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FEB 1 6 1999

February 16, 1999

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Common Carrier Bureau
Federal Communications Commission
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: **CC Docket No. 92-237**
NSD File No. 98-151
Response to Questions and Issues Regarding Transfer of the Lockheed Martin Communications Industry Services Business

Dear Ms. Gomez:

Pursuant to the January 7, 1999, public notice released by the Common Carrier Bureau (the "Bureau")[1] in the above-captioned proceedings,[2] Lockheed Martin Corporation, Lockheed Martin IMS Corporation ("LMIMS"), and Warburg, Pincus & Co. ("Warburg Pincus") (collectively "the Parties") jointly submit their Responses to the 53 questions forwarded to LMIMS by the Bureau on January 27, 1998.[3]

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[1] *FCC Seeks Comment on Request for Expeditious Review of the Transfer of the Lockheed Martin Communications Industry Services Business*, Public Notice, CC Docket No. 92-237, NSD File No. 98-151 (rel. Jan 7, 1999) (the "Public Notice").

[2] *In the Matter of Request of Lockheed Martin Corporation and Warburg Pincus for Review of the Transfer of the Lockheed Martin Communications Industry Services Business from Lockheed Martin Corporation to an Affiliate of Warburg, Pincus & Co.*, NSD File No. 98-151 (Dec. 21, 1998) (the "Request").

[3] *See* Letter from Anna M. Gomez, Chief, Network Services Division, to Jeffrey E. Ganek, Senior Vice President and Managing Director, LMIMS Communications Industry Services, dated January 27, 1999 (the "January 27 Letter"). The Bureau initially set in the January 27 Letter, February 12, 1999 as the deadline for the Parties' Responses. The Parties, however, sought and were granted an oral extension by the Bureau of the due date until noon on

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The questions addressing matters specific to Warburg Pincus have been answered by responsible representatives of Warburg Pincus. Similarly, questions directly relating to Lockheed Martin and/or LMIMS have been answered by responsible representatives of Lockheed Martin. Other Responses have been jointly prepared by the Parties.

In their Response to Question 1, the parties have attached a redacted confidential copy of the Transaction Agreement that sets forth the commercial details of the sale of the LMIMS Communications Industry Services (CIS) business unit to an affiliate of Warburg Pincus. Pursuant to Section 0.459 of the Commission rules, 47 C.F.R. § 0.459, the Parties request that the Transaction Agreement in its entirety be given confidential treatment. The information contained therein is confidential commercial information which is not customarily disclosed in the industry. The nature of this transaction, the details of the transaction (including trade secrets disclosed in the Transaction Agreement) and the information supporting the transaction constitute trade secrets and/or competitively sensitive business information, disclosure of which would harm the businesses of the parties thereto. Therefore, the parties request that the enclosed confidential agreement (sealed in a marked envelope) not be made routinely available for public inspection. In the event that the Commission determines that the Transaction Agreement will not be granted confidential treatment, the Parties request that they immediately be so notified and that the Transaction Agreement be returned to the Parties, pursuant to Section 0.459(e) of the Commission's rules, 47 C.F.R. 0.459(e).

The Parties, therefore, provide the following responses:

Questions For Lockheed Martin IMS or Warburg Pincus Concerning Request for Expeditious Review of the Transfer of the Lockheed Martin Communications Industry Services Business

Recent Developments

On February 15, 1999, Warburg Pincus and Credit Suisse Group announced an agreement whereby Credit Suisse Asset Management will acquire Warburg Pincus Asset Management. The price of the asset management transaction was fixed at $650 million, including an initial $450 million and an additional $200 million earn-out over three years. The agreement is subject to regulatory approvals and the closing is expected by mid-1999. Credit Suisse Group will also purchase a 19.9% passive

Tuesday, February 16, 1999, in order to allow the Parties to discuss a material Warburg, Pincus & Co. transaction that could not be disclosed before that time.

minority equity stake in the private equity business of Warburg, Pincus & Co., which will continue to be owned and managed by the Warburg, Pincus & Co. partners as an independent entity. Credit Suisse Group is a global financial services company providing a comprehensive range of banking and insurance products. The above transactions are hereinafter referred to as the "CS Transaction."

Lockheed Martin and Warburg Pincus determined to make this submission on the date hereof in order to appropriately address the CS Transaction. The CS Transaction should eliminate any neutrality concerns raised by Warburg Pincus' ownership of an asset management business, while the passive interest of Credit Suisse Group in the Warburg Pincus private equity business should not present any concerns regarding neutrality.

I. FINANCIAL

1. Describe in detail the terms and conditions of the Transaction Agreement between Lockheed Martin IMS and Warburg Pincus relevant to the North American Numbering Plan Administration. Alternatively, provide a copy of the Transaction Agreement and other related documents.

Answer:

On December 15, 1998, Lockheed Martin IMS Corporation entered into an agreement (the "Transaction Agreement") with CIS Acquisition Corporation ("CISAC"), a subsidiary of Warburg, Pincus Equity Partners, L.P. ("WPEP") pursuant to which CISAC will purchase substantially all of the assets of Lockheed Martin's Communications Industry Services ("CIS") business. WPEP created CISAC for the purpose of acquiring the CIS business. WPEP is a $5 billion private equity fund operated by Warburg, Pincus & Co. as general partner. Subject to all necessary regulatory and contractual approvals, upon closing, 95% of the stock of CISAC will be held by WPEP. Under the terms of the Transaction Agreement, Lockheed Martin, through the Lockheed Martin IMS subsidiary, will hold five percent of CISAC's capital stock. The Transaction Agreement is structured so that the newly formed CIS company will stand in the shoes of its predecessor. Thus, all critical CIS personnel, expertise, and operational infrastructure will be transferred to CISAC.

A copy of the confidential Transaction Agreement is attached. Please note that certain portions of the Transaction Agreement that are believed to be unnecessary to an overall understanding of the proposed transaction have been redacted from

the enclosed copy. As noted above confidential treatment is sought for the Transaction Agreement in its entirety.

2. The 1997 Lockheed Martin IMS proposal included the latest Annual Report for Lockheed Martin. Please provide the business plan for CIS Acquisition Corporation or other similar description or documentation providing detailed financial information similar in nature to that provided in the Annual Report for Lockheed Martin. Please provide the latest Annual Report for Warburg Pincus Equity Partners, L.P.

Answer:

As a private partnership, WPEP is not required to prepare an annual report for public disclosure. Warburg Pincus and CISAC will prepare a confidential business plan following the closing of the transaction. The focus of the plan will be to deliver high quality NANPA and LNP services, consistent with CIS' commitments to its customers. Additional information has been provided in response to Question 3.

Warburg Pincus and CIS believe it would have been improper for WPEP and CIS to have entered into business plan discussions as if the transaction had been consummated until after the termination of the applicable waiting period under the Hart Scott Rodino Antitrust Improvements Act of 1976 (the "Act") and until approval for the transaction was received from the FCC and CIS' customers. The transaction received approval under the Act on Friday, February 5, 1999.

3. Provide a detailed explanation or documentation of Warburg Pincus & Co.'s financial and corporate structure, as well as its financial holdings and investments.

Answer:

Warburg, Pincus & Co., a New York general partnership, is the general partner of, and E.M. Warburg, Pincus & Co., LLC, a New York limited liability company (and, together with Warburg, Pincus & Co., "Warburg Pincus"), is the manager of, five private equity investment funds:

Warburg, Pincus Capital Company, L.P., a Delaware limited partnership
Warburg, Pincus Investors, L.P., a Delaware limited partnership
Warburg, Pincus Ventures, L.P., a Delaware limited partnership
Warburg, Pincus Ventures International, L.P., a Bermuda limited partnership
WPEP, a Delaware limited partnership

WPEP is the entity that will own the equity in CISAC. Three Dutch limited partnerships invest pro rata in parallel with WPEP (Warburg, Pincus Netherlands Equity Partners I, L.P., Warburg, Pincus Netherlands Equity Partners II, L.P. and Warburg, Pincus Netherlands Equity Partners III, L.P., which represent less than 6% of WPEP's total committed capital.) These three partnerships were established solely for the purpose of accommodating the tax planning of a number of international investors.

