

parties to provide this connection for themselves. Where technically feasible, the Company provided this connection using copper, dark fiber, lit fiber, or other transmission medium, as requested by the collocating telecommunications carrier.

- 30) **Security Arrangements** - The Company required reasonable security arrangements to protect its equipment and ensure network reliability but only imposed security arrangements expressly allowed by the FCC or that were only as stringent as the security arrangements that the Company maintained at its own premises for its own employees or authorized contractors. The Company did not impose discriminatory security requirements that result in increased collocation costs without the associated benefit of providing necessary protection of the Company's equipment.
- 31) **Access to Collocated Equipment** - The Company allowed collocating parties to access their physically collocated equipment 24 hours a day, seven days a week, without requiring either a security escort of any kind or delaying a telecommunications carrier's employees' entry into the Company's premises.
- 32) **Security Training** – The Company required collocating carriers to pay only for the least expensive, effective security option that is viable for the physical collocation space assigned. The Company required collocating telecommunications carriers' employees and employees of the Company's collocating affiliates to undergo the same level of security training or its equivalent that the Company's own employees or third party contractors providing similar functions were required to undergo; however, the Company did not require telecommunications carriers' employees or the employees of the Company's affiliates to receive such training from the Company itself and provided information to the telecommunications carriers on the specific type of training required so the telecommunications carriers' employees could conduct their own training.
- 33) **Use of Separate Space** – The Company restricted physical collocation to space separated from the space housing the Company's equipment only when legitimate security concerns or operational constraints unrelated to the Company's or its affiliates' or subsidiaries' competitive concerns warranted such separation. Physical collocation space assigned to an affiliate or subsidiary of the Company was separated from space housing the Company's equipment, the separated space was available in the same time frame or less than non-separated space, the cost of the separated space to the requesting carrier was not materially higher than the cost of non-separated space, and the separated space was comparable from a technical and engineering standpoint to non-separated space.
- 34) **Use of Central or Separate Entrance** – The Company required the employees and contractors of collocating carriers to use a central or separate entrance to the Company's building only when the Company also required that the employees or contractors of the Company's affiliates and subsidiaries be subject to the same restriction.

- 35) **Construction of a Separate Entrance** – The Company required the construction of a separate entrance to access physical collocation space only when the construction of the separate entrance was technically feasible, legitimate security concerns or operational constraints unrelated to the Company’s or any of its affiliates’ or subsidiaries’ competitive concerns warranted such separation, the separation would not artificially delay collocation provisioning, and the separation would not materially increase the requesting carriers’ costs.
- 36) **Approval of Subcontractors** - The Company permitted collocating telecommunications carriers to subcontract the construction of physical collocation arrangements with contractors approved by the Company. The Company did not unreasonably withhold approval of any contractors, and approval by the Company has been based on the same process and criteria used in approving contractors for its own purposes.
- 37) **Offering of Shared Cage Collocation** - The Company offered shared cage collocation arrangements as part of its physical collocation offering. No requests for such collocation were received during the Evaluation Period.
- 38) **Site Preparation for Shared Cage Collocation** - In making shared cage arrangements available, the Company’s policy is to not increase the cost of site preparation or non-recurring charges above the cost for provisioning such a cage of similar dimensions and material to a single collocating party.
- 39) **Allocation of Site Preparation Costs for Shared Cage Collocation** - The Company’s policy is to prorate the charge for site conditioning and preparation undertaken to construct a shared collocation cage or condition the space for collocation use, regardless of how many carriers actually collocate in that cage, by determining the total charge for site preparation and allocating that charge to a collocating carrier based on the percentage of the total space utilized by that carrier.
- 40) **Shared Collocation in Single-Bay Increments** - The Company made shared collocation space available in single-bay increments or their equivalent so that a telecommunications carrier could purchase space in increments small enough to collocate a single rack, or bay, of equipment.
- 41) **Cageless Collocation** - The Company offered cageless collocation as part of its physical collocation offering. The Company allowed telecommunications carriers to collocate without requiring the construction of a cage or similar structure, and the Company permitted collocating carriers to have direct access to their equipment.
- 42) **Direct Connections** - The Company did not require telecommunications carriers to use an intermediate interconnection arrangement (i.e., a point of termination frame or bay) in lieu of direct connection to its network if technically feasible.

- 43) **Cageless Collocation in Single-Bay Increments** - The Company made cageless collocation space available in single-bay increments so that telecommunications carriers could purchase space in increments small enough to collocate a single rack, or bay, of equipment.
- 44) **Offering of Adjacent Space Collocation** - The Company offered adjacent space collocation as part of its physical collocation offering. The Company made available, where space was legitimately exhausted in a particular Company structure, collocation in adjacent controlled environmental vaults or similar structures, subject only to space availability on the ILEC's adjacent land, technical feasibility, and reasonable safety and maintenance requirements.
- 45) **Construction of Adjacent Space Collocation** - The Company did not receive requests for adjacent space collocation. The Company's policy is to provide the option for telecommunications carriers to construct or otherwise procure such an adjacent structure, if space for physical collocation is exhausted within the ILEC structural premises, subject only to space availability on the ILEC's adjacent land, technical feasibility, and reasonable safety and maintenance requirements.
- 46) **Provision of Adjacent Space Collocation on Just, Reasonable, and Nondiscriminatory Terms** - The Company did not receive requests for adjacent space collocation. The Company's policy is to provide power and physical collocation services and facilities as it would to its own similar structures, subject to the same nondiscrimination requirements as applicable to any other physical collocation arrangement.
- 47) **Placement of Equipment in Adjacent Space** - The Company did not receive requests for adjacent space collocation. The Company's policy is to permit the requesting carrier to place its own appropriate equipment or facilities, including, but not limited to, copper cables, coaxial cables, fiber cables, and appropriate telecommunications equipment, in adjacent facilities constructed by the Company, the requesting carrier, or a third party.
- 48) **Physical Collocation in Previously Exhausted Structures** - The Company is not aware of any carrier that is collocated in adjacent facilities. If a carrier collocates in an adjacent facility in the future and physical collocation space becomes available in a previously exhausted adjacent Company structure, the Company would not require a carrier to move, or prohibit a carrier from moving, a collocation arrangement into that structure. Instead, the Company would continue to allow the carrier to collocate in any adjacent controlled environmental vault, controlled environmental hut, or similar structure that the carrier has constructed or otherwise procured.
- 49) **Application Acceptance or Denial** - Except where a state commission has affirmatively established different deadlines for accepting or denying a collocation application, the Company informed requesting carriers within 8 business days (roughly 11 calendar days) whether physical collocation space requests can be

accommodated. The Company permitted requesting carriers that resubmitted a revised application to cure any deficiencies in an application for physical collocation within ten days after being informed of them while retaining their position within any collocation queue that the Company maintained.

