

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington D.C. 20554**

In the Matter of

Request of Lockheed Martin Corporation and
Warburg, Pincus & Co. for Review of the
Transfer of the Lockheed Martin
Communications Industry Services Business
from Lockheed Martin Corporation to an
Affiliate of Warburg, Pincus & Co.

**REQUEST FOR EXPEDITIOUS REVIEW OF
THE TRANSFER OF THE
LOCKHEED MARTIN COMMUNICATIONS INDUSTRY
SERVICES BUSINESS**

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Lockheed Martin Corporation (“Lockheed Martin”) and Warburg, Pincus & Co. (“Warburg Pincus”) request the Federal Communications Commission (“FCC” or the “Commission”) to review expeditiously the sale of Lockheed Martin’s Communications Industry Services (“CIS”) business to a new independent company. A subsidiary of Warburg, Pincus Equity Partners, L.P. (“WPEP”), a \$5 billion private equity fund operated by Warburg Pincus as general partner, will purchase substantially all of the assets of the CIS business. The CIS business unit of Lockheed Martin serves as the North American Numbering Plan Administrator (“NANPA”) and, in this role as a neutral third party, is required under Commission rules and policies to administer numbering resources in a fair and efficient manner. Lockheed Martin and Warburg Pincus request that the Commission find that following the sale by Lockheed Martin, CIS remains qualified to fulfill its initial five-year term as NANPA.

¹ Expeditious review of the CIS transfer will ensure the continued high level of performance and service

¹ See *Administration of the North American Numbering Plan, Toll Free Service Access Codes*, 12 FCC Rcd 23040 (1997) (“*NANPA Selection Order*”). CIS also serves as the Local Number Portability Administrator (“LNPA”) for all seven U.S. local number portability (“LNP”) regions and the Canada Consortium. As provided for by its contracts with the regional LNP limited liability companies (“LLCs”), CIS is working closely with the

quality evidenced by CIS's operations to date, as well as the continued neutrality of the NANPA and CIS's LNPA operations. Grant of this request, therefore, will serve the public interest in the continued fair and efficient administration of numbering resources in the United States and member countries of the North American Numbering Plan ("NANP").

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I. BACKGROUND AND SUMMARY

The Telecommunications Act of 1996 required the FCC to "create or designate one or more impartial entities to administer telecommunications numbering and to make such numbers available on an equitable basis."

³ The Commission subsequently directed the North American Numbering Council ("NANC") to recommend a qualified entity to serve as the NANPA.

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The NANC established a rigorous competitive bidding mechanism for the selection of the NANPA. It issued a detailed Requirements Document that set forth the performance criteria, responsibilities, and functions for the NANPA.

⁵ Interested parties submitted firm, fixed price proposals that were critically evaluated by NANC

LLCs to gain their approval for the proposed transfer and to address any neutrality issues arising under the LLC service contracts.

² The NANP is the basic numbering scheme for the telecommunications networks located in 18 countries, including the U.S., U.S. territories, Canada and countries in the Caribbean.

³ 47 U.S.C. § 251(e)(1).

⁴ See *Administration of the North American Numbering Plan*, 11 FCC Rcd 2588, 2609 (1996). The Commission also directed the NANC to recommend one or more entities to serve as the LNPA. The Commission affirmed the various LLCs' selection of Lockheed Martin as the LNPA for four of the LNP regions and Perot Systems, Inc. ("Perot Systems") to administer the other three LNP regions. Following subsequent negotiations with the relevant LLCs after Perot Systems proved unable to fulfill its technical service obligations, the Commission affirmed Lockheed Martin's selection as the LNPA for the additional three regions.

⁵ In preparation for the selection of the first NANPA, on November 20, 1997, the NANC released a document describing the requirements that a NANPA candidate must meet to serve as the NANPA, including specific neutrality requirements ("Requirements Document"). See FCC News Release, NANC Seeks Proposals From Entities Interested In Serving As North American Numbering Plan Administrator, Report No. CC 97-8 (rel. Feb. 20, 1997).

working groups. The evaluation process included a series of written questions and answers and applicant presentations to the selection committee. The ultimate selection of the NANPA by NANC was based on the following criteria: (1) compliance with the Requirements Document, (2) experience; (3) completeness of the proposal; (4) communications effectiveness; and (5) innovation. In addition, the NANC strongly considered the superior price bid from Lockheed Martin. The Commission conducted an independent review of the NANC recommendation, including a request for public comment and subsequently confirmed the NANC recommendation, noting that Lockheed Martin “offers substantial savings . . . and can bring efficiency and synergy advantages to number administration.”

