“What’s Happening in Tech Demand”

4Q 2004

Techtel Corporation

Fourth Quarter 2004

January 31, 2005

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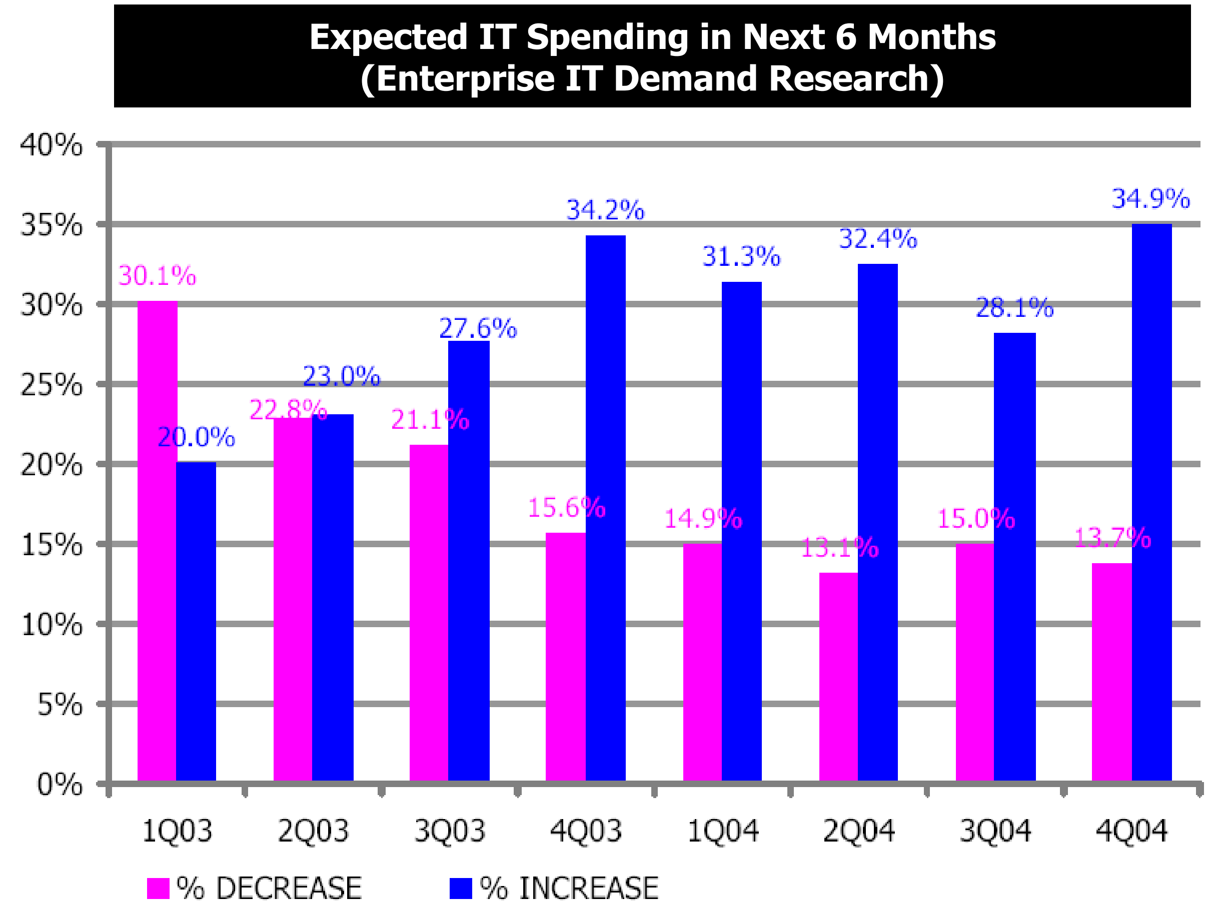
4Q04 IT Demand Situation:
The Picture Brightens Considerably

- **Spending plans for IT the next 6 months climbed to the highest levels in the two years we have been measuring them. 21.2% more companies expected to spend more than less compared to 13.1% at the end of 3Q04.**
  - **Spending recovered mainly in Services, Manufacturing and large companies.**
  - **Factors in one's own organization are still seen as the biggest factor on those expecting an increase or a decrease.**
- **Systems Mgmt./ Security, PCs and Servers/Storage still have highest planned spending in next 6 months.**
  - **Yes, business spending on PCs is back, as we predicted last quarter based on the demand patterns of the past two and a half years.**
  - **Software spending plans remain strong, except middleware, down 3.1%.**
- **The Techtel Tech Demand Index is up 9.6% in purchase and 7.5% in consideration, overall, Q/Q.**
  - **High-End, servers and storage show strong demand growth at the category level, consistent with spending plans.**
  - **Low-End, PCs and Notebooks show increased demand in purchase but threatened by lower levels of consideration necessary to fuel increased future purchase.**
- **Michael F Kelly CEO Techtel Corporation (mkelly@techtel.com)**