- 50) **Completion of Physical Collocation Arrangements** – Unless the state commissions set different intervals, the Company completed physical collocation arrangements during the Evaluation Period within the intervals mandated by the *Deployment of Wireline Service Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket Nos. 98-147 and 96-98, *Order on Reconsideration And Second Further Notice Of Proposed Rulemaking In CC Docket No. 98-147 And Fifth Further Notice of Proposed Rulemaking in CC Docket No. 96-98 (FCC 00-297)*, 15 FCC Rcd 17806 (2000), as modified by the waiver granted to SBC in *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Memorandum Opinion and Order (DA 00-2528)*, released November 7, 2000.
- 51) **Restrictions on Shared Collocation Cages** - The Company did not place unreasonable restrictions on a telecommunications carriers' use of shared collocation cages.
- 52) **Ordering UNEs in Shared Collocation Cages** - The Company did not receive requests for shared cage collocation arrangements during the Evaluation Period. The Company's policy is that if two or more telecommunications carriers who have interconnection agreements with the Company utilize a shared collocation arrangement, that the Company would permit each telecommunications carrier to order UNEs and to provision service from that shared collocation space, regardless of which of the telecommunications carriers was the original collocator
- 53) **Access to Basic Facilities** - The Company provided telecommunications carriers reasonable access to basic facilities such as restroom facilities and parking at the Company's premises.
- 54) **Allocation of Collocation Charges** - The Company allocated space preparation, security measures, and other collocation charges on a pro-rated basis so that the first collocator, in a particular Company premises, was not responsible for the entire cost of site preparation.
- 55) **Restrictions on the Processing of Collocation Applications** - The Company did not impose unreasonable restrictions on the time period within which it would consider applications for collocation space. Specifically, the Company did not refuse to process an application for collocation space submitted by a telecommunications carrier or submitted by the Company's affiliate(s) while that telecommunications carrier's state certification was pending, or before the telecommunications carrier and the Company had entered into a final interconnection agreement.

56) **Access to Subloop** - The Company provided access to the subloop in accordance with the FCC's Collocation Rules pursuant to Parts 51.321 and 51.323 of Title 47 of the Code of Federal Regulations. One such request was received during the Evaluation Period, but the requesting carrier did not respond to the Company's quote and the application expired.

Attachment C

The Company and the FCC Staff agreed to the following definition of the Evaluation Period by Condition:

#	Condition Name	Evaluation Period
1	Separate Affiliate For Advanced Services	Condition 1 is addressed in a separate agreed-upon procedures engagement report of Ernst & Young LLP.
2	Discounted Surrogate Line Sharing Charges	Condition sunset prior to January 1, 2002.
3	Advanced Services OSS	January 1, 2002 through December 31, 2002
4	Access to Loop Information for Advanced Services	January 1, 2002 through December 31, 2002
5	Loop Conditioning Charges and Cost Studies	January 1, 2002 through October 23, 2002
6	Non-discriminatory Rollout of xDSL Services	January 1, 2002 through December 31, 2002
7	Carrier to Carrier Performance Plan	
	SNET, Ameritech States, Nevada Bell and Voluntary Payments	January 1, 2002 through December 31, 2002
	Pacific Bell	January 1, 2002 through November 30, 2002
	SWBT	Condition sunset prior to January 1, 2002.
8	Uniform and Enhanced OSS	January 1, 2002 through December 31, 2002
9	Restructuring OSS Charges	January 1, 2002 through October 23, 2002
10	OSS Assistance to Qualifying CLECs	January 1, 2002 through November 8, 2002
11	Collocation Compliance	January 1, 2002 through October 23, 2002

12	Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements	January 1, 2002 through October 23, 2002
13	Multi-State Interconnection and Resale Agreements	January 1, 2002 through December 7, 2002
14	Carrier-to-Carrier Promotions: Unbundled Loop Discount	January 1, 2002 through December 31, 2002
15	Carrier-to-Carrier Promotions: Resale Discount	January 1, 2002 through December 31, 2002
16	Carrier-to-Carrier Promotions: UNE Platform	January 1, 2002 through December 31, 2002
17	Offering of UNEs	January 1, 2002 through December 31, 2002
18	Alternative Dispute Resolution through Mediation	January 1, 2002 through October 23, 2002
19	Shared Transport in Ameritech States	January 1, 2002 through December 31, 2002
20	Access to Cabling in Multi-Unit Properties	January 1, 2002 through October 23, 2002
21	Out-of-Territory Competitive Entry (National-Local Strategy)	January 1, 2002 through October 23, 2002
22	InterLATA Services Pricing	January 1, 2002 through December 31, 2002
23	Enhanced Lifeline Plans	January 1, 2002 through December 31, 2002
24	Additional Service Quality Reporting (Including testing of completeness and accuracy of eight service quality measures selected by the FCC)	January 1, 2002 through December 23, 2002
25	NRIC Participation	January 1, 2002 through October 23, 2002

26	Compliance Program	January 1, 2002 through December 31, 2002.
	Sections 1 and 2 of the Compliance Plan attached to the Consent Decree dated March 20, 2003	March 20, 2003 through May 4, 2003 ¹

¹ The evaluation period for Sections 1 and 2 of the Compliance Plan attached to the Consent Decree of March 20, 2003 through May 4, 2003 represents 45 days from when the Consent Decree became effective. At the direction of the FCC Staff, E&Y was instructed to report on the Company's compliance with Sections 1 and 2 of the Compliance Plan attached to the Consent Decree in conjunction with the attestation examination of the Company's compliance with the Merger Conditions for the year ended December 31, 2002.

