

## DECLARATION OF SUSAN MARTENS

### Group Manager AT&T's IP Product Management Organization

**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.

The cites to webpages in this document are for information only and are not intended to be active links or to incorporate herein any information on the websites, except the specific information for which the webpages have been cited.

**DECLARATION OF SUSAN MARTENS**

**Group Manager  
AT&T's IP Product Management Organization**

1. My name is Susan Martens. My business address is 200 S. Laurel Ave., Room A34-B26, Middletown, NJ 07748. I am a group manager in AT&T's IP Product Management organization, the group within AT&T Corp. that is responsible for business Internet services. My primary role in the organization is that of US peering coordinator.
2. The purpose of my declaration is to provide factual background regarding AT&T's peering policies and the application of those policies with respect to current AT&T peers.

**I. AT&T'S PEERING POLICIES ALLOW AT&T TO PEER WITH A BROAD RANGE OF ENTITIES.**

3. To understand AT&T's management of its Internet Backbone and to understand AT&T's peering relationships with Internet Service Providers ("ISPs"), it is necessary to understand the physical, operational, and financial characteristics of AT&T's peering relationships.
4. Physically, there was a time when AT&T participated in settlement-free public peering at Network Access Points ("NAPs"), where ISPs could share transmission facilities to exchange traffic with other participating networks. AT&T has been withdrawing from NAP arrangements, and expects to have eliminated all participation at NAPs by the end of May, 2005. Instead, AT&T engages in direct private peering.<sup>1</sup> Specifically, AT&T

---

<sup>1</sup> With private peering, a direct connection is made between two entities, and this connection is dedicated to the purpose of carrying traffic between them. With this arrangement it is easy to monitor the utilization of the facility and determine when it is time to add additional connections.

(continued . . .)

connects to peers using private transmission facilities linking the AT&T network with the other party's network. In some cases, the dedicated connection is physically made within a "carrier hotel" (*e.g.*, Equinix or NAP of the Americas), but it is always private.

5. Operationally, peering arrangements involve restricted routing. A peer will receive only "on-net" route advertisements from AT&T, and so is able to send traffic only to on-net locations – *i.e.*, to customers of AT&T. A peer is not able to send traffic through AT&T to a customer of, say, Level 3 or Sprint, even though AT&T peers with both of those carriers. (This is in contrast to a regular customer or "transit" relationship, in which AT&T offers its customers the ability to communicate with the whole Internet world via AT&T's peering and customer relationships with others.) With respect to real-time routing, each peer is assumed to (and usually does) practice "hot-potato routing" – *i.e.*, as soon as a peer realizes that it is handling a packet bound for a peer network, it will hand off that packet to the peer at the earliest opportunity (closest to the sending customer).
  
6. Financially, peering is generally settlement-free between the two peering carriers. The two carriers will each have to deal with some costs of interconnection. The cost of cross-connects in a carrier hotel, for example, is often assigned on an alternating basis to AT&T and then to the peer. Each peer must also provide a router port to terminate the interconnection. But no money is exchanged between the peers in a settlement-free peering relationship. The theoretical basis for this relationship is an assumption that each

---

(... continued)

There are no third parties involved and the negotiations take place directly between the two peered entities. Additionally, due to the massive volumes of traffic that flow between peers today, only large-capacity dedicated facilities are capable of handling the traffic and providing good performance between them.

of the peers is benefiting from the interconnection, and that each is assuming a fair share of the cost of the communications.

7. Contractually, AT&T sets requirements for the peering relationship in order to ensure a fair sharing of costs. These requirements, described in detail in AT&T's written "Peering Policy," include, for example, a restriction that the peer's ratio of traffic into the AT&T network to AT&T's traffic outbound should generally remain less than 2. That is because, as noted, most peers engage in hot potato routing. Therefore, if a customer of an AT&T peer located in New York seeks to communicate with a web site of an AT&T customer in Seattle, the peer will direct packets to AT&T's network at the location nearest the peer's customer (*e.g.*, in New York). The packets, therefore, will travel across the nation on AT&T's network (this is referred to as "inbound" traffic). Likewise, when the AT&T customer's website located in Seattle sends packets back to the peer's customer in New York, AT&T will hand those packets off to the peer's network in Seattle, and the packets will travel across the nation on the peer's network (this is referred to as "outbound" traffic). AT&T's inbound-to-outbound ratio requirement of 2 or less, therefore, is quite generous. It means that AT&T is willing to engage in settlement-free peering even though the relationship will result in AT&T carrying two packets of the peer's traffic for every one packet of AT&T traffic carried by the peer.<sup>2</sup>

