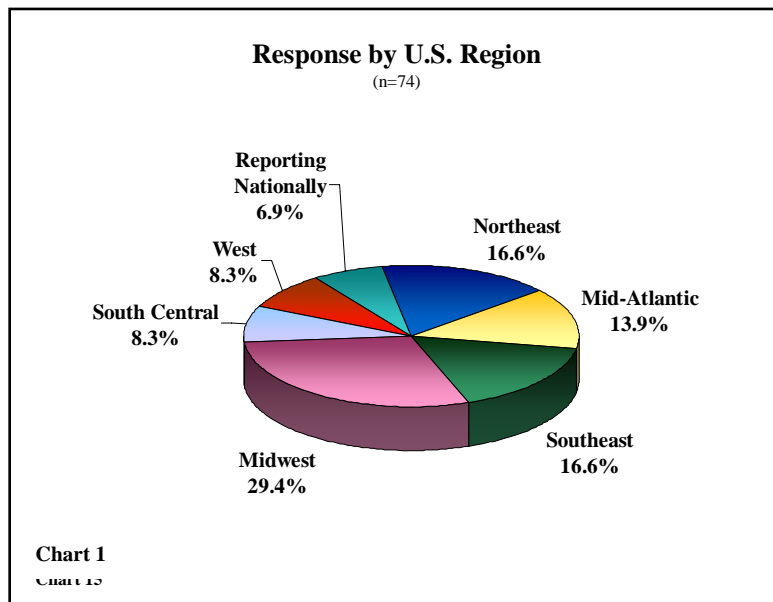


## IT SERVICES BUSINESS TRENDS REPORT OCTOBER 2008

**PROJECTIONS FOR Q4, THE REMAINDER OF 2008, AND Q1 2009, REFLECT GROWING CONCERNS FOR THE ECONOMY AND ITS IMPACT ON OUR INDUSTRY. ENTHUSIASM FOR BILLING RATE INCREASES HAS WANED. DEMAND IS PROJECTED TO DECREASE, BUT AVERAGE 2008 REVENUE GROWTH PROJECTIONS REMAIN AT 5%. A FEW FIRMS STILL REPORT GROWTH AS HIGH AS 20%. THE IT SERVICES CONFIDENCE INDEX, HOWEVER, STANDS AT ITS LOWEST LEVEL EVER.**

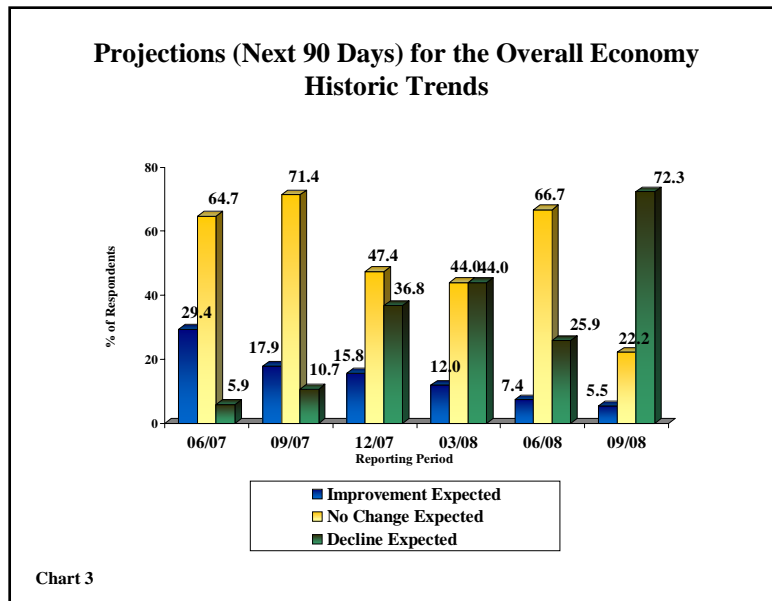
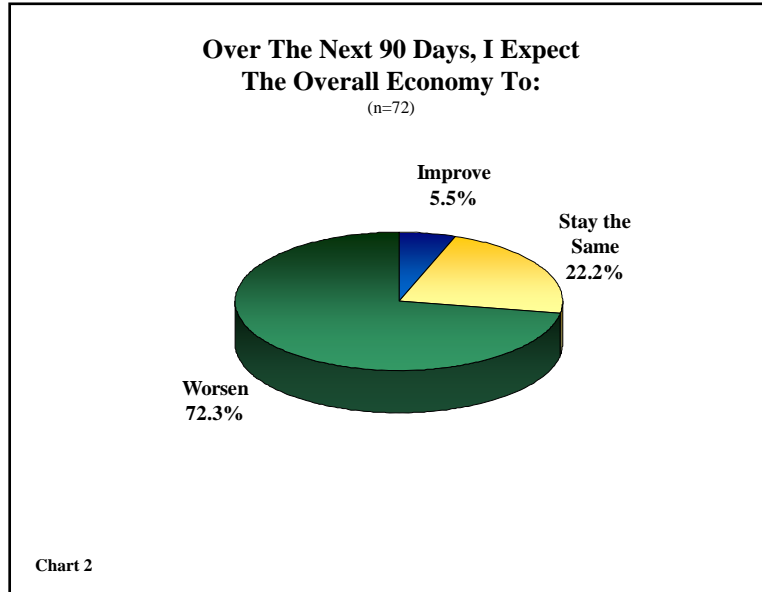
This is the 30<sup>th</sup> in a series of periodic, nationwide IT Services trend surveys conducted by Specifics, Inc. and Fairmount Partners. These surveys are designed to tap into several key, high-level IT Services metrics and track them on a regular basis in order to help you plan and forecast your business activities. This survey has been expanded in 2008 to gauge which business segments will be generating growth.

