

April 2010: Technology Quarterly

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First Quarter Highlights

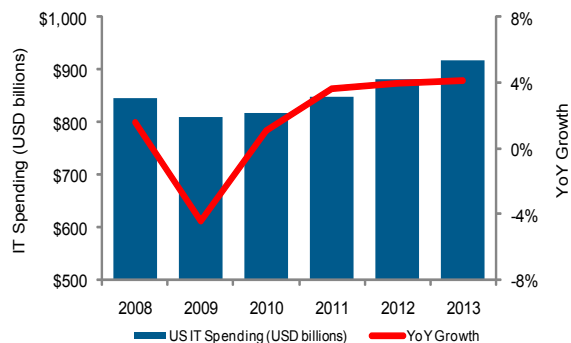
- Middle market M&A deal volume increased by 34% in Q1 2010 on a year-over-year basis. Aggregate deal value rose by 63% during the same period.
- As of March 31, 2010 the S&P 500 and Dow Jones Industrial Average were up 5% and 4% YTD.
- The national unemployment rate fell to 9.7% in Q1 2010.
- IT spending decreased by nearly \$38 billion, or 4.4%, in 2009 to \$809 billion. According to Gartner, expenditures are expected to rebound in 2010 with moderate growth of 1.1% to just over \$817 billion.

Staying Strong

Technology M&A was one of the better performing sectors in 2009 and appears to be set for a solid 2010. In 2009, Technology M&A was largely driven by consolidation forces that were amplified by the economic meltdown. Most Technology business models have very high gross margins, and relatively high marketing and sales infrastructures. In market downturns, it is imperative to add high contribution margin revenue that can be driven off of existing infrastructure; consequently, there was an inordinate number of defensive deals completed in 2009. Relative to other industries, Technology M&A in 2009 was less effected by the crippled debt markets, primarily due to the fact that, on average, Technology companies tend to have stronger balance sheets with less debt.

As we turn into 2010, we are seeing fewer deals driven by defensive measures and more being driven by strategic initiatives to better penetrate growing niches or address required changes in business models. BPM, SOA, and Business Intelligence continue to be hot areas as corporate customers are looking to streamline productivity, thereby cleansing their internal processes of cost inefficiencies. Deals such as Chordiant-Pegasystems and Savvion-

US IT Spending



Source: Gartner

Progress reflect the development of these trends.

SaaS Remains Hot

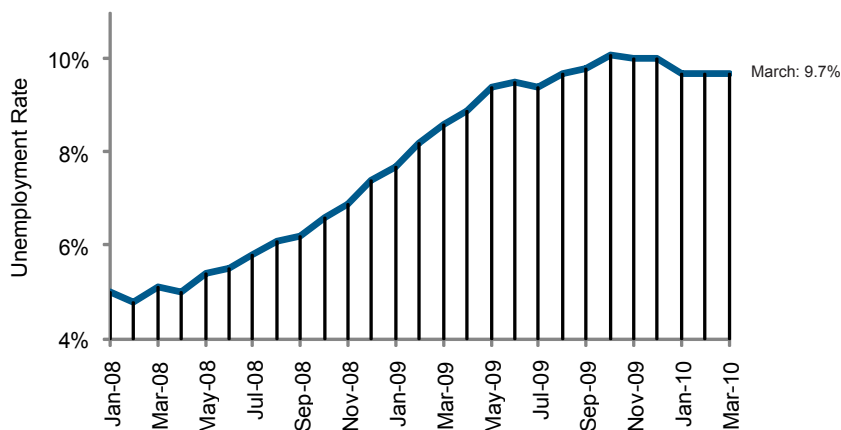
In addition to repositioning themselves in desirable verticals, Technology companies continue to adjust to corporate buyers, who increasingly view tech spending as an operating expense, rather than a capital expenditure. As a result, companies engage in more frequent purchases at smaller price points often delivered through Cloud models. Subsequently, SaaS M&A activity continues to be hot, as many buyers are looking not only at product and solution additions, but also expressing an interest in migrating their delivery models and sales and marketing infrastructure. The implementation and adaptation of these technologies are crucial to the realization of their potential cost savings. As a result, additional beneficiaries of this trend include IT Services, who have also experienced a strong uptick in deal volume and value in recent months.