8. AT&T and other peers recognize that traffic patterns may change somewhat from month to month (and, indeed, minute to minute), and AT&T does not, in practice, strictly

---

<sup>2</sup> As noted by the commenters in this proceeding, the two-to-one traffic ratio is standard practice in the Internet backbone industry.

enforce the two-to-one traffic ratio requirement against carriers that only temporarily or sporadically fall out of balance. Rather, AT&T has enforced these requirements only against carriers that systematically and substantially fail to comply with their contractual traffic balance requirements.

9. AT&T's peering policy also includes a requirement that AT&T and the peer can be expected to exchange traffic at a sufficiently high volume. The volume requirement simply reflects the fact that it is economically efficient for AT&T to invest in facilities to connect on a settlement free basis at this level or above.<sup>3</sup>
  
10. AT&T's peering policy enables AT&T to enter into peering arrangements with carriers of all sizes, not just those that carry an amount of traffic similar to that of AT&T. As noted, AT&T's peering policies are designed to ensure that AT&T's peering partners share equally in the economic cost of traffic exchanged between AT&T and the peer. Thus, another entity will generally satisfy AT&T's peering requirements as long the amount of traffic bound from AT&T's network to that entity's network is generally equal to about half of the amount of traffic bound from that entity's network to AT&T's network.

---

<sup>3</sup> For those carriers that do not qualify for settlement free peering with AT&T, AT&T also offers a "paid peering" option. Under a paid peering arrangement, traffic routing is handled as in settlement free peering, but the peer provides AT&T financial consideration to account for the imbalance in costs associated with insufficient traffic volumes or an imbalance of traffic. Paid peering contracts are rare at AT&T and are written on an individual case basis. At one time it was common for carriers to have another relationship possibility then known as "transit," involving the transporting of one partner's traffic across the offerer's network to a third party's network. AT&T has no such transit offering today. Thus, today AT&T's use of the term "transit" refers to an offering to connect a customer to the whole Internet, via dialup access or DSL or dedicated access (AT&T's managed Internet service).

Indeed, as the table in Exhibit 1 (attached hereto) makes clear, AT&T's has settlement free peering arrangements with carriers of all sizes.

11. In this regard, AT&T's peers are representative of the Internet as a whole. Indeed, AT&T peers with a large variety of companies from large content providers to other international Internet backbone providers.
12. That AT&T's peering relationships are representative of the broader Internet – and not in any way unique – is further confirmed by the fact that, with few exceptions, all of the broad array of AT&T's peers have historically had traffic flows that fall within a similar range. *See* Exhibit 2 (attached hereto).

## **II. AT&T'S INTERNET BACKBONE CUSTOMERS**

13. AT&T also has paying customers that rely on AT&T's Internet Backbone to access the Internet. AT&T's customers range from businesses seeking to provide employees with access to the Internet (or to provide a connection for their corporate websites) to large broadband suppliers such as DSL providers and cable companies. Competition for Internet backbone customers is fierce. These customers are generally sophisticated large enterprises that aggressively seek out and compare competing offers from the many backbone providers. And, when one of those customers changes its Internet backbone supplier, market shares (measured in terms of traffic) can substantially change. Indeed, according to third party analysts, since just 2001, the Internet backbone with the largest amount of traffic has changed at least three times. Thus, if broadband or other large customers of AT&T (or MCI) choose to change backbone providers, AT&T's (or MCI's) relative "size" as among other backbone providers can change quickly and dramatically.

