



HILCO

Enterprise Valuation Services

Perspective

October 2007

■ Software and Services¹

Industry Overview

This industry comprises establishments primarily engaged in computer software publishing, or publishing and reproduction. Establishments in this industry carry out operations necessary for producing and distributing computer software, such as designing, providing documentation, assisting in installation, and providing support services to software purchasers. These establishments may design, develop, and publish, or publish only. The development and design of software yields an intangible product and therefore copyrights and patents are prevalent within this industry. Industry works are often passed on to reproduction manufacturers of optical media in order to mass produce copies of the original software program / application. The U.S. software market generated total revenue of approximately \$78.8 billion in 2006.

The major products and services in this industry are:

- System software publishing
- Application software publishing
- Custom computer application design and development services
- Information technology technical consulting services

Market Analysis

Following a period of decline, the U.S. software market has experienced gradually improving rates of growth in recent years. This trend is expected to continue until 2011. The period of decline at the beginning of the decade came as a response to the September 11, 2001 terrorist attacks, as companies cut spending due to the subsequent recession. The US software market generated total revenues of approximately \$78.8 billion in 2006, this representing a compound annual growth rate (CAGR) of 3.4% for the five-year period spanning 2002-2006. The US has the most lucrative software market in the world, with revenues in excess of both the European and Asia-Pacific regional markets. This pre-eminence is not expected to be challenged going forward to 2011.

System software sales proved the most lucrative for the U.S. software market in 2006, generating total revenues of approximately \$43.7 billion, equivalent to 55.5% of the market's overall value. In comparison, sales of application software generated revenues of approximately \$35.1 billion in 2006, equating to the remaining 44.5% of the market's aggregate revenues. The performance of the market is forecast to accelerate, with an anticipated CAGR of 6% for the five-year period 2006-2011 expected to drive the market value estimated at \$105.6 billion by the end of 2011.

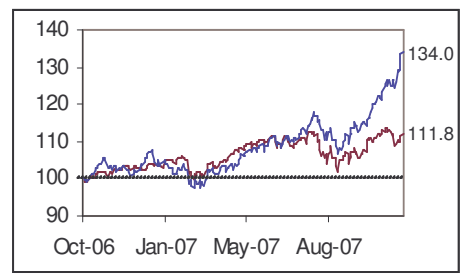
High Level of Technology Change

- The products have short life cycles in this industry and require high levels of expenditure on R&D.
- The cost of updating versions of existing software is declining, even though the processing power, capacity and sophistication of the technology is continuing to increase.
- The growth areas of software technologies are ERP (Enterprise Resource Planning) software, CRM (Customer Relationship Management software), ASP (Application Service Provider) outsourcing and software for mobile devices.
- There is a shift underway among corporate software users, where companies are moving toward service-oriented architecture ("SOA"), which allows companies to be much more flexible and responsive.
- Open-source software is accounting for a growing share of the global software market. Open-source software (such as the Linux operating system) is a threat to some proprietary software (such as Windows), but will also tend to promote interoperability and new software developments.
- The Internet has provided a cost effective way for software publishers to reach customers and has contributed to increased sales for the software publishing industry.

At a Glance

The software and services industry comprises businesses involved in the development, maintenance and publication of computer software. The software industry started in the mid-1970s at the time of the personal computer revolution. The industry also includes software services, such as training and consultancy. The largest and most profitable of software companies are located in the U.S.

Relative Stock Performance



— Software and Services Companies
— S&P 500 Index

Industry at a Glance

(\$ in millions)

Number of Comparable Companies	15
Median Market Cap:	\$ 42,826.8
Median Enterprise Value:	\$ 41,372.6
Median Total Assets:	\$ 11,843.1
Median LTM Revenue:	\$ 6,839.7
Median LTM EBITDA:	\$ 1,236.0

Hilco Enterprise Valuation Services, LLC is a leading provider of reliable appraisals and opinions for lenders, investment firms, and corporations, related to the value of whole businesses, intangible assets and specialized business assets.