This attachment addresses the actions taken by the Company regarding compliance with Sections 1 and 2 of the Compliance Plan of SBC Communications Inc. (Compliance Plan) attached to the Consent Decree dated March 20, 2003.

Section 1 – Implementation of Control Process

For Section 1 of the Compliance Plan, the Company committed to implement the following enhancements to controls and processes for managing the integrity of the data it reports monthly to the FCC pursuant to the Performance Plan adopted in the Merger Conditions in the Ameritech States and at SNET within 45 days¹ of the effective date of the Consent Decree:

- 1) Review of data at key stages of production to facilitate data continuity
- 2) Validation of data and perform trend analysis to identify and investigate material outlying results.
- 3) Review of results to assess implementation of new or changed requirements
- 4) Maintenance of data files as required for document retention purposes

Additionally, in Section 1 of the Compliance Plan, the Company committed to the following within 45 days of the effective date of the Consent Decree:

- 5) Review of performance of Company personnel responsible for providing and reporting data pursuant to the Performance Plan adopted in the Merger Conditions in a timely and accurate manner, and their errors will be identified and analyzed for error prevention activities in order to reduce their recurrence.

Section 2 – Regulatory Compliance Group Oversight

In Section 2 of the Compliance Plan, the Company committed that the Company's Regulatory Compliance Group and a designated steering committee will review the performance reporting conducted by SBC pursuant to the Merger Conditions and the processes and controls implemented pursuant to Section 1 - Implementation of Control Process. The steering committee is to be comprised of SBC senior management personnel from across applicable SBC regions. The primary goals of the steering committee are to ensure that there are reasonable assurances that the performance as measured and reported by SBC pursuant to the Performance Plan in the Merger Conditions is materially equivalent to the performance that SBC has actually delivered. The steering committee is to oversee the processes and controls implemented pursuant to Section 1 - Implementation of Control Process and is to oversee the following principal efforts:

¹ As utilized throughout this document, within 45 days of the effective date of the Consent decree equates to May 4, 2003.

- 1) Examine the Company's processes for reviewing reporting accuracy and assessing whether the Company appropriately captures, processes and reports performance information in accordance with the applicable business rules pursuant to the Performance Plan adopted in the Merger Conditions.
- 2) Conduct analysis of sample metrics data sets and change controls between data providers and data reporters to assess metric accuracy and business rule compliance pursuant to the Performance Plan adopted in the Merger Conditions.
- 3) Review monthly performance and data accuracy and identify issues and appropriate corrective actions pursuant to the Performance Plan adopted in the Merger Conditions.

Actions Taken by the Company to Comply with Sections 1 and 2 of the Compliance Plan of SBC Communications Inc.

SBC complied with Section 1-Implementation of Control Process, of the Compliance Plan by implementing all of the controls described below within 45 days of the effective date of the Consent Decree.

Enhancements to Controls Implemented in the Ameritech States²

- 1) Preliminary PM results for PMs reported by Interconnection Compliance Support group ("ICS" or "DSS") are validated by ICS computer programmers against expectations to identify wide variances³ prior to releasing the results for reporting. This enhancement was implemented for the following PMs: 1, 2, 3, 4a, 4b, 4d, 5a, 5b, 5c, 6a, 6b, 7a, 7b, 7c, 8, 9, 10a, 10b, 11a, 11b, 12a, 12b, 13a, 13b, and 17. As ICS assumed responsibility for the processing of additional PMs throughout 2003, this enhancement was applied to the additional PMs. [Sections 1-1, 1-2, and 1-3]
- 2) Regulatory Reporting Systems ("RRS") - Peer reviews are executed during each production cycle. There are two distinct sets of processing on RRS, and the two different teams responsible for these areas cross-over each month to review log files, database counts and production documentation as a final checkpoint before the production run is completed. [Section 1-1]

² The enhancements identified below are in addition to controls implemented by the Company prior to the effective date of the Consent Decree and controls that were previously established by the Company. The Section of the Company's Compliance Plan referenced at the end of each paragraph describing the enhancements below refers to the corresponding enhancement category identified in the Company's Compliance Plan which are also identified at the beginning of this document, "Section 1 – Implementation of Control Process".

³ This variance analysis includes verification that the previous month's results do not vary in volume by more than 25% (+ or -) in the denominator and aggregate performance of the results do not vary more than 5% (+ or -) from the previous month.

- 3) RRS - Production Run issues tracking. The issues tracking document (“Look Up Table”) contains errors that occur during a reporting cycle. Examples include problems with input files, modules that failed and had to be restarted, and any abnormal steps. This document facilitates continuous improvement by reviewing errors monthly and taking steps to prevent future errors from occurring. [Section 1-1]
 - Issues and solutions related to bad input files, failed validation steps, batch modules that failed and had to be re-executed, and updates written outside of the code baseline to correct any required issues (updates written outside of standard development language, Prism) are documented to act as a Look Up Table.
 - Whenever a similar issue arises in the future, this document could be referenced.
 - Includes issues with source files.
- 4) RRS - Month end transition meeting - This is the official transition of changes from the development/test team to the production support team. The production support team is responsible for executing the monthly production jobs, and this transition informs them of all changes being implemented. The document contains all impacted scripts and specific validation steps to ensure the correct version of source code has been migrated (as one final check in the configuration management process). The development team transitions all the scripts, modules and database changes that are going into the next production run. The month end transition meeting helps the production support team understand the new or changed scripts/modules or any other objects and also the validation steps. [Section 1-3]
- 5) RRS – Automatic Notification - Module monitors all production batch jobs and pages the production support team when any process finishes or a script fails. The production support team then validates the jobs completion or restarts the module if there are problems. This notification is a reminder to execute necessary validation steps and also to reduce lag time in the batch cycle. [Section 1-1]
- 6) Performance Reporting System (“PRS”) Data Transfer System Controls - ICS Data. ICS data files are first copied from the ICS Server to the PRS Server where the PRS administrator verifies that the file size of the files received match the size on the files sent from the ICS server. (File size is measured to the byte so even a single character difference in a file will be apparent.) [Section 1-1]
- 7) PRS Data Transfer System Controls - The Company utilizes an external contractor to process the PM results (i.e. perform statistical calculations, etc).

