D. COMPETITIVE POSITION

CELLULAR

- Competition currently low to moderate but increasing
- To-date little competition on service pricing
- System operators compete for new customers through equipment discounting and commission rates
- Significant early competition on system performance (coverage and quality) - ability to differentiate on system performance likely to erode over time
- Adjacent market extensions beginning to create potential for differentiation - may be mitigated by roaming agreements
- Evolution of distribution channels critical to optimizing penetration rate and minimizing power of Agents and Dealers.

Agents + Dealers

↓

Agents + Dealers + Key Account Reps + Direct Sales + Retail

PAGING

- Competition currently moderate and increasing
- Deregulation of market entry has brought many new entrants
- New entrants have focused heavily on price competition to gain share
- Market share strategy of new entrants appears to be a precursor to sell-out to the more committed firms
- Competitive intensity may recede to a more moderate level once shakeout occurs

EXHIBIT 5

EXHIBIT II

SBMS' subscriber revenue has grown from $237.4M in 1988 to $501.5M in 1990 which is an increase of $264.1M or 111%. Due to the expected growth in customers, subscriber revenue will continue to grow reaching $1,224M by 1994.

Although subscriber revenue is expected to grow throughout the business plan, subscriber revenue on a per customer basis is expected to decline. Historically, subscriber revenue per customer has declined about 9.8% annually since 1988. The table below reflects this change as well as SBMS' forecast through 1994:

AVERAGE SUBSCRIBER REVENUE PER CUSTOMER

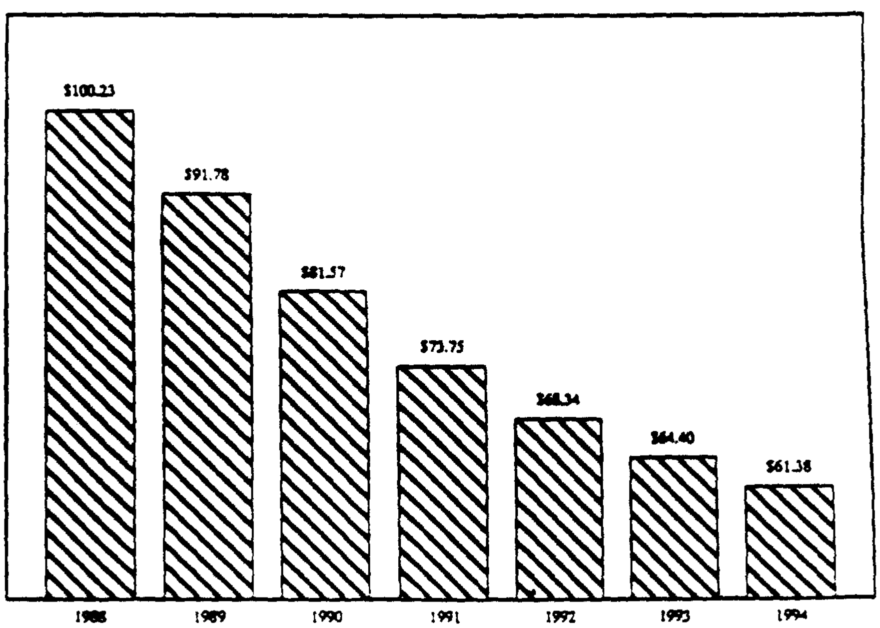

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EXHIBIT II

The decline in subscriber revenue per customer is primarily a reflection of the changing customer base. The early subscribers were primarily high income business customers who use their phones daily. As the penetration levels have grown, the new customers have become those with moderate needs for cellular service. With cellular sets now selling for less than $100, a new customer has emerged. This customer buys a cellular phone for occasional and security use and spends nearly $20 a month <u>less</u> than the average customer.