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¹ Sources: S&P's Capital IQ, IBIS World Industry Reports, and OneSource

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Demand Determinants

- Business profitability, which can influence technology spending - as a significant percentage of software is developed for business applications, business expenditure on software is an important demand side factor.
- Real household disposable income - The level of income at the disposal of a household unit affects the level of expenditure on computer and software products by household consumers. During periods of low disposable income consumers may decide to wait to upgrade or purchase new software.
- Internet use - the growth in per capita use of the Internet creates demand for browsing, search engine, web site development and virus protection software.
- Product technology - advances in technology which lead to the release of new products or upgraded versions of software will increase the demand for products in this industry.
- The demand for computers - as the installed base of computers increases so too will the demand for new or upgraded software.
- Price - Declining real prices for computer hardware and software products has been a factor driving household and business demand for these goods.
- The extent to which businesses and governments choose "off-the-shelf" software over internally developed customized software.

Software and Services Industry Analysis Selected Market Statistics

(\$ in millions, except stock prices)

Company Name	Stock Price (10/29/2007)	Stock Price 52 Wk Low	Stock Price 52 Wk High	% of 52 Wk High	Market Capitalization	Enterprise Value ¹
Adobe Systems Inc. (NasdaqNM:ADBE)	\$47.00	\$37.20	\$48.47	97.0%	\$26,968.0	\$25,012.3
Apple Inc. (NasdaqNM:AAPL)	185.09	76.77	188.60	98.1%	161,459.4	146,073.4
BMC Software Inc. (NYSE:BMC)	33.42	24.77	36.92	90.5%	6,719.3	5,342.1
CA, Inc. (NYSE:CA)	25.95	21.29	28.46	91.2%	13,378.0	14,225.0
Cognizant Technology Solutions Corp. (NasdaqNM:CTSH)	40.35	33.80	47.78	84.5%	11,674.2	10,963.9
Google Inc. (NasdaqNM:GOOG)	679.23	437.00	680.00	99.9%	212,011.6	198,924.2
International Business Machines Corp. (NYSE:IBM)	114.80	88.77	121.46	94.5%	156,174.7	177,673.7
Microsoft Corporation (NasdaqNM:MSFT)	34.57	26.60	36.03	95.9%	323,417.5	304,539.5
Oracle Corp. (NasdaqNM:ORCL)	21.77	15.97	23.00	94.7%	111,490.9	109,985.9
SAP AG (DB:SAP)	54.53	47.32	62.13	87.8%	65,764.4	62,059.9
Sun Microsystems Inc. (NasdaqNM:JAVA)	5.90	4.50	6.78	87.0%	20,146.9	16,829.9
Sybase, Inc. (NYSE:SY)	27.98	21.80	28.09	99.6%	2,521.5	2,294.8
VeriSign Inc. (NasdaqNM:VRSN)	34.61	20.44	35.42	97.7%	8,624.4	7,921.3
VMware, Inc. (NYSE:VMW)	120.78	48.00	121.42	99.5%	46,251.7	45,567.8
Yahoo! Inc. (NasdaqNM:YHOO)	31.79	22.27	34.08	93.3%	42,826.8	41,372.6

¹Enterprise value = equity market value + net debt + preferred stock + minority interest

Software and Services Industry Analysis Selected Financial Statistics

(\$ in millions)

