

## DECLARATION OF WALID BAZZI

### Deloitte Consulting LLP

**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 78205. 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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**DECLARATION OF WALID BAZZI**

**Deloitte Consulting LLP**

I, Walid Bazzi, hereby declare the following:

**I. QUALIFICATIONS**

1. I, Walid Bazzi, am a Senior Manager with Deloitte Consulting LLP. I have been employed as a management consultant by Deloitte Consulting for six years. I hold a Master of Science in Administration degree and a Bachelor of Commerce degree from Concordia University. Prior to my employment with Deloitte Consulting, I was a procurement analyst and negotiator for a Canadian telecommunications firm.

2. In my employment with Deloitte Consulting, I have had significant experience in and am currently the leader of Deloitte Consulting's Network Services and Sourcing (NS&S) practice, which provides assistance to enterprise customers in the procurement of telecommunications services. This declaration describes my direct experience in this field as well as the broader experience of the NS&S practice, including consulting engagements in which I did not directly participate. Deloitte Consulting has provided consulting and other professional services to SBC as well as to other providers in the telecommunications industry.

## II. INTRODUCTION AND OVERVIEW

3. The NS&S practice comprises consultants who are specially trained and experienced in the procurement of telecommunications services for enterprise customers. The practice draws its experience from Deloitte Consulting's Architecture and Network Services (ANS) practice and the Sourcing and Procurement (S&P) practice to offer our clients a broad range of sourcing solutions. Each of the ANS and S&P practices has approximately 150 practitioners in the United States. Our clients retain the services of NS&S to assist them in tasks such as identifying their telecommunications services needs, assessing the ability of service providers to meet those needs, managing the process of obtaining competitive bids from telecommunications service providers, and helping them negotiate agreements for the purchase of telecommunications services. As such, NS&S practitioners like me gain extensive experience in the marketplace for enterprise telecommunications services and in-depth knowledge of the relative strengths of the telecommunications providers that serve this marketplace. Since its formation, NS&S has completed more than 50 engagements in which we have assisted enterprise customers in the procurement of telecommunications services.

4. In this declaration, to supplement the conclusions from my direct experience and the experience of the NS&S practice, I will reference statistics from a sample of client engagements in which our practice has helped clients to procure telecommunications services. With the assistance of my colleagues, I have compiled data on 21 such engagements undertaken over the past eight years for the purpose of citing these statistics in this declaration. These 21 engagements are not the full scope of all NS&S telecommunications procurement projects during this period, but rather are those

engagements for which data were most readily available (as described in paragraph 19). No engagements for which data were gathered were excluded because of the content of that data. It is my professional assessment that the engagement sample presented here is indicative of the range of NS&S engagements and that the conclusions that can be drawn from this sample are consistent with my professional experience and the experience of other professionals within the NS&S practice.

5. These conclusions, which are described in more detail later in this declaration, may be summarized as follows:

- Enterprise customers have a wide range of choices in the services and providers they use to meet their telecommunications needs.
- Enterprise customers expend considerable effort in securing from their telecommunications suppliers the best price and service levels available in the marketplace, devoting significant resources to and employing specialized consultants in the process of negotiating telecommunications service contracts.
- Enterprise customers are able to exert substantial leverage over their telecommunications suppliers; for example, clients in a sample of NS&S engagements have renegotiated their telecommunications service contracts to achieve average reductions in their telecommunications costs of 27% compared to their expenditure prior to the NS&S engagement, which also reflects the overall downward pricing trend in the marketplace for business telecommunications services.
- In addition to cost reductions, the majority of enterprise customers have been able to obtain better terms in their contract negotiations, such as clauses that guarantee that the customer continues to receive competitive prices over the life of the contract.

Enterprise customers' success in obtaining such improved contract terms has increased over the past eight years.

- Both interexchange carriers (IXCs) and incumbent local exchange carriers (ILECs), the traditional suppliers of telecommunications services, are under threat in the marketplace for enterprise telecommunications services from the entry of new competitors such as equipment vendors, information technology services companies and emerging competitive carriers. In our sample study, 45% of telecommunications services procurement engagements featured bids from one or more of these nontraditional competitors.

6. In the sections that follow, I will further elaborate on the above points. In Section III, I will describe the characteristics of enterprise telecommunications demand, in particular, the procurement business practices employed by enterprise customers in working with their telecommunications services suppliers. In Section IV, I will discuss the suppliers of telecommunications services in greater detail, covering the perceptions in the marketplace of the strengths of different types of telecommunications services suppliers. In Section V, I will discuss the trends of increasing pressure from nontraditional competitors, which are increasing the competition among providers of enterprise telecommunications services.