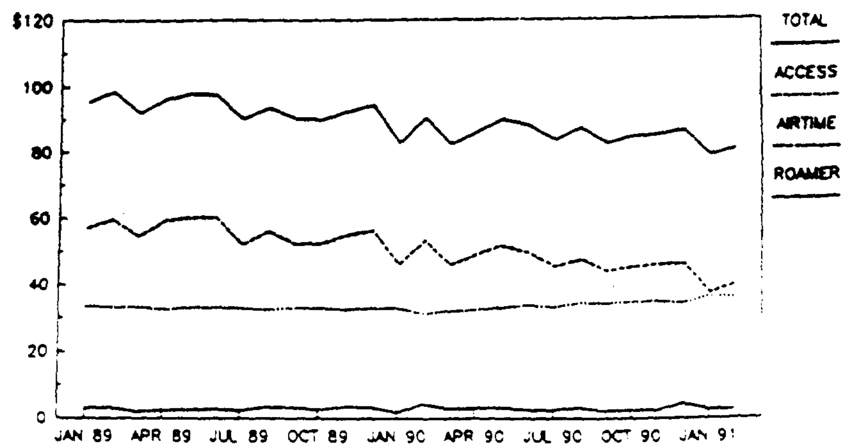
Subscriber revenue per customer is obviously influenced the most by customer usage; however, SBMS has learned over the years that there are a number of other factors which can effect subscriber revenue per customer (SRPC). These include the following:

- Price per minute
- Monthly access charge
- Features (Call Waiting, 3-Way calling, Call Forwarding, voice mail, detailed airtime billing)
- Billing increment
- Peak hours
- Roaming rates
- Activation or suspend charges

EXHIBIT II

The graph shown below depicts SRPC for the Dallas market segregated into the major components of SRPC:

AVERAGE REVENUE PER CUSTOMER ANALYSIS
DALLAS



As the graph indicates the airtime portion of SRPC has declined sharply, however total SRPC has not declined proportionately due to increases in the monthly access charges per customer and slightly higher roaming per customer.

SBMS has been __aggressively__ changing elements of subscriber revenue to mitigate the effect of lower customer usage. Virtually every SBMS market has increased monthly access charges in the last two years. Billing increments have moved from the 1987 level of 100% of the base on 30-second increments to the current level of 93% of the base on full-minute rounding. SBMS has also adjusted the hours by eliminating "night hours" and extending peak hours in many of the markets. Features, detail air, and voice mail have been actively marketed and now represent $3.24 a month per customer.

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SUBJECT TO F.O.I.A. EXEMPTIONS 3 AND 4

EXHIBIT II

In addition, SBMS has made substantial changes in rate plan packaging to reduce the effect of lower customer usage. Our revenue studies indicate that SBMS has a high percentage of low usage customers, and in response we have structured rate plans with minimum bill requirements. This structure results in the low end customer paying the highest price per minute as shown below:

<u>Per Minute Charge</u>

	Economy	Basic
Minutes	15	240
Bill amount	$21.15	$103.20
$ per minute	$ 1.41	$ 0.43

Free off-peak has proven to be an attractive option to customers. Because of this, SBMS only offers this option on rate plans with premiums built into the monthly access charge.

Overall, SBMS has implemented a multitude of changes in rates to help offset the decline in customer usage. As for the future, there is very little remaining to change except the published per minute rate. SBMS currently believes the market would not bear an increase to the published rates without substantial churn and other negative effects. Roaming rates have increased periodically, however, roaming only represents 4.9% of our average SRPC. Roaming rates are easier to increase than base rates, because we're not effecting "home" customers. SBMS does not have a single