When data files are sent to the external contractor for processing of PM results by the PRS administrator, the external contractor replies to the email with a confirmation email indicating that file has been received. All files are confirmed to have been received by the external contractor by the procedure followed by the PRS administrator where sent file emails are matched with their corresponding confirmation email before filing away the sent file email. [Section 1-1]

- 8) For those PMs processed by ICS, a month-end checklist is prepared for each PM that documents the validation steps performed by the computer programmers on the monthly PM results. These validation steps include reasonableness checks, consistency checks and completeness checks. [Sections 1-1, 1-2, and 1-3]
- 9) Data Retention – In addition to numerous improvements added during 2002, the Company implemented the following data retention enhancements to existing data storage practices after the release of the Consent Decree: [Section 1-4]
 - o SBC implemented an improved method of retaining source measurement data for the Loop Maintenance Operation System (“LMOS”) by implementing a network optical warehouse for storage of trouble ticket data.
 - o For the Mechanized Order Receipt Telemanagement (“MORTel”) system, SBC implemented a retention policy to begin collecting data at its original capture point.

Enhancements to Controls Implemented at SNET⁴

- 1) Preliminary PM results for PMs reported by ICS are validated by ICS computer programmers against expectations to identify wide variances⁵ prior to releasing the results for reporting. This enhancement was implemented for the following PMs: 1, 2, 3, 4a, 4c, 4b, 4d, 5a, 5b, 5c, 6a, 6b, 6c, 6c.1, 8, 9, 10a, 10b, 11a, 11b, 11c, 12a, 12b, 12c, 13a, 13b, 13c, and 17. [Sections 1-1, 1-2, and 1-3]
- 2) Updated daily/weekly files for mechanized data from the source systems are reviewed by the Performance Measurement Organization. A monthly data

⁴ The enhancements identified below are in addition to controls implemented by the Company prior to the effective date of the Consent Decree and controls that were previously established by the Company. The Section of the Company’s Compliance Plan referenced at the end of each paragraph describing the enhancements below refers to the corresponding enhancement category identified in the Company’s Compliance Plan which are also identified at the beginning of this document, “Section 1 – Implementation of Control Process”.

⁵ This variance analysis includes verification that the previous month’s results do not vary in volume by more than 25% (+ or -) in the denominator and aggregate performance of the results do not vary more than 5% (+ or -) from the previous month.

validation checklist is prepared for each performance measure to document this review. [Sections 1-1, 1-2, and 1-3]

- 3) A monthly data validation checklist is prepared to document that month-end PM data has been reviewed at key production stages, has had a trend analysis performed, and that additions or changes have been implemented as scheduled. [Sections 1-1, 1-2, and 1-3]
- 4) For those PMs processed by ICS, a month-end checklist is prepared for each PM that documents the validation steps performed by the computer programmers on the monthly PM results. These validation steps include reasonableness checks, consistency checks and completeness checks. [Sections 1-1, 1-2, and 1-3]

SBC complied with Section 2-Regulatory Compliance Group Oversight, of the Compliance Plan by implementing all of the controls described below within 45 days of the effective date of the Consent Decree.

Establishment of Senior Level Steering Committee

- 1) As required by the Compliance Plan, the Company established a Senior Level Steering Committee comprised of senior level managers with responsibility to review performance measure reporting and provide reasonable assurance regarding the integrity of data used to calculate the FCC PMs. The Chairman of the Senior Level PM Steering Committee is the Company Vice President with overall responsibility for the Company's Long Distance Compliance efforts.

The Committee meets monthly to review and approve all matters related to the calculation and reporting of PM results to the FCC including the review and approval of all restatements. Each meeting is documented with formal minutes.