### III. ENTERPRISE CUSTOMERS ARE SOPHISTICATED PURCHASERS OF TELECOMMUNICATIONS SERVICES AND EXERT SUBSTANTIAL POWER OVER THEIR TELECOMMUNICATIONS SUPPLIERS

7. In the course of this declaration, I comment on the marketplace for enterprise telecommunications services. In general, my personal experience is with enterprises that spend millions of dollars per year on telecommunications services, including services for voice and data transmission as well as value-added services associated with transmission services. Although I have less direct experience with smaller customers, based on surveys and other industry data it is my professional opinion that the comments set forth in this declaration also apply to many smaller businesses.

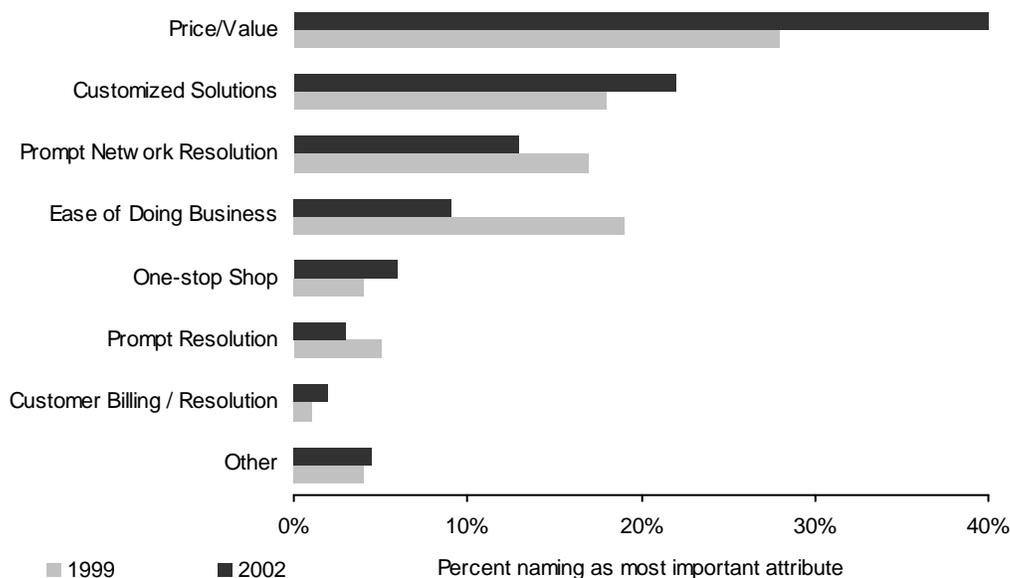
8. Enterprise customers have significant and often complex demands for telecommunications services. These companies typically enter into long-term contracts with telecommunications suppliers, i.e. from one to five years in duration that include both price and service guarantees. It is common to combine the procurement of multiple types of telecommunications services within a single contract agreement, for example long-distance voice and data services together with network installation and maintenance services. These companies depend on telecommunications services to conduct their business, for example using telecommunications services as a channel for maintaining contact with their customers (e.g., inbound toll-free call centers) or for the network supporting enterprise-wide management applications (e.g., linking a network of retail stores to exchange inventory and sales information).

9. Given that expenditures on telecommunications services are often a significant portion of enterprise customers' operating expenses and an essential input to their business processes, enterprise customers typically expend considerable effort in securing from their telecommunications suppliers the best possible price and service levels. Enterprises also expect their suppliers to expend a significant level of effort in working to

meet their requirements. Indeed, to win large enterprise customer contracts that come up for renewal only every few years, telecommunications suppliers typically work extensively with current and prospective enterprise customers to customize their services and bid aggressively with respect to price and non-price contract terms.

10. Chart 1 on the next page presents a summary of the desired provider attributes from Deloitte Consulting's 1999 and 2002 surveys and interviews with approximately 150 purchasers of enterprise telecommunications services. While all of these attributes are cited as important to these customers, when asked to select only one attribute as "most important," these enterprise customers indicated that the commitment of telecommunications service providers to supply customized solutions ranks second only to price in the buying decision.

**Chart 1: Attributes Most Important to Enterprise Telecommunications Purchasers in the Buying Decision \***



\* Source: Deloitte Consulting 2002 Telecommunications Customer Expectations Survey

11. The process that enterprise customers and telecommunications suppliers use to agree on procurement contracts is typically consistent with the set of business practices referred to as “strategic sourcing” within the business world. Strategic sourcing refers to a management approach that has become popular in recent years as a means for companies to exert greater control over their suppliers to reduce costs and increase the quality of purchased inputs.

12. Strategic sourcing generally takes the form of the following business practices:

- The identification of a company’s total expenditure in a category of purchased goods to consolidate its spending with fewer suppliers to obtain greater discounts.
- The use of primary and secondary suppliers to provide supplier redundancy and to create ongoing competition between suppliers.