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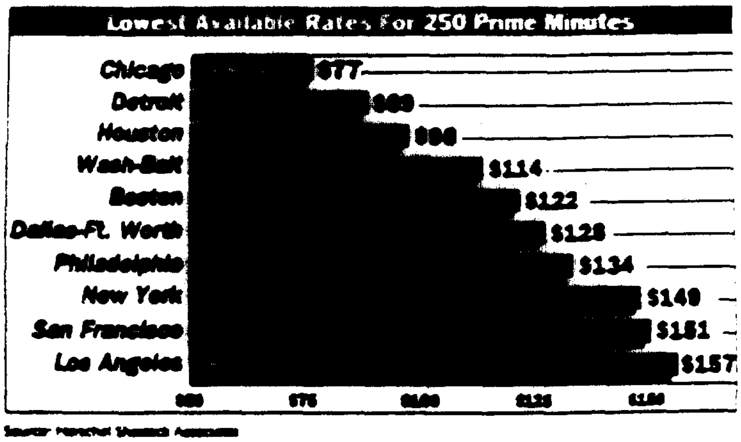
EXHIBIT II

plan for the group to generate greater subscriber revenue, but rather eight plans representing the various markets. Listed in the pages that follow is a brief history of each market, and the opportunities of the future.

CHICAGO

The Chicago market has probably the lowest rates of all the major markets. A recent Herschel Shoesteck study indicated rates by market as follows:



As the above indicates, Chicago has the lowest rates in the country. Monthly access charges for the basic plan have been $15 with peak rates of $.34 per minute and off peak of $.20 per minute. Overall, Cellular One's rates are below Ameritech's. Chicago's rate structure is somewhat unique when compared to most SBMS markets. Most markets have plans which serve a low, middle, and high usage customer. Chicago has the basic plan (middle user) and then several package plans. The package plans have a higher monthly commitment and include a certain amount of minutes, but the minutes are discounted from the basic plan. Chicago actively promotes plans and as a result, traditionally has had one of the highest revenue per customer averages among our properties. (Chicago also has one of the highest usage per customer averages.)

Chicago has made a number of changes to improve subscriber revenue. These include:

- November 1987 - Changed prime hours from 8am to 8pm to 7am to 9pm
- March 1990 - Began charging for "Ring Time"
- November 1990 - Introduced expanded voice mail and other feature charges
- December 1990 - Increased foreign Roamer rates from \$.50 a minute to \$2.00 a day and \$.75 per minute
- May 1991 - Increased basic monthly access charge to \$19.95. This impacts about 40% of the base.

For the future, with rates in general being so low, it is our intent to continue to increase rates. Chicago currently does not have a free off peak plan. SBMS is currently reviewing introducing such a plan, but instead of unlimited off-peak there would be a modest charge for off-peak (say 4¢ a min.). We are also evaluating charging customers for the Telco interconnection fees associated with their usage. With Chicago's high usage, this would have a substantial impact.

BOSTON

Boston rates have historically been relatively low for a market its size. The monthly access charge is $29.00 a month which is low for the northeast. (New York $55.00, Philadelphia $52.00, Washington, D.C. $39.95). Per minute charges on the other hand are relatively high on a national level ($.44 peak, $.29 off peak) but about normal for the northeast region. In addition to the per minute rates, Boston charges the customer the local Telco interconnection charge as a separate item. Boston rates generally are below Nynex's primarily due to the billing increment. Boston historically had billed customers on 6-second increments up to the first 2 minutes.

Over the past few years, Boston has initiated several key rate changes to improve subscriber revenue per customer. The changes include the following:

- July 1989 - Roamer surcharge introduced
- April 1990 - Changed the billing increment from the 6-second rounding to full minute
- July 1990 - Introduced a free off peak plan with a premium monthly access charge
- June 1991 - Increased foreign roamer rates 32%
- June 1991 - Raised monthly access charge $2.00. This change affects 90% of the base.

EXHIBIT II

For the most part, the changes have been implemented with very little disruption to the market. However, at this writing, while we are implementing a rate increase in June 1991, Nynex has filed a tariff which would lower rates and price their plans below ours across the board. Their actions seem illogical and appear to contradict the steps needed to offset declining customer usage. SBMS is closely monitoring this situation.

As for the future, SBMS believes there are other opportunities to increase rates in Boston, somewhat dependent on our competitor. Boston provides call detail at no charge and will in all likelihood start charging customers in the near future. With monthly access charges relatively low, SBMS will continue efforts to move this fixed charge upward.