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During its tenure as NANPA, CIS has operated as an independent business unit within Lockheed Martin IMS Corporation (“Lockheed Martin IMS”), a 100 percent-owned subsidiary of Lockheed Martin, with a dedicated expert management team that oversees all functional aspects of the business. CIS owns and operates the entire network and database infrastructure required to provide NANPA and LNP services. The management team, the same team that oversaw CIS’s participation in the selection process and managed the successful implementation of LNP in Canada and the seven U.S. LNP regions, consists of 26 professionals with more than 250 years of combined experience in the telecommunications industry and average individual experience in the field of numbering services of more than 10 years. The CIS staff of expert employees manages all operational aspects of the NANPA and LNP businesses. Since its inception, CIS has met or exceeded all industry and regulatory objectives in a timely and professional manner. Working with the industry, the FCC, and the NANC, CIS is on schedule with the transition of all NANPA operations from its predecessors.

In recent months, CIS has issued a number of informational reports to the NANC and the FCC staff informing them of Lockheed Martin’s formation of a Global Telecommunication subsidiary and its intention to enter the telecommunications services market. In September 1998, Lockheed Martin announced its intention to acquire COMSAT Corporation, and to seek status as an “authorized carrier”

⁶ *NANPA Selection Order* at 23071.

to purchase stock in COMSAT Corporation.

⁷ Throughout this period, CIS has assured the NANC and the FCC that Lockheed Martin would take all necessary steps to ensure the continued neutrality and high performance standards of the CIS business. On October 22, 1998, CIS issued a report to the NANC announcing Lockheed Martin's intention to divest voluntarily the CIS unit in order to preserve the continued high performance and neutrality of the NANPA.

Following the announcement of Lockheed Martin's intention to divest the CIS business, Lockheed Martin diligently sought an acceptable neutral third party purchaser with sufficient resources willing to provide the continued high level of service quality that the industry and the FCC have come to expect from CIS. On December 15, 1998, Lockheed Martin IMS entered into an agreement (the "Transaction Agreement") with CIS Acquisition Corporation which was formed by WPEP for the purpose of acquiring the CIS business. Warburg Pincus is a major global private equity investment firm, with the necessary financial resources, as well as a strong commitment, to support the successful performance of CIS's obligations.

Warburg Pincus currently manages five private equity funds with approximately \$6 billion invested in more than 100 portfolio companies, with approximately \$5 billion available for new investments from WPEP and a companion international fund. Warburg Pincus has made successful investments in a wide range of businesses and has the capability to invest at all stages of a business life cycle—from venture capital start-ups to developing companies to buyouts and recapitalizations. Warburg Pincus' investment strategy relies upon carefully selected management teams for the day-to-day operations of the businesses in its portfolio, providing them with maximum independent authority with respect to business operations. To help ensure the success of these companies, Warburg Pincus has historically used its financial resources to make follow-on investments in its portfolio

⁷ FCC Public Notice, Lockheed Martin Corporation, Regulus, LLC, COMSAT Corporation, and COMSAT Government Services, Inc., Seek FCC Consent for Transactions, Report No. SPB-139 (rel. Oct. 23, 1998). COMSAT and COMSAT Government Systems, Inc. hold 214 authorizations to provide international common carrier services.

companies from time to time.

Warburg Pincus also owns an indirect majority interest in Warburg Pincus Asset Management, Inc. (“Warburg Pincus Asset Management”), a registered investment adviser under the Investment Advisers Act of 1940. Warburg Pincus Asset Management provides investment counseling for individuals and institutions, with current managed assets of approximately \$19 billion divided between separate individual accounts and mutual funds. Warburg Pincus Asset Management is operated as a separate entity from the five private equity funds by active partners dedicated to the asset management business.

DESCRIPTION OF TRANSACTION AGREEMENT

Under the proposed transaction, the CIS business will be sold intact to CIS Acquisition Corporation, a newly organized corporation with the sole business objective of providing NANPA and other neutral third party services to the telecommunications industry. Subject to all necessary regulatory and contractual approvals, upon closing, 95 percent of the equity stock of the new company will be held by WPEP. Under the terms of the Transaction Agreement, Lockheed Martin through the Lockheed Martin IMS subsidiary, will maintain five percent of the new company’s common stock.