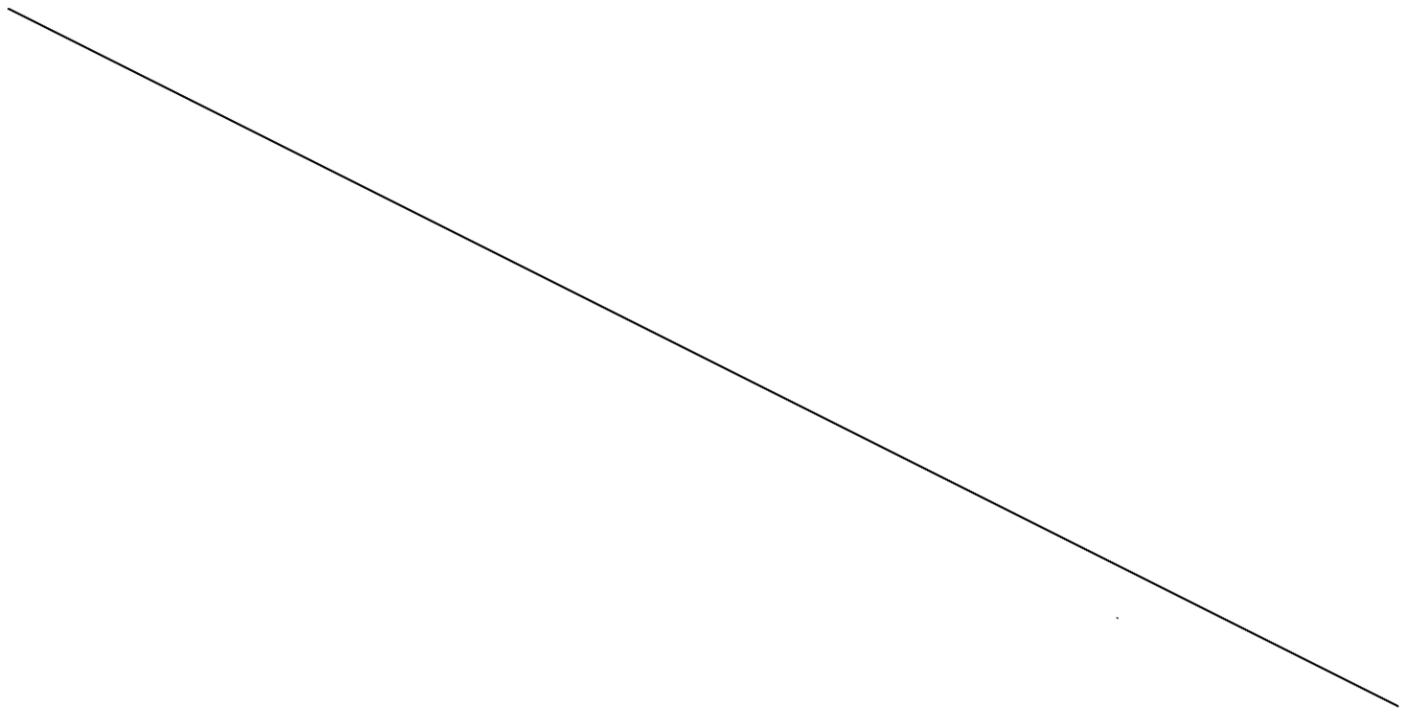
All potential restatements of FCC PM reporting are reviewed and approved in advance by the Officer of the organization designated as the PM Owner and the Chairman of the Senior Level PM Steering Committee. The Senior Level PM Steering Committee reviews all restatements, including an in-depth analysis of the underlying cause of the problem and the corrective action plans that have been developed and implemented to forestall future occurrences. All potential restatements are reviewed monthly on a conference call attended by the responsible individuals from each SBC region. Minutes are kept and, along with all relevant documentation, forwarded monthly to the Senior Level Steering Committee for their review and approval. The designated PM Owner and the Chairman of the Senior Level PM Steering Committee must formally approve restatements at this meeting. [Section 2-1, 2-2 and 2-3]

- 2) The Senior Level PM Steering Committee established a “PM Working Committee” led by a permanent member of the Senior Level PM Steering Committee. The PM Working Committee is responsible for the coordination of all Consent Decree related efforts, the review of data integrity enhancements, the assessment of current data integrity controls, and the identification of potential deficiencies.

Performance is reviewed monthly on a conference call attended by the responsible individuals from each SBC region responsible for reporting PMs to the FCC. Any errors in PM data are discussed in detail to determine the precise cause of the issue and to develop a plan for corrective action. Minutes of such actions are kept and then forwarded monthly to the Senior Level Steering Committee for review and approval. If necessary, these reviews may result in performance improvement discussions or additional training for those individual employees responsible for errors or substandard performance. This same review is conducted with the Senior Level Steering Committee on a monthly basis.

Meeting minutes are prepared and maintained by the PM Working Committee and reviewed with the Senior Level PM Steering Committee on a monthly basis. [Section 1-5, 2-1, 2-2 and 2-3]

- 3) Each month, two submeasures in the Ameritech States and two submeasures at SNET that have been randomly selected are validated to ensure that the submetric is calculated according to the business rules and that the posted results can be replicated using the current technical documentation. The sample design was simple random sampling without replacement with each region's results representing a distinct population. The two submeasures are drawn for analysis for each month. This “mini audit” process includes setting up independent queries to collect data for the selected sub-measures, a validation that the independent queries had all the exclusions and inclusions as specified in the business rules and a comparison of the results with what was reported to the FCC. If any differences are uncovered between the independent queries and the data reported to the FCC, an analysis is conducted to resolve the difference. The PM analysts then complete a validation form documenting the data they have reviewed and the documentation they have relied on for that review. These mini-audits are reviewed each month by the Senior Level PM Steering Committee. [Section 2-2]



Report of Independent Accountants

To the Management of SBC Communications Inc.

1. We have examined SBC Communications Inc.'s (the "Company" or "SBC") compliance with the Merger Conditions¹ during the year ended December 31, 2002, and management's assertion, included in the accompanying Report of Management on Compliance with the Merger Conditions ("Report of Management"), that SBC complied with the Merger Conditions for the Evaluation Period², except as noted therein. Additionally, as discussed in paragraph 5. below, we have examined the

¹ Merger Conditions are set forth in Appendix C of the Federal Communications Commission's ("FCCs") Order Approving the SBC/Ameritech Merger (*Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commission's Rules*, CC Docket No. 98-141, *Memorandum Opinion and Order*, 14 FCC Rcd 11712 (1999)). Condition 11, "Collocation Compliance," of the Merger Conditions requires the Company to provide collocation consistent with the FCC's Collocation Rules as defined in paragraphs 555-607 in the *Implementation of Local Competition Provisions of the Telecommunications Act of 1996, First Report and Order and Fourth Notice of Proposed Rulemaking*, CC Docket No. 96-98 (FCC 96-325), 11 FCC Rcd 15499 (1996) ("Local Competition Order"), and *Deployment of Wireline Service Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *First Report and Order* (FCC 99-48), 14 FCC Rcd 4761 (1999), and as modified and expanded by *Deployment of Wireline Service Offering Advanced Telecommunications Capability and Implementation of the Local Competition Provisions of the Telecommunications Act of 1996*, CC Docket Nos. 98-147 and 96-98, *Order on Reconsideration And Second Further Notice Of Proposed Rulemaking In CC Docket No. 98-147 And Fifth Further Notice of Proposed Rulemaking in CC Docket No. 96-98* (FCC 00-297), 15 FCC Rcd 17806 (2000), as modified by the waiver granted to SBC in *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Memorandum Opinion and Order* (DA 00-2528), released November 7, 2000 ("Waiver Order"), as modified and expanded by *Deployment of Wireline Order* (FCC 01-204), 16 FCC Rcd 15435 (2001), including collocation rules codified in 47 C.F.R. Sections 51.319 (a)2(iv), 51.321, and 51.323 as modified by the waiver granted to SBC in the Waiver Order. In addition, the term Merger Conditions also includes Section 1, "Implementation of Control Process", and Section 2, "Regulatory Compliance Group Oversight" documented in the "Compliance Plan of SBC Communications Inc." ("Compliance Plan") attached to the "Consent Decree" set forth in the Order and Consent Decree released on March 20, 2003 by the FCC in File No. EB-02-IH-0382 (hereafter "Consent Decree"). E&Y evaluated compliance with Sections 1 and 2 of the Compliance Plan by testing that control enhancements and oversight requirements implemented by the Company and disclosed in Attachment D to the Report of Management were in place within 45 days of the effective date of the Consent Decree. Testing of the effectiveness of the control enhancements and oversight requirements at preventing or reducing errors in performance measurements is not within the scope of this engagement. Additionally, this examination did not include procedures necessary to determine compliance with the FCC's pricing rules.