The data for this survey were collected between September 15 and September 30, 2008. The 74 respondents, from all regions of the United States (see Chart 1) represent a 40% increase in the typical response rates. Respondents include providers of all types of IT services, and represent more than an estimated one-fourth of total U.S. IT Staffing Services industry revenue. Once again, some real concerns dominate the mindset of the respondents, especially in light of the recent collapse of U.S. financial markets. Projected overall growth rates in 2008 remain around 5%, even with the increased pessimism for the economy.

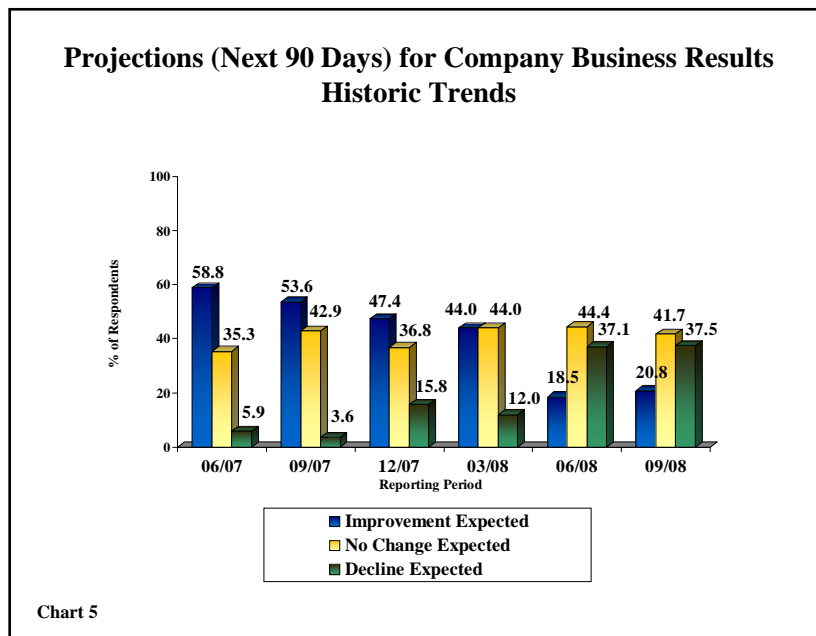
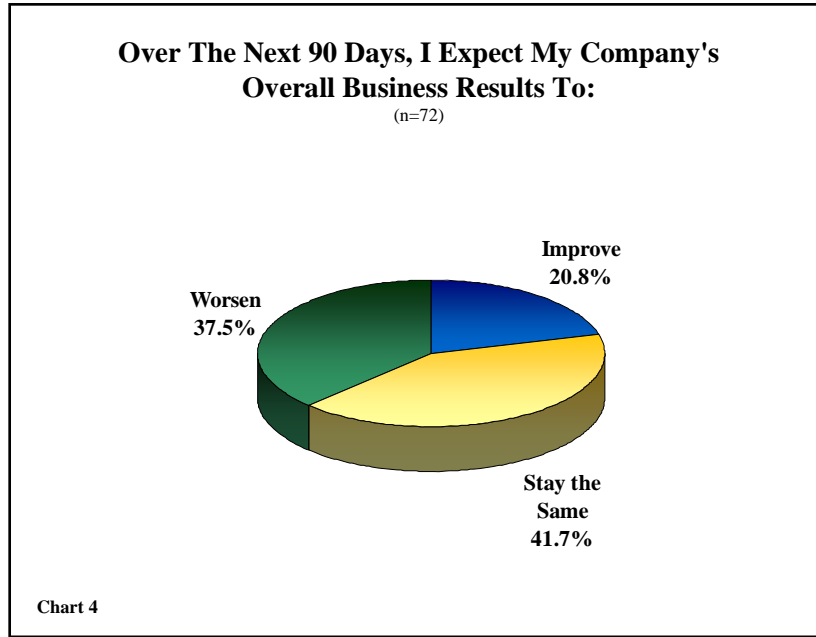


**THE ECONOMY**

Three in four (72.3%) of this quarter's respondents project economic conditions to worsen over the next 90 days. This is much higher than last quarter where more firms projected a worsening economy. Only 4 firms believe things will get better. The mood seems to indicate that we have still have not bottomed, but we may be in an unstable economic environment for some time.

