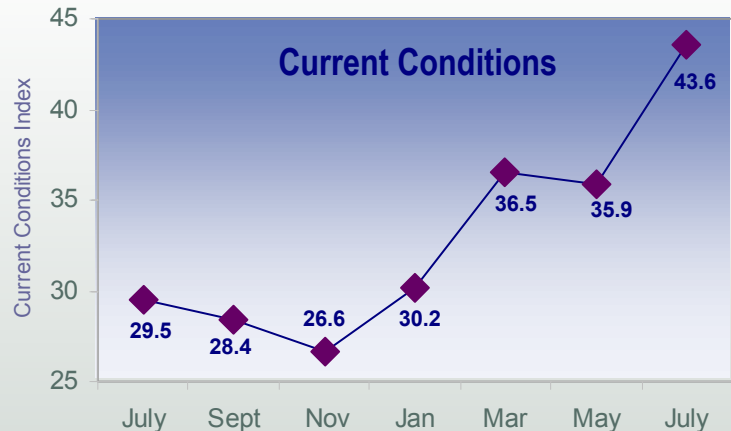


The “Current Conditions” service provider confidence index jumped to its highest level ever during July. The July 2003 index of current service provider conditions increased sharply from 35.9 to 43.6. While still officially in “low” territory (less than 50), this is the highest level this index has attained since the inception of the index in January of 2002. The largest gains this month are in the sub-categories of “Capital Spending” and “Service Development Spending.” The only sub-index that fell, curiously, is that of “investor confidence.”

The “Expectations” index increased slightly this month, reaching a new high for 2003. The Expectations index inched higher this month to a new high for 2003 of 67.7. The biggest increase is in the sub-category of “Investor Confidence” and “Capital Spending,” while the “Revenue Expectations” sub-index fell slightly.



## Methodology

The Sage Service Provider Confidence Index is a tracking study with data collected bi-monthly. Sage asks its service provider panelists a series of questions about their organizations that probe both current conditions and future expectations.

The questions cover six categories: spending on capital equipment, spending on product and service development, revenues, employment, investor confidence, and overall industry conditions. Sage analyzes the responses to these questions to create two indices, **Current Conditions** and **Expectations**.

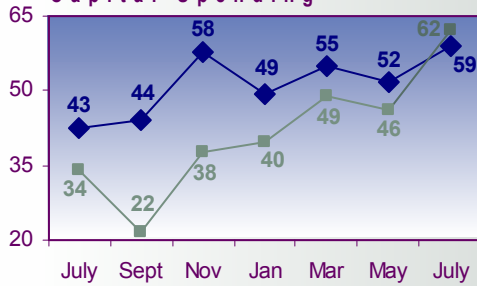
For each of the six question categories, Sage calculates respondents' **Current Conditions** and **Expectations** values. The Current Conditions Index and Expectations Index are the per respondent means of the values for each question category. These indices are normalized to a scale of -50 to 150. The higher the score, the greater the degree of confidence. A score of 50 is neutral.

More complete details of the Sage Service Provider Confidence Index methodology may be found on the Sage Web site:

[www.sageresearch.com](http://www.sageresearch.com).

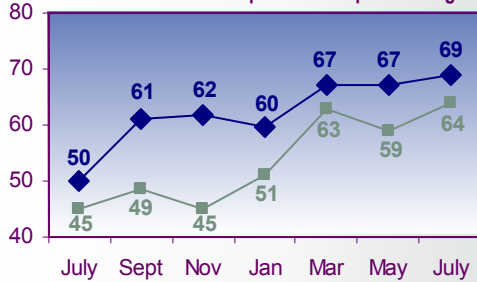
This is the tenth period of data collection for this tracking study. For this period, Sage included responses from 116 service provider professionals, 42% of which were director level and above. The July index includes ILECs (25%), CLECs (21%), long distance/IXCs (17%), ISPs/Web Hosting (21%), wireless operators (5%), ASPs (9%) and MSOs (2%). By geography, the July 2003 sample includes providers from North America (71%), Europe/Russia/NIS (13%), Asia-Pacific (9%), Latin America (5%), and AME (2%).

