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TECH SPENDING GROWTH OUTLOOK REMAINS MODEST
Some Spending on Security Software, Storage and Computer Hardware

FRAMINGHAM, MA — March 1, 2002 — February's CIO Magazine Tech Poll™ found chief information officers “disappointingly cautious with weak profits remaining a drag on near term tech capital spending,” according to Chris Mortenson, *Managing Director, Global Equity Research* for Deutsche Banc Alex. Brown.

“While CIOs anticipate increased spending beyond the second quarter, this is a longer path to recovery than tech spending observers anticipated at the end of the last year though spending in vertical segment areas of security, storage and computer hardware remain consistent,” said Gary Beach, Group Publisher *CIO Magazine*.

The CIO Magazine Tech Poll provides technology and business executives, economists, and policymakers with a tool to gauge technology growth trends and to assess their impact on the overall economy. The Poll panelists are asked to answer questions on overall current and projected IT budgets on a monthly basis. Also covered are future spending plans for IT hardware, software, services, and Internet initiatives. The results of February's Poll, which was conducted from February 7-14, are detailed below.

CIO MAGAZINE TECHNOLOGY GROWTH INDICATORS

The CIO Magazine Tech Poll results are used to construct the CIO Magazine Tech Future Growth Index (TFGI) which projects IT activity over the next 12-months.¹ In February, the TFGI was 1.2, compared to 1.4 in January. This marks a new low since the Poll was initiated in August 2000. (Attached below is Table 1 providing historical data and selected charts.)

OVERALL IT BUDGET AND COSTS

During February 2002, the CIO Magazine Tech Poll panel projected IT budgets will grow by 3.2% over the *next* 12 months, down from January's 3.8%, –and down from 11% last February. In addition, the panel reports IT budgets grew an average 1% over the *previous* 12 months, down from the January estimate of 3.8%, and off sharply from 14% last February.²

IT SECTORS

When asked about spending in eight specific IT categories, the average number of panelists planning to increase spending fell to 38.9% in February from 39.4% in the previous month, while those planning to decrease spending fell to 21.2% from 22.7%³.

Security Software. New to the survey, Security Software emerges as the strongest sector in the poll. Among the panelists, 58.2% expect to increase spending on security systems over the *next* 12 months, while only 6.1% plan to decrease spending.

Outsourced IT Services. Outsourced IT spending plans recovered in February after deteriorating markedly the previous month. However, it still remains the weakest sector in the survey. Among the panelists, 28.3% expect to increase spending compared to 24.2% in January, and 31.0% plan to cut spending, down from 37.1% a month ago. (Table 1).

Compensation Costs and Labor Market Conditions. IT compensation costs (including salaries, benefits, and bonuses excluding stock options) reportedly rose by an average 2.4% in the 12 months ending in February, down from 2.9% reported in January, and down from 9% a year ago. Labor market conditions for IT professions deteriorated slightly with 8.0% reporting IT professionals were hard to find and retain, down from 9.2% last month and down from 46% a year ago.

INTERNET BUDGETS AND BUSINESS

Internet Budget Plans. CIO Magazine Tech Poll panelists report they expect to spend 16.3% of their IT budgets on developing business over the Internet (B2B2C) during the *next* 12 months. This is up slightly from 15.0% reported for the *previous* 12 months. On the other hand, 35.7% of the panelists plan to increase spending on eBusiness software during the *next* 12 months versus only 21.2% who plan to cut back.

Internet Revenues. Overall, panelists expect to generate 12.1% of their revenues from Internet activity (B2B2C) over the *next* 12 months, compared to 9.1% during the *previous* 12 months. This is up from last month's estimates of 10.9% and 8.0% respectively.

Internet Purchases. On average, panelists expect to purchase 18.3% of their materials, supplies and parts over the Internet, up from an estimated 14.0% over the *past* 12 months.

SPECIAL QUESTIONS

Prior and Current Quarter Comparison. When asked to compare IT spending during the first quarter of 2002 to the fourth quarter of 2001, adjusting as best as possible for seasonality, 30% said it would be lower (up from 28% in January), while 29% said spending in the first quarter would be higher or significantly higher (down from 33% in January). The remaining 41% have unchanged plans (compared to 38% in January). (Table 2 presents the results of the special questions).

