

**INTELLECTUAL  
PROPERTIES  
(CONTINUED)**

Note: If the IP is provided pursuant to an Employee Under Contract (EUC) or consulting services contract, specific tracking and valuation of the IP is required.

Telco affiliates must establish a single point of contact (SPOC) through which requests for actual as well as potential use of their intellectual properties will be coordinated and monitored to assure compliance with legal and regulatory requirements. To determine your company IP SPOC, consult your company affiliate transaction contact (see Appendix B).

**■ Transfers From Non-Telco Affiliates To Telco Affiliates**

Shall be priced at the lower of FDC or market price.

**■ Transfers Between Telco Affiliates**

Shall be within the constraints of legal and regulatory requirements and shall incorporate those terms and conditions agreed upon by the negotiating telco affiliates, provided such terms are not less than the seller's incremental cost of the transaction.

## EMPLOYEE TRANSFERS

### TRANSFER FEE

Employee transfers are distinguished from loaned employees. Transfers involve the permanent movement of an employee from one affiliate's payroll to another.

#### ■ Transfers From Pacific Bell or Pacific Bell Directory To Non-Telco Affiliates

Shall be at 25% of the transferred employee's annual starting salary at the new company. The 25% fee is required by CPUC Decision 87-12-067.

The 25% fee shall be applied to any Pacific Bell or Pacific Bell Directory employee who is re-employed to a non-telco affiliate position within six months of termination from Pacific Bell or Pacific Bell Directory.

The Pacific Telesis Group Intercompany Movement Guidelines for Salaried Employees should be referenced when implementing this policy.

#### ■ Transfers From Non-Telco To Telco Affiliates

No 25% fee is applicable.

#### ■ Transfers Between Telco Affiliates

No 25% fee is applicable.

#### ■ Transfers Between All Affiliates

The sending affiliate shall reimburse the receiving affiliate for actual costs of payment for vacation pay, incentive awards, bonuses, etc., earned while in the service of the sending company but to be paid by the receiving company.

The PTG Intercompany Movement Guidelines for Salaried Employees should be referenced when implementing this policy. Contact your company affiliate transaction contact (see Appendix B) or your Human Resources department for a copy of these guidelines.

### EMPLOYEE LIABILITIES

**EMPLOYEE  
LIABILITIES  
(CONTINUED)**

**■ Tracking and Reporting Requirements**

All non-telco affiliates' payroll systems must have the ability to identify their employees who have former Pacific Bell or Pacific Bell Directory experience. See Recording, Tracking and Reconciliation section (page 21) for further information.

All Pacific Telesis Group affiliates, except Nevada Bell and Bellcore, must report intercompany movement of employees, see Reporting Requirements section (page 27) for further information.

## FINANCIAL OBLIGATIONS

### FINANCIAL OBLIGATIONS

For purposes of this document, the term financial obligations refers to any form of debt, debt guarantee or security.

#### ■ Financial Obligations of Non-Telco Affiliates

Telco affiliates shall not guarantee any financial obligation of non-telco affiliates. There shall be no reliance by non-telco affiliates on telco affiliates' credit and no recourse to telco affiliates' assets.

As discussed below, the CPUC and the California Legislature prohibit such guarantees.

#### ⇒ CPUC (Decision 87-12-067, p. 334)

"Without prior written permission from the Commission, Pacific Bell shall not guarantee any notes, debentures, debt obligations or other securities of Pacific Telesis or its affiliates or subsidiaries."

#### ⇒ California Legislature (P.U. Code § 701.5)

"...no electrical, gas, or telephone corporation, whose rate are set by the commission on a cost-of-service basis, shall issue any bond, note, lien, guarantee or indebtedness of any kind pledging the utility assets or credit for or on behalf of any subsidiary or affiliate of, or corporation holding a controlling interest in, the electrical, gas, or telephone corporation..."

#### ⇒ Judge Greene (U.S. vs. AT&T, July 26, 1984, p. 55)

"The Court will ... approve waiver applications only if they incorporate provisions which will insure that subsidiaries of the Regional Holding Companies engaged in competitive enterprises obtain their own debt financing on their own credit and that no entity affiliated with the Regional Holding Company will guarantee the debt in a manner that would permit a creditor, on default, to have recourse to the assets of an Operating Company."

# GUIDELINES

## BILLING AND PAYMENT

### ■ Scope

These billing and payment guidelines are applicable to all transactions between Pacific Telesis affiliates, except for the provision of non-tariffed goods and services from the Holding Company, which is governed by the Holding Company cost allocation policies and guidelines.

### ■ Billing

Generally, the methods and procedures for billing affiliates should not differ from billings to non-affiliates. Billings shall include all information necessary to facilitate timely payment.