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The Transaction Agreement is structured so that the newly formed CIS company stands in the shoes of its predecessor. Thus, all critical CIS personnel, expertise, and operational infrastructure will be transferred to the new corporation. Moreover, under the provisions of the Transaction Agreement, WPEP agrees to cooperate to obtain for the new company all necessary permissions to assume all NANPA and LNPA responsibilities and contractual obligations “subject to the terms and conditions of [the existing contracts and service agreements].” Under the Transaction Agreement, CIS Acquisition Corporation will assume substantially all of the liabilities and obligations of the CIS business. Thus, it is the expectation of Lockheed Martin, CIS management and Warburg Pincus that, from an operational

⁸ Because Lockheed Martin’s remaining interest will be less than 10 percent, the company will no longer be an affiliate of CIS under the NANPA neutrality rules. *See* 47 C.F.R. § 52.12 (a)(1)(i).

standpoint, the CIS transfer will be a transparent and seamless event to CIS's customers. All services and operations of the new company will be transferred intact, including all NANPA responsibilities and new initiatives. All existing services will continue to be offered under identical pricing, terms and conditions agreed to in CIS's response to the Requirements Documents and in subsequent industry-approved statements of work.

THE PROPOSED TRANSFER OF THE CIS BUSINESS WILL SERVE THE PUBLIC INTEREST

Commission rules do not require prior approval for any transfer of control or assignment of the NANPA. Nonetheless, CIS has regularly briefed Commission staff and the NANC about Lockheed Martin's strategic business plans and assured the Commission, after Lockheed Martin announced its intention to divest CIS, that it would provide for Commission review a detailed description of the sale of CIS to an independent entity and an assessment of any effect the sale may have on CIS's continued neutrality.

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In a letter dated November 23, 1998 to Jeffrey Ganek, Senior Vice President and Managing Director of CIS, the FCC identified several issues to be addressed by CIS in any request for approval of a transfer of the CIS business. Of particular interest to the FCC are the following: (1) the ability of the new CIS entity to perform the functions of the NANPA in accordance with the Requirements Document; (2) the commitment of the new CIS entity to perform the functions of the NANPA at the price agreed to by CIS; and (3) the ability and commitment of the new CIS entity to fulfill the remainder

⁹ Contrary to the assertions of Mitretek Systems, Inc. ("Mitretek"), *see* Letter from H. Gilbert Miller, Mitretek, to Lawrence E. Strickling, Chief, Common Carrier Bureau, Federal Communications Commission (Dec. 8, 1998), Lockheed Martin and CIS have not defaulted on their NANPA obligations, nor have they violated the neutrality criteria. Most notably, Lockheed Martin has not yet acquired *any* interest in COMSAT or CGSI. Consequently, there is no existing breach of the neutrality requirements. Moreover, Commission rules clearly contemplate situations in which NANPA neutrality may be threatened and provide a mechanism for addressing such issues. *See* 47 C.F.R. § 52.12(e). Mitretek misunderstands the Commission's rules and policies when it suggests that a threatened breach of neutrality must be cured by the installation of the runner up candidate in the initial NANPA selection proceeding. A logical and effective resolution for a threatened breach of neutrality is the transfer of the NANPA organization intact to a new controlling neutral entity.

of CIS's current term as NANPA without compromising its neutrality and the resources needed to administer the NANP.

¹⁰ The Commission also seeks information on the impact of the proposed divestiture on the other NANP member countries, as well as the LLCs and LNPA requirements and capabilities.

¹¹ CIS responds below to each of the issues identified by the Commission and demonstrates that Warburg Pincus ownership of the CIS business will provide a stable, neutral and economically robust platform for the continued high level of CIS performance.

A. Under Warburg Pincus Ownership, CIS Will Continue To Provide High Quality, Reliable Service To The Industry

It is the expectation of Lockheed Martin, CIS management and Warburg Pincus that the CIS sale will be seamless to the industry and CIS customers. As noted above, the entire CIS business unit will be sold intact into a new corporation, including assets and infrastructure. In addition, the new company will offer continuing employment to the existing employees, including the expert management team. In addition, existing contracts and obligations undertaken by CIS, including all NANPA responsibilities, will be transferred along with CIS under the identical terms, conditions, and pricing agreed to by CIS in its response to the Requirements Document. Moreover, the intact sale of CIS will also ensure that there will be no discernable impact on other NANP member countries or the LLCs.

During its tenure as NANPA and LNPA, CIS consistently has met or exceeded all NANPA and the LNPA requirements outlined in the Requirements Documents, the LLC contracts and Part 52 of the Commission's rules.

