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Federal Communications Commission
Office of Secretary

July 1, 2004

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW, Room TW-A325
Washington, DC 20554

RE: Transfer of licenses from AT&T Wireless to Cingular Wireless
WT Docket No. 04-70
EX PARTE

Dear Ms. Dortch:

I am enclosing a copy of a forthcoming Fortune Magazine article entitled "Vodafone's Man on the Line" for submission into the above referenced record.

If you have any questions concerning this matter, please contact the undersigned.

Sincerely,

Brian F. Fontes
Vice President-Federal Regulatory Relations

Attachment

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FORTUNE

Monday, July 12, 2004

Vodafone's Man on the Line

Craig McCaw on his new wireless network, Clearwire, and the perils of running a public company.

By Janet Guyon

Arun Sarin has big shoes to fill. The Silicon Valley veteran took over as CEO of Britain's Vodafone, the world's largest wireless company, 11 months ago, following the retirement of Chris Gent, who built the company through a series of acquisitions. Thus far Sarin has been less of a dealmaker, getting outbid by Cingular for AT&T Wireless in the U.S. this spring. He says he has no intention now of exercising an option to sell part of Vodafone's 45% stake in Verizon Wireless back to Verizon. On a recent trip to visit investors in the U.S., Sarin, 49, talked to FORTUNE's Janet Guyon.

You were in the running to acquire AT&T Wireless but got outbid by Cingular. What do you do now to penetrate the U.S. market?

We are happy as a 45% owner of Verizon Wireless.

Well, you obviously weren't all that happy, or you wouldn't have bid on AT&T.

Right, but in a company's life there are strategic choices to be made. When we looked at AT&T Wireless, we said this is a company we can fix. If we can buy it at a reasonable price, fix it, and bring in broadband technology, we could be a very, very strong No. 2 competitor, competing for No. 1 over several years. But [to do that], obviously, we needed to get out of Verizon. They would ideally love to own 100% of Verizon Wireless, so they offered us a nice package. But every strategy has a price; strategy is not a code word for "go waste money." So the auction happened, and we were outbid. Now you have two relatively weak players that have decided to get married. It's a field day for Verizon Wireless.

If you had to do it over again, would you have offered more money?

Absolutely not.

Do you see any way to bring the Vodafone brand to the U.S. and run your own show in America?

It's going to be very tough. We are where we were six months ago. No better, no worse.

Is Wi-Fi a threat to cellular?

In America we like to talk about Wi-Fi because we aren't paying attention to the wireless broadband technology, or 3G, being introduced by the mobile-phone companies. If you have 384 kilobits a second and you can get it everywhere, why would you want to sit in an Internet cafe or a Starbucks or an airport to get a slightly faster speed? Wi-Fi is not going to take over the world. I'm not saying it isn't a good thing, but it's got its niche. Today, it's localized, it's interesting, it's geeky, it's techy. It's not mainstream. We will use it to provide in-building coverage at large corporate campuses, for example, so that you have one phone, and inside it's free and the minute you are outside you're on 3G.

Let's talk about Vodafone's financial situation. You had more than $15 billion in free cash flow last year, but because of huge goodwill charges you reported a net loss of $15.3 billion. When will you finish writing off all the goodwill accumulated through Gent's acquisition spree and report some bottom-line profits?

The goodwill charge will go on for several years because we are amortizing $198 billion in intangible assets. But it's a noncash charge. The real story is that we produced $15 billion of free cash flow last year, after capital, after interest, after taxes, after everything. Only two companies were ahead of us, GE and Microsoft. That makes us the third-largest free-cash-flow-producing company on the planet.

What's happening with your fight with Nokia over whose brand should be on the mobile phones you sell?

When we turn on the phone we want our brand, Vodafone, to come up on the screen. That's a discussion we're having with them, and they are becoming more compliant. Two years ago they weren't