Company Name	LTM ¹ Date	Total Assets	Cash & Equiv.	Book Value	Net Debt ²	LTM			
						Revenue	EBITDA	EBIT	Net Inc. ³
Adobe Systems Inc. (NasdaqNM:ADBE)	Aug-31-2007	\$5,666.5	\$559.3	\$4,733.0	(\$1,955.7)	\$2,928.8	\$1,057.7	\$745.2	\$684.8
Apple Inc. (NasdaqNM:AAPL)	Sep-29-2007	25,347.0	9,352.0	14,532.0	(15,386.0)	24,006.0	4,707.7	4,409.0	3,496.0
BMC Software Inc. (NYSE:BMC)	Jun-30-2007	3,242.0	1,141.6	1,087.3	(1,377.2)	1,604.0	429.9	273.2	242.1
CA, Inc. (NYSE:CA)	Jun-30-2007	10,067.0	1,729.0	3,347.0	847.0	4,019.0	1,011.0	580.0	212.0
Cognizant Technology Solutions Corp. (NasdaqNM:CTSH)	Jun-30-2007	1,584.4	269.0	1,317.2	(710.2)	1,778.7	364.0	319.4	288.3
Google Inc. (NasdaqNM:GOOG)	Sep-30-2007	23,340.7	5,106.4	21,036.8	(13,087.3)	14,972.8	5,612.0	4,745.1	4,028.0
International Business Machines Corp. (NYSE:IBM)	Sep-30-2007	108,609.0	13,822.0	20,546.0	21,499.0	96,177.0	19,044.0	13,892.0	10,006.0
Microsoft Corporation (NasdaqNM:MSFT)	Sep-30-2007	65,645.0	6,637.0	32,135.0	(18,878.0)	54,073.0	22,037.0	20,445.0	14,876.0
Oracle Corp. (NasdaqNM:ORCL)	Aug-31-2007	34,315.0	6,455.0	17,785.0	(1,505.0)	18,934.0	7,619.0	6,397.0	4,444.0
SAP AG (DB:SAP)	Sep-30-2007	13,481.8	2,319.3	8,755.3	(3,705.9)	14,362.7	4,233.2	3,881.1	2,841.6
Sun Microsystems Inc. (NasdaqNM:JAVA)	Jun-30-2007	15,838.0	3,620.0	7,179.0	(3,317.0)	13,873.0	1,236.0	406.0	473.0
Sybase, Inc. (NYSE:SY)	Sep-30-2007	1,859.3	453.1	897.6	(231.9)	986.8	238.7	153.4	101.7
VeriSign Inc. (NasdaqNM:VRSN)	Jun-30-2007	3,689.9	656.5	2,521.1	(750.8)	1,553.6	319.4	80.6	42.8
VMware, Inc. (NYSE:VMW)	Sep-30-2007	2,481.7	1,133.9	1,232.2	(683.9)	1,142.9	288.0	195.4	171.0
Yahoo! Inc. (NasdaqNM:YHOO)	Sep-30-2007	11,843.1	1,528.0	9,282.7	(1,462.5)	6,839.7	1,562.6	943.7	723.0

¹ LTM = latest twelve months

² Net debt = total debt less cash and cash equivalents

³ Net income excludes extraordinary items



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Basis of Competition

Software and Services Industry Analysis									
Selected Operating Statistics									
Company Name	LTM				Current Ratio ¹	Return on Assets ²	Return on Equity ³	Total Debt /	
	Gross Margin	EBITDA Margin	EBIT Margin	Net Income Margin				LTM EBITDA	Total Cap
Adobe Systems Inc. (NasdaqNM:ADBE)	88.5%	36.1%	25.4%	23.4%	3.1x	8.3%	14.2%	NA	NA
Apple Inc. (NasdaqNM:AAPL)	34.0%	19.6%	18.4%	14.6%	2.4x	13.0%	28.5%	NA	NA
BMC Software Inc. (NYSE:BMC)	76.6%	26.8%	17.0%	15.1%	1.5x	5.4%	22.9%	0.0x	0.3x
CA, Inc. (NYSE:CA)	91.4%	25.2%	14.4%	5.3%	0.7x	3.6%	5.4%	2.6x	43.5x
Cognizant Technology Solutions Corp. (NasdaqNM:CTSH)	44.4%	20.5%	18.0%	16.2%	4.7x	15.2%	26.3%	NA	NA
Google Inc. (NasdaqNM:GOOG)	60.1%	37.5%	31.7%	26.9%	8.8x	15.2%	22.7%	NA	NA
International Business Machines Corp. (NYSE:IBM)	42.1%	19.8%	14.4%	10.4%	1.0x	8.2%	36.2%	1.9x	63.2x
Microsoft Corporation (NasdaqNM:MSFT)	78.4%	40.8%	37.9%	27.5%	1.6x	19.5%	43.6%	NA	NA
Oracle Corp. (NasdaqNM:ORCL)	76.9%	40.2%	33.8%	23.5%	1.8x	12.7%	27.2%	0.8x	26.0x
SAP AG (DB:SAP)	66.7%	29.5%	27.0%	19.8%	2.1x	18.6%	33.9%	NA	NA
Sun Microsystems Inc. (NasdaqNM:JAVA)	45.2%	8.9%	2.9%	3.4%	1.7x	1.6%	7.0%	1.0x	15.0x
Sybase, Inc. (NYSE:SY)	71.8%	24.2%	15.5%	10.3%	2.3x	5.5%	12.1%	1.9x	33.8x
VeriSign Inc. (NasdaqNM:VRSN)	61.6%	20.4%	5.0%	2.8%	1.4x	1.3%	1.7%	NA	NA
VMware, Inc. (NYSE:VMW)	83.5%	25.2%	17.1%	15.0%	2.3x	NA	NA	1.6x	26.8x
Yahoo! Inc. (NasdaqNM:YHOO)	60.3%	20.9%	11.9%	10.6%	1.6x	4.5%	8.3%	0.5x	7.5x
	High	91.4%	40.8%	37.9%	27.5%	8.8x	43.6%	2.6x	63.2x
	Low	34.0%	8.9%	2.9%	2.8%	0.7x	1.3%	0.0x	0.3x
	Mean	65.4%	26.4%	19.4%	15.0%	2.5x	9.5%	20.7%	1.3x
	Median	66.7%	25.2%	17.1%	15.0%	1.8x	8.2%	22.8%	1.3x