Pickup in IT Spending. Among panelists, 4.0% claim their IT spending will increase in the first quarter of 2002, down from 7.4% reported in January, while 59.4% predict spending will increase during or beyond the second quarter. Interestingly, 21.6% of the panelists claim that IT spending never slowed and 10.6% say it has already improved.

Spending Factors. Weak profits continue to have an adverse impact on tech spending. This was cited by 38.7% of the panelists as the primary factor affecting IT spending plans in 2002. Another 31.0% see "tight financial conditions" as the primary factor adversely affecting IT spending plans, and 20.7% said that spending might be weak because there is sufficient IT capacity.

Adjusting IT Spending. When asked to indicate how quickly might they raise IT spending once sales and profits improve along with the general economy, 10.4% reported they would increase spending within a month, 28.2% said it would take about three months and 43.3% claimed they would require more than 3 months.

CIO MAGAZINE TECH POLL

The CIO Magazine Tech Poll was created by *CIO Magazine* in August 2000 in association with Deutsche Banc Alex Brown and Dr. Ed Yardeni. The poll is proving to be an accurate indicator of technology spending trends. The latest poll was opened on Thursday, February 7, and closed on Thursday, February 14. An invitation to respond to the poll was distributed via e-mail to a panel of more than 2000 CIOs and 3,000 randomly selected *CIO* readers who match the job function criteria “CIO.”

Demographics. In the February poll, there were 300 responses with 97% from North America. CIOs comprise 89% of the total, with CEOs, COOs and presidents accounting for 7% and “other” titles accounting for 4%. Very large firms with over 5,000 employees represent 28% of the results. A broad cross-section of industries is represented, including manufacturing (17%), finance (11%), technology services (14%), health care (9%), and distribution (4%).

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The complete February CIO Magazine Tech Poll can be found at http://www.cio.com/info/releases/030102_techpoll.pdf. *Previous poll results can be found at <http://www.cio.com/info/releases>.*

¹ The TFGI is calculated by multiplying the projected growth rate of future IT budgets by the average percentage of respondents saying they plan to increase spending on eight unique categories: computer hardware, data networking equipment, telecom equipment, storage systems, outsourced IT services, infrastructure software, and eBusiness software.

² Averages exclude responses over 100%.

³ Starting in January 2002, Security Software has been added to the group of IT sectors surveyed in the Poll.

