

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF COLUMBIA

UNITED STATES OF AMERICA, )  
)  
)  
*Plaintiff,* ) Civil No.: 1:99CV01119 (LFO)  
)  
v. )  
)  
)  
BELL ATLANTIC CORPORATION, )  
GTE CORPORATION, )  
and VODAFONE AIRTOUCH PLC, )  
)  
*Defendants.* )  
\_\_\_\_\_ )

**COMPETITIVE IMPACT STATEMENT**

The United States, pursuant to Section 2(b) of the Antitrust Procedures and Penalties Act, 15 U.S.C. § 16(b)-(h) (“APPA”), files this Competitive Impact Statement relating to the proposed Final Judgment submitted for entry in this civil antitrust proceeding.

**I. NATURE AND PURPOSE OF THE PROCEEDING**

The United States filed a civil antitrust Supplemental Complaint on December 9, 1999 alleging that: (1) the proposed acquisition of GTE Corporation (“GTE”) by Bell Atlantic Corporation (“Bell Atlantic”); (2) the proposed partnership between Bell Atlantic and Vodafone AirTouch Plc (“Vodafone”); and (3) the combined effect of these two transactions would violate Section 7 of the

Clayton Act, 15 U.S.C. § 18 by lessening competition in the markets for wireless mobile telephone services in 13 major trading areas (“MTAs”), as well as 96 metropolitan statistical areas (“MSAs”) and rural service areas (“RSAs”) in Alabama, Arizona, California, Florida, Idaho, Illinois, Indiana, Montana, New Mexico, Ohio, South Carolina, Texas, Virginia, Washington, and Wisconsin.<sup>1</sup>

Shortly before the Supplemental Complaint was filed, the United States and defendants reached agreement on the terms of a revised proposed Final Judgment. The revised proposed Final Judgment<sup>2</sup> requires Bell Atlantic, Vodafone, or GTE to divest wireless assets in 96 markets. These overlapping markets include: (1) 58 MSAs and RSAs where GTE owns in whole or part a cellular mobile telephone services business that overlaps part of one of the 10 MTAs where Bell Atlantic and Vodafone provide personal communications services through PCS PrimeCo, L.P. (“PrimeCo”), a business half owned by Bell Atlantic and half owned by Vodafone; (2) four MSAs where Bell Atlantic and GTE own in whole or part competing cellular mobile wireless telephone businesses; (3) three MSAs and one RSA where Bell Atlantic and Vodafone own in whole or part competing cellular mobile wireless telephone businesses; (4) ten MSAs and one RSA where Vodafone and GTE own in whole or

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<sup>1</sup> The original Complaint in this proceeding was filed on May 7, 1999, challenging the July 28, 1998, merger agreement between Bell Atlantic and GTE (“Bell Atlantic/GTE Merger”). On September 21, 1999, Bell Atlantic and Vodafone entered into an agreement to create a partnership (“Bell Atlantic/Vodafone Partnership”) with the intent of combining the wireless businesses of Bell Atlantic, Vodafone, and GTE into a national wireless network. On December 6, 1999, the United States filed a motion requesting leave to file a Supplemental Complaint and to add Vodafone as a defendant to this action. That motion was granted by the Court on December 9, 1999, and the Supplemental Complaint was accepted as filed on that date.

<sup>2</sup> The original proposed Final Judgment required either Bell Atlantic or GTE to divest its wireless telephone business in those markets where the two companies’ business overlap. The revised Final Judgment essentially includes those areas, as well as the areas where Vodafone’s wireless telephone businesses overlap with a competing business owned either by Bell Atlantic or GTE.

part competing cellular mobile wireless telephone businesses; and (5) ten MSAs and nine RSAs where Vodafone owns, or will own, in whole or part, a cellular mobile wireless telephone business that competes with a GTE wireless PCS telephone business that overlaps all or part of the area. These 96 overlap areas are collectively identified in the Supplemental Complaint as the “Overlapping Wireless Markets”.

In each of the Overlapping Wireless Markets, defendants can choose which wireless business to divest. The proposed Final Judgment also contains provisions, explained below, designed to minimize any risk of competitive harm that otherwise might arise pending completion of the divestiture. The proposed Final Judgment and a Stipulation by plaintiff and defendants consenting to its entry were filed simultaneously with the Supplemental Complaint.

The United States and defendants have stipulated that the proposed Final Judgment may be entered after compliance with the Antitrust Procedures and Penalties Act, 15 U.S.C. § 16 (“APPA”). Entry of the proposed Final Judgment would terminate this action, except that the Court would retain jurisdiction to construe, modify, or enforce the provisions of the proposed Final Judgment and to punish violations thereof. The United States and defendants have also stipulated that defendants will comply with the terms of the proposed Final Judgment from the date of signing of the Stipulation, pending entry of the Final Judgment by the Court. Should the Court decline to enter the Final Judgment, defendants have also committed to continue to abide by its requirements until the expiration of time for any appeals of such ruling.

## **II. DESCRIPTION OF THE EVENTS GIVING RISE TO THE ALLEGED VIOLATION**

### **A. The Defendants and the Proposed Transaction**

Bell Atlantic is one of the remaining five Regional Bell Operating Companies (“RBOCs”) created in 1984 by the consent decree settling the United States’ antitrust case against American Telephone & Telegraph Co. GTE is the largest non-RBOC local telephone operating company in the United States. Vodafone is the world’s largest mobile telecommunications company, and the third largest wireless mobile telephone service provider in the United States. Bell Atlantic and GTE each provide local exchange services in distinct regions, as well as wireless mobile telephone services, including cellular mobile telephone services and PCS, both within and outside of their local exchange service regions. Bell Atlantic is a 50/50 partner with Vodafone in PrimeCo, a firm that provides wireless mobile telephone services in many areas of the country.

Bell Atlantic, with headquarters in New York City, New York, is the second largest RBOC in the United States, with approximately 42 million total local telephone access lines. In 1998, Bell Atlantic had revenues in excess of \$31 billion. Bell Atlantic provides local telephone services to retail customers in Connecticut, Delaware, the District of Columbia, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia, as well as cellular mobile telephone services in those states. Bell Atlantic also provides cellular mobile telephone services in some areas outside its local exchange service region, including areas within the states of Arizona, Georgia, North Carolina, New Mexico, South Carolina, and Texas. Through its partnership with Vodafone in PrimeCo, Bell Atlantic also provides wireless service in the states of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Louisiana, Michigan, Minnesota,

Mississippi, New Mexico, North Carolina, Ohio, Oklahoma, Texas, Virginia, and Wisconsin. Bell Atlantic is the nation's fourth largest wireless mobile telephone service provider, with about 7.5 million proportionate subscribers<sup>3</sup> nationwide.

