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March 14.2003

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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.; Room TW-A325
Washington D.C. 20554

Re: In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Ameritech Corporation, Transferor, To SBC Communications, Inc., Transferee, (CC Docket No. 98-141)

Dear Ms. Dortch:

In accordance with Paragraph 65(c) of the SBC/Ameritech Merger Conditions, SBC Communications Inc. (SBC) submits the attached "Annual Compliance Report" for the calendar year 2002.

If you have any questions regarding this report please contact me at (202) 326-8919.

Sincerely,

A handwritten signature in black ink, appearing to read "Michelle A. Thomas", written over a horizontal line.

Attachment

cc: Mr. Anthony Dale
Mr. William Freedman
Mr. Mika Savir
Mr. Mark Stephens
Mr. Pete Young

No. of Copies rec'd
List ABCDE

A handwritten number "0" written in black ink, positioned above a horizontal line.

SBC Communications Inc.

**SBC/Ameritech Merger Conditions
2002 Compliance Report to the FCC**

Priscilla Hill-Ardoin
Senior Vice President-Regulatory
Compliance
SBC Communications Inc.

March 15, 2003

Merger Compliance Report – March 15,2003
SBC Communications Inc.

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SBC Communications Inc.

Executive Summary

The SBC/Ameritech Merger Conditions (“Merger Conditions”) require SBC Communications Inc. (“SBC” or “Company”) to submit a report annually by March 15 addressing the Company’s compliance with the Merger Conditions for the preceding calendar year. The Compliance Report is to be prepared in a format substantially similar to the Independent Auditor’s audit report specified by the Conditions. This Executive Summary highlights SBC’s compliance efforts from January 1, 2002 through December 31, 2002, as detailed in the Compliance Report.

When the Federal Communications Commission (Commission) approved the SBC/Ameritech merger, it did so pursuant to the most far-reaching and costly set of Conditions in telecommunications industry history. These conditions – which included performance-measure reporting and voluntary payment provisions, out-of-region entry plans, 13 State Operations Support Systems (OSS), a structurally separate advanced services affiliate, and comprehensive monitoring and independent audit requirements – have been exceedingly complex in application and operation. Many of these requirements concluded in 2002, 36 months after either the effective date of the Merger Conditions or when the requirement was first implemented.

The Merger Conditions imposed many other requirements, each of them complex and demanding in its own way. With each, SBC has devoted the financial and managerial resources necessary to meet the Commission’s requirements, and has carefully monitored its actions to ensure compliance. As this report makes clear, these efforts have been overwhelmingly successful.

The following provides an abbreviated high-level summary of the continued actions taken by SBC in 2002 to implement and maintain the Merger Conditions and achieve the following five policy goals established by the Merger Conditions.

1. Promoting equitable and efficient Advanced Services deployment

As a result of the court’s ruling in ASCENT v. FCC, 235 F.3d 662 (D.C. Cir. 2001), the Merger Condition’s separate advanced services affiliate requirements sunset on January 9, 2002. These requirements were replaced with the more limited requirements relating to advanced services contained in paragraph 13 of the Merger Conditions, which will be in effect until October 8, 2003. SBC complied with the paragraph 13 requirements throughout 2002. Furthermore, although as of January 9, 2002, SBC was no longer required to provide Advanced Services through structurally separate advanced services affiliates, it nonetheless voluntarily did so throughout 2002.

As required by the Merger Conditions, SBC completed requirements regarding the phased-in development of enhancements to existing interfaces used by unaffiliated carriers for pre-ordering and ordering Advanced Services. SBC provided unaffiliated

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carriers access to loop information, and offered interim loop conditioning rates. SBC continued to deploy xDSL Advanced Services in low-income urban and rural wire centers, achieving a total deployment into over 190 low-income urban and rural wire centers.

2. Ensuring open local markets

SBC is committed to providing the best wholesale service in the nation, and we are achieving that goal. SBC reported the 20 performance measurements outlined in the Merger Conditions on a monthly basis as required despite the enormous operational challenges of producing such a large volume of data in just 20 days after month's end. SBC did not charge flat-rate monthly fees for access to Operational Support Systems and held training forums in all regions of SBC to assist CLECs with OSS issues. SBC provided collocation consistent with the Commission's rules. SBC offered to provide most-favored-nation ("MFN) interconnection agreements and multi-state interconnection wholesale agreements. SBC also offered to provide an unbundled loop discount of 25% off the lowest applicable monthly price and increased resale discounts. Where certain CLECs did not receive discounts timely, SBC has taken corrective action where needed to provide future discounts correctly and has completed or is completing the issuance of appropriate credits.

3. Fostering Out-Of-Region competition

SBC completed the requirements of the condition by obtaining switching capability, collocating facilities in at least 10 wire centers, and offering facilities-based local exchange service in each of the 30 out-of-territory markets as defined by the Condition.

4. Improving residential phone service

SBC did not implement mandatory minimum monthly or flat-rate charges for InterLATA service to any in-region or out-of-region wireline residential customer. SBC provided enhanced Lifeline service in those states where the state commissions accepted SBC's offer to provide such service. SBC provided the most detailed service quality reporting information in the industry by reporting quarterly service quality measurements based on the National Association of Regulatory Utility Commissioners' Service Quality White Paper and providing the Federal Communications Commission with quarterly ARMIS data. SBC also continued to participate in the Network Reliability Interoperability Council.

5. Ensuring full compliance with all Conditions

The Independent Auditor completed, and SBC submitted to the FCC, the comprehensive audit engagement reports as required by the Merger Conditions.

SBC's annual compliance report is divided into two sections. The first section provides a *summary* of the actions being taken to help ensure overall compliance. The second section provides an update on each Merger Condition, and the format is substantially similar, in

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relevant respects, to the format of the independent audit report required by paragraph **66** of the Merger Conditions.

This report demonstrates not only SBC's compliance with the Merger Conditions, but also its ongoing commitment to meet the Commission's established goals. SBC remains committed to full compliance with the Merger Conditions.

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Introduction

On October 8, 1999,¹ the Federal Communications Commission (“FCC” or “Commission”) released its Report and Order (“Order”) in CC Docket No. 98-141, regarding the *Applications of Ameritech Corp., Transferor, and SBC Communications Inc., Transferee, 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, DF90, 95 and 101 of the Commission’s Rules* (“Merger Order”). Included in Appendix C of the Merger Order were Merger Conditions that affected the combined entities post-merger business operations of SBC Communications Inc. (“SBC” or “Company”) and Ameritech Corporation (“Ameritech”).² Pursuant to the Merger Conditions, Paragraph 65c requires that an annual compliance report be submitted no later than March 15 of the calendar year following the year covered by the report.

SBC provides this Annual Compliance Report for the Calendar Year 2002 (“Report Period”) in compliance with Paragraph 65c. Certain of the merger conditions sunset in 2002, 36 months after October 8, 1999 (the closing date of the merger), 36 months after the requirement was first implemented, or as otherwise indicated. The first section of the report provides a summary of the actions taken to help ensure overall compliance and includes a discussion of the efficiencies realized as a result of the merger. The second section describes the objectives and compliance activities associated with each of the Merger Conditions during the Report Period and is presented in a format substantially similar to the independent auditor’s report on compliance with the Merger Conditions. Compliance for those conditions that sunset during 2002 is described through the date indicated. Attachment A to this report includes a discussion of the internal controls and training infrastructure that SBC utilized to ensure ongoing compliance. This report is based on SBC’s ongoing review and assessment of compliance with the Merger Conditions as of the report filing date and is accurate to the best of Management’s knowledge and belief at the time that this report was filed.

SBC is committed to meeting all Merger Condition requirements and has dedicated the resources required to achieve and ensure compliance on an ongoing basis.

¹ October 8, 1999 is referred to as the Merger Close Date or “MERGER CLOSING DATE” throughout this report.

² Note: throughout this document, the use of “SBC” or the “the Company” refers collectively to SBC Communications Inc., including Ameritech, the affiliates, and the operating companies of both companies, unless otherwise noted.

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I. Summary of Compliance Activities and Merger Efficiencies

1. Assignment of Compliance Responsibilities

1.1 Corporate Compliance Officer

On September 29, 2000, Cassandra Carr, Senior Executive Vice President-External Affairs, was appointed as Corporate Compliance Officer with the approval of the Board of Directors of SBC and Ms. Carr served as the Corporate Compliance Officer throughout 2001. On January 25, 2002, the Board of Directors designated Michael N. Gilliam, Vice President as the FCC Corporate Compliance Officer. On September 27, 2002, the Audit Committee of the Board of Directors appointed Priscilla Hill-Ardoin, Senior Vice President – Regulatory Compliance, as Corporate Compliance Officer. During the period covered by this report, the FCC Corporate Compliance Officers' responsibilities included the following:

- Overseeing the implementation of the Merger Conditions;
- Monitoring SBC's compliance program and progress toward meeting all deadlines specified in the Merger Conditions; and,
- Providing periodic reports to the Commission regarding SBC's compliance as required by the Merger Conditions and consulting with the Commission on an ongoing basis regarding SBC's compliance with the Merger Conditions.