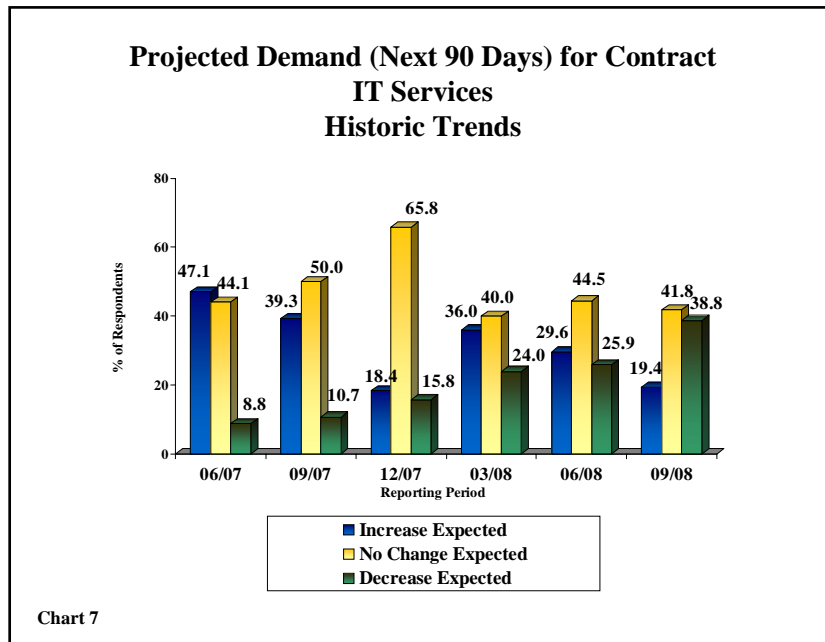
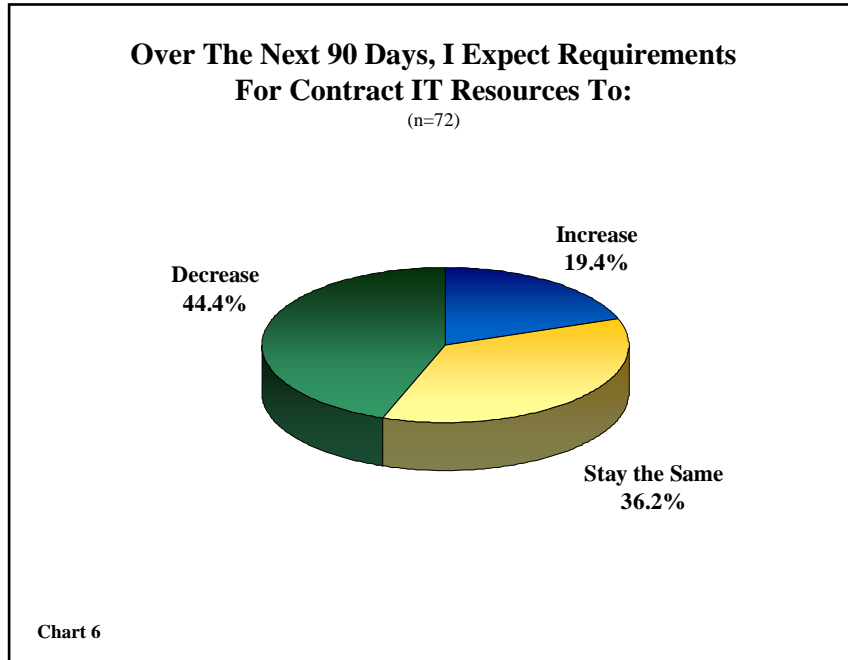


Projections for individual company results usually track projections for the economy as a whole, and this quarter's results show similar results. Respondents this quarter map last quarter and they do not necessarily believe that their companies will follow the economy downward. 80% believe their results will be the same or worsen.

