

## DECLARATION OF JOHN POLUMBO

**President and CEO  
AT&T Consumer Services**

**In connection with the proposed transaction, SBC intends to file a registration statement, including a proxy statement of AT&T Corp., and other materials with the Securities and Exchange Commission (the "SEC"). Investors are urged to read the registration statement and other materials when they are available because they contain important information.** Investors will be able to obtain free copies of the registration statement and proxy statement, when they become available, as well as other filings containing information about SBC and AT&T Corp., without charge, at the SEC's Internet site ([www.sec.gov](http://www.sec.gov)). These documents may also be obtained for free from SBC's Investor Relations web site ([www.sbc.com/investor\\_relations](http://www.sbc.com/investor_relations)) or by directing a request to SBC Communications Inc., Stockholder Services, 175 E. Houston, San Antonio, Texas 78258. Free copies of AT&T Corp.'s filings may be accessed and downloaded for free at the AT&T Relations Web Site ([www.att.com/ir/sec](http://www.att.com/ir/sec)) or by directing a request to AT&T Corp., Investor Relations, One AT&T Way, Bedminster, New Jersey 07921.

SBC, AT&T Corp. and their respective directors and executive officers and other members of management and employees may be deemed to be participants in the

solicitation of proxies from AT&T shareholders in respect of the proposed transaction. Information regarding SBC's directors and executive officers is available in SBC's proxy statement for its 2004 annual meeting of stockholders, dated March 11, 2004, and information regarding AT&T Corp.'s directors and executive officers is available in AT&T Corp.'s proxy statement for its 2004 annual meeting of shareholders, dated March 25, 2004. Additional information regarding the interests of such potential participants will be included in the registration and proxy statement and the other relevant documents filed with the SEC when they become available.

Certain matters discussed in this statement, including the appendices attached, are forward-looking statements that involve risks and uncertainties. Forward-looking statements include, without limitation, the information concerning possible or assumed future revenues and results of operations of SBC and AT&T, projected benefits of the proposed SBC/AT&T merger and possible or assumed developments in the telecommunications industry. Readers are cautioned that the following important factors, in addition to those discussed in this statement and elsewhere in the proxy statement/prospectus to be filed by SBC with the Securities and Exchange Commission, and in the documents incorporated by reference in such proxy statement/prospectus, could affect the future results of SBC and AT&T or the prospects for the merger: (1) the ability to obtain governmental approvals of the merger on the proposed terms and schedule; (2) the failure of AT&T shareholders to approve the merger; (3) the risks that the businesses of SBC and AT&T will not be integrated successfully; (4) the risks that the cost savings and any other synergies from the merger may not be fully realized or may take longer to realize than expected; (5) disruption from the merger making it more difficult to maintain relationships with customers, employees or suppliers; (6) competition and its effect on pricing, costs, spending, third-party relationships and revenues; (7) the risk that Cingular Wireless LLC could fail to achieve, in the amount and within the timeframe expected, the synergies and other benefits expected from its acquisition of AT&T Wireless; (8) final outcomes of various state and federal regulatory proceedings and changes in existing state, federal or foreign laws and regulations and/or enactment of additional regulatory laws and regulations; (9) risks inherent in international operations, including exposure to fluctuations in foreign currency exchange rates and political risk; (10) the impact of new technologies; (11) changes in general economic and market conditions; and (12) changes in the regulatory environment in which SBC and AT&T operate.

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### Introduction

1. My name is John Polumbo. I am President and CEO of AT&T Consumer Services (“ACS”). The ACS division of AT&T is responsible, among other things, for all aspects of providing and supporting traditional local and long distance services (collectively, “mass market” services). In my capacity, I am involved in all strategic decisions affecting ACS. In 2004, I participated in AT&T’s decision to cease actively competing for mass market customers and to scale back our operations to retain only enough infrastructure to continue to serve existing customers at a high level of service as they migrate to active competitors. I am presently involved in overseeing the implementation of this strategy.
2. The purpose of this declaration is to describe the mass market services ACS provides and to explain AT&T’s carefully considered 2004 decision to cease actively marketing traditional telephony services to the residential and small business customers that ACS has historically served. I will also explain the many steps AT&T has taken in response to that decision, including the cessation of active marketing, substantial reductions in headcount, termination of relationships with outside suppliers and the retirement of infrastructure. As I explain below, those actions are so extensive that AT&T’s decision is now effectively irreversible as a practical matter. I will also describe the price increases AT&T has instituted since its decision to focus on providing world class communications and value-added services to large commercial, government and wholesale customers. Finally, I will describe how

quickly AT&T's mass market customer base is leaving AT&T and migrating to other mass market providers.