Spending plans recover to new high in 4Q04



Data: based on quarterly surveys by Techtel Corporation. (All respondents, weighted)

- **IT spending plans rise in 4Q – Increased spending plans up strongly from 28.1% to 34.9%.**
- **Decreased spending plans fell from 15% to 13.7%, settling back to the second lowest level in two years.**

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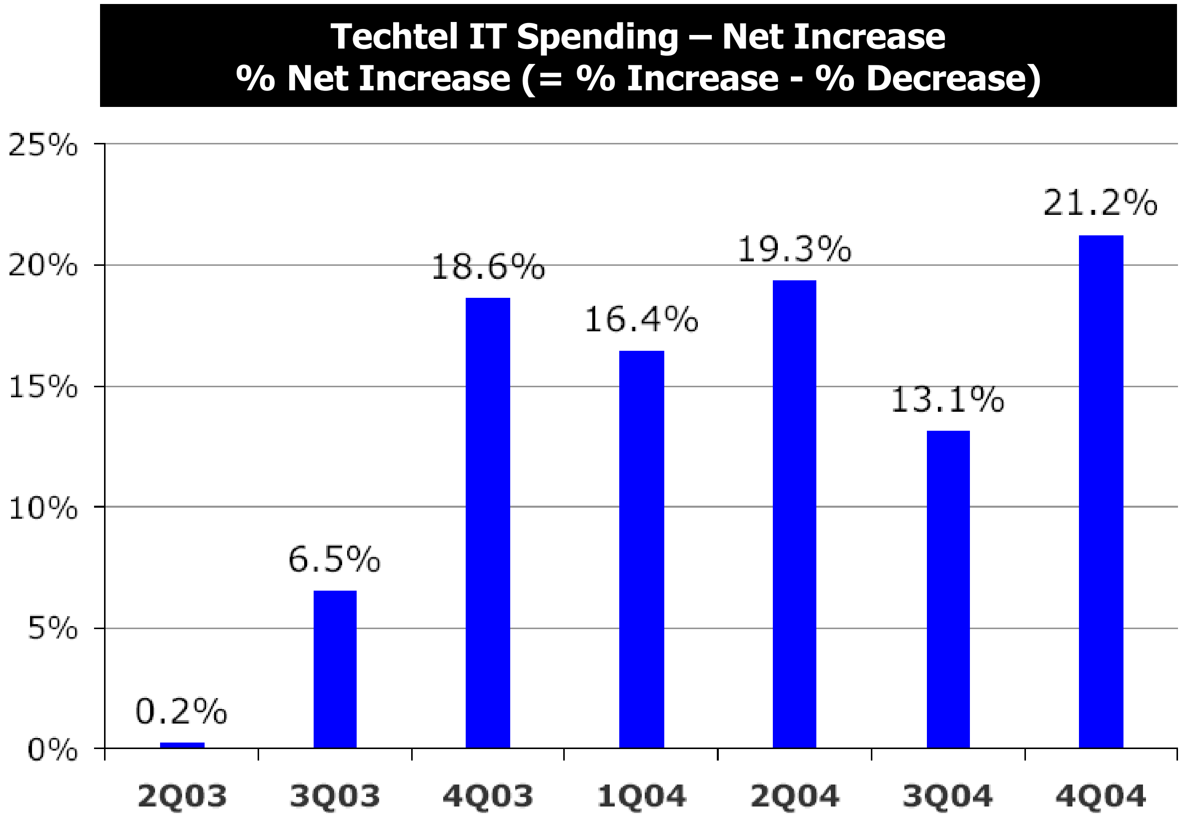
Net Increased Spending (Increase-Decrease) Plans recover in 4Q from 3Q Doldrums.



- **The combination of a lower level of decreased spending and higher level of increased spending, combined to raise the net increase from 3Q04's 13.1 % to 4Q04's 21.2%.**
- **The questions: what part of the market is contributing to it and why is it happening?**

Data: based on quarterly surveys by Techtel Corporation. (All respondents, weighted)

Recovery strongest in large companies, Services and Manufacturing.