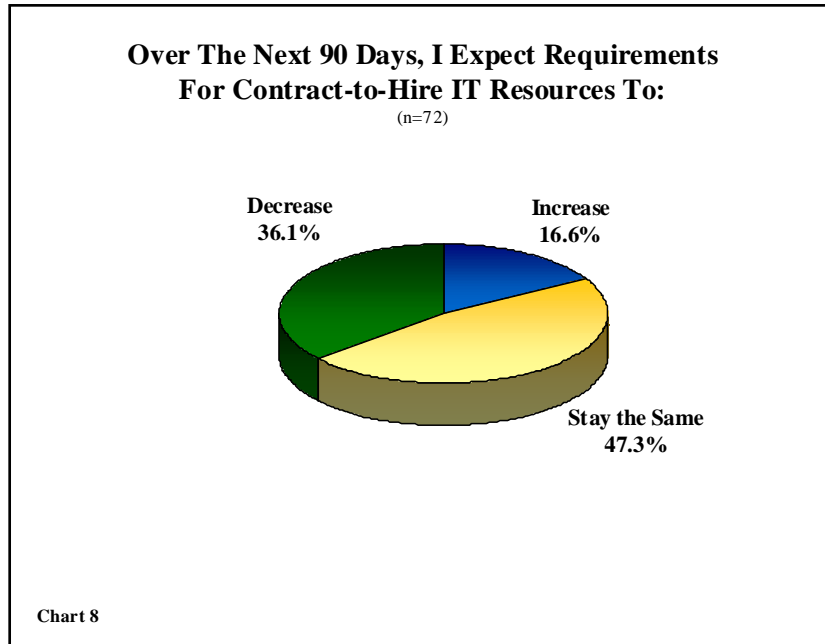


**Demand for IT Resources**

Projections of near-term demand have eroded significantly for Q4. Only 19.4% of firms say they will increase. 44.4% forecast a decrease in demand for contractors over the next 90 days. The projected demand for contract-to-perm resources shows a corresponding decrease. Demand across the board is expected to decrease, but companies do not seem to be anticipating layoffs.

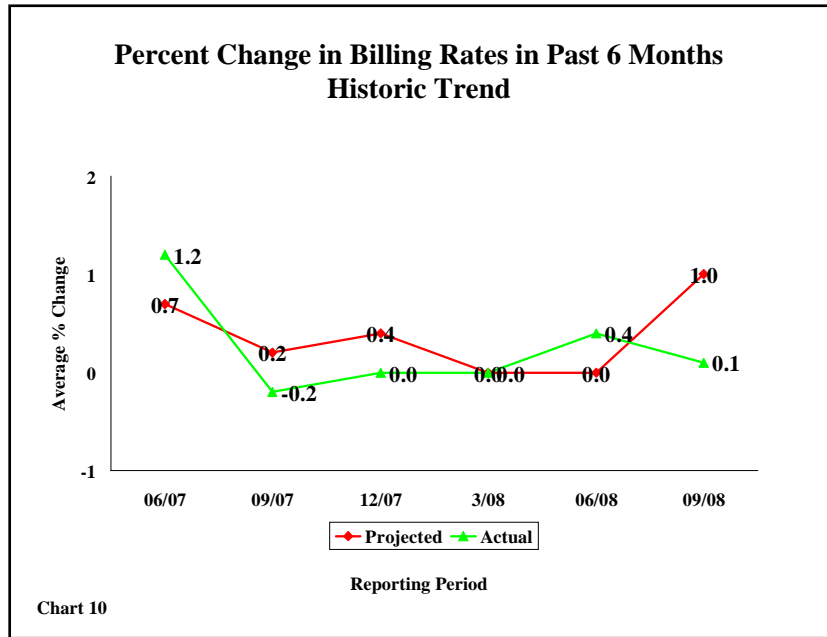
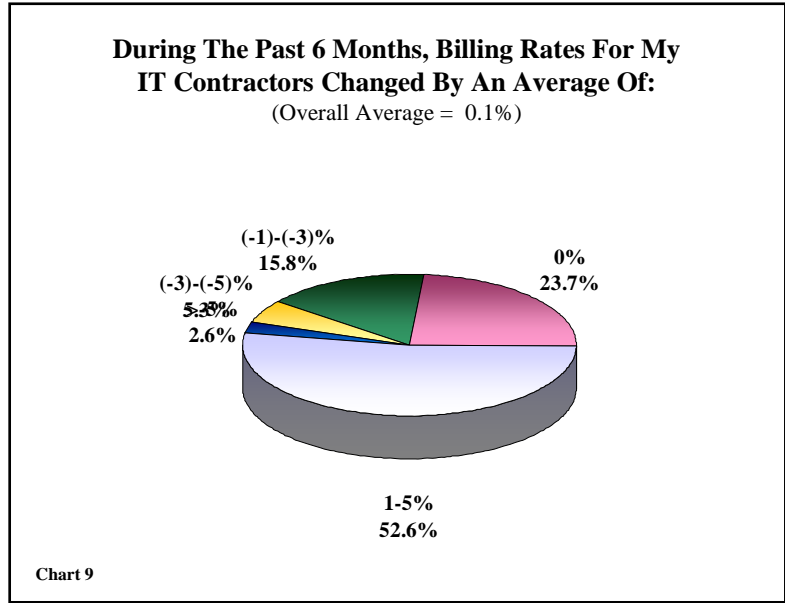


Demand for direct hires and contract-to-hire also show a substantial decrease. Fewer firms project an increase in this category than in past quarters, and demand is off by more than 10% from last quarter, the same percentage that project a decrease in demand. The percentage that project demand staying the same is steady.