GTE, with headquarters in Irving, Texas, is the largest non-RBOC local telephone company in the United States, with over 23 million total local telephone access lines. In 1998, GTE had revenues in excess of \$25 billion. GTE provides local telephone service to retail customers in Alabama, Alaska, Arizona, Arkansas, California, Florida, Hawaii, Idaho, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, Nevada, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Texas, Virginia, Washington, and Wisconsin, and it also provides wireless mobile telephone service in 17 states. GTE is the nation's fifth largest wireless mobile telephone service provider, with about 6.9 million proportionate subscribers nationwide.

Vodafone, with its headquarters in Newbury, Berkshire, England, has mobile operations in 23 countries in five continents, with more than 19 million proportionate customers outside of the United States. Within the United States, Vodafone serves 9.1 million cellular mobile telephone and PCS customers in 24 states and 22 of the top 30 U.S. markets. Vodafone entered into an agreement on July 19, 1999 to acquire certain cellular mobile telephone businesses from CommNet ("Vodafone/CommNet Merger") for \$1.36 billion, which would make Vodafone a provider of cellular

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<sup>3</sup> "Proportionate subscribers" refers to the number of subscribers in a firm's wireless mobile telephone systems discounted by the firm's ownership interest in each system. For instance, a firm with a 100% ownership interest in a wireless business with 100,000 subscribers would have 100,000 proportionate subscribers, but a firm with a 25% interest in a system with 100,000 subscribers would be attributed 25,000 proportionate subscribers for that system.

mobile telephone services in an additional 11 midwestern and western states. The acquisition of CommNet's cellular businesses would add about 360,000 subscribers to Vodafone's total number of wireless subscribers nationwide.

On July 28, 1998, Bell Atlantic and GTE entered into a merger agreement whereby the two firms would merge in a transaction valued at approximately \$53 billion dollars at the time of the agreement. If this transaction is consummated, the combined total of Bell Atlantic's and GTE's wireless mobile telephone service subscribers, absent divestitures, would exceed 14 million.

On September 21, 1999, Bell Atlantic and Vodafone entered into an agreement to create a new wireless partnership that will combine the approximately \$70 billion worth of wireless assets of Bell Atlantic, Vodafone, and GTE. The new wireless partnership will be the largest wireless business in the United States, serving over 23 million customers in 49 of the top 50 U.S. wireless markets and boasting a footprint covering 90% of the U.S. population.

## **B. Wireless Mobile Telephone Services**

Wireless mobile telephone services permit users to make and receive telephone calls, using radio transmissions, while traveling by car or by other means. The mobility afforded by this service is a valuable feature to consumers, and cellular and other wireless mobile telephone services are commonly priced at a substantial premium above landline services. In order to provide this capability, wireless carriers must deploy an extensive network of switches and radio transmitters and receivers, and interconnect this network with the networks of local and long distance landline carriers, and with the networks of other wireless carriers. Current annual revenues from the sale of wireless mobile telephone services total approximately \$37 billion in the United States.

Initially, wireless mobile telephone services were provided principally by two cellular systems in each MSA and RSA license area. Cellular licenses were awarded by the Federal Communications Commission (“FCC”) beginning in the early 1980s for each MSA and RSA<sup>4</sup>. A provider of Specialized Mobile Radio (“SMR”) services typically was also authorized to operate with some additional spectrum in these areas, including the Overlapping Wireless Markets.

In 1995, the FCC allocated (and subsequently issued licenses for) additional spectrum for the provision of PCS, a type of wireless telephone service that includes wireless mobile telephone services comparable to those offered by cellular carriers. In 1996, one SMR spectrum licensee began to use its SMR spectrum to offer wireless mobile telephone services, comparable to that offered by cellular and PCS providers and bundled with dispatch services, in a number of areas including some of the Overlapping Wireless Markets. While the areas for which PCS providers are licensed (MTAs and basic trading areas (“BTAs”)) differ somewhat from the cellular MSAs and RSAs, they generally overlap with them. In many areas, including most of the Overlapping Wireless Markets, not all of the PCS license holders have started to offer services or even begun to construct the facilities necessary to begin offering service. The PCS providers have tended to enter in the largest cities first, entering in smaller markets only later and not on as wide a scale. Moreover, even in those areas where one or more PCS providers have constructed their networks and have started to offer service, including the Overlapping Wireless Markets, the incumbent cellular providers, such as Bell Atlantic, Vodafone and

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<sup>4</sup> 25 MHZ of spectrum was allocated to each cellular system in an MSA or RSA. MSAs are the 306 urbanized areas in the United States, defined by the federal government, and used by the FCC to define the license areas for urban cellular systems. RSAs are the 428 areas defined by the FCC used to define the license areas for rural cellular systems outside of MSAs.

GTE, still typically have substantially larger market shares than the new entrants.

**C. Anticompetitive Consequences of the Proposed Acquisition**

Bell Atlantic, Vodafone and GTE, or firms in which they have an interest, are or will be competing providers of wireless mobile telephone services in 96 cellular license areas in 15 states.