**I. AT&T's Decision To Stop Actively Competing In The Consumer Market.**

3. In the months and years leading up to AT&T's mid-2004 decision to cease actively competing for new customers, AT&T was faced with a strategic dilemma. Its long distance services (stand-alone long distance, or "SALD") offered to residential and small business customers were under severe competitive attack and revenues associated with those services had been declining rapidly for some time.
4. This was due to several factors. New, powerful competitors had entered the market. For example, wireless carriers offering "all-you-can-eat" plans were stealing away more and more minutes from traditional IXCs every year. The RBOCs had won authority to offer interLATA services throughout the country, and they were competing aggressively and winning market share very quickly. E-mail and instant messaging were also reducing traditional carriers' minutes of use.
5. In the context of these developments, pricing competition had become extremely fierce. AT&T's revenue per customer was declining rapidly, and its margins were decreasing steadily. AT&T was losing millions of SALD customers every quarter.
6. It quickly became obvious that AT&T could remain an active competitor in the residential and small business markets only if it could find a viable and profitable means of augmenting its long-distance offerings with economically viable local service offerings that would allow AT&T to match other wireline and wireless providers' attractive "all distance" offerings. AT&T had already made substantial investments in various local entry strategies

that had not been successful. The only local entry option that AT&T was still actively pursuing was UNE-P.

7. In March of 2004, however, the D.C. Circuit vacated the Commission's unbundling rules. *USTA v. FCC*, 359 F.3d 554 (D.C. Cir. 2004). Shortly thereafter, the Government decided not to seek review of that decision in the Supreme Court, and AT&T recognized that the availability of UNE-P at TELRIC pricing would likely be effectively eliminated. AT&T had always understood that UNE-P would not be available forever, but now it was clear that UNE-P at TELRIC pricing would be phased out far more quickly than AT&T had previously projected.
8. Thus, the economics of AT&T's mass market offerings were expected to change radically for the worse in the very short term. Indeed, AT&T's costs were set to increase substantially even as new competitors (*e.g.*, cable) were entering and as its competitors' costs were declining. Moreover, the decision simply underscored the uncertainty inherent in *any* UNE-based approach to entering the local market.
9. In the wake of these developments, AT&T made a difficult, but inevitable decision: it had to cease actively competing for residential and small business markets, but it sought to manage its change in strategy in the most customer-friendly way possible. AT&T thus decided to stop its marketing efforts, to stop attempting to compete with other mass market entrants on price, and selectively raise prices. The inevitable effect of these actions is that AT&T's mass market customer base will dwindle away over time through churn. AT&T redirected its focus and resources almost entirely to its enterprise, government and wholesale customers.

10. During the eight months since this decision was made, the mass market environment has become even less attractive to AT&T. The FCC issued an order, on remand from the D.C. Circuit, that eliminates access to UNE-P for new customers and requires all carriers to transition their existing customers off of UNE-P within one year. Cable providers that have the ability to provide the full suite of local and long distance services as well as broadband Internet and video services have greatly expanded their VoIP telephony efforts. Other new VoIP providers continue to enter, and minutes continue to shift from traditional wireline providers to wireless and other providers.
11. AT&T has chosen not to take steps, however, that would cause immediate termination of service to its legacy customers, many of whom have been with AT&T for years. AT&T has accordingly been careful to maintain enough mass market infrastructure to continue to provide quality service to existing customers as they decide, on their own terms, how, when, and whether to move to another provider. In anticipation of the phase-out of UNE-P, therefore, AT&T has made efforts to negotiate commercial agreements with incumbent LECs that will allow it to continue to serve those customers who have not yet chosen another provider when the UNE-P transition ends. For example, AT&T has recently negotiated such an agreement with Qwest, which will allow a gentle glidepath for rate increases rather than abrupt rate shock upon the expiration of UNE-P. It remains the case, however, that AT&T is not actively seeking new residential or small business customers.
12. AT&T's strategic decision regarding the mass market includes its DSL and ISP offerings. AT&T has a minimal presence in the broadband Internet access market. It offers DSL almost exclusively in conjunction with its UNE-P-based local offer, with Covad through line splitting or line sharing arrangements. AT&T is no longer actively seeking new DSL

customers. Similarly, AT&T has also ceased all marketing efforts and has selectively increased prices for its WorldNet ISP service. AT&T has about 1.2 million customers for its WorldNet and DSL services. And AT&T has also ceased efforts to win new wireless customers. AT&T provides wireless services today only to several thousand customers in a reselling arrangement with AT&T Wireless that has been terminated. Moreover, AT&T has also cancelled plans announced last year to sell AT&T-branded wireless service to its mass market customers pursuant to an arrangement with Sprint.

