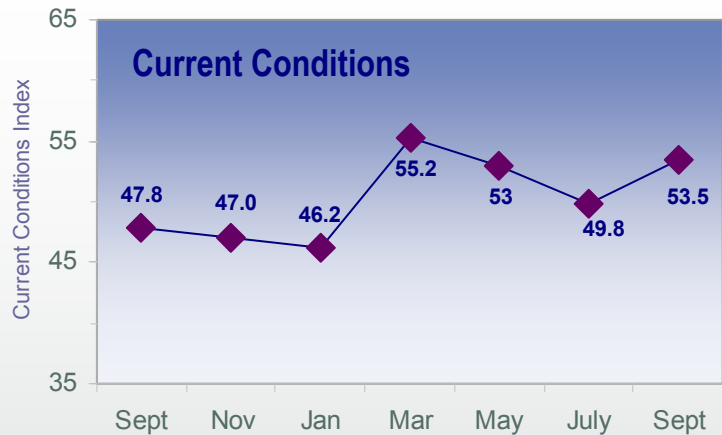


**The “Current Conditions” index bounced back in September to its pre-July level.**

Recovering from a dip in July, the “Current Conditions” index returned to “high” territory (above 50), matching the levels recorded in May. A sizeable (12-point) increase in the “Stock Market Values” sub-index as well as a bump in “Revenue” primarily contributed to this rise in September. By contrast, “Service Development” and “Employment” sub-indices receded slightly for the period.

**The “Expectations” index recovered somewhat in September after a steep fall in July.** The “Expectations” index recouped from its setback in July and still remains in high territory (over 50). Specific gains in “Service Development,” “Stock Market,” and “Overall Conditions” primarily fueled this recovery; however, nearly all Expectations sub-indices improved in September.

Despite the turnaround, the “Expectations” index remains lower than it was a year ago.



**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.

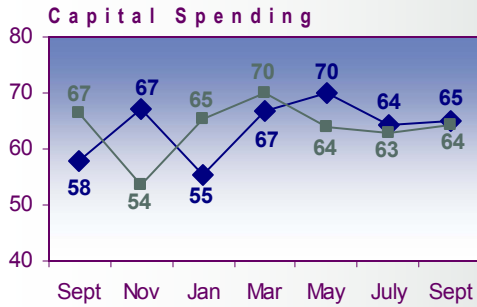
The questions cover six categories: spending on capital equipment, spending on product and service development, revenues, employment, investor confidence, and overall industry conditions. Sage analyzes the responses to these questions to create two aggregated indices, **Current Conditions** and **Expectations**.

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.

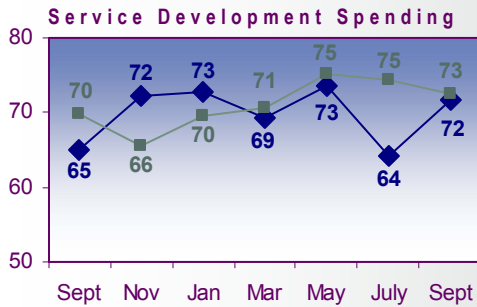
More complete details of the Sage Service Provider Confidence Index methodology can be found on the Sage Web site:

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

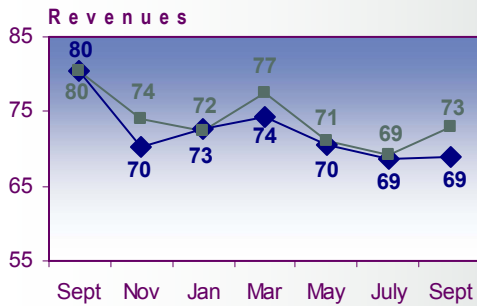
This is the seventeenth period of data collection for this tracking study. For this period, Sage included responses from 96 service provider professionals, 40% of which were director level and above. The September index includes ILECs (26%), CLECs (18%), long distance/IXCs (17%), ISPs/Web Hosting (23%), wireless operators (5%), ASPs (8%) and MSOs (3%). By geography, the September 2004 sample includes providers from North America (77%), Europe/Russia/NIS (13%), Asia-Pacific (5%) and Latin America (5%).



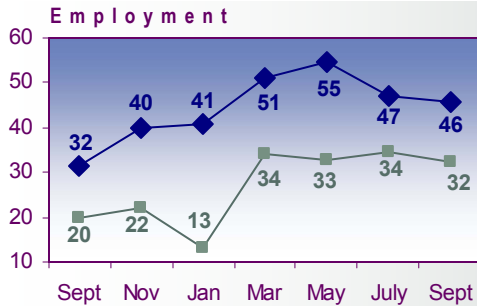
- ◆ The **capital spending expectations** sub-index remained stable in September. It is still in “high” territory and firmly above its September 2003 level (58).
- The **capital spending current conditions** sub-index also continued steady at 64 points. It is still well within “high” territory.



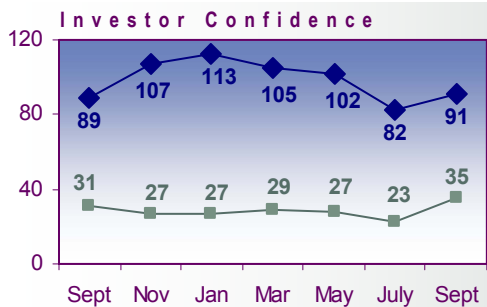
- ◆ The **service development expectations** sub-index bounced back forcefully in September, regaining nearly all ground lost in the July setback.
- The **service development current conditions** sub-index remained effectively on par with its peak score in July. This score is the second-highest it’s been since the launch of the index in January 2002.



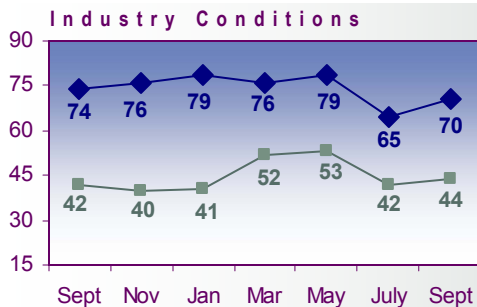
- ◆ The **revenue expectations** sub-index continued at its lowest level for 2004 (69) for the second straight period. This now stands at 11 points below its all-time peak from one year ago.
- The **revenue current conditions** sub-index nudged upward from 69 to 73 after two periods of decline. It remains comfortably in “high” territory (over 50).



- ◆ The **employment expectations** sub-index remained in “low” territory (below 50) for the second straight period. Despite falling from May levels (55), it is still 14 points ahead of September of 2003.
- The **employment current conditions** sub-index remained stable in the low 30s for the fourth straight period. While it has never reached “high” territory, this score is among its peak levels recorded since the launch of the index.



- ◆ The **investor confidence expectations** sub-index shifted back towards the 100 mark, after a fall in July. It’s now par with its September of 2003 score (89).
- The **investor confidence current conditions** sub-index leapt up from 23 to 35, ending its 10-month long stay in the 20s. Although still in “low” territory, it is now at its highest level since the index began in January of 2002.



- ◆ The **industry conditions** expectations sub-index somewhat recovered from its July fall. Despite the reversal, it is still below the score obtained in September of 2003.
- The **current industry conditions** sub-index remained even in September. It continues in “low” territory (under 50) after “high” (over 50) levels of optimism were reported earlier in the year.