Exhibit BWG-10
Summary of BWG's First Merger Investigation Report

Audit Area	Uncontested or Parties Agrees	Contested with No Change in BWG's Position	Contested with further Explanation or a Change in BWG's Position
Regulatory Compliance (i.e., First Report, Ch. III)			
Findings and Conclusions			
1. AI has complied with the Commission's requirements relating to the filing of updated Cost Allocation Manuals, Affiliate Service Agreements and Compliance Reporting set forth in the Merger Order.	✓		
2. Neither the Company nor the ICC Chief Clerk can confirm that all affiliate service agreements required to be filed in fact have been filed.		✓	
3. Although the ICAM and Ameritech Cost Allocation Manual (ACAM) should be essentially the same, there are several general ledger accounts referenced in the ACAM that are not included in the ICAM.	✓		
4. There are a number of differences between AI's ICAM and 83 Illinois Administrative Code Part 711.	✓		
5. SBC has complied with conditions set forth in the FCC Merger Order with respect to matters within the scope of this investigation.	✓		
6. Documentation of the Company's Part 64 Cost Allocation System (PCAS) has not been updated to reflect changes in the ACAM.	✓		
Recommendations			
To ensure compliance with Commission requirements, file affiliate service agreements required to be filed and retain date-stamped copies of transmittal letters to document the filings. (Refers to Conclusion No. 2)	✓		
Update the ICAM to include all accounts reflected in the ACAM. (Refers to Conclusion No. 3)		✓ ICAM discontinued	
Document the reasons for differences between the ICAM and Part 711, and request Commission approval for any deviations from the prescribed rules. Alternatively, petition the Commission for changes to Part 711. (Refers to Conclusion No. 4)		✓ ICAM Discontinued	
Update the PCAS binder to reflect all changes made since the last revision in 1995. (Refers to Conclusion No. 6)		✓ Consolidated	
Internal Controls (i.e., First Report, Ch. IV)			
Findings and Conclusions			
1. In response to ICC and FCC requirements, SBC has established a high level Merger Compliance organization and is actively monitoring its performance against the compliance stipulations contained in the respective merger orders.	✓		

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2. Ameritech currently has an appropriate, experienced organization in place to control the cost allocation process and ensure CAM compliance. However, it is likely that the experience level in organizations responsible for CAM compliance will be affected by the reorganization and consolidation resulting from the merger.	✓ (first half of conclusion accepted))	✓ (second half of conclusion contested))	
3. Ameritech has developed appropriate controls over the cost allocation process.	✓		
4. Ameritech has developed and implemented an appropriate process to ensure compliance with FCC requirements regarding revisions to the Ameritech Cost Allocation Manual (ACAM). Merger-related changes to the ACAM were appropriately implemented using Ameritech's standard ACAM revision process.	✓		
5. The Company has a well-documented Cost Allocation system called the Part 64 Cost Allocation System (PCAS). Ameritech created this system to properly allocate costs between regulated and non-regulated activities and to pass these costs to Ameritech's Separations System for use in preparing the FCC ARMIS Joint Cost Report 43-03.	✓		
6. Although the SBC Executive Compensation and Management Incentive Plans do not specifically contain performance standards relating to service quality or the achievement of merger savings, existing performance standards are not in conflict with the Commission's requirements in these areas.	✓		
7. Both the Ameritech and SBC Codes of Conduct provide adequate information and guidance to employees regarding legal and ethical behavior in a wide range of business situations. Merger related issues are adequately addressed in sections relating to Compliance with FCC Regulations for all employees and in supplements to the Codes of Conduct for others on a jobs related need to know basis.	✓		
8. Although the Codes of Conduct provide explicit instructions to employees regarding the requirement to return an acknowledgement form annually, there are a number of employees who have not complied with this requirement.	✓		
9. Both SBC and Ameritech have procedures relating to the investigation of violations to their Codes of Conduct and maintain reports to ensure that disciplinary action against violators is consistent and appropriate.	✓		