13. The only mass market retail service that AT&T is today marketing to new customers is its AT&T CallVantage Service, a VoIP service that AT&T launched only shortly before its decision to cease actively competing for mass market customers. In the wake of the strategic refocus on business services, however, AT&T has substantially reduced investment in the marketing of this VoIP service. AT&T's VoIP service is now marketed predominantly through retail outlets such as Best Buy. AT&T has won a modest amount of customers for this service nationwide, with only a fraction of those in SBC's region.

## **II. AT&T Has Taken Extensive Steps To Implement Its Mass Market Strategy.**

14. In the eight months since it made its strategic decision, AT&T has taken extensive steps to implement its new strategy. AT&T has taken numerous actions to scale back its mass market operations to only those functions necessary to provide high quality service and customer care functions for its declining customer base.
15. Specifically, after announcing its strategy change, AT&T immediately eliminated or drastically reduced its marketing and advertising activities. AT&T also undertook extensive headcount reductions, principally in the areas of marketing and customer care,

and AT&T will continue to scale back customer care functions and institute additional headcount reductions through 2005 as its customer base continues to decline. AT&T has also retired much of the physical infrastructure used to support these activities, including dialers, databases, computers and servers, 800 numbers, switches and high capacity lines, and much else.

16. In short, AT&T has already taken many actions to dismantle its mass market operations relating to its unilateral decision to cease actively competing for mass market customers.

**A. Cessation of Active Marketing.**

17. Immediately after the decision to stop competing for mass market local and long distance customers, AT&T ceased virtually all marketing and advertising activities in the consumer market. AT&T is simply no longer actively attempting to win new customers.
18. For example, AT&T immediately ceased almost all outbound telemarketing efforts. In the latter half of 2004, AT&T terminated most of its outside telemarketing vendors, and it also closed down its telemarketing centers. AT&T also immediately stopped almost all direct mail advertising, and now sends only those mailings that are legally required (such as notices concerning changes in rates or other required notifications).

**B. Headcount Reductions.**

19. After the decision to cease active marketing, AT&T also undertook a very substantial headcount reduction in its consumer operations.
20. ACS took substantial reductions in headcount in 2004, and further headcount reductions are expected in 2005.



21. Consistent with the strategy, which is to scale operations back to only those functions necessary to provide quality service for its dwindling mass market customer base, the reductions were focused on marketing, sales, and customer care functions. For example, AT&T has drastically reduced its headcount (including outsourcing to vendors) in sales and customer care functions. Similarly, the telemarketing division (including outsourcing), which handled both inbound and outbound telemarketing, was cut even more drastically, and the remaining employees perform more traditional customer care functions rather than telemarketing.
22. As a result of these large headcount reductions, AT&T does not have the capacity today to re-enter the consumer mass market on a basis consistent with historic practice.

**C. Retirement of Infrastructure**

23. AT&T has also retired much of the infrastructure that supported its marketing and customer care activities for mass market services.
24. For example, AT&T eliminated outbound telemarketing (OTM) mass market sales and ordering capabilities. Both the AT&T internal and external vendor OTM system capabilities were shutdown as of November 2004 – *e.g.*, sales script support and ordering platforms, customer call list management applications, Integrated Voice Response (IVR) applications, outbound dialing applications, and outbound sales tracking and reporting applications. Additionally, all hardware (servers, PCs, dialers, IVR, etc.), network resources (800 numbers, T1s, switches, etc.), and licenses associated with these applications were eliminated. Today, ACS has no technical infrastructure to support a significant outbound telemarketing sales campaign.