WASHINGTON/BALTIMORE

The Washington/Baltimore property historically has had the highest subscriber revenue per customer of all the SBMS properties. This is primarily due to the property's demographics (highest income per capita, heavy government usage, commuter city, etc.) and the relatively high rates when compared to the rest of the nation. Washington/Baltimore was one of the last SBMS properties to fall below the $100 a month average subscriber revenue. In recent years Washington/Baltimore's subscriber revenue per customer has fallen precipitously. One major contributor was the introduction of Plan F, a plan designed to add new customers quickly. Although the plan resulted in a large addition of customers, it was priced so inexpensively (an average subscriber revenue of $28 a month) that it drove the Washington/Baltimore average downward. Plan F has been subsequently stopped. Despite the obvious failure of Plan F, Washington/Baltimore has introduced a number of changes to improve subscriber revenue per customer. These include the following:

- Changed the billing increment to full minute rounding
- Increased roaming rates
- Changed the billing increment to full-minute rounding
- Increased roaming rates (7am-7pm, etc.)
- Changed peak hours from 7am-7pm to 7am-9pm
- Established an unlimited off-peak plan with a premium access charge
- Began billing for features
- Increased access charges on low end plans

Washington/Baltimore's future changes will focus on gradually increasing rates. This will be accomplished mostly through higher access charges and possibly increased per minute rates. Washington/Baltimore's network has had major problems, and the system conversion planned at the end of 1991 will probably increase usage due to customers having fewer dropped calls and being able to place calls more reliably. Once customer confidence is restored, SBMS feels customers will pick up their phone more often.

DALLAS

Dallas subscriber revenue per customer has always been good for a large market. Referencing the earlier study, Dallas is about average for a large market. Dallas' plan structure has for the most part followed the traditional three-tier plan. In other words, economy plans had low access/high per minute fees while high user plans had high access fees but included a certain number of minutes and lower per minute charges for additional usage. Corporate rates were introduced in November of 1987. Initially, all customers were billed in 30-second increments. Dallas was one of the first markets to require contracts of one year or more which has had a dramatic effect on reducing churn.

Over the last couple of years, the Dallas property has been the SBMS leader in implementing changes to improve subscriber revenue. Subscriber revenue per customer has declined 13.8% since 1988 while peak minute usage per customer has dropped 24%. Major factors contributing to this performance are as follows:

- Changed from 30 second to full minute billing increments
- Raised access charges on economy and basic plans
- Introduced "free off-peak" which initially resulted in higher peak usage. Once established, eliminated the offering from low-end plans.
- Increased foreign roamer rates
- Lowered commission rate on economy plans

Dallas also has increased activation fees, voice mail rates, and other miscellaneous charges. Because Dallas has been the leader in revenue changes, there are not many new options available other than selectively continuing to increase many of the same items previously discussed. Like Chicago, Dallas is also reviewing charging customers the interconnection fees charged by the Telco associated with customer usage. In Dallas, this could be as much as $.02 a minute, which would be a significant boost to subscriber revenue.

ST. LOUIS

The St. Louis market has traditionally had a large percent of customers on the economy plan. Subscriber revenue per customer has been relatively low for a market its size. Average subscriber revenue per customer has been below $100 since 1986. However, since 1986, St. Louis subscriber revenue per customer has not been declining as fast as the industry. This is due in large part to the following:

- December 1987 - Eliminated night rates
- September 1988 - Offered unlimited off peak for a $10.00 additional charge. Average off peak paid usage was less than $5.00
- July 1990 - Raised billing increment from 30 second to one minute
- November 1990 - Increased access charges on all economy plans or required a minimum usage
- June 1991 - Increased access charges on the basic and other plans

St. Louis, like most of the SBMS markets, has taken a number of steps to improve subscriber revenue. One of the immediate action items for this market is to begin limiting the free off-peak usage. Although in general this program has generated substantial revenue, it has now been so successful that off-peak usage exceeds peak usage. St. Louis, like the other markets, is also reviewing charging customers the interconnection fee for their usage. This issue may be extremely sensitive in this market due to Southwestern Bell's presence in St. Louis.