² The Evaluation Period is defined for each Merger Condition in Attachment D.

To the Management of SBC Communications Inc.

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accuracy and completeness of reported data related to eight service quality measurements calculated under the Business Rules³ for the Evaluation Period and management's assertion, included in the accompanying Report of Management, that the Company reported accurate and complete data related to the reporting of the eight service quality measurements calculated under the Business Rules for the Evaluation Period, except as noted therein. Management is responsible for the Company's compliance with the Merger Conditions and with the reporting of accurate and complete service quality measurements in accordance with the Business Rules. Our responsibility is to express an opinion based on our examination.

2. At the direction of the FCC Staff and the Company, this examination does not address compliance with Condition 1. Condition 1 is addressed in a separate agreed-upon procedures engagement report of Ernst & Young LLP. As required by Condition 26, "Compliance Program," the Company filed an annual compliance report on March 15, 2003, which included information related to Condition 1. The procedures performed for Condition 1, which were agreed to by the FCC and SBC, contained procedures to test the accuracy and completeness of the Company's annual compliance report as it relates to Condition 1.
3. Except as discussed in paragraphs 2. and 6.b. of this report, our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with the requirements referenced above and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.
4. Condition 19, "Shared Transport in Ameritech States", requires the Company to offer shared transport in the Ameritech States under terms and conditions, other than rate, structure and price, similar to those that it offered in Texas as of August 27, 1999. On October 9, 2002, the FCC issued an Order, *In the Matter of SBC Communications, Inc. Apparent Liability for Forfeiture*, File No. EB-01-IH-0030 NAL/Acct. No. 200232080004 ("Shared Transport Order"), concluding that the Company violated Condition 19 by refusing to allow CLECs in the Ameritech States to utilize "shared transport" to provide end-to-end routing of intraLATA toll calls and required the

³ "Business Rules" refers to the criteria agreed to by the Company and the FCC Staff on August 13, 2001 for reporting additional service quality results. These Business Rules are documented at <https://clec.sbc.com/clec/shell.cfm?section=34> and replace Sections III.1, III.2., and III.3. of the NARUC White Paper related to the reporting requirements of Condition 24.

To the Management of SBC Communications Inc.

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Company to pay a \$6 million assessment. During the Evaluation Period, the Company allowed CLECs in the Ameritech States to utilize “shared transport” to provide end-to-end routing of intraLATA toll calls in all states except Wisconsin. The Company allowed CLECs utilizing the “shared transport” unbundled network element to provide end-to-end routing of intraLATA toll calls in Wisconsin beginning in July 2002. In 2003, the Company paid the \$6 million assessment required by the Shared Transport Order and filed a petition for review with United States Court of Appeals for the District of Columbia, requesting that the Court vacate, enjoin and set aside the Shared Transport Order on the grounds that the FCC’s findings were arbitrary and capricious, not supported by substantial evidence, and otherwise contrary to law. Based on the FCC’s interpretation of the requirements of Condition 19 as stated in the Shared Transport Order, the Company did not comply with the requirements of Condition 19 in previous periods and did not comply with Condition 19 in the state of Wisconsin for the period of January 1, 2002, through June 2002. The Company asserts that Condition 19 does not require the Company to allow CLECs in the Ameritech States to utilize shared transport to route intraLATA toll calls. This matter is still pending as of the date of this report.

5. The Merger Conditions require the independent accountant to attest to the accuracy and completeness of the performance data, including restated data, provided to telecommunications carriers and regulators under the Merger Conditions. Based on the FCC Staff’s interpretation of the Merger Conditions, the term “performance data” applies to both Condition 7 and Condition 24. However, under the Company’s interpretation of the Merger Conditions, the Company does not believe that the scope of the independent accountant’s attestation engagement regarding the Company’s compliance with the Merger Conditions applies to the accuracy and completeness of service quality data in conjunction with Condition 24, but rather applies only to the accuracy and completeness of performance measurement data provided to telecommunications carriers and regulators in conjunction with Condition 7, “Carrier-to-Carrier Performance Plan.” Due to the differing interpretations noted above, the FCC Staff and the Company agreed that Ernst & Young would test and report on the accuracy and completeness of eight service quality measurements as selected by the FCC Staff calculated under the Business Rules, as defined in footnote 3 herein, for the Evaluation Period. The FCC Staff selected eight service quality measures as listed below for Ernst & Young to test and report on the accuracy and completeness for the Evaluation Period.

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Repair – Basic Service

1. Line Number 300 – Number of closed trouble reports
2. Line Number 301 – Number of repeat trouble reports
3. Line Number 340 – Number of trouble reports coded “out of service”
4. Line Number 341 – Number of trouble reports coded “out of service” with receipt-to-clear duration less than or equal to 24 hours
5. Line Number 345 – Percent service restored within 24 hours
6. Line Number 360 – Number of reports with trouble disposition codes of found OK or test OK
7. Line Number 370 – Number of reports with trouble disposition codes of trouble found on the customer side of demarcation
8. Line Number 385 – Sum of duration of trouble reports

Our examination disclosed that certain of the eight service quality measures described above contained errors as described in Attachment B to this report.