Warburg, Pincus & Co. and E.M. Warburg, Pincus & Co., LLC are owned by substantially the same group of individuals, comprised of the persons responsible for the various Warburg Pincus investments. Lionel I. Pincus is the Managing General Partner of Warburg, Pincus & Co. and the Managing Member of E.M. Warburg Pincus & Co., LLC and may be deemed to control both entities.

E.M. Warburg, Pincus & Co., LLC is registered with the Securities and Exchange Commission ("SEC") as a registered investment adviser under the Investment Advisers Act of 1940. As such, operating and financial information concerning EM Warburg, Pincus & Co., LLC is included in the Form ADV filed with the SEC and publicly available. In addition, each of Warburg, Pincus & Co., E.M. Warburg, Pincus & Co., LLC and the underlying private equity funds makes filings from time to time with the SEC as required under Sections 13 and 16 of the Securities Exchange Act of 1934 when ownership levels in publicly traded companies reach the 5% and 10% thresholds, respectively, all of which are publicly available.

Warburg, Pincus & Co. owns an indirect majority interest in Warburg, Pincus Asset Management, Inc., ("WPAM") an investment adviser registered with the SEC under the Investment Advisers Act of 1940, that advises certain public mutual funds and private accounts. Apart from this indirect ownership interest, the asset management business is legally, and most certainly functionally, unrelated to the five funds described above, including WPEP.

Following the closing of the CS Transaction, the asset management business will be separately owned and operated by the asset management affiliate of Credit Suisse Group, which will also purchase a 19.9% passive minority equity stake in the private equity business of Warburg, Pincus & Co.

More information regarding Warburg Pincus is available on its web site at www.warburg.com/wpcompany.htm.

4. Demonstrate how the CIS Acquisition Corporation is adequately capitalized.

Answer:

The answer to Question 4 is incorporated into the answer to Question 5, below.

5. Please explain in detail the Lockheed Martin statement that "Warburg Pincus intends that CIS [will] have access to the resources it needs to fulfill its existing commitment and to grow and develop."

Answer:

The answers to Questions 4 and 5 are discussed together herein.
CISAC's capital structure is very strong. WPEP's investment is in the form of all equity. Warburg Pincus has no plan to take dividends or cash out of CISAC. Warburg Pincus' financial aim for its CISAC investment is for long-term growth. It is Warburg Pincus' intent that the CIS business continue to invest in critical fixed and operating infrastructure.

Warburg Pincus well understands that the viability of its investment in the CIS business (not to mention CIS' fundamental right to even be in this business) is contingent upon continuing to meet the needs of its customers and the criteria prescribed by the FCC. No better governor exists to assure Warburg Pincus' attention to CISAC' financial strength.

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.

As a financial investor, Warburg Pincus can provide the CIS business with access to as much or more financial capital and support as it had from Lockheed Martin. The cash resources WPEP has already committed to its investment in CISAC are greater than those committed by Lockheed Martin. Pursuant to the purchase price adjustment provision of the Transaction Agreement, WPEP essentially has agreed to compensate Lockheed Martin for continued investment in the CIS business pending closing. All of this is occurring at a time when the CIS business is more than capable of supporting the financial requirements of existing as a stand-alone business.

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. To

help ensure the success of these companies, to the extent required, Warburg Pincus frequently provides new rounds of financing to companies in which it invests, as those companies grow and develop. Warburg Pincus is dedicated to ensuring the continued success of CIS in its abilities to meet its capital needs, as well as industry and governmental obligations.

6. Specify what growth and development is required for the NANPA to meet its commitments under the current NANPA rules (i.e., what commitments under the current rules cannot be met without additional growth and development).

Answer:

No further growth or development is necessary for the NANPA to meet its present commitments under the current NANPA rules. As evidenced by its high level of customer satisfaction, CIS is meeting the present NANPA requirements. However, as with any business, CIS must be prepared to develop and grow as the requirements of the industry it serves develop and change over time. In fact, CIS is regularly directed by its NANPA and LNPA customers to offer new and expanded services that require additional infrastructure. The acquisition of CIS by a company with vast experience in funding new and innovative businesses will better enable it to meet the evolving and growing needs of its customers.

7. Define in detail Warburg Pincus' financial expectations for the CIS Acquisition Corporation.

Answer:

The answer to Question 7 is incorporated into the answer to Question 8, below.

8. What is the expected return on the Warburg Pincus Equity Partners, L.P. investment in the CIS Acquisition Corporation on an annual basis?

Answer:

The answers to Questions 7 and 8 are discussed herein. Warburg Pincus hopes that its investment in CISAC over the long term will realize a return comparable to that of its other investments. Warburg Pincus typically aims at attractive returns over long horizons instead of seeking quick returns over the short term. Warburg Pincus' general practice is demonstrated in its nearly 30-year record of making long term investments in companies like CIS. The average duration of Warburg Pincus' investments is more than 5 years, although Warburg Pincus often

maintains its investment positions for as long as 10 to 15 years. Warburg Pincus intends its CIS investment to develop comparably to its other investments.

9. What business growth is required of the CIS Acquisition Corporation to meet the goals or expectations identified in response to Question No. 8?

Answer:

Warburg Pincus believes that its financial goals can be achieved by continuing to manage the current CIS business operation under the existing contractual arrangements and by using the existing business structure. Warburg Pincus has no plans to reduce CIS' expenses or staff. There are no plans to downsize any CIS facility or system.

Again, consistent with its other investments and overall operating strategy and history, Warburg Pincus periodically will review the cash needs of the CIS business in order to determine whether CISAC's strength and growth requires additional investment in the areas of staff, facilities and systems.

Warburg Pincus has reviewed the relevant FCC orders and the NANPA and LNPA contracts and requirements documents and has made its revenue projections and investment decisions taking these factors into account. Warburg Pincus intends its CISAC investment to develop comparably to its other long term investments, but understands that its expectations must be based upon CIS' contractual and regulatory obligations.

10. What is the minimum level of performance relative to these goals that Warburg Pincus Equity Partners, L.P. is willing to tolerate before backing out of its investment in the CIS Acquisition Corporation?

Answer:

There is no defined minimum level of performance for the CISAC investment that would give rise to a decision to exit Warburg Pincus' substantial investment in the business. As noted above, Warburg Pincus has made its investment decisions with respect to CISAC with full knowledge and understanding of CIS' contractual and regulatory obligations. CIS' contracts for the NANPA and LNP provide firm, fixed, minimum payments from its customers for services CIS delivers. Additionally, they provide set, per unit prices for volumes of services provided in excess of minimum levels. Currently, the NANPA and LNP operations both are profitable and are delivering services within budgets supported by the revenues provided by the contracts. It is anticipated that future operating expenses will be covered by revenues provided in the existing contracts.

Warburg Pincus stands behind its investment in CISAC and believes CIS is a good business with strong future development prospects. Warburg Pincus expects CISAC to build upon its positive relations with its customers and widely recognized expertise and competence in numbering administration. Warburg Pincus also expects CISAC to maintain its high quality standards, strong operating performance and positive financial results.

Of course, unforeseen adverse events can always occur. Over its years of investing, in operating companies, Warburg Pincus has developed a reputation for a "crisis management" style that focuses on fixing the problem rather than cutting the losses.

11. Are all of the assets required to perform the current NANPA functions assets owned by CIS?

Answer:

As noted above, the entire CIS business unit will be sold intact and transferred into CISAC, including assets and infrastructure. All existing services relating to the telecommunications business will continue to be offered under pricing, terms and conditions agreed to in CIS' response to the Requirements Documents and in subsequent industry-approved statements of work. In addition, CISAC will offer continuing employment to the existing employees, including the expert management and staff of the NANPA. In addition, existing contracts and obligations undertaken by CIS, including all NANPA responsibilities, will be transferred under the terms, conditions and pricing agreed to by CIS in its response to the Requirements Documents. Under the Transaction Agreement, CISAC 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 standpoint, the CIS transfer will be a transparent and seamless event to CIS' customers.

