

IT Staffing Trends

Q4 Financials: Staffing Firms Face Economic Challenges

Brooke Hollis Quoted in SIA Insight Magazine

The fourth quarter 2008 issue of *Insight*, a publication of *Staffing Industry Analysts*, quoted Brooke Hollis on the challenges of closing merger and acquisition transactions in this economic environment.

Brooke's comments addressed strategies staffing firm owners could use to maximize company value, including evaluating margins, diversifying, and putting in place a transition team.

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The information technology firms we track in our quarterly snapshot of financial trends demonstrated the impact of current economic trends on staffing company revenues—and profits.

Revenues of publicly-traded information technology staffing revenues generally softened this quarter (Figure 1). This represented a continuing trend of slow revenue growth at these firms. Benchmark companies are Comsys IT Partners Inc. (CITP), Ciber Inc. (CBR), CDI Corp (CDI), and Computer Task Group (CTGX).

Earnings calls at these firms
Continued on back...

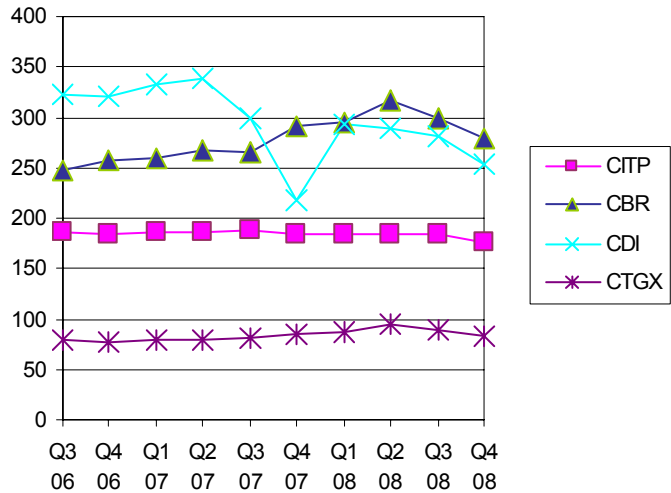


Figure 1: Net Sales (Millions USD) Sources: Thomson ONE Banker and company filings.

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Recovery Act Offers Tax Relief to Some S-Corporations

President Obama on Feb. 17 signed into effect legislation which temporarily reduces the tax liability for certain corporations which have converted to S-level status.

Before this legislation was enacted, a corporate-level tax was applied to all built-

in gains recognized over a ten year "look back" period when C-corporations elected to become S-corporations. This tax can be substantial, and deter some company owners from selling their firms.

The new law reduces that period to seven years for

2009 and 2010. Thus, firms that elected S-status between 1999 and 2003 may benefit from a smaller tax bill.

Consult an advisor at Hollis Associates to explore other tax considerations which may be relevant to your plans to sell your firm.

Q4 Financials: Staffing Firms Face Economic Challenges *Continued*

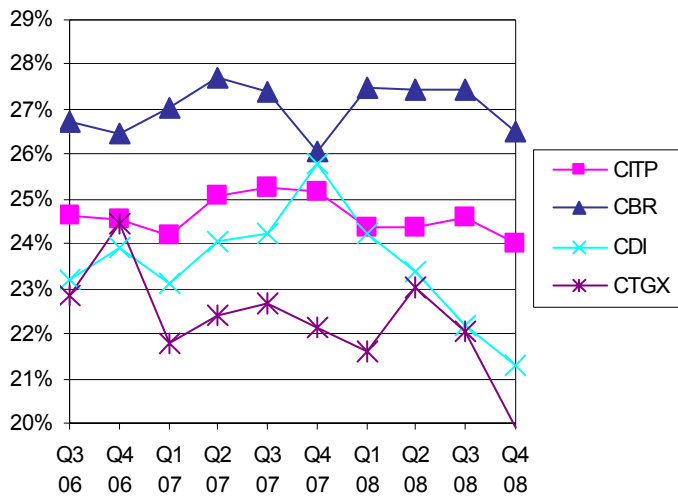


Figure 2: Gross Margin Sources: Thomson ONE Banker and company filings.

all cited worsening economic conditions as the cause of lower revenues. Companies reported increasing pricing pressures, a decline in permanent placements, and reduced billable hours.

Companies took extraordinary measures to protect their gross margin percentages, including passing the

bill rate pressures along to their consultants, decreasing headcounts, and changing billing structures. However, gross margins at these firms dropped this quarter.

Gross margin continues to be a key metric companies consider when evaluating acquisition targets, as buyers do not want to erode

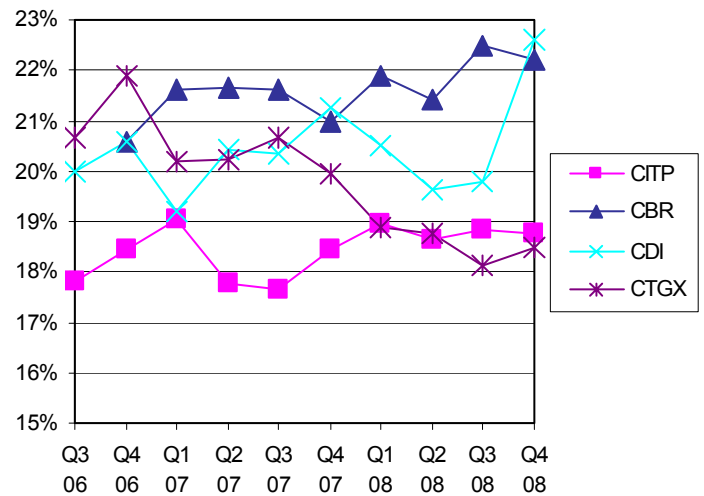


Figure 3: Sales, General & Administrative Expenses as a Percentage of Net Sales Sources: Thomson ONE Banker and company filings.

their margin levels.

While some companies reported efforts to reduce administrative costs, the benchmark companies have generally not found ways to significantly reduce sales, general and administrative expenses (SG&A) vs. sales (Figure 3) this quarter.

These firms all cited a possible area for increased

revenues, however: healthcare IT spending. The Wall Street Journal recently reported that less than 9% of privately-held hospitals are close to meeting administration standards for electronic medical records.

Staffing Firm Owners May Receive Unsolicited Buyout Offers

Staffing companies may be attractive acquisition targets for opportunistic firms looking to expand or diversify their businesses or take advantage of challenging economic circumstances to snap up companies at bar-

gain prices. How would you respond to an unsolicited offer?

Reports of declining mergers and acquisitions volume (down about 40% overall from last year) may lead owners to undervalue their

firms. We have found that demand for well-run companies remains strong.

In the opaque market for privately-held companies, how can business owners determine the value of their firms? The advisors at

Hollis Associates specialize in the staffing industry. We have frequent conversations with both buyers and sellers and can offer insight into current market conditions.