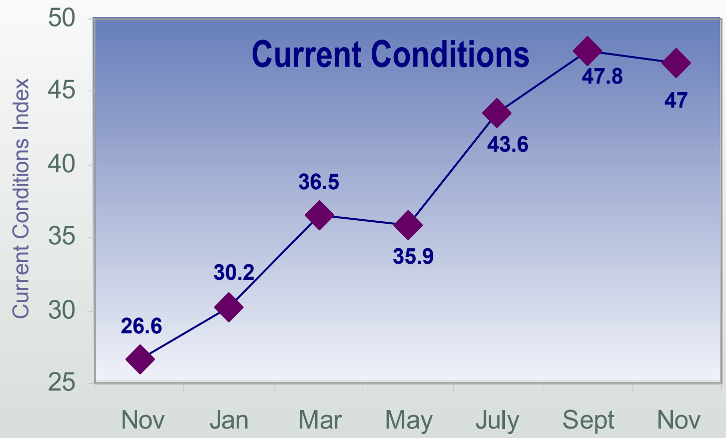
SAGE GAUGE

Service Provider Confidence Index

November 2003

The “Current Conditions” service provider confidence index leveled off during November after a four-month rally. The November 2003 index of current service provider conditions is down 0.8 points from the September high of 47.8. It remains just shy of “high” territory (over 50), but is still up over 20 points from its level one year ago. The sharpest declines came in the areas of capital spending and revenues. The only sub-index that increased in November was employment.

The “Expectations” index increased again this month, reaching yet another high for 2003. The Expectations index continued its steady rise in November, marking the sixth straight month of increases (May-November). It is now up 11.5 points since the beginning of the year, and almost 10 points since the same time last year. The biggest increases came in the areas of investor confidence and capital spending. The only sub-index to fall was revenues.



Methodology

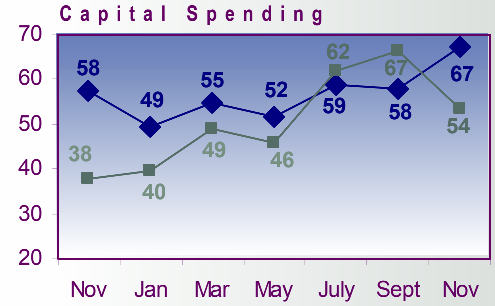
The Sage Service Provider Confidence Index is a tracking study with data collected bi-monthly. Sage asks its service provider panelists a series of questions about their organizations that probe both current conditions and future expectations.

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**.

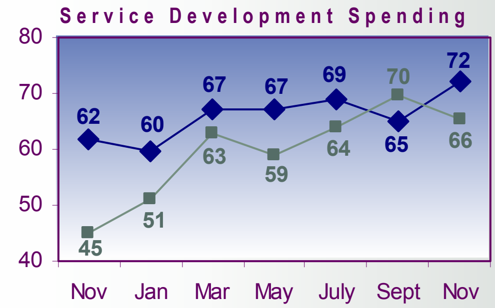
For each of the six question categories, Sage calculates respondents’ **Current Conditions** and **Expectations** values. The Current Conditions Index and Expectations Index are the per respondent means of the values for each question category. These indices are normalized to a scale of -50 to 150. The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

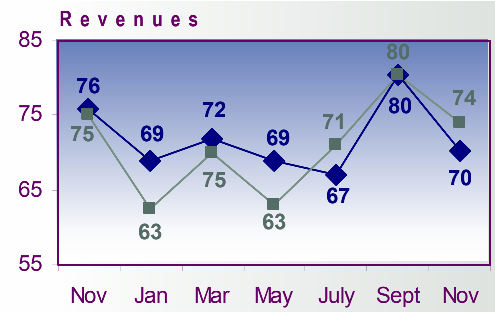
This is the twelfth period of data collection for this tracking study. For this period, Sage included responses from 100 service provider professionals, 42% of which were director level and above. The November index includes ILECs (26%), CLECs (19%), long distance/IXCs (14%), ISPs/Web Hosting (25%), wireless operators (7%), ASPs (8%) and MSOs (1%). By geography, the November 2003 sample includes providers from North America (81%), Europe/Russia/NIS (9%), Asia-Pacific (4%), Latin America (4%), and Africa/Middle East (2%).



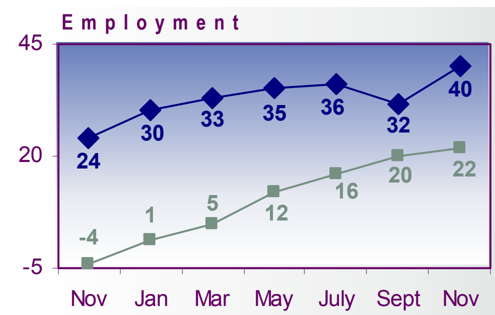
- The **capital spending expectations** sub-index jumped nine points to a new high for the year (67). It has been hovering in the mid-50s for a year, but is now firmly in "high" territory.
- The **capital spending current conditions** sub-index fell sharply in November from its September high of 67 down to 54. This marks a sharp reversal from the steady gains of the last four months.



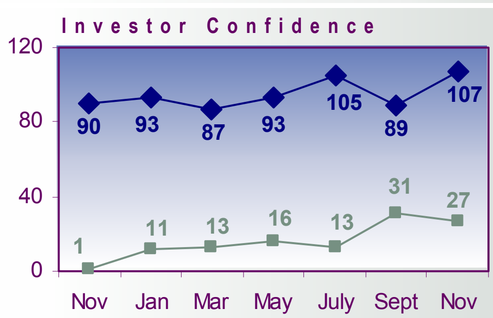
- The **service development expectations** reversed last month's decline, reaching a new high for the year of 72.
- The **service development current conditions** sub-index fell four points this month, marking the end of a four-month rally. The index is still up 15 points since the beginning of the year, however, and 21 points over the last 12 months.



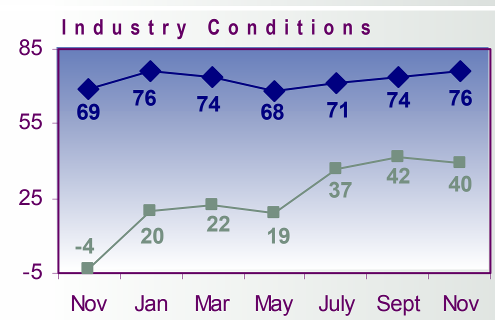
- The **revenue expectations** sub-index has fluctuated sharply for the past five months. In November, it virtually erased September's gains, falling back to a level consistent with the November-July period.
- The **revenue current conditions** sub-index also fell this month, once again ending a rally that had begun in May.



- The **employment expectations** sub-index rose this month to a new high for the year (40). It is still in negative territory, however (SPs expect to shed jobs on net over the next six months).
- The **employment current conditions** sub-index continued its slow but steady rise, inching up to a new high of 22. It is still solidly in "low" territory (below 50), however.



- The **investor confidence expectations** sub-index rose in November, reaching a new high for the year (107). Despite the rapid stock gains of the last six months, most SP executives believe there is upside potential in the coming months.
- The **investor confidence current conditions** sub- index fell slightly from the September peak of 31.



- The **industry conditions expectations** sub-index rose for the sixth straight month, reaching 76. Many executives expect the telecom services market to improve over the next six months.
- The **current industry conditions** sub-index fell slightly this month, from 42 to 40. This reverses four months of steady gains (May-September). Executives continue to think that their industry is still faring poorly, on net, but that it will be improving.