If, for any reason, billing is not rendered in a timely manner, additional interest must be added to the amount billed. This interest should be calculated (using the 90 day commercial paper interest rate) from the date the bill should have been rendered to the date it was actually rendered. For example:

- ⇒ Affiliate A provides a service to Affiliate B on April 1. Affiliate A's policy is to bill all affiliates for services rendered within 30 days. In this example, the bill should be rendered no later than May 1.
- ⇒ If Affiliate A does not bill Affiliate B until June 15, 45 days of interest (from May 1 to June 15) should be included in the amount billed to Affiliate B.

All purchases of goods and services for company business should be billed in the name of the company rather than the name of the employee receiving the goods and services. Such goods and services should not be billed to an employee for reimbursement through the voucher process, unless the subsidiary ledger system can appropriately capture these as affiliate transactions.

### ■ Payment

Payments to affiliates should be made promptly. If payments are not received by the payment due date, late charges may be appropriate. Assessment of late charges is the responsibility of the billing company. Late charges should be calculated from the date payment was due to the date payment was received. The CPUC requires that all bills from Pacific Bell and Pacific Bell Directory to non-telco affiliates be paid directly to Pacific Bell or Pacific Bell Directory by the non-telco affiliate receiving the service (Decision 87-12-067).

**BILLING AND  
PAYMENT  
(CONTINUED)**

■ **Audit Trail**

Both the billing and payment processes shall provide an adequate audit trail which will allow internal and external auditors to verify the accuracy and appropriateness of the bill and payment.

**RECORDING,  
TRACKING AND  
RECONCILIATION**

**■ General Ledger**

Each affiliate must record in its general ledger all transactions conducted with other affiliates. Further, each affiliate must ensure that separate intercompany subaccounts are maintained for each subsidiary and that transactions with affiliates are recorded in these accounts in a manner which will allow them to satisfy the requirements in the Subsidiary Reporting Requirements Package. (A copy of this package may be obtained from Pacific Telesis Corporate Financial Reporting.)

Each non-telco affiliate must have the following accounts on its general ledger to record activity/balances for the following:

- ⇒ Revenue - Sales to affiliates
- ⇒ Expenses - Purchases from affiliates
- ⇒ Assets - Accounts receivable from affiliates
- ⇒ Liabilities - Accounts payable to affiliates

In addition, a separate revenue account must be established in the general ledger by each affiliate for revenues received from customers referred by Pacific Bell (Decision 87-12-067).

**■ Subsidiary Ledger**

Each affiliate must ensure that the details of every affiliate transaction are resident within their accounting system to allow for the review and reconciliation of these transactions by company personnel and internal and external auditors.

Each non-telco affiliate, excluding the Pacific Telesis Group Holding Company, must establish and maintain a subsidiary ledger for all transactions with affiliates. The CPUC requires that each non-telco affiliate, excluding the Pacific Telesis Group Holding Company, establish and maintain a subsidiary ledger for transactions with Pacific Bell (CPUC Decision 87-12-067).

This Subsidiary ledger must have an account for each affiliate. Each subsidiary ledger account must have a subaccount for each of the following:

- ⇒ Revenues - Sales to (name of affiliate)
- ⇒ Expenses - Purchases from (name of affiliate)
- ⇒ Assets - Accounts receivable from (name of affiliate)
- ⇒ Liabilities - Accounts payable to (name of affiliate)

**RECORDING,  
TRACKING AND  
RECONCILIATION  
(CONTINUED)**

In the Pacific Bell account, the Expenses - Purchases from Pacific Bell Subaccount must be further segregated into separate subaccounts for Tariffed Products/Services and Non-Tariffed Products/Services.

Each non-telco affiliate must accurately record and identify in its asset management system all purchases from Pacific Bell that are classified as assets. This requirement will ensure determination of the total asset purchases from Pacific Bell in a given reporting period.

Each subaccount shall include the following information:

- ⇒ transaction amount;
- ⇒ transaction date;
- ⇒ transaction number (providing a clear and accessible trail to supporting documentation);
- ⇒ total debits and credits for the month; and
- ⇒ balance

The subsidiary ledger balances shall, during each accounting close, be reconciled to the general ledger affiliate transaction accounts, and any discrepancies investigated and corrected.

The subsidiary ledger account for Pacific Bell and the subsidiary ledger account for Pacific Bell Directory must be reconciled monthly with Pacific Bell and Pacific Bell Directory, respectively. (Note: Reconciliation of the Tariffed Products/Services subaccount is not required.)

The officer responsible for accounting operations at each non-telco affiliate, excluding the Pacific Telesis Group Holding Company, is required to certify that these reconciliations have occurred. Refer to the Subsidiary Reporting Requirements Package for the certification statement to be signed.

### **■ Employee Transfers**

Each affiliate, except Nevada Bell and Bellcore, is required to track and reconcile on a monthly basis the following:

- ⇒ movement of employees between Pacific Bell, including Pacific Bell Directory, and non-telco affiliates, and
- ⇒ movement of former Pacific Bell employees.