Mix Changes

% INCREASE - % DECREASE	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
%Net Increase (= %Increase-%Decrease)	0.2%	6.5%	18.6%	16.4%	19.3%	13.1%	21.2%
Company Size:							
1-249	5.9%	5.7%	21.1%	24.6%	23.1%	12.7%	15.8%
250-999	-11.9%	7.9%	17.1%	9.6%	16.6%	8.9%	11.1%
1,000-4,999	0.6%	3.7%	13.2%	8.6%	18.6%	12.1%	29.3%
5,000+	2.6%	7.7%	21.7%	21.0%	19.5%	14.8%	22.3%
Job Level:							
Sen Exec / Mgmt	-1.2%	15.3%	28.1%	27.2%	23.3%	16.5%	28.3%
Mid Mgmt	2.8%	2.9%	12.5%	10.8%	16.0%	9.9%	20.0%
Staff	-1.3%	4.1%	18.2%	14.8%	19.8%	13.8%	18.1%
Dept:							
IT	-3.1%	3.2%	18.1%	18.3%	19.6%	16.7%	22.8%
Non-IT	5.1%	11.5%	19.3%	13.6%	18.9%	7.4%	18.8%
Industry:							
Manuf/Pub	-1.5%	-7.2%	13.5%	9.4%	19.7%	21.7%	22.4%
Govt/Ed	-6.6%	-4.0%	3.7%	-0.4%	10.6%	4.0%	7.7%
Services	9.4%	17.7%	31.3%	37.6%	23.9%	19.8%	36.9%
Other	1.4%	21.7%	27.6%	25.1%	25.3%	9.0%	23.4%

Data: based on quarterly surveys by Techtel Corporation. (All respondents, weighted)

- **Overall, net increased spending recovers to new two-year high.**
- **Small Companies (less than 1000 employees) rose but are still low compared to year-ago levels.**
- **While larger organizations are up strongly to highest levels in two years of tracking.**
- **All levels of management and staff see improvement, but execs and mgmt most strongly.**
- **IT people slightly more toward increase than non-IT people.**
- **Manufacturing net increased spending is UP to highest level in two years; Services (finc'l, health and bus services) is up to near highest level. Govt./Ed recovering and Other is back to normal.**

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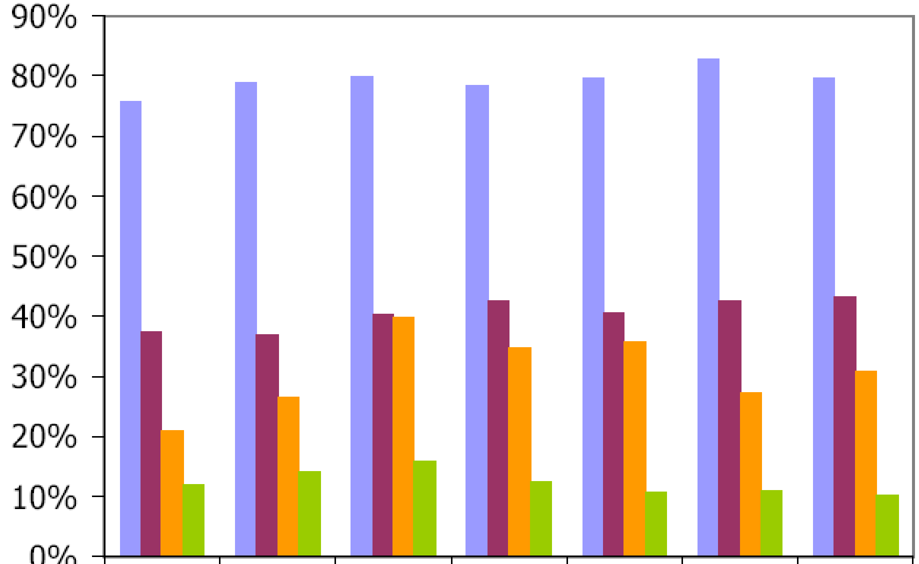
What FACTORS are Seen as Affecting *Increased* IT Spending?

Mainly 'Factors in Organization'.

