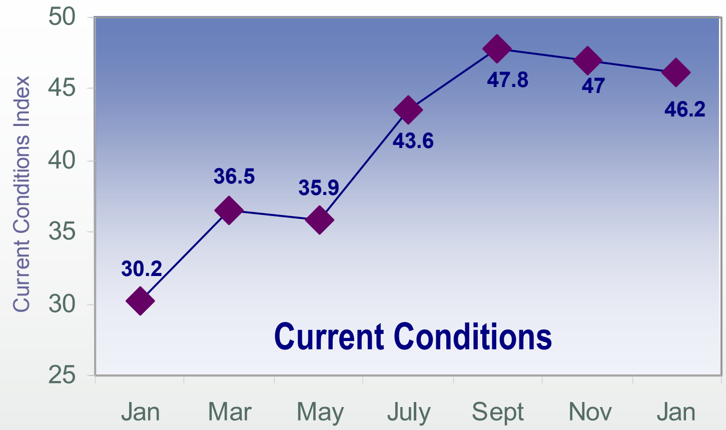
SAGE GAUGE

Service Provider Confidence Index

January 2004

The "Current Conditions" service provider confidence index dipped slightly for the second period in a row. The January 2004 index of current service provider conditions fell 0.8 points from its November level, and is off 1.6 points from the September high of 47.8. The decreases in both November and January are minor, however, and the current level of 46.2 is still significantly above the levels seen in the first half of 2003. The sharpest decline came in the Employment sub-index, while the Revenue sub-index also fell slightly.

The "Expectations" index increased again this month. The Expectations index continued its steady rise in January, marking the seventh straight month of increases (May 2003-January 2004). It has risen nearly 13 points over the past year. The biggest gain came from the Investor Confidence sub-index. The Capital Spending sub-index, by contrast, fell sharply during January.



Methodology

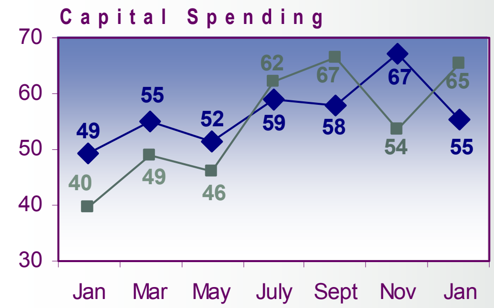
The Sage Service Provider Confidence Index is a tracking study with data collected bi-monthly. Sage asks its service provider panelists a series of questions about their organizations that probe both current conditions and future expectations.

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**.

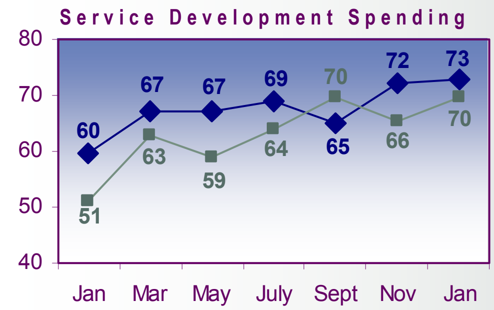
For each of the six question categories, Sage calculates respondents' **Current Conditions** and **Expectations** values. The Current Conditions Index and Expectations Index are the per respondent means of the values for each question category. These indices are normalized to a scale of -50 to 150. The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

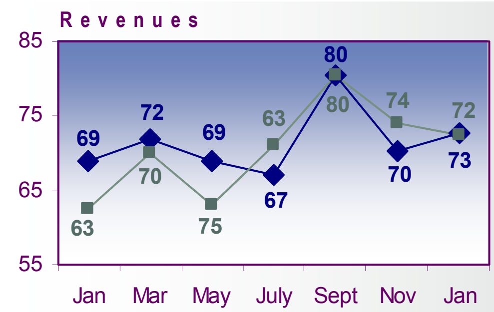
This is the thirteenth period of data collection for this tracking study. For this period, Sage included responses from 100 service provider professionals, 62% of which were director level and above. The January index includes ILECs (31%), CLECs (19%), long distance/IXCs (20%), ISPs/Web Hosting (18%), wireless operators (6%), ASPs (5%) and MSOs (1%). By geography, the January 2004 sample includes providers from North America (82%), Europe/Russia/NIS (10%), Asia-Pacific (3%), Latin America (4%), and Africa/Middle East (1%).