¹ Current ratio = current assets divided by current liabilities
² Return on assets = EBIT (excluding extraordinary items) * (1-taxes) divided by average total assets
³ Return on equity = net income (excluding extraordinary items) divided by average shareholders equity

- High level of competition from the major players in the industry along with anti-competitive business practices and virtual monopoly position.
- Pricing and costs of ownership to the customer.
- Continuous product innovations through heavy R&D expenditure.
- Patent protection provides barriers to competitors.
- Vertical and horizontal integration in the industry.
- Product quality, performance, reliability, security features, and support and service.
- Brand names and reputation can be crucial in this industry.
- Breadth of product line can affect sales of individual products and total sales.
- Responsiveness to customers' changing requirements and to shifts in the marketplace can provide a competitive edge.
- Relationships with distributors and resellers can be important.

Software and Services Industry Analysis							
Selected Valuation Multiples							
Company Name	Enterprise Value / LTM			Equity Value / Book Value	Price / Earnings ¹		
	Revenue	EBITDA	EBIT		CY	CY +1	
Adobe Systems Inc. (NasdaqNM:ADBE)	8.5x	23.6x	33.6x	5.7x	1.6x		1.8x
Apple Inc. (NasdaqNM:AAPL)	6.1x	31.0x	33.1x	11.1x	4.2x		5.3x
BMC Software Inc. (NYSE:BMC)	3.3x	12.4x	19.6x	6.2x	1.7x		1.9x
CA, Inc. (NYSE:CA)	3.5x	14.1x	24.5x	4.0x	1.0x		1.0x
Cognizant Technology Solutions Corp. (NasdaqNM:CTSH)	6.2x	30.1x	34.3x	8.9x	1.1x		1.5x
Google Inc. (NasdaqNM:GOOG)	13.3x	35.4x	41.9x	10.1x	15.6x		20.7x
International Business Machines Corp. (NYSE:IBM)	1.8x	9.3x	12.8x	7.6x	7.0x		7.9x
Microsoft Corporation (NasdaqNM:MSFT)	5.6x	13.8x	14.9x	10.1x	1.6x		1.9x
Oracle Corp. (NasdaqNM:ORCL)	5.8x	14.4x	17.2x	6.3x	1.1x		1.3x
SAP AG (DB:SAP)	4.3x	14.7x	16.0x	7.5x	2.3x		2.7x
Sun Microsystems Inc. (NasdaqNM:JAVA)	1.2x	13.6x	41.5x	2.8x	0.2x		0.3x
Sybase, Inc. (NYSE:SY)	2.3x	9.6x	15.0x	2.8x	1.7x		1.8x
VeriSign Inc. (NasdaqNM:VRSN)	5.1x	24.8x	98.3x	3.4x	1.0x		1.4x
VMware, Inc. (NYSE:VMW)	39.9x	158.2x	233.2x	37.5x	0.8x		1.1x
Yahoo! Inc. (NasdaqNM:YHOO)	6.0x	26.5x	43.8x	4.6x	0.4x		0.5x
	High	39.9x	158.2x	233.2x	37.5x	15.6x	20.7x
	Low	1.2x	9.3x	12.8x	2.8x	0.2x	0.3x
	Mean	7.5x	28.8x	45.3x	8.6x	2.8x	3.4x
	Median	5.6x	14.7x	33.1x	6.3x	1.6x	1.8x