OKLAHOMA CITY

Oklahoma City's average subscriber revenue per customer has shown one of the steadiest trends in recent years. As indicated by the following table, subscriber revenue per customer has remained relatively flat since January 1989.

AVERAGE REVENUE PER CUSTOMER ANALYSIS
OKLAHOMA CITY

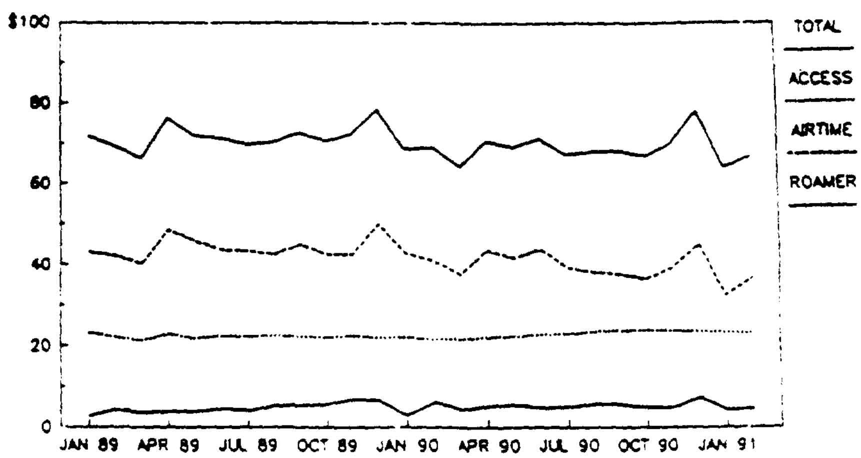


EXHIBIT II

This has been accomplished through several key actions. The first of these occurred in late 1989 when roaming rates were increased. In early 1990 billing increments were changed to full-minute rounding. Also in 1990 features and voice mail were heavily sold to existing customers. This effort increased subscriber revenue per customer nearly $3!

For the future, Oklahoma City must continue to find ways to offset lower customer usage. Currently, plans are underway to increase the network's calling scope to attract additional traffic. Usage should increase as certain cellular calls will be toll free when compared to local land-line calls. In addition, like the other markets, Oklahoma City is investigating billing customers for Telco interconnection fees associated with their usage.

WEST TEXAS

West Texas subscriber revenue typically runs in the $60-70 per customer range. Most of the markets' rate plans are set around the economy, basic and high end user structure. Capacity was not an issue in these markets and as a result, several of the markets initially offered a $125.00 a month unlimited usage plan. This plan was very successful early and accordingly, generated high subscriber revenue. In recent periods, however, usage has become too high and the unlimited plans have been discontinued. Additionally, new customers are unwilling to make a high monthly commitment. Similar to the other SBMS markets, the West Texas

EXHIBIT II

properties have been gradually increasing rates by changing the billing increment, raising access charges and increasing roamer rates.

Additional increases in rates will be gradual as in the past so as not to create a competitive disadvantage. Further upward movement of the access charges is the most likely course with the de-emphasis of the economy plans close behind. West Texas will also be reviewing billing customers for interconnection fees associated with their usage.

KANSAS REGION

Kansas City's subscriber revenue per customer remained in the upper $90 range until 1989. This performance is largely due to strong usage and a better than average mix of basic plan customers to economy plan customers. Kansas City's rate plans are typical of a market its size and reflect the economy, basic, and high user structure. Kansas City has also taken a number of steps to improve rates. They are as follows:

- Increased billing increment to 60 seconds
- Eliminated night hours
- De-commissioned economy plans
- Increased roamer rates

For the future, there are not any "big wins" left to implement for this region, except possibly the billing of Telco interconnection fees to the customer. This region typically generates one of the highest revenues per customer from features and voice mail, and SBMS will continue to focus on these revenue sources.