These areas are referred to in the Supplemental Complaint as follows:

**I. Cellular/Cellular Overlap Areas**

**A. Bell Atlantic Cellular/Vodafone Cellular Overlap Areas**

1. Arizona
  - a. Phoenix MSA
  - b. Tucson MSA
  - c. Arizona 2- Coconino RSA
2. New Mexico
  - a. Albuquerque MSA

**B. Bell Atlantic Cellular/GTE Cellular Overlap Areas**

1. New Mexico
  - a. Las Cruces MSA
2. South Carolina
  - a. Greenville MSA
  - b. Anderson MSA
3. Texas
  - a. El Paso MSA

**C. GTE Cellular/Vodafone Cellular Overlap Areas**

1. California
  - a. Salinas-Monterey-Seaside MSA
  - b. San Diego MSA
  - c. San Francisco MSA
  - d. San Jose MSA
  - e. Santa Rosa-Petaluma MSA
  - f. Vallejo-Napa-Fairfield MSA
2. Ohio
  - a. Akron MSA
  - b. Canton MSA
  - c. Cleveland MSA
  - d. Lorain-Elyria MSA



- e. Ohio 3- Ashtabula RSA

## **II. PCS/Cellular Overlap Areas**

### **A. PrimeCo PCS/GTE Cellular Overlap Areas**

1. Jacksonville MTA
  - a. Jacksonville MSA
  - b. Florida 5- Putnam RSA
  
2. Miami-Fort Lauderdale MTA
  - a. Fort Myers MSA
  - b. Florida 1- Collier (B1) RSA
  - c. Florida 2- Glades (B1) RSA
  - d. Florida 3- Hardee RSA
  - e. Florida 11- Monroe (B2) RSA
  
3. Tampa-St. Petersburg-Orlando MTA
  - a. Tampa-St. Petersburg MSA
  - b. Lakeland-Winter Haven MSA
  - c. Sarasota MSA
  - d. Bradenton MSA
  - e. Florida 2- Glades (B1) RSA
  - f. Florida 3- Hardee RSA
  - g. Florida 4- Citrus (B1) RSA
  
4. New Orleans-Baton Rouge MTA
  - a. Mobile, AL MSA
  - b. Pensacola, FL MSA
  
5. Chicago MTA
  - a. Aurora-Elgin, IL MSA
  - b. Bloomington-Normal, IL MSA
  - c. Champaign-Urbana-Rantoul, IL MSA
  - d. Chicago, IL MSA
  - e. Decatur, IL MSA
  - f. Fort Wayne, IN MSA
  - g. Gary-Hammond-East Chicago, IN MSA
  - h. Joliet, IL MSA
  - I. Kankakee, IL MSA
  - j. Rockford, IL MSA
  - k. Springfield, IL MSA
  - l. Illinois 1- Jo Daviess RSA

- m. Illinois 2- Bureau (B1) RSA
- n. Illinois 2- Bureau (B3) RSA
- o. Illinois 4- Adams (B1) RSA
- p. Illinois 5- Mason (B2) RSA
- q. Illinois 6- Montgomery RSA
- r. Illinois 7- Vermilion RSA
- s. Indiana 1- Newton (B1) RSA
- t. Indiana 1- Newton (B2) RSA
- u. Indiana 3- Huntington RSA

6. Dallas-Fort Worth MTA

- a. Dallas-Fort Worth MSA
- b. Austin MSA
- c. Sherman-Denison MSA
- d. Texas 10- Navarro (B3) RSA
- e. Texas 11- Cherokee (B1) RSA
- f. Texas 16- Burleson RSA

7. Houston MTA

- a. Houston MSA
- b. Beaumont-Port Arthur MSA
- c. Galveston MSA
- d. Bryan-College Station MSA
- e. Victoria MSA
- f. Texas 10- Navarro (B3) RSA
- g. Texas 11- Cherokee (B1) RSA
- h. Texas 16- Burleson RSA
- I. Texas 17- Newton RSA
- j. Texas 20- Wilson (B2) RSA
- k. Texas 21- Chambers RSA

8. San Antonio MTA

- a. San Antonio MSA
- b. Texas 16- Burleson RSA
- c. Texas 20- Wilson (B2) RSA

9. Richmond-Norfolk MTA

- a. Norfolk-Virginia Beach-Portsmouth MSA
- b. Richmond MSA
- c. Newport News-Hampton MSA
- d. Petersburg-Colonial Heights MSA

- e. Virginia 7- Buckingham (B1) RSA
- f. Virginia 8- Amelia RSA
- g. Virginia 9- Greenville RSA
- h. Virginia 11- Madison (B1) RSA
- I. Virginia 12- Caroline (B1) RSA
- j. Virginia 12- Caroline (B2) RSA

10. Milwaukee MTA

- a. Wisconsin 8- Vernon RSA

B. GTE PCS/Vodafone Cellular Overlap Areas

1. Cincinnati-Dayton MTA

- a. Cincinnati MSA
- b. Dayton MSA
- c. Hamilton/Middleton MSA
- d. Springfield MSA
- e. Ohio 4- Mercer RSA
- f. Ohio 8- Clinton RSA

2. Seattle MTA

- a. Bellingham MSA
- b. Bremerton MSA
- c. Olympia MSA
- d. Seattle-Everett MSA
- e. Tacoma MSA
- f. Washington 1- Clallam RSA
- g. Washington 2- Okanagan RSA
- h. Washington 4- Gray's Harbor RSA

3. Spokane-Billings MTA

- a. Spokane MSA
- b. Idaho 1- Boundary RSA
- c. Idaho 2- Idaho RSA
- d. Montana 1- Lincoln RSA
- e. Washington 3- Ferry RSA

In the Overlapping Wireless Markets, the population potentially addressable by wireless mobile telephone systems exceeds 57 million.

Bell Atlantic, Vodafone, and GTE are direct competitors in wireless mobile telephone services in the Cellular/Cellular Overlap Areas. The cellular businesses owned in whole or in part by Bell Atlantic and GTE, Bell Atlantic and Vodafone, or GTE and Vodafone are the two largest providers of cellular mobile telephone services, and the two primary providers of all wireless mobile telephone services, in the Cellular/Cellular Overlap Areas. Moreover, in the PCS/Cellular Overlap Areas, PrimeCo or GTE offer, or will soon offer, PCS wireless mobile telephone service, while either GTE, Vodafone, or CommNet owns all or part of a business offering cellular mobile telephone service. Thus, PrimeCo and GTE, GTE and Vodafone, and GTE and CommNet are among each other's most significant competitors in wireless mobile telephone services in the PCS/Cellular Overlap Areas. In each of the PCS/Cellular Overlap Areas, the GTE, Vodafone, or CommNet cellular business has one of the two largest market shares in the provision of wireless mobile telephone services while PrimeCo and GTE are one of a small number of new PCS entrants in these markets.