See answers to Question 39 for information on ancillary services that will continue to be provided by Lockheed Martin to CISAC on a transitional basis.

12. Would Warburg Pincus give consideration to purchase of the CIS business unit from Lockheed Martin if CIS retained the responsibility for administration of either the NANPA or the NPAC functions but not both? If the answer is "no," why not? Please explain the position that the two operations should be centralized in a single entity and any alleged benefits to the NANPA obtained from the centralization of those operations in a single entity.

Answer:

Such a hypothetical situation would change the dynamic of the deal and the effectiveness of CIS in meeting the needs of its customers. To separate the NANPA and LNP functions, the transaction would have to be reconsidered. As the FCC correctly noted in the *NANPA Selection Order*,[4] a combined NANPA and LNP offers significant synergies and efficiencies for the industry. In particular, the development of common platforms and infrastructure for the provision of neutral numbering services permits CIS to provide efficient, high-quality services at attractive prices for the industry. Duplicate systems would result in higher costs and less efficient efforts.

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[4] *Administration of the North American Numbering Plan*, 12 FCC Rcd 23040 (1997) ("*NANPA Selection Order*").

II. NEUTRALITY

Introduction

Questions 14, 22-24, 26 and 30 address the continuing neutrality of CIS following its purchase by Warburg Pincus in the context of other investments in the telecommunications industry by Warburg Pincus. As set forth in the Request for Expedited Review ("Request"), the parties submit that the proposed transaction is the best possible ownership structure to ensure that the CIS business can continue to perform its functions in a neutral, impartial manner, as required by the FCC's rules and CIS' agreements with the regional LLCs.

Both the FCC's rules and practice in applying those rules demonstrate that *de facto* neutrality is the ultimate goal of the FCC's rules and that structural ownership limitations are only one means of achieving that result.[5] Warburg Pincus submits that the neutrality of a potential NANPA or LNPA cannot be assessed through rote application of structural ownership limitations. A neutrality analysis is incomplete if it consists only of ascertaining whether an entity with an ownership interest in the NANPA or LNPA has any interests in telecommunications carriers that exceed a certain threshold. This is because owning an interest in a telecommunications carrier does not necessarily impair the neutrality of the entity with such an interest.

Rather, a finding that the NANPA is neutral within the meaning of the FCC's rules governing the administration of numbering resources must take into account a number of factors, only one of which is the ownership interests of its owners. Other factors that should be included in such an analysis are the nature and structure of an entity's investment strategy and business practices, the use or lack of operational "firewalls" or codes of conduct, the size of potentially conflicting investments as compared to the remainder of the investment portfolio, and the extent to which potentially conflicting investments make use of numbering resources, among others. Moreover, the relative importance of these factors is not static but must be understood in the context of a specific proposal. Thus, no single level of investment in a company utilizing NANP resources should *ipso facto* result in non-compliance with the FCC's neutrality criteria. Rather, whether the NANPA will be subject to undue influence can only be determined through a detailed analysis of the factors described above.

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[5] See 47 C.F.R. § 52.12 ("Notwithstanding [the structural limitations specified in the rules], the NANPA. . . may be determined to be or not to be subject to undue influence by parties with a vested interest in the outcome of numbering administration and activities.") *See also NANPA Selection Order at 23080-82.*

Warburg Pincus is a financial investor with a diversified portfolio of well-run companies across the spectrum of the domestic and international economies. The fact that Warburg Pincus is a diversified financial investor rather than a strategic investor is an inherent neutrality advantage. Unlike most private, strategic investors (such as, for instance, Lockheed Martin), Warburg Pincus does not invest with a view to achieving synergies or efficiencies between and among its several investments (for example, by combining firms' operations). The companies in which Warburg Pincus invests do not share information or expertise with one another as a result of Warburg Pincus' ownership interest. Rather, Warburg Pincus' investment managers seek to maximize each investment's value, without attempting to account for the effect (if any) such efforts may have on other investments.

This requires that Warburg Pincus put in place talented, expert management teams for each company in which it invests, that it provide these management teams with the resources they need to succeed, and that it not be involved in the day-to-day management of these companies. Warburg Pincus has succeeded with this strategy with four private equity funds that are essentially fully invested, and it expects to succeed with this formula with its fifth, and largest, fund, WPEP.

Thus, WPEP is simply not the type of investor that the FCC's structural neutrality rules were designed to address. By virtue of its financial investment strategy, Warburg Pincus has essentially internalized the neutrality criteria of "impartiality" and "non-alignment." WPEP is "neutral" and "impartial" as a result of its structure and investment strategy. For this reason, WPEP's neutrality is not susceptible to alteration due to a future investment in a telecommunications carrier. Thus, WPEP's status as a committed financial investor, combined with the Code of Conduct and other safeguards specified in the Request and referred to in this submission in the answer to Question 27, below, render WPEP the most stable source of neutral, impartial financial ownership and support for the NANPA and LNPA functions. Seen in this light, WPEP's ownership of CISAC should be considered superior to any other potential owner of the CIS business or providers of the NANPA and LNPA functions.

Consideration of other factors relevant to neutrality further support the analysis set forth above. For example, the size of WPEP's investment in telecommunications providers is small compared to the size of the four private equity funds that hold those interests. And, as further explained in response to specific questions herein, the telecommunications companies in which Warburg Pincus has invested to date do not make use of numbering resources in a manner that should be considered a concern for neutrality purposes.

13. To the extent not already disclosed in the Lockheed Martin Request of December 21, 1998, enumerate all of the telecommunications-related holdings of Warburg Pincus Equity Partners, L.P., Warburg Pincus & Co., and all other partners in Warburg Pincus Equity Partners, L.P., as well as the percent of ownership in identified holdings.

Answer:

Warburg Pincus' private equity holdings in telecommunications companies consist of investments in Covad Communications Group, Inc., Esprit Telecom Group plc, Primus Telecommunications Group, Inc. and NTL Telecommunications, Inc., as well as a $6 million private investment in a European joint venture made in January 1999.

Covad:

Covad is a packet-based dedicated digital services provider. Covad provides dedicated high-speed digital communications services using digital subscriber line ("DSL") technology to business customers and Internet service providers that do not entail the utilization of NANPA-administered numbering resources. Covad made an initial public offering of common stock on January 22, 1999. As of February 12, 1999, Warburg Pincus Ventures, L.P. beneficially owned 13,355,070 shares of Covad, or 34% of the outstanding shares, having a market value of $707,818,710 based on the closing price on such date. Warburg Pincus Ventures, L.P. is subject to certain restrictions on the sale of its shares. Dr. Henry Kressel and Mr. Joseph P. Landy, general partners of Warburg Pincus & Co. and Managing Directors and members of E.M. Warburg Pincus & Co., LLC, are members of the 8 member board of directors of Covad.

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.

As of December 31, 1998, Warburg Pincus Ventures, L.P. beneficially owned 2,206,021 American Depositary Receipts of Esprit, or 12% of the outstanding

shares, having a market value of $103,131,482 based on the closing price on such date. Warburg Pincus Ventures, L.P. is subject to certain restrictions on the sale of its shares. Mr. Dominic H. Shorthouse, a Managing Director and member of E.M. Warburg Pincus & Co., LLC, is a member of the 6 member board of directors of Esprit. Esprit has announced the sale of the company to Global Telesystems Group, Inc. ("GTS") in a transaction scheduled to close in the second quarter of 1999. Following the transaction, Warburg Pincus Ventures, L.P. will own less than 5% of GTS common stock and Warburg Pincus is not expected to have representation on the board of directors of GTS.

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.

As of December 31, 1998, Warburg Pincus Investors, L.P. beneficially owned 3,833,286 shares of NTL, or 5% of the outstanding shares, having a market value of $216,341,079 based on the closing price on such date. Warburg Pincus Investors, L.P. is subject to certain restrictions on the sale of its shares. Warburg Pincus does not have representation on the NTL board of directors.

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: reorganization services, private networks, pre-paid and calling cards. 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.[6] 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.