1.2 Merger Compliance Group

The Merger Compliance Group (MCG), as directed by the Corporate Compliance Officer, provided the Company with a framework for implementing and maintaining internal controls to ensure compliance with the Merger Conditions. The MCG maintained a compliance plan, which tracked each requirement of the Merger Conditions that required action on the Company's part and assigned responsibility to an officer of the Company, who as the team leader for that Condition, was personally responsible for ensuring full compliance with the Condition in the individual business units. The MCG monitored compliance with these requirements through bimonthly conference calls in which each responsible officer or delegate was required to report compliance status, both on a historical and prospective basis. The MCG also performed an oversight role to ensure designation of personnel responsible for training on the Merger Conditions across the Company. The Company also maintained a Merger Compliance oversight team comprised of legal counsel and regulatory staff to provide guidance regarding approval of operations or activities between the Advanced Services affiliates and the ILECs.

1.3 Audit Committee

The Audit Committee of SBC's Board of Directors met with the Corporate Compliance Officer periodically in 2002 to monitor SBC's progress in meeting the Merger Conditions.

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1.4 Executive Compliance Group

Responsibility for implementing and securing compliance with each Merger Condition was assigned to officers and senior managers in the affected business units. For each of the Merger Conditions, a corporate officer was designated as having primary responsibility for achieving and maintaining compliance. Taken collectively, these individuals and corporate officers comprise the “Executive Compliance Group.” In addition, Paul Mancini, Vice President & Assistant General Counsel, was designated as the SBC legal officer to provide legal advice and support to the Executive Compliance Group. A list of the responsible officers and their respective Merger Conditions is provided in Appendix 1 of this Compliance Report.

Responsibilities for the Officers in the Executive Compliance Group included the following:

- Reporting to the Corporate Compliance Officer and delegates on the status of compliance activities related to the specific Merger Conditions for which they are responsible;
- Notifying the Corporate Compliance Officer immediately of any issues, problems, or circumstances needing resolution in order for compliance activities to proceed on schedule;
- On request, certifying compliance with specific Merger Conditions and supplying documentation necessary to confirm such compliance; and,
- Ensuring compliance by their respective staffs with all records retention, document preservation, and document production requirements arising out of, or in connection with, the Merger Conditions.

1.5 Responsibilities of Business Units

Each business unit head, each organization within a business unit, and each work group was collectively responsible for maintaining its units, organizations, or work groups in full compliance with the Merger Conditions and promptly remedying any situations that might lead to non-compliance. Responsibilities included investigating to determine if any organization or work group failed to detect violations, preventing recurrences of any violations within a business unit, and disciplining, on a case-specific basis, the personnel responsible for any failure resulting in non-compliance.

2. Compliance Requirements and Timelines

2.1 Compliance Requirements and Timelines

In order to provide ongoing and consistent internal controls, the Company used a compliance timeline (Federal Communications Commission’s Public Notice, **DA 99-2480**, released November 8, 1999) as the basis for requirements. The Corporate

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Compliance Officer (or delegate) reviewed timelines and compliance requirements on a periodic basis with the Executive Compliance Group, legal counsel, and the MCG.

2.2 Team and Business Unit Timelines

In order to provide additional controls, individual teams and Business Units developed their own requirements and timelines as needed for project management purposes.

3. Audit and Documentation Requirements

3.1 Annual FCC Compliance Report

The Annual Compliance Report (“Report”) as submitted herein is required by Paragraph 65c of the Merger Conditions. This Report addresses SBC’s compliance with the Merger Conditions and documents the activities SBC has undertaken to ensure compliance. Each Business Unit has maintained sufficient documentation to enable the Corporate Compliance Officer to file this Report.

3.2 Independent Compliance Audit

On September 7, 1999, SBC engaged Ernst & Young LLP (“E&Y”) as the independent auditor to perform the examination and agreed-upon procedures engagements required by the Merger Conditions and this engagement included the 2002 report year. The Commission’s letter of August **24**, 1999 to the Company indicated the Commission’s acceptance of the auditor.

4. Internal Controls and Training

The Company recognizes that implementation of an effective internal control structure is an essential element to ensure compliance with the Merger Conditions. Each member of the Executive Compliance Group was responsible for maintaining an effective internal control structure for his or her assigned Merger Conditions. Employee training has always been an integral component of the Company’s corporate culture, and the Company has an extensive training infrastructure. The Company leveraged this existing infrastructure to educate its very large work force on the obligations created by the Merger Conditions. Internal controls and training are summarized in Attachment **A** to this Report.

5. Merger Efficiencies

The Company substantially completed recognition of merger efficiencies by 2002. In 1999 through 2001, activities centered on implementing operational plans to integrate the functions and operations of the pre-merger SBC and Ameritech entities. Company teams focused on specific areas of the business to eliminate duplication, consolidate like work efforts across the entire new organization, and adopt best practices.

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During 2002, merger efficiencies continued to be realized from previously implemented operational plans. These efficiencies resulted primarily from elimination of duplicate functions, the consolidation of operations, the re-negotiation of contractual obligations, and the adoption of best practices. Elimination of duplication had been accomplished through the consolidation of operations at SBC and Ameritech in many areas of the Company, including holding company operations and many other staff operations. Examples of holding company operations that were consolidated included Corporate Finance, Human Resources, Regulatory/External Affairs, Corporate Development, Corporate Strategy, and Corporate Communications. Examples of staff operations functions that were consolidated included functions in Marketing, Network, and Information Systems.

Also by 2002, operational plans to integrate pre-merger functions such as complex application development that required the expiration of pre-existing contractual obligations reached completion. Renegotiated contractual obligations as well as best practices previously implemented in Fleet Operations, Real Estate, Network Services, Sales, Advertising, Marketing, Operator Services, Training, Procurement, and Information Systems continued to produce additional savings. Due to the complexity of the underlying technologies and systems, product availability, and the expiration dates of contractual obligations that existed prior to the merger, the implementation of a few remaining projects extended into 2002, at which time transition activities associated with merger efficiencies were substantially completed.

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II. Discussion of Compliance by Merger Condition

Promoting Equitable and Efficient Advanced Services Deployment

1. Separate Affiliate For Advanced Services

Description and Objectives: Condition 1 required SBC/Ameritech to provide Advanced Services (as defined in paragraph 2 of Condition 1) through one or more structurally separate affiliates. SBC Advanced Solutions, Inc. (“ASI”) was formed in 1999 prior to the MERGER CLOSING DATE. Ameritech Advanced Data Services of Illinois, Inc., Ameritech Advanced Data Services of Indiana, Inc., Ameritech Advanced Data Services of Ohio, Inc., Ameritech Advanced Data Services of Michigan, Inc., and Ameritech Advanced Data Services of Wisconsin, Inc. (collectively referred to as “AADS”) provided Advanced Services as a structurally separate affiliate in the Ameritech states prior to the Merger. Collectively, ASI and AADS are referred to as the Advanced Services affiliates.

As a result of the court’s ruling in ASCENT v. FCC, 235 F.3d 662 (D.C. Cir. 2001), the Merger Conditions’ separate advanced services affiliate requirements in the Merger Conditions, including the collocation-related and other requirements adopted in the *Second Memorandum and Order* in CC Docket 98-141, automatically sunset on January 9, 2002. These requirements were replaced with the more limited requirements related to advanced services set forth in paragraph 13 of the Merger Conditions “paragraph 13 requirements.” The paragraph 13 requirements will be in effect until October 8, 2003. SBC complied with the paragraph 13 requirements throughout 2002.

The following addresses SBC’s compliance with the paragraph 13 requirements during 2002:

- Although beginning January 9, 2002 SBC was no longer required to provide Advanced Services through structurally separate advanced services affiliates, SBC voluntarily did so throughout 2002. These Advanced Services affiliates complied with the following paragraph 13 requirements:
 1. SBC provided the Advanced Services OSS discount provisions of Paragraph 18 as detailed in this Report in the discussion of compliance with Merger Condition 3.
 2. The Advanced Services affiliates continued to use the same interfaces, processes, and procedures made available by the incumbent LEC to unaffiliated providers of Advanced Services for pre-ordering, ordering, provisioning, and repair and maintenance of Advanced Services;
 3. The Advanced Services affiliates used the EDI interface, for processing a substantial majority (i.e., at least 75 percent of pre-order inquiries and at least 75 percent of orders) of Advanced Services as detailed in this report in the discussion of compliance with Merger Condition 3;
 4. The ILECs continued to provided unaffiliated telecommunications carriers with access to the same local loop information as made available to the Advanced

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Services affiliates as detailed in this Report in the discussion of compliance with Merger Condition 4;

5. The ILECs continued to make available to unaffiliated Advanced Services providers the Operations, Installation, and Maintenance (OI&M) services that were previously made available to such providers by the ILECs pursuant to these conditions;
6. The ILECs did not provide any OI&M services at the customer premises with respect to the offering of Advanced Services by the Advanced Services Affiliates;
7. The ILECs continued to provide the enhanced OSS interfaces for provisioning Advanced Services as discussed in this report in the discussion of compliance with Merger Condition 3.

2. Discounted Surrogate Line Sharing Charges

Description and Objectives: Condition 2 required SBC to offer the Surrogate Line Sharing discount for unbundled local loops until line sharing was implemented.