[redacted]



	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
Factors in Organization	75.7%	78.8%	79.8%	78.5%	79.7%	82.9%	79.7%
Factors in Industry/Sector	37.4%	37.0%	40.2%	42.4%	40.6%	42.5%	43.3%
Factors in US Economy	21.0%	26.6%	39.9%	34.7%	35.6%	27.3%	30.8%
National or World Events	11.9%	14.2%	15.8%	12.4%	10.7%	10.9%	10.1%

- **US Economy seen as less of an influence on increased spending plans.**
- **'Own organization' factors are seen as influence most of the time on increased spending.**

Data: based on quarterly surveys by Techtel Corporation. (All respondents, weighted)

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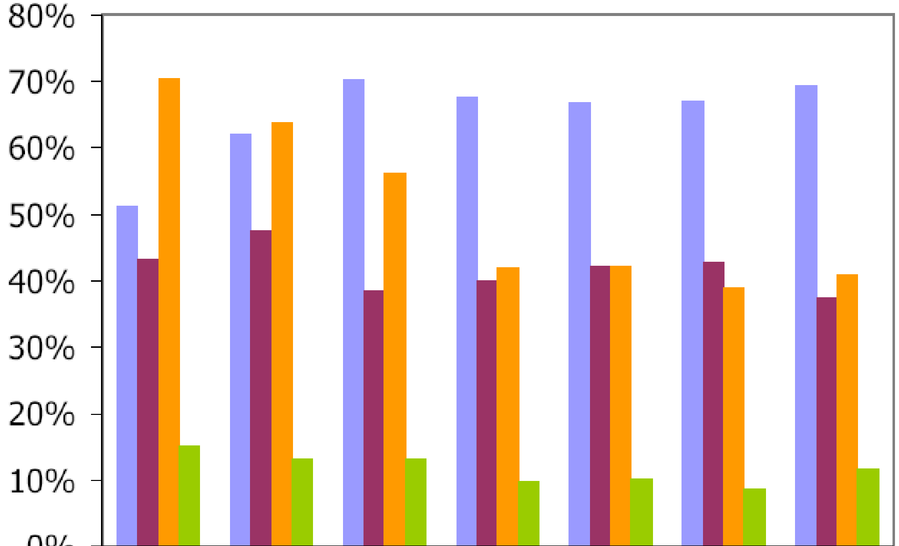
What FACTORS are Seen as Affecting ***Decreased*** IT Spending?

Mainly 'Factors in Own Organization' still highest.

[redacted]



	2Q03	3Q03	4Q03	1Q04	2Q04	3Q04	4Q04
Factors in Organization	51.3%	62.1%	70.3%	67.7%	66.7%	67.1%	69.3%
Factors in Industry/Sector	43.2%	47.6%	38.5%	40.0%	42.2%	42.9%	37.4%
Factors in US Economy	70.4%	63.7%	56.2%	41.9%	42.2%	39.0%	40.8%
National or World Events	15.2%	13.3%	13.2%	9.8%	10.2%	8.7%	11.7%

- **Factors in own organization are still seen as highest influence when spending plans decrease.**
- **Industry/Sector and US economy are tied for second most often cited factors.**
- **World events rise slightly in importance.**

Data: based on quarterly surveys by Techtel Corporation. (All respondents, weighted)

