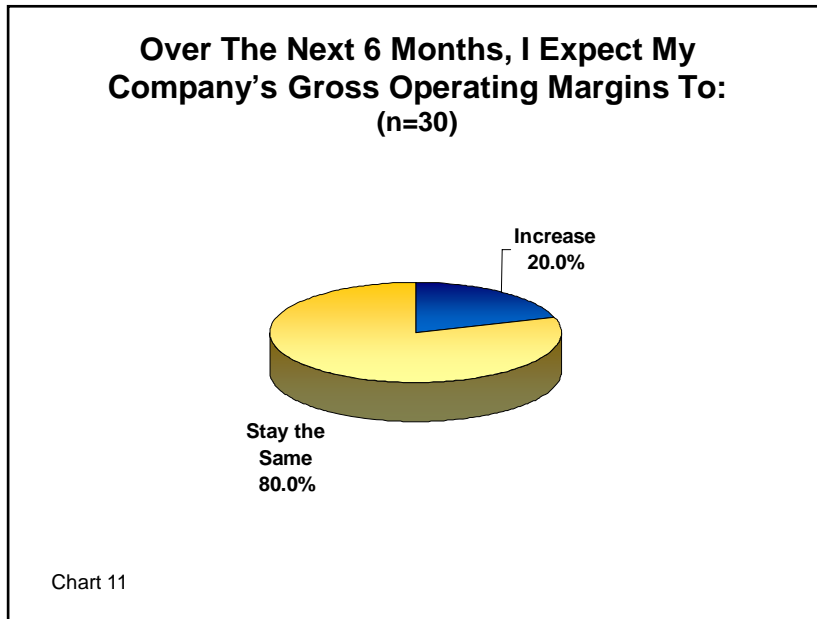
Executive and management compensation dramatically decreased in 2009 and 2010, as did compensation for sales professionals. **Specifics 2010 Sales and Recruiter Compensation and Headcount Report** was released in September and is available through [www.specifcs.com](http://www.specifcs.com).

Compensation decreases for technical skills are reflected in **Specifics 2010 Technical Compensation and Billing Rate Survey** ([www.specifcs.com](http://www.specifcs.com)). To inquire, send an e-mail to [jblumberg@specifcs.com](mailto:jblumberg@specifcs.com) or call 770-391-0013.



In **Specifics 2010 Financial and Operating Metrics Study**, we see that companies saw further erosion of gross margins to 23% on average. Net income inched up, primarily by aggressive cutting of headcount, especially reductions of full-time staff, including recruiters and administrative staff. **This survey questionnaire for 2011 will be distributed in January and is available through the Website ([www.specifcs.com](http://www.specifcs.com)) or by calling 770-391-0013.**

As illustrated in Chart 11, only 20% of the respondents now expect their billing rates to increase in the next 6 months. 80% say rates will stay the same, and no firms see further erosion in their billing rates. Rates in the next 6 months will likely remain at the same level, and we will not likely recoup the losses of 2008 and 2009 for several years.