This condition sunset when line sharing was implemented on May 29,2000.

3. Advanced Services Operations Support Systems (OSS)

Description and Objectives: Condition 3 required SBC to provide options for pre-ordering and ordering components used to provide digital subscriber line and other Advanced Services. This Condition also required SBC to provide unaffiliated carriers with access to the OSS enhancements on a specified schedule and made provisions for voluntary payments if dates were missed. Additionally, until OSS enhancements were deployed and the EDI interface was used by the Advanced Services affiliates for pre-ordering and ordering (at least 75 percent of pre-order inquiries and 75 percent of orders) the Advanced Services components used by the Advanced Services affiliates in the relevant geographic area, SBC was required to provide a discount of 25 percent from the recurring and nonrecurring unbundled local loop charges used to provide Advanced Services.

The following addresses SBC's compliance with the requirements of this condition:

- SBC offered, as required until April 8, 2002 (30 months after the Merger Closing Date), to provide unaffiliated telecommunications carriers with direct access to SORD or equivalent service order processing systems for pre-ordering and ordering xDSL and Advanced Services.
- SBC continued to make available the enhancements to the existing Datagate or EDI interfaces for pre-ordering and ordering xDSL and other Advanced Services in all of the required SBC states implemented according to the Future Mode of Operation Timeline – Release Schedule in the Plan of Record filed April 3, 2000, and Phase 2 of the collaborative sessions ended on December 22, 2000. SBC completed the Phase 3 enhancements to Advanced Services OSS on October 22, 2001, except in Connecticut, where the enhancements were completed on August 6,2002.

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- SBC provided telecommunications carriers in Connecticut the required discount of 25 percent from the recurring and nonrecurring charges for unbundled loops used to provide Advanced Services until after the sunset date of the condition. The Company discovered in late 2002 that one CLEC at the Southern New England Telephone Company (“SNET”) did not receive the discount when it became eligible in April 2002. The Company identified the discount the CLEC should have received and remitted a credit retroactively.

This condition sunset October 22, 2001 when the required OSS enhancements were deployed, except in Connecticut where the uniform interfaces were deployed on August 6, 2002. However, SBC remains obligated to make the OSS enhancements and additional interfaces required by this Condition available for not less than 36 months after they were deployed.

4. Access to Loop Information for Advanced Services

Description and Objectives: Condition 4 required SBC to provide unaffiliated telecommunications carriers with non-discriminatory access to the same local loop information for the deployment of xDSL and Advanced Services that is available to SBC’s retail operations, including the retail operations of the Advanced Services affiliates. Additionally, Condition 4 specifies timelines for the deployment of electronic pre-order OSS access to theoretical loop length, electronic pre-order Internet access to theoretical loop length, and access to loop make-up information regarding the capability of loops to support Advanced Services.

The following addresses SBC’s compliance with the requirements of this condition:

- SBC provided CLECs with non-discriminatory access to the same local loop information for the deployment of xDSL and Advanced Services that was available to SBC’s retail operations, including the retail operations of the Advanced Services affiliates.
- SBC provided unaffiliated telecommunications carriers with non-discriminatory, electronic pre-order OSS access to the theoretical loop length on an individual address basis. Although SBC was not required to provide such access in the Ameritech states and Connecticut until 22 months after the MERGER CLOSING DATE (August 8, 2001), SBC made pre-order access to loop length by individual address available in all regions in 2000.
- SBC provided unaffiliated telecommunications carriers with non-discriminatory, electronic pre-order Internet access to theoretical loop length based upon a zip code of end users in a wire center at no additional charge, as required by October 10, 2000.
- SBC provided unaffiliated telecommunications carriers with non-discriminatory access to loop make-up information regarding the capability of loops to support Advanced Services that is available in SBC’s records, in response to address-specific written requests. Pricing for this manual process was in compliance with any applicable Commission pricing rules for Unbundled Network Elements (“UNEs”).

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This condition sunset on October 8, 2002, 36 months after the closing date of the Merger Conditions (October 8, 1999), except with respect to the obligation to make available the systems and information described in this Condition for 36 months after they were made available to unaffiliated telecommunications carriers.

5. Loop Conditioning Charges and Cost Studies

Description and Objectives: Condition 5 specified that cost studies with proposed rates, must be filed with each state commission for conditioning xDSL loops in the SBC Service Area within each SBC State that had not already started or completed cost proceedings for this service. The cost studies and proposed rates shall be prepared in compliance with the methodology set forth in the Commission's and the relevant state commission's pricing rules for UNEs. During the interim period prior to approval of these rates, SBC was to condition loops of less than 12,000 feet (based on theoretical loop length) at no charge to the Advanced Services provider.

The following addresses SBC's compliance with the requirements of this condition:

- Pending final approval of state-specific rates, interim loop conditioning rates for xDSL loops were made available to advanced services providers. Additionally, no charge was assessed for conditioning loops of less than 12,000 feet (based on theoretical loop length), and authorization to perform and agreement to pay were obtained from the provider before proceeding with conditioning work identified by SBC. Seven states had given final approval for loop conditioning rates prior to the Report Year, and no additional approvals were obtained in 2002 prior to the sunset of the condition.

This condition sunset on October 8,2002, 36 months after the closing date of the Merger Conditions (October 8, 1999).

6. Non-discriminatory Rollout of xDSL Services

Description and Objectives: In an effort to ensure that xDSL services *are* available to low-income consumers, this Condition provides that at least 10 percent of all rural and 10 percent of all urban wire centers be designated as low-income wire centers. Once xDSL is deployed in 20 wire centers in a given category (i.e. rural or urban) in a given state, at least 10 percent of the wire centers must be from the low-income pool. The Company is required to file a quarterly report with the Commission describing the status of its xDSL roll-out.

This condition sunsets April 8, 2003, 36 months after the Company's first reporting obligations under this condition.

The following addresses SBC's compliance with the requirements of this condition:

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- Where SBC had deployed xDSL in at least 20 urban or 20 rural wire centers in a particular state, at least 10 percent of the urban or rural wire centers in which xDSL had been deployed were wire centers identified from the Low-Income Pool.
- SBC filed quarterly timely reports with the FCC describing the status of the xDSL roll-out.

Ensuring Open Local Markets

7. *Carrier-to-Carrier Performance Plan (Including Performance Measurements)*

Description and Objectives: Condition 7 specifies that SBC shall implement the Carrier-to-Carrier Performance Plan (Plan). SBC is to provide the FCC with monthly performance measurement results that demonstrate SBC's performance provided to the aggregate of CLECs within each of the 13 SBC states. This is to be compared to SBC's retail performance (where applicable) or to a benchmark when a retail comparison is not appropriate. SBC is also obligated to make voluntary payments of up to \$1.125 billion over 3 years to the U.S. Treasury based on SBC's performance. SBC is also required to provide the FCC, state commissions, and CLECs with access to SBC's Internet web site where these parties can obtain performance measurement results provided to the aggregate of all CLECs as compared to SBC's retail performance.

The Condition sunsets within each state, except for Connecticut, upon the earlier of (i) the due date for the 36th potential monthly Plan payment for that state, or (ii) the first date on which SBC is first authorized to provide in-region, interLATA services in that state. This Condition remains in effect within Connecticut until the May 20, 2004 due date for the 36th potential monthly Plan payment for Connecticut.

The following addresses SBC's compliance with the requirements of this condition:

- SBC reported, on a monthly basis and in each of its states where this condition has not sunset, according to the schedule established in Appendix A to the Merger Conditions, its performance in 20 measurement categories (with sub-measurements) that address functions that may have a particularly direct effect on CLECs and their customers. SBC provided the FCC staff with the required performance measurement data for each month during the year 2002 for the Pacific Bell, Nevada Bell, Ameritech and SNET regions. These files were transmitted by the 20th of each month or the first business day after the 20th when the due date was on a weekend or federal holiday. In addition, these performance measurement results were also posted to the SBC Internet web site coincident with the monthly transmittals to the FCC staff. While substantially correct, occasionally certain data filed during the Report Period were either restated or corrected prospectively.
- SBC provided the FCC staff³ with notice of any changes to the design or calculation of these measurements adopted by the Texas or California State commissions. SBC notified the FCC on July 30, 2002 and on September 25, 2002 that the California

³ Chief of the Common Carrier as changed to Chief of the Wireline Competition Bureau in March 2002 pursuant to FCC 02-76.

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Public Utility Commission had ordered changes to the SBC performance measurements. As directed by the Commission on August 7, 2002 and December 10, 2002, these changes were implemented for the SBC states of California and Nevada effective July 1, 2002 and September 1, 2002. SBC also notified the FCC October 29, 2002 that the Texas Public Utilities Commission (TPUC) had ordered additional changes in October 2002. SBC discussed those changes with the FCC staff at the December 2002 semi-annual review meeting. At the staffs request, a copy of the October 2002 TPUC Order was filed with the FCC on December 27, 2002. SBC will implement the 3.0 Texas business rules in 2003 pursuant to the FCC's approval of SNET's and Ameritech's proposed versions of the business rules and implementation schedule.