"Former Pacific Bell employees" includes personnel previously employed by Pacific Bell or Pacific Bell Directory who have continuous service within Pacific Telesis Group or its subsidiaries.

**RECORDING,  
TRACKING AND  
RECONCILIATION  
(CONTINUED)**

"Continuous service" includes any person who is re-employed by a Pacific Telesis Group company within six months of termination from Pacific Bell.

The information required for such tracking must include the following:

1. Employee name
2. Name of receiving affiliate, new job title and starting salary
3. Name of sending affiliate, old job title and ending salary
4. Identify for all former employees of Pacific Bell the following information:
  - ⇒ Start date with Pacific Bell;
  - ⇒ Ending salary with Pacific Bell;
  - ⇒ Reason employee was releasable from Pacific Bell;
  - ⇒ Description of the type of work employee did while at Pacific Bell;
  - ⇒ Description of the type of work employee will be doing in the new job; and
  - ⇒ Identify and describe, in general terms, proprietary, confidential or sensitive information the employee was privileged to while at Pacific Bell.
5. If the employee is not a former Pacific Bell employee, a statement should be made to that effect.

This data shall be reported in accordance with the Reporting Requirements section on page 27.

**■ Employee Loans**

The following information is required for tracking when a Pacific Bell employee is loaned to a non-telco affiliate:

1. Employee name and title;
2. Start date with Pacific Bell;
3. Job function and expertise at Pacific Bell;

**RECORDING,  
TRACKING AND  
RECONCILIATION  
(CONTINUED)**

4. Name of receiving affiliate and estimated length of loan;
5. Description of work the loaned employee will be doing at receiving company;
6. Actual length of loan;
7. Explanation of why the employee was not needed at Pacific Bell during the loan period;
8. Notation if employee eventually transferred to the affiliate; and
9. Identify and describe, in general terms, proprietary, confidential or sensitive information the employee is privileged to at Pacific Bell.

This data shall be reported in accordance with the Reporting Requirements section on page 27.

**■ Referrals**

Referrals from Pacific Bell or Pacific Bell Directory to non-telco affiliates must be tracked by Pacific Bell, Pacific Bell Directory and non-telco affiliates and reconciled monthly. The reconciliation should include a verification between Pacific Bell or Pacific Bell Directory and non-telco affiliates of the total number of referrals for the month as well as an identification of sales revenue received from each referral.

Prior to the provision of Pacific Bell or Pacific Bell Directory referrals to a non-telco affiliate, a properly executed Transfer Pricing contract must be in place. Referrals must be tracked and reported to the CPUC.

Pacific Bell or Pacific Bell Directory shall submit a tracking and reconciliation plan to the CACD and DRA 30 days prior to providing any referrals.

**INTERNAL  
CONTROL  
GUIDELINES,  
DOCUMENTATION  
AND RETENTION**

**■ Purpose**

Internal controls ensure that transactions are conducted in conformance with established policies and guidelines. This section is not intended to address specific internal controls which should be established by each affiliate, but rather, to provide guidelines for the development of internal controls.

Internal controls should provide reasonable assurance that the corporate policies, guidelines and reporting requirements are followed and that potential or actual deviations from corporate policies, guidelines and reporting requirements are detected and corrected in a timely and cost effective manner.

**■ Internal Control Objectives**

Internal controls for affiliate transactions should ensure that:

- ⇒ required legal/regulatory and/or management approval is obtained before engaging in transactions with affiliates;
- ⇒ the terms and timing of sales to/from affiliates are in accordance with corporate and company policies, guidelines and reporting requirements;
- ⇒ sales to/from affiliates are recorded accurately, promptly and in accordance with corporate accounting policies;
- ⇒ transactions are substantiated by documentation which illustrates that corporate and company policies, guidelines and reporting requirements were followed;
- ⇒ transactions provide benefit to the entities engaging in them, either in terms of their business strategy or expected financial returns; and
- ⇒ bills and payments to/from affiliates are timely and accurate.

**INTERNAL  
CONTROL  
GUIDELINES,  
DOCUMENTATION  
AND RETENTION  
(CONTINUED)**

**■ Documentation and Retention**

For each affiliate transaction, documentation should be established by all parties involved. As a general rule, any information which supports that the transaction is in compliance with corporate and company policies and guidelines and legal and regulatory requirements should be included in the documentation.

Documentation shall be retained by all affiliates in accordance with their company record retention policy which specifies what records should be retained, how they should be retained and for what length of time.

## REPORTING REQUIREMENTS

### GENERAL

These reporting requirements have been established to ensure that affiliate transactions are conducted in accordance with corporate policies and guidelines, and provide the transaction data required by the CPUC (Decision 87-12-067). The FCC has various reporting requirements including a description of affiliate transactions in the Pacific Bell and Nevada Bell cost allocation manuals. Annually, a detailed schedule, ARMIS Report 43-03, identifying expenses associated with affiliate transactions, must be filed.