Table 1: CIO Magazine Tech Poll™-Summary Results

Summary Results	2002					2001			
	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun
1. CIO Magazine Technology Growth Indicators									
Tech Future Growth Index*	1.2	1.4	1.5	2.1	1.7	1.4	3.1	2.5	2.6
Future/Current Growth Ratio	3.2	1.0	1.9	0.9	0.7	1.1	1.0	1.1	1.0
2. IT budget (% increase)**									
Past 12 months	1.0	3.8	1.9	5.8	7.2	3.5	7.2	5.9	6.1
Next 12 months	3.2	3.8	3.7	5.3	4.7	3.7	7.2	6.2	6.3
3. IT future spending on Computer Hardware									
Increase	39.7	38.0	43.6	41.7	37.8	30.3	41.6	44.4	42.4
Decrease	30.0	29.4	29.1	26.6	28.3	30.3	27.9	27.8	29.2
Unchanged	29.3	31.3	26.5	30.9	32.6	37.9	29.7	27.4	27.3
4. IT future spending on Data Networking Equipment									
Increase	37.2	38.7	40.4	42.1	37.7	39.6	44.7	48.2	45.0
Decrease	22.1	25.5	26.0	30.9	25.5	28.4	22.4	26.3	25.8
Unchanged	38.9	34.7	32.8	25.5	35.9	31.5	32.4	25.5	28.4
5. IT future spending on Telecom Equipment									
Increase	35.0	35.5	35.0	34.5	33.9	33.5	42.9	38.2	38.1
Decrease	22.9	24.1	27.8	30.6	23.0	30.5	22.8	23.5	22.6
Unchanged	39.7	38.0	35.9	33.7	41.3	33.5	34.2	37.8	37.4
6. IT future spending on Storage Systems									
Increase	44.6	48.3	41.6	45.7	44.3	48.5	48.6	45.4	50.7
Decrease	15.2	20.7	20.2	19.8	17.0	15.2	16.5	14.9	15.6
Unchanged	38.2	27.9	36.9	33.3	37.0	34.8	33.0	36.9	30.7
7. IT future spending on Outsourced IT Services									
Increase	28.3	24.2	33.5	31.1	26.0	29.9	27.1	31.7	29.7
Decrease	31.0	37.1	27.0	31.5	33.8	30.5	31.2	25.8	30.9
Unchanged	37.7	35.6	37.3	35.0	37.7	36.5	40.4	39.7	36.8
8. IT future spending on Infrastructure Software									
Increase	32.4	35.6	44.0	42.0	33.9	41.6	46.5	37.1	39.8
Decrease	20.9	19.9	17.2	20.2	18.7	18.3	16.6	20.7	17.5
Unchanged	45.3	42.3	37.5	36.6	46.1	39.1	34.6	41.4	40.9
9. IT future spending on eBusiness Software									
Increase	35.7	35.3	40.8	41.9	33.0	39.4	45.2	40.3	41.7
Decrease	21.2	19.6	18.5	18.6	17.4	17.2	15.1	17.7	14.0
Unchanged	39.1	38.7	35.6	33.3	43.9	36.4	35.2	36.7	37.6
10. IT future spending on Security Software									
Increase	58.2	59.6							
Decrease	6.1	4.9							
Unchanged	34.7	33.3							
11. IT future spending on 3 - 10 (average)									
Increase	38.9	39.4	39.8	39.9	35.2	37.5	42.4	40.8	41.1
Decrease	21.2	22.7	23.7	25.5	23.4	24.3	21.8	22.4	22.2
Unchanged	37.9	35.2	34.6	32.6	39.2	35.7	34.2	35.1	34.2
12. B2B2C % of IT budget									
Past 12 months	15.0	13.3	17.5	15.8	12.2	14.3	15.2	13.3	13.7
Next 12 months	16.3	14.3	18.9	17.2	14.8	16.3	15.9	15.3	16.2
13. B2B2C % of revenues									
Past 12 months	9.1	8.0	11.0	9.4	7.4	10.4	9.1	7.7	7.5
Next 12 months	12.1	10.9	14.9	13.2	9.9	13.2	11.9	10.5	10.7
14. Purchases over the Internet (% of total)									
Past 12 months	14.0	15.8	18.2	16.8	13.1	13.8	16.8	11.7	13.2
Next 12 months	18.3	21.0	23.3	21.7	18.5	19.9	22.2	17.0	18.3
15. Compensation (% increase)									
Past 12 months	2.4	2.9	5.1	3.8	5.1	5.6	5.9	5.6	7.1
16. IT labor supply									
Plentiful	28.3	22.5	29.2	24.0	17.3	15.2	12.4	10.8	10.4
Available	63.0	66.5	60.2	65.5	71.0	67.2	68.3	66.8	63.3
Hard to find	8.0	9.2	9.7	9.3	10.4	14.6	17.4	19.6	24.4
Number of Voters	300	326	236	259	231	198	219	255	276