Good Momentum

We expect the aforementioned trends to continue into 2010, as companies remain focused on cost control and efficiency. In addition, the return of the financial buyer, as demonstrated in the SkillSoft and Plato Learning acquisitions, adds to the growing optimism for a strong 2010 for Technology M&A. As a result, we expect M&A activity to remain strong, particularly in the SaaS and IT Services sectors.

Macroeconomic Factors

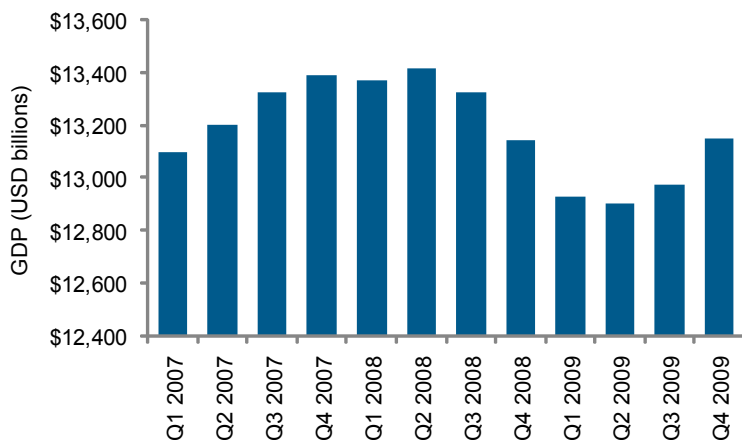
US Unemployment



Source: Bureau of Labor Statistics

After breaching the 10% threshold in October 2009, national unemployment fell to 9.7% in January 2010 and has remained unchanged into March. According to the Bureau of Labor Statistics, nonfarm employment added 162,000 jobs in March, driven primarily by temporary help services and the Healthcare sector. The federal government was a key contributor, as Census 2010 has demanded an increase in the hiring of temporary employees. Manufacturing employment also closed out a strong first quarter, adding 17,000 jobs in March and 45,000 for the quarter.

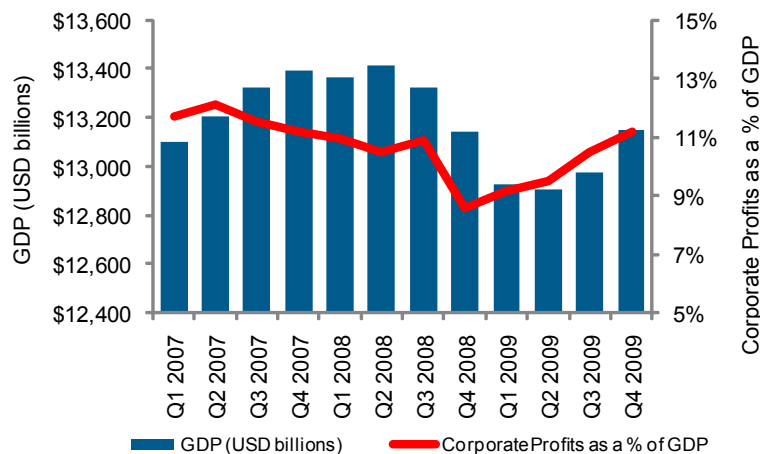
US Real GDP



Source: Bureau of Economic Analysis

Beginning in Q3 2008, Real GDP contracted for four consecutive quarters. In Q3 and Q4 2009, GDP rebounded with moderate growth. According to the Bureau of Economic Analysis, this recovery in the latter part of 2009 was fueled primarily by private inventory investment, an upturn in nonresidential fixed investment, and an acceleration of exports. With the money supply at historic levels, private investment will continue to drive GDP growth, as the economy continues to recover.

