RESEARCH

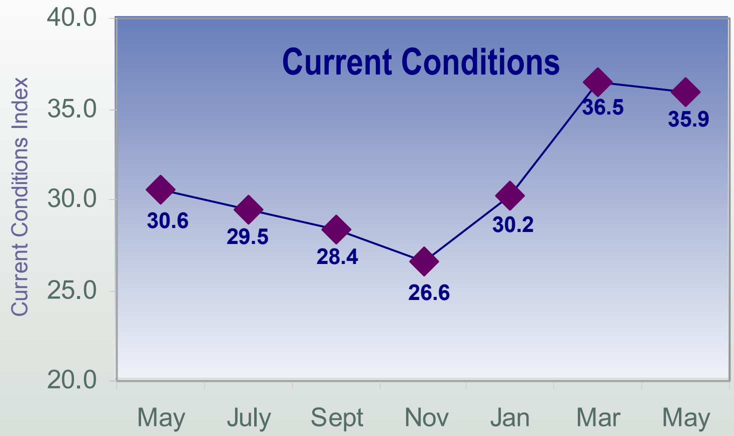
SAGE GAUGE

Service Provider Confidence Index

May 2003

The "Current Conditions" service provider confidence index leveled off after a four-month rally. The May 2003 index of current service provider conditions fell slightly from 36.5 to 35.9 after two consecutive periods of gains. The index is still in "low" territory (less than 50), but remains above the typical levels seen in 2002. The largest drops this month were in the sub-categories of "Revenues" and "Service Development Spending." The sub-indices of "Employment" and "Investor Confidence" rose slightly, by contrast.

The "Expectations" index remained relatively stable this month. The Expectations index remains in "high" territory (greater than 50), but edged down slightly from the March peak. The biggest drop was in the sub-category of "Industry Conditions," while the "Employment" and "Investor Confidence" expectation sub-categories rose in May.



Methodology

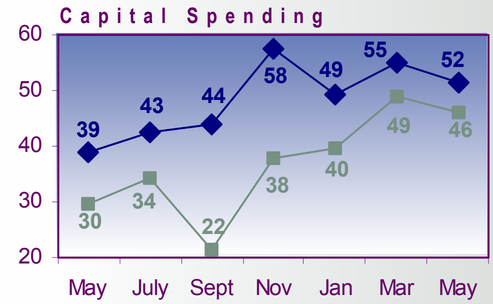
The Sage Service Provider Confidence Index is a tracking study with data collected bi-monthly. Sage asks its service provider panelists a series of questions about their organizations that probe both current conditions and future expectations.

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**.

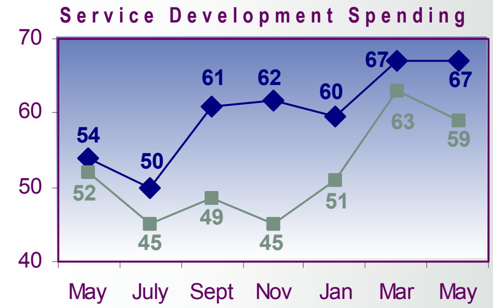
For each of the six question categories, Sage calculates respondents' **Current Conditions** and **Expectations** values. The Current Conditions Index and Expectations Index are the per respondent means of the values for each question category. These indices are normalized to a scale of -50 to 150. The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

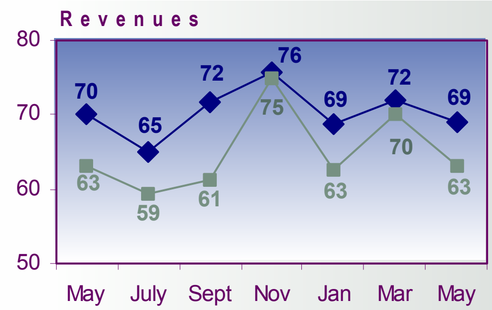
This is the ninth period of data collection for this tracking study. For this period, Sage included responses from 100 service provider professionals, 40% of which were director level and above. The May index includes ILECs (28%), CLECs (22%), long distance/IXCs (21%), ISPs/Web Hosting (19%), wireless operators (6%), ASPs (3%) and MSOs (1%). By geography, the May 2003 sample includes providers from North America (76%), Europe/Russia/NIS (13%), Latin America (6%), Asia-Pacific (4%), and AME (1%).



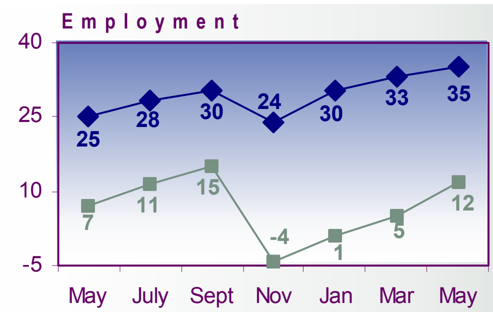
- The **capital spending expectations** index fell slightly this month. It has been in “neutral” territory (around 50) for all of 2003 to date.
- The **capital spending current conditions** index also fell this month. It is still well above 2002 levels, however, which indicates that most service providers’ capital spending is remaining steady. The industry may have reached a new equilibrium at this point.



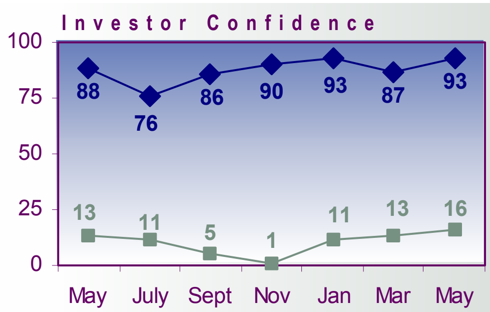
- The **service development expectations** index remained steady in May, holding its ground in “high” territory (above 50).
- The **service development current conditions** index, however, fell 4 points this month after reaching a peak of 63 in March. It remains in “high” territory, however, and above its 2002 average.



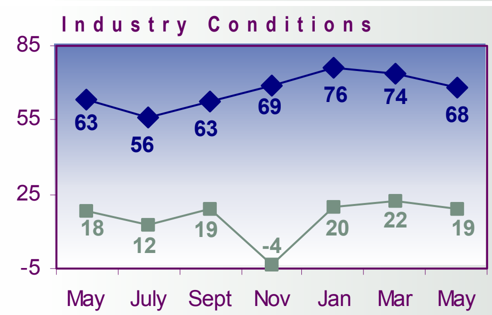
- The **revenue expectations** index fell this month, returning to its January 2003 levels. It has remained relatively stable around the level of 70 all year to date.
- The **revenue current conditions** index fell seven points this month, returning to its January 2003 level.



- The **employment expectations** index rose for the third consecutive period this month. Although still in “low” territory (below 50), it is 10 points higher than it was in May 2002.
- The **employment current conditions** index also rose again this month, continuing its slow and steady recovery from the November 2002 lows.



- The **investor confidence expectations** index rose sharply this month, recovering to the January 2003 levels after a dip in March.
- The **investor confidence current conditions** index rose again this month, although it is still extremely low.



- The **industry conditions expectations** index fell for the second straight period. It remains in “high” territory, however (above 50).
- The **current industry conditions** index rose dipped slightly this month. Service provider executives continue to believe that the public telecom industry is bad, but they don’t currently feel that it’s “as bad as it could possibly get.”