- Securing the long-term commitment of suppliers to develop customized products and services.
- Detailed and thorough negotiation between customers and suppliers of contracts, including the use of contract terms that ensure the customer continues to obtain competitive pricing and service levels throughout the contract term and has the flexibility to change suppliers or contract terms as needed.

13. The consulting services that NS&S and other consultants provide have the objective of assisting enterprise customers in the application of these and other strategic sourcing principles to their procurement of telecommunications services. In addition to NS&S, at least 20 other consulting firms provide telecommunications sourcing services, including both general management consultancies and “boutique” firms that specialize in telecommunications procurement. Such firms may be engaged by enterprise customers in a variety of instances; for example, when one or more of their telecommunications services contracts is nearing expiration, when the client has experienced issues with its telecommunications providers’ service levels or account team, or when the client company has undergone a merger or divestiture and the company’s overall telecommunications demand has significantly changed. These client companies typically have experience in such telecommunication service supplier negotiations, but retain consultants for the identification of incremental savings, the consultant’s recent experience with telecommunications service providers and the technology experience that the consulting team provides. Thus, consulting services such as those provided by NS&S are best understood as adding to enterprise customers’ already-substantial buyer power in the procurement of telecommunications services.

14. The course of each engagement undertaken by the NS&S practice is unique, but the general sequence of activities performed follows a pattern:

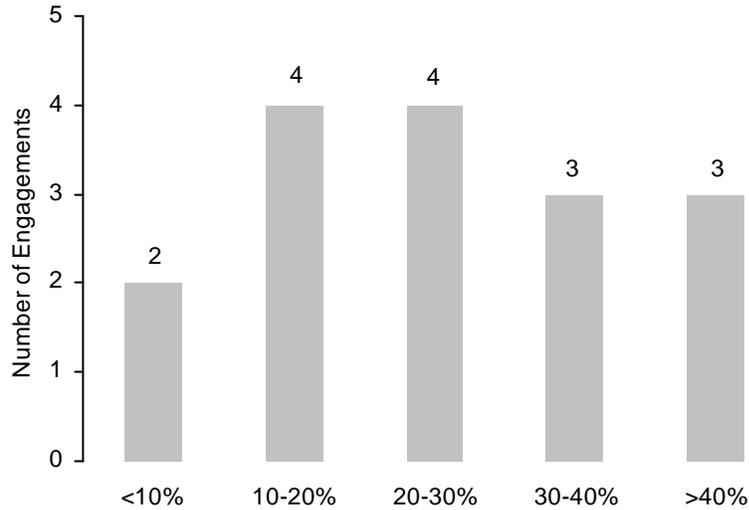
- The client and the NS&S team identify the client company's total current usage and future requirements for telecommunications and related services within the scope of services that the client wishes to consider. This step may include recommendations from the NS&S engagement team on how the client company could change its network requirements and/or configuration to lower costs and improve performance.
- Based on the inventory of current and future requirements, the client and the NS&S team prepare a detailed request for proposal (RFP) document that precisely outlines factors such as the types of telecommunications services that the client company wishes to procure, the geographic requirements of the company's network, current and project volumes of usage and required service levels. This RFP document is sent to a selection of vendors that the client and the NS&S team perceive as capable of delivering the services required at a competitive price.
- The client and the NS&S team analyze the RFP responses to understand the vendors' pricing structure, determine the total cost represented by the proposal and potentially to identify opportunities to modify the RFP to further lower costs or improve services. RFP respondents are required to submit their proposals in a standardized, detailed format so that the client and the NS&S team can clearly understand and compare the services and pricing in each proposal. In my experience, the sales teams for the top-tier IXC's (i.e. AT&T, MCI and Sprint) are experienced in following this process and all will meet the RFP's requirements for detailed responses

that provide full disclosure of the pricing information necessary to fully analyze their proposals.

- Based on the analysis of the vendor proposals received, the process generally entails a request for the vendors' "best and final offer," in which vendors are asked to clarify and modify elements of their original proposals. This request may ask that vendors meet the best of the individual elements of all the proposals so that the client can obtain the lowest pricing available in the marketplace for all of its services.
- The client and the NS&S team analyze the best and final offers to select the vendor or vendors that represent the best combination of pricing and service for the client company. In addition to price, many other factors may influence the final vendor selection decision, including the technologies employed by the vendor in its network, the breadth and reliability of the vendor's network and services, the characteristics of the vendor's account sales and support team, service level agreements (SLAs) offered by the vendor, the perceived risk presented by reliance on each vendor and capabilities of the vendors to provide features such as customized electronic billing information that enables the client to more easily review invoices.
- The NS&S team then advises and supports the client in negotiations with the final selection of vendors. The consulting team provides guidance to the client in areas such as whether to pursue an agreement with one provider or multiple providers and which contract terms to request. This guidance is based on our practice's experience with suppliers in this process and our assessment of the best possible combination of pricing, service levels and flexibility each client can obtain.