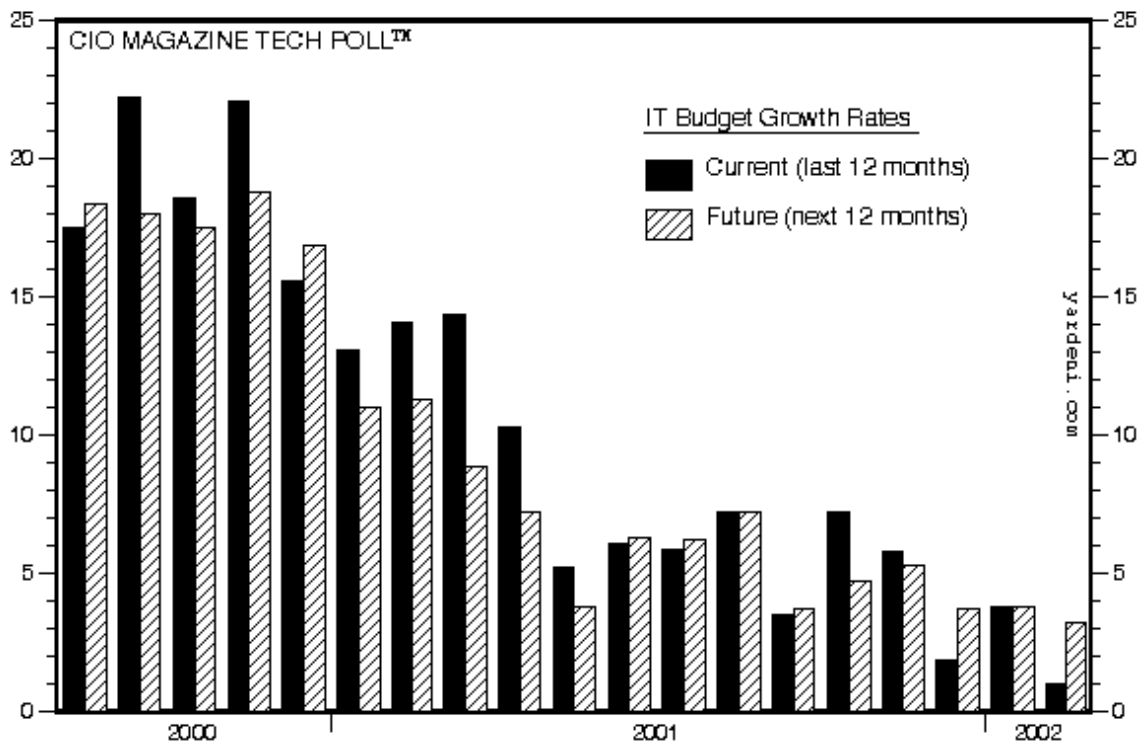
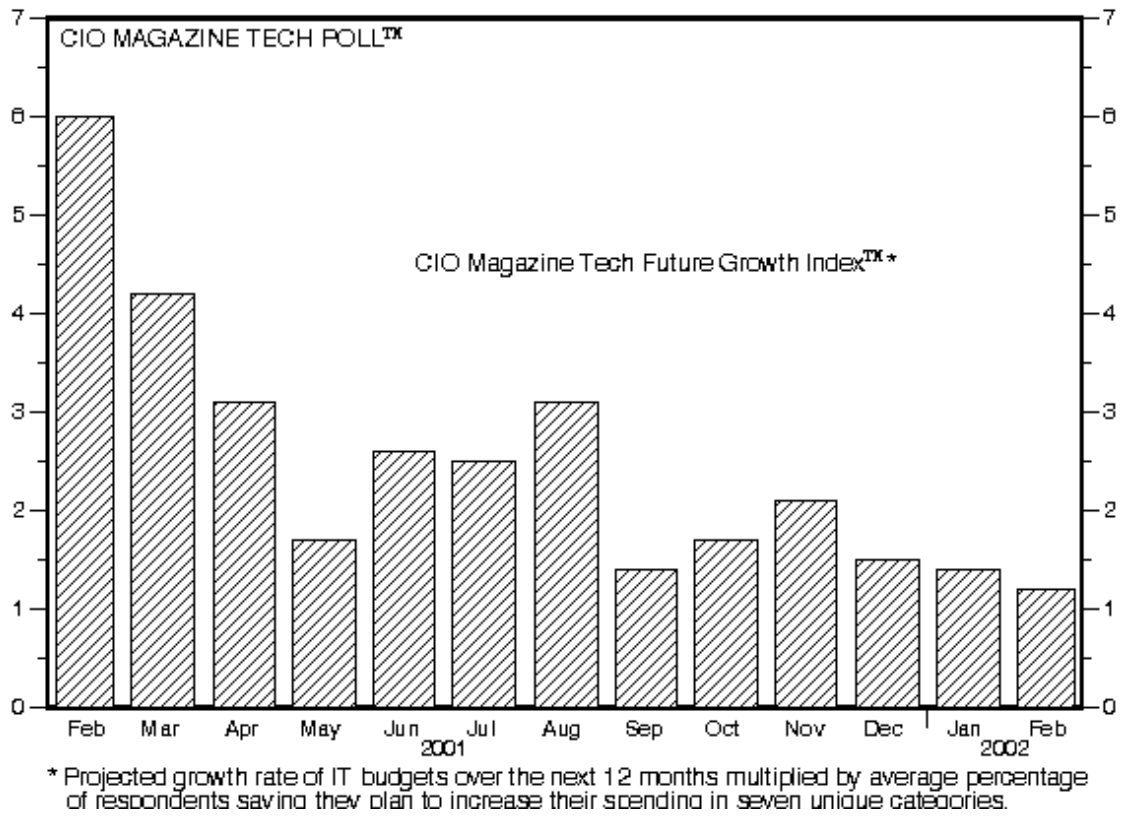
* Projected growth rates of IT budgets over the next 12 months multiplied by average percentage of respondents saying they plan to increase their spending on eight unique categories.