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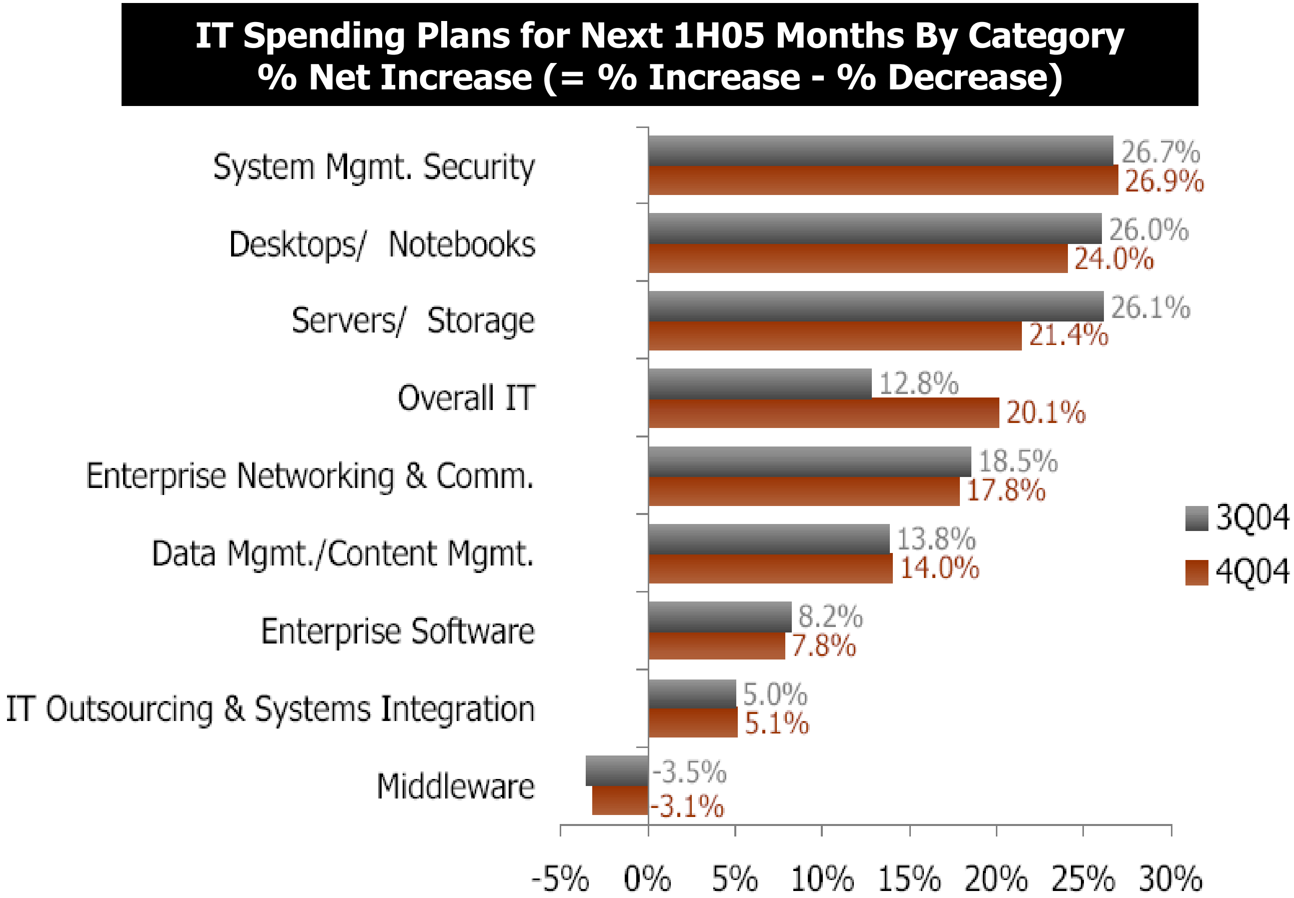
Category Spending….



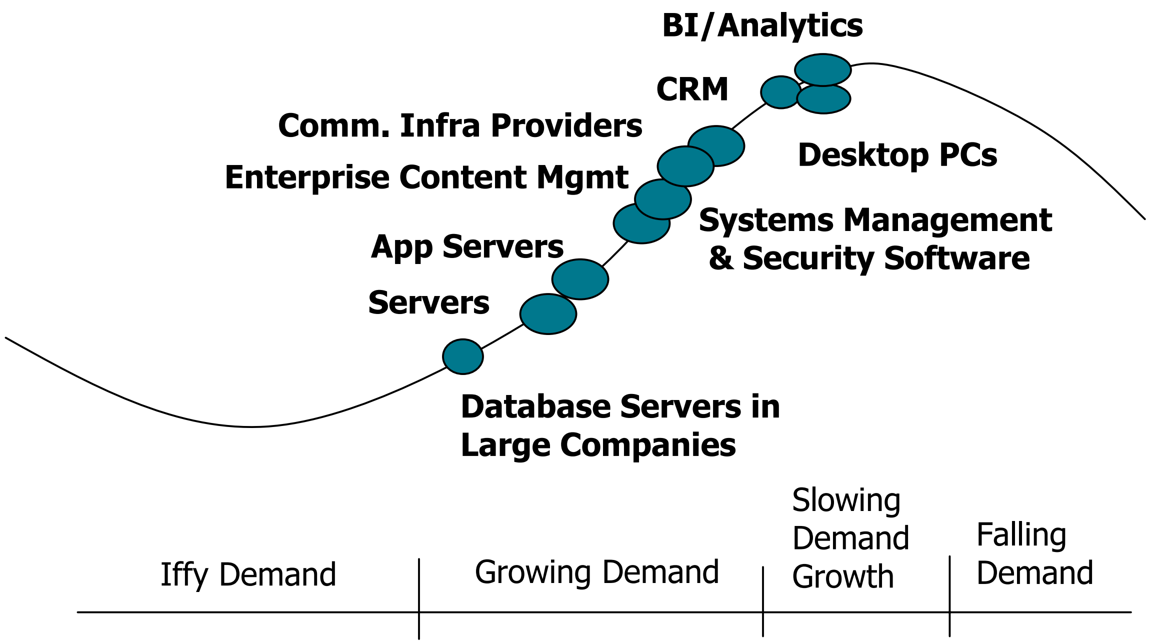
- **Systems Mgmt./ Security, PCs and Servers/ Storage spending still highest planned spending in next 6 months.**
- **Enterprise Networking and Comm. also remain high.**
- **Biggest change is overall and these categories don't seem to reflect the whole story. What other categories are going to have increased spending in 1H05?**

Data: based on quarterly surveys by Techtel Corporation. (Web respondents, unweighted)

CATEGORIES: What's Hot/What's Not?