¹² CIS has worked closely with the industry, the FCC and the NANC to ensure the smooth transition of the NANPA duties and obligations from the industry to the NANPA. The proposed transfer is intended to ensure CIS's continued ability to perform its duties in an exemplary fashion.

¹⁰ See Letter from Yog Varma, Deputy Chief, Common Carrier Bureau, Federal Communications Commission, to Jeffrey Ganek, Senior Vice President and Managing Director, Lockheed Martin IMS, CIS at 2 (Nov. 23, 1998).

¹¹ *Id.*

¹² See 47 C.F.R. § 52.1 *et. seq.*

CIS maintains strict quality standards and conducts job performance surveys to assure customer satisfaction. The ratings received in these surveys are consistently high.

¹³ CIS also has established with the LNP regional LLCs, exacting operational standards which, in the aggregate, CIS consistently exceeds.

¹⁴

The telecommunications industry also has recognized CIS's high level of performance. CIS was awarded the SuperQuest Award at the Supercomm Communications Conference and Exhibition in June 1998 for its implementation of the LNP administration system. In announcing the award, it was noted that

Because nobody in the telecommunications industry had ever attempted a project of this size, Lockheed Martin had no real-world examples to use as a benchmark. New processes and implementation procedures had to be developed along with the actual software and hardware requirements. In addition, there was only a limited amount of time for development and testing of the system.

¹⁵

This prestigious award demonstrates that CIS's performance in establishing a first of its kind system subject to strict FCC deadlines for rollout of LNP, while surpassing the industry's high target performance standards from the start, far exceeded the expectations of the industry and the regulatory agencies.

The considerable trust and respect developed by CIS among its customers and the relevant regulatory agencies is one of the company's most important assets. It is of critical importance to Lockheed Martin, CIS management and Warburg Pincus that this asset not be diminished by the sale. Therefore, as discussed below, both companies will make certain that the objectives and goals of CIS

¹³ For the period May through November 1998, customer surveys for NPA relief planning efforts resulted in ratings (out of a possible five points) of 4.33 for overall satisfaction, 4.26 for meeting preparation, and 4.23 for facilitation effectiveness.

¹⁴ The LLC LNP Service Agreements require that CIS continuously monitor its service performance in all LNP regions and report monthly to the LCCs on that performance.

¹⁵ See First Annual SUPERQuest Awards at SUPERCOMM '98 (visited Dec. 16, 1998) <<http://www.teledotcom.com/superquest/winners.html>>.

are met and that CIS continues to provide high quality neutral third party numbering administration services.

B. The CIS Business Will Have A Stable, Reliable And Broad-Based Financial Investor in Warburg Pincus

The capital intensive nature of CIS's number administration responsibilities requires that any acquiring company be able to provide adequate financial support for CIS operations, and this factor was a major consideration in Lockheed Martin's search for a suitable buyer. Warburg Pincus' demonstrated record of long-term financial commitment to the companies in which it invests played a significant role in its selection as the purchaser of the CIS business. For example, Warburg Pincus has contributed to the success of many companies, including Mattel, Inc., Mellon Bank Corporation, U.S. Health Care, Inc., Magma Copper Company, and Intuit, Inc.

Warburg Pincus understands the public interest nature of CIS's activities and is committed to supporting CIS's fulfillment of its NANPA and LNPA responsibilities in accordance with all CIS existing contractual terms and conditions, including pricing. Warburg Pincus is committed to maintaining the current high quality operations of CIS as the NANPA and LNPA.

C. Ownership Of CIS Business By Warburg Pincus Will Ensure The Continued Neutral Operations Of CIS

Lockheed Martin's new strategic plan to marshal and manage its corporate-wide resources and strengths to eventually become a leading provider of telecommunications services has raised questions about the future neutrality of CIS. The voluntary sale of CIS to Warburg Pincus will ensure that CIS's operations remain neutral.

The Commission's rules addressing neutrality requirements for the NANPA are designed to ensure that the entities charged with numbering administration operate in a fair and competitively neutral matter.

¹⁶ Specifically, Section 52.12(a)(1) of the Commission's rules provides that the NANPA shall be a non-governmental entity that is "impartial and not aligned with any particular telecommunications industry

¹⁶ 47 C.F.R. § 52.9.

segment.”

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Notwithstanding the neutrality criteria set forth in § 52.12, however, the Commission’s rules also provide that an entity may be determined not to be “subject to undue influence by parties with a vested interest in the outcome of numbering administration and activities.”

