



Cisco Service Offerings and FCC E-Rate Program Eligibility

The FCC and the E-Rate Program Administrator, USAC have announced changes to the eligibility requirements for E-Rate Basic Maintenance of Internal Connect services. Cisco would like to ensure that our Customers are aware of these changes, including USAC's recent statement indicating that Cisco SMARTnet is ineligible as E-Rate Basic Maintenance, and Cisco's alternative Service Offerings, such as Cisco Base, are eligible.

Background

The FCC's Sixth Report and Order, dated September 28, 2010, revised the methods of reimbursement for certain E-Rate Basic Maintenance of Internal Connection services.

The rules now require two different invoicing methods:

- Services such as software upgrades and patches, including bug fixes and security patches, and online and telephone-based technical assistance and tools may be invoiced on an annual one-time basis for E-Rate reimbursement.
- Services related to replacement parts and labor can now only be invoiced for reimbursement on a per-incident basis, after the services have been performed.

These recently announced changes to the E-Rate Program may affect the delivery of services by vendors and service providers participating in E-Rate funded contracts. These changes to the E-Rate program affect the eligibility status of Cisco's SMARTnet service offering.

The E-Rate rule changes did not affect the provision that allows E-Rate eligible equipment to include a warranty that includes parts replacement, as long as the warranty does not exceed three years.

FCC Changes to E-Rate Basic Maintenance

New rules identify two different methods for reimbursement

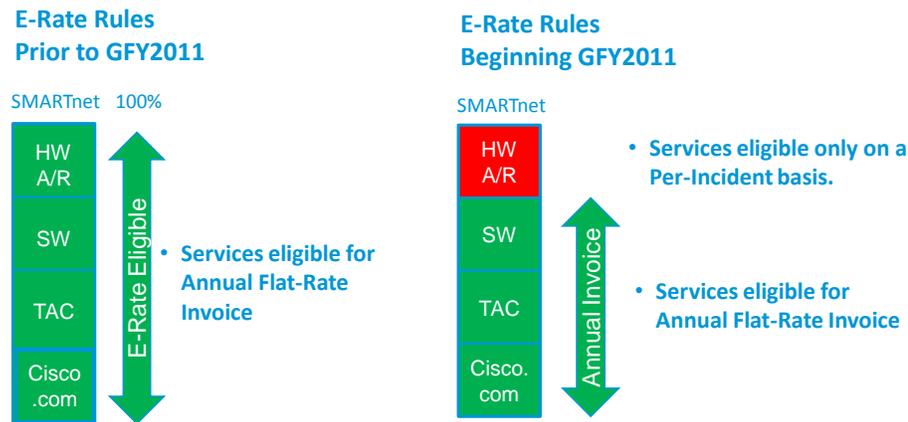
Reimbursement	Services Definition	E-Rate Application	Delivery & Invoice
	<p>Typical Fixed Price Offerings:</p> <ul style="list-style-type: none">• Software Upgrades• Software Patches, including bug fixes and security patches• Telephone-based Technical Assistance• Online Technical Assistance & Tools	<p>Applicants may:</p> <ul style="list-style-type: none">• Seek reimbursement of a one-time charge• Any time during the funding year	<p>Delivery:</p> <ul style="list-style-type: none">• Services entitled and delivered via typical subscription model. <p>Invoice:</p> <ul style="list-style-type: none">• One-time charge• Reimbursed without demonstrating work performed
	<p>Physical Maintenance & Repair</p> <ul style="list-style-type: none">• Labor and Parts needed to repair equipment at the school	<p>Applicant may:</p> <ul style="list-style-type: none">• Apply for E-Rate funds for <i>estimated</i> repairs• Must be based on verifiable or historical data	<p>Delivery:</p> <ul style="list-style-type: none">• Services delivered on a per-incident basis <p>Invoice:</p> <ul style="list-style-type: none">• Invoice for actual work performed• Customer submit to USAC• USAC review/approve, then funds released

Impact to Cisco SMARTnet

The USAC Special Edition Newsletter <http://www.usac.org/sl/tools/news-briefs/preview.aspx?id=344> released on January 27, 2011th provides additional information regarding these changes, addressing the eligibility status of specific Cisco Service Offerings.

SMARTnet is a subscription program, which includes Hardware Advanced Replacement as well as software updates and patches and online and telephone-based technical assistance. The inclusion of hardware replacement in an annual service contract conflicts with the new E-Rate rule requiring per-incident invoicing for part replacement.

Implications to Cisco SMARTnet and E-Rate Reimbursement



Cisco Service Offerings within the E-Rate Program

In view of the recent changes Cisco would like to highlight the following for our Customers who participate in the E-Rate Program:

1) Services at time of Product purchase:

Previously, Cisco offered the Customer one year of SMARTnet Next Business Day services at no additional cost with the purchase of E-Rate Eligible Product.

Commencing with the GFY 2011 E-Rate Program, E-Rate eligible product purchases that qualify will now include the following Cisco E-Rate Services Bundle at no additional cost:

- 3 years of Next Business Day Advanced Hardware Replacement
- 1 year of the following:
 - Cisco Technical Assistance Center (365 days x 24 hours)
 - Customer access to Cisco.com web tools, online knowledge database
 - Operating system updates

2) Cisco Technical Service Contract Renewals:

Cisco's SMARTnet offering includes services which require two different invoicing methods under the new E-Rate rules. Part replacement must now be invoiced for E-Rate reimbursement on a per-incident basis, after the services have been performed. Other services continue to be eligible for E-Rate reimbursement as an annual one-time charge.