Well, everything is hot. A few slow down.

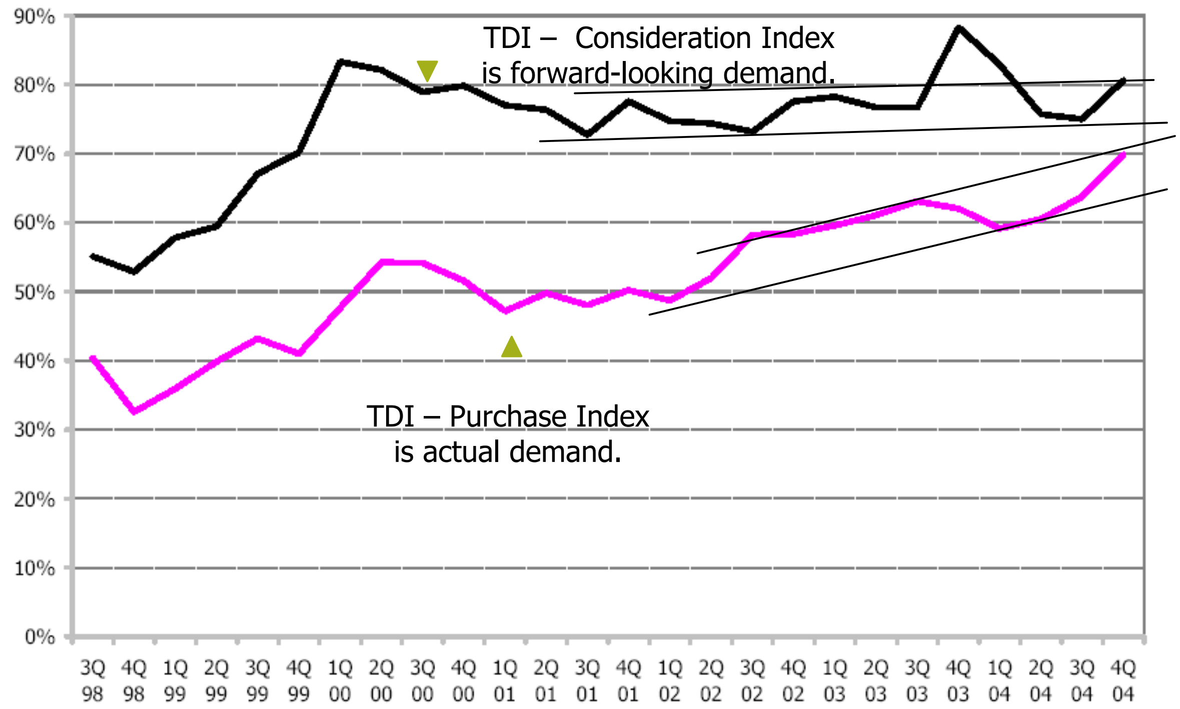
Certain Categories Rise as Spending Plans Rise!



- **Database Servers in Large Businesses finally moves off the bottom and shows some growth interest.**
- **Hardware strong**
- **Systems Software and Security Software and hardware also strong.**
- **CRM once again shows signs of slowing, as does BI/Analytics.**
- **PCs renew health from downtrend.**

Techtel's Tech Demand Index (TDI) for hardware rises but will be constrained by flat consideration.

But Looking forward – consideration to constrain purchase



*Data: Indexes of hardware purchase and consideration based on quarterly surveys by Techtel Corporation.