25. AT&T is also in the process of retiring the consumer marketing applications and technical infrastructure that allowed ACS to produce automated marketing campaigns. The acquisition infrastructure, data, and reporting applications associated with consumer marketing campaigns are being removed – *e.g.*, customer prospect data, market and customer modeling data, tracking capabilities, and processes and campaign management reporting. Once this effort is completed ACS will no longer have the capability to launch a large scale automated acquisition campaign.
26. AT&T has also extensively dismantled the infrastructure supporting its mass market operations, including outbound telemarketing sales and ordering capabilities (*e.g.*, support and ordering platforms, Integrated Voice Response systems, outbound dialers, servers, PCs, 800 numbers, etc.), databases associated with customer marketing campaigns, 70% of the Integrated Voice Response infrastructure and other computers and servers used for customer service calls, and the infrastructure to support online billing.
27. While maintaining the capability to provide high quality service to existing customers, AT&T is also shedding infrastructure in the area of customer service, to coincide with the reduction of customers, call volume, and operational centers.
28. For example, AT&T's Consumer Integrated Voice Response (IVR) infrastructure was built to handle 200 million calls annually. This consisted of 56 IVRs and supported natural language voice recognition capabilities. As of today, AT&T has reduced this infrastructure to 30 IVRs, and they now support only 80 million calls annually, without natural language capabilities.

29. AT&T has also reduced service desktop capacity, by eliminating PCs, servers, network resources, 800 numbers, and the like. In January 2004, AT&T's desktop infrastructure had the ability to support 17,000 customer service representatives. By the end of 2005 the remaining infrastructure will be able to support only a small fraction of this amount. Capacity and disaster recovery capabilities have been correspondingly reduced by 50 percent.
30. In short, given the extensive retirement of infrastructure, AT&T could not market and acquire new mass market customers unless it made a substantial investment to build a new information technology infrastructure.

### **III. AT&T Has Raised Prices For Its Residential And Small Business Services.**

31. When ACS was seeking to build its all-distance customer base, it offered prices that generally were consistent with those available from the incumbent carriers. Following its announcement to cease actively competing for mass market customers and in the face of expected increases in the costs to provide service, AT&T is not competing on price with other active mass market providers. Although other mass market entrants, most notably the VoIP providers, continue to compete vigorously on price and continue to introduce new service packages at low rates, AT&T has raised its rates for many of its consumer and small business services to recover its increasing costs.
32. *Local Service.* In September, October, and November of 2004, AT&T raised many of its retail rates for local service in almost every state in the country. AT&T offers various local service packages (*e.g.*, "Call Plan Unlimited Plus," "Call Plan Unlimited," and "Call Plan

Deluxe”) that have different sets of features and range roughly from \$12 to \$30 per month. AT&T has raised the rates for almost all of these services in every state from \$1 to \$3.

33. AT&T has also raised rates for its all-distance bundles in some states. In December 2004, AT&T raised the retail rates for its “One Rate USA” and “One Rate Advantage” all-distance bundles in Massachusetts, Pennsylvania, Rhode Island, North Carolina, South Carolina, Tennessee, Iowa, New Mexico, Kansas, and Oklahoma by anywhere from \$2 to \$5.
34. *Toll Services.* AT&T also has a range of interstate toll service plans. Many of these plans have a monthly recurring charge, and AT&T has increased the charge on many of these plans (typically by either \$1 or \$2). AT&T also increased a number of basic rates for international service.

#### **IV. AT&T’s Customer Base Is Eroding Quickly And Will Continue To Do So.**

35. AT&T’s actions in the marketplace are having a predictable effect. Customers are canceling their service with AT&T and purchasing the services of AT&T’s competitors. In the absence of active marketing to replace customers who leave, AT&T’s customer base is eroding away quickly.
36. *Local and All-Distance Services.* As of June 2004, when AT&T decided to exit the mass market, AT&T had gained about 4.7 million local residential customers. As of December 2004, AT&T had approximately 4.2 million local residential customers – a loss of half a million customers in just six months.

37. *Stand Alone Long Distance.* AT&T's stand-alone long-distance customer base has been declining for years. As recently as the first quarter of 2003, AT&T had 38.4 million SALD customers. By the end of 2003, that number had fallen to 30.3 million, and by the end of 2004 it had declined again to about 20 million – a loss of almost half of its customer base in just two years.
38. *Revenues.* The effect of these customer losses can be seen clearly in AT&T's revenues. For example, AT&T's revenue from stand-alone long-distance voice and other services in the first quarter of 2003 was \$2.1 billion. For the fourth quarter of 2004, such revenue had shrunk to only \$1.1 billion.
39. ACS's total revenue was \$9.4 billion in 2003, and \$7.9 billion in 2004.
40. The FCC's recent decision in the *Triennial Review* Remand Order, which will shortly raise the costs of UNE-P and requires all carriers to transition off of UNE-P within one year, may accelerate these trends.

I declare that the foregoing is true and correct.

Signature: /s/ John Polumbo  
John Polumbo  
President and CEO  
AT&T Consumer Services

Date: February 21, 2005