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[6] **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.**

As of December 31, 1998, Warburg Pincus Investors, L.P. beneficially owned 3,875,689 shares of Primus, or 14% of the outstanding shares, having a market value of $63,948,869 based on the closing price on such date. Warburg Pincus Investors, L.P. is subject to certain restrictions on the sale of its shares. Mr. Douglas M. Karp, a general partner of Warburg Pincus & Co. and a Managing Director and member of E.M. Warburg Pincus & Co., LLC, is a member of the 5 member board of directors of Primus.

In January 1999, WPEP made a $6 million investment in a privately held, newly-formed joint venture organized in the Netherlands. The joint venture was established to provide integrated telecommunications services to mid-sized business users in Southern Europe.

In addition, Warburg Pincus Asset Management buys and sells securities in the ordinary course of business, including securities of telecommunications companies. As noted in the Request, as of December 31, 1998, WPAM beneficially owned greater than 5% of one telecommunications company. That company is Gilat Satellite Networks Ltd., as disclosed on a Schedule 13G filed with the SEC on January 15, 1999. Gilat is an Israeli based provider of equipment, systems and support for private, satellite-based networks.

Following the closing of the CS Transaction, the asset management business will be separately owned and operated by the asset management affiliate of Credit Suisse Group, which will also purchase a 19.9% passive minority equity stake in the private equity business of Warburg, Pincus & Co.

Warburg Pincus does not have access to information regarding other investments, including telecommunications investments, if any, that may be held by limited partners of its private equity funds.

14. The neutrality criteria adopted by the FCC do not depend on whether the controlled telecommunications carrier actively uses NANP resources. Those criteria also apply to direct and indirect control and active and passive interests. If the transfer of CIS to Warburg Pincus is approved, and Warburg Pincus is required to comply strictly with the terms and provisions of the neutrality criteria, what actions (beyond those stated in the Request) would Warburg Pincus take to bring its current interests in telecommunications carriers into compliance with the neutrality criteria? What steps beyond those stated in the December 21 filing would the CIS Acquisition Corporation take to ensure its continued compliance with the neutrality criteria?

Answer:

To "comply strictly with the terms and provisions of the FCC's neutrality criteria" one need not alter existing or proposed investments in telecommunications service providers. Under 47 C.F.R. § 52.12(a)(1)(iii), the FCC has the authority to rule that the NANPA is not subject to undue influence notwithstanding investments in telecommunications service providers. The neutrality of CIS is best protected by establishing it as a free standing, independent company whose sole mission is to deliver high quality, competitively neutral services. CISAC's neutrality will be guaranteed by the Code of Conduct, quarterly audits of neutrality of CISAC and by-laws prohibiting WPEP from electing a majority of the board of CISAC. The Request includes all necessary safeguards to ensure continued neutrality.

As demonstrated above in the Introduction to Section II,"Neutrality," the FCC should find that CIS will remain free from undue influence for the purpose of the FCC's rules notwithstanding Warburg Pincus' investments in participants in the telecommunications industry, including telecommunications service providers. Warburg Pincus also has taken additional steps to ensure that CISAC remains neutral. Although these steps are not required by the rules, Warburg Pincus believes that such additional assurance demonstrates its commitment to neutrality. These steps are described in more detail in the answer to Question 27, below, and in the Request. They include the Code of Conduct to govern CISAC's operations, neutrality audits and the requirement that CISAC employees not have any interests that would violate the FCC's neutrality rules. Warburg Pincus does not believe that any additional steps are necessary to ensure neutrality under the rules or the *NANPA Selection Order*.

15. The FCC's neutrality criteria further require that the NANPA must not be "subject to any undue influence by parties with a vested interest in the outcome of numbering administration activities." See 47 C.F.R. § 52.12(a)(3); NANPA Requirements Document, § 1.2(c). Given the historic ties and relationship between the CIS business unit and Lockheed Martin, why would the proposed 5% interest by Lockheed Martin in the CIS Acquisition Corporation not violate this standard?

Answer:

The proposed five percent interest in the CISAC by Lockheed Martin Corporation will not subject the NANPA to "undue influence" and is consistent with the FCC's policies and rules.

First, the interest falls within the *de minimis* exemption under the FCC's rules governing neutrality of the numbering administration. Those rules establish that equity interests (voting or non-voting) of less than 10% will not result in a violation of the neutrality requirements. *See* 47 C.F.R. § 52.12(a)(1)(i) (defining affiliate for purposes of neutrality rules). As a five percent shareholder, Lockheed Martin also will not have any "power to direct or cause the direction of the management and policies" of CISAC after the transaction. *See id.* Lockheed Martin will not be represented on the CISAC board.

Second, even if Lockheed Martin's five percent interest were large enough to raise neutrality concerns, in practice there is no risk that Lockheed Martin will exercise "undue influence" over numbering administration activities. As noted above, Lockheed Martin's interest will not provide it with any control over the NANPA, nor will it provide it with the authority or ability to influence the day-to-day operations of the NANPA. In addition, following the transfer of the numbering administration business, Lockheed Martin will have no direct interest in assignment or administration of telephone numbers.[7] As the FCC held in the *NANPA Selection Order*, these considerations are sufficient to overcome concerns about any potential conflicts between Lockheed Martin's telecommunications business and its involvement in telephone numbering administration.[8]

16. On page 18 of the Lockheed Martin December 21 filing, principles of a Code of Conduct between the CIS Acquisition Corporation and Warburg Pincus are listed. Do the listed principles constitute the entire Code of Conduct? If not, please list all of the principles that comprise the Code of Conduct under which the CIS Acquisition Corporation and Warburg Pincus have agreed to operate.

Answer:

Yes. The listed principles of the Code of Conduct agreed to by WPEP and CISAC represent the entire Code of Conduct. These principles will ensure that CISAC is able to provide fair and efficient NANPA services.

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7 **As the FCC recognized in the *NANPA Selection Order*, Lockheed Martin's current interest in a telecommunications carrier involves services that do not use numbering resources. *NANPA Selection Order* at 23080 (1997). The same is true of COMSAT, which Lockheed Martin has proposed to acquire.**

8 ***NANPA Selection Order* at 23081-82.**

17. If the FCC concludes that Warburg Pincus & Co. is appropriately neutral, what assurances will Warburg Pincus provide to guarantee that neutrality will be maintained during the period of the award?

Answer:

The central inquiry for the FCC is whether CISAC, as a free standing, independent corporation following the transaction, is neutral within the meaning of the FCC's rules. As demonstrated above in the Introduction to Section II, "Neutrality," the FCC should reach this conclusion pursuant to 47 C.F.R. § 52.12(a)(1)(iii). The proposed restructuring would establish CISAC as a freestanding, independent corporation, whose sole mission is the provision of neutral, third party services. Warburg Pincus is well aware that the failure of CISAC to maintain neutrality, both actual and perceived, could jeopardize Warburg Pincus' significant investment in CISAC. Consistent with the disclosures made in the Request and this response, Warburg Pincus is committed to CIS' continued adherence to the strict neutrality requirements set forth by the FCC and required by CIS customers. In addition, the proposed Code of Conduct will further ensure that the neutrality of the NANPA will be maintained.

18. Please confirm that the CIS Acquisition Corporation will be owned by Warburg Pincus on a 95% basis, and Lockheed Martin, on a 5% basis. If the identified percentages are not accurate, please provide the correct percentages. Please confirm that there are no other owners of the CIS Acquisition Corporation, including employees of the new CIS Acquisition Corporation, either now or in the future.

Answer:

CISAC will be 5% owned by Lockheed Martin Corporation, while management of CIS will receive a percentage of CISAC equity which will ensure the creation of a financial incentive for employees to perform at a consistently high level. The equity interest will also help CISAC to attract and retain qualified personnel. The remainder will be held by WPEP. No other owners or changes in ownership are anticipated at this time. No employee of the company will hold investments in telecommunications companies that would result in a violation of the FCC's neutrality rules.

19. Has the CIS Acquisition Corporation and/or Warburg Pincus considered employee conflict of interest issues between employee ownership of CIS and possible holdings in other telecommunications companies, in light of the FCC's neutrality

criteria? Will restrictions be imposed on CIS Acquisition Corporation employees' investments in the telecommunications industry?