15. When completing a procurement process such as that outlined above – whether with NS&S, with other consultants or on their own – enterprise customers have found that they can readily lower their telecommunications services costs. In a sample of procurement engagements conducted by NS&S, our clients were able to achieve an average annual reduction of 27% (relative to their annual expenditure prior to the engagement) in the cost of telecommunications services within the scope of the procurement process, with savings ranging from 2% to 63%. The distribution of savings percentages for the 16 engagements for which full spend data is available is shown in Chart 2 below.

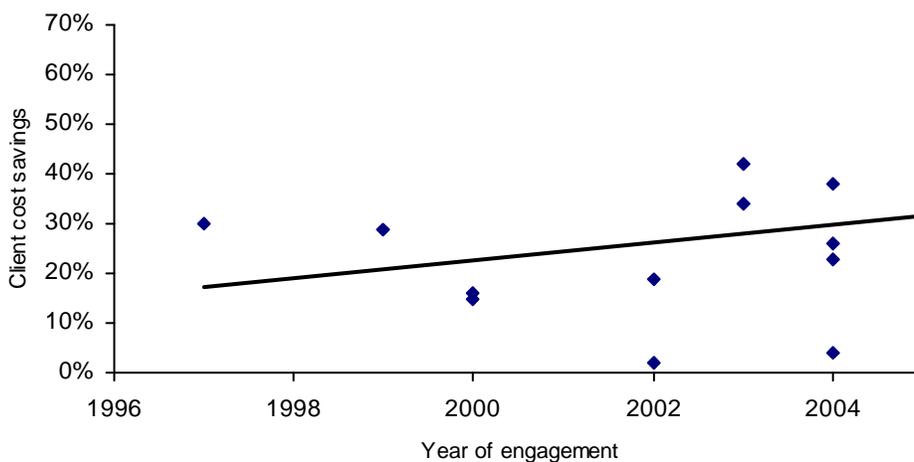
**Chart 2: Number of Contracts Achieving Ranges of Cost Savings in NS&S Sample Procurement Engagements \***



\* Includes the 16 engagements for which full before-and-after spend information is available

16. Chart 3 below presents the cost savings data from the same engagements, this time organized by year. We have observed a trend towards increasing levels of cost savings over the period. This trend is not on its own statistically significant (i.e. within the available data alone), but is consistent with the increase in the number of procurement bidders and the entry of new competitors as described in Section V, as well as my professional experience that competition among traditional and nontraditional telecommunications vendors has increased over the past six years.

**Chart 3: Cost Savings Percentage in NS&S Sample Procurement Engagements by Year**



17. It is worth noting that in many cases our client was able to lower its costs and improve service levels without changing telecommunications vendors: the suppliers in this marketplace recognize the intense level of competition and have a strong business imperative to maintain revenue from their existing customers. The very process of competitive bidding and contract renegotiation is often sufficient to create the perception

with a vendor of a credible threat of losing an existing customer, compelling the supplier to offer lower prices and improved service to retain the customer.

18. In addition to cost savings, another consistent outcome of the procurement engagements in our sample has been an improvement in the terms of clients’ contracts with telecommunications service providers compared to their previous contracts, with the prevalence of contract terms that favor enterprise customers’ requirements increasing over time. Table 1 lists the number of procurement engagements (out of the full sample of 21) in which the procurement process and contract renegotiation resulted in an improvement in contract terms of various types.

**Table 1: Number of Contracts Achieving Better Terms in NS&S Sample Procurement Engagements \***

Category of contract terms	Number of engagements resulting in improved terms (out of 21)
Termination fee flexibility	18
Benchmarking clauses	16
Installation charge waivers	15
Business downturn/divestiture	14
Rate stability	13
Technology migration	11
Shortfall penalty <50%	5
Term commitment only	3

\* Appendix 2 provides a description of the contract terms listed above

**IV. IN PROVIDING TELECOMMUNICATIONS SERVICES TO ENTERPRISE CUSTOMERS, SBC AND AT&T ARE NOT VIEWED AS DIRECT COMPETITORS**

19. The 20 engagements discussed in this section are those for which the provider data were available and for which client disclosure requirements permitted their

discussion in this declaration. To gather the data for engagements in which I did not directly participate, my colleagues and I completed individual interviews with the procurement professionals involved in each of the engagements. These interviews were supported by these professionals' reference to their work-product files from the engagements. As a result of staff turnover, for some engagements that NS&S has conducted in recent years we were unable to find a professional with sufficient information available, and thus did not include these engagements in our sample. These professionals referred to their engagement files as necessary to support the data gathering process. In instances where the necessary support documentation could not be located, we excluded these engagements from our sample. No engagements for which data were gathered were excluded because of the content of that data.