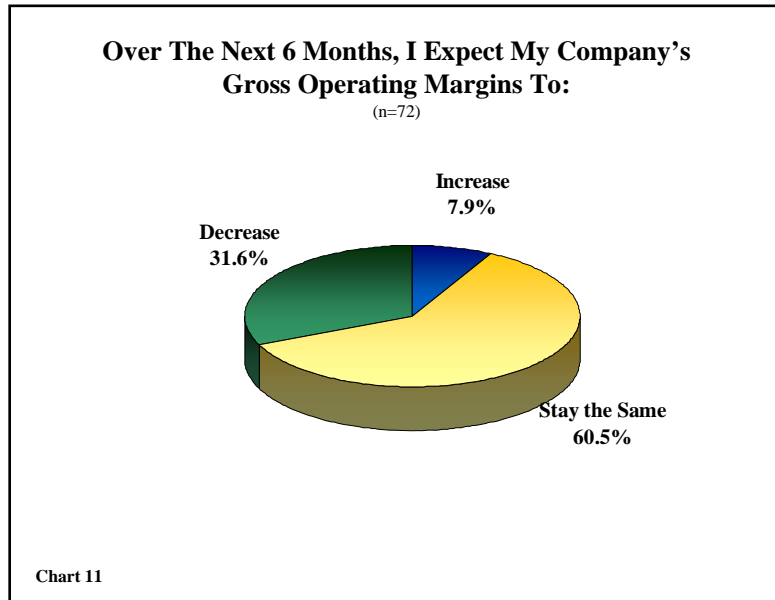
**BILLING RATES PRESSURED**

Calculated for the respondent sample as a whole, contractor billing rates in the past 6 months have increased only 0.1%, down from Q3. 23.7% of the respondents report increases in billing rates and an equal 23.7% reported decreases. 61.1% say that billing rates remained stable over the past six months. This can be an early indicator that inflation is going to impact the market for IT resources. The projected increases from the Q3 report have been dashed with the economy.



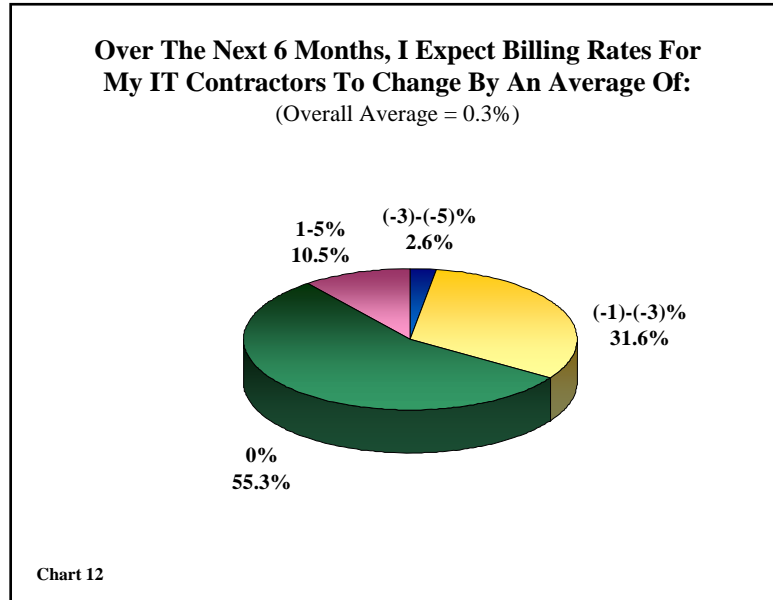
The data for projected gross margins, which are depicted in Chart 11, show a conservative projection, with only 7.9% of respondents expecting an increase in the next 6 months and 31.6% expecting a decrease.

Compensation increases may not materialize as inflation appears to be under control. **Specifics 2008 Technical Compensation and Billing Rate Survey** ([www.specifics.com](http://www.specifics.com)) results show that compensation in many skill sets has increased, and billing rates were beginning to increase, but that may have stalled with the economic recession.



