

The “**Current Conditions**” service provider confidence index improved significantly in March. The March 2004 index of current service provider conditions jumped nine points from its January level, bucking the previous four-month trend of gradual declines. The March figure (55.2) also represents the highest level the Service Provider Current Conditions index has reached since its inception in January of 2002. The current index level is also significant because this is the first time it has ventured into “high” territory (above 50).

The “**Expectations**” index fell slightly in March. After a steady eight-month period of increases (May 2003-January 2004), the Service Provider Expectations index fell slightly in March. The industry’s current conditions have improved and, as a result, the upside potential is not as great as it was in the depths of the telecom bust.



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**.

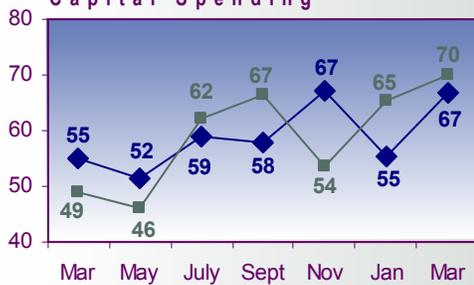
For each of the six question categories, Sage calculates respondents’ **Current Conditions** and **Expectations** values. The Current Conditions Index and Expectations Index are the per respondent means of the values for each question category. These indices are normalized to a scale of -50 to 150. The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

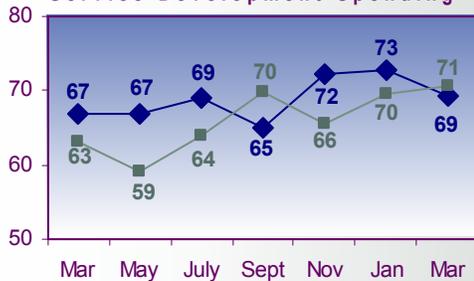
This is the fourteenth period of data collection for this tracking study. For this period, Sage included responses from 101 service provider professionals, 47% of which were director level and above. The March index includes ILECs (25%), CLECs (25%), long distance/IXCs (12%) ISPs/Web Hosting (27%), wireless operators (5%), ASPs (6%) and MSOs (1%). By geography, the March 2004 sample includes providers from North America (80%), Europe/Russia/NIS (11%), Asia-Pacific (5%), Latin America (3%), and Africa/Middle East (1%).

Capital Spending



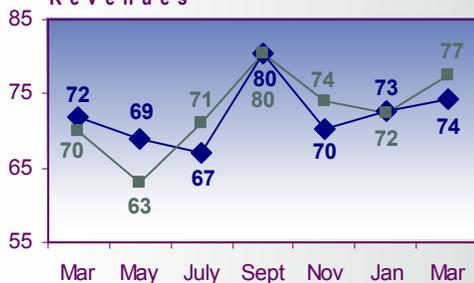
- ◆ The **capital spending expectations** sub-index recovered from its January dip, returning to the November 2003 level of 67 (comfortably in “high” territory).
- The **capital spending current conditions** sub-index continued its rally, gaining another five points in March. It is now at its highest point since the January 2002 inception of the index (it started at 33).

Service Development Spending



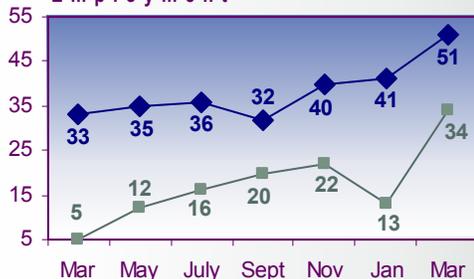
- ◆ The **service development expectations** sub-index fell slightly in March, returning to its July 2003 level of 69. It is still firmly in “high” territory, and very close to where it was exactly one year ago.
- The **service development current conditions** sub-index rose again in March, marking a four-month positive trend and reaching a high point compared with the past 12 months. It is up eight points from its March 2003 level.

Revenues



- ◆ The **revenue expectations** sub-index remained stable in March, staying well within “high” territory and at virtually the same level it was one year ago.
- The **revenue current conditions** sub-index rose significantly in March, nearly matching its September 2003 high of 80. The March numbers reverse a four-month period of decline in the index (Sept. 2003 – January 2004)

Employment



- ◆ The **employment expectations** sub-index rose 10 points, crossing the key benchmark of 50 (a “neutral” score) into high territory for the first time ever. For the first time since the index’s inception in January 2002, service providers are planning a net addition of jobs.
- The **employment current conditions** sub-index also rose dramatically, reaching a new high of 34. While still in “low” territory (below 50), this is by far the highest level it has ever reached.

Investor Confidence



- ◆ The **investor confidence expectations** sub-index fell slightly in March, although it is still the highest of all the sub-indices tracked (105).
- The **investor confidence current conditions** sub-index remained stable once again, edging up slightly to a level of 29. It remains in “low” territory, meaning that telecom executives continue to think the NASDAQ index is currently too low.

Industry Conditions



- ◆ The **industry conditions expectations** sub-index fell slightly (from 79 to 76) in March, reversing an eight-month trend of steady increases, but still remaining comfortably in “high” territory.
- The **current industry conditions** sub-index rose nine points in March, reaching its highest level since the index’s inception in January 2002 and crossing the key “50” barrier into high territory for the first time ever.