** Excludes all responses greater than 100%.

Source: CIO Magazine Tech Poll™

Table 2: CIO Magazine Tech Poll™ - Special Questions

Special Questions	2002					2001				
	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	
1. Expected change in IT spending (current/previous quarter)										
Significantly higher	3.7	3.7	3.8	5.0	2.2	5.0	4.1	3.6		
Higher	25.2	29.4	17.4	20.8	21.6	18.6	25.2	25.0		
Unchanged	41.2	38.2	42.8	44.0	42.4	42.2	40.4	41.3		
Lower	21.9	22.0	25.8	22.0	24.7	27.1	22.5	23.0		
Significantly lower	7.6	6.4	10.2	8.1	9.1	7.0	6.4	5.6		
2. Expected pickup in IT spending										
Never slowed	21.6	23.3	21.6	23.2	28.6	21.8	22.8	20.7		
Already picked up this year	10.6	12.3	10.2	11.6	8.7	7.1	6.8	8.8		
Third quarter 2001	--	--	--	--	--	1.5	4.1	6.0		
Fourth quarter 2001	--	--	--	--	4.3	10.7	8.7	11.2		
First quarter 2002	4.0	7.4	22.5	20.1	21.6	24.9	22.8	21.5		
Second quarter 2002	20.9	19.9	18.2	17.0						
Beyond second quarter 2002	38.5	29.8	23.3	21.6	34.2	29.4	29.2	23.5		
3. Number one negative for IT spending										
Weak profits	38.7	40.6	37.7	40.1	43.9	35.9	39.9	44.2	39.0	
Tight financial conditions	31.0	32.6	31.4	28.8	25.0	31.3	28.9	29.9	25.5	
Less competition	3.0	5.2	5.5	1.2	3.1	2.5	2.3	2.4	4.9	
Sufficient capacity	20.7	16.3	20.3	21.0	19.7	22.2	20.6	18.3	23.6	
4. Time needed to adjust IT spending once profits improve										
Within a month	10.4									
Within 3 months	28.2									
Within 6 months	27.2									
More than 6 months	16.1									
5. Security software spending priority										
Security 3A (Administration, Authorization, Authentication)	--	42.2								
Firewall	--	18.3								
Antivirus software	--	12.2								
Encryption	--	5.8								
Other	--	8.0								
No plans to purchase	--	13.5								
6. State of current application backlog										
No backlog	--	--	12.7							
Backlog, but not critical to our planning	--	--	35.2							
Significant backlog, but budget constraints are more important	--	--	39.4							
Significant backlog, and will increase spending in response	--	--	12.7							
7. 2002 budget allocated to building web-based systems and applications										
No allocation	--	--	--	45.6						
Less than 2% of overall budget	--	--	--	16.3						
3-5% of overall budget	--	--	--	11.6						
6-10% of overall budget	--	--	--	8.9						
More than 10% of overall budget	--	--	--	10.4						
8. Expect to replace significant number of PCs										
Did so recently	--	--	--	--	15.6					
Currently doing	--	--	--	--	27.6					
Will start within next six months	--	--	--	--	20.6					
No plans to do so at this time	--	--	--	--	33.2					
Not sure	--	--	--	--	3.0					
Number of Voters	326	326	236	259	231	198	219	255	276	



Source: CIO Magazine Tech Poll™