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10. Ameritech's internal audit organization is appropriately staffed and has developed an audit plan that adequately addresses the cost allocation process. The Company has taken appropriate corrective actions in response to audit findings.	✓		
11. There are no readily accessible auditing tools available to test PCAS transactions. An FCC review of a PCAS external audit found compliance testing weaknesses.		✓	
12. As more fully discussed in Chapter VIII, Merger Integration Teams, the Company is using a stand-alone database to accumulate and report merger costs and savings. This is a user-based system that is not integrated with the financial accounting system and is therefore outside the Company's established system of internal control.	✓		
Recommendations			
Monitor timely receipt of employee Code of Conduct Acknowledgement Forms more closely. This can be accomplished by requiring supervisors responsible for obtaining Acknowledgement Forms from employees in their areas of responsibility to submit summary schedules of forms received annually to the Director of Compliance in the Human Resources Department. (Refers to Conclusion No. 8)	✓		
Develop mechanized tools to facilitate testing of PCAS to ensure the proper allocation of costs between regulated and non-regulated accounts (similar to that available for the Separations System). This would provide employees as well as internal and external auditors a readily accessible testing mechanism and audit trail to validate compliance with FCC and ICC cost allocation rules. (Refers to Conclusion No. 11)		✓	
Affiliate Transactions (i.e., First Report, Ch. V)			
Findings and Conclusions			
1. Ameritech has adequate internal controls to provide reasonable assurance that affiliate transactions are accounted for in accordance with FCC and Commission requirements.	✓		
2. BWG's review of 1999 affiliate charges to AI indicates that transactions are priced in accordance with FCC regulations. Exhibit AT-3 at the end of the text in this numbered paragraph summarizes billings from affiliates to AI in 1999. This exhibit identifies the billing affiliate, describes the services provided, and shows the annual charges and the pricing basis.	✓		

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3. The Company properly developed and applied loading rates in the determination of Fully Distributed Costs in 1999. Loading rates are added to direct charges to recoup indirect costs, overheads, and support costs that are not charged directly.	✓		
4. Referring back to Exhibit AT-3, Ernst & Young found no material exceptions relating to affiliate transactions in their audit of the 1999 ACAM.	✓		
5. BWG's audit tests indicate that the Company has used an inappropriate method to calculate the 5 State Allocator which results in the over-charging of certain SBC and ASI costs to Ameritech Illinois.		✓	
6. With the merger, there have been significant organizational and operational changes involving new corporate service affiliates, but allocation factors have not been adjusted to reflect these changes. Allocation factors should be reviewed periodically during the transition period and finally determined when the merger transition is complete.		✓	
7. As shown in Exhibit AT-10, billings to Ameritech Illinois from other AOCs during the first quarter 2000 appear justified and are reasonable.	✓		
8. Ameritech Illinois charges to affiliates in 1999 were adequately controlled and billed in accordance with FCC Rules. Ameritech Illinois charges to affiliates in 1999 are summarized by company in Exhibit AT-11 and by function and pricing method in Exhibit AT-12.	✓		
9. As shown in Exhibit AT-13, a comparison of AI charges to affiliates in 1999 and 2000 by pricing method reveals a projected reduction in affiliate billings in the year 2000.		✓	
10. Elements of the AIT's internal practice, AM 237, *Outline of Procedures for Interentity and Other Miscellaneous Billing*, are outdated. While we found no evidence of errors, unless practices are reviewed and updated on a regular basis, users could employ out of date procedures and produce incorrect affiliate billings.	✓		
11. Although Ameritech is in the process of implementing SBC *Operating Practice 125 MP, Affiliate Transactions*, the Company has concluded that no compensation is due to Ameritech Illinois relating to the exchange of Intellectual Property and Proprietary Information among companies involved in the merger.			✓
12. Although SBC and AIG adopted new procedures relating to the capitalization of computer software costs for financial reporting purposes in 1999, the change wasn't adopted for regulatory purposes until 2000.		✓	