6. Our examination disclosed the following material noncompliance with the Merger Conditions applicable to the Company during the Evaluation Period:
 - a. Condition 3, “Advanced Services OSS,” Condition 14, “Carrier-to-Carrier Promotions: Unbundled Loop Discount,” and Condition 15, “Carrier-to-Carrier Promotions: Resale Discount,” require the Company to provide discounts to Competitive Local Exchange Carriers (“CLECs”) for orders of certain products, including but not limited to unbundled loops for advanced services and unbundled network element facilities used to provide residential telephone services to end-user customers, and residential resale discounts. The Company was required to apply these discounts within 60 days of the initial billing for the service through credits, true-ups or other billing mechanisms. However, during the Evaluation Period, certain discounts were not provided within 60 days of the initial billing for the service as required by the Merger Conditions or were not provided.
 - i. Condition 3 Advanced Services Discount: In the Southern New England Telephone Company (SNET), discounts were not provided within 60 days of initial billing for the service on eligible recurring and nonrecurring charges for one CLEC during the period April through August 2002 due to an error in the update of a rate table.

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- ii. **Condition 14 Unbundled Loop Discount:** In the Ameritech States⁴, certain eligible CLECs did not receive discounts within 60 days of the initial billing for the service as required by the Merger Conditions due to an error in the update of rate tables and due to a computer program error associated with a new ordering system implementation that resulted in the billing system inappropriately classifying residential loops as business loops.
 - iii. **Condition 15 Resale Discount:** In the Ameritech States, certain eligible CLECs did not receive discounts within 60 days of the initial billing for the service as required by the Merger Conditions for resold services where the CLEC's end-user customer moved to another location ("T" Orders). In Southwestern Bell Telephone, L. P. ("SWBT"), some CLEC orders did not receive discounts on certain eligible lines within 60 days of the initial billing for the service as required by the Merger Conditions for resold services.
- b. **Condition 7, "Carrier-to-Carrier Performance Plan,"** requires the Company to report, on a monthly basis, operational performance in 20 measurement categories specified in the Merger Conditions. Certain of these measurements contained errors as described in Attachment A to this report. Additionally, Condition 7 requires the Company to make voluntary payments to the U.S. Treasury based on the results of the 20 measurements reported. We have tested the accuracy of the calculation of voluntary payments calculated prior to the impact of the errors described in Attachment A to determine whether the required payment to the U.S. Treasury was remitted, noting no exceptions. In Section 3, "True-Up Process" documented in the "Compliance Plan of SBC Communications Inc." attached to the Consent Decree released on March 20, 2003, SBC and the FCC agreed that the Company would establish a process for performing a true-up for any errors in the calculation of any voluntary payments and will apply its true-up process to any errors for the performance measurement reports filed with the FCC in the 12-month period immediately preceding the date of the Consent Decree.⁵ As of the date of this report, the Company has applied the true-up process to the errors in Attachment A to this report that were restated but has not yet remitted payment for the amount calculated by the true-up process. Additionally, the Company has

⁴ "Ameritech States" refers to Illinois Bell Telephone Company; Indiana Bell Telephone Company, Incorporated; Michigan Bell Telephone Company; The Ohio Bell Telephone Company; and Wisconsin Bell, Inc., collectively.

⁵ The 12-month period covered performance measurement results filed for the months of February 2002 through January 2003.

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not restated certain errors noted on Attachment A. Accordingly, we were unable to, and do not, express an opinion on the accuracy of the Company's compliance with the requirement to accurately calculate and remit voluntary payments for 2002.

- c. Condition 11, "Collocation Compliance," requires the Company to provide collocation consistent with the FCC's Collocation Rules. The following was noted:
 - i. Title 47 Part 51.321(f) requires the Company to submit to the state commission detailed floor plans or diagrams of any premises where the Company claims that physical collocation is not practical because of space limitations. We noted one instance in which floor plans or diagrams were not submitted to the state commission for a premises where the Company claimed that physical collocation was not practical in the first quarter of 2002, which was prior to its revision of its 13-state policy regarding floor plan submission.
 - ii. Title 47 Part 51.321 (h) requires the Company to submit to a requesting carrier within ten days of the submission of the request a report describing in detail the space that is available for collocation in a particular incumbent LEC premises. The Company received such a request from one carrier for three central offices, and we noted that the Company provided the requested reports to the carrier in 11 calendar days rather than ten calendar days of the submission of the request.
- d. Condition 23, "Enhanced Lifeline Plan," requires the Company to spend no less than an annual promotional budget to make potential customers aware of the enhanced Lifeline or other programs that benefit low-income consumers. During the Evaluation Period, the Company did not spend the required annual promotional budget in Indiana.
- e. Condition 26, "Internal Compliance Program," requires the Company to file, for public record, an annual compliance report detailing the Company's compliance with the Merger Conditions. The Company filed its annual compliance report covering the year ended December 31, 2002, on March 14, 2003, as required. The filed annual compliance report did not note the material noncompliance related to Condition 11, "Collocation Compliance," as discussed in paragraph 6.c.ii. as it relates to providing requesting CLECs with space availability information within the required timelines, Condition 15, "Resale Discount," as discussed in

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paragraph 6.a.iii. as it relates to certain CLEC lines in SWBT not receiving the eligible discount, and Condition 23, "Enhanced Lifeline Plans," as discussed in paragraph 6.d. as it relates to the requirement to spend no less than an annual promotional budget to advertise enhanced Lifeline plans or other programs to benefit low-income consumers.