SOUTH TEXAS REGION

South Texas Region's subscriber revenue per customer has remained in the $80 range for the past couple of years. Of particular note is the Rio Grande Valley with its relatively small population but high subscriber revenue per customer ($88 for 1990). The region is about normal in terms of rates and structure but has always been characterized by its high roaming revenue. Roaming revenue in this region is about $6-8 per customer compared to an average of $2-3 in most other SBMS markets. The high roaming revenue is due in part to the tourism industry. However, there is a significant amount of travel between cities in the region and Austin. Because of this heavy travel, regional roaming rates have been priced without daily fees and at reasonable rates.

Recently South Texas has experienced a relatively small decline in subscriber revenue per customer primarily due to a number of pricing changes made the last few years. These changes include increasing roaming rates, changing the billing increment to full minute rounding, and selectively introducing rate plans which increase access charges. San Antonio is the first SBMS market to increase the per minute charge. This increase was effective early in 1991.

There are very few changes left for the South Texas region. This market is currently reviewing extending peak hours, and like the other markets, South Texas is also reviewing charging for Telco interconnection fees. With the high roaming traffic in the region, roaming rates will be periodically reviewed for a possible increase in rates.

EXHIBIT II

Threat of New Entrants - *Medium*

- The personal communications arena will change from two major players to an oligopoly arrangement consisting of 3-5 players, based on FCC actions.
- New industry entrants will not be *effective* competition before 1996. For example, ESMR will initially present a weak threat, mainly due to unproven technology, lack of ubiquity and roaming limitations.
- Cellular industry growth will continue to be strong, while growth rates will slow.
- Emerging customer segments will be more price sensitive.
- Wireless access technology will emerge as a cost-effective substitute to wireline access.
- Digital deployment will greatly increase capacity and quality of wireless access.

Bargaining Power of Buyers - *Low*

- Competition exists at the distribution channel level.
- Competitive pricing exists between carriers; therefore, quality has emerged as a determinant in the buying decision.
- While service pricing has remained competitive, the rapid decline in equipment pricing has created an environment where "equipment price" is the perceived consumer battleground.
- Smooth deployment of digital is critical to maintaining its perceived high level of quality in the marketplace.

Bargaining Power of Suppliers - *Low*

- Cellular's open air interface standard has resulted in a competitive environment among terminal suppliers.
- SBMS' position as one of the largest carriers gives it leverage over suppliers.
- Lack of switch/cell standard interface has resulted in dependency on a single system supplier, on a per-market basis.

Threat of Substitute Products or Services - *Low*

- **Wireline service does not provide mobility.**
- **SMR and IMTS do not offer same level of functionality and mobility as cellular.**
- **Paging is primarily one-way communication.**
- **Long-term threat to cellular's core market from other networks is not clear at this time.**
- **Extensive time periods for regulatory determinations, license awards and infrastructure construction will occur prior to the emergence of effective competitors.**

Rivalry Among Existing Competitors - *High*

- Cellular growth continues to exceed forecasts.
- Standard that has fueled the growth of the cellular industry has also eliminated the transfer barriers to customers' switching.
- Research has proven it is not possible, at this time, to construct a perceptible differential in service price; therefore, competitive pricing is more apparent on equipment than on service.
- With target markets barely penetrated, **market expansion**, not market share, is the key focus.
- Competition for distribution channels is intense.
- Competition for the other carrier's customers is increasing.

EXHIBIT II

Monitor Company Draft
For discussion purposes only
Statements and representations contained
herein are preliminary and represent the
views of Monitor Company only

WIRELESS ACCESS

INDUSTRY EVOLUTION

CURRENT ATTRACTIVENESS	EVOLUTION (1995-2000)
• The FCC has created a regulated duopoly - Limited spectrum availability • The industry has experienced high rates of growth • Early adopters of cellular service have not been price sensitive - Perceive cellular as an essential business tool • Wireline access technology cannot provide mobility	• The FCC will license a third and, possibly, fourth player - PCN, E-SMR, CT-2 / CT-3 • Industry growth will continue at strong, although slower, rates • Emerging customer segments will be more price sensitive • Wireless access technology will constitute a threat to wireline access in certain geographic areas • Implementation of digital technology will vastly increase capacity
Absence of significant price competition	Increased rivalry