Corporate Profits vs. GDP



Source: Bureau of Economic Analysis

Corporate profits increased by \$108.7 billion to nearly \$1.5 trillion in Q4 2009, compared to an increase of \$132 billion in Q3 2009. Year-over-year growth of nearly 31% from Q4 2008 to Q4 2009 further emphasized the recovery of the overall economy from a year ago. After hitting a low of 8.5% in Q4 2008, corporate profits reached 11.2% of GDP in Q4 2009, the highest level since Q4 2007. As capital becomes more accessible and businesses resume expansion, GDP and corporate profits will continue to trend upwards.

Technology M&A Activity

	Deal Volume	Transaction Value (\$mm)	Median EV / Revenue	Median EV / EBITDA
Application Software	43	\$3,241	2.8x	16.0x
Infrastructure Software	34	3,912	3.7	9.2
Internet & Digital Media	25	2,097	2.4	8.5
IT Services - Corporate	23	1,400	0.8	11.7
IT Services - Government	2	135	1.2	NM
IT Services - Healthcare	13	496	2.2	13.7
IT Services - Offshore	5	481	0.7	NM
Network Communications	19	520	1.0	3.9
SaaS	30	1,990	2.1	6.1
Semiconductor & Equipment	16	2,914	1.6	18.2
Total	210	\$17,187	1.7x	9.3x

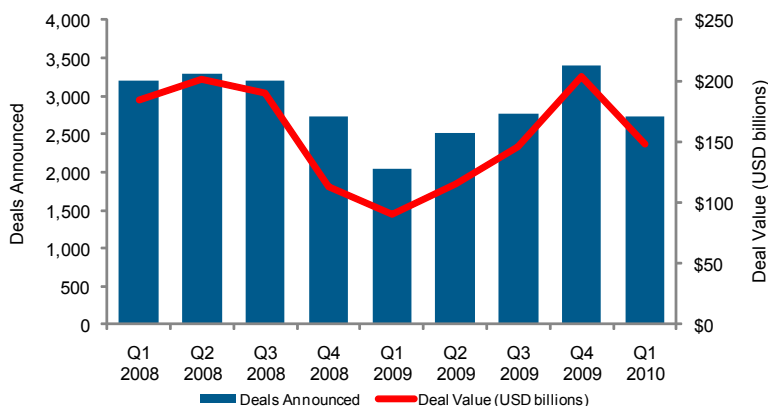
Sources: Capital IQ and 451 Group

Selected Technology Transactions

Category	Announcement Date	Target	Acquirer	Enterprise Value (\$mm)	Enterprise Value to LTM Revenue	Enterprise Value to LTM EBITDA
Application Software	Mar-10	Plato Learning <i>Online instruction and educational software</i>	Thoma Bravo <i>Private Equity</i>	\$115	1.8x	35.6x
Application Software	Mar-10	Chordiant Software <i>Software applications, tools, and services</i>	Pegasystems <i>Business process automation software</i>	104	1.4	NA
Application Software	Feb-10	RiskMetrics Group <i>Risk management and corporate governance products</i>	MSCI <i>Portfolio risk and performance analytics</i>	1,624	5.4	16.0
Application Software	Feb-10	Mimosa Systems <i>Information and content archiving solutions</i>	Iron Mountain <i>Record protection and data management</i>	112	5.1	NA
Application Software	Jan-10	Sawion <i>Business process management software</i>	Progress Software <i>Application and infrastructure software</i>	49	2.3	NA
IT Services - Corporate	Feb-10	Intelligent Wave <i>Software development and systems integration</i>	Dai Nippon Printing <i>Printing, packaging, and various media services</i>	59	1.1	12.0
IT Services - Corporate	Feb-10	COMSYS IT Partners <i>IT staffing solutions</i>	Manpower <i>Permanent, temporary, and contract recruitment</i>	431	0.7	16.4
IT Services - Corporate	Jan-10	Xafinity <i>Consulting, software, and outsourcing services</i>	Advent International <i>Private Equity</i>	308	1.4	7.3
SaaS	Feb-10	SkillSoft <i>E-learning and performance support solutions</i>	SSI Investments (Advent, Bain, Berkshire) <i>Private Equity</i>	1,071	3.4	9.2
SaaS	Feb-10	Inform Business Impact <i>SaaS-based human capital analytics and services</i>	SuccessFactors <i>Cloud-based business execution software</i>	41	2.7	NA