¹⁸ This latter provision ensures that a mechanical application of the affiliation limits set out in the rules does not prevent an impartial, non-aligned entity, such as the new corporation into which CIS operations will be transferred, from serving as the NANPA.

¹⁷ Specifically, the rules provide:

i) The NANPA and B&C [billing and collection] Agent may not be an affiliate of any telecommunications service provider(s) as defined in the Telecommunications Act of 1996. “Affiliate” is a person who controls, is controlled by, or is under the direct or indirect common control with another person. A person shall be deemed to control another if such person possesses, directly or indirectly --

(A) An equity interest by stock, partnership (general or limited) interest, joint venture participation, or member interest in ten (10 percent) percent or more of the total outstanding equity interests in the other person, or

(B) The power to vote ten (10 percent) percent or more of the securities (by stock, partnership (general or limited) interest, joint venture participation, or member interest) having ordinary voting power for the election of directors, general partner, or management of such other person, or

(C) The power to direct or cause the direction of the management and policies of such other person, whether through the ownership of or right to vote voting rights attributable to the stock, partnership (general or limited) interest, joint venture participation, or member interest) of such other person, by contract (including but not limited to stockholder agreement, partnership (general or limited) agreement, joint venture agreement, or operating agreement), or otherwise;

(ii) The NANPA and B&C Agent, and any affiliate thereof, may not issue a majority of its debt to, nor may it derive a majority of its revenues from, any telecommunications service provider. “Majority” shall mean greater than 50 percent, and “debt” shall mean stocks, bonds, securities, notes, loans, or any other instrument of indebtedness. 47 C.F.R. § 52.12(a)(1)(i) & (ii).

¹⁸ 47 C.F.R. § 52.12(a)(1)(iii).

i. As A Broad-Based Financial Investor, Warburg Pincus Does Not Present the Kind of Threat to Neutrality That Underlies The Commission's Rules and Policies

Warburg Pincus is a broad-based financial investor. As such, Warburg Pincus does not represent the type of operational or strategic entity that was the focus of the Commission's efforts in fashioning its neutrality requirements. As is expected of a financial investor, Warburg Pincus' primary goal for its private equity funds is to generate returns on investments from a widely diversified investment portfolio of well-run companies. The operations of the individual portfolio companies are left to expert management teams such as the existing CIS team. Warburg Pincus itself is not a telecommunications company, and telecommunications investments currently account for less than five percent of the value of Warburg Pincus' total private equity investments. As a broad-based financial investor, therefore, Warburg Pincus is particularly suited to acquire the CIS business.

Warburg Pincus is the general partner of five private equity investment funds. The limited partner investors in the \$5 billion WPEP fund in which CIS would be held each hold less than a five percent interest in the fund itself and, therefore, are not affiliated companies for purposes of the NANPA neutrality rules.

¹⁹ WPEP currently has thirteen portfolio company investments, not including the proposed investment in CIS, and approximately 107 limited partner investors. The limited partner investors in the five investment funds held by Warburg Pincus are principally public and private pension funds. As a general matter, limited partners have no role in the management or control of the funds or its portfolio companies, although each fund has an advisory committee, comprised of representatives of certain of the limited partners, that consults with the general partner with respect to the business of the fund as a whole.

The Commission's NANPA neutrality rules are designed to safeguard against anticompetitive behavior by the NANPA. Specifically, the Commission regards competitive neutrality as a means of ensuring that the NANPA will not favor itself, or any user of numbering resources with which it may be

¹⁹ 47 C.F.R. § 52.12(a)(1)(i)(B).

affiliated, in the allocation of the numbering resources for which it is responsible.

²⁰ Broad-based financial investors like Warburg Pincus simply do not pose this kind of threat.

²¹

Warburg Pincus, as a broad-based financial investor, does not have a vested interest in the outcome of numbering administration decisions. Warburg Pincus will be an investor in CIS, as it is in more than 100 other widely diversified companies, only a few of which offer telecommunications services. Warburg Pincus will not participate in the day-to-day management of CIS; rather it will remain an “impartial and non-aligned” entity with regard to CIS’s number administration operations. As a result, CIS will have no incentive to deviate from its responsibility to allocate numbers in a fair and impartial manner. Thus, Warburg Pincus, while offering substantial financial support and stability for CIS, does not pose a risk, as might operational and strategic buyers, to the neutrality of CIS’s operations.