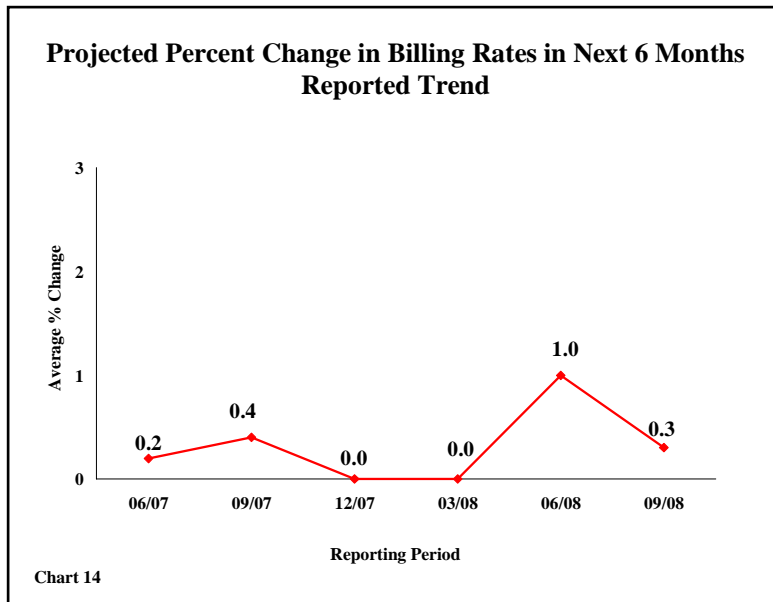
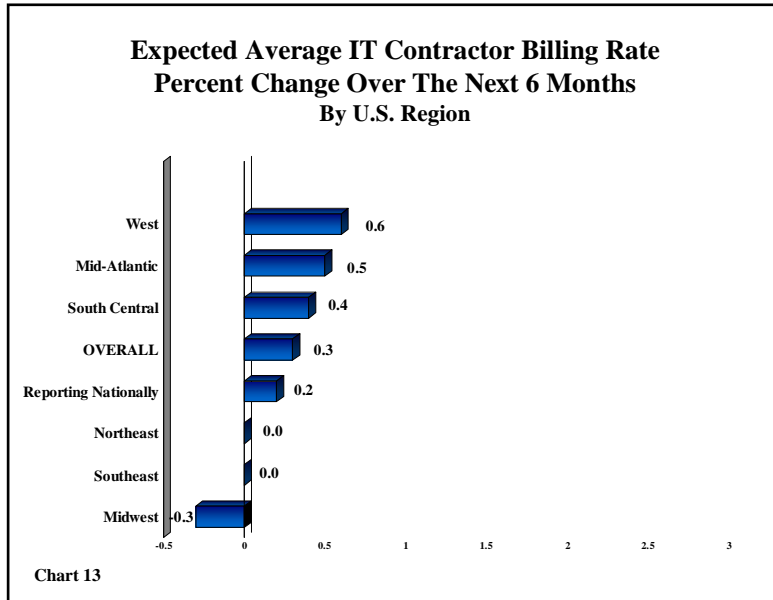
In **Specifics 2008 Financial and Operating Metrics Study**, we see companies reporting gross margins as low as 17% from staffing business in managed service accounts, and many new contracts have been let with an 18% gross margin. It is hoped that 20% plus margins will be more acceptable to more client firms.

As illustrated in Chart 12, only 10.5% of respondents expect their billing rates to increase from 1-5% in the next 6 months, and only 55.5% see no erosion in their billing rates. This is a more pessimistic response than in Q2 and Q3 of 2008.



Although IT unemployment is projected at only 2.0%, and the Department of Labor projects IT jobs to increase substantially over the next five years, the market for resources appears to be loosening a bit. Unemployment will increase, putting more resources in the labor market and potentially decreasing the time to fill – a silver lining in a very dark cloud.

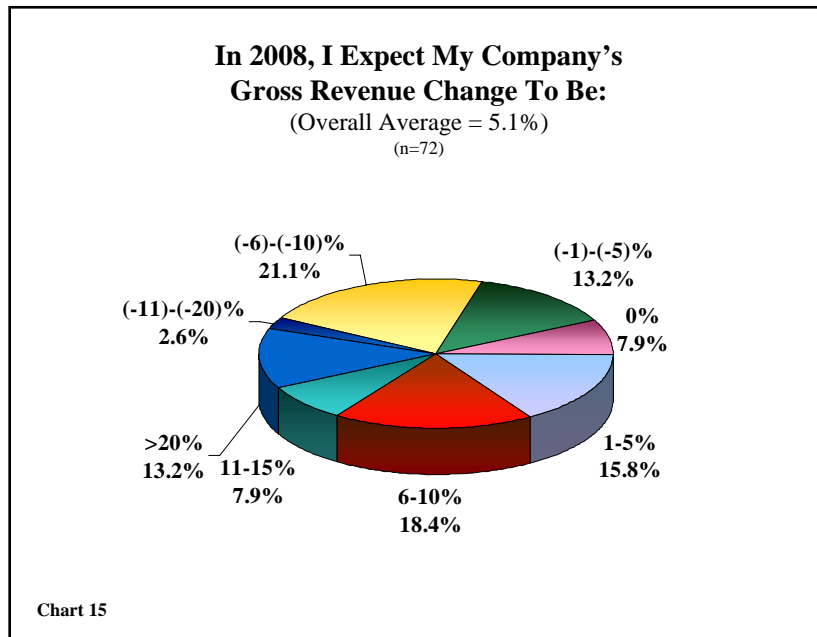
The sample sizes for Chart 13 are relatively small and the results vary greatly. Chart 13 shows that, over the next six months, contractor billing rates are still expected to increase most in the West region, followed by the South Central. All other regions report modest movement, and all except the Midwest are positive. Companies Reporting Nationally estimate an average increase of 0.2% in contractor billing rates. The historic trend for projected changes in billing rates is illustrated in Chart 14. The 1.0% last quarter may have been an anomaly, but it was projected before the economic downturn and Wall Street collapse. The lingering impact could last three or more years.