20. In my professional opinion, this sample of 20 engagements is indicative of the experience of North American enterprise customers when procuring telecommunications services using strategic sourcing techniques as described above, both with the assistance of consultants such as NS&S and on their own using internal staff and expertise for the procurement. Appendix I to this declaration sets forth additional descriptions of the sample engagements discussed here.

21. In the 20 engagements in this sample, AT&T, MCI and Sprint participated in 15 or 16 cases each. SBC appeared in only four engagements; Verizon and Qwest each appeared in more than SBC but fewer than AT&T, MCI, and Sprint. The field has also included nontraditional providers, i.e. competitive carriers such as Broadwing and Level 3, equipment providers such as Nortel, Avaya and Cisco, and information technology

companies such as IBM and EDS. The emergence of these nontraditional competitors will be discussed further in Section V.

22. Additional observations from our analysis of these sample engagements are as follows:

- The 20 contract awards in our sample<sup>1</sup> include several instances in which more than one supplier was selected for contract award, i.e. the client company chose to divide its in-scope telecommunications services procurement among two or more vendors as “primary” and “secondary” providers to gain the best of the services and pricing that each proposed, as well as to obtain network redundancy and to promote a competitive environment for the customer’s business by maintaining multiple procurement relationships.
- In three instances, the RFP process included only one invited supplier, i.e. the client company was able to create the perception of a credible risk of losing the business and thus encourage a single supplier to bid “competitively” without even inviting other suppliers to the RFP process.

23. The analysis of the sample data also provides an indication of SBC’s participation in these procurement processes and the prevalence of competition between SBC and AT&T:

- In each of the four instances (out of the 20 total) that SBC was invited to respond to an RFP, SBC was in competition with four or more other providers.

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<sup>1</sup> Some engagements in the sample did not have a “winner” either because the NS&S engagement did not assist the client with final contract award(s) or the final contract award has not been made as of the date of this declaration and thus data on “wins” are not available.

- Among the four instances in which it was involved in the first round, SBC was invited to the second round in two instances, and in only one of these engagements (in 2000) was AT&T also invited to the second round.
- In the one engagement in which SBC participated and for which the NS&S team was present until the final vendor selection, SBC was not awarded a contract.

24. The conclusions from this analysis of these sample engagements are consistent with my professional opinion developed in six years' experience in this field, namely that telecommunications services for enterprise customers has become an increasingly competitive marketplace, and that the marketplace views SBC and AT&T as complementary providers in which the services each is effective at providing do not overlap (i.e. SBC for local service and AT&T for nationwide voice and data networking services), rather than being perceived as direct competitors for enterprise telecommunications services.

#### V. THERE IS SIGNIFICANT AND INCREASING COMPETITION IN THE PROVISION OF TELECOMMUNICATIONS SERVICES TO ENTERPRISE CUSTOMERS

25. As described in Section IV, competition among traditional telecommunications providers is extensive in the enterprise telecommunications marketplace. In addition, at least three trends in enterprise telecommunications services suggest that competition will continue to increase, extending the pattern of increasing price pressure on providers as demonstrated by Chart 3. Table 2 below helps to illustrate these trends; the data in this

table are derived from the sample of 20 NS&S engagements for which provider data are available (i.e. the same sample as that discussed in Section IV).

**Table 2: Participation of Nontraditional Providers in NS&S Sample Procurement Engagements**

Provider	Before 2000	2000-2002	2003-2005	Total
Broadwing	-	-	3	3
IBM	-	1	2	3
Nortel	-	-	3	3
Avaya	-	-	2	2
Level 3	-	-	2	2
Cisco	-	-	1	1
EDS	-	1	-	1
Global Crossing	-	-	1	1
Unisys	-	1	-	1
Total	0	3	14	17

26. First, changes in technology have opened the door to new competitors for enterprise telecommunications services. Because of the implementation of solutions such as Voice over Internet Protocol (VoIP) and IP Virtual Private Networks (VPNs), providers that have traditionally been considered as equipment vendors are emerging as threats to the traditional telecommunications carriers. As shown in Table 3, within the past two years equipment providers have emerged as competitors for enterprise telecommunications services, with three equipment providers – Nortel, Avaya and Cisco – being invited to bid on these contracts. With IP-based voice and data services, many of the value-added capabilities formerly provided only by traditional telecommunications carriers can now be supplied by the combination of advanced equipment purchased or leased by the customer and low-cost IP telecommunications links purchased from the carriers. In other words, enterprises are beginning to test the approach of relying on

traditional telecommunications carriers for basic IP connections and turning to equipment providers to supply them with premise equipment and installation and maintenance services necessary to obtain their voice and data services more cheaply.