Similarly, as a registered investment adviser, Warburg Pincus Asset Management does not pose a threat to the neutrality of CIS’s operations. Warburg Pincus Asset Management is a passive, institutional investor. Its sole business is the purchase and sale of stocks and other investment vehicles for the beneficial interest of its clients. Warburg Pincus Asset Management plays no managerial role in the companies in which it invests funds. Moreover, as a further assurance of complete neutrality, Warburg Pincus Asset Management has agreed not to make a greater than 10 percent investment in any

²⁰ In its *NANPA Selection Order*, affirming NANC’s selection of CIS as the NANPA, the Commission stated that “[a]ccess to numbering resources is critical to entities desiring to participate in the telecommunications industry,” and that no carrier could successfully participate in this industry “unless numbering resources of the NANP are administered in a fair and efficient manner that makes them available to all parties desiring to provide telecommunications services.” *NANPA Selection Order* at 23044.

²¹ As distinguished from a strategic/operating investor, financial investors typically look to achieve their financial return through investment insight and support of expert management teams in place in their portfolio companies. Strategic/operating investors, on the other hand, typically are looking to business synergies and integration with existing operations to satisfy a material portion of the investment objective. Thus, while the financial investor is looking to create a portfolio of diversified investments each managed for its own success, the strategic/operating investor is looking to gain an advantage in existing operations through leveraging its investment in allied operations.

telecommunications service provider. Thus, Warburg Pincus' interest in Warburg Pincus Asset Management poses no threat to NANPA neutrality.

ii. Warburg Pincus' Telecommunications Investments Do Not Create A Vested Interest In Numbering Administration

In its order last year affirming NANC's selection of CIS as the NANPA, the Commission determined that Lockheed Martin's interests in telecommunications service providers did not render CIS non-neutral.

²² Specifically, the Commission noted that "section 52.12(a)(1)(iii) of [its] rules provides that, even if the NANPA does not satisfy the neutrality criteria stated in sections 52.12(a)(1)(i) and (ii), the Commission, nonetheless, may find that the NANPA is neutral and not subject to undue influence by parties with a vested interest in the outcome of numbering administration and activities."

²³ The Commission found that CIS was neutral for purposes of assuming the functions of the NANPA because 1) of the *de minimis* nature of its affiliate services; 2) the affiliated carrier did not utilize numbers under control of the NANPA; and 3) the stake held by Lockheed Martin in the carrier was extremely small relative to its overall assets.

²⁴ The same reasoning applies to the investments held by Warburg Pincus affiliates in telecommunications service providers. These interests would not render CIS non-neutral for numbering administration purposes.

As with the Lockheed Martin determination, Warburg Pincus' telecommunications interests are a small portion of the company's overall interests. As described above, Warburg Pincus currently manages five private equity funds with approximately \$6 billion invested in more than 100 portfolio companies, with approximately \$5 billion available for new investments from WPEP and a companion international fund. Telecommunications investments currently account for less than five percent of the value of Warburg Pincus' total private equity investments.

²² *NANPA Selection Order* at 23081-82.

²³ *Id.* at 23081 (citation omitted).

²⁴ *Id.* at 23081-82.

Because of the size of its funds under management and its objective of maintaining a well-diversified portfolio of investments, any investments in telecommunications service providers are, therefore, *de minimis* in relation to WPEP and to the overall investment portfolio of Warburg Pincus. Thus, Warburg Pincus' investments in telecommunications entities, when compared to its overall investments, would not create within CIS a vested interest in administering number resources to the advantage of any of Warburg Pincus' investments.

An examination of each of the three "affiliated" telecommunications companies held in other Warburg Pincus funds further supports the conclusion that CIS remains neutral under Warburg Pincus ownership. Warburg Pincus indirectly holds a greater than 10 percent interest in Covad Communications Company, Esprit Telecom Group plc, and Primus Telecommunications Group, Inc. In addition, Warburg Pincus holds a six percent interest in NTL Telecommunications, Inc. Although Warburg Pincus and CIS management believe that Warburg Pincus' minor telecommunications interests do not constitute a breach of neutrality, in the interest of establishing a complete record for FCC and industry consideration, each of these interests is discussed in turn below:

Covad Communications Company ("Covad"): Covad is a packet-based dedicated digital services provider. Although Covad is an authorized competitive local exchange provider ("CLEC") in 12 states, it does not operate as a common carrier service provider and does not use numbering resources.

²⁵ Covad provides dedicated high-speed digital communications services using digital subscriber line ("DSL") technology to business customers and Internet service providers

²⁶ that do not entail the utilization of NANPA-administered numbering resources. Covad has filed a registration statement in connection with an initial public offering in the near future, reducing to

²⁵ Covad has registered as a CLEC in a number of states to obtain unbundled network elements ("UNEs") and acquire interconnection rights under § 251 of the Telecommunications Act of 1996. Covad does not provide circuit switched local exchange telephone services, and therefore, does not use telephone numbers.