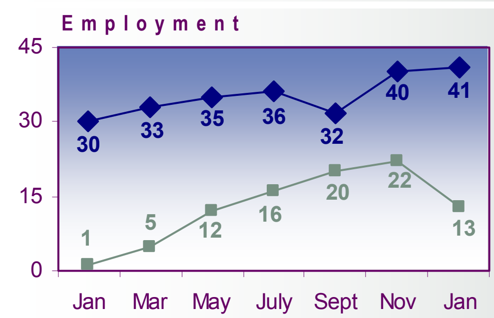
- The **capital spending expectations** sub-index fell 12 points (from 67 to 55) in January, erasing the 9-point gain seen in November 2003 and reversing positions with the capex current conditions sub-index.
- The **capital spending current conditions** sub-index rose sharply in January to 65, reversing a November dip down to 54 and returning to its September 2003 levels.



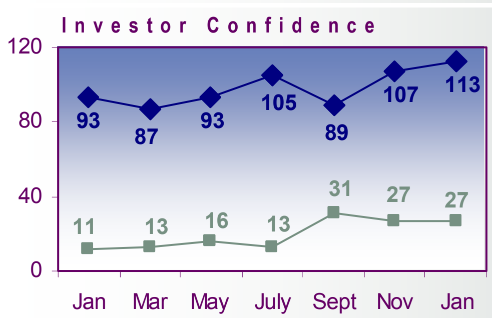
- The **service development expectations** remained stable this month, edging up slightly to a new high of 73. It has risen 13 points over the past year
- The **service development current conditions** sub-index returned to its September 2003 level of 70. It has risen sharply over the past year, from a level of 51 in January 2003.



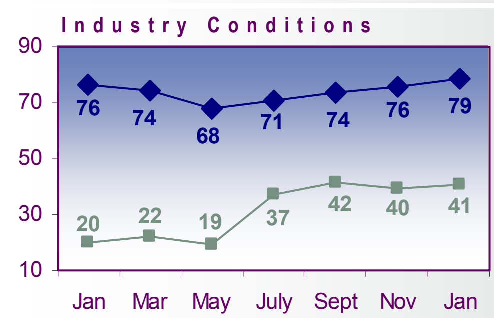
- The **revenue expectations** sub-index partially recovered from its 10-point drop in November, rising slightly to a comfortable 73. It is up four points from its January 2003 level.
- The **revenue current conditions** sub-index fell for the second straight period (from 74 to 72). Expectations are in line with current conditions in the revenue category (both in positive territory).



- The **employment expectations** sub-index edged slightly higher in January to a new high of 41. It is up 11 points over the past year.
- The **employment current conditions** sub-index took a sharp dive this period, falling from 22 to 13 after a long, steady period of gains. It is still the lowest of all the sub-indices, and coincides with the "employment expectations" dip seen in September 2003.



- The **investor confidence expectations** sub-index rose in rose once again in January, reaching a new all-time high (113). SP executives evidently buy into the "election cycle" theory of stocks and are bullish on 2004.
- The **investor confidence current conditions** sub-index remained stable at 27 in January. SP executives believe the stock market could be better.



- The **industry conditions expectations** sub-index rose for the seventh straight month, reaching 79. SP executives' overall outlook for the telecom industry is positive.
- The **current industry conditions** sub-index rose slightly this month, from 40 to 41. This key indicator, while still in "negative" territory (below 50), has doubled since January 2003, indicating that this was the first year since the crash of late 2000 that the industry improved.