



Written by [Daniel Sayani](#) on March 23, 2011

AT&T's Acquisition of T-Mobile

Wireless telephone giant AT&T, in a bold attempt to reshape the wireless market, unveiled a mega deal over the weekend to acquire rival T-Mobile USA for \$39 billion, marking the largest transaction of the year.

If the acquisition manages to receive the green light from regulators who are likely to have antitrust concerns, it would create an industry leader with almost 130 million customers, dwarfing number two competitor Verizon Wireless's 94.1 million customers (although Verizon Wireless currently does contend that it has a wider coverage area, particularly for its G3 phones, a source of contention and competition between the two mega wireless service providers.)



AT&T [agreed](#) to pay German telecommunications company Deutsche Telekom AG \$25 billion in cash and the rest in stock, giving the German company an 8% stake in AT&T and a representative on its board.

Due to serious regulatory concerns, the transaction could prove costly for AT&T, which agreed to pay \$3 billion and transfer lucrative spectrum assets to T-Mobile USA if the deal does not receive approval.

"This transaction delivers significant customer, shareowner and public benefits that are available at this level only from the combination of these two companies with complementary network technologies, spectrum positions and operations," AT&T CEO Randall Stephenson said in a statement.

Shareholders largely cheered the announcement, bidding AT&T's stock jumping 5.87% to \$29.58 ahead of Monday's opening bell. Deutsche Telekom's stock leaped more than 12% in Frankfurt trading, leading a stock rally across Europe. [Deutsche Telekom](#) soared 12 per cent to €10.74, the biggest gain since October 2008. The acquisition is the biggest in the wireless industry since 2004.

The companies see the acquisition closing within 12 months and creating more than \$40 billion in cost savings. The deal is likely to result in thousands of job cuts.

"After evaluating strategic options for T-Mobile USA, I am confident that AT&T is the best partner for our customers, shareholders and the mobile broadband ecosystem," Deutsche Telekom CEO Rene Obermann said.

AT&T, Wi-Fi, and the Federal Government

Analysts were skeptical the deal will receive approval from the Federal Communications Commission — which would need to sign off on the transfer of T-Mobile's spectrum licenses to AT&T — and the Justice Department, which is expected to examine possible antitrust matters.

FCC regulators say they could force the combined entity to give up precious assets, including chunks of U.S. airwaves, known as spectrum. The FCC could even go further than the DOJ, asking for AT&T to



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expand wireless service to poor and rural areas, and for service promises including more packages with data roaming.

"I would expect that DOJ would require divestitures of spectrum and possibly other assets ... in a significant number of local markets," said Beau Buffier, an antitrust expert with Shearman & Sterling LLP. He added, however, that that won't materially affect the economics of the deal for the parties.

Sen. Amy Klobuchar, a Minnesota Democrat who has criticized wireless carriers for failing to serve rural areas, on Monday urged the government to "take a close, hard look" at the deal.

"Although this deal may spark innovation in the wireless industry, I remain concerned that increased concentration will, at the same time, lead to fewer choices, higher prices and reduced service for wireless consumers," she wrote to FCC Chairman Julius Genachowski and Christine Varney, the head of the Justice Department's antitrust division.

In general, mergers in industries with expensive infrastructure can be more difficult to approve since it's unlikely that new competitors would easily emerge.

"This is a business where there is a lot of infrastructure," said Evan Stewart, an antitrust expert with Zuckerman Spaeder LLP. "I'd be very surprised if the DOJ antitrust division didn't make this very, very difficult."

Representative Henry Waxman, ranking member of the House Commerce committee which oversees telecommunications issues, also expressed concern about the deal.

Both the Senate and House of Representatives Judiciary Committees are expected to hold hearings to discuss it.

However, AT&T said the deal will help extend high-speed, wireless service in rural areas and said the U.S. already has one of the most competitive wireless markets, with 18 of the top 20 U.S. local markets having five or more providers to choose from.

AT&T's effort to create America's largest rural wireless network accompanies a significant development within the Obama Administration — according to the Department of Commerce, \$7 billion in funds are being used toward the development of rural Wi-Fi, under the administration of the National Telecommunications and Information Administration (NTIA) and the Department of Agriculture's Rural Utilities Service.

NTIA is utilizing approximately \$4 billion of that funding for the Broadband Technology Opportunities Program (BTOP), which provides grants to support the deployment of broadband infrastructure, and [according to](#) James Schatt, vice president of the market intelligence company ABI Research, the White House's plan for rural wireless internet development represents a windfall for wireless service providers as well as for satellite service providers, and it will have an enormous impact on Wi-Fi and wireless broadband vendors, such as AT&T.

How Will Consumers Be Affected?

AT&T says that if its deal to buy T-Mobile USA goes through, T-Mobile subscribers with 3G phones will need to replace those to keep their wireless broadband service running. AT&T said that some time after the closing, it plans to rearrange how T-Mobile's cell towers work. The spectrum they use for third-generation services, or 3G, will be re-purposed for 4G, which is faster. That would leave current T-Mobile phones without 3G.



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Within a few years, some say that no 3G T-Mobile phones will work, due to AT&T dropping \$8 billion to turn the current T-Mobile 3G network to 4G.

That means customers will need to get an AT&T phone in order to access 3G. However, according to AT&T's head of wireless and consumer services, Ralph de la Vega, they really have nothing to worry about as the process will take several years to complete.

"There's nothing for them to worry about ... it will be done over time, in a way that's good for customers and good for AT&T," he said in an interview with *Complex Magazine*.

In addition, the [consumer advocacy](#) group Consumers Union says that consumers ultimately can expect higher prices and diminished service as fewer companies compete for their business. They caution that this move by AT&T is likely to start a chain reaction of consolidations," like Sprint grabbing US Cellular, and critics say that Sprint, which "has struggled to find its niche for years," now finds itself even worse off. It was the first US operator to offer 4G, but its expensive WiMAX network has not paid off, and Verizon and AT&T have both committed to the competing LTE technology. This merger puts "more pressure" on Sprint to switch to LTE, [writes](#) Michal Lev-Ram in *Fortune*.

Others believe that the merger is a regression from regulatory policies which they believe benefit consumers. Critics refer to the 1984 breakup of the Bell telephone system monopoly, and say that AT&T is returning to its former status as a malevolent monopoly, referencing 1996 deregulation of the US telecommunications market to increase competition, resulting in AT&T's restoration to its former girth, while allowing the company to operate in a loose regulatory environment.

AT&T maintains that the merger will benefit the American public as a whole. Nonprofits concerned with education and health initiatives, including the United States Distance Learning Association, the Institute for e-Health Policy and the Hispanic Federation, are publicly expressing their support. They say the move would make faster wireless internet more accessible and would facilitate applications in health care and other areas.

Executives for the carrier say the merger would improve quality, give T-Mobile customers access to more desirable phones and accelerate buildout of LTE, its 4G network. The companies noted in a statement that T-Mobile had "no clear path to delivering LTE." "This will improve network quality," AT&T's [Stephenson](#) said. "It will give more customers access to more services. It will bring advanced LTE capabilities to virtually every community across the United States."

Photo: AT&T's corporate headquarters in Dallas, Texas

"This will improve network quality," AT&T's Stephenson said during Monday's call. "It will give more customers access to more services. It will bring advanced LTE capabilities to virtually every community across the United States."



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