**Upper and lower lines drawn around the charts are like process control limits

- **Techtel's Overall TDI rose 9.6% in 4Q purchase Q/Q and 7.5% in forward-looking consideration Q/Q.**
- **The long-term trends remain in place: Flat consideration now starting to threaten future improvements in faster growing purchase.**
- **The cap is basically on PC and Notebook sales growth, not High-End hardware.**

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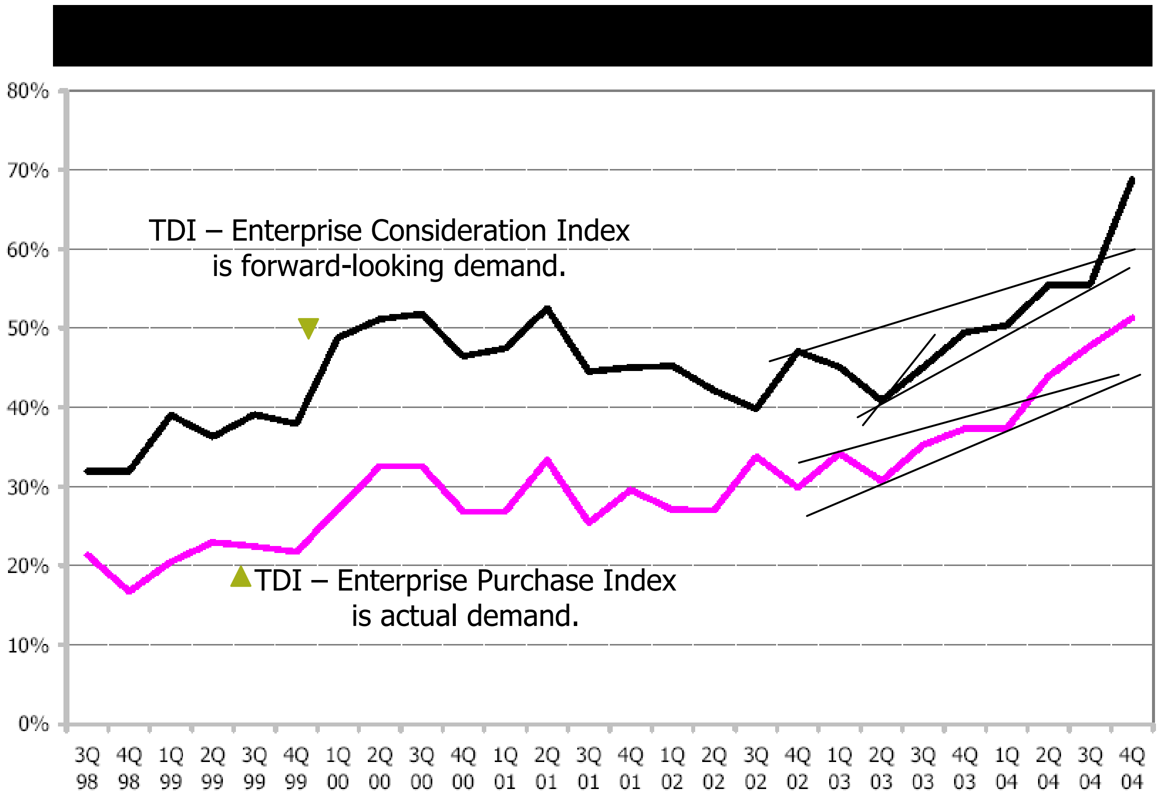
Techtel Tech Demand Index (TDI) for High-End (Servers, Storage) rises strongly.



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- **Techtel's Tech Demand Consideration Index for the High-End (Servers, Storage) rose 23.9% in 4Q04 Q/Q.**
- **Techtel's Tech Demand Purchase Index for High-End rose 7.4% Q/Q.**
- **Both Purchase and Consideration have risen above their trends in the past 1-2 quarters, indicating acceleration of demand.**