Sources: Capital IQ and 451 Group

Overall Middle Market M&A Activity



Sources: Capital IQ and 451 Group

Note: Statistics include announced mergers and acquisitions with disclosed value of less than \$1 billion

Software was the focus of Technology M&A activity in the first quarter of 2010, as Application Software, Infrastructure Software, and SaaS were the leaders in terms of deal volume.

2009 was capped off with a strong fourth quarter, as middle market deal volume increased by nearly 25% on a year-over-year basis. Deal volume and aggregate deal value in Q1 2010 increased by 34% and 63% on a year-over-year basis.

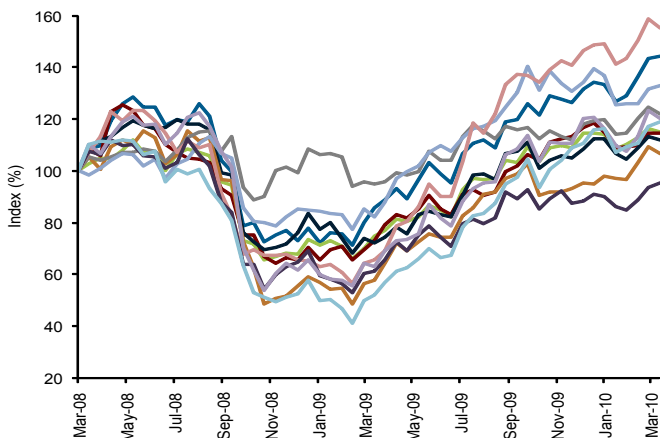
Public Trading Comparables

	Stock Price Change			EV / Revenue		EV / EBITDA		P / E	
	3 months	6 months	12 months	2009E	2010E	2009E	2010E	2009E	2010E
Application Software	9.8%	25.3%	47.2%	3.2x	2.8x	13.6x	10.0x	20.3x	18.0x
Infrastructure Software	3.2	14.8	58.2	2.5	2.3	9.9	9.4	19.3	15.7
Internet & Digital Media	7.5	17.0	62.1	1.8	1.6	8.9	7.8	19.4	21.7
IT Services - Corporate (Large Cap)	9.9	7.4	73.6	1.1	1.0	6.8	6.5	16.5	15.3
IT Services - Corporate (Mid Cap)	14.0	9.8	108.7	0.6	0.6	11.6	7.5	22.6	15.7
IT Services - Government	1.0	3.5	33.9	0.8	0.7	8.9	7.7	18.0	15.7
IT Services - Healthcare	(0.9)	1.8	51.0	2.1	2.1	13.6	11.1	27.2	23.2
IT Services - Offshore	3.7	19.4	172.5	3.9	3.2	19.4	15.5	26.3	21.3
Network Communications	8.8	12.8	66.0	1.4	1.3	11.8	8.7	20.6	18.1
SaaS	0.9	10.4	113.7	3.4	2.9	15.9	13.2	27.4	28.8
Semiconductor & Equipment	6.9	26.8	158.8	3.2	1.5	12.8	8.6	20.6	17.7
Overall Median	6.9%	12.8%	66.0%	2.1x	1.6x	11.8x	8.7x	20.6x	18.0x