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13. Ameritech Illinois revenues will be significantly reduced as a result of the expiration of the Don Tech contract on December 31, 1999.	✓		
Recommendations			
Revise the method used to calculate the 5 State Allocator to more accurately determine the amount of affiliate billings. Allocation factors currently in use should be reviewed semi-annually to determine if adjustments are needed to reflect cost shifting attributable to the merger. (Refers to Conclusions 5 and 6)		✓	
To minimize the possibility of incorrect billings to affiliates, update AM 237, *Outline of Procedures for Interentity and Other Miscellaneous Billing*, to reflect current information. (Refers to Conclusion 10)	✓		
Complete the implementation of SBC OP 125 relating to Intellectual Property and Proprietary Information and develop a complete log of IP/PI exchanged in the merger. A complete analysis of this issue should be provided to the ICC when completed. (Refers to Conclusion 11)			✓
Policy Issues			
In the proceedings relating to the review of merger cost and savings, determine whether or not AI is entitled to compensation relating to the exchange of IP/PI and develop appropriate guidelines and reporting requirements for the Company to follow. Alternatively, confirm the Company's contention that the transfer of IP/PI between companies in the merger is a "like-for-like" exchange of property. (Refers to Conclusion 11)			✓
Cost Allocation (i.e., First Report, Ch. VI)			
Findings and Conclusions			
1. As discussed in Chapter IV, Internal Controls, Ameritech's cost allocation procedures and controls are adequate to prevent the occurrence of material misstatements. The Company has a well-documented Cost Allocation System and has implemented an appropriate process to ensure compliance with FCC requirements regarding revisions to the ACAM.	✓		
2. The results of external audits indicate that the Ameritech cost allocation process, as documented in its CAM and executed in PCAS, properly allocates costs between regulated and non-regulated activities.	✓		
3. The Company's current method of calculating the Marketing Allocator produces an inaccurate result. The Company was made aware of this in the E&Y 1999 audit and is planning to change its procedures to correct the problem. However, at the time of our audit tests, needed changes had not been implemented.	✓		

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4. BWG's testing of transactions during the course of the audit confirms that the PCAS properly allocates costs.	✓		
5. With a few exceptions that are adequately explained, the overall proportion of AI regulated and non-regulated costs remained the same for the accounts tested between the 1 Q 1999 and 1Q 2000 indicating a consistent cost allocation process.	✓		
6. An increase in non-regulated costs between the 1Q 1999 and 1Q 2000 for most of the Part 32 accounts tested related to NDA properly reflects the cost-allocation impact of the new non-regulated service.	✓		
7. As compared to their peers, AI and Ameritech have high non-regulated to total cost ratios. This indicates a sufficiently aggressive approach to the allocation of costs to non-regulated activities.	✓		
8. There are significant differences between the SBC CAM and the ACAM. Conversion by AI to the SBC CAM could produce significant shifts in costs from non-regulated to regulated services.	✓		
Recommendations			
To improve the accuracy of cost allocations, calculate the Marketing Allocator based upon the latest three months of experience, similar to the General Allocator, and take steps to normalize anomalies in any of the cost pools used in developing the ratio. (Refers to Conclusion No. 3)	✓		
To improve system documentation and to facilitate testing and verification of results by internal staff and auditors, develop additional reports in the PCAS Part 64 system. Standard reports similar to those available from the Separations System should be produced to improve PCAS documentation. (Refers to Conclusion No. 4)		✓	
Keep the Commission fully informed of plans to adopt the SBC CAM. Before adopting the SBC CAM, perform an appropriate analysis of the impact of the proposed changes and provide this information to the Commission. Obtaining information regarding the change in regulated and non-regulated cost allocation of PacBell might be of benefit in the analysis. (Refers to Conclusions Nos. 7 and 8)	✓		
Reported Costs and Savings (i.e., First Report, Ch. VIII)			
Findings and Conclusions			
1. As required by the ICC's Amended Order, the Company filed its 1999 Cost and Savings Report for the period ended December 31, 1999 in April 2000. While the Company has complied with the ICC's reporting requirements, the use of USOA accounts alone does not allow for specific identification of areas of potential interest to the Commission.	✓		