Answer:

No employee of CISAC will hold investments in telecommunications companies that would result in a violation of the FCC's neutrality rules.

20. How will the CIS Acquisition Corporation/Warburg Pincus commitment not to exceed the 10% investment in any telecommunications service provider be monitored and maintained?

Answer:

Warburg Pincus Asset Management ("WPAM"), the mutual fund and money management affiliate of Warburg Pincus & Co., has agreed not to make a greater than 10% investment in any telecommunications service provider. WPAM is subject to SEC rules and regulations that require public disclosure when investments in public companies reach levels greater than 5% and 10%, and as such, has compliance practices and procedures already in place to monitor the levels of its investments.

Following the closing of the CS Transaction, the asset management business will be separately owned and operated by the asset management affiliate of Credit Suisse Group, which will also purchase a 19.9% passive minority equity stake in the private equity business of Warburg, Pincus & Co. The CS Transaction should eliminate any neutrality concerns raised by Warburg Pincus' ownership of an asset management business. Credit Suisse Group, as a separate entity, will not be subject to the investment limitation.

21. The CIS Acquisition Corporation has proposed to conduct at its expense "audits of its adherence to and performance relative to the neutrality requirements of the industry." Who will conduct this neutrality audit? Will the neutrality auditor have complete access to the financial data of the CIS Acquisition Corporation, Warburg Pincus Equity Partners, L.P., and Warburg Pincus & Co., as well as any other partners of Warburg Pincus Equity Partners, L.P.?

Answer:

The proposed neutrality audits will be conducted by a widely known and well respected neutral third-party auditor selected by CISAC. The auditor will have access to all financial data necessary to confirm the continuing neutrality of the NANPA. The audit results will be made available to the North American Numbering Council ("NANC") and the FCC.

22. Warburg Pincus described Covad as a CLEC that does not operate as a common carrier service provider and does not use numbering resources. Does Covad compete against common carrier service providers who use numbering resources? Please explain your answer. Do the services that Covad provides require services from other carriers that require numbering resources (e.g., resale)? Please provide an analysis demonstrating that Warburg Pincus' investment in Covad is in compliance with section 51.12 of the FCC's rules. 47 C.F.R. § 51.12.

Answer:

As fully set forth above in the Introduction to Section II, "Neutrality," the FCC should find that CISAC will continue to be free of undue influence and therefore neutral and impartial within the meaning of the FCC's rules based upon a complete neutrality analysis. Such an analysis would not and should not focus solely on the extent of Warburg Pincus' investments in participants in the telecommunications industry or on the use those participants make of numbering resources or services provided by CISAC. Rather, the FCC's finding should be primarily based upon the nature and structure of Warburg Pincus' investment strategy and business practices, as well as its Code of Conduct.

However, other factors relevant to a neutrality analysis support the conclusion that CIS will remain free from undue influence following its purchase by Warburg Pincus, including, but not limited to, Covad's use of numbering resources. Covad is a packet-based dedicated digital services provider. Covad provides dedicated high-speed digital communications services using DSL technology to business customers and Internet service providers that do not entail the utilization of NANPA-administered numbering resources. DSL services are provided over dedicated private lines and are not switched services. Covad's services are designed to provide a more powerful data access capability for small businesses and for telecommuting purposes. To the extent that carriers also try to compete in the high-band with data industry, Covad competes with these companies.

Because of the non-switched nature of Covad's services, Warburg Pincus' investment in the company does not create for Warburg Pincus a vested interest in the allocation of numbering resources. Therefore, Warburg Pincus' interest would not subject the NANPA to "undue influence, " and so does not threaten the neutrality of the NANPA. In addition, WPEP's investment in this publicly held corporation represents a *de minimis* share of Warburg Pincus' overall investments. Moreover, WPEP's status as a financial investor mitigates any neutrality concerns raised by its investment in Covad.

23. If Covad decides to request NANP resources during the term of the contract, does Warburg Pincus consider that such action would create a conflict of interest? If the answer is "yes," what action would Warburg Pincus take to resolve that conflict? If the answer is "no," why not?

Answer:

If Covad decides to request NANP resources during the term of the NANPA contract, there would still be no neutrality problem. As noted above, Warburg Pincus' status as a financial investor and the publicly held nature of its investment in Covad mitigate any neutrality concerns raised. CISAC's adherence to the Code of Conduct and the regular neutrality audits further ensure NANPA services will continue to be provided on a neutral, third party basis.

24. Please provide sufficient detail to fully understand Warburg Pincus' view as to what level of investment in a company utilizing NANP resources would result in non-compliance with the FCC's neutrality criteria.

Answer:

As discussed above in "Introduction to Section II, "Neutrality," Warburg Pincus believes that a proper neutrality analysis of a company must take into account a number of factors, only one of which is whether or not a company utilizes NANP resources. As the FCC demonstrated in selecting Lockheed Martin as the NANPA despite ownership interests in telecommunications carriers in technical violation of the neutrality rules, certain *de minimis* telecommunications investments should not be considered violations of the FCC's neutrality rules. For each such investment, it should be determined whether the NANPA would be subject to undue influence by a diversified financial investor like Warburg Pincus. Warburg Pincus does not believe that there is a single level of investment that will automatically indicate non-compliance with the FCC's neutrality criteria.

25. Please explain in detail the statement, "Warburg Pincus' investments in telecommunications do not create a vested interest in numbering administration." Specifically, Warburg Pincus has disclosed its ownership interests in several carriers and that, overall, Warburg Pincus' five private equity funds in total hold a 5 percent investment in telecommunications. In what sectors of the industry is that overall 5 percent investment? Local exchange, long-distance or other? Also disclose the names of the carriers and the amount of the fund's investment in each carrier.

Answer:

We have disclosed in the response to Question 13 the five existing private equity investments in telecommunications companies and the nature of their business. Because of the size of its private equity funds and the objective of maintaining a well-diversified portfolio of investments, we believe any investments in telecommunications service providers are *de minimis* in relation to WPEP and the overall investment portfolio of Warburg Pincus. Moreover, Warburg Pincus' status as a diversified financial investor further limits any concern over its neutrality.

26. The "Master Agreements" between Lockheed Martin and the regional Local Number Portability Limited Liability Corporations ("LLCs") require that Lockheed Martin be a "Neutral Third Party," permitting termination of the agreements if Lockheed Martin ceases to be a Neutral Third Party. A Neutral Third Party is defined in some instances to prohibit Lockheed Martin from being a telecommunications carrier, or owning more than a 5% ownership interest in any telecommunications carrier. If Warburg Pincus is required to comply strictly with the terms and provisions of the Master Agreements, what actions beyond those stated in Lockheed Martin's December 21, 1998 filing would Warburg Pincus take to bring its current interests in telecommunications carriers into compliance with these agreements? What steps would the CIS Acquisition Corporation take to ensure its continued compliance with its obligation to remain a "Neutral Third Party"?

Answer:

For the reasons set forth above in "Introduction to Section II, "Neutrality," and as further set forth in response to questions about particular investments, Warburg Pincus submits that the LLCs should find that CISAC will remain a "neutral third party" within the meaning of the LLC agreements notwithstanding Warburg Pincus' investments in participants in the telecommunications industry, including

telecommunications service providers, and the LLCs should accept CISAC as the contracting party under those agreements.

27. Enumerate the "certain additional conditions that Warburg Pincus has agreed to in order to ensure the continued success of CIS regardless of the telecommunications interests of its parent company." Enumerate any specific constraints on new areas of business and investments, as well as constraints on new clients and partners, that the CIS Acquisition Corporation, Warburg Pincus Equity Partners, L.P., and Warburg Pincus & Co. have agreed to in order to ensure the neutrality of the NANPA. Please state why these new additional conditions are required in order to meet the current neutrality rules.

Answer:

Warburg Pincus does not believe that any additional steps are necessary to ensure neutrality under the rules or the *NANPA Selection Order*. As demonstrated in the Request and herein, Warburg Pincus meets existing regulatory and contractual neutrality requirements. The proposed Code of Conduct and other provisions are designed, however, to provide an additional level of operational assurances of Warburg Pincus' current and future neutrality.

