

Service providers are largely negative regarding the present state of the industry. Many telecom professionals report that capital spending is down from the same quarter last year. In addition, employment has dropped significantly in the past six months.

The most significant change between the March and May indices is a drop in the previously surprising level of optimism about the near-term future of the industry. **Among service providers, optimism is lower now than it has been in previous surveys this year.** Respondents expect their capex levels to fall next quarter, on average, and nearly 40% expect these capex budgets to be further reduced before they are actually spent.

On a positive note, **service providers believe their revenues will increase slightly next quarter and expect to spend**

more on new product and service development.

In contrast to Sage's measure of **optimism**, the May index of **current conditions** is virtually unchanged from the March survey. Results for the five specific areas of inquiry are as follows:

1. Overall capital spending

Twenty-eight percent of telecom professionals report that overall capital spending is higher this quarter compared to the previous quarter. In the March and January surveys, 31% and 28% reported that spending was higher, respectively.

2. Spending on new development

Over one-third (34%) of telecom professionals report that spending on new product/service development is higher this quarter compared to the previous quarter. This is unchanged from the March and January surveys.

3. Revenue

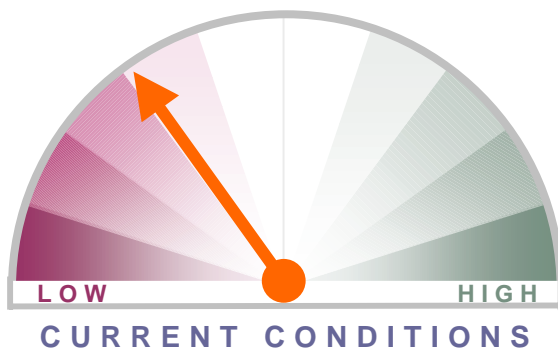
Half (50%) of telecom professionals report that their organization's revenue was higher last quarter compared to the same quarter last year. In the March and January surveys, 44% and 52% reported that revenue was higher, respectively.

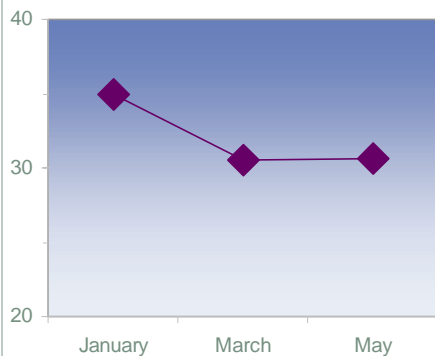
4. Employment

Over half (60%) of telecom professionals report that the number of employees will stay the same or increase in the next six months. This is virtually unchanged from the March and January surveys (61% and 58%, respectively).

5. NASDAQ index

Half (51%) of telecom professionals report that the NASDAQ value will increase in the next six months. This is a significant drop from the March and January surveys (61% and 57%, respectively).



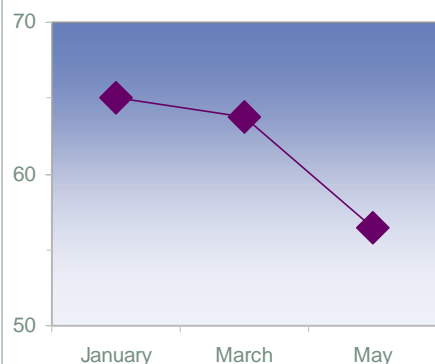


For May 2002, the **current conditions** index is virtually unchanged at **30.6** out of 100 (compared to 30.5 in March 2002). Service providers continue to consider current conditions to be very **negative**. They consider conditions worse than in January of this year, in fact, when the index stood at 35. The current conditions index has fallen 13% since the beginning of the year.

- ❖ Over half of respondents report that their capex is lower this quarter compared with the same quarter last year. Nearly 40% report that their capex is lower this quarter compared with the previous quarter.
- ❖ Employment levels have fallen during the past six months.
- ❖ Half of respondents feel that shares on the NASDAQ are currently undervalued.

On the positive side:

- ❖ Over half of respondents report that revenues were up last quarter compared with the previous quarter.
- ❖ Respondents report higher spending on development of new products and services.



For May 2002, the **optimism** index has a value of **56.5** out of 100, an 11% drop from the March index of 63.8, and a 13% drop from the January index of 65.0. Service providers are becoming less optimistic about the future. Fewer providers are confident that the worst is now behind them.

Over the next six months:

- ❖ Less than half expect overall industry conditions to improve.
- ❖ Telecom professionals expect their capital budgets to be slightly lower, and nearly 40% expect these budgets to be further reduced.
- ❖ Over half of respondents feel that NASDAQ prices will increase.
- ❖ 40% feel that employment will fall further. Only 17% expect their companies to increase the number of employees.

On a more positive note:

- ❖ Over half expect their revenues to increase.
- ❖ Respondents, on average, expect their spending on new product and service development to increase slightly.

Methodology

The Sage Service Provider Confidence Index is a tracking study with data collected bimonthly. 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, value of the NASDAQ index, and overall industry conditions. Sage analyzes the responses to these questions to create two indices, **Current Conditions** and **Optimism**.

For each of the six question categories, Sage calculates a **Current Conditions** value and an **Optimism** value. The Current Conditions Index and Optimism Index are the means of the values for each question category. These indices are normalized to a scale of 0 to 100. 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 website:

www.sageresearch.com.

This is the third period of data collection for this tracking study—the first two were in January and March of 2002. For this period, Sage included responses from 104 service provider professionals in the calculations.

Telecommunications service provider types represented in the sample are:

- ❖ 31% Internet, web hosting, and other network service providers
- ❖ 22% Incumbent carriers (ILECs, RBOCs, and PTTs)
- ❖ 18% Long distance carriers and IXC's
- ❖ 16% Competitive carriers
- ❖ 5% Application service providers
- ❖ 4% Wireless operators
- ❖ 4% MSOs and other cable companies

Geographically, 65% of the respondents are from North America. Additionally, the survey contains:

- ❖ 15% EMEA
- ❖ 10% Asia-Pac
- ❖ 10% Latin America