- The Chief of the Wireline Competition Bureau determines whether and when SBC will implement such changes adopted by the Texas state commission in the remaining SBC states except for California and Nevada, and whether and when SBC will implement such changes adopted by the California state commission in California and Nevada. On November 27, 2001, SBC requested permission to implement the Texas 2.0 business rules at Ameritech and SNET. The FCC approved SBC's proposed business rule changes (with certain modifications) effective with January 2002 results, in a letter released December 21, 2001. On March 27, 2002, SBC filed with the Secretary of the FCC that SBC had implemented the updates to the 2.0 Texas business rules. SBC also provided results back to January 2002 for those measurements where changes were in progress.
- On June 11, 2002, the FCC released a letter stating that SBC was not required to utilize the 60-minute benchmark for performance measure PM 1, Firm Order Confirmations, nor in calculating any voluntary payments in the Ameritech states for the remainder of 2002. Instead, SBC was directed to measure its performance using the 120-minute benchmark and calculate payments accordingly. On January 17, 2003, the FCC issued another letter granting SBC's request to continue using the 120-minute benchmark until SBC implements the next major upgrade to the Uniform and Enhanced OSS Plan of Record for the Ameritech states.
- On December 23, 2002, the FCC issued a letter granting SBC's request to report and make voluntary payments, if necessary, only on "Total Trouble Report Rate Net of Installation and Repeat Reports" for PMs 13a, 13b, and 13c and, report "Total Trouble Report Rate" for informational purposes only. This new reporting and paying method for these measures was effective with October 2002 activity for SNET and the Ameritech states.
- The Plan remains effective for the SBC service area within each state, except for Connecticut, until the earlier of (i) 36 months after the date that SBC was first potentially obligated to make Plan payments for that state, or (ii) the first date on which SBC was first authorized to provide in-region, interLATA services in that state. The FCC approved 271 applications for Arkansas, Missouri, Kansas, Oklahoma, and Texas during 2000 and 2001 and no reports of performance measures were due from these states during 2002. The FCC approved the California 271 application on December 19, 2002 effective December 29, 2002 (FCC 02-330). The FCC issued a public notice on January 13, 2003 extinguishing the obligation to report performance measures for the state of California (DA 03-82) effective

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December 29, 2002. Accordingly, SBC provided the final report of California performance measures for November 2002 activity on December 20, 2002 for all measures.

- The Carrier-to-Carrier Performance Plan attached the obligation for SBC to make voluntary payments to the U.S. Treasury in all SBC states where 271 approval has not been obtained. Each payment required during the 2002 Report Period was made to the Commission within **30** days of when the performance results became available or on the first business day after **30** days when the due date was on a weekend or federal holiday. These voluntary payments were not included in the revenue requirements of any SBC ILEC. The Company provided notice to the Commission within five business days of each payment; however, notice to the Secretary for the timely voluntary payment made on May 22,2002 was filed five business days after the deadline due to an administrative error.
- Pursuant to the requirement that SBC and the Chief of the Wireline Competition Bureau⁴ shall jointly review the 20 measurements on a semi-annual basis, meetings were held between the FCC staff and SBC on June 6,2002 and December 5,2002 to review the performance measurements.

8. *Uniform and Enhanced OSS*

Description and Objectives: Condition 8 generally provides for the development and deployment of uniform, electronic OSS throughout the 13-state SBC Service Area. In particular, this condition requires SBC to develop and deploy uniform application-to-application and graphical user interfaces that support pre-ordering, ordering, provisioning, maintenance/repair, and billing. It also requires SBC to develop and deploy uniform business rules for completing CLEC local service requests, or a software solution that ensures that CLEC-submitted local service requests are consistent with SBC's business rules. Condition 8 further required SBC to develop and offer to state commissions a uniform change management process. In addition, it required SBC to offer to develop both direct access to SBC's service order systems and enhancements to the existing Electronic Bonding Interface ("EBI") interface for OSS that support maintenance and repair services for a period of 30 months following the MERGER CLOSING DATE.

This condition will sunset in 2003, except with respect to the obligation to provide access to the OSS enhancements and additional interfaces required by Paragraphs 26, 27, 29, and **30** of this Condition for not less than 36 months after they are deployed.

The following addresses SBC's compliance with the requirements of this condition:

- SBC followed the terms of the amended Uniform and Enhanced Plan of Record ("POR) in its entirety as directed by the FCC on September 22, 2000. In addition, on April 9,2001 SBC applied to the Arbitration Panel duly appointed pursuant to the Section III.j of the POR for an extension of the mandated release dates for certain pre-order and order interfaces. The Arbitration Award, as filed with the Commission

⁴ Id.

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on June 4, 2001, extended the release dates for the pre-order and order interfaces from September 29, 2001 for Pacific Bell, Nevada Bell and SWBT, November 17, 2001 for Ameritech, and April 20, 2002 for SNET to February 28, 2002, March 22, 2002 and June 30,2002, respectively. On February 25,2002, SBC submitted a letter to the Chief of the Common Carrier Bureau requesting an extension of the target release dates. The Commission extended the target date for completion to April 24, 2002 for Pacific Bell, Nevada Bell, SWBT and Ameritech in DA 02-695. SBC notified the FCC on April 26, 2002 that it had completed implementation of the Uniform and Enhanced Plan of Record in the Pacific Bell, Nevada Bell, SWBT, and Ameritech service areas. SBC notified the FCC on September 13, 2002 that that it had completed implementation of the Uniform and Enhanced Plan of Record at SNET. All required notices regarding satisfaction of the target dates for completion were filed within the timeframes required by the Merger Conditions.

- The Company, as required until April 8, 2002 (30 months after the Merger Closing Date), offered to develop direct access to SORD and Ameritech's and SNET's equivalent service order processing systems, and to develop enhancements to the existing EBI for OSS that support maintenance and repair services.
- The Commission extended the target date for completion of Phase 1 of the Uniform Business Rules Plan of Record to March 15, 2001 in DA 01-454, released February 20, 2001 and then to April 30, 2001 in DA 01-594, released March 7, 2001. The Phase 2 collaborative sessions for the Uniform Business Rules Plan of Record began on April 30, 2001. The FCC, in DA 01-1915 adopted August 10, 2001 and released August 13, 2001, granted **an** extension of time for additional collaborative sessions and directed that Phase 2 would end on October 19,2001. The FCC, in DA 01-2450 adopted October 18,2001 and released October 19,2001, granted a limited extension of time to conclude collaborative sessions on November 19, 2001. Based on this extension, Phase II ended on November 19, 2001. The Company has until April 19, 2003 to complete Phase III.
- SBC continued implementation of the 13-state Change Management Process (CMP) that was filed with the Commission on December 8, 2000. Several companies filed a response to that filing, and SBC subsequently negotiated with those companies and obtained their agreement. SBC filed the 13-state CMP with the commission of each of the 13-states on March 13,2001.

9. *Restructuring OSS Charges*

Description and Objectives: Condition 9 required SBC to (1) eliminate all flat rate monthly charges for access to the Remote Access Facility and Information Services Call Center and, (2) for orders of 30 lines or less where SBC does not make an electronic interface available, SBC would eliminate manual processing charges in excess of the charges that apply for processing similar orders submitted electronically.

The following addresses SBC's compliance with the requirements of this condition:

- The Company did not charge for: (1) flat rate monthly access charges for access to the Remote Access Facility and Information Services Call Center; and, (2) for orders

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of 30 lines or less where SBC does not make an electronic interface available, SBC did not charge manual processing charges in excess of the charges that apply for processing similar orders submitted electronically.

This condition sunset on October 8, 2002, 36 months after the closing date of the Merger Conditions (October 8, 1999).

10. *OSS Assistance to Qualifying CLECs*

Description and Objectives: Condition 10 contained specific provisions for SBC to adopt measures for assisting qualifying CLECs in using SBC's OSS. Under this Condition, SBC was required to provide free training and OSS expert teams for CLECs who self-certify as being small CLECs (i.e., with annual revenue under \$300 million).

The following addresses SBC's compliance with the requirements of this condition:

- The Company maintained OSS expert teams available to provide OSS training and support to qualifying CLECs at no charge.

This condition sunset on or about November 7, 2002, 36 months after the date the above-referenced OSS expert teams were designated and first made available.

11. *Collocation Compliance*

Description and Objectives: Condition 11 required SBC to provide collocation consistent with the FCC's rules⁵. Furthermore, the Condition required that SBC waive 100 percent of the total non-recurring collocation costs for certain instances of missed due dates.