The following conditions on WPEP operations are designed to ensure the continued neutrality of CISAC:

The Code of Conduct:

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

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

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

4. Confidential information about CISAC 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 CISAC's operations as it would its own proprietary information.

5. 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 CISAC business.

Other Safeguard Provisions:

1. Warburg Pincus will be prohibited by the by-laws of CISAC from controlling a majority of the board of CISAC.

2. Independent quarterly neutrality audits of CISAC will ensure Warburg Pincus complies with all its commitments to support the continued neutrality of CISAC.

3. WPAM will not invest more that 10% in any telecommunications service provider for so long as owned by Warburg Pincus.

3. No employee of CISAC will hold any interest, financial or otherwise, in any company that would violate the FCC or CIS' customers' neutrality requirements.

28. Describe in detail the ownership interests of the Warburg Pincus Global Telecommunications Fund. What are the fund's holdings?

Answer:

Warburg Pincus Global Telecommunications Fund is an open-ended public mutual fund owned by its investors/shareholders. As of December 31, 1998, the fund had $2.1 million in assets. Credit Suisse Asset Management, a subsidiary of Credit Suisse Group, is the fund's investment adviser and makes all investment decisions with respect to the fund. Subsidiaries of Warburg Pincus Asset Management serve as co-administrator and distributor of the fund. A summary of the fund, including its top ten holdings as of December 31, 1998, has been provided.

Following the closing of the CS Transaction, the asset management business will be separately owned and operated by the asset management affiliate of Credit Suisse Group, which will also purchase a 19.9% passive minority equity stake in the private equity business of Warburg, Pincus & Co. Warburg Pincus affiliates will cease to provide services to the Global Telecommunications Fund.

29. Warburg Pincus states that it owns approximately 12% of Espirit Telecom Group plc but that Espirit is being acquired by Global Telesystems Group, Inc. Who holds the ownership interests of Global Telesystems Group, Inc.? Does Warburg Pincus have any relationship to Global Telesystems Group, Inc.? Does Lockheed Martin hold any interest in Global Telesystems Group, Inc.? When is the transaction scheduled to close?

Answer:

Esprit has announced the sale of the company to Global Telesystems Group, Inc., a publicly traded company listed under the symbol "GTSG" on Nasdaq. Warburg Pincus had no business relationship with GTS prior to the transaction. Neither Lockheed Martin nor any of its subsidiaries hold any interest in GTS.

30. Explain how Primus operations in Canada do not raise neutrality issues and expand on media reports identifying Primus as a long distance carrier seeking to enter the Caribbean market.

Answer:

As fully set forth above in the Introduction to Section II, "Neutrality", the FCC should find that CISAC will continue to be free of undue influence and therefore neutral and impartial within the meaning of the FCC's rules based upon a complete neutrality analysis. Such an analysis would not and should not focus solely on the extent of Warburg Pincus' investments in participants in the telecommunications industry or on the use those participants make of numbering resources or services provided by CISAC. Rather, the FCC's finding should be primarily based upon the nature and structure of Warburg Pincus' investment strategy and business practices, as well as its Code of Conduct.

Primus operations in Canada or the Caribbean do not raise neutrality issues. Warburg Pincus' 14% interest in Primus represents a very small part of Warburg Pincus' overall investments. Such a *de minimis* investment does not create any incentive for Warburg Pincus to attempt to influence NANPA activities to somehow benefit Primus' operations. In addition, as noted in the Request, the only numbering resources used by Primus are carrier identification codes ("CICs") and, as a result, Primus poses no threat of undue influence on CISAC's number administration duties.

31. Explain Warburg Pincus' and Primus' relationship to Trescom International. Does Trescom International provide long distance calls that originate in the United States?

Answer:

Warburg Pincus Investors, L.P. held an interest in Trescom International, Inc. until June 1998, when Trescom was acquired by Primus. The Trescom operations have been integrated into Primus. See the discussion of Primus in response to Question 13.

32. What is the past and present relationship between Warburg Pincus & Co. and Lockheed Martin, including details of past transactions, financing, and whether the private funds of the senior officers and directors of Lockheed Martin are invested through Warburg Pincus & Co.? Are there overlapping or interlocking board members, managers, or working committees?

Answer:

There is no existing relationship between Lockheed Martin and Warburg Pincus other than the beneficial ownership by the Lockheed Martin Master Retirement Trust, which has total assets in excess of $20 billion, of a $50 million limited partnership interest in Warburg Pincus Ventures, L.P. The managers of the retirement trust have a fiduciary duty under ERISA to act solely in the interest of trust participants and beneficiaries. This relationship, therefore, presents no "undue influence" concerns for the CIS acquisition. There are no overlapping or interlocking board members, managers, or working committees between the two companies.[9]

33. Given that Dr. Henry Kressel and Mr. Joseph Landy, both of EM. Warburg Pincus & Co., LLC, serve on the Board of Directors of Covad, disclose all other boards on which Warburg Pincus and CIS Acquisition Corporation executives and employees serve.

Answer:

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[9] Lockheed Martin has initiated a survey of appropriate officers and board members and has received no response that would contradict this statement. Lockheed Martin will notify the FCC immediately if this answer changes.

The response to Question 13 sets forth the Warburg Pincus representatives serving as directors of existing telecommunications companies in the private equity portfolio. Warburg Pincus representatives typically serve as directors of its more than 100 portfolio companies. No CISAC executive or employee will serve on the board of directors of any other Warburg Pincus private equity portfolio company.

34. What interest does Warburg Pincus hold in COMSAT? What interest will it have subsequent to the Lockheed Martin acquisition of COMSAT?

Answer:

Warburg Pincus holds no interest in COMSAT and will not acquire any interest in COMSAT subsequent to the Lockheed Martin acquisition of that entity.

35. How will Warburg Pincus' primary goal to generate returns on investments from a numbering administration unit impact its neutrality?

Answer:

Warburg Pincus' goal to generate a return on its investments actually depends upon the continued neutrality of CISAC. Warburg Pincus understands that WPEP's ownership interest in CISAC will be governed by exacting standards designed to protect the public interest in fair and efficient numbering and has established its performance expectations for CISAC accordingly. As a financial investor rather than a strategic investor, Warburg Pincus is motivated to ensure that CISAC performs efficiently and successfully meets customer demands. In order to achieve these performance goals, CISAC must observe the FCC's neutrality requirements. Thus Warburg Pincus' goal to realize fair returns for CISAC operations is inexorably linked to the continued neutrality of CISAC. To jeopardize CISAC's neutrality in its role as the NANPA and/or the LNPA directly jeopardizes Warburg Pincus' investment.

III. OPERATIONAL

36. Please describe the organization of the CIS Acquisition Corporation and identify all personnel, together with their title or position, employed by CIS Acquisition Corporation. Alternatively, please provide an organizational chart showing all personnel in the CIS Acquisition Corporation.

Answer:

CISAC today has no employees. Following the closing of the transaction, the structural organization of the CIS business will not change. CISAC will be managed by the existing CIS management team, including Jeff Ganek (CEO), Joe Franlin (VP of Operations), Mark Foster (Chief Technical Officer), and Chris Rowe (VP of Finance). All CIS employees, including the staffs of the NANPA, the NPACs and the CIS Technical Staff, will join CISAC as well. All of the Lockheed Martin employees who have played roles in the development and operation of CIS' systems and services will be transferred to CISAC.

37. Identify all individuals within the CIS Acquisition Corporation that will have responsibilities for further developing the CIS Acquisition Corporation business base. Describe in detail each individual's responsibility for business development. What portion of the enumerated individuals' compensation results from expansion of the CIS Acquisition Corporation?

Answer:
Jeff Ganek will continue to have lead responsibility for the development of CISAC, as he has in the past. Mark Foster will continue to have responsibility for the development of the technical infrastructure of NANPA and the LNPA. Joe Franlin will continue to have responsibility for the operational development of CISAC. The focus of development will continue to be on serving the growing needs of CISAC's customers for NANPA, LNP and related services. Their compensation will be linked to CISAC's successful fulfillment of its contractual obligations and the degree to which CISAC meets customers' needs.

