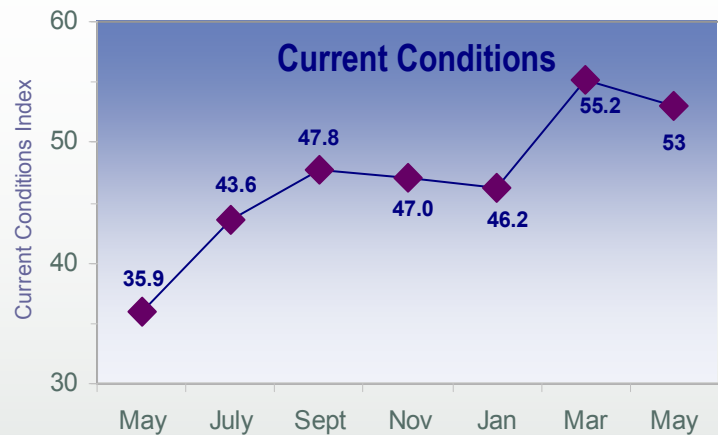


The “**Current Conditions**” service provider confidence index fell slightly in May. The May 2004 index edged down slightly from its March all-time high of 55, but remains in “high” territory (above 50), and is up a full 17 index points from a year ago. Modest declines in the indices for capital spending, revenues, and employment were responsible for the fall. The sub-indices of service development spending and industry conditions rose this month, however.

The “**Expectations**” index increased slightly in May to a new high of 77. The overall “Expectations” index recovered from its slight dip in March, continuing its overall upward trend of the last 12 months. It is now up 13 points from its level of a year ago (May 2003). Gains in the sub-indices of capital spending, service development spending, employment, and industry conditions led the way. The sub-indices of revenues and investor confidence fell slightly, however.



## 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.

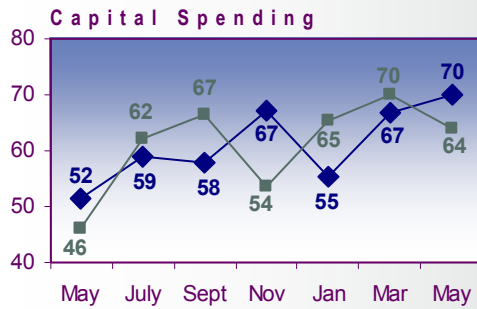
The questions cover six categories: spending on capital equipment, spending on product and service development, revenues, employment, investor confidence, and overall industry conditions. Sage analyzes the responses to these questions to create two aggregated indices, **Current Conditions** and **Expectations**.

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.

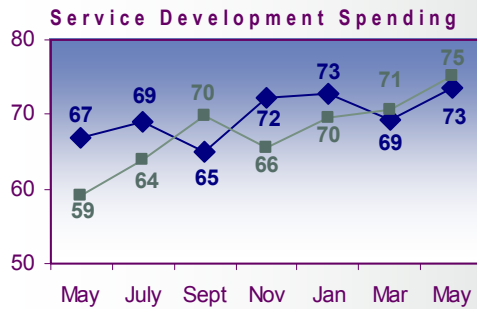
More complete details of the Sage Service Provider Confidence Index methodology may be found on the Sage Web site:

[www.sageresearch.com](http://www.sageresearch.com).

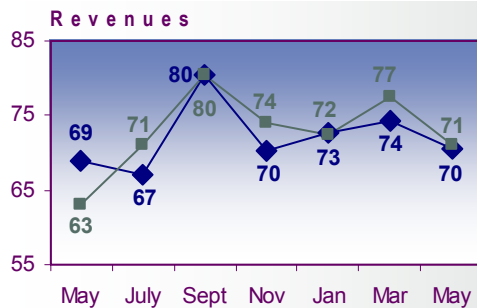
This is the fifteenth period of data collection for this tracking study. For this period, Sage included responses from 111 service provider professionals, 30% of which were director level and above. The May index includes ILECs (29%), CLECs (22%), long distance/IXCs (14%), ISPs/Web Hosting (23%), wireless operators (7%), ASPs (4%) and MSOs (3%). By geography, the May 2004 sample includes providers from North America (72%), Europe/Russia/NIS (15%), Asia-Pacific (6%), Latin America (4%), and Africa/Middle East (3%).



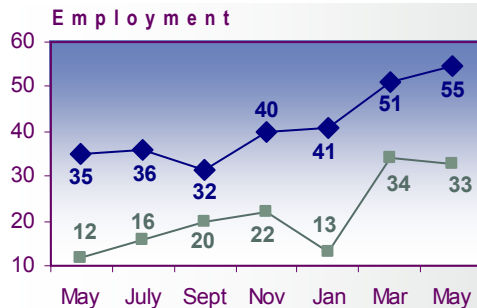
- ◆ The **capital spending expectations** sub-index continued its climb into positive territory (above 50) this month, reaching a new high of 70.
- The **capital spending current conditions** sub-index fell six points this month from its previous high of 70 (in March). It is still comfortably in “high” territory, however.



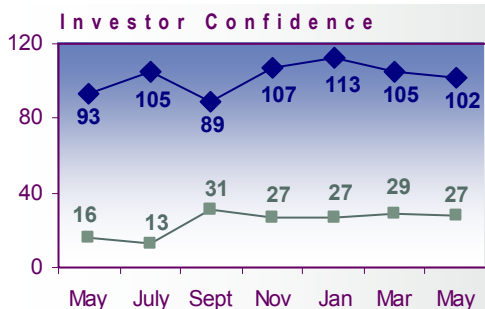
- ◆ The **service development expectations** sub-index recovered from its dip in March, returning to its January level of 73.
- The **service development current conditions** sub-index increased once again in May, marking the sixth straight month of increase and reaching a high for the year (75). It is up nearly 20 points since May 2003.



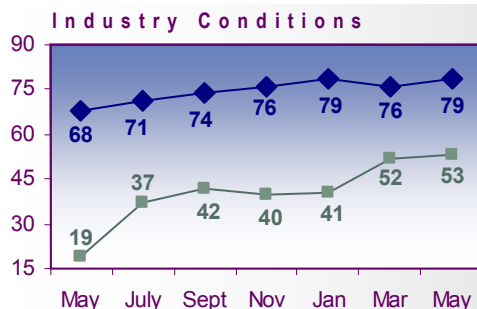
- ◆ The **revenue expectations** sub-index fell four points in May, from 74 to 70. It is nearly identical to its level of a year ago, and off 10 points from its September 2003 high of 80.
- The **revenue current conditions** sub-index fell sharply in May from 77 to 71. It has fluctuated over the past 12 months, and is currently at the same level it was in January 2004.



- ◆ The **employment expectations** sub-index continued its upward climb into “positive” territory (above 50), reaching a new record high. Service providers plan a slight net addition of jobs over the next six months.
- The **employment current conditions** sub-index remained stable this month in the low 30s. It has yet to cross into “high” territory, but it is still over 20 points higher than it was a year ago.



- ◆ The **investor confidence expectations** sub-index fell slightly again in May, from 105 to 102. It is still very much in “high” territory, however.
- The **investor confidence current conditions** sub-index remained stable once again, edging down slightly to a level of 27, where it stood at the beginning of 2004.



- ◆ The **industry conditions expectations** sub-index returned to its January 2004 level of 79, recovering from a slight dip in March.
- The **current industry conditions** sub-index edged up slightly from 52 to 53, marking the second straight period that this sub-index has been in “high” territory. Telecom industry executives are basically neutral on the current condition of the industry. This index is up a whopping 34 points from May of 2003.