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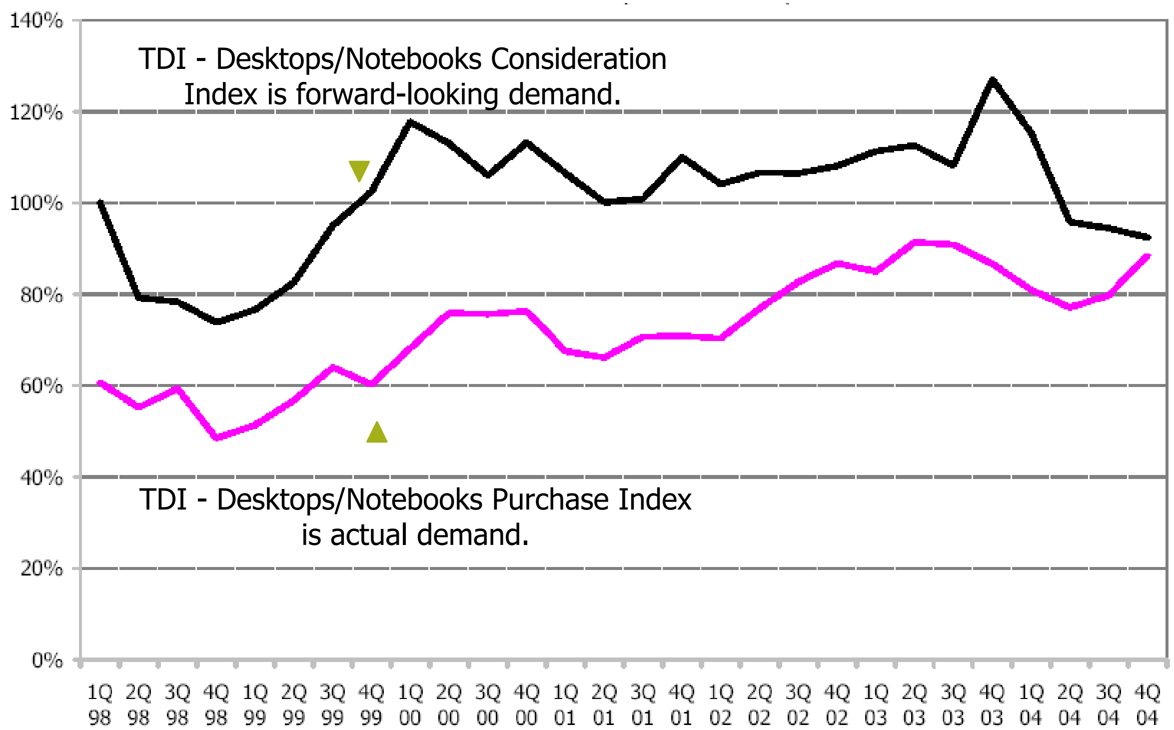
…while the Techtel Tech Demand Index for Low-End (Desktops/Notebooks) rises in purchase, it is again threatened in future growth.

Low Consideration will constrain PC purchase



*Data: Indexes of hardware purchase and consideration based on quarterly surveys by Techtel Corporation.

**Upper and lower lines drawn around the charts are like process control limits

- **The Low-End portion of Techtel's TDI :**
- **Purchase rose 10.9% and forward looking consideration dropped 2.1% Q/Q.**
- **An interesting pattern in PC demand has emerged over nearly 7 years: 7-8 quarters of growth then 3-4 quarters of decline in a cycle. This would indicate we are about to have another 7-8 quarters of growth if the basic underlying factors are still the same.**
- **But the decline in future consideration could put a cap on future purchase as demand pipelines deplete.**

Techtel's Tech Demand Index™ 4Q04

2004 Q4 Techtel Tech Demand Index

	Last Year	Last Quarter	This Quarter	% Change	% Change
	2003 Q4	2004 Q3	2004 Q4	Q/Q	Y/Y
Overall Consideration	88.3%	75.0%	80.6%	7.5%	-8.7%
Overall Purchase	62.0%	63.8%	69.9%	9.6%	12.7%
Enterprise Consideration	49.5%	55.5%	68.8%	23.9%	39.0%
Enterprise Purchase	37.3%	47.8%	51.3%	7.4%	37.5%
Desktops/Notebooks Consideration	127.1%	94.5%	92.5%	-2.1%	-27.3%
Desktops/Notebooks Purchase	86.7%	79.8%	88.5%	10.9%	2.0%

Up more than 20%
Down more than 20%

Data: Indexes of hardware purchase and consideration based on quarterly surveys by Techtel Corporation.

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About Techtel's Tech Demand Index™

- **Techtel's Tech Demand Index™ for Hardware includes two components: enterprise hardware (high-end) and general hardware (low-end).**

- **The two components cover products in six categories:**

Enterprise (High-End)	**General Business (Low-End)**
Low-End Servers	Desktops
Midrange Servers	Notebooks
Mainframes and High-End Servers	
High-End Disk Storage	

- **The results are based on quarterly surveys of companies of all sizes. Approximately 800 companies are surveyed near the end of each quarter.**

- **The index includes two metrics:**
  - **Purchase—ACTUAL DEMAND: businesses that completed a purchase in the quarter**
  - **Consideration—Forward-Looking DEMAND: businesses that are considering a purchase at the end of the quarter. This becomes the base for near-future purchase.**

- **Respondents are asked whether their company has purchased or are considering purchasing hardware products in each category.**

- **The results represent the percentage of respondents whose organization has Purchased or Considered the products in the quarter.**

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