### DESCRIPTION OF REPORTS

Below is a description of the reports required by the CPUC which must be prepared for each type of affiliate transaction. Page 29 summarizes, by report, when the report must be prepared, who must prepare the report and the recipient of the report.

#### ■ Pending Sale of Pacific Bell or Pacific Bell Directory Asset(s) to Non-Telco Affiliates

45 days prior to its occurrence, Pacific Bell or Pacific Bell Directory shall report to Pacific Telesis the pending sale to a non-telco affiliate of any asset with a fair market value of \$100,000 or greater (see Appendix B for the applicable company contact).

30 days prior to its occurrence, Pacific Bell shall report to the CPUC the pending sale to a non-telco affiliate of any asset with a fair market value of \$100,000 or greater (see Appendix B for the Pacific Bell contact).

#### ■ Changes in Pacific Telesis Group Organization Structure

As changes occur, Pacific Telesis shall report to the CPUC any changes in the organizational structure of Pacific Telesis Group. This requirement is satisfied by providing the CPUC a monthly listing of Pacific Telesis Group affiliates and non-affiliates.

#### ■ Revisions to These Policies

As changes occur, Pacific Telesis shall report to the CPUC any changes to the Affiliate Transactions: Policies, Guidelines and Reporting Requirements.

**DESCRIPTION  
OF REPORTS  
(CONTINUED)**

**■ Reconciliation of Non-Telco Affiliates' Ledger to Pacific Bell's Books**

Pacific Telesis Internal Auditors shall test the non-telco affiliates' subsidiary ledgers and reconciliation of these ledgers to Pacific Bell's books periodically. Internal Audit reports will be issued to Pacific Telesis Group management communicating the results of these reviews. Copies of these Internal Audit reports will also be provided to Pacific Telesis Corporate Accounting for subsequent transmittal to the CPUC. (Note: Reconciliation of Bell tariffed products/services is not required.)

**■ Annual Reporting of Pacific Bell and Pacific Bell Directory Transactions With Affiliates**

By May 1st of each year, Pacific Bell must file, pursuant to CPUC Order Instituting Rulemaking (OIR) R.92-08-008, its affiliate transaction report reflecting Pacific Bell and Pacific Bell Directory transactions with its affiliates.

**■ Employee Movement - Transfers and Loans**

Monthly, all intercompany employee movement shall be reported by all affiliates (except Nevada Bell, Bellcore and Bell Category III Below-the-Line affiliates) to Pacific Telesis Human Resources. Quarterly, all intercompany employee movement (except Nevada Bell, Bellcore and Bell Category III Below-the-Line affiliates) shall be reported by Pacific Telesis to the CPUC. In addition to quarterly reporting, an annual listing of former Pacific Bell employee movement shall be reported by Pacific Telesis to the CPUC.

Inter-company employee movement between Pacific Bell or Pacific Bell Directory and Bell Category III Below-the-Line affiliates shall be: 1) reported to Pacific Bell Human Resources; and 2) reported quarterly by Pacific Bell under the New Regulatory Framework (NRF) monitoring reporting (CPUC Decision 91-07-056).

The data to be reported is listed in the Recording, Tracking, and Reconciliation section.

**DESCRIPTION  
OF REPORTS  
(CONTINUED)**

**■ Sale of Pacific Bell Real Property to Non-Telco Affiliates**

All sales of Pacific Bell or Pacific Bell Directory real property with a fair market value less than \$100,000 shall be reported to the CPUC annually.

**■ Copies of All Affiliate Filings**

Copies of all filings made by affiliates with the Federal Communications Commission, Department of Justice, and Judge Greene, copies of all Opinions, Orders and Rulings used in regard to these filings, and copies of all civil complaints filed against non-telco affiliates shall be provided to the CPUC.

**■ Copies of Non-Disclosure Agreements**

Pacific Bell shall provide to the CPUC, on a semi-annual basis, copies of all non-disclosure agreements entered into with non-telco affiliates. The CPUC should be notified in writing even if no non-disclosure agreements have been entered into for the reporting period.