27. The influence of such competitors in the marketplace for enterprise telecommunications services is expected to grow in the coming years: the IP-based services that provide these companies their entry into the field are also the services that are projected to grow most rapidly. For example, InStat/MDR forecasts that the category of emerging services (including services such as IP VPN, VoIP and managed services) will grow at a greater than 30% annual rate over the next several years, at the same time that spending on all categories of traditional voice and data products is declining (i.e., with rates of decline ranging from -2% to -8%). As a result, these emerging services are forecast to comprise almost half of all enterprise telecommunications services spending by 2008, compared to only about 20% of spending today.<sup>2</sup>

28. The second trend demonstrated in Table 2 is the emergence in recent years of information services vendors – also referred to as outsourcers and systems integrators – in enterprise telecommunications services. IBM, EDS and Unisys have been invited to submit proposals in a growing number of telecommunications services procurement engagements. In addition to customers' desire to achieve economies of scope in their purchase of computing and communications services, this trend reflects a growing marketplace emphasis on managed services and outsourcing, i.e. that some customers focus their attention primarily on acquiring professional services necessary to install and operate their information systems, and then rely on these service providers to play a

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<sup>2</sup> InStat/MDR, *Share of Wallet: Telecom Trends and Expenditures in the US Business Market, Part One: US Enterprises (1,000+ Employees)*, August 2004

greater role in specifying and managing the information system's purchased components (e.g. computer hardware and telecommunications services).

29. In these instances, the information services vendor represents itself as a one-stop solutions provider, managing both the computing and communications resources of the client's information system. The information services vendor will manage subcontractor relationships with telecommunications carriers as necessary to procure the communications links to complete the client's network, reducing the carrier to the status of a commodity connectivity provider. As this trend continues to grow, these information systems vendors will represent both a competitor and an even more powerful customer from the carriers' perspective. That is, traditional telecommunications carriers must compete with the information services vendor to try to win clients' business directly, and then, as the information services vendors win a greater share of clients' direct business, they will leverage their higher volumes to extract lower prices and better service from telecommunications carrier subcontractors.<sup>3</sup>

30. The third trend shown in Table 2 is that the competitive carriers such as Broadwing, Level 3 and Global Crossing have maintained a presence in the marketplace for enterprise telecommunications services despite concerns about the state of that sector of the industry. For certain client location footprints and technology requirements, these competitive carriers can continue to represent a viable competitive alternative and will continue to be included in enterprise telecommunications services procurement. In fact, in projects currently underway the NS&S practice is seeing the emergence of providers

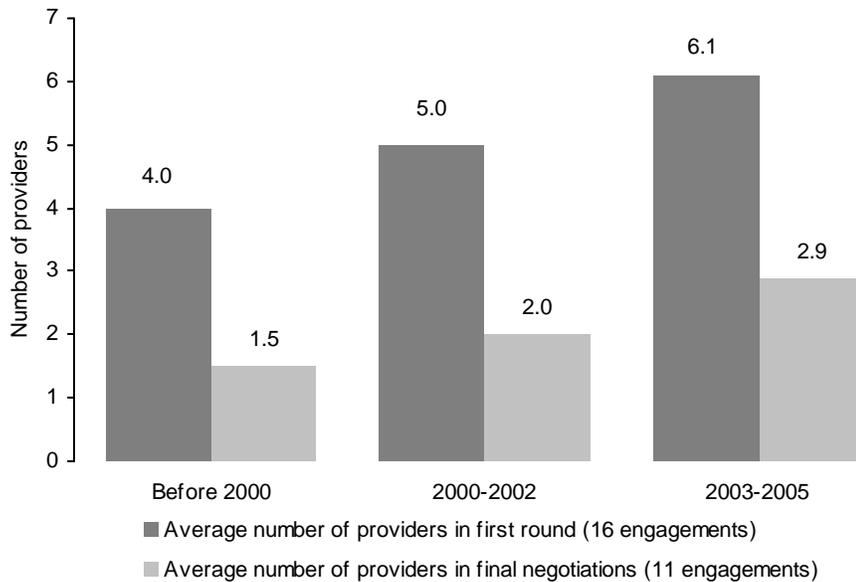
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<sup>3</sup> Some telecommunications carriers have attempted to offer combined IT and communications solutions in which the carrier serves as the lead vendor and subcontracts for IT services, but these efforts have been largely unsuccessful compared to the model of the IT services firm as the lead vendor which subcontracts with carriers for connectivity.

traditionally classified as cable multiple system operators (MSOs) as contenders for some enterprise telecommunications services.