Therefore, the Bell Atlantic/GTE Merger and the Bell Atlantic/Vodafone Partnership would significantly increase the level of concentration among firms providing wireless mobile telephone services in each of the Overlapping Wireless Markets. A high level of concentration in the provision of wireless mobile telephone services already exists in each of the Overlapping Wireless Markets. In the Cellular/Cellular Overlap Areas, Bell Atlantic, Vodafone, and GTE's individual market shares in the provision of wireless mobile telephone services, if measured on the basis of the number of subscribers, exceeds 35% and their combined market share ranges between 75-95%. As measured by the Herfindahl-Hirschman Index ("HHI"), which is commonly employed by the Department of Justice in merger analysis and is explained in more detail in Appendix A to the Supplemental Complaint,

concentration in these markets is already in excess of 2800, well above the 1800 threshold at which the Department normally considers a market to be highly concentrated. After the consummation of these transactions, the HHI in these markets will be in excess of 5500.

There is also already a high level of concentration in the provision of wireless mobile telephone services in the PCS/Cellular Overlap Areas. In virtually all, the individual shares of the two cellular carriers--one of which is GTE, Vodafone, or CommNet--is in the range of 30-40% and the combined market share of PrimeCo's PCS and GTE's cellular business, or the GTE PCS and Vodafone cellular business, is generally in the 35-50% range, resulting in an HHI over 2000. In almost all of these markets, PrimeCo or GTE is one of the very few PCS firms that have begun to vigorously compete against, and take share away from, the two dominant cellular firms, one of which is, or will be, owned, in whole or part, by GTE or Vodafone. The competition between PrimeCo and GTE PCS businesses, and between GTE and Vodafone or CommNet cellular businesses, created by PrimeCo's or Vodafone's entry into markets that were previously an effective duopoly, has resulted in lower prices and higher quality in these markets than would otherwise have existed absent such competition.

If GTE and Bell Atlantic merge and Bell Atlantic and Vodafone form their partnership, the Overlapping Wireless Markets will become significantly more concentrated, and the competition between the defendants in wireless mobile telephone services in these markets will be eliminated. As a result of this loss of competition in these markets, there will be an increased likelihood both of unilateral actions by the combined firm to increase prices, diminish the quality or quantity of service provided, or refrain from making investments in network improvements, and of coordinated interaction among the limited number of remaining competitors that could lead to similar anticompetitive results. Therefore,

the likely effect of the Bell Atlantic/GTE Merger and the Bell Atlantic/Vodafone Partnership on the provision of wireless mobile telephone services in the Overlapping Wireless Markets is that prices would increase, and the quality or quantity of service together with incentives to improve network facilities would decrease.

It is unlikely that entry within the next two years into wireless mobile telephone services in the Overlapping Wireless Markets would be sufficient to mitigate the competitive harm resulting from the consummation of these two transactions.

For these reasons, the United States concluded that the Bell Atlantic/GTE Merger and the Bell Atlantic/Vodafone Partnership as proposed may substantially lessen competition, in violation of Section 7 of the Clayton Act, in the provision of wireless mobile telephone services within the Overlapping Wireless Markets.

### **III. EXPLANATION OF THE PROPOSED FINAL JUDGMENT**

#### **A. The Divestiture Requirement**

The proposed Final Judgment will preserve competition in the sale of mobile wireless telephone services in each of the Overlapping Wireless Markets by requiring defendants to divest one of their two wireless telephone businesses in each of the Overlapping Wireless Markets. This divestiture will eliminate the change in market structure caused by the merger.

The divestiture requirements of the proposed Final Judgment, as stated in Sections IV.A and II.G, direct defendants to divest one of their wireless telephone businesses (to be selected by defendants) in each of the Overlapping Wireless Markets. Section IV.C permits different wireless

businesses in separate Overlapping Wireless Markets to be divested to different purchasers, but requires that, for any individual wireless business, the Wireless System Assets be divested entirely to a single purchaser, unless the United States otherwise consents in writing.

The proposed Final Judgment's divestiture provisions are intended to accomplish the "complete divestiture of the entire business of one of the two wireless systems in each of the Overlapping Wireless Markets," as Section II.G states. Section II.G also specifies in detail the types of assets to be divested, which collectively are described throughout the consent decree as "Wireless System Assets," and addresses some special circumstances concerning the divestiture of those assets. In all of the Overlapping Wireless Markets, Wireless System Assets means all types of assets, tangible and intangible, used by defendants in the operation of each of the wireless businesses to be divested, including the provision of long distance telecommunications service for wireless calls. Section II.G enumerates in detail, without limitation, particular types of assets covered by the divestiture requirement.

For the most part, the divesting defendant is required to transfer to the purchaser the complete ownership and/or other rights to the Wireless System Assets. However, the merged firm will retain a number of other wireless businesses in areas that do not overlap, and prior to the merger each defendant may have had certain assets that were used substantially in the operations of its overall wireless business and that must be retained to some extent to continue the existing operations of the wireless businesses not being divested. Section II.G permits special divestiture arrangements for such assets if they are not capable of being divided between the divested and retained wireless businesses, or if the divesting defendant and the purchaser agree not to divide them. For these assets, the

divestiture requirement is satisfied if the divesting defendant grants to the purchaser, at the election of the purchaser, an option to obtain a non-exclusive, transferable license for a reasonable period to use the assets in the operation of the wireless business being divested, so as to enable the purchaser to continue to operate the divested wireless businesses without impairment.

The definition of Wireless System Assets in Section II.G contains special provisions relating to intellectual property. One addresses intellectual property rights that defendants may have under third-party licenses that could not be transferred to a purchaser entirely or by license without the consent of the third-party licensor. If any such assets are used by the wireless businesses being divested, defendants must identify them in a schedule submitted to plaintiff and filed with the Court as expeditiously as possible following the filing of the Supplemental Complaint, and in any event, prior to any divestiture and before the Court approves the proposed Final Judgment. Defendants must explain the necessary consents and how a consent would be obtained for each asset. This proviso is not intended to afford defendants any opportunity to withhold intellectual property rights over which they have any control, which could impair the ability of a purchaser to use the divested wireless business to compete effectively. It relates only to intellectual property assets that defendants have no power to transfer themselves, and defendants must do all that is possible to transfer the entire business of the divested wireless businesses. To make this clear, Section IV.G obligates defendants to cooperate with any purchaser as well as a trustee, if any, to seek to obtain the necessary third-party consents, if any assets require such consents before they may be transferred to a purchaser.