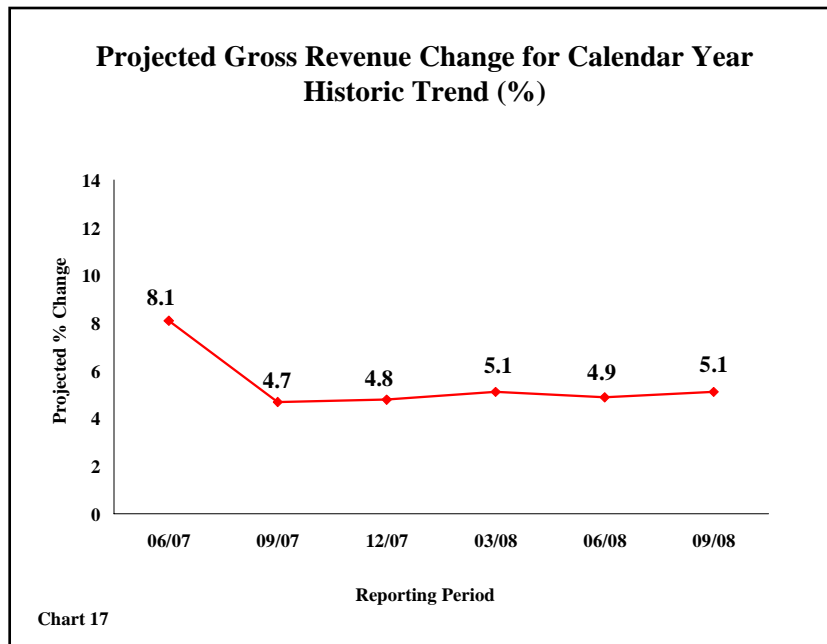
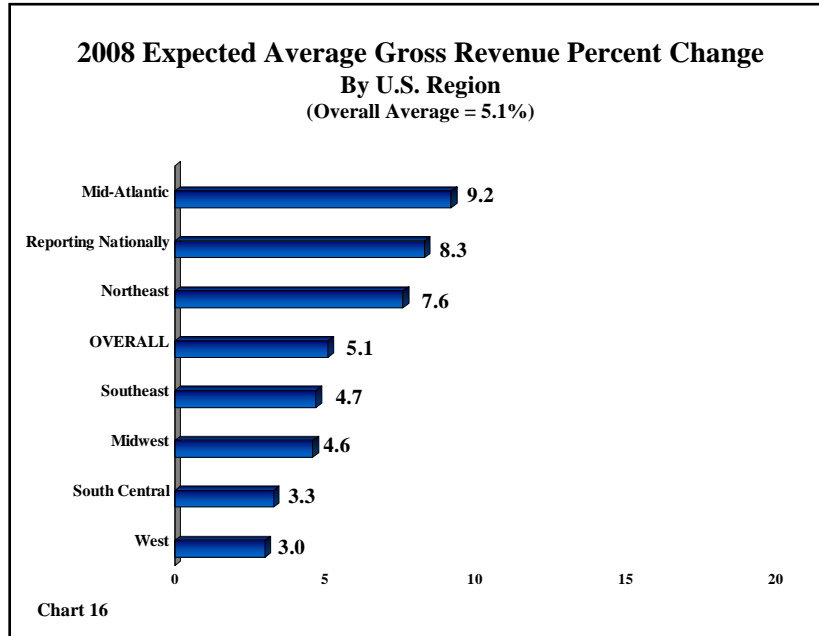
**MODEST REVENUE GROWTH PROJECTED**

Chart 15 illustrates that the average 2008 revenue change projection is 5.1%, which is essentially the same as reported in Q2 (5.1%) and Q3 (4.9%). In Q4, 33.4% of firms still project double-digit growth in 2008. Mid single-digit growth for the industry overall in 2008 is the consensus projection, and the number is remains about 5%.

**Specifics 2008 Sales and Recruiter Compensation and Headcount Study** reports 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.



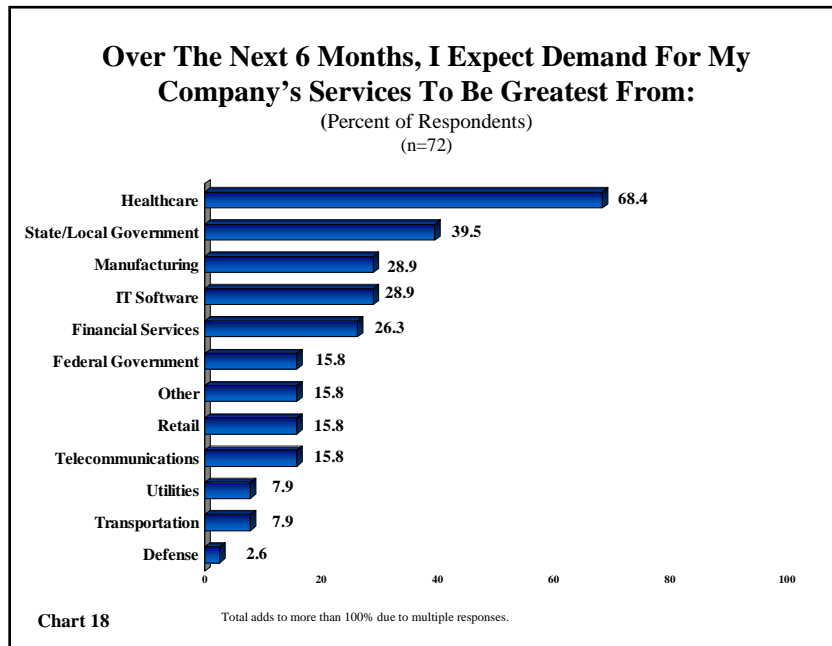
From a regional perspective, Chart 16 illustrates that projected revenue growth for 2008 varies somewhat from region to region – with all regions projecting average growth that is in single digits. There are small sample sizes in several regions, and these are average values, so these results are merely indicators. The Mid-Atlantic companies report the highest growth along with companies reporting nationally.