HIGHLY ATTRACTIVE | STILL ATTRACTIVE

218486

EXHIBIT TT

SUBJECT TO CLAIM OF PROTECTIO
UNDER RULE 26(c) (7) OF THE
FEDERAL RULES OF CIVIL PROCEDURE

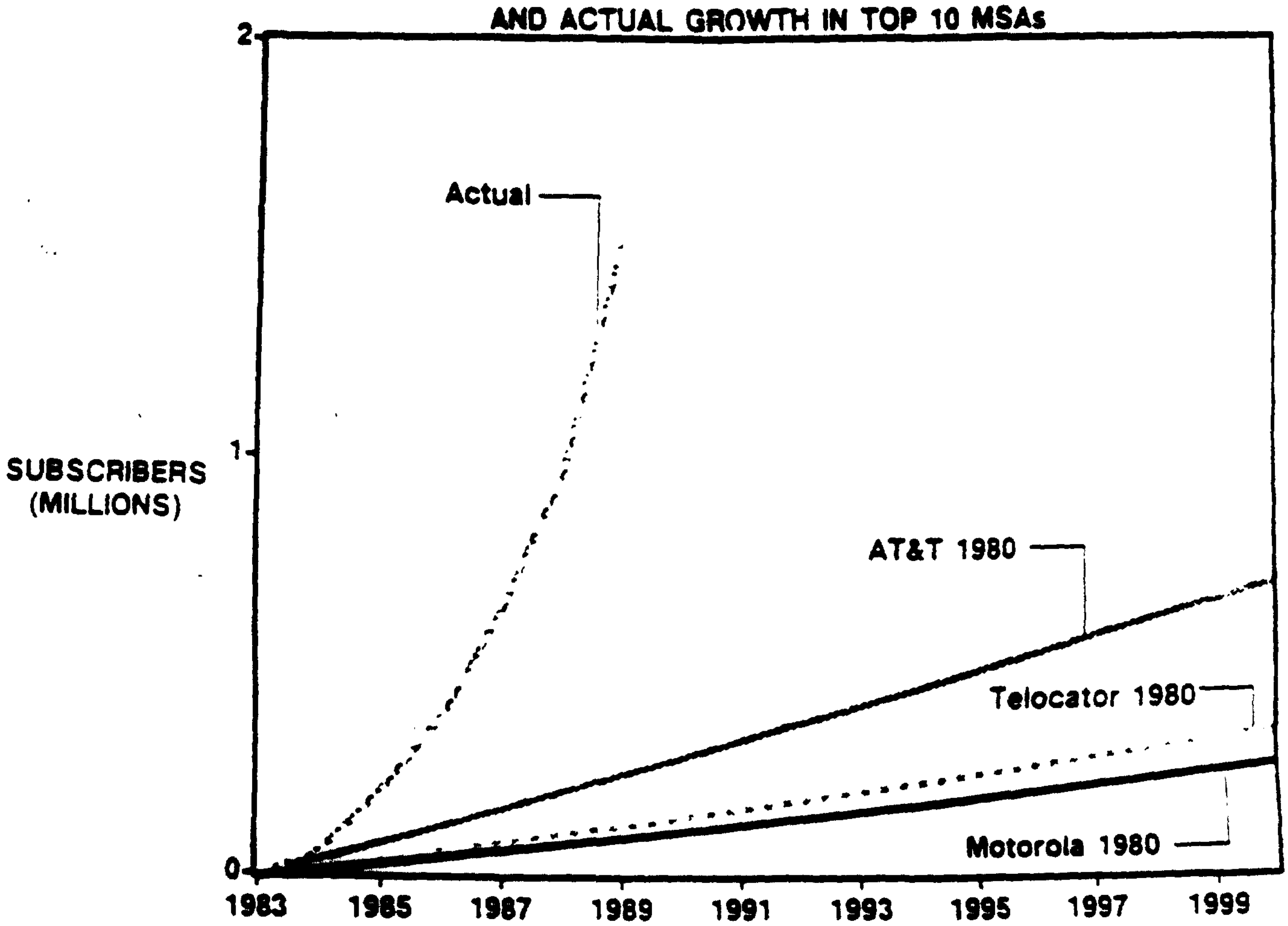
SUBJECT TO F.O.I.A.
EXEMPTIONS 3 AND 4

Monitor Company Draft
For discussion purposes only
Statements and representations contained herein are preliminary and represent the views of Monitor Company only

NATURE OF COMPETITION

HISTORICAL MARKET GROWTH

ORIGINAL PROJECTIONS OF SUBSCRIBER GROWTH AND ACTUAL GROWTH IN TOP 10 MSAs



SOURCE: AT&T FILING, FCC DOCKET CC 79-318, AUGUST 4, 1980; EMCI
Note: AT&T projection based on Chicago AMPS trial

- GROWTH IN DEMAND HAS EXCEEDED ORIGINAL PROJECTIONS
- THE FCC PREDICTED SUFFICIENT LEVELS OF RIVALRY FROM A DUOPOLY 218492
  - IN ACTUALITY, THE TWO PLAYERS IN EACH MARKET HAVE BEEN ABLE TO AVOID SERIOUS COMPETITION IN

SBC RELATIVE POSITION

INTRODUCTION

- IN THE CURRENT ENVIRONMENT, CHARACTERIZED BY RAPID GROWTH AND LIMITED RIVALRY, RELATIVE POSITION IS LESS RELEVANT THAN IN MATURE, COMPETITIVE INDUSTRIES
  - PLAYERS ARE CONCENTRATING ON MARKET PENETRATION
  - COMPANY ADVANTAGE LIES IN GEOGRAPHIC MARKETS SERVED AND CUSTOMER ACQUISITION STRATEGIES IMPLEMENTED
- IN THE FUTURE, AS NEW COMPETITORS ENTER THE MARKET AND SUBSCRIBER GROWTH EVENTUALLY LEVELS OFF, POSITIONING WILL BECOME INCREASINGLY IMPORTANT