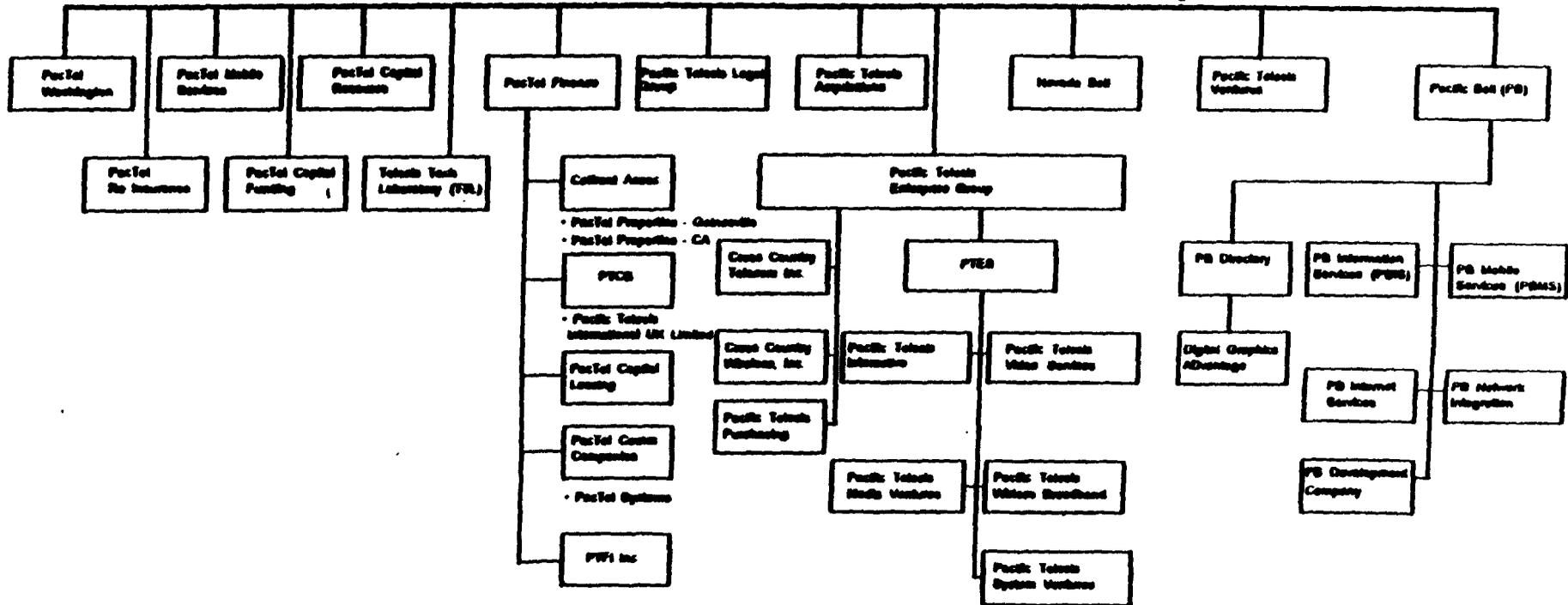
## SUMMARY SCHEDULE OF REPORTS

REPORT	PREPARER OF REPORT	RECIPIENT OF REPORT	TIMING
1) Pending Sale of Pacific Bell Asset(s) to Affiliate	Pacific Bell	Pacific Telesis	45 days prior to sale
	Pacific Bell	CPUC	30 days prior to sale
2) Changes in Pacific Telesis Group Organization Structure	Pacific Telesis (Corp. Accounting)	CPUC	Monthly, or as changes occur
3) Revisions to the PTG Affiliate Transactions: Policies, Guidelines and Reporting Requirements	Pacific Telesis (Corp. Accounting)	CPUC	As changes occur
4) Review, Testing of Reconciliation Non-Telco Affiliate Ledgers	Pacific Telesis (Auditing Services)	CPUC via PTG Corporate Accounting	Semi-Annually
5) Annual Reporting of Pacific Bell or Pacific Bell Directory Transactions with Non-Telco Affiliates	Pacific Bell (Regulatory)	CPUC	Annual - May 1 for prior year under report
6) Employee Movement - Transfers and Loans	All PTG Cos. except Nevada Bell, Bellcore and Bell Category III BTL affiliates:	Pacific Telesis (Human Resources)	Monthly
	Pacific Telesis (Human Resources)	CPUC via PTG Corporate Accounting	Quarterly - 45 days after quarter end
	Between Pacific Bell or PB Directory and Bell Category III BTL affiliates:	Pacific Bell (Human Resources)	Monthly
	Pacific Bell (Human Resources)	CPUC via Pacific Bell Regulatory	Quarterly via incentive regulation monitoring reports
Former Bell Employee Report	Pacific Telesis (Human Resources)	CPUC via PTG Corporate Accounting	Annually - 45 days after 4th quarter end
7) Sale of Pacific Bell Real Property to Non-Telco Affiliates	Pacific Bell (Corp. Accounting and Regulatory)	CPUC	Annually if less than \$100,000
8) Copies of All Filings Except Routine Filings with FCC	Pacific Telesis (Legal)	CPUC	Quarterly, or as Necessary
	Pacific Bell (Regulatory) Other PTG affiliates		
Routine FCC Filings		CPUC	Quarterly
9) Non Disclosure Agreements	Pacific Bell (Regulatory)	CPUC	Semi-Annually

# APPENDIX A

## PACIFIC TELESIS GROUP

(Does not include Joint Ventures and Partnerships)



NOTE: For the purpose of Affiliate Transactions (AT), telephone company affiliates or "telco affiliates" refers to Pacific Bell, Pacific Bell Directory and Nevada Bell. Non-telephone company affiliates or "non-telco affiliates" refers to all other Pacific Telesis Group affiliates including the Holding Company, Non-regulated affiliates (e.g. Telesis Technologies Laboratory, PacTel Finance, etc.) and Pacific Bell Category III Below-the-Line affiliates (e.g. Pacific Bell Mobile Services, Pacific Bell Information Services, Pacific Bell Internet Services, etc.)