Customer switching is common, and customers can retain their web and e-mail addresses when switching backbone suppliers. In fact, with the now-common use of network address translation technology, they can even avoid assigning new IP addresses internally. AT&T has experienced a customer churn rate of about 2% per month, as measured by the percent of total circuits disconnected each month. Competition is only increasing, and AT&T has experienced increased competition for business customers not only from other major backbone providers, but also from both ISPs, such as AOL, and cable companies.

14. I understand that some opponents of the merger have suggested that AT&T has locked in some of the largest cable company customers. AT&T certainly strives to maintain good relationships with its cable company (and other large) customers, and endeavors to provide them with very high quality services at competitive prices. But these customers are among the most sophisticated Internet backbone customers. They routinely seek bids from other Internet backbone providers for their services, and it has been widely reported that at least one of AT&T's cable customers is exploring the deployment of its own Internet backbone (through fiber capacity leased from other carriers).
15. I understand that opponents of the merger of SBC and AT&T have suggested that because AT&T and SBC each have a large number of broadband Internet customers (*i.e.*, cable companies and DSL providers) with a large proportion of “eyeballs” – *i.e.*, Internet end-users who seek out content – the merger, by combining these eyeballs, could distort the inbound/outbound traffic ratios among AT&T and its peers in such a way that existing peers other than MCI could become ineligible to peer with AT&T/SBC under existing peering guidelines.



16. This argument is based upon an assumption that broadband backbone customers (and their broadband Internet users) have extremely atypical in/out ratios – that is, that they receive much more traffic than they send out relative to other customers. With that assumption, commenters argue that adding more broadband “eyeballs” to AT&T’s backbone (from SBC’s DSL customers) would radically skew AT&T’s traffic ratios with its peers and make it impossible for peers to satisfy AT&T’s industry standard 2 to 1 ratio requirements. Based upon AT&T’s experience with cable broadband customers, the assumption underlying this argument is simply wrong. AT&T’s current cable company Internet backbone customers have outbound/inbound ratios with AT&T averaging just under 2:1, as one would expect if they were uniformly contributing to AT&T’s traffic (given that AT&T’s overall traffic flows with its many peers also have inbound/outbound averages slightly under 2:1). Thus, there is no reason to expect that adding additional broadband eyeballs to AT&T’s backbone should have a material effect on AT&T’s inbound/outbound peering, particularly if (as I understand) SBC has experienced similar traffic patterns with its broadband customers.

**III. RELATIVE CAPACITY OF DIFFERENT PEERS IS A GOOD PROXY FOR RELATIVE TRAFFIC OF DIFFERENT PEERS.**

17. There is no single “best” method or data source for measuring the relative amount of traffic of different peers. However, one good proxy for the relative amount of traffic carried by peers is the capacity of the peering connections, because peers tend to increase capacity in proportion to the amount of peered traffic.
18. AT&T’s Capacity Management organization, for example, works on an ongoing and proactive basis with peers to ensure that there is sufficient peering capacity between

AT&T's and the peer's networks to ensure that end-user customers receive excellent performance (latency/packet loss). Specifically, the Capacity Management organization studies the peak utilization statistics for each peering link with each peer on an ongoing basis and has continuing discussions with the peer to anticipate which locations should be the next ones to receive additional capacity when traffic thresholds are met. These discussions typically take place many months in advance of actual capacity being deployed.

19. AT&T measures and characterizes peering link utilization into three categories: (1) Green (less than 65% peak utilization); (2) Yellow (65%-85% peak utilization) and (3) Red (more than 85% peak utilization). AT&T endeavors to add capacity prior to links becoming "red," because "red" links typically indicate that customers may be experiencing performance problems on the affected links at least for certain periods during the day. In this regard, AT&T's capacity is a proxy for peering traffic.

**VERIFICATION**

I declare under penalty of perjury that the foregoing Declaration is true and correct.

/s/ Susan Martens  
Susan Martens

Date: May 6, 2005

**DECLARATION OF SUSAN MARTENS EXHIBIT I**

*[REDACTED]*

**DECLARATION OF SUSAN MARTENS EXHIBIT II**

*[REDACTED]*