  - SOURCES OF COMPETITIVE ADVANTAGE WILL LIE IN SUPERIOR SERVICE PERFORMANCE OR SUPERIOR COST POSITION
    - o CUSTOMER SEGMENTATION

GROWTH PHASE	MATURITY PHASE
ATTRACTIVE TERRITORIES	LOW COST
CUSTOMER ACQUISITION	SUPERIOR PERFORMANCE / SERVICE

EXHIBIT II

EXHIBIT III

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

RECEIVED

OCT 1 7 1994

FCC MAIL ROOM

UNITED STATES OF AMERICA, Plaintiff,	)	
v.	)	Civil Action No. 82-0192 HHG
WESTERN ELECTRIC COMPANY, INC. and AMERICAN TELEPHONE AND TELEGRAPH COMPANY, Defendants.	)	

MEMORANDUM OF THE UNITED STATES IN RESPONSE TO THE BELL COMPANIES' MOTIONS FOR GENERIC WIRELESS WAIVERS

Anne K. Bingaman
Assistant Attorney General

Robert E. Litan
Deputy Assistant Attorney General

Antitrust Division
U.S. Department of Justice
Washington, D.C. 20530

Richard Liebeskind
Jonathan M. Rich
Assistant Chiefs

Luin P. Fitch, Jr.
Deborah R. Maisel
Brent E. Marshall
Don Allen Resnikoff
N. Scott Sacks
Kathleen M. Soltero
Attorneys

Communications & Finance Section
Antitrust Division
U.S. Department of Justice
555 Fourth Street, N.W.
Washington, D.C. 20001
(202) 514-5621

Attorneys for the United States

July 25, 1994

EXHIBIT III

<u>TABLE OF CONTENTS</u>

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