⁵ Condition 11 "Collocation Compliance" of the Merger Conditions requires the Company to provide collocation consistent with the FCC's Collocation Rules as defined in the following orders and rules: 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), as modified by *GTE Service Corporation v. FCC*, 205 F.3d 416 (D.C. Cir. 2000), 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"), and as modified and expanded by *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Fourth Report and Order* (FCC 01-204), 16 FCC Rcd 15435 (2001), as clarified by *Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket No. 98-147, *Order on Reconsideration of Fourth Report and Order, and Fifth Report and Order* (FCC 02-234), and the 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. Additionally, "Collocation Compliance" as referenced herein includes compliance with certain collocation-related requirements applicable only to SBC/Ameritech, which were adopted as conditions to the Commission's order modifying the separate affiliate for advanced services requirements of the Merger Conditions. *Application of Ameritech Corp., Transferor, and SBC Communications, Inc.*

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The following addresses SBC's compliance with the requirements of this condition:

- The Company maintained the policy to issue refunds of 100 percent of the total non-recurring collocation costs to telecommunications carriers for collocation missed due dates in excess of 60 days.
- SBC provided collocation consistent with the FCC's collocation rules, with the following clarifications.
 1. Title 47 Part 51.321(f) requires the Company to submit to a state commission detailed floor plans or diagrams of any premises where the Company claims that physical collocation is not practical because of space limitations. Prior to May 2002, the Company practice was to submit floor plans or diagrams according to state commission procedures and timing for submission of evidence and proof in such matters. Thus, where state requirements had not been triggered, floor plans or diagrams would not have been submitted to a state commission. In May 2002, the Company established a policy to submit floor plans to state commissions in all instances of physical collocation space denials or of space exhausted premises, regardless of whether the state commission requires them to be filed.
 2. In some cases, the company incorrectly billed unaffiliated telecommunications carriers for collocation charges and did not bill its advanced services affiliates and unaffiliated telecommunications carriers on a timely basis. Centralization of operations has resulted in the development of new billing procedures and the strengthening of existing billing processes, which have enhanced billing accuracy. The Company is continuing its assessment of the effectiveness of these improvements as they relate to the accurate billing of collocation charges during the 2002 report period. The Company will comment on the results of this assessment upon completion in a Supplemental Compliance Report to be filed later in 2003.

This condition sunset on October 8, 2002, 36 months after the closing date of the Merger Conditions (October 8, 1999).

12. Most-Favored-Nation Provisions for Out-of-Region and In-Region Arrangements

Transferee, 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 and ASD File No. 99-49, *Second Memorandum Opinion and Order* (FCC 00-336), App. A, paras. 5(a), 5(b)(1), 5(b)(2), 5(c), 5(d) and 6 (rel. Sept. 8, 2000) (Pronto Order). As a result of the court's ruling in *ASCENT v. FCC*, 235 F.3d 662 (D.C. Cir. 2001), the separate affiliate for advanced services requirements in the Merger Conditions, including the collocation-related and other requirements adopted in the *Pronto Order*, automatically sunset on January 9, 2002. *SBC/Ameritech Order*, 14 Rcd 11712, App. C, Para. 12c (providing that Pronto conditions sunset on date SBC is no longer required to provide advanced services through a separate affiliate); *Pronto Order*, FCC 00-336, App. A, para. 9. *See also, Application of GTE Corp. and Bell Atlantic Corp. for Consent to Transfer Control of Domestic and International Section 214 and 310 Authorizations and Applications to Transfer Control of a Submarine Cable Landing License*, CC Docket No. 98-184, Order, DA 01-1717, at para. 1, note 2 (rel. Jul. 19, 2001) (concluding that, under a comparable sunset provision in the Bell Atlantic/GTE merger, "the advanced services affiliate requirement will automatically sunset on January 9, 2002").

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Description and Objectives: Condition 12 facilitated market entry by CLECs throughout the SBC region in two ways:

- 1) Offering telecommunications carriers within the SBC region any new arrangement or UNE secured by SBC outside of its region; and,
- 2) Making any interconnection arrangement or UNE negotiated by SBC or its affiliates in one SBC state available in all other states throughout its region.

The following addresses SBC's compliance with the requirements of this condition:

- The Company made available to telecommunications carriers eligible service arrangements (i.e., interconnection arrangements or UNEs) to which the Company was a party either as the incumbent in its 13-state region or as a telecommunications carrier outside of its 13-state region. The Company posted approved out-of-region agreements secured by SBC to the Company's Internet web site.

This condition sunset on October 8, 2002, 36 months after the closing date of the Merger Conditions (October 8, 1999).

13. *Multi-State Interconnection and Resale Agreement*

Description and Objectives: Condition 13 required SBC to offer telecommunications carriers generic interconnection and/or resale agreements covering multiple SBC states. Pricing under a multi-state generic agreement was established on a state-by-state basis, and SBC was not under any obligation to enter into any arrangement for a state that is not technically feasible and lawful in that state.

The following addresses SBC's compliance with the requirements of this condition:

- The Company made available multi-state interconnection and resale agreements and entered into multi-state interconnection and/or resale agreements pursuant to requirements that pricing would be established on a state-by-state basis and that approval of the agreement in one state would not be a precondition for implementation in another state.

This condition sunset on or about December 7, 2002 (i.e., 36 months after SBC first made available to any requesting telecommunications carrier generic interconnection and resale terms and conditions covering the SBC/Ameritech Service Area in all SBC/Ameritech States.

14. *Carrier-to-Carrier Promotions: Unbundled Loop Discount*

Description and Objectives: Condition 14 requires that SBC offer a Promotional Discount program whereby a CLEC can purchase at a discount, a basic unbundled network element facility for use in providing residential telephone service to its end user customers. Each loop sold during the promotional period is allowed the promotional discount for a period of three years. This Condition provides an offering window that is

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the latest of the following: 1) 24 months after commencement of the offering window period (November 7, 1999); 2) the first day on which SBC is authorized to provide in-region, interLATA services in the relevant state; or 3) the first date on which SBC provides facilities-based telephone exchange service to at least one customer in each of the 15 out-of-territory markets pursuant to paragraph 59 of the Merger Conditions (April 8, 2001). The offering window may end sooner in a state than provided above if and when a maximum number of loops is reached in a given state. SBC shall provide notice to CLECs when 50 percent and 80 percent of these maximum numbers are reached in each SBC state.

The requirement to offer the discount sunsets as described in the preceding paragraph, although the Company remains obligated to discount loops ordered pursuant to this offering for 36 months after a qualifying loop is installed and operational, or the period during which the loop remains in service at the same location and for the same telecommunications carrier, whichever is shorter.

The following addresses SBC's compliance with the requirements of this condition:

- The Company offered the unbundled loop discount as required by this Condition during the Report Period. The requirement to offer the discount on new orders sunset in 2001 in Arkansas, Connecticut, Kansas, Missouri, Oklahoma, and Texas. The FCC approved the California 271 application on December 19, 2002, effective December 30, 2002 (FCC 02-330) and the requirement to offer the discount sunset at that time.
- The Company continued to provide the unbundled loop discount for eligible loops ordered while the offering window was open. Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the promotional discount.
- The Company discovered that it had inadvertently failed to update the appropriate rate tables for certain CLECs in the Ameritech region, which resulted in the 25% discount associated with this condition not being given to one CLEC that had ordered loops eligible for the specified discount. Billing to the affected CLEC was corrected in September 2002. In addition, the Company became aware that orders for residential loops from one CLEC were improperly entered as business loops in the Ameritech region because of an ordering system error. As such, the CLEC did not receive the discount for eligible residential loops. The Company resolved the error as of November 9, 2002 and is in the process of identifying the affected loops in order to apply correcting credits. The Company will determine whether any other CLECs were impacted and will make billing adjustments accordingly.
- The reporting threshold towards the maximum number of unbundled local loops that SBC was required to provide at the promotional discounted price was met for the 50% threshold in Wisconsin in September 2002. However, due to an administrative oversight, the required written or Internet notice was not issued until February 2003. Otherwise, the reporting thresholds were not met in any state during 2002.

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15. Carrier-to-Carrier Promotions: Resale Discount

Description and Objectives: Condition 15 required SBC to offer CLECs promotional resale discounts on telecommunications services that SBC provides at retail to subscribers who are not telecommunications carriers, where such services are resold to residential end user customers. The offering window for Promotional Resale Discounts in each state shall be either 36 months after commencement of the offering, or the month following the date when the sum of resold lines in service in a state at the Promotional Resale Discounts plus the quantity of Promotional End-to-End UNE Combinations in service in the state reaches a maximum state-specific quantity. SBC is required to notify CLECs when thresholds of 50 percent and 80 percent of the maximum sum of Promotional Resale lines and UNE Combinations are reached.

The following addresses SBC's compliance with the requirements of this condition:

- The Company continued to offer and provide the promotional resale discount required by this Condition during 2002. However, a previously disclosed error in the Ameritech states that resulted in inadvertent removal of the required discounts from resold services if the CLEC's end-user customer moved to another location was not corrected until April 2002. The Company contacted affected CLECs for the period prior to the correction to request information associated with these moves and issued credits upon identification of the credits due.
- Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the promotional resale discount.
- The reporting thresholds towards the maximum number of lines Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations that SBC was required to provide were not met in any state during the Report Period.

This condition sunset on November 7, 2002, 36 months after commencement of the Offering Window for the promotion. However, the Company remains obligated to provide the promotional resale discount for 36 months from the date a qualifying resold service is installed and operational, or the period during which the resold service remains in service at the same location and for the same telecommunications carrier, whichever is shorter.