²⁶ Covad Communications Group, Inc., Form 10-Q, Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for Quarterly Period Ended September 30, 1998, File No. 333-51097 at 11 (filed Nov. 16, 1998).

approximately 25 percent Warburg Pincus' existing 33 percent indirect holding in Covad. Therefore, Warburg Pincus' interest in Covad does not create a vested interest in the administration of number resources, and does not threaten the continued neutrality of CIS.

Esprit Telecom Group plc ("Esprit"): Esprit is a Pan-European telecommunications operator serving mid-sized business and professional customers. Esprit holds a single U.S. international 214 authorization for the resale of facilities-based services between the U.S. and all permissible points. The vast majority of Esprit's operations and its headquarters are in Europe and have no relation to U.S. telecommunications services or the NANP. Although Warburg Pincus now indirectly owns approximately 12 percent of Esprit, Esprit has announced an agreement to sell the company to Global Telesystems Group, Inc. ("GTS"). Following the closing of the transaction, Warburg Pincus' interest will fall below five percent. Esprit is not assigned U.S. carrier identification codes ("CIC") and does not use telephone numbers. Thus, Esprit poses no threat to CIS's neutrality and will no longer be an attributable interest following the closing of the GTS transaction.

Primus Telecommunications Group, Inc. ("Primus"): Primus provides non-U.S. telecommunications services, international private line services, domestic U.S. wholesale transport services and a small amount of other services. The other services include: reorigination services, private networks, pre-paid and calling cards.

²⁷

Warburg Pincus indirectly owns approximately 14 percent of Primus.

²⁸ Primus holds U.S. international 214 authorizations for service to all permissible international destinations, as well as authorizations to resell interlata and/or intralata interexchange services in the U.S.

²⁷ Primus Telecommunications Group, Inc., Form 10-K, Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for Fiscal Year Ended December 31, 1997, File No. 0-29-092 at 1 (filed March 18, 1998) ("Primus 10-K").

²⁸ Warburg Pincus' current holding of approximately 14 percent is a result of the acquisition of Trescom International, Inc. by Primus in June 1998. Warburg Pincus held a majority interest in Trescom which was primarily a provider of wholesale transport services.

A significant majority of Primus' services are offered in markets outside of the U.S. (e.g., United Kingdom and Australia) and are not affected by U.S. number administration. In a recent Securities Exchange Commission filing, the company stated that "a significant portion of [its] net revenue is derived from its sales and operations outside the United States, principally in Australia, the United Kingdom and Canada."

³⁰ Moreover, Primus further stated that "[i]n the future, the Company expects to continue to derive a significant portion of its net revenue and incur a significant portion of its operating costs outside the United States."

³¹ Primus' international private line services similarly are not affected by NANPA. In addition, the majority of Primus' U.S. revenues are from wholesale transport services for which Primus has no interest in NANPA numbers.

A niche player in the U.S. long distance services industry, Primus does not provide a significant amount of services within the U.S. and does not provide local exchange service.

³² Primus poses no threat of undue influence on the NANPA and will have no effect on CIS' ability to administer numbers in a fair and impartial manner.

NTL Telecommunications, Inc.("NTL"): NTL is a provider of local and international telecommunications services, as well as cable, Internet, and broadcast services, in the United Kingdom. NTL holds two U.S. international 214 authorizations for the provision of international message services between the U.S. and any permissible international point. Warburg Pincus indirectly owns

²⁹ Primus' interlata and intralata services in the U.S. are a small portion of its overall services and are ancillary to its primary international services business strategy. Primus' primary marketing focus is to selected demographic groups and small businesses that make heavy use of international services. *Id.*

³⁰ Primus Telecommunications Group, Inc., Form 10-Q, Quarterly Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934 for the Quarterly Period Ended September 30, 1998, File No. 0-29-092 at 5 (filed Nov. 13, 1998).

³¹ *Id.*

³² Primus does hold five assigned CICs. This fact, however, creates no incentive for anti-competitive behavior affecting CIS.

approximately six percent of NTL.

³³ The vast majority of NTL's operations are in the United Kingdom and have no relation to U.S. telecommunications services or the NANP. Thus, NTL poses no threat to CIS's neutrality.