## APPENDIX B

### CONTACT LIST

#### **Pacific Telesis Group**

Mike Silacci  
130 Kearny Street  
Suite 3008  
San Francisco, CA 94108  
(415) 394-2629

Betty Sawyer  
130 Kearny Street  
Suite 3008  
San Francisco, CA 94108  
(415) 394-3910

Alan Carroll  
130 Kearny Street  
Suite 3008  
San Francisco, CA 94108  
(415) 394-2759

#### **Pacific Bell**

Linda Vandeloop  
140 New Montgomery  
Room 908  
San Francisco, CA 94105  
(415) 542-7556

#### **Pacific Bell Corporate Accounting Transfer Pricing Affiliates Group (TPAG)**

Tess Leung  
2600 Camino Ramon  
Room 2W550KK  
San Ramon, CA 94583  
(510) 823-9181

#### **Pacific Bell Internet (PBI) and Pacific Bell Network Integration (PBNI)**

Lisa Sieffert  
6379 Clark Ave.  
Dublin, CA 94568  
(510) 803-6029

#### **Nevada Bell**

Kathy Kalls  
645 East Plumb Lane  
Room B126  
Reno, Nevada 89502  
(702) 333-4300

#### **Enterprises Group Overall Contact**

Anna Sanchou  
130 Kearny Street, Suite 3422  
San Francisco, CA 94108  
(415) 394-2808

#### **Pacific Bell Public Communications (A department in Pacific Bell)**

Jason Collins  
39 Beta Court, Room 235  
San Ramon, CA 94583  
(510) 831-4500

**CONTACT  
LIST**

**Pacific Bell Advanced Communications  
Network (ACN)  
(A department in Pacific Bell)**

**Ed Gin  
2410 Camino Ramon, Room 350N  
San Ramon, CA 94583  
(510) 806-4048**

**Pacific Bell Directory**

**Bruce Brown  
101 Spear Street, Room 375  
San Francisco, CA 94105  
(415) 995-3979**

**Pacific Bell Mobile Services**

**Quinn Ward  
4420 Rosewood, Bldg 2, 4th Floor  
Pleasanton, CA 94588  
(510) 227-3105**

**Pacific Bell Information Services**

**Norma Deaner  
2410 Camino Ramon, Room 3300  
San Ramon, CA 94583  
(510) 806-4765**

**Pacific Telesis Enhanced Services  
Overall contact  
(including Cross Country Wireless &  
Tele-TV)**

**Norma Deaner  
2410 Camino Ramon, Room 3300  
San Ramon, CA 94583  
(510) 806-4765**

**Pacific Telesis Video Services**

**Norma Deaner  
2410 Camino Ramon, Room 3300  
San Ramon, CA 94583  
(510) 806-4765**

**Telesis Technologies Laboratory (TTL)**

**Alan Lee  
5000 Executive Parkway, Room 333  
San Ramon, CA 94583  
(510) 244-2150**

## APPENDIX C

### GLOSSARY OF TERMS

#### Affiliate

Generally, any company consolidated in the corporate financial statements or accounted for under the equity method. See Appendix A for a chart of Pacific Telesis' affiliates.

#### Arm's Length Negotiation

A negotiation between a buyer and seller both free to act, each seeking his or her own best economic interest and agreeing on a price.

#### Competitive Bid

A method of obtaining a market price by soliciting offers from interested parties to purchase or provide an asset, good or service.

#### CPUC

CPUC is the abbreviation for the California Public Utilities Commission.

#### Critical or Essential

Defined as Pacific Bell services that PBIS must have in order to operate in the manner authorized by D.92-07-072; excludes services that PBIS could provide using its current or additional in-house personnel or could obtain through a third party vendor, without disclosing PBIS proprietary information.

#### Employee Transfer

Employee transfers are distinguished from loaned employees. Transfers involve the permanent movement of an employee from one affiliate's payroll to another.

#### Equipment

Equipment includes physical assets other than real property bought for use in the business. Equipment includes, but is not limited to, furniture, terminal equipment, personal computers and central office equipment.

#### Financial Obligations

Any form of debt, debt guarantee or security.

