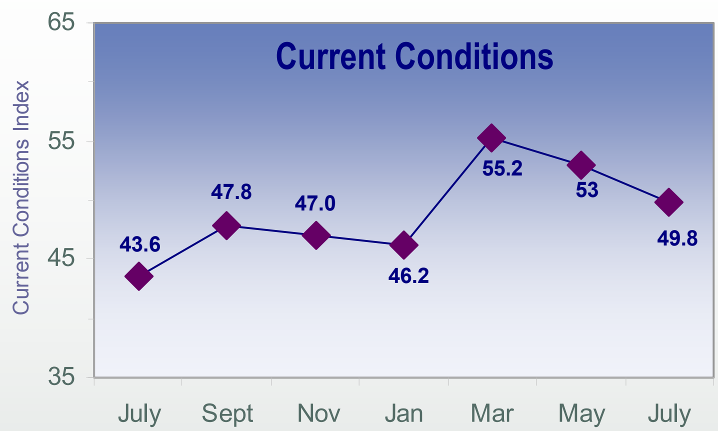
SAGE GAUGE

Service Provider Confidence Index

July 2004

The "Current Conditions" service provider confidence continued its downward slide in July. The current conditions index slid three points this month, falling back into "negative" territory (below 50) for the first time since January 2004. Declines in the "Overall Industry Conditions" and "Investor Confidence" sub-indices were primarily responsible for the overall drop.

The "Expectations" index fell sharply in July, from its high of 77 in May to 65 currently. The 12-point decline is the single biggest bi-monthly decline since the service provider confidence index began in January 2002. The "Expectations" index is still in "high" territory (above 50), but it is now lower than it was in July 2003. Declines in the sub-indices of "Investor Confidence" (20-point drop), "Industry Conditions" (14-point drop), "Service Development" (9-point drop), and "Employment" (8-point drop), contributed most to the overall drop in this index.



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.

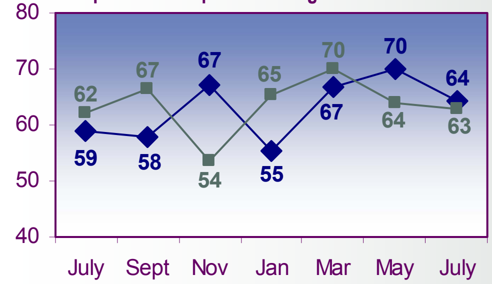
The questions cover six categories: spending on capital equipment, spending on product and service development, revenues, employment, investor confidence, and overall industry conditions. Sage analyzes the responses to these questions to create two aggregated indices, **Current Conditions** and **Expectations**.

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 may be found on the Sage Web site: www.sageresearch.com.

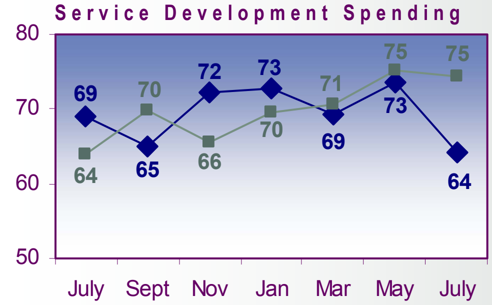
This is the fifteenth period of data collection for this tracking study. For this period, Sage included responses from 96 service provider professionals, 48% of which were director level and above. The July index includes ILECs (26%), CLECs (20%), long distance/IXCs (16%), ISPs/Web Hosting (23%), wireless operators (4%), ASPs (8%) and MSOs (3%). By geography, the July 2004 sample includes providers from North America (80%), Europe/Russia/NIS (14%), and Asia-Pacific (6).

Capital Spending



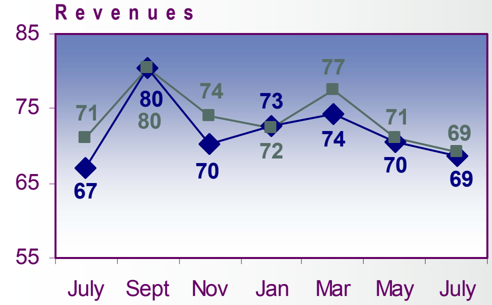
- The **capital spending expectations** sub-index fell six points (from 70 to 64), ending the five-month rally it had sustained since January. It is still in “high” territory (above 50).
- The **capital spending current conditions** sub-index remained stable this month, nudging down slightly from 64 to 63. It is almost exactly at the same level it was in July of 2003.

Service Development Spending



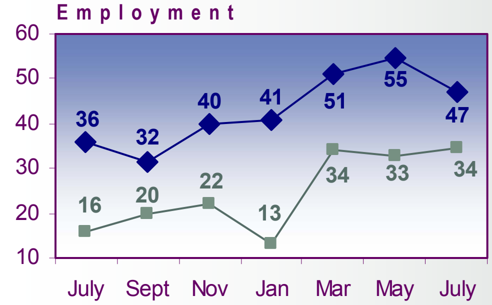
- The **service development expectations** sub-index fell sharply in July, from 73 to 64. Although still in “high” territory (above 50), it is now lower than it has been at any time in the past 12 months.
- The **service development current conditions** sub-index remained steady at 75 in July. It remains at the highest levels it has ever been since the index began in January 2002.It is still 11 points higher than it was in July of 2003.

Revenues



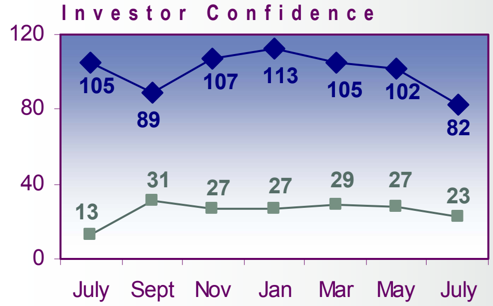
- The **revenue expectations** sub-index fell slightly again in July, from 70 to 69. It is now close to where it was in July of 2003, and down 21 points from its September 2003 peak of 80.
- The **revenue current conditions** sub-index also fell slightly in July, from 71 to 69. It has been declining since March of 2004, although it remains in “high” territory (above 50).

Employment



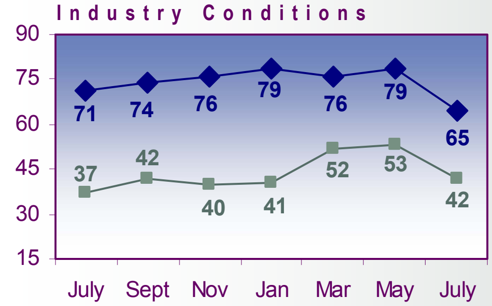
- The **employment expectations** sub-index fell sharply in July, from 55 to 47. It is now back in “negative” territory (below 50) after enjoying two periods of unprecedented optimism in March and May.
- The **employment current conditions** sub-index remained stable for the third straight period at 34. It has always been in “low” territory (below 50), but is at the highest level it’s ever been since the launch of the index in January 2002, and 18 points higher than July of 2003.

Investor Confidence



- The **investor confidence expectations** sub-index took a 20-point plunge from May to July, dipping below the 100 mark for the first time since September of 2003.
- The **investor confidence current conditions** sub-index fell slightly in July, from 27 to 23. It has remained fairly steady all year.

Industry Conditions



- The **industry conditions expectations** sub-index dropped dramatically in July, from 79 to 65. Although still in “high” territory (above 50), this is the lowest it has been in the last 12 months.
- The **current industry conditions** sub-index dropped 11 points in July, falling back into “low” territory (below 50) for the first time since January 2004 after two periods (March and May) of unprecedented optimism.