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2. In the 1999 Cost and Savings Report, the Company netted $1.6 million of costs against reported savings of $0.4 million for a negative net savings of $1.2 million.	✓		
3. The Company did not have sufficient procedures or training programs in place to ensure that merger transaction costs were not charged to merger implementation tracking codes, and as a result had to rely on an after-the-fact review of charges by SBC personnel to ensure transaction costs were not netted against savings in the 1999 Report.		✓	
4. SBC's treatment of certain non-Executive Committee employee severance and relocation costs may be inconsistent with the Commission's Order and Amended Order. BWG has identified the amount of such costs ($0.7 million of severance and $19,300 of relocation costs allocated to AI in 1999) to enable the Commission to determine the appropriateness of their inclusion as an offset to merger savings.		✓	
5. The 1999 Costs and Savings Report includes approximately $463,000 of merger costs associated with compliance activities. $90,000 of these costs are allocated to AI. The inclusion of these costs in the 1999 Costs and Savings Report is not clearly supported by the Merger Order or Amended Order.	✓		
6. The 1999 Costs and Savings Report includes costs of $99,000 incurred prior to the October 8, 1999 merger date. We have estimated that $25,000 of these costs were allocated to AI. The inclusion of these costs in the 1999 Costs and Savings Report is not clearly supported by the Merger Order or Amended Order.		✓	
7. The 1999 Costs and Savings Report includes $2.7 million associated with the cost of conversion to a common SBC/Ameritech e-mail system as shown in Exhibit RCS-21. $0.5 million of this cost is allocated to the Illinois regulated jurisdiction. The inclusion of e-mail costs in the 1999 Costs and Savings Report is not clearly supported by the Merger Order or Amended Order since the Company has not specifically identified savings which are directly related to these costs.		✓	
8. While the Company used appropriate methodologies to allocate costs and savings incurred by other entities to AI, accounting cut-offs and timing differences resulted in a number of mismatches of cost and savings.		✓	
9. The SBC Parent Allocation factors were appropriately applied. Revised allocation factors will be calculated for the year 2000 and should be reviewed to determine their consistency with the 1999 factors.	✓		

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Audit Area	*Uncontested* or Parties Agrees	Contested *with No* Change in BWG's Position	Contested *with further* Explanation or a Change in BWG's Position
10. Although the Merger Investigation RFP requires a review of merger transaction costs, the Company is not required to separately report such costs to the Commission. The Commission has only required that these costs not be netted against merger savings or otherwise recovered from ratepayers.	✓		
11. SBC has identified about $156.0 million in 1998 and 1999 one-time merger costs that were appropriately classified as merger related transaction costs. However, the $156.0 million may not represent the total transaction costs since the Company is not required to separately report such costs.	✓		
12. In addition to the S156.0 million of merger transaction costs identified by the Company, the Company has also incurred $21.9 million in Executive Committee Change in Control and retention payments that are being tracked independently from the S156.0 million, but are considered "below-the-line" and will not be charged to AI regulated operations.	✓		
13. With the exception of employee-related costs, SBC's treatment of one-time merger transaction costs is consistent with the requirements of the Amended Order, as shown in Exhibit RCS-29. Employee-related costs were discussed previously.	✓		
14. As a result of the merger with SBC, substantially all stock options granted prior to May 11, 1998 pursuant to Ameritech Compensation and Benefit Plans became fully vested. Although there are no accounting costs to be recognized relating to this transaction, there may be significant economic costs.		✓	
15. Preliminary MIT estimates indicate future severance and relocation costs may exceed $300 million as shown in Exhibit RCS-30. If SBC follows the same procedure it used in 1999, a portion of these costs will be allocated to Illinois.	✓		
16. Tier B and below management employees received higher severance benefits under the change in control agreement than was available to them without a change in control.	✓		
17. A precise quantification of severance benefits that CRSPP-eligible employees would have been paid absent a change in control cannot be made for the following reasons.	✓		