Another proviso relates to certain specific trademarks, trade names and service marks. Section II.G, defining the Wireless System Assets to be divested, generally requires the divestiture of



trademarks, trade names and service marks, with the 25 specified exceptions which contain names under which defendants' retained wireless businesses, or their corporate parents or affiliates, do business. Such trademarks, trade names and service marks, like other assets, are either to be divested in their entirety, except for marks and names that must be retained to continue the existing operations of defendants' remaining wireless properties and that are not capable of being divided (or that the divesting defendant and purchaser agree not to divide), which are to be made available to the purchaser through a non-exclusive, transferable license.

Under limited circumstances, defendants are allowed to retain specified portions of the Wireless System Assets in the Overlapping Wireless Markets. First, Section II.G.1 provides that if defendants elect to divest an interest in a PCS business in one of the PCS/Cellular Overlap Areas, defendants may retain up to 10 MHz of broadband PCS spectrum within that PCS/Cellular Overlap Area upon completion of the divestiture of the Wireless System Assets. In this instance, defendants will still otherwise be required to divest the entire PCS business, including 20 MHz of broadband PCS spectrum, to ensure that the market structure does not change as a result of the merger and that the divested business will be able to compete as effectively under new ownership as under its current ownership.

Second, in the event that defendants elect to divest an interest in a PCS business in one of the PCS/Cellular Overlap Areas, Section II.G.2 of the Final Judgment allows defendants to request approval from plaintiff to partition the PCS license along BTA geographic boundaries, or county boundaries in the case of Kenosha County, Wisconsin, and retain assets in one or more specified non-overlapping BTAs or in Kenosha County. Plaintiff's approval of the request shall be subject to a

determination by plaintiff in its sole discretion that the assets to be retained in the non-overlapping BTAs or Kenosha County are not needed to assure the competitive effectiveness of the divested business in the remainder of the MTA, and that the purchaser of the Wireless System Assets in the remainder of the MTA will be able to operate the divested PCS business as a fully competitive entity. Section II.G.2 requires defendants to seek this approval at least 90 calendar days prior to the consummation of the transaction which gives rise to the overlap.

Finally, Section II.G.3 allows defendants, with approval from plaintiff, to retain both the PCS business and the non-controlling minority interest in an overlapping cellular business in a PCS/Cellular Overlap Area. Plaintiff's approval of the request shall be subject to a determination by plaintiff in its sole discretion that the retention of a non-controlling minority interest will be entirely passive and will not significantly diminish competition. GTE has a number of non-controlling minority interests in cellular businesses, ranging from 2% to 40%, in the Overlapping Wireless Markets. To be permitted to retain a minority cellular interest, defendants will be required to demonstrate that the interest they wish to keep is entirely passive, such that they receive no competitively sensitive information about the competing cellular business and have no input into the business decisions of the competing cellular provider that could have anticompetitive consequences. Plaintiff, in its sole discretion, will determine that the retention of the non-controlling minority interest will not significantly diminish competition before approval will be granted for the merged firm to retain a minority interest. Section II.G.3 requires defendants to seek this approval at least 90 calendar days prior to the consummation of the transaction which gives rise to the overlap.

Section IV contains other provisions to facilitate divestiture, including notification of the

availability of the Wireless System Assets for purchase in Section IV.D, access to information about the Wireless System Assets in Section IV.E, and preservation of records in Section IV.H. In addition, to ensure that a purchaser will be able to operate the divested wireless businesses without impairment, Section IV.F prohibits defendants from interfering with a purchaser's negotiations to retain any employees who work or have worked with the Wireless System Assets since the date of the announcement of the merger or partnership, or whose principal responsibility relates to the Wireless System Assets.

### **B. Timing of Divestiture**

In antitrust cases involving mergers in which the United States seeks a divestiture remedy, it requires completion of the divestiture within the shortest time period reasonable under the circumstances. The proposed Final Judgment in this case requires, in Section IV.A, the divestitures of the Wireless System Assets in the Overlapping Wireless Markets on a strict schedule, but provides defendants with some flexibility in recognition of the special timing issues involved in a divestiture of this size and complexity.

Under Section IV.A, defendants must divest the Wireless System Assets of one of the two wireless businesses in the Cellular/Cellular Overlap Areas on or before consummation of the transaction that gives rise to the overlap. The divestitures of the Wireless System Assets for each PCS/Cellular Overlap Area shall occur prior to or at the same time as consummation of the transaction that gives rise to the overlap, or June 30, 2000, whichever is later. Plaintiff may, in its sole discretion, extend this date by up to two thirty-day periods. If one or more divestitures have not been completed as of the date of the consummation of the transaction that gives rise to the overlap, defendants will submit to plaintiff a

definitive Divestiture List identifying the specific Wireless System Assets in each of the PCS/Cellular Overlap Areas that will be divested.

The divestiture timing provisions of the proposed Final Judgment will ensure that the divestitures are carried out in a timely manner, and at the same time will permit the parties an adequate opportunity to accomplish the divestitures through a fair and orderly process. Even if all Wireless System Assets have not been divested upon consummation of the transaction that gives rise to the overlap, there will be no adverse impact on competition given the short duration of the period of common ownership and the detailed requirements of the Hold Separate Order contained in Section IX of the Final Judgment.

Section IV.B of the proposed Final Judgment requires that, in carrying out the divestitures, defendants comply with all of the applicable rules of the FCC, or any waiver of such rules or other authorization granted by the FCC. These rules include 47 C.F.R. § 20.6 (spectrum aggregation) and 47 C.F.R. § 22.942 (cellular cross-ownership).<sup>5</sup> These FCC requirements may add to, but cannot subtract from or impair, the requirements of the proposed Final Judgment, since Section IV.B specifies that authorization by the FCC to conduct divestiture of a wireless business in a particular manner will not modify any of the requirements of the decree. The provisions of the proposed Final Judgment have been designed to avoid any conflict with the FCC's rules.

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<sup>5</sup> The FCC's spectrum aggregation rules, in 47 C.F.R. § 20.6, do not permit a licensee to have an attributable interest in more than 45 MHz of spectrum licensed for cellular, PCS or SMR with significant overlap in any geographic area. The FCC will attribute an interest if it is controlling, or if in most cases it is 20% or more of the equity, outstanding stock or voting stock of the licensee. The FCC's cellular cross-ownership rules, in 47 C.F.R. § 22.942, also prohibit a licensee or any person controlling a licensee from having a direct or indirect ownership interest of more than 5% in both cellular systems in an overlapping cellular geographic service area, unless such interests pose "no substantial threat to competition."