In addition, Warburg Pincus Asset Management presently has one telecommunications investment representing greater than 5 percent (but less than 10 percent) of such telecommunications company. Although Warburg Pincus Asset Management buys and sells securities in the ordinary course of its business, appropriate informational barriers are in place to prevent the passage of information between asset management personnel and private equity personnel.

Warburg Pincus' investments in telecommunication companies, therefore, do not pose a threat to the neutrality of the CIS business. As a broad-based financial investor rather than a strategic buyer, Warburg Pincus is particularly suited to acquire the CIS business.

iii. CIS Will Continue to Adhere To A Strict Business Code Of Conduct That Will Further Ensure Its Continued Neutrality

CIS's reputation in the industry and with regulatory bodies as a fair and impartial NANPA that offers the highest quality service is one of CIS's most important assets and is critical to its success. Indeed, Warburg Pincus would not consider CIS a valuable investment opportunity if CIS did not enjoy such a strong reputation.

Because of the importance of neutrality to CIS's long-term business goals, CIS has operated and will continue to operate under a strict Code of Conduct to ensure that the needs of the industry are served. The Code includes the following principles:

CIS will manage all its operations to deliver reliable, high quality and competitively neutral services that meet the needs of the industry.

CIS will demonstrate no partiality or favoritism among different telecommunications services providers in the management of number resources. The same quality service and consideration will be given to service providers regardless of size, market share, technology base or geographic location.

³³ NTL is not an affiliate of Warburg Pincus for purposes of the NANPA neutrality rules. Lockheed Martin, CIS and Warburg Pincus include NTL in its analysis, however, to ensure a complete record, because the NTL interest will be relevant to discussions with the LLCs.

CIS will protect the confidentiality of its customers' data and proprietary information.

CIS will conduct at its expense, audits of its adherence to and performance relative to the neutrality requirements of the industry. The audit reports will be presented to the FCC, NANC and to the LLCs.

Warburg Pincus has independently agreed to be bound by these principles in all its dealings with CIS. In addition, Warburg Pincus will be bound by the following additional conditions:

Warburg Pincus has adopted as a policy in connection with its acquisition of CIS that it will never cause CIS, directly or indirectly, to show any preference or provide any special consideration to any company that provides telecommunications services.

Warburg Pincus shall have no access to user data or proprietary information of the telecommunications carriers serviced by CIS.

Warburg Pincus will ensure that no user data or proprietary information from companies in which it holds interests is disclosed to CIS.

Confidential information about CIS business services and operations will not be shared through Warburg Pincus with employees of any telecommunications companies in which Warburg Pincus holds an interest. Warburg Pincus will guard its knowledge and information about CIS's operations as it would its own proprietary information.

No senior employees of any company that is a telecommunications services provider, and in which Warburg Pincus has an attributable interest, will be employed (full-time or part-time) by the CIS business.

Adherence to these principles will ensure the continued neutrality of CIS regardless of the telecommunications interests of its parent company. Therefore, under Warburg Pincus ownership, CIS will continue the high level of quality neutral services that have marked its term as NANPA to date.

Warburg Pincus would report to the Commission any future investments (that meet the NANPA affiliation thresholds) by its private equity funds in telecommunications service providers as defined in the Telecommunications Act of 1996 that operate in the United States. To the extent the Commission determined that such investments potentially affected the neutrality of the CIS business, Warburg Pincus would discuss with the Commission appropriate informational barriers and safeguards to preserve the service levels and neutrality of the CIS business or other alternatives in order to provide continuing

service to the industry.

II.

CONCLUSION

Lockheed Martin, CIS management and Warburg Pincus understand the importance of a neutral NANPA to the realization of a competitive telecommunications industry. They have taken significant measures to ensure the continued neutrality of CIS while providing a robust financial platform for CIS's number administration activities. The proposed sale will serve the public interest and Lockheed Martin and Warburg Pincus respectfully request that the Commission expeditiously grant this request.

Respectfully submitted,

By:

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December 21, 1998

CERTIFICATE OF SERVICE

I, Theresa L. Pringleton, do hereby certify that the foregoing **REQUEST FOR EXPEDITIOUS REVIEW OF THE TRANSFER OF THE LOCKHEED MARTIN COMMUNICATIONS INDUSTRY SERVICES BUSINESS** was mailed on this 21st day of December, 1998 via first class U.S. mail to the following:

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Commissioner Harold Furtchgott-Roth*
Federal Communications Commission
1919 M Street, N.W., Room 802
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Commissioner Michael Powell*
Federal Communications Commission
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Commissioner Susan Ness*
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* By Hand

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