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Recommendations			
Submit a revised 1999 Cost and Savings Report to the Commission incorporating the agreed-upon adjustments identified in this report. Explain reasons for disagreement with any of the adjustments proposed. Alternatively, to correct the cut-off problems noted as of December 31, 1999, request permission from the Commission to combine 1999 cost and savings information with year 2000 information in the Year 2000 Report. In this way, the Year 2000 Report will include costs and savings information in the for the year and 84 day period from the date of the merger (October 8, 1999) through December 31, 2000. (Refers to Conclusions No. 2, 4, 5, 6 and 7)	✓		
Merger Integration Team Analysis (i.e., First Report, Ch. VIII)			
Findings and Conclusions			
1. The documentation developed by the merger teams provides sufficient information to enable the Commission to assess the reasonableness of planned merger-related costs and savings.	✓		
2. The merger teams adequately identified and quantified planned merger-related costs and savings.	✓		
3. While the Oracle merger tracking database is an effective tool for summarizing and reporting information regarding the status of merger costs and savings, it currently contains only preliminary data for the year 2000 on a year-to-date basis.	✓		
4. The principal means for verification of merger costs and savings data is the review of results by the team's finance contact and the team lead prior to inputting data into the Oracle model. MIT analysts review the results on a monthly basis; however they may not identify all necessary adjustments until a more thorough initiative review involving Transition Planning management personnel is completed.	✓		
5. SBC has a formal process in place to track and review the merger team implementation costs.	✓		
6. While the use of a decision tree approach to allocate identified merger costs and savings to Illinois is appropriate, we are unable to verify SBC's process to determine AI regulated/intrastate savings as SBC has not yet performed the required analysis.	✓		

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7. An overview of planned savings from 2000 to 2004 indicates that SBC expects to achieve approximately 96 percent of its run-rate savings by 2002, the end of the three-year Illinois savings recovery period. SBC planned savings increase from approximately $1 billion in 2000 to $2.5 billion in 2002.	✓		
8. The merger teams evaluated savings initiatives based on a five year payback period, raising the possibility that SBC might not realize savings associated with a number of initiatives until after the three-year period for the sharing of savings in Illinois is scheduled to end. There is at least one merger initiative for which savings are not expected until 2003.		✓	
9. If planned savings are achieved on a company-wide basis, a significant amount of savings will be realized in Illinois.	✓		
10. As shown in Exhibit MIT-21, only 13 of the 168 merger initiatives are solely related to the export of best practices from Ameritech to the other SBC companies, indicating that ratepayers in Illinois will benefit from the merger.	✓		
11. Although SBC developed its merger savings recommendations based on the assumption that service levels would be maintained, certain merger team recommendations have a potential effect on service quality.		✓	
12. SBC has established formal, well-documented methodologies for the calculation of merger cost and savings associated with each sub-initiative. However, as explained in Findings 13 through 15 below, the process is inherently complex and sometimes relies upon assumptions that are not subject to verification.		✓	
13. The verification of the Company's cost and savings calculation methodology for the 35 sub-initiatives selected for testing indicates that the Company has made significant progress. However, at the time of our review, the effort was a work in progress and the Company has an appreciable distance to go.	✓		
14. Confidence in the accuracy of the calculated cost and savings amounts varies considerably depending upon the sources of data elements used in the equations and the application of estimates and assumptions.		✓	
15. Some of the issues discussed with the Company during the sub-initiative review will result in procedural changes for the merger teams.	✓		