### **C. Use of a Trustee Subsequent to Consummation of the Acquisition**

The proposed Final Judgment provides in Section IV.A that defendants must divest the Wireless System Assets in each of the Overlapping Wireless Markets in accordance with the schedule contained therein, either to purchasers acceptable to plaintiff in its sole discretion, or to a trustee designated pursuant to Section V of the Final Judgment. As part of this divestiture, defendants must relinquish any direct or indirect financial ownership interests and any direct or indirect role in management or participation in control. If a trustee is appointed pursuant to Section V of the proposed Final Judgment, the trustee will then own and control the systems until they are sold to a final purchaser, subject to safeguards to prevent defendants from influencing their operation.

Section V details the requirements for the establishment of the trust, the selection and compensation of the trustee, the responsibilities of the trustee in connection with divestiture and operation of the Wireless System Assets, and the termination of the trust. If defendants have not divested all of their Wireless System Assets in the Overlapping Wireless Markets to approved purchasers in accordance with Section IV.A, Section V.A requires: (1) defendants to identify the Wireless System Assets in each Overlapping Wireless Market to be divested; (2) the Court to appoint a trustee, which shall be selected by the United States; (3) defendants to submit a form of Trust Agreement consistent with the terms of the Final Judgment, and which form agreement must have received approval by the United States; and (4) defendants, after receiving FCC approval for the license transfers, to divest irrevocably the unsold Wireless System Assets to the trustee.

The trustee will then have the obligation and the sole responsibility for the divestiture of any transferred Wireless System Assets. Under Section V.B, the trustee has the authority to accomplish

divestitures at the earliest possible time and “at the best price then obtainable upon a reasonable effort by the trustee.” In addition, notwithstanding any provision to the contrary, plaintiff may, in its sole discretion, require defendants to include additional assets that substantially relate to the wireless mobile telephone business in the Wireless System Assets to be divested if it would facilitate a prompt divestiture to an acceptable purchaser. This provision allows plaintiff, in its discretion, to require defendants to divest additional Wireless System Assets that substantially relate to the wireless mobile telephone business to ensure that the trustee can promptly locate and divest to a purchaser acceptable to plaintiff. Defendants are not entitled to object to divestiture based on the adequacy of the price the trustee obtains or any other ground, unless the trustee’s conduct amounts to malfeasance. The terms of the trustee’s compensation, under Section V.C, will provide incentives based on the price and terms of the divestiture and the speed with which it is accomplished. As provided by Sections V.B and V.C., defendants will pay the compensation and expenses of the trustee, and of any investment bankers, attorneys or other agents that the trustee finds reasonably necessary to assist in the divestiture and the management of the Wireless System Assets.

The trusteeship mechanism has been used by the FCC, in a variety of contexts, to provide a short period of time in which to complete a sale of a spectrum licensee that must be divested, while permitting the broader merger or acquisition that necessitates the divestiture to go forward. In this context, the critical feature of the trusteeship arrangement is that the trustee will not only have responsibility for sale of the Wireless System Assets, but will also be the authorized holder of the wireless license, with full responsibility for the operations, marketing and sales of the wireless business to be divested, and will not be subject to any control or direction by defendants. Defendants will no

longer have any role in the ownership, operation or management of the Wireless System Assets to be divested following consummation of their merger, as provided by Section V.H, other than the right to receive the proceeds of the sale, and certain obligations to provide cooperation to the trustee in order to complete the divestiture, as indicated in Section V.D. Under V.E, the trustee also has monthly reporting obligations concerning the efforts made to divest the Wireless System Assets. Defendants are precluded under Section V.H from communicating with the trustee, or seeking to influence the trustee, concerning the divestiture or the operation and management of the wireless businesses transferred, apart from the limited communications necessary to carry out the Final Judgment and to provide the trustee with the necessary resources and cooperation to complete the divestitures. Defendants and the trustee are subject to an absolute prohibition on exchanging any non-public or competitively sensitive marketing, sales or pricing information relating to either of the wireless businesses in the Overlapping Wireless Markets. These safeguards will protect against any competitive harm that could arise from coordinated behavior or information sharing between the two wireless businesses during the limited period while sale of the Wireless System Assets is not yet complete, and ensure that the trusteeship arrangement is consistent with the FCC's rules.

Section V.F requires the trustee to divest the Wireless System Assets to a purchaser or purchasers acceptable to the plaintiff no later than 180 days after the assets are transferred to the trustee. However, since the FCC's approval is required for the transfer of the wireless licenses to a purchaser, Section V.F provides that if applications for transfer of a wireless license have been filed by the FCC within the 180-day period, but the FCC has not granted approval before the end of that time, the period for divestiture of the specific Wireless System Assets covered by the license that cannot yet

be transferred shall be extended until five days after the FCC's approval is received. This extension is to be applied only to the individual wireless license affected by the delay in approval of the license transfer and does not entitle defendants to delay the divestiture of any other Wireless System Assets for which license transfer approval has been granted.

**D. Criteria for the United States' Approval of Purchasers**

Under the proposed Final Judgment, the United States plays an important role in the approval of purchasers for each of the divested wireless businesses by ensuring that the purchasers chosen by defendants or the trustee are adequate from a competitive viewpoint. Section IV.A specifies that the United States' approval or rejection of a purchaser is at its sole discretion, but also enumerates certain criteria that the United States will apply in making the approval decision.

In the case of any divestiture by defendants or the trustee, it is important to ensure that the ongoing wireless businesses go to purchasers with the capability and intent to operate them as effective competitors in the lines of business they already serve, and that there are no conditions restricting competition in the terms of the sale. Specifically, Section IV.C of the proposed Final Judgment requires that the divestitures of Wireless System Assets be made to a purchaser or purchasers for whom it is demonstrated to plaintiff's sole satisfaction that: (1) the purchaser(s) has the capability and intent to compete effectively in the provision of wireless mobile telephone service using the Wireless System Assets; (2) the purchaser(s) has the managerial, operational and financial capability to compete effectively in the provision of wireless mobile telephone service using the Wireless System Assets; and (3) none of the terms of any agreement between the purchaser(s) and either of defendants shall give defendants the ability unreasonably (I) to raise the purchaser(s)'s costs, (ii) to lower the purchaser(s)'s



efficiency, (iii) to limit any line of business which a purchaser(s) may choose to pursue using the Wireless System Assets, or otherwise to interfere with the ability of the purchaser(s) to compete effectively. All of these criteria must be satisfied whether the divestiture is accomplished by defendants or the trustee.