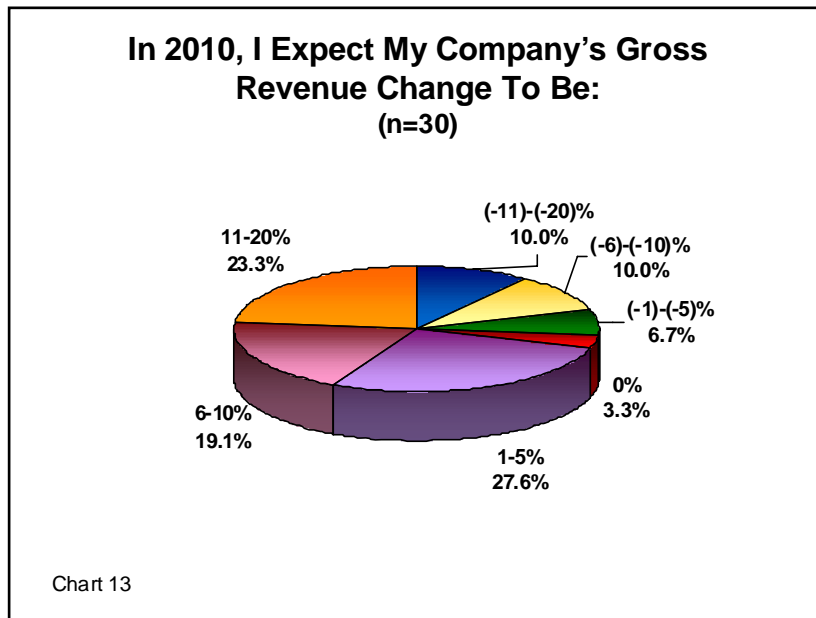


Although IT unemployment is still projected to remain as high as 9%, the Department of Labor still projects IT jobs to increase substantially over the next five years. We can see those optimistic projections materializing now that banking and financial services are back in vogue. Any economic optimism in this report would lead one to believe that market conditions for resources would tighten, but there is a slowly growing increase in demand. In the next year, the economy should improve, but the churn in positions will continue putting more IT resources in the labor market. The resources appear to be more numerous, the need is for more jobs, before there are any real increases in billing rates or margins.

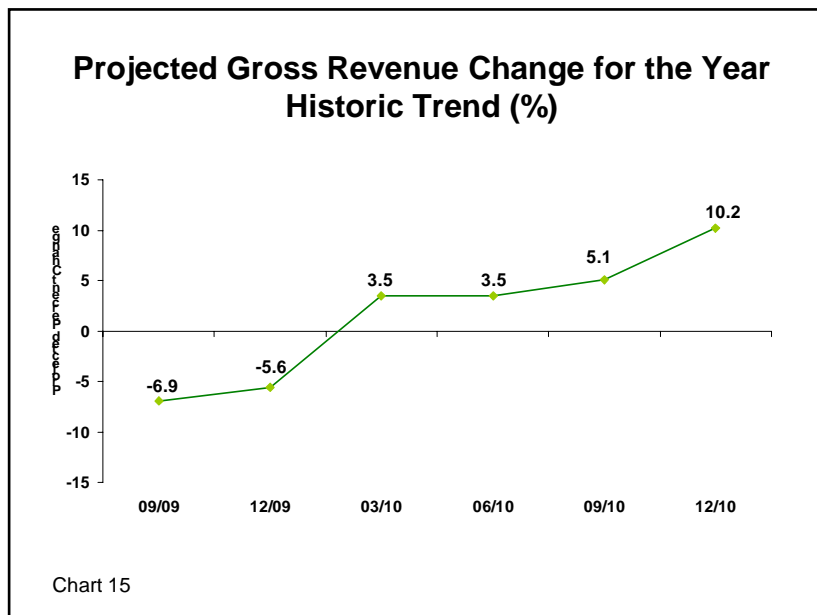
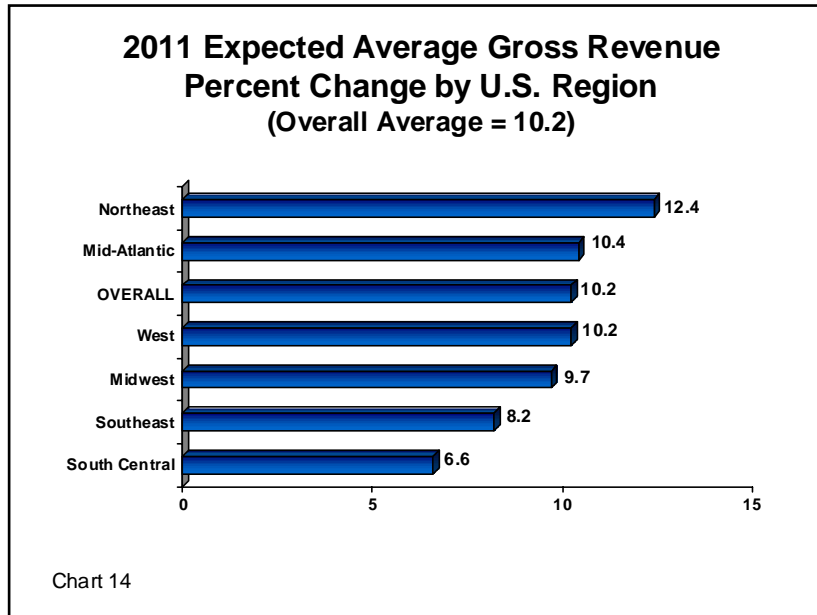
**REVENUE PROJECTED TO INCREASE IN 2011**

Chart 13 illustrates that the average 2011 revenue change projection is now 10.2%, which is extremely welcome. Single-digit growth is projected by 44.3% of the sample, and only 20% see single-digit decreases in revenue. Only 3.3% of respondents see no change.

