



Cerebellas, LLC
248 W Park Avenue, Suite 223
Long Beach, NY 11561

516.670.THINK
516.706.8500 Fax

www.cerebellas.com

Following is the complete transcript of an interview Cerebellas conducted in early May 2005 with Daryl Evans, Vice President of Advertising & Marketing Communications for Cingular Wireless.

Cerebellas: Next month is the upfront market for television and cable, where nearly 80% of national television ad time for the 2006 season is sold. As a major national marketer, what are you expecting—and hoping for—from this year’s upfront market?

Mr. Evans: Actually we’re frustrated by the whole upfront structure. The upfront market is basically a market structure allowing the networks to concentrate demand into a very short time period—around a product that has lower ratings and fewer viewers every year—and yet gets higher prices. So it’s an artificial market structure. But TV is a big part of our communication strategy and you’ve got to question if you can afford to remain entirely out of the upfront market—especially if you’re a large advertiser. Most recent history indicates the scatter marketplace is probably better than an even bet in terms of what you’ll pay for the TV time, but you never know—and the risk of staying out of the upfront market can be high. As to our pricing expectations, we’re hoping to keep prices flat or even less. Even flat is an increase when you consider that the ratings are even lower than they were the year before.

Cerebellas: How concerned are you that the networks aren’t going to be able to deliver the target demographic for you?

Mr. Evans: We’re very concerned about TV’s ability to deliver ratings. Media fragmentation is real. New technology is changing the way viewers consume television. For example, you’ve got the impact of TiVo. It’s not only a question of whether the consumer is zooming past the ad, but if they watch, are they watching the ads during the time period that’s relevant to us, for example—communicating a special price that’s only good for the upcoming weekend. Honestly, in a business that with the retail characteristics of wireless, I’m most concerned about consumers watching our advertising when I need them to watch them. So the question of TV’s ability to deliver ratings in the absolute and/or within specific time periods is a real concern.

Cerebellas: Are those recording technologies impacting the way you develop and time promotions?

Mr. Evans: They aren’t having a big effect on how we time our promotions yet as we use a broad range of media—we don’t solely rely on TV. But what’s interesting is the effect on TV itself, and how they’re putting their shows together—more product placement, more big time “events” around and within the shows that people want to watch right away in order to be “water cooler conversant,” etc. Increased programming of live sports is another example. The networks themselves are putting a lot of effort into developing their product in a way that discourages DVR and other technology use.



Cerebellas: You said in our previous conversation that a lot of negotiations started months ago.

Mr. Evans: We're already discussing deals with networks outside of the upfront. Leveraging our spending outside of the traditional upfront period is to our advantage.

Cerebellas: Cingular manages a total marketing budget of over \$1B, following the merger with AT&T. As other entertainment and advertising channels emerge, how will Cingular respond in apportioning its ad dollars? For example, the WSJ reported that almost 85% of advertisers are increasing their online ad budgets by an average of 25%, to the detriment of conventional media.

Mr. Evans: We're looking to increase online in our own budgets as well—as an increasing number of consumers use the Internet to shop. But first and foremost we'll go where the best eyeballs are and where we see the best response in terms of gross additions—new customers—a key metric in the wireless business. But the industry and Cingular as well values net additions—simply, the gross additions minus the people that leave you—the net customers that you have. We will allocate our dollars based on data that includes sophisticated econometric modeling to help tell us which media investments drive gross additions and/or the net additions most effectively. If online comes out of our data as one of the best places to put our money, that's where we'll go. If sponsorships, such as our American Idol, NCAA, NASCAR and PGA associations, drive our business, that's where we'll go.

Cerebellas: Nokia is launching a cell phone in the fourth quarter with a built-in hard drive and Wi-Fi capability, enabling the device to function as an MP3 player, radio and camera—in addition to being a phone. As the largest wireless carrier in the U.S., are you hearing from customers that they want these multi-function handsets, or are some handset makers going too far?

Mr. Evans: I can't answer the question about that particular Nokia model as that's the province of our handset group. The bigger issue is the opportunity that results from having broadband speeds on the phone devices—which promises to open up a whole new world of products that people might want on a wireless device—especially in the data content area. Cingular currently has more than 50 million customers—meaning we have over 50 million phone screens that people carry with or have near them, 10, 15 hours a day. In many ways we are similar to a cable TV system, except larger. In fact, our network is larger than any TV network—larger than any radio network. There is enormous opportunity in formatting content in a way that people want and value on a wireless device. For example—wireless devices are capable of carrying live TV, but we don't believe people we necessarily want to watch a half-hour episode of Seinfeld over a phone screen. But they might watch a 60 or 90 second compilation of key events in sports or entertainment—to keep them informed in an efficient way.



