AT&T to buy T-Mobile USA for $39 billion

By Sinead Carew and Nicola Leske

NEW YORK/FRANKFURT (Reuters) -- AT&T Inc plans to pay $39 billion for Deutsche Telekom AG's T-Mobile USA to create a new U.S. mobile market leader, but the pricey purchase is likely to attract intense antitrust scrutiny over potentially higher customer bills.

The deal gives AT&T, the No. 2 US mobile service often criticized for its poor network performance, additional capacity to expand and meet ever increasing demands for videos and data from devices such as Apple Inc's iPhone. For Deutsche Telekom, the deal offloads an asset that was declining in profitability and provides it with funds to pay down debt and buy back shares. The German telecom operator also gets an 8 percent stake in AT&T as part of the deal, becoming its largest shareholder and retaining some exposure to the U.S. market.

"It's just nuts," said David Balto, an antitrust attorney and a former policy director at the Federal Trade Commission. "When you look at healthy and unhealthy markets, this is at the top of the list of unhealthy markets."

One analyst pointed out that the two top U.S. operators -- a larger AT&T and Verizon Wireless -- will account for nearly three out of four mobile subscribers after this deal, which could lead to higher bills.

U.S. Senator Herb Kohl, chairman of the Senate Antitrust, Competition Policy and Consumer Rights Subcommittee, said his panel will take a close look at what a "loss of competition will mean for people who increasingly rely on wireless phone service to connect to friends, family and the Internet."

"Consumers have borne the brunt of the increasingly concentrated market for mobile phone service," Kohl said.

AT&T, however, is betting big that the deal will be approved. It has agreed to pay an unusually high breakup fee of $3 billion and to give T-Mobile USA wireless airwaves if regulators reject it.

The deal leaves smaller rivals like Sprint Nextel scrambling to figure out their next step. Sprint also held talks to merge with T-Mobile, the No. 4 U.S. mobile service.

Sprint complained that the deal would dramatically alter the wireless industry, which it said would be "dominated overwhelmingly" by two companies that have almost 80 percent of U.S. wireless contract customers.

But the world's largest M&A deal so far this year could run into trouble with U.S. antitrust officials who fear that fewer wireless players could drive up prices for

consumers. T-Mobile USA now offers some of the lowest wireless services rates.

The deal will add 34 million customers to AT&T's current 96 million, giving it a combined market share of an estimated 43 percent from 32 percent, AT&T said it expected regulators to require it to sell some assets as a condition of approving the deal, which it hopes to complete in 12 months.

AT&T Chief Executive Randall Stephenson told reporters on a conference call on Sunday that AT&T had done its "homework" on the regulatory front and boasted that the deal could generate savings of more than $40 billion.

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