**E. Other Provisions of the Decree**

Section III specifies the persons to whom the Final Judgment is applicable, and provides for the Final Judgment to be applicable to certain Interim Parties to whom defendants might transfer the Wireless System Assets, other than purchasers approved by the United States.

Section VI obliges defendants, or the trustee if applicable, to notify the United States of any planned divestiture of Wireless System Assets within two business days of executing a binding agreement with a purchaser. This section enables the United States to obtain information to evaluate the chosen purchaser as well as other prospective purchasers who expressed interest and establishes a procedure for the United States to notify defendants and the trustee whether it objects to a divestiture. The United States' notification of its lack of objection is necessary for a divestiture to proceed. This section also provides for an objection by defendants to a sale by the trustee under the limited situation of alleged malfeasance, but in that case it is possible for the Court to approve a sale over defendants' objection.

Section VII establishes affidavit requirements for defendants to report to the United States on their compliance with the proposed Final Judgment, their activities in seeking to divest the Wireless System Assets prior to consummating the transaction that gives rise to the overlap, and their actions to preserve the Wireless System Assets to be divested.

Section VIII prohibits defendants from financing all or any part of a purchase made by an acquirer of the Wireless System Assets, whether the divestiture is carried out by defendants or by the trustee.

Section IX, the Hold Separate Order, contains important requirements concerning the operation of the wireless businesses before divestiture is complete, and the preservation of the Wireless System Assets as a viable, ongoing business. The obligations of Section IX.A fall on each defendant and both wireless businesses in any Overlapping Wireless Market to ensure that such wireless businesses continue to be operated as separate, independent, ongoing, economically viable and active competitors to the other wireless mobile telecommunications providers in the same area. Section IX.A requires separation of the operations of the two wireless businesses and their books, records and competitively sensitive information. The requirements of Section IX.A serve to ensure that defendants maintain their two wireless businesses in the Overlapping Wireless Markets as fully separate competitors prior to consummating their merger, notwithstanding their expectations that the merger will take place. The requirements also reinforce the provisions of Section V.H concerning the separation of defendants and the trustee after the merger is consummated but while Wireless System Assets are still awaiting sale.

Section IX.B requires the defendant whose assets will be divested (or both, if it has not yet been decided which system will be divested in a particular market) to take certain specified steps to preserve the assets in accordance with past practices. These steps include maintaining and increasing sales, maintaining the assets in operable condition, providing sufficient credit and working capital, not selling the assets (except with approval of plaintiff), not terminating, transferring or reassigning

employees who work with the assets (with certain limited exceptions), and not taking any actions to impede or jeopardize the sale of the assets. Section IX.D obliges each defendant, during the period while they still control Wireless System Assets, to appoint persons not affiliated with the other defendant to oversee the Wireless System Assets to be divested and to be responsible for compliance with the Final Judgment.

In order to ensure compliance with the Final Judgment, Section X gives the United States various rights, including the ability to inspect defendants' records, to conduct interviews and take sworn testimony of defendants' officers, directors, employees and agents, and to require defendants to submit written reports. These rights are subject to legally recognized privileges, and any information the United States obtains using these powers is protected by specified confidentiality obligations, which permit sharing of information with the FCC under a customary protective order issued by that agency or a waiver of confidentiality. Under Section III.B, purchasers of the Wireless System Assets must also agree to give the United States similar access to information.

The Court retains jurisdiction under Section XI, and Section XII provides that the proposed Final Judgment will expire on the tenth anniversary of the date of its entry, unless extended by the Court. Although the required divestitures will be accomplished in a considerably shorter time, defendants are also precluded from reacquiring the divested properties within the term of the decree.

#### **IV. REMEDIES AVAILABLE TO POTENTIAL PRIVATE LITIGANTS**

Section 4 of the Clayton Act, 15 U.S.C. § 15, provides that any person who has been injured as a result of conduct prohibited by the antitrust laws may bring suit in federal court to recover three times the damages that the person has suffered, as well as costs and reasonable attorneys' fees. Entry of the proposed Final Judgment will neither impair nor assist the bringing of any private antitrust damage action. Under the provisions of Section 5(a) of the Clayton Act, 15 U.S.C. § 16(a), the proposed Final Judgment has no *prima facie* effect in any subsequent private lawsuit that may be brought against defendants.

#### **V. PROCEDURES AVAILABLE FOR MODIFICATION OF THE PROPOSED FINAL JUDGMENT**

Plaintiff and defendants have stipulated that the proposed Final Judgment may be entered by the Court after compliance with the provisions of the APPA, provided that the United States has not withdrawn its consent. The APPA conditions entry upon the Court's determination that the proposed Final Judgment is in the public interest.

The APPA provides a period of at least sixty (60) days preceding the effective date of the proposed Final Judgment within which any person may submit to the United States written comments regarding the proposed Final Judgment. Any person who wishes to comment should do so within sixty (60) days of the date of publication of this Competitive Impact Statement in the Federal Register. The United States will evaluate and respond to the comments. All comments will be given due consideration by the United States, which remains free to withdraw its consent to the proposed Final

Judgment at any time prior to entry. The comments and the responses of the United States will be filed with the Court and published in the Federal Register.

Written comments should be submitted to:

Donald J. Russell  
Chief, Telecommunications Task Force  
Antitrust Division  
United States Department of Justice  
1401 H Street, N.W., Suite 8000  
Washington, D.C. 20530

The proposed Final Judgment provides, in Section XI, that the Court retains jurisdiction over this action, and the parties may apply to the Court for any order necessary or appropriate to carry out or construe the Final Judgment, to modify any of its provisions, to enforce compliance, and to punish any violations of its provisions.