16. Carrier-to-Carrier Promotions: UNE Platform

Description and Objectives: Condition 16 required SBC to offer CLECs Promotional End-to-End UNE Combinations for the provisioning of residential POTS service and residential Basic Rate Interface ("BRI") Integrated Services Digital Network ("ISDN"). This condition provides for the combination of unbundled network elements into an integrated service for use by CLECs in providing service to residential end user customers. The offering window for Promotional End-to-End UNE Combinations in each state shall be either 36 months after commencement of the offering, or the month following the date when the sum of resold lines in service in a state at the Promotional

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Resale Discounts plus the quantity of Promotional End-to-End UNE Combinations in service in the state reaches a maximum state-specific quantity. SBC is required to notify CLECs when thresholds of 50 percent and 80 percent of the maximum sum of Promotional Resale lines and UNE Combinations **are** reached.

The following addresses SBC's compliance with the requirements of this condition:

- The Company continued to offer the UNE platform promotion required by this Condition during the Report Period and provided the UNE platform promotion to requesting telecommunications carriers.
- Internal processes and procedures ensured the Company's wholesale business units were responsive to telecommunications carriers' requests for the UNE platform promotion.
- The reporting thresholds towards the maximum number of lines Promotional Resale Discount rate plus Promotional End-to-End UNE-Combinations that SBC was required to provide were not met in any state during the Report Period.

This condition sunset on November 7, 2002, **36** months after commencement of the Offering Window for the promotion. However, the Company remains obligated to provide the promotional UNE platform for **36** months from the date a promotional UNE platform is installed and operational, or the period during which the promotional UNE platform remains in service at the same location and for the same telecommunications carrier, whichever is shorter.

17 *Offering of UNEs*

Description and Objectives: Condition 17 requires that SBC confirm and continue to make available to telecommunications carriers within each of the SBC States, such UNEs or combinations of UNEs that were made available in the respective state under SBC's or Ameritech's local interconnection agreements in effect on January 24, 1999. In addition, these UNEs are to be made available under the same terms and conditions that such UNEs or combinations of UNEs were made available on that date.

The following addresses SBC's compliance with the requirements of this condition:

- The Company complied with this Condition by continuing to make available all UNEs or combinations of UNEs offered as of **January 24, 1999**, under the same terms and conditions that such UNEs or combinations of UNEs were made available on that date.

18 *Alternative Dispute Resolution through Mediation*

Description and Objectives: Condition 18 required that SBC implement, subject to the appropriate state commission's approval and participation, an alternative dispute resolution ("ADR) mediation process to resolve carrier-to-carrier disputes regarding the provision of local services, including disputes related to existing and effective

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interconnection agreements. A specific process for Alternative Dispute Resolution through Mediation was included in Attachment D to Appendix C of the Merger Conditions.

The following addresses SBC's compliance with the requirements of this condition:

- ADR was implemented in 1999 and remained available in 2002.

This condition sunset on October 8, 2002, 36 months after the sunset date of the Merger Conditions (October 8, 1999).

19. Shared Transport in Ameritech States

Description and Objectives: Condition 19 required that interim shared transport be offered in the Ameritech states prior to the merger closing. Paragraph 56 of the Merger Conditions outlines the requirement to offer, within 12 months of the merger closing, a Long Term Shared Transport option in the Ameritech states that is "substantially similar" to the shared transport that SBC offers to telecommunications carriers in Texas.

The following addresses SBC's compliance with the requirements of this condition:

- During 2002, SBC offered availability of shared transport in Ameritech States under terms and conditions, other than rate structure and price, that were substantially similar to the most favorable terms SBC offered to CLECs in Texas as of August 27, 1999.
- The FCC's Enforcement Bureau, in its Notice of Apparent Liability for Forfeiture ("NAL"), File No. EB-01-IH-0030, released January 18, 2002 alleged that the Company, in violation of the Merger Order, did not provide shared transport in the Ameritech States under terms and conditions substantially similar to those that it offered in Texas as of August 27, 1999. The Company filed a response with the Commission on March 5, 2002 contesting the FCC's allegations. On October 9, 2002, the FCC in Forfeiture Order, File No. EB-01-IH-0030, upheld the NAL. On November 8, 2002 the Company filed a Petition for Reconsideration with the FCC. Resolution of the Commission's action is pending.

20. Access to Cabling in Multi-Unit Properties

Description and Objectives: Condition 20 required SBC to offer for 12 months after the MERGER CLOSING DATE to conduct trials in five cities with CLECs to provide them with access to cabling within Multi-Dwelling Units premises ("MDUs") and multi-tenant premises housing small businesses ("MTUs"). At the conclusion of a requested trial, SBC was to negotiate interconnection agreements with CLECs for access to cabling that SBC owns and controls in multi-unit properties. In addition, when hired to install new cables in new or retrofitted MDUs, SBC was to provide written notice to developers and property owners stating that (absent objection by the property owner) SBC would install and provide new cables to a single point of interconnection.

The following addresses SBC's compliance with the requirements of this condition:

- SBC, when hired to install new cables in a new or retrofitted MDU or MTU, sent letters to developers and property owners stating that, unless the property owner objected, SBC would install and provide new cables to a single point of interconnection. This offering was contingent upon the property owner or third party owning and/or controlling the cabling beyond the single point of interconnection.

This condition sunset on October 8, 2002, 36 months after the closing date of the Merger Conditions (October 8, 1999).

Fostering Out-of-Territory Competitive Entry

21. Out-of-Territory Competitive Entry (National-Local Strategy)

Description and Objectives: Condition 21 required SBC to enter at least 30 major markets as a facilities-based competitive provider of local services to business and residential customers as chosen from the list of 50 markets listed in Attachment E to the Merger Order. SBC was required to enter the Boston, Miami, and Seattle markets within 12 months of the MERGER CLOSING DATE. SBC was required to enter an additional 12 markets within 18 months of the MERGER CLOSING DATE, and the remaining 15 markets the later of (i) 30 months after the MERGER CLOSING DATE, or (ii) 60 days after the date upon which SBC first holds valid authorization to provide originating voice and data interLATA services to at least 60 percent of all access lines (as reported under the Commission's Part 43 rules) served by SBC's ILECs (including SNET).

The following addresses SBC's compliance with the requirements of this condition:

- On March 5, 2002, and prior to the April 8, 2002, deadline, the Company notified the Commission that it had satisfied the remaining initial entry requirements of the condition when it had installed local telephone exchange switching capacity and was providing facilities-based local exchange service to at least three unaffiliated customers in the following markets: Charlotte, Jacksonville, Las Vegas, Louisville, Memphis, Nashville, Norfolk, Portland, Raleigh and Tucson.
- Additionally, on March 5, 2002, and prior to the April 8, 2002, deadline, the Company notified the Commission that in the New York, Atlanta, Ft. Lauderdale, Phoenix, Denver, Salt Lake City, Washington D.C., Minneapolis, Orlando, Baltimore, Philadelphia, Tampa, and West Palm Beach markets, the Company had satisfied the remaining Merger Condition requirements because it:
 1. Had collocated facilities in at least 10 wire centers in the market that could be used to provide facilities-based service to customers served by those wire centers.
 2. Was offering facilities-based local exchange service to all business and residential customers served by the 10 wire centers in the market.
 3. Was offering local exchange service to all business customers and all residential customers throughout the areas in the market that were within the local service

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area of the incumbent RBOC located within the PMSA of the market or the incumbent service area of a Tier 1 incumbent LEC serving at least 10 percent of the access lines as shown in the updated Tier 1 LEC study of these wire centers.

- On August 21, 2002 the Company notified the Commission that it had fulfilled all of the requirements set forth in this condition for each of the 30 out-of-territory markets.

This condition sunset on or before August 21, 2002, by which date SBC had met all of the market entry requirements set forth in para. 59(c) of the Merger Conditions for each of the 30 markets, on or before the deadlines set forth therein.

Improving Residential Phone Service

22. *InterLATA Services Pricing*

Description and Objectives: Condition 22 requires SBC to refrain from implementing mandatory minimum monthly or flat-rate charges for interLATA services provided to any in-region or out-of-region wireline residential customer within the United States.

This condition sunsets April 8, 2004, 36 months after the date that SBC was providing telephone exchange service to residential customers in at least 15 markets pursuant to Condition 21.

The following addresses SBC's compliance with the requirements of this condition:

SBC did not charge any minimum mandatory monthly or flat-rate charges to any residential wireline customers in any in-region state where it had authority to offer interLATA services during 2002, nor to any out-of-region residential wireline customers in 2002. During the year ended December 31, 2002, the Company did offer customers optional, voluntary interLATA services pricing plans that included minimum monthly or minimum flat-rate charges.

23. *Enhanced Lifeline Plans*

Description and Objectives: Condition 23 requires SBC to offer an Enhanced Lifeline universal service plan to low-income residential subscribers in each of its states, upon acceptance of the state commissions within 12 months of presentation of the offer. The terms and conditions offered are to be similar to the Ohio Universal Service Assistance ("USA") Lifeline Plan as set forth in Ameritech Ohio's Alternative Regulation Plan.

This condition has sunset with respect to the twelve-month window for state acceptance. In those states where the Enhanced Lifeline offer was accepted, SBC will maintain the plan for no less than 36 months following the effective date of the initial tariff.