**HEALTHCARE REMAINS STRONG, AND CONTINUES TO INCREASE, WHILE FINANCIAL SERVICES WEAKENS MORE AND IS BARELY IN THE TOP 5. DEMAND FROM FEDERAL GOVERNMENT SECTORS REMAINS LOW, BUT THE STATE AND LOCAL GOVERNMENT MARKET INCREASES**

Demand projections for the various market sectors are illustrated in Chart 18. Much of the demand for IT services in the near-term is expected to continue to come from traditional strong market sectors – Healthcare, State and Local Government and IT Software. Financial Services continues to fall out of favor as a top market for IT services, but the market appears to be in retail banking as opposed to investment banking.

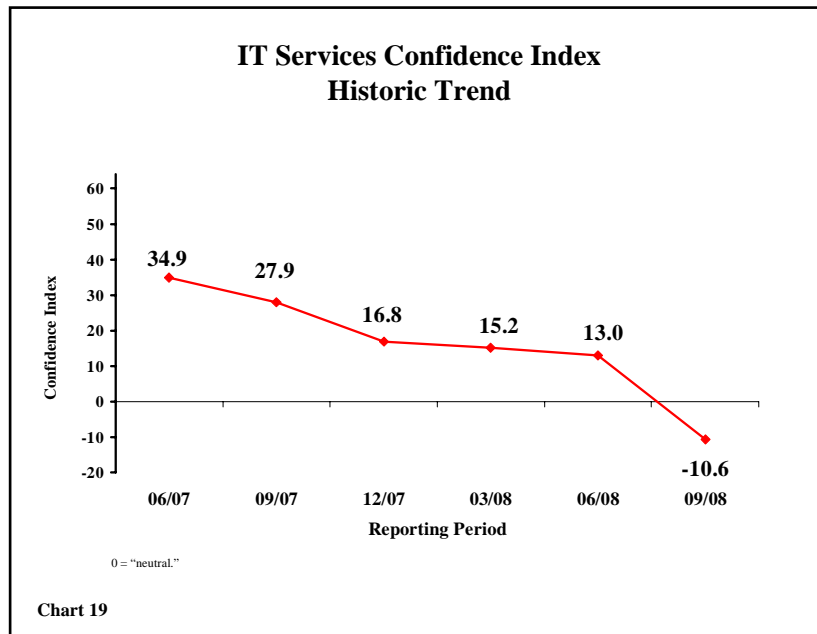
Telecomm and Utilities show less potential, and Defense fell dramatically. Manufacturing continues to be an improving market. These results are indicators only of where companies plan to find business, but this may be simply a function of the sample of companies reporting in this survey.



**SUMMARY – CONFIDENCE INDEX CONTINUES TO SLIDE**

The Specifics IT Services Confidence Index dropped to a **-10.6** which is down substantially from one year ago and at the lowest level ever reported for this index, including 1992. The trend has been clear for the past two years and is the result of pessimism about the economy overall and lower growth projections. The economy is deteriorating, the market has matured, gross margins have stabilized, and without a significant event to move the needle upward, it will have a tough business environment to navigate.

This index which is a function of respondents' projections regarding the economy and their companies' business environment (an index value of **-0-** would be completely neutral) was driven downward primarily by the economy in past 30 days and deteriorating business conditions. There is continued concern for Financial Services and a reduction in IT spending. Index values calculated for the past 18 months are depicted in Chart 19.



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 impossible to predict a CAGR for the next few years. Worldwide political stability and more unusual events that impact the economy will definitely be factors. Participate in future studies and watch for potential swings driven by instability, national security, and interest rate changes.

Please feel free to distribute this report to any interested parties within your company. The next survey will be conducted in December 2008. 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:
  - **2008 Financial & Operating Metrics** (\$595)
  - **2007 Sales and Recruiter Compensation and Turnover Trends** (\$595)
- ✓ **2008 IT Services Executive and Management Compensation Study** – comparing base salary and incentives for staffing and solutions firms. (\$595)
- ✓ **2008 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.

Fairmount Partners and Dick Thatcher can be contacted by calling 610-260-6238, or by e-mail to [dick.thatcher@fairmountpartners.com](mailto:dick.thatcher@fairmountpartners.com).