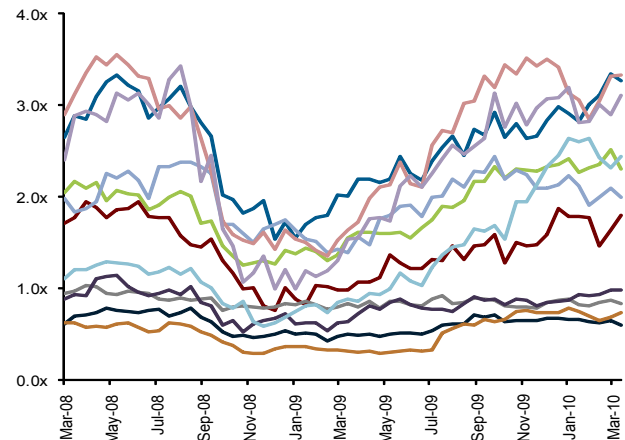
	Index Price Change		
	3 months	6 months	12 months
NASDAQ Composite Index	5.7%	17.1%	56.9%
Dow Jones Industrial Average	4.1	14.4	42.7
S&P 500 Index	4.9	14.1	46.6

Note: Large Cap defined as market capitalization of more than \$1 billion as of March 31, 2010

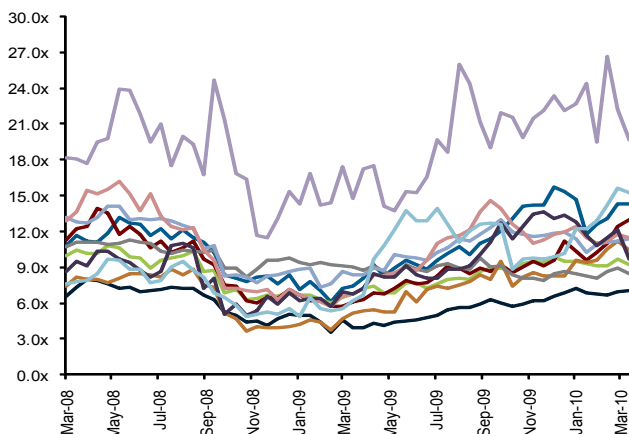
Stock Performance



EV/Revenue Multiples



EV/EBITDA Multiples



Legend

- Application Software
- Infrastructure Software
- Internet & Digital Media
- IT Services - Corporate (Large Cap)
- IT Services - Corporate (Mid Cap)
- IT Services - Government
- IT Services - Healthcare
- IT Services - Offshore
- Network Communications
- SaaS
- Semiconductor & Equipment

Sources: Capital IQ and company filings

Covington Associates

Recent Transactions

 <p>acquired by</p>  <p>\$133,000,000</p>	 <p>entered into a development partnership with</p> 	 <p>acquired by</p> 	 <p>acquired by</p>  <p>\$63,400,000</p>
 <p>acquired by</p>  <p>\$12,500,000</p>	 <p>acquired by</p> 	 <p>acquired by</p>  <p>\$6,500,000</p>	 <p>acquired by</p>  <p>\$78,400,000</p>

Industry Expertise

Business Services

- Consulting
- Government
- Payment & Transaction Processing
- Real Estate Services
- Research

Healthcare

- Clinical Trial Services
- Diagnostics
- Disease Management
- Healthcare Information Technology
- Medical Product Outsourcing
- Medical Devices
- Tools and Reagents
- Therapeutics

Consumer and Industrial

- Analytical Instrumentation
- Consumer Products
- Energy
- Manufacturing & Distribution
- Transportation & Logistics

Technology

- Communications
- Digital Media Technologies
- Enterprise Software
- Hardware
- IT Services
- Reseller/Distribution

About Covington

Covington Associates is a specialty investment banking firm founded in 1991 serving business services, consumer & industrial, healthcare, and technology companies throughout the country.

Focused on mergers and acquisitions, debt and equity capital raising, debt and equity restructuring, and strategic advisory assignments for middle market companies, Covington Associates has completed transactions ranging in value from \$10 million to close to \$2 billion for both private and publicly traded companies.

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