The following addresses SBC's compliance with the requirements of this condition:

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- The Company continued to provide the Enhanced Lifeline plan in all the states that accepted the offer with discounts of up to \$10.20 per month as required by the agreement.
- SBC maintained toll-free access numbers for voice or fax communication with current and potential customers, and modified voice response units at its service centers to incorporate Enhanced Lifeline information for calls in which customers express an interest in obtaining new service, where the Enhanced Lifeline plan has been implemented.
- The Company provided on-line verification of eligibility in those states in which terms were negotiated to permit the Company to access information necessary to verify a customer's participation in an eligible program.
- SBC maintained promotional budgets, as required by the merger agreement, to make potential customers aware of the Enhanced Lifeline plan or other programs that benefit low-income consumers, and expenditures are on track to meet required minimum annual promotional budget levels as required.
- In those states where the plan has been implemented, appropriate methods and procedures were maintained to implement operational provisions of the Enhanced Lifeline plan regarding payment arrangements for past due bills and no deposits are required for local service.

24. Additional Service Quality Reporting

Description and Objectives: Condition 24 required SBC to file, on a quarterly basis, state-by-state service quality reports in accordance with the National Association of Regulatory Utility Commissioners (NARUC) White Paper and ARMIS 43-05 reporting requirements. The data required by this condition was to be included on a Company Internet page or made available to the relevant State commissions.

- SBC filed timely state-by-state retail service quality reports with the FCC on a quarterly basis in accordance with the Business Rules⁶ adopted by the FCC Staff and the Company on August 13, 2001. While substantially correct, certain data filed during the report period were either restated or corrected prospectively.
- SBC reported on a quarterly basis ARMIS local service quality data required by the FCC separately by state for each of its operating companies in accordance with Table I of ARMIS Report No. 43-05.
- In addition to computer files provided to the FCC Staff, SBC also posted the service quality data on a publicly accessible SBC Internet website.
- All routine quarterly reports and website postings were made no later than 50 days after a quarter's close or on the next business day when the deadline occurred on a weekend or federal holiday.

This condition sunsets in each state after reports have been filed for a period of **36** months following the date of SBC/Ameritech's first report for that state. Accordingly,

⁶ 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.

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this condition sunset in each state on or before November 20, 2002, which was the date SBC filed its report for third quarter (July-September) 2002.

25. *NRIC Participation*

Description and Objectives: Condition 25 required that SBC continue to participate in the Network Reliability and Interoperability Council (“NRIC”).

The following addresses SBC’s compliance with the requirements of this condition:

- SBC continued its participation in the NRIC and SBC representatives attended NRIC meetings held on January 4, 2002, March 22, 2002, September 13, 2002, and December 6, 2002. Further, SBC participated in other NRIC-sponsored meetings through its membership in the United States Telephone Association and the National Telecommunications Association. SBC also supported, provided representation to, and participated in NRIC Focus Groups 1A Physical Security; 1B Cyber Security; 1C Public Safety; ID Disaster Recovery and Mutual Aid; Focus Group 2 Network Reliability; Focus Group 3 Interoperability; and Focus Group 4 Broadband.

This condition sunset on October 8, 2002, 36 months after the closing date of the Merger Conditions (October 8, 1999).

Ensuring Compliance with and Enforcement of These Conditions

26. *Compliance Program*

Description and Objectives: Condition 26 requires SBC to have a corporate compliance officer and to file an annual report that summarizes compliance with these Merger Conditions.

This condition sunsets when SBC has no obligations remaining under the Conditions.

The following addresses SBC’s compliance with the requirements of this condition:

- A senior corporate officer served as Compliance Officer throughout 2002.
- On March 15,2002, the Company filed its annual compliance report accurate to the best of its knowledge and belief at the time it was filed, which detailed its compliance with the Merger Conditions for Report Year 2001. On November 12, 2002, the Company filed with the FCC a supplement to the annual compliance report, which included information on items relevant to the 2001 Report Year which were not identified in the March 15,2002 Report because they were discovered after that date. The supplement also included corrections of minor errors, none of which had an impact on the Company’s compliance with the Merger Conditions.

27. *Independent Auditor*

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Description and Objectives: Condition 27 requires SBC to engage an independent auditor to annually review its compliance with these Merger Conditions. The audit is to provide a thorough and systematic evaluation of SBC's compliance with the Merger Conditions and determine the adequacy of internal controls.

This condition sunsets when the audits discussed in this condition are no longer required.

The following addresses SBC's compliance with the requirements of this condition:

- SBC engaged E&Y to review its compliance with the Merger Conditions for 2002.
- SBC also engaged E&Y to perform an agreed-upon procedures engagement for the 12-month engagement period ended December 31, 2002 regarding the separate Advanced Services affiliate requirements contained in Condition 1 of the Merger Conditions.
- SBC granted the independent auditor access to all books, records, operations, and personnel for the audits.
- On September 3, 2002, SBC filed with the FCC E&Y's Report of Independent Accountants on SBC's Report of Management on Compliance with the Merger Conditions regarding the Company's compliance during the year ended December 31, 2001. Compliance with certain collocation requirements as modified by the Pronto Order⁷ was not included with this audit report. On August 30, 2002, the Commission granted SBC an extension until October 18,2002 to file a supplemental audit report regarding these collocation requirements. The Commission subsequently approved two additional extensions and the supplemental audit report was filed with the Commission on January 31,2003.
- On September 3,2002, SBC filed with the FCC the Auditor's Report of Independent Accountants on Applying Agreed-Upon Procedures for 2001 in accordance with the separate Advanced Services affiliate requirements in Condition 1 of the Merger Conditions. Compliance with certain collocation requirements as modified by the Pronto Order was not included with this audit report. On August 30, 2002, the Commission granted SBC an extension until October 18, 2002 to file a supplemental Agreed-Upon Procedures audit report regarding these collocation requirements. The Commission subsequently approved two additional extensions and the supplemental audit report was filed with the Commission on January 31,2003.
- On October 29, 2002, SBC filed with the FCC E&Y's Report of Independent Accountants on SBC's Report of Management on Compliance with Merger Condition 21, Out-of-Territory Competitive Entry (National-Local Strategy) regarding the Company's compliance with and completion of the Condition during the period January 1, 2002 through August 21,2002.

⁷ *Application of Ameritech Corp., Transferor, and SBC Communications, Inc., Transferee, 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 and ASD File No. 99-49, *Second Memorandum Opinion and Order* (FCC 00-336), App. A, paras. 5(a), 5(b)(1), 5(b)(2), 5(c), 5(d) and 6 (rel. Sept. 8,2000) (Pronto Order).

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28. *Enforcement*

Description and Objectives: Condition 28 states that the enforcement and compliance programs established by these conditions do not abrogate, supersede, limit or otherwise replace the Commission’s powers under the Communications Act. The condition also provides for voluntary payment procedures.

This condition sunsets when SBC has no obligations remaining under the Conditions.

The following addresses SBC’s compliance with the requirements of this condition:

- As indicated in the response for Condition 7, SBC made voluntary payments to the U.S. Treasury during 2002 related to Carrier-to-Carrier performance measurement requirements.
- The FCC’s Enforcement Bureau, in its Order of Forfeiture, File No. EB-00-1H-326a released May 24, 2001, alleged that SBC violated the Commission’s rule regarding the timing of the internet posting of notices of premises that have run out of collocation space. On June 25, 2001, SBC filed an Application for Review with the Commission. The FCC, in its Order on Review, released February 25,2002, affirmed the Enforcement Bureau’s finding, but reduced the amount from \$94,500 to \$84,000. SBC paid the \$84,000 forfeiture via wire-transfer on March 27,2002.
- The FCC’s Enforcement Bureau, in its Notice of Apparent Liability for Forfeiture (“NAL”), File No. EB-01-1H-0030, released January 18, 2002 alleged that the Company did not provide shared transport in the Ameritech States under terms and conditions substantially similar to those that it offered in Texas as of August 27, 1999, in violation of the Merger Order. The Company filed a response with the Commission on March 5, 2002. On October 9, 2002, the FCC upheld the NAL in Forfeiture Order, File No. EB-01-IH-0030, and on November 8, 2002 the Company filed a Petition for Reconsideration with the FCC.

29. *Sunset*

Description and Objectives: Condition 29 generally provides that all Conditions shall cease to be effective, and shall no longer bind SBC in any respect, after the effective date of the Merger Conditions (October 23, 1999). Condition 29 recognizes four principal exceptions to the “MERGER CLOSING DATE plus 36 months” rule: (a) instances where other termination dates are specifically established; (b) Conditions requiring SBC to provide Advanced Services through one or more separate affiliates for a period beyond the MERGER CLOSING DATE plus 36 months; (c) Conditions which become effective or operational after the Merger Closing Date; and (d) Conditions whose duration is extended for non-compliance in accordance with Paragraph 69 of the Conditions.

During the Report Period many aspects of the Merger Conditions met sunset provisions as indicated in the individual conditions described above. The sunset dates for all conditions detailed in Appendix 2 to this Report.