¹ Price/ earnings = price per share divided by diluted EPS excluding extraordinary items
CY = calendar year



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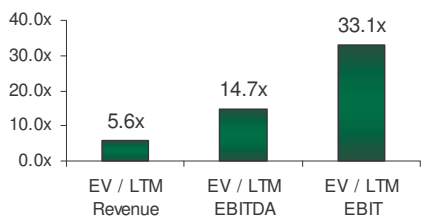
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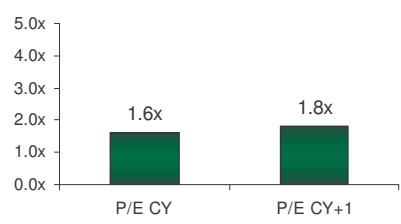
■ Software and Services Industry¹

Barriers to Entry

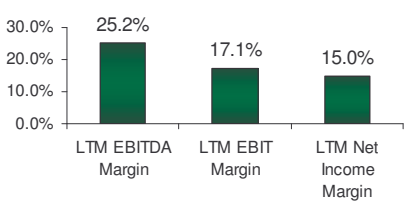
Enterprise Valuation Multiples



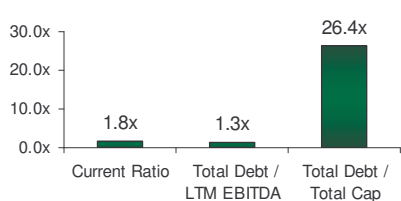
Price to Earnings Multiples



Financial Margins



Balance Sheet Statistics



Outlook

Technology spending by the business sector has recovered (both in the U.S. and globally) from the modest levels of spending in the period 2001-2004. In early 2007, the US market-intelligence provider IDC forecast strong growth in IT spending in North America in 2008 (up 5.8%), with the packaged software market forecast to grow at a faster pace in 2008 (relative to total IT spending). New innovations, along with falling prices for hardware and software, will tend to promote growth in demand volumes and provide a source of growth for the software industry. Over the outlook period, the Software and Services industry is expected to be in a moderate growth life cycle phase, with industry value added forecast to increase at an average annualized real rate of 3.9% in the five years to 2012 (exceeding real growth in US GDP, which is forecast to grow at an average 2.7% per year). A positive trend for the software industry is the growing number of installed devices (which include mobile devices, electronic game consoles, and household goods) with computing capabilities. Security concerns will promote growth in products offering virus protection, firewalls and anti-spam software to users. Growth in the volume of data transmitted, stored, shared and manipulated will promote growth in sales of enterprise, storage, and security software.

The software industry is undergoing a period of consolidation as software companies seek to offer a more extensive and complimentary range of products, as well as to gain a larger customer base. Some business customers are looking to reduce the complexity of their IT infrastructure and drive efficiency with fewer IT suppliers. The software industry in the US will face increasing competition from software companies located in countries where IT labor costs are low (such as India, which has a large pool of trained labor).

- Dominance of existing players: The size of existing participants in the software publishing industry can sometimes mean that new entrants must spend more R&D and marketing activities to gain market presence. On the other hand, the Internet, electronic commerce and growth in open-source software have reduced barriers to entry faced by small and start-up companies in the software industry.
- Economies of scale and scope: Large established firms often have the benefit of producing a broad range of products at reduced unit costs. Scale can also increase negotiating power in purchasing raw materials, and in acquiring smaller companies.
- Research and Development: The competitive nature of this industry requires significant investment in research and development.
- Reputation: Increasingly, purchasers of computer equipment are focusing on purchasing from well-established and reputable software companies.
- Switching costs: Consumer companies and households purchase software that is compatible with their current system. For example, individuals generally prefer to purchase upgraded software rather than new and unfamiliar software applications.

Hilco Enterprise Valuation Services, LLC

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¹ Sources: S&P's Capital IQ, IBIS World Industry Reports, and OneSource