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16. During the review of the 35 sub-initiatives selected for testing, the Company proposed adjustments or alternative treatment of savings that bear directly on allocations to Illinois. ▪ Operator Services (18.2.1) ▪ Bad debt (21.5.2) ▪ Stock options (29.3.1) ▪ Reciprocal compensation (39J)			✓
17. Planned savings associated with five of the 35 sub-initiatives selected for testing proved to be spurious and estimates for the year 2000 are overstated by $22.0 million.	✓		
18. SBC uses a variety of methods for calculating merger team labor-related savings. With minor modifications, most of the approaches used are reasonable and, where practical, are consistent in similar situations.	✓		
Recommendations			
Before issuing the Year 2000 Merger Costs and Savings Report, develop a systematic process for review of input to the Oracle database for all sub-initiatives. The review process should be documented with formal written procedures and should be supported by checklists to demonstrate that established procedures were followed. Transition Planning management personnel should sign off on the checklist for each sub-initiative to indicate their review and approval of the cost and savings calculations. (Refers to Conclusion No. 4)	✓		
Review sub-initiatives that contain data elements that are currently not subject to verification (see 18.2.1 and 56.2.1 for example) to determine if an alternative calculation of savings would reduce reliance on undocumented estimates and assumptions. Alternatively, perform the additional analysis needed to document the assumptions used. (Refers to Conclusions No. 13 and 14)		✓	
Policy Issues			
Develop guidelines for the Company to follow in reporting costs for sub-initiatives that have not produced savings in excess of costs at the date reports are filed. This issue involves the question of the time period and level of detail for which the Company must demonstrate that the costs of its merger initiatives are producing savings. Also, consider extending the three-year period for sharing of net merger savings to ensure an equitable apportionment to AI and its ratepayers. (Refers to Conclusions No. 7 and 8)		✓	

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Review the Company's stated position regarding the proposed treatment of costs and savings in sub-initiatives 18.2.1 – Operator Services, 21.5.1 – Bad Debts Expense, 29.3.1 – Stock Options, and 39.J – Reciprocal Compensation to determine if the proposed treatment is acceptable. (Refers to Conclusion No. 15)		✓	
Additional Savings Possibilities (i.e., First Report, Ch. IX)			
Findings and Conclusions			
1. Although the MIT process is designed to address cost and savings relating to depreciation expense, quantification has not yet been completed by the Company.	✓		
2. Although the Finance Team 26 and SBC's tax management team reviewed opportunities for merger related tax savings, none have been determined.	✓		
3. While it is likely the merger will result in improved cash flow and a commensurate reduction in interest expense, SBC has yet to identify any merger related interest savings.	✓		
4. The Company has made an appropriate initial determination of the out of scope merger teams.	✓		
5. The Company has identified merger related employee terminations in a manner that may understate the amount of merger related pension plan settlement gains.			✓
6. The Company is correct in its assertion that settlement gains recorded in 1999 represent an accelerated recognition of gains that occurred in previous periods but were deferred in accordance with FAS 87 accounting requirements. However, the recognition of the gains resulting in credits to expense for accounting purposes in 1999 is in part attributable to the merger.			✓
7. Although the SBC and Ameritech pension plans are not scheduled for integration until 2003, Ameritech adopted amendments to the APP and AMPP as of July 1, 1999 to conform certain actuarial assumptions with those of SBC. One of these changes had a significant impact on pension expense.			✓ (post retirement benefits should be included)
8. Although there is a significant decrease in Ameritech Illinois operating expenses in the 1st Quarter 2000 when compared to the 1st Quarter 1999, our analysis identified only the pension expense reduction as a potential merger related savings not reported by the merger teams or that had not come to our attention through other procedures in the audit.			✓

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9. The decrease in operating expenses exceeds the amount of savings reported in the Merger Tracking database.			✓
Policy Issues			
Determine whether or not pension plan settlement gains and expense reductions attributable to changes in actuarial assumptions to conform the SBC and Ameritech pension plans are merger-related and develop appropriate guidelines and reporting requirements for the Company to follow. (Refers to Conclusions No. 6 and 7)		✓	
Consider whether or not an imputed reduction in interest expense relating to revenue enhancement initiatives within the regulated telephone operating companies is a merger related expense savings to be shared with ratepayers in Illinois. (Refers to Conclusion No. 3)		✓	
The Commission should consider whether or not an imputed savings in the cost of capital related to improved cash flow from reduced capital expenditures constitutes savings to be shared with ratepayers in Illinois. (Refers to Conclusion No. 3)		✓	

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