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30. *Effect of Conditions*

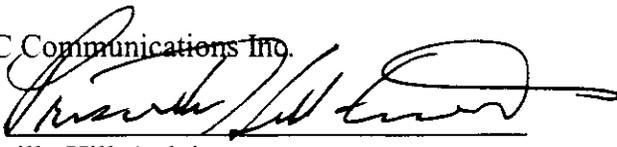
Description and Objectives: Condition **30** imposes no additional requirements on SBC but states the relationship between state law requirements and the Commission's Merger Conditions. The Condition recognizes that various offerings and initiatives contained within these Merger Conditions may substantially duplicate requirements imposed in connection with the merger under various state laws. Pursuant to Condition **30**, the Merger Conditions shall supplement but shall not be cumulative of substantially related Conditions imposed under state law. Where both these merger Conditions and state-imposed Conditions grant parties similar rights, parties shall not have the right to invoke the relevant terms of the merger Conditions in a given state if they have already invoked a substantially related Condition imposed on the merger under applicable state law.

The following addresses SBC's compliance with the requirements of this condition:

- This Condition does not impose affirmative obligations on SBC. Rather, it states the relationship of the Merger Conditions to state law, and vice versa. SBC followed this guidance in interpreting and applying the Merger Conditions.

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Date: 3/14/03

SBC Communications Inc.
By: 
Priscilla Hill-Ardoin
Senior Vice President-Regulatory Compliance
SBC Communications Inc.

Sufficiency of Internal Controls for Complying with the Merger Conditions

The Company's controls were sufficient to address the requirements and goals to continue meeting the ILECs' non-discriminatory obligations with respect to the Advanced Services affiliates, promote the deployment of advanced services by competitors, ensure open local markets, improve residential phone service, and ensure compliance and enforcement of these Conditions.

The Corporate Compliance Officer and the MCG provided the Company with a framework for identifying Merger obligations and maintaining the internal controls implemented to ensure compliance with the Merger Conditions. The MCG updated its compliance plan, which included tracking each requirement of the Merger Conditions that required action on the Company's part. Each requirement was assigned responsibility to an officer of the Company, who as the team leader for that Condition was personally responsible for ensuring full compliance with the Condition in the individual business units. The Company also maintained a Merger Compliance oversight team comprised of legal counsel and the MCG regulatory staff to provide guidance regarding and prerequisite approval of operations or activities between the Advanced Services affiliates and the ILECs.

Each business unit within the Company was responsible for ensuring its internal control structure was sufficient to ensure compliance with the Merger Conditions. Internal controls were monitored by the business units and the MCG through tracking status of compliance activities and informing senior management and the MCG group on the status of compliance with specific requirements created by the Merger Conditions.

In response to prior instances of non-compliance, the Company enhanced internal controls and increased oversight as necessary to ensure compliance with the Merger Conditions. In particular, controls over data reporting associated with Condition 7 were strengthened to include an executive review of any proposed changes or restatements and creation and distribution of an SBC restatement policy to ensure consistency across all entities. In addition, controls over Additional Service Quality reporting required by Condition 24 were enhanced by jointly negotiating explicit business rules with the FCC Staff for key metrics.

Compliance with Condition 11 Collocation requirements was made easier to monitor by changing Company policy in May of 2002 to require that in any state where an application for physical collocation was denied on the basis of insufficient physical collocation space to meet the request or on the basis of the office being exhausted of additional space for physical collocation, the Company will deliver the detailed floor plans or diagrams to such state regardless of whether or not the state's processes and procedures call for their submission at that time. Controls over collocation billing were improved through addressing billing procedures through the centralization of functions in a 13-state service center. In addition, a physical inventory and reconciliation in process during the report period through the date of this report was expected to result in significantly fewer occurrences of any billing errors occurring during the Report Year. Controls over compliance with billing discounts

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Attachment A

required by the Conditions also improved as only isolated instances of late credits were noted for the 2002 Report Year.

Training

Training in 2002 was focused on refresher training in those work groups with on-going compliance requirements. In addition, the MCG maintained Intranet-based training course and posted various training materials on the Company Intranet site available to all employees. Training addressed key topics such as what services could be provided to ASI, the required terms and conditions for providing services, the protection for proprietary information, and permitted and prohibited activities when performing joint marketing. The MCG monitored to ensure a training coordinator had been designated for each impacted business unit. Certain work groups internally developed specialized training programs.

The Advanced Services affiliates continued to be operated as structurally separate from the ILECs. The Advanced Services affiliates' business activities followed the operating procedures that had been developed to specifically address the restrictions and requirements on interaction with the SBC ILECs imposed by the Merger Conditions. Methods and procedures ("M&P") at the Advanced Services affiliates had designed pursuant to restrictions and requirements of the Merger Conditions. M&P and continued to be used as a primary training tool and control to ensure that Advanced Services affiliate employees performed specific business procedures in compliance with the Merger Conditions.

M&P at the ILECs affiliates were also designed pursuant to restrictions and requirements of the Merger Conditions and were used as a primary training tool and control to ensure that ILEC employees performed specific business procedures in compliance with the Merger Conditions.

FCC Merger Conditions - Responsible Officers

<u>Condition</u>	<u>Officer</u>
Promoting Equitable and Efficient Advanced Services Deployment	
1 Separate Affiliate for Advanced Services	
A. SBC Advanced Solutions, Inc. (ASI) and Ameritech Advanced Data Services, Inc. (AADS)	D. Robertson
B. Industry Markets	D. Cole
2 Discounted Surrogate Line Sharing Charges	D. Cole
3 Advanced Services OSS	E. Glotzbach
4 Access to Loop Information for Advanced Services	D. Cole
5 Loop Conditioning Charges and Cost Studies	D. Cole
6 Non-discriminatory Rollout of xDSL Services	D. Robertson
Ensuring Open Local Markets	
7 Carrier-to-Carrier Performance Plan (Incl. Performance Measures)	M. Gilliam
8 Uniform and Enhanced OSS	E. Glotzbach
9 Restructuring OSS Charges	D. Cole
10 OSS Assistance to Qualifying CLECs	D. Cole
11 Collocation Compliance	C. Rice
12 Most-Favored-Nation Provisions (Out-of-Region and In-Region)	D. Cole
13 Multi-State Interconnection and Resale Agreements	D. Cole
14 Carrier-to-Carrier Promotions: Unbundled Loop Discount	D. Cole
15 Carrier-to-Carrier Promotions: Resale Discount	D. Cole
16 Carrier-to-Carrier Promotions: UNE Platform	D. Cole
17 Offering of UNEs	D. Cole
18 Alternative Dispute Resolution through Mediation	D. Cole
19 Shared Transport in Ameritech States	D. Cole
20 Access to Cabling in Multi-Unit Properties	A. Wiskosil
Fostering Out-of-Territory Competitive Entry	
21 Out-of Territory Competitive Entry (National-Local Strategy)	T. Harden
Improving Residential Phone Service	
22 InterLATA Services Pricing	L. Champion
23 Enhanced Lifeline Plans	J. Walsh
24 Additional Service Quality Reporting	A. Wiskosil
25 NRIC Participation	A. Wiskosil
Ensuring Compliance with and Enforcement of These Conditions	
26 Compliance Program	P. Hill-Ardoin
27 Independent Auditor	P. Hill-Ardoin
28 Enforcement	P. Hill-Ardoin
29 Sunset	P. Mancini
30 Effect of Conditions	P. Mancini

Merger Condition 29 – Sunset Dates

The following table contains the sunset dates for each condition contained in the discussion of compliance with the individual conditions in this Report.

Number	Condition Name	Sunset Date
1	Separate Affiliate For Advanced Services	1/09/02
2	Surrogate Line Sharing	05/29/00
3	Advanced Services OSS	10/22/04 - SBC States except Conn. 08/07/05 – Conn.
4	Access to Loop Information for Advanced Services	10/08/03
5	Loop Conditioning Charges and Cost Studies	10/08/02
6	Low Income Rollout of xDSL Services	04/08/03
7	Carrier to Carrier Performance Measurements	05/20/04 - SNET
8	Uniform and Enhanced OSS	04/24/05 - SBC states except Conn. 08/07/05 – Conn.
9	Restructuring OSS Charges	10/08/02
10	OSS Assistance to CLECs	11/07/02
11	Collocation Compliance	10/08/02
12	MFN for In/Out Region ICA Arrangements	10/08/02
13	Multistate ICA and Resale Agreements	12/07/02
14	Residential UNE Discount	Offering Window has closed in all states except Illinois, Indiana, Michigan, Nevada, Ohio, and Wisconsin.
15	Residential Resale Discount	Offering window closed in all states on 11/07/02
16	UNE Platform Offering	Offering Window closed in all states on 11/07/02
17	Offering of UNEs	To Be Determined after Consultation with FCC staff
18	Alternative Dispute Resolution	10/08/02
19	Shared Transport in Ameritech States	To Be Determined after Consultation with FCC staff
20	Access to Cabling in MDUs	10/08/02
21	Out-of-Territory Competitive Entry	08/21/02
22	InterLATA Services Pricing	04/08/04

23	Enhanced Lifeline	08/22/04
24	Additional Service Quality Reporting	11/20/02
25	NRIC: Network Services	10/08/02
	The following sunset when SBC has no obligations remaining under the Conditions and any required audits have been completed.	
26	Compliance Program	
27	Independent Auditor	
28	Enforcement	
29	Sunset	
30	Effect of Conditions	