### Capital Spending



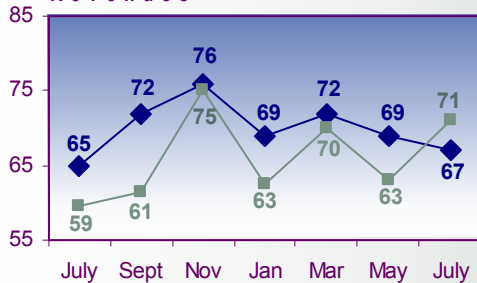
- ◆ The **capital spending expectations** sub-index rose seven points this month, remaining barely in “high” territory (above 50).
- The **capital spending current conditions** sub-index jumped sharply this month to 62, entering the “high” territory and surpassing the “expectations” index for the first time ever. The September index will be key to gauge whether service providers are starting to spend again.

### Service Development Spending



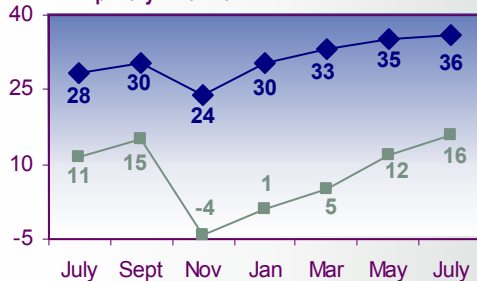
- ◆ The **service development expectations** sub-index remained steady again in July, holding its ground in “high” territory (above 50).
- The **service development current conditions** sub-index rose a full five points to a level of 59 in July, recovering fully from a dip in the May index. It has stayed in “high” territory since the beginning of the year, generally trending upwards in 2003.

### Revenues



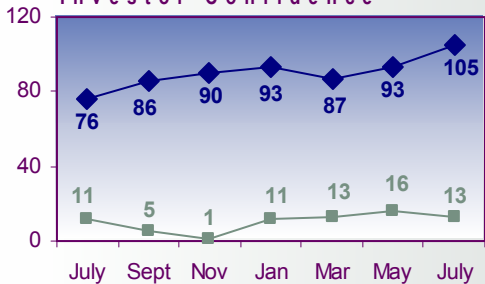
- ◆ The **revenue expectations** sub-index fell again this month, reaching its lowest level in 2003. It is still comfortably in “high” territory, although the general trend for 2003 is not comforting.
- The **revenue current conditions** sub-index jumped eight points up to 71 this month, continuing its zig-zag pattern for the year.

### Employment



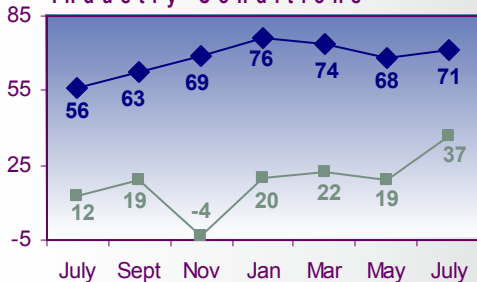
- ◆ The **employment expectations** sub-index rose for the fourth consecutive period this month. It is still solidly in “low” territory, but it is consistently recovering from the lows of last November.
- The **employment current conditions** sub-index also rose again this month, continuing its slow and steady upward trend of 2003.

### Investor Confidence



- ◆ The **investor confidence expectations** sub-index rose again this month to the highest level yet. Service provider professionals appear confident that the NASDAQ will continue to rise in the second half of 2003.
- The **investor confidence current conditions** sub-index fell slightly this month, returning to its March 2003 level. It is still solidly in “low” territory.

### Industry Conditions



- ◆ The **industry conditions expectations** sub-index rose slightly this month, bucking the previous downward trend it had been on since the beginning of the year.
- The **current industry conditions** sub-index jumped dramatically this month, from 19 to 37. While still in “low” territory, this is the highest this sub-index has ever reached. This is significant because it is the most direct gauge of the current industry mood.