#### Float

The cost of working capital incurred by the billing company while awaiting payment from the billed company.

#### Fully Distributed Cost

The price of a good or service determined by measuring the direct and indirect costs of providing the good or service, including overhead costs, float and return on investment. The direct and indirect components of FDC include, but are not limited to, wages and salaries, including wages and salaries of support personnel, material and equipment costs, payroll taxes, employee benefits, and corporate and administrative costs.

Cost shall be captured in accordance with the Cost Allocation Standards in FCC Docket 86-111. See Appendix D.

#### General Ledger

A general ledger is a collection of all asset, liability, equity, revenue, and expenses accounts.

#### Incremental Cost

The additional cost incurred as a result of entering into a transaction, plus applicable loadings. The term refers to costs which would not have been incurred had the transaction not taken place.

#### Intangible Asset

An asset which has no physical existence (e.g., patents or trademarks).

**GLOSSARY  
OF TERMS  
(CONTINUED)**

**Intellectual Properties**

Intellectual properties are assets or properties which are protectable under the laws of unfair competition (including trademark and trade name infringement), the patent and copyright statutes and analogous laws such as the Semiconductor Chip Protection Act. For purposes of this document, intellectual properties include patents, software, copyrights, trademarks and service marks.

**Intercompany Accounts**

An intercompany account reflects a specific type of transaction conducted between affiliates.

**Lease**

An agreement which conveys the right to use tangible or intangible assets, normally property, plant, or equipment, usually for a specified period of time, and establishes the terms and conditions of such conveyance.

**List Price**

The generally available price to third parties (i.e., non-affiliates). The list price represents the amount actually paid by third parties using comparable terms and conditions (e.g., quantity of units, method of purchase - contract or single purchase order, contract terms). Therefore, when selling to an affiliate, list price can only be used when the same assets, goods or services have been sold to third parties under comparable terms and conditions.

**Loaned Employee**

The temporary use by one affiliate of an employee who remains on the

**Loaned Employee (continued)**

payroll of another affiliate for a period of less than one year. The employee performs contract services similar to those obtainable from an agency or consulting personnel.

**Market Price**

The price at which comparable assets, goods and services, sold under like terms and conditions, are available in the general marketplace. The price of an asset, good or service determined by arm's length bargaining between willing buyers and sellers in a competitive marketplace. Sales by PTG affiliates to third parties in the general market place are market price transactions.

**Net Book Value**

The original cost of an asset, adjusted by the associated valuation reserves (e.g., accumulated depreciation, deferred taxes, unamortized investment tax credits).

**Non-Telco Affiliate**

For purposes of this policy; non-telephone or non-telco affiliate refers to all PTG affiliates, except Telco affiliates, including Pacific Bell Category III Below-the-Line affiliates, e.g., PBIS, PBMS, PB Internet and PB Network Integration. See Appendix A for a chart of PTG affiliates

**Non-Tariffed Goods and Services**

Non tariffed goods and services are those which are not governed by any tariff. They include, but are not limited to, training, CDC, mail & messenger and Employees Under Contract (loaned employees).

**GLOSSARY  
OF TERMS  
(CONTINUED)**

**Proprietary Information (PI)**

In general, "proprietary information" is any written or oral information that meets all of the following criteria:

- It provides an economic advantage over competitors and others who do not have the information; and
- If it is released in an unauthorized or improper manner, we will suffer an economic harm, loss or disadvantage as a result; and
- We have made reasonable efforts to maintain its secrecy including limiting the distribution and requiring non-disclosure agreements to be signed.

PI also includes any information which we have a contractual, legal or regulatory obligation to protect.

Proprietary information can include business and financial information, technical data or drawings, record or letters, customer account information, trade secrets, new project or marketing plans, cost data, salary information, and personnel information.

**Real Property**

Real property includes land and any improvements thereon, such as buildings (including capital improvements to the buildings).

**Real Property Right**

The right offered by one affiliate to another to purchase real property (e.g. an option).

**Referral**

A referral is the identification of customers by Pacific Bell or Pacific Bell Directory to a non-telco affiliate, or the provision of information about a non-telco affiliate to customers by Pacific Bell or Pacific Bell Directory.

**Return on Investment**

The cost of the billing company's invested capital, determined by the rate of return authorized by the applicable regulatory commission.

**Subsidiary**

For purposes of this document, a subsidiary is an affiliate which is owned by another affiliate (i.e., Pacific Bell Directory is a subsidiary of Pacific Bell).

**Subsidiary Reporting Requirements Package**

A Pacific Telesis Group Holding Company document which provides internal financial reporting requirements and guidelines. A copy of this document may be obtained from Pacific Telesis Corporate Financial Reporting.

**Tariffed Goods and Services**

Tariffed goods and services are those provided by an affiliate at tariffed prices authorized by a regulatory commission.

