

Service provider expectations rose sharply this month.

Expectations have been steadily dropping throughout the year until the September survey. While the expectations index appeared to be heading into “low” territory last month, it actually jumped 15% between July and September (from 52 to 60). It is still off 7% from January, however, when Sage started the SPCI.

Service providers continue to report tough current conditions in the telecom industry.

Despite service providers’ increased optimism about the industry’s future, however, they continue to report worsening conditions currently. The “current conditions” index slipped an additional 4% this month, falling to a new low for the year of 28.4. It has been firmly in low territory throughout the year, and has fallen 19% since January.

Following is a summary of September’s results:

Overall capital spending ↓

Only twenty-one percent of the respondents report that overall capital spending is higher this quarter compared to the previous quarter. This is the lowest it’s been all year, and a sharp fall from the July index. For next quarter, 29% expect capex increases.

New development spending ↑

Thirty-eight percent of respondents report that spending on new product/service development is higher this quarter compared to the previous quarter.

Revenue ↑

Fifty-two percent of respondents report that their organization’s revenue was higher last quarter compared to the quarter before last. This percentage is up significantly from July, when 43% reported revenue increases. Competitive carriers brought the average up in this category.

Employment ↑

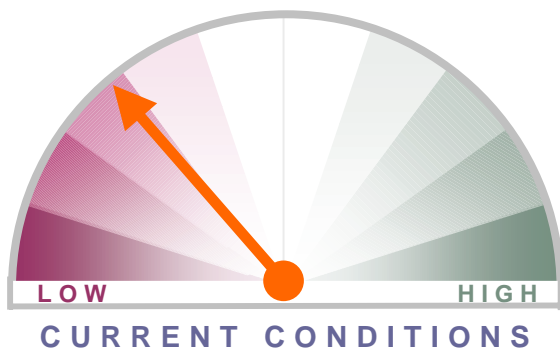
Fifty-one percent of respondents report that employment at their company has fallen in the past six months. This is identical to the July percentage. The percent of professionals expecting further staff cuts fell slightly from 40% in July to 38% in September.

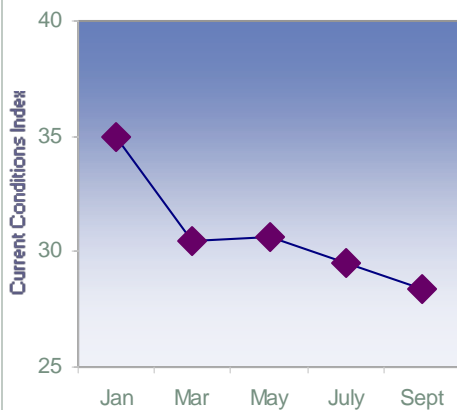
Investor confidence ↓

Half of all respondents (51%) think the current value of the NASDAQ index is too low, and only 6% think that the current value is too high. Although this is worse than the July data, more respondents (49%) believe that the NASDAQ will increase in the next six months.

Overall industry conditions ↑

Only 21% of respondents expect telecom industry conditions to get worse over the next six months. This is significantly lower than the same percentage for the July index, when 29% expected conditions to worsen.

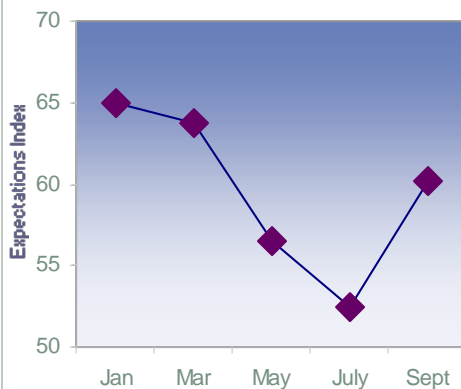




For September 2002, the **current conditions** index fell an additional 4% from the July survey to a low for the year at **28.4**. The index is off 19% since the beginning of the year, when it stood at 35. Service providers continue to consider current conditions to be very bad.

The current conditions index is the average of six sub-indices. Not all of these sub-indices moved in the same direction this month.

- ❖ **Capital spending** conditions fell 22%, from a high of 34 in July to 22 in September.
- ❖ **Spending on new product and service development** conditions increased 8% this month, from 45 in July to a neutral 49 in September.
- ❖ The **revenues** index rose from 59 to 61, boosted by competitive carriers' responses.
- ❖ The **employment** index, while still low, continued to inch upward this month, rising to 15.
- ❖ The **investor confidence** index continued its slide this month, falling to a new low of 5.
- ❖ The **overall conditions** index increased sharply this month, from 12 to 19. This is the first upward movement all year.



The **expectations** index rose sharply this month, from 52 to 60. This is the first increase in the expectations index all year. It is still down 7% from the beginning of the year, when it stood at 65.

The optimism index is the average of six sub-indices. The biggest increases this month came in the areas of new product/service development and investor confidence:

- ❖ The **capital spending expectations** index increased slightly to 44. It has been steadily increasing since May.
- ❖ The **new product and service development** index rose sharply from 50 to 61 between July and September.
- ❖ **Revenues** expectations increased from 65 to 72.
- ❖ **Employment** expectations rose slightly from 28 to 30, back to levels not seen since the beginning of the year.
- ❖ The **investor confidence** index rose from a yearly low of 76 to 86.
- ❖ Expectations for **overall industry conditions** rose for the first time since March. After hitting a low of 56 in July, the index is now at 63.

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, 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 website:

www.sageresearch.com.

This is the fifth period of data collection for this tracking study. For this period, Sage included responses from 104 service provider professionals, over 40% of which were director level and above.

Telecommunications service provider types represented in the sample are:

- ❖ 28% Incumbent carriers (ILECs, RBOCs, and PTTs)
- ❖ 12% Long distance carriers and IXC's
- ❖ 23% Competitive carriers
- ❖ 20% Internet, web hosting, and other network service providers
- ❖ 6% Wireless operators
- ❖ 3% MSOs and other cable companies
- ❖ 6% Application service providers

Geographically, 63% of the respondents are from North America. Additionally, the survey contains:

- ❖ 17% Europe, Russia, NIS
- ❖ 13% Latin America
- ❖ 5% Asia-Pacific
- ❖ 3% Middle-East and Africa