Under the E-Rate rules, Basic Maintenance contracts with ineligible components may not be cost-allocated. As a result, it is Cisco's understanding that SMARTnet is not eligible for reimbursement as Basic Maintenance of Internal Connections. Educators may continue to purchase SMARTnet as long as they are not depending upon E-Rate support to fund the purchase.

Educators depending on E-Rate funding have other options for Annual Subscription Renewal, as shown below:

The Cisco Base service offering provides access to the Cisco Technical Assistance Center (365 x 24 hours), registered access to Cisco.com web tools, online knowledge database, and ongoing operating system updates, including minor and major releases within the customer's licensed feature set (i.e., the services eligible for reimbursement under the new rules as an annual one-time charge). Customers that have previously utilized the Cisco SMARTnet service offering may use the Cisco Base service offering to obtain these services.

Further details are available at:

http://www.cisco.com/en/US/products/ps6116/serv_group_home.html

3) Per-Incident Part Replacement:

The revised E-Rate rules for Basic Maintenance now require E-Rate Applicants to submit an annual estimate of their part replacement requirements, and submit invoices for each incident after the repair has been performed, prior to receiving reimbursement from USAC.

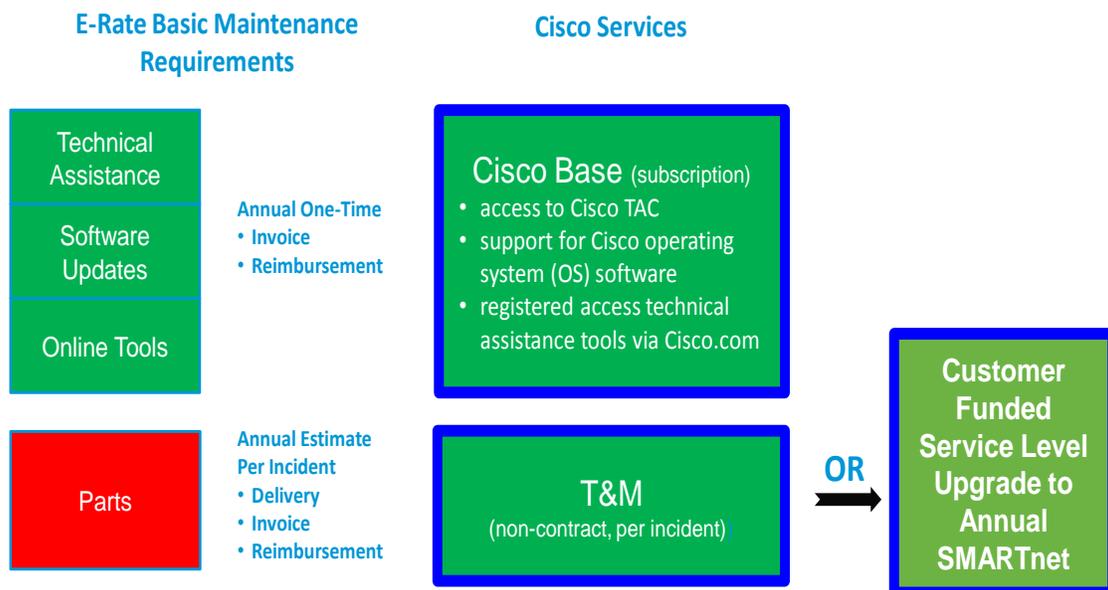
The new per-incident requirement will likely impact Customers in a variety of ways, depending on their current service and support model. We recognize that our Customers will have unique circumstances regarding; internal staffing, help-desk support, Partner support services, contract

administration, E-Rate invoice administration for compliance with the E-Rate Program, as well as other support processes. These are key considerations in planning for the integration of the new E-Rate per-incident invoice requirements into an overall support model.

Cisco has available non-contract services that are per-incident in nature via the Cisco Technical Assistance Center. These services are provided on a Time & Material basis and can assist in a manner that is consistent with the revised requirement for per-incident invoices. E-Rate Applicants should consider the invoicing requirements of the E-Rate program, and the role of Authorized E-Rate Service Providers in the E-Rate invoicing methods.

Cisco recommends consultation with your Cisco Authorized Partner and authorized E-Rate Service Providers, as well as your Cisco Sales Team to discuss the implication of these changes.

Renewal of Installed Base



Please contact your Cisco Authorized and E-Rate Authorized Partner and Cisco Sales team for further information and assistance regarding these changes to Cisco Services offerings that are recommended for E-Rate Programs.

Additional Resources:

- Funds For Learning fundsforlearning.com
- Information on all Cisco eligible equipment and services:
<http://cisco.fundsforlearning.com/>
- New Cisco Base Service Offerings: Log in to your WSCA Participating State at <http://www.cisco.com/web/strategy/government/wsca/index.html>
- USAC web site <http://sl.universalservice.org>