38. Identify any contracts for the lease of assets, or for the performance of direct or support services, relating to NANPA responsibilities.

Answer:

Currently, CIS has no contracts for direct or support services for NANPA responsibilities. On an ad hoc basis, temporary administrative and database maintenance services are procured. NANPA has maintenance agreements for a copier in Concord, CA and five fax machines.

39. Enumerate support services provided by Lockheed Martin, outside of Lockheed Martin CIS.

Answer:

The services provided by Lockheed Martin to CIS are as follows:

(1) CIS currently occupies space in facilities leased by Lockheed Martin;

(2) Although CIS currently has its own Chief Financial Officer and a small finance organization, most financial operations (payroll, general ledger, etc.) are provided by Lockheed Martin;

(3) CIS also has its own human resources organization, although most human resources administration and benefits services are provided by Lockheed Martin;

(4) Voice telephone services are provided by Lockheed Martin at CIS' Washington, D.C. and Tarrytown locations (CIS' customer premises equipment is dedicated solely to CIS at the Concord, California office and at the Chicago NPAC);

(5) All of CIS' data communications for LNP and NANPA systems are provided on facilities dedicated to CIS. These facilities will transfer to CISAC at closing;

(6) CIS has its own, dedicated email and web system that was designed and is operated by CIS. It will transfer to the CISAC closing; and

(7) Lockheed Martin provides tax, public relations and internal audit support.

All services provided by Lockheed Martin are administrative support and not directly in the line of CIS' services to customers. CISAC will notify all its customers of its administrative services transition plans. The transition will be seamless and invisible to CISAC's customers. For further information about the transition for these services, see the answer to Question 41. See also Attachment IV - Form of Services Agreement - in the Transaction Agreement.

40. How will the board of the new CIS Acquisition Corporation be constituted? How many seats will Warburg Pincus hold out of the total? How many seats will be held by CIS Acquisition Corporation officers? Will there be outside directors and, if so, how many?

Answer:

The CISAC board is in the process of being formed. Warburg Pincus will hold fewer than half the seats on the board. The remainder of the board will be CISAC management and independent members. No Lockheed Martin employee will be on the board.

41. Who currently provides the information systems and business infrastructure (e.g., email, PBX, web site maintenance, payroll) for the Lockheed Martin CIS business unit? Confirm that these support services and associated assets be transferred to the CIS Acquisition Corporation.

Answer:

All support services and associated assets necessary for CIS services will be transferred to the CISAC. A number of these services are currently provided by Lockheed Martin. Lockheed Martin has contractually committed to providing certain services and support after CIS' transfer during a transition period. For example, office space currently used by CIS will be sub-leased to CISAC for a time until CISAC secures new facilities. Similarly, Lockheed Martin will provide accounting, cash operations and payroll services on a service bureau basis until CISAC establishes its own financial operations. All services provided by Lockheed Martin are administrative support and not directly in the line of CISAC's services to customers. CISAC will notify all its customers of its administrative services transition plans. The transition is designed to be seamless and invisible to CISAC's customers.

All of CIS' data communications for LNP and NANPA systems are provided on facilities dedicated to CIS. These facilities will transfer to CISAC at the closing. Also, CIS has its own, dedicated email and web system that was designed and is operated by CIS. It also will transfer to the CISAC.

IV. PERFORMANCE

42. Please describe in detail how the CIS Acquisition Corporation, and its owners Warburg Pincus Equity Partners, L.P., plan to meet the requirements enumerated in the NANC's Requirements Document.

Answer:

The new company will adhere fully to the Requirements Document as originally proposed by Lockheed Martin. Under Warburg Pincus ownership, CIS will not change its business operations. Lockheed Martin created the CIS business division to meet all of the requirements in the NANC's Requirements Document consistent with its proposal bid. The proposed restructuring will establish CISAC as a freestanding company and will transfer the entire Lockheed Martin CIS business division intact.

43. Given that the Transaction Agreement is structured so that the CIS Acquisition Corporation "stands in the shoes of its predecessor" and given that the redacted copy of the 1997 Lockheed Martin NANPA proposal clearly emphasized the Lockheed Martin Corporation's technology strength, experience, systems support, and personnel resource pool, please describe the similar technology strength, experience, systems support, and personnel resource pool residing in Warburg Pincus Equity Partners, L.P.

Answer:

Subsequent to Lockheed Martin's successful proposal in 1997 to provide LNP and NANPA services, all personnel and resources key to the provision of those services were transferred to and consolidated within the CIS business unit. CISAC, therefore, has all the technical staff, facilities, systems, capabilities and resources necessary for the operation of NANPA and LNP services. Nonetheless, with Warburg Pincus' support in 1999, it is anticipated that CISAC will expand its staff, facilities and systems. Warburg Pincus and CIS Management have no plans to reduce any of these components of a successful operation.

Warburg Pincus' goal is for CISAC to grow and develop consistent with its contractual and regulatory obligations. As noted, Warburg Pincus' investment will be best protected if CISAC has the financial resources required to serve its customers. CIS has demonstrated its ability to martial the technical, operating and administrative resources needed to serve its NANPA and LNP customers.

With Warburg Pincus, CISAC will have access to as much, if not more, financial capital and support as it had from Lockheed Martin. The cash resources Warburg Pincus has already committed to the CIS investment are greater than those committed by Lockheed Martin. Not only is Warburg Pincus in the business of supporting the long-term growth of its portfolio companies, and not only does Warburg Pincus frequently provide new rounds of financing to companies in

which it invests, but Warburg Pincus, perhaps better than any other investor, understands the technology industry and the needs of technology driven companies. Warburg Pincus' support will enable the existing CIS management team to address any and all technical support, staffing or operational needs. In addition, as has been noted, all of the facilities necessary to carry out the NANPA duties will be transferred with CIS, ensuring uninterrupted service and adequate facilities for all operations.

44. Warburg Pincus has stated a "strong intent" in maintaining its interests in the CIS Acquisition Corporation through the life of the remaining NANPA term rather than a simple and unequivocal "Yes" to the question of whether it is committed to ownership of the CIS Acquisition Corporation for the remaining term. Because Warburg Pincus is apparently unable to make a unconditional commitment to no further change in ownership, what commitments does Warburg Pincus offer to ensure that the administrative functions it seeks to own will be sufficiently staffed, funded, and capitalized through the term of the contract should Warburg Pincus decide to further transfer ownership in the CIS Acquisition Corporation to yet another entity? In addition, does Warburg Pincus agree that, as a condition of the transfer of the CIS business unit to it, any future sale of NANPA responsibilities to another entity would require prior FCC approval?

Answer:

The purpose of any investment for WPEP, and perhaps most obviously in the case of the CIS business, is not to "flip" it for a quick profit. Warburg Pincus intends to maintain its position in CISAC for the long term, well past the term of CIS's current NANPA and LNP contractual commitments. WPEP's investment objective for CISAC is, simply, long term growth. While it would be impossible to contractually commit to this, it is hoped that Warburg Pincus' investment history would serve as sufficient proof of this statement.

Warburg Pincus is a long-term investor. It typically aims at meeting its investment return goals over long horizons instead of seeking quick returns on short-term speculation. Warburg Pincus' general practice is demonstrated in its nearly 30-year record of making long-term investments in companies like CISAC. The average duration of Warburg Pincus' investments is more than 5 years, although Warburg Pincus has maintained its investment positions for as long as 10 to 15 years. Warburg Pincus intends its CISAC investment to develop comparably to its other investments and has no reason whatsoever to believe that the CISAC investment will be anything but consistent with its philosophy of "buy, grow and nurture."

Warburg Pincus aims to facilitate a stable and reliable financial foundation for CISAC's long-term operation, development and growth. In the unlikely event that Warburg Pincus or CISAC found it necessary again to transfer CISAC, it would only do so after securing a buyer that would ensure the continued funding and support for the CIS business Company and obtaining FCC approval of the transfer. For example, if CISAC were to offer its shares to the public, it would do so only in complete compliance with regulatory requirements.

45. What guarantees do the CIS Acquisition Corporation and Warburg Pincus offer to ensure that key, competent personnel will be retained in sufficient numbers to perform NANPA responsibilities?