**Telco Affiliate**

For purposes of this policy, telco affiliate refers to Pacific Bell, Pacific Bell Directory and Nevada Bell. See Appendix A for a chart of Pacific Telesis Group affiliates.

**Transfer Pricing**

Transfer pricing is the valuation of non-tariffed goods and services provided by one affiliate to another affiliate. For example, Pacific Bell has established internal guidelines to bill affiliates for non-tariffed goods and services, known as the Inter-Entity Transfer Pricing Guidelines (S.I. 80).

**Tangible Asset**

An asset which has physical existence (e.g., desk or computer).

**FCC DOCKET  
86-111 COST  
ALLOCATION  
STANDARDS**

Following is the hierarchy of principles to be used in determining the cost of providing non-tariffed goods and services and leases to affiliates.

- 1) Dedicated costs shall be directly assigned to affiliate.
- 2) Common costs shall be allocated to the affiliate based upon
  - a) a direct measure of relative use,
  - b) an indirect measure of relative use, or
  - c) the general allocator.

Common costs are costs which cannot be directly assigned to the good or service provided to the affiliate.

The general allocator shall be computed by using the ratio of all expenses directly assigned or allocated to affiliates, and applying that ratio to residual costs. Current data shall be used in computing the general allocator.

**PACIFIC TELESIS GROUP (PTG)  
POLICY ON PROPRIETARY INFORMATION**

Certain proprietary information (PI) may be provided by Pacific Bell (including Pacific Bell Directory) or Nevada Bell to non-regulated affiliates (including Pacific Bell Category III below-the-line affiliates) only under the provisions of this PTG policy which protect the information and, where appropriate, with compensation to Pacific Bell or Nevada Bell. Conditions under which provisioning is allowed and the required safeguards are described below.

**GENERAL DEFINITION OF PROPRIETARY INFORMATION ("PI")**

In general, "proprietary information" is any written or oral information that meets all of the following criteria:

- It provides an economic advantage over competitors and others who do not have the information; and
- If it is released in an unauthorized or improper manner, we will suffer an economic harm, loss or disadvantage as a result; and
- We have made reasonable efforts to maintain its secrecy including limiting the distribution and requiring non-disclosure agreements to be signed.

PI also includes any information which we have a contractual, legal or regulatory obligation to protect.

In most cases, if Pacific Bell PI that meets this definition is provided to non-reg affiliates, it must be logged and Bell must bill the affiliate for the use of the information.

**MARKING DOCUMENTS FOR INTERNAL BUSINESS PURPOSES**

There are certain documents that generally are not classified as PI (e.g., internal organization charts, telephone directories, phone lists, internal publications, etc.) but which the Corporation does not want released to the general public (for example, to protect information security). Suggested marking for these documents is:

<p><b><u>FOR INTERNAL BUSINESS PURPOSES ONLY</u></b> <b>For Internal Business Purposes. Not For Disclosure Outside Pacific Telesis Group And Subsidiaries.</b></p>
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## CONDITIONS FOR SHARING PI

PI may be provided by Pacific Bell or Nevada Bell to non-reg affiliates only under the following four conditions:

1. Information submitted to Pacific Telesis for the purpose of corporate governance (e.g., filing the corporate tax return, preparing corporate financial statements, etc.). Also, where senior officers of Pacific Bell, Nevada Bell, or non-reg affiliates may have access to the information in their capacities as officers of Pacific Telesis, any such information will be provided to them solely for the purpose of corporate governance, and will not be transmitted to, or used in connection with the operations of, Pacific Bell or Nevada Bell, or the non-reg affiliates.
2. Cooperative efforts in response to litigation and regulatory proceedings and reporting requirements, including activities pertaining to regulatory compliance proceedings (e.g., Commission orders, subpoenas, etc.). Any information provided to non-reg affiliates, including the Telesis Legal Subsidiary and other practicing attorneys in PTG, for this purpose should be made available only to those who need to have access, and must be used only for the purpose of the litigation or proceeding.
3. For the sole benefit of Pacific Bell's or Nevada Bell's above-the-line operations.

The three conditions listed above do not require compensation for providing proprietary information; however, logging will be required for conditions 2 and 3, except for the Telesis Legal Subsidiary and other practicing attorneys in PTG when they are providing legal services to Pacific Bell or Nevada Bell.

4. Providing PI when Pacific Bell or Nevada Bell has determined it has a bona fide business purpose for furnishing PI to a non-reg affiliate and has documented that purpose.

Sharing under this fourth condition requires the following:

- The standard used to determine a valid business purpose is customer indifference. That is, Pacific Bell and Nevada Bell have determined that customers will not be adversely impacted by the provision of the PI.
- Pacific Bell or Nevada Bell must be compensated for the PI it provides as described in Attachment 1.
- Prior to providing PI, written approval must be obtained from an officer of the affiliate which owns the PI. Each affiliate will define/establish its own