7. Our examination also disclosed various formal complaints⁶ filed with the FCC or a state regulatory commission that were unresolved as of the date of this report. Those unresolved formal complaints that allege noncompliance with the Merger Conditions during the Evaluation Period are included in Attachment C to this report except formal complaints that allege noncompliance related to a Merger Condition that have already been reported herein. The Company disputes all of the formal complaints disclosed in Attachment C and contends that it has complied with the Merger Conditions in all instances.
8. In our opinion, limited as to Conditions 1 and 7 and certain aspects of Condition 26 as discussed in paragraphs 2. and 6.b. of this report, and considering the Company's interpretations of the matters discussed in paragraph 7., except for the material noncompliance described in paragraph 6. above, and except for the statements and legal interpretations set forth by the FCC as discussed in paragraph 4., the Company complied, in all material respects, with the Merger Conditions for the Evaluation Period, including the filing of an accurate annual compliance report, the Company providing the FCC with timely and accurate notice pursuant to specific notification requirements, and the Company providing telecommunications carriers and regulators with accurate and complete performance data. Additionally, pertaining to Condition 24, except for the material noncompliance described in Attachment B, the Company filed accurate and complete data for the eight service quality measurements discussed in paragraph 5. above, in all material respects, in accordance with the Business Rules for the Evaluation Period.

⁶ The listing of formal complaints was compiled from the Company's internal records and was supported through confirmation with FCC staff and state commissions through August 1, 2003. We are not aware of any other formal complaints filed after August 1, 2003, through the date of this report.

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9. This report is intended solely for the information and use of the Company and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

August 29, 2003

Attachment A – Exceptions to Compliance - SBC

Below is a listing of exceptions to compliance with the business rules for 2002:

<u>No.</u>	<u>PMs Affected</u>	<u>E&Y Exception Description</u>
1	SBC Midwest Ordering 1	The last two days of April 2002 data were incorrectly excluded from results.
2	SBC Midwest Ordering 1	An incorrect clock interval was being used to calculate firm order confirmation (“FOC”) hours when the start time and end time spanned two business days for the months of January through September 2002. Duplicate records from Local Service Ordering Guidelines (“LSOG”) 5 were also included in results.
3	SBC Midwest Ordering 1	April through August 2002 results misclassified certain loop orders processed through the Local Access Service Request system (“LASR”) as auto/auto instead of auto/manual.
4	SBC Midwest Ordering 1	February 2002 through April 2002 results for one submeasure, FOCs Returned within “X” hrs – Man Sub – Switch Ports – < 24 hrs, were not reported until the following month.
5	SBC Midwest Ordering 1	March 2002 results incorrectly classified certain non-POTS orders in the Unbundled Network Element – Platform (“UNE-P”) manual intervention submeasure when they should have been in the All Other manual intervention submeasure.
6	SBC Midwest Ordering 1	During January through July 2002, the Company did not have the ability to track project due dates, and therefore orders submitted as a project were not included in results.
7	SBC Midwest Ordering 1	The Company excluded local number portability (“LNP”) with loop orders in which the loop portion of the order was rejected and then later corrected for January through September 2002.
8	SNET Ordering 1	During the months of August through December 2002, Electronic Data Interchange (“EDI”) transactions with versions RLS52 and RLS53 were excluded, although they should have been included.
9	SNET Ordering 1	During the months of August through December 2002, Work Flow Manager (“WFM”) transactions with LSC_MARKET_OFFICE_CODE = AW were inappropriately excluded.
10	SNET Ordering 1	During the months of August through December 2002, PM 1 intervals for WFM transactions were calculated using an incorrect timestamp.
11	SNET Ordering 1	During 2002, Mechanized Service Application (“MSAP”) transactions were inappropriately excluded from the measure due to a computer program error.

¹ The term SBC Midwest refers to the Ameritech States, Illinois, Indiana, Michigan, Ohio and Wisconsin

<u>No.</u>	<u>PMs Affected</u>	<u>E&Y Exception Description</u>
12	SBC West Ordering 1	<i>California Only</i> - January 2002 results did not reflect FOCs for certain valid service requests presented through the Exchange Access Control Tracking ("EXACT") system for UNE Unbundled Transport – DS1, UNE Unbundled Transport – DS3, and Interconnect Trunk data elements. This was due to a computer program code change which missed a small number of FOCs.
13	SBC West Ordering 1	<i>California Only</i> - October 2002 results improperly included loop qualification time from the FOC interval on certain service requests.
14	SBC Midwest Ordering 1, 3, 4d	Certain valid LASR transactions were incorrectly excluded from PM results due to invalid ACNA/Company code values from April 2002 through December 2002.
15	SNET Ordering 1,3, 4d	Several transactions from LASR and MSAP were excluded from the measure during 2002 in error due to a system dropping leading or embedded zeros causing a mismatch in the reporting system.
16	SBC West Ordering 1, 4d	Certain valid LASR transactions were incorrectly excluded from the April 2002 PM results due to unresolved computer program logic issues with the Plan of Record implementation.
17	SBC Midwest Preordering 2	For EDI LSOG 1 transactions, the Company improperly excluded certain address verification transactions that were not matched to living units or street addresses from January 2002 through August 2002.
18	SBC Midwest Preordering 2	After the implementation of the LSOG 5 version of EDI ("LSOG 5") in April 2002, the Company improperly reported LSOG 5 transactions in which a request for a customer service record ("CSR") and directory listing was made as one combined request in the Verigate CSR submeasure from April 2002 through August 2002. However, this combined level of disaggregation was not listed in the business rules.
19	SBC Midwest Preordering 2	After the implementation of LSOG 5 in April 2002, the Company improperly double-counted certain preorder queries in the reported results for the LSOG 4 customer service requests and telephone number submeasures only from April through June 2002.
20	SBC Midwest Preordering 2	During January through September 2002, certain transactions were improperly excluded from the reported results due to an error in the computer program logic designed to identify duplicate transactions.
21	SBC Midwest Preordering 2	LSOG 4 EDI/CORBA results for January through March 2002 were not calculated and reported until June 2002
22	SNET Preorder 2	During August through December 2002, the Company was not reporting Verigate and EDI/CORBA loop qualifications – designs. These results should have been included in the "actual sent – design returned" disaggregation.
23	SBC West Preorder 2	For August 2002, CSR requests with greater than 50 working telephone numbers (WTNs) were not excluded from the measure, as specified by the business rules.
24	SBC Midwest Ordering 3	Certain March 2002 transactions were incorrectly included in February 2002 results.