Answer:

As Warburg Pincus and CISAC have made clear, the proposed transaction is designed to provide for a complete intact transfer of the entire CIS operation, including the management team and technical support staff. The management and staff of CIS fully support the transfer to Warburg Pincus. Moreover, Warburg Pincus, true to its role as a financial investor, has no intention of changing CIS' staffing or management. All such operational matters will be left to CIS' expert management team.

To ensure that the management team will remain in place and will have incentives to maintain the high quality of service now provided by the CIS business, Warburg Pincus plans to provide the team with the opportunity to obtain equity interests in CISAC, including performance-based options. Warburg Pincus believes that tying the success of the employees to the success of the company will give those employees significant incentives to remain at CISAC and to provide superior service to customers. Indeed, compared to Lockheed Martin IMS, CISAC, as a stand alone company, will have greater flexibility to take the steps necessary to retain key employees.

46. What guarantees are the CIS Acquisition Corporation and Warburg Pincus willing to make to assure that adequate technical and financial support will be provided by Warburg Pincus & Co. so that NANPA requirements, LNPA requirements, and additional potential duties in the future (e.g., number pooling or location portability) can be effectively accomplished?

Answer:

CIS has demonstrated repeatedly its ability to deliver complex systems and services on-time, within budget, while meeting the requirements of its customers. CIS played a key role with the industry in defining the standards for LNP. CIS delivered the NPAC/SMS on-time. CIS has worked with service providers to implement LNP on-time, according to the tight deadlines issued by the FCC. And, CIS has managed the transition of NANPA functions from Bellcore and the local exchange carriers on-time. All the management and staff responsible for CIS' effectiveness to date are transferring to the new CIS. There, they will be as capable and effective as they have been in the past.

With Warburg Pincus' support, CISAC is planning to grow, consistent with its contractual and regulatory obligations, during 1999 in terms of expenses, staff, facilities and systems. Warburg Pincus and CIS Management have no plans to reduce CISAC expenses or staff.

Warburg Pincus' goal is for CISAC to grow and develop. WPEP's investment will be best served if CISAC has the financial resources required to serve its customers.

With WPEP, CISAC will have access to as much or more financial capital and support as it had from Lockheed Martin. The cash resources WPEP has already committed to CISAC are greater than those committed by Lockheed Martin. Warburg Pincus is in the business of supporting the long term growth of its portfolio companies. Warburg Pincus often provides new rounds of financing to companies in which it invests, as those companies grow and develop. WPEP, the fund that will hold the new CIS entity has $5 billion available for investment.

Warburg Pincus understands that the effective operation of the NANPA will only be possible if CISAC receives adequate technical and financial support. Warburg Pincus' investment and reputation as a sound financial investment company only survives if it makes prudent investments and then fully supports such investments to ensure the success of its portfolio companies. Thus, Warburg Pincus has no incentive to permit the failure of CISAC in its number administration duties.

47. In its December 21, 1998 filing, Lockheed Martin and Warburg Pincus state that they are "committed to supporting" CIS' fulfillment of its existing contracts, including pricing. Would Warburg Pincus also endorse the following statement: "Upon FCC approval of the transfer of CIS assets, Warburg Pincus will fulfill the contractual obligations under the existing CIS contracts for NANPA and LNPA, through the periods defined in those contracts, and including all contractual terms, including pricing and performance. Warburg Pincus assumes complete responsibility for CIS' ability to perform the contracts, and warrants that it will take all necessary steps to ensure that

CIS can perform its contractual obligations. Any recourse for failure to adhere to the terms of the contract that were lawfully applicable to Lockheed Martin are now applicable to Warburg Pincus." If not, why not?

Answer:

CIS currently does not have "parental guarantees" from the Lockheed Martin corporate parent and does not require them from Warburg Pincus in order to perform efficiently and effectively its LNPA and NANPA responsibilities. The dynamics of the Warburg Pincus investment, as described throughout these answers, ensures that CISAC, as a freestanding entity, can credibly do business with its customers and counterparts in the industry without the necessity of "parent guarantees".

V. TRANSITION

48. Describe in detail the anticipated transfer from Lockheed Martin to Warburg Pincus & Co. of the CIS business. Who will absorb the costs of the transition from Lockheed Martin to the CIS Acquisition Corporation/Warburg Pincus?

Answer:

See the attached confidential redacted Transaction Agreement for a detailed description of the proposed transaction.

CISAC and WPEP commit to the same prices, terms and conditions as are in effect today for NANPA and LNP services. As contemplated by the Transaction Agreement, all transition costs will be borne by Lockheed Martin, CISAC and WPEP -- not by any of CIS' customers.

49. How will the transition from CIS to Warburg Pincus be accomplished? When will the transition be complete?

Answer:

CIS has been an independent business unit within Lockheed Martin. Except for certain functions that do not relate to providing service to CIS customers (as

described in response to question 39), all of the staff, systems and infrastructure required to deliver CIS services are within the CIS organization and are owned and controlled by CIS. All CIS employees, systems and processes will transfer from Lockheed Martin to CISAC. Hence, transitioning operations from Lockheed Martin to CISAC will be managed with existing resources and capabilities. CISAC is committed to making the transition operationally seamless and invisible to customers. Once the transaction closes pursuant to regulatory approval, the transition of CIS from Lockheed Martin to WPEP will be complete.

50. Will there be any administrative, operational, or systems changes, whether direct or indirect, resulting from the transfer of the CIS business unit from Lockheed Martin to Warburg Pincus? Please explain.

Answer:

Because all staff, systems and infrastructure necessary to provide CISAC services already reside within CIS, there will be no administrative, operational, or systems changes resulting from the proposed transfer. As noted in response to question 39, certain ancillary functions are provided by Lockheed Martin, but the transition from Lockheed Martin to CISAC in these areas will not result in any changes, from the customer's point of view, in the operations of CIS.

51. What guarantees will Lockheed Martin provide to assure that the NANPA and the LNPA will operate smoothly and effectively, and without disruption to NANPA or LNPA activities, during the period leading up to a transition and during the transition, regardless of what successor organization is chosen?

Answer:

Until the FCC, NANC and the LNP LLCs approve the proposed restructuring of CIS, Lockheed Martin remains committed to the same FCC Orders and contractual terms and conditions, including the neutrality provisions. Lockheed Martin will continue to operate CIS as it has, providing high quality, reliable and neutral third party services.

In addition, Lockheed Martin has contractually committed to providing certain services and support after CIS' transfer. For example, certain office space currently used by CIS and shared with Lockheed Martin will be sub-leased to CISAC for a time until CISAC secures new facilities. Similarly, Lockheed Martin will provide accounting, cash operations and payroll services on a service bureau basis until CISAC establishes its own financial operations. All services provided

by Lockheed Martin are administrative support and not directly in the line of CISAC's services to customers. CISAC will notify all its customers of its administrative services transition plans. The administrative services will be expeditiously transitioned from Lockheed Martin to CISAC. The transition is designed to be seamless and invisible to CISAC's customers.

52. Will Warburg Pincus provide indemnification to carriers using the NPAC and the NANPA for damages that may occur as a result of the transfer of the CIS business unit from Lockheed Martin to Warburg Pincus?

Answer:

The transition from Lockheed Martin to Warburg Pincus is designed to be seamless and invisible to carriers. Warburg Pincus will not, however, indemnify carriers.

53. If Warburg Pincus' acquisition of CIS is approved, and Warburg Pincus for any reason sells its investment in the CIS Acquisition Corporation, or transfers or assigns the NANPA obligations in whole or in part, or otherwise does fails to fulfill the remainder of the term set forth in 47 C.F.R. § 52.12(b), will Warburg Pincus commit to reimburse the industry for the costs associated with the transition of NANPA responsibilities?

Answer:

In the unlikely event of a further transfer of CISAC within the existing contractual term of the NANPA, the costs associated with the resulting transition of the NANPA services will be borne by CISAC, Warburg Pincus and the transferee. There would be no resulting effect on customer prices or contractual terms and conditions.

Respectfully submitted,

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