**Specifics 2010 Sales and Recruiter Compensation and Headcount Report** provides details on company headcount redistribution and new operating metrics. It is available through our Website ([www.specifics.com](http://www.specifics.com)) or by calling 770-391-0013.



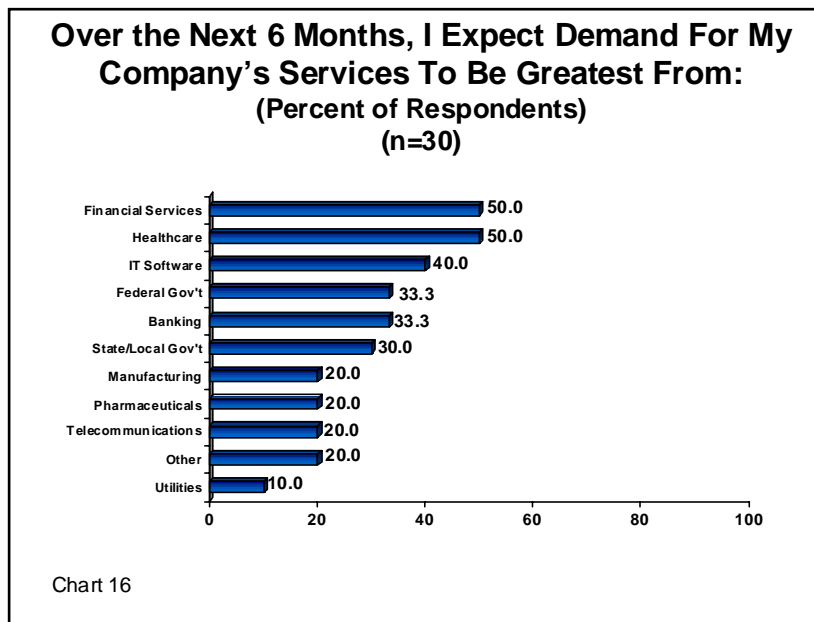
From a regional perspective, Chart 14 illustrates that projected revenue change for 2011 varies somewhat from region to region. These are very small sample sizes, and these are average values, so these results are merely indicators. It will be interesting to see if this optimism is realized in the actual results. The significant finding in this chart is the upward trend. Growth is evident in all regions.



**FINANCIAL SERVICES DEMAND AND HEALTHCARE DEMAND ARE EQUAL. SOFTWARE INDUSTRY DEMAND IS PROJECTED TO INCREASE. FEDERAL, STATE AND LOCAL GOVERNMENT MARKET CONTINUES IS PROJECTED TO, BUT WE ARE SKEPTICAL ABOUT ANY SPENDING IN GOVERNMENT CIRCLES.**

Demand projections for the various market sectors are illustrated in Chart 16. Much of the demand for IT services in the near-term is expected to come from Healthcare and Financial Services. Retail and banking are also projected to be strong.

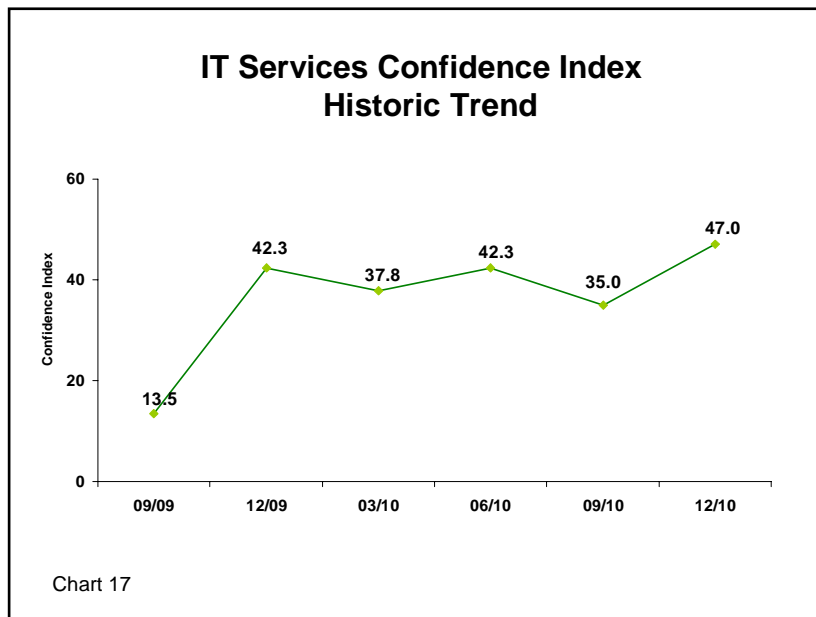
These results are only indicators of where companies plan to find business, but this may be simply a function of the sample of companies reporting in this survey. The increased percentage of potential business in the **Other** category cannot be defined.