We're moving to a point in time where the phones won't be "phones" anymore, but will psychologically evolve into devices that carry all kinds of things and oh, by the way can make a phone call if you really want to. The wireless device manufacturers are not going too far at all—they're developing products that can carry a new world of wireless services. It's a cool time to be in wireless as the industry is about to radically redefine itself.

Cerebellas: Payments via cell phone—even micro-payments (under \$5US)—have not taken root here in the U.S. Some say that people are reluctant to make larger payments to their cell phones because they view it as essentially a utility, and then there's the loyalty aspect of using credit. But micro-payments aren't taking off, when it would be so convenient to purchase a can of soda or a movie ticket with your cell phone. Why do you think this is so?

Mr. Evans: I don't know specifically why that hasn't happened. You're right; it's growing faster in other countries—but little momentum behind it here. Maybe the prevalence of credit cards, maybe the prevalence of debit cards—I have no idea why that hasn't taken off.

Cerebellas: Cingular was innovative in launching its 'Rollover' plan; it took some time for other carriers to follow suit. In what other ways do you envision the company staying ahead of the game, staying innovative?

Mr. Evans: Actually no other national carrier else has Rollover.

Cerebellas: Well, maybe some are carrying over minutes from month to month?

Mr. Evans: Actually no national carrier has that either. There is a confusing product from another national carrier where they charge you a reduced rate for extra minutes—but unused minutes still disappear at the end of each month. But Rollover is only the beginning of ways we will "Raise the Bar" in wireless. Take the Razr phone as an example. The Razr is a game-changing design and Cingular is the only company in the US that offers the phone. Clearly we're leveraging our size to gain exclusivity. And we have other things coming in the pipeline. Additional cool and exclusive phones. Unique data products that can be delivered on the phones. You can get NCAA information through Cingular that you can't get anywhere else. You can only participate in, and get American Idol information wirelessly through Cingular. We very much want to innovate—and just as important, in a way that differentiates Cingular from competition.

Cerebellas: How hard is it to stay out of the commodity game, and to give customers a reason to stay with Cingular other than price? Is price still the primary purchase driver, or are other factors coming into play in the customer's decisions?

Mr. Evans: We want to avoid commoditization and will leverage examples like I mentioned in the previous question. It's the unique services we develop, the state-of-the-art equipment you can get, the fair deal we uniquely offer through Rollover. I don't know if you're familiar yet with Cingular Sounds—a new music program we just announced. Three weeks ago, Coldplay introduced their new single as a ring tone *before* it hit the radio—the first time in the US that new music has been introduced in that manner. For music lovers, the ability to



get new music from Cingular *first*, is unique and differentiating—and definitely fights commoditization.

Cerebellas: And those are the kinds of things that are enough to make price not be the primary driver?

Mr. Evans: Price will always be important—as a component of value. We want add value through a combination of fair pricing and unique products and services.

Cerebellas: How challenging has the merger been with AT&T—which also includes rolling up all of its previous acquisitions of small and rural carriers?

Mr. Evans: It's been a challenge, but one that's gone incredibly smoothly for an acquisition of this size. In the fourth quarter 2004, right after we merged, we experienced the best quarter in the history of US wireless in terms of gross additions—adding 1.8 million new customers that quarter. It surprised the industry. Our first quarter 2005 customer growth was excellent also, so it's gone very well. That's not saying there aren't challenges, but overall our planning has paid off. We're absorbing another company, a lot of management from both sides—'orange and blue' as we like to call it—have joined together. Through the planning, our integration of the two companies has happened quickly and smoothly, and the customer growth results are a testament to it. We have an incredibly strong company.

Cerebellas: Will the AT&T name be allowed to come into the market again in the near future?

Mr. Evans: We were not allowed to use it after a specified time, as AT&T Wireless did not own the AT&T name. It was licensed from AT&T long distance. In the meantime one of our two owners, SBC, has agreed to buy AT&T, but that'll take a year, year or so before regulatory approval. So I don't know what the future will hold for our ability or desire to use AT&T.

Cerebellas: The size, convenience and relative cost of cell phones have made them one of the most ubiquitous technologies around the world. As we've discussed, companies are adding other capabilities to them—on the heels of the successes of text messaging and camera phones. When you look down the road, 5 or 10 years from now, what other potential uses do you imagine for the cell phone?

Mr. Evans: They'll become media devices. They'll cross a psychological threshold sometime soon, as I said earlier. They'll be devices you get your email on, devices you'll get television feeds on, devices you get pictures on and—oh by the way—you will be able make a phone call if you want to. That's where it's going to go in my opinion.