## **VI. ALTERNATIVES TO THE PROPOSED FINAL JUDGMENT**

The United States considered, as an alternative to the proposed Final Judgment, seeking an injunction to block consummation of the Bell Atlantic/GTE Merger and Bell Atlantic/Vodafone Partnership and a full trial on the merits. The United States is satisfied, however, that the divestiture of Wireless System Assets and other relief contained in the proposed Final Judgment will preserve competition in the provision of wireless mobile telephone services in the Overlapping Wireless Markets. This proposed Final Judgment will also avoid the substantial costs and uncertainty of a full trial on the merits on the violations alleged in the complaint. Therefore, the United States believes that there is no reason under the antitrust laws to proceed with further litigation if the divestitures of the Wireless

System Assets are carried out in the manner required by the proposed Final Judgment.

## **VII. STANDARD OF REVIEW UNDER THE APPA FOR PROPOSED FINAL JUDGMENT**

The APPA requires that proposed consent judgments in antitrust cases brought by the United States be subject to a sixty (60) day comment period, after which the court shall determine whether entry of the proposed Final Judgment "is in the public interest." In making that determination, the court *may* consider --

(1) the competitive impact of such judgment, including termination of alleged violations, provisions for enforcement and modification, duration or relief sought, anticipated effects of alternative remedies actually considered, and any other considerations bearing upon the adequacy of such judgment;

(2) the impact of entry of such judgment upon the public generally and individuals alleging specific injury from the violations set forth in the complaint including consideration of the public benefit, if any, to be derived from a determination of the issues at trial.

15 U.S.C. § 16(e) (emphasis added). As the United States Court of Appeals for the D.C. Circuit held, this statute permits a court to consider, among other things, the relationship between the remedy secured and the specific allegations set forth in the government's complaint, whether the decree is sufficiently clear, whether enforcement mechanisms are sufficient, and whether the decree may positively harm third parties. *See United States v. Microsoft*, 56 F.3d 1448, 1461-62 (D.C. Cir. 1995).

In conducting this inquiry, "[t]he Court is nowhere compelled to go to trial or to engage in extended proceedings which might have the effect of vitiating the benefits of prompt and less costly

settlement through the consent decree process."<sup>6</sup> Rather,

[a]bsent a showing of corrupt failure of the government to discharge its duty, the Court, in making its public interest finding, should . . . carefully consider the explanations of the government in the competitive impact statement and its responses to comments in order to determine whether those explanations are reasonable under the circumstances.

*United States v. Mid-America Dairymen, Inc.*, 1977-1 Trade Cas. (CCH) ¶ 61,508, at 71,980 (W.D. Mo. 1977).

Accordingly, with respect to the adequacy of the relief secured by the decree, a court may not "engage in an unrestricted evaluation of what relief would best serve the public." *United States v. BNS, Inc.*, 858 F.2d 456, 462 (9th Cir. 1988) (citing *United States v. Bechtel Corp.*, 648 F.2d 660, 666 (9th Cir. 1981); *see also Microsoft*, 56 F.3d at 1460-62. Precedent requires that

the balancing of competing social and political interests affected by a proposed antitrust consent decree must be left, in the first instance, to the discretion of the Attorney General. The court's role in protecting the public interest is one of insuring that the government has not breached its duty to the public in consenting to the decree. The court is required to determine not whether a particular decree is the one that will best serve society, but whether the settlement is "*within the reaches of the public interest.*" More elaborate requirements might undermine the effectiveness of antitrust enforcement by consent decree.<sup>7</sup>

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<sup>6</sup> 119 Cong. Rec. 24598 (1973). *See United States v. Gillette Co.*, 406 F. Supp. 713, 715 (D. Mass. 1975). A "public interest" determination can be made properly on the basis of the Competitive Impact Statement and Response to Comments filed pursuant to the APPA. Although the APPA authorizes the use of additional procedures, 15 U.S.C. § 16(f), those procedures are discretionary. A court need not invoke any of them unless it believes that the comments have raised significant issues and that further proceedings would aid the court in resolving those issues. *See H.R. Rep. 93-1463*, 93d Cong. 2d Sess. 8-9 (1974), *reprinted in U.S.C.C.A.N.* 6535, 6538.

<sup>7</sup> *Bechtel*, 648 F.2d at 666 (emphasis added); *see BNS*, 858 F.2d at 463; *United States v. National Broadcasting Co.*, 449 F. Supp. 1127, 1143 (C.D. Cal. 1978); *Gillette*, 406 F. Supp. at 716. *See also Microsoft*, 56 F.3d at 1461 (whether "the remedies [obtained in the decree are] so inconsonant with the allegations charged as to fall outside of the 'reaches of the public interest'").

The proposed Final Judgment, therefore, should not be reviewed under a standard of whether it is certain to eliminate every anticompetitive effect of a particular practice or whether it mandates certainty of free competition in the future. Court approval of a final judgment requires a standard more flexible and less strict than the standard required for a finding of liability. "[A] proposed decree must be approved even if it falls short of the remedy the court would impose on its own, as long as it falls within the range of acceptability or is 'within the reaches of public interest.'" *United States v. American Tel. & Tel. Co.*, 552 F. Supp. 131, 151 (D.D.C. 1982), *aff'd sub nom., Maryland v. United States*, 460 U.S. 1001 (1983) (quoting *Gillette Co.*, 406 F. Supp. at 716); *United States v. Alcan Aluminum, Ltd.*, 605 F. Supp. 619, 622 (W.D. Ky. 1985).

Moreover, the court's role under the Tunney Act is limited to reviewing the remedy in relationship to the violations that the United States has alleged in its complaint, and does not authorize the court to "construct [its] own hypothetical case and then evaluate the decree against that case." *Microsoft*, 56 F.3d at 1459. Since "[t]he court's authority to review the decree depends entirely on the government's exercising its prosecutorial discretion by bringing a case in the first place," it follows that the court "is only authorized to review the decree itself," and not to "effectively redraft the complaint" to inquire into other matters that the United States might have but did not pursue. *Id.*



## VIII. DETERMINATIVE DOCUMENTS

There are no determinative materials or documents within the meaning of the APPA that were considered by the United States in formulating the proposed Final Judgment. Consequently, the United States has not attached any such materials to the proposed Final Judgment.

Respectfully submitted,

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/s/

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Dated: December 22, 1999

## CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing Plaintiff United States' Competitive Impact Statement, were served via U.S. Mail, first class postage prepaid, on this \_\_\_\_nd day of December, 1999 upon each of the parties listed below:

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