**SUMMARY – CONFIDENCE INDEX REMAINS POSITIVE**

The Specifics IT Services Confidence Index is now at **47.0**, which is a real increase over Q3 and Q4. This is still not a hockey stick growth projection. Pessimism about rate increases and lower growth projections hold the index down. The market for IT services is mature, rates and gross margins have stabilized, and for the most part, the business has been commoditized. The next year or two could be promising if there is any volume generated from the financial services and banking, but margins will still remain low.

This index, which is a function of respondents' projections regarding the economy and their companies' business, is still driven primarily by the economy in past two years. An index value of **-0-** would be completely neutral. With unemployment high, there may be opportunities for the market to loosen and reduce the time to fill open positions, but VMS standards are prevailing. Index values calculated for the past 18 months are depicted in Chart 19. It said we have reached the bottom in December, 2008, and 2009 was pretty good. The Index optimism for the next year is very positive.



This Confidence Index will continue to provide a barometer for period-to-period comparisons, and will indicate the expected near-term direction of the IT Services industry. Given the current economy, it is looking like the industry will have low single-digit CAGR for the next few years. Worldwide political and economic stability and unusual events that impact the economy will definitely be factors. Participate in future studies and watch for potential swings driven by business growth and employment under the new congress.

Please feel free to distribute this report to any interested parties within your company. The next survey will be conducted in March 2011. For further information regarding this survey and/or the findings contained herein, or to participate in future IT Services Business Trends surveys, please contact Joe Blumberg at Specifics, Inc. Phone 770-391-0013, e-mail [jblumberg@specifics.com](mailto:jblumberg@specifics.com), or go to [www.specifics.com](http://www.specifics.com).

**Specifics, Inc.** (<http://www.specifics.com>) – is an independent market research firm serving the IT industry. Specifics is the leading provider of client and employee satisfaction studies to IT services firms, and publisher of the most comprehensive set of IT Services compensation studies and operating company benchmarks available:

- ✓ **IT Services Benchmarking Studies** – to compare performance based on revenue and mix of services:
  - **2010 Financial & Operating Metrics (\$595)**
  - **2010 Sales and Recruiter Compensation and Turnover Trends (\$595)**
- ✓ **2009/2010 IT Services Executive and Management Compensation Study** – comparing base salary and incentives for staffing and solutions firms. (\$595)
- ✓ **2010 IT Technical Compensation and Billing Practices for 60 skill sets.** (\$350 per location- you must provide your data to purchase reports.)

**Fairmount Partners** ([www.fairmountpartners.com](http://www.fairmountpartners.com)) – provides a unique blend of merger and acquisition, private placement, recapitalization, buyout, and strategic-advisory services to fuel the growth of IT and business services firms. Our bankers include former IT services industry entrepreneurs, giving us unique insight into our clients' businesses. Our clients are typically emerging growth companies ranging from \$5 million to \$300 million.

Headquartered in Philadelphia, Fairmount Partners is one of the largest investment banking groups in the region. Our team has global experience, having closed transactions in North America, Europe, and the Middle East. In addition to IT services, Fairmount also serves clients in the software, communications, and healthcare fields. The principals of Fairmount have successfully completed more than 60 engagements in the past three years.

Fairmount's growth-advisory services are specifically geared to help the leaders of IT services firms substantially increase their firm's value. Our services help company leaders prepare and execute strategic plans in order to achieve short- and long-range goals for creating wealth.

Fairmount Partners' clients who have already benefited from this service include public and privately-held companies ranging in enterprise value from \$20 million to \$300 million. A number of these clients have private equity and venture capital investors who want to maximize the value of their position.

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