31. Chart 4 illustrates the phenomenon of increasing competition that we have observed in our experience. This chart depicts the average number of participants in the first and second round RFPs in the 20 NS&S sample engagements during three different time periods. The number of competitors considered in the first round of the RFP has increased steadily in the sample period, and despite the need to limit the number of providers in the final negotiations to a practical number of participants given the in-depth nature of these negotiations, the higher number of first round participants has resulted in a growing number of participants in the final negotiations as well.

**Chart 4: Number of First and Second Round Providers in NS&S Sample Engagements**



32. These three groups of nontraditional competitors – equipment vendors, information services providers and emerging carriers – will continue to exert pressure on the traditional telecommunications services providers in the enterprise telecommunications marketplace. Equipment vendors and information services providers represent a particularly strong threat to the traditional providers by way of their disintermediating role: that is, these non-carriers can capture the relationship with the customer and provide what the customer perceives as the added value, such that the carriers can be reduced to the status of commodity network providers. As the marketplace develops in this direction, ownership of the network facilities that carry the traffic will become a less important competitive differentiator for the traditional carriers.

## VI. CONCLUSION

33. Based on my professional experience, the marketplace for enterprise telecommunications services is one of vibrant and getting more competitive. Given the increasing cost savings and improved contract terms that consultants such as NS&S have been able obtain for our clients from the traditional telecommunications providers, plus the continuing competitive pressure from nontraditional providers, it is my professional belief that our practice will continue to be able to help enterprise customers obtain lower prices, better services and greater flexibility throughout and following a period of consolidation among traditional telecommunications services providers.

I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge.

Signature: \_\_\_\_\_ /s/ \_\_\_\_\_

Walid Bazzi

Date: May 6, 2005

## APPENDIX I: DESCRIPTION OF THE SAMPLE OF NS&S

### TELECOMMUNICATIONS SERVICES PROCUREMENT ENGAGEMENTS

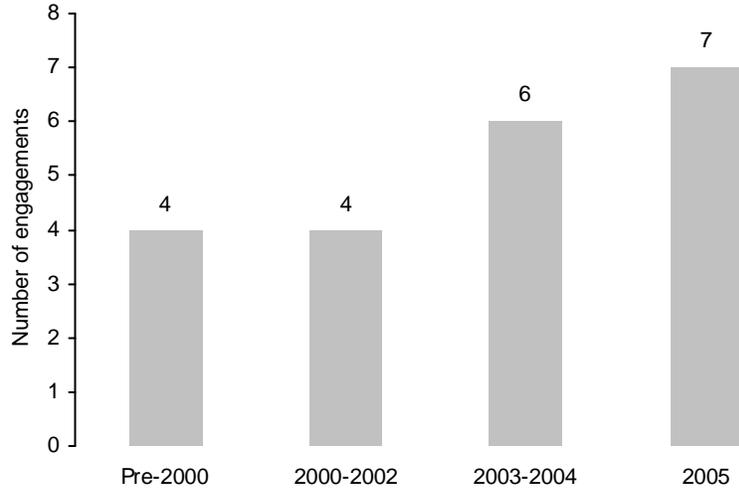
The sample of NS&S engagements referenced in the course of this declaration covers 21 procurement engagements for which most data are known and for which client confidentiality agreements permit the discussion of the facts of the engagement without named attribution of the client company. As this indicative sample is discussed in the course of this declaration, subsets of the 21 engagements are employed as necessary based on the availability of the data; i.e., the percent savings statistics referenced in Section III are based on a subset of 16 engagements for which full before-and-after spending was available, while the provider-level analysis in Sections IV and V was based on the subset of 20 engagements for which full provider detail was available.

The summary characteristics of the full set of 21 engagements are as follows:

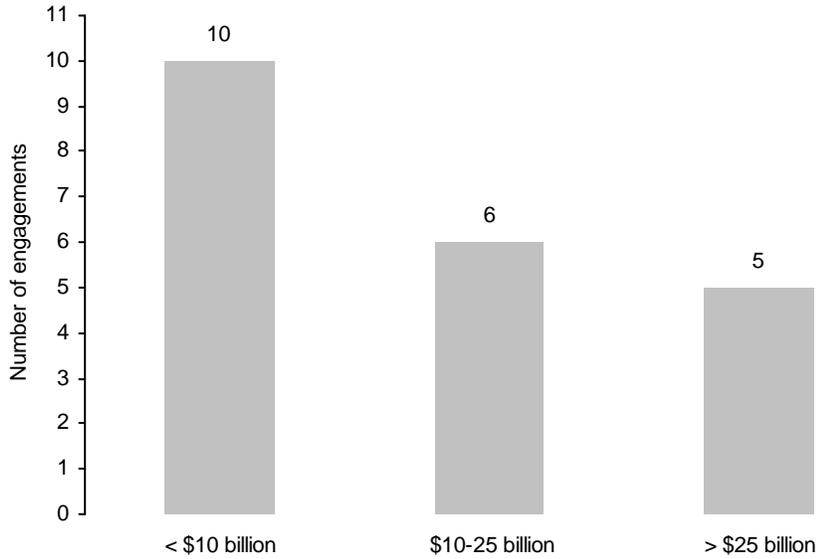
- 18 of the client engagements were primarily US-based; 3 were global in scope
- In 14 of the engagements, NS&S was contracted to provide assistance throughout the full procurement process (as described in Section III); in five of the engagements NS&S was contracted to assist and advise in the contract negotiation stage only; and in two of the engagements NS&S was contracted to assist in the development of the RFP document only.
- The companies used as part of the sample had an average annual total telecommunications services spending of \$35 million, or about \$1,400 per employee per year.

The charts and tables that follow provide additional description of the sample referenced in this declaration.

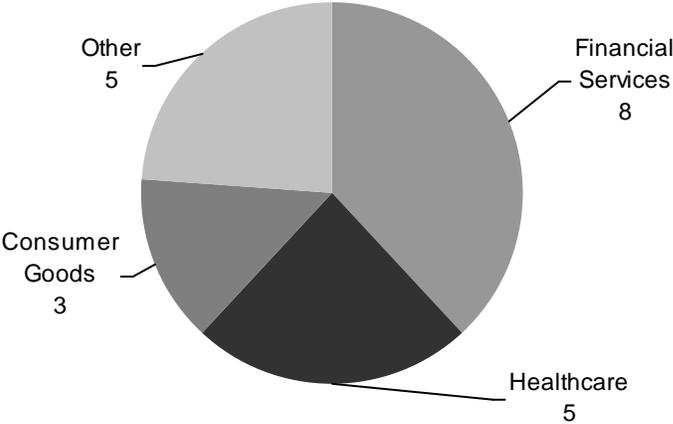
**Chart A-1: Distribution of Engagements in the NS&S Sample by Year of Engagement**  
(all 21 engagements in sample)



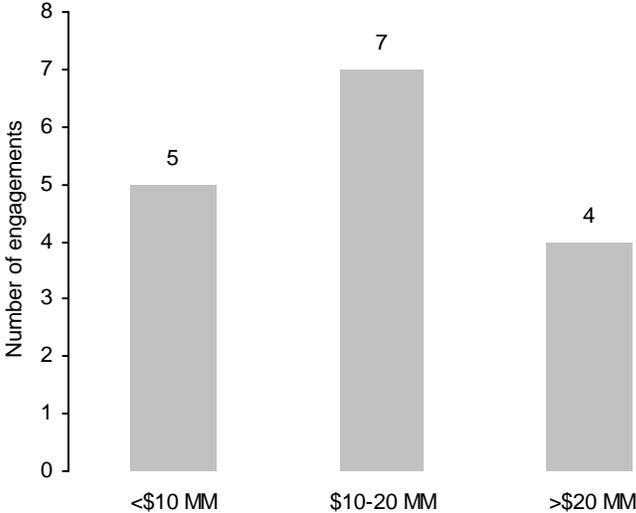
**Chart A-2: Distribution of Engagements in the NS&S Sample by Client Company Revenue**  
(all 21 engagements in sample)



**Chart A-3: Distribution of Engagements in the NS&S Sample by Client Industry**  
(all 21 engagements in sample)



**Chart A-4: Distribution of Engagements in the NS&S Sample by Client’s Annual Telecommunications Spend**  
(16 engagements in sample)



APPENDIX II: DESCRIPTION OF CONTRACT TERMS CITED IN TABLE 1

Benchmarking clauses – Terms included in the contract to index the rate of the service based on previous years or previous usage

Business downturn/divestiture – A term that allows the client to change the terms of the agreement due to a change in the client’s business environment

Installation charge waivers – A waiver of the upfront and initial installation fees

Rate stability – A term that protects the client against wide fluctuations in service rates

Shortfall penalty < 50 % – A term included in contracts to protect the provider or vendor in case the usage or spend drops below a certain level

Technology migration – A term requiring the vendor to provide upgrades to the telecommunications service throughout the length of the contract

Term commitment only – A commitment that only specifies the duration of the contract, i.e. not usage or spending minima during the course of the contract

Termination fee flexibility – A term delineating the termination agreements and conditions that may allow the client to terminate the contract with no or lower penalty fees