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T-Mobile USA posts record subscriber losses

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(AP) -- T-Mobile USA lost a record number of subscribers in the first three months of the year, posing a conundrum for regulators as they look at whether to let AT&T Inc. buy the smaller carrier for $39 billion.

The argument against the deal is that it would eliminate one competitor in the wireless industry. But judging by results reported Friday, T-Mobile isn't competing successfully.

T-Mobile, the smallest of the four national carriers, lost a net 471,000 subscribers on contract-based plans. It was able to add subscribers through wholesalers, who pay much less than contract-signing customers, but it still lost 99,000 overall. Both figures are record losses for T-Mobile, the Bellevue, Wash.-based subsidiary of Deutsche Telekom AG of Germany.

"There's no bright spot in these numbers," said Roger Entner, a telecommunications analyst at Recon Analytics.

T-Mobile's quarterly revenue fell to the level it was at three years ago, just before it got a boost by buying a small regional carrier. In the same period, AT&T's wireless revenue grew 29 percent (it, too, was aided by some minor acquisitions).

AT&T announced the deal to buy T-Mobile in March. Regulators are expected to spend a year or more scrutinizing the deal before deciding whether to block it or allow it to proceed with substantial conditions.

Among the top four wireless carriers, the first quarter's subscriber results line up neatly in order of carrier size. Verizon Wireless, No. 1, did the best, followed in descending order by AT&T Inc., Sprint Nextel Corp. and T-Mobile.

It's a demonstration of the importance of scale in an industry where growth has slowed now that almost every American has a phone. The seven largest carriers provide service to 307 million devices in a country that has 309 million people.

To gain high-paying subscribers, phone companies have to poach them from rivals. The largest carriers have better access to the most attractive phones - the iPhone accounts for much of the pull at Verizon Wireless and AT&T. They also have more money to upgrade and expand their networks.

The No. 3 and No. 4 carriers, T-Mobile and Sprint, are losing subscribers. Sprint was ailing for years while T-Mobile did relatively well. Sprint is turning around, but its results are far from matching those of AT&T and Verizon Wireless. T-Mobile started losing subscribers a year and a half ago, a trend that seems to be accelerating.

That puts regulators who want to stimulate competition in a difficult position. If they block the merger to preserve competition, they risk watching T-Mobile decline into irrelevance.

"Almost the worst thing that can happen for the subscribers of T-Mobile is the merger not happening," Entner said. There's no way, he said, to force parent company Deutsche Telekom to invest enough in the network to make it competitive with AT&T and Verizon Wireless.

If regulators allow the merger, they would boost the overall health of the industry by hitching T-Mobile's fortunes to those of AT&T's. But consumers would have three national carriers to choose from, instead of four.

AT&T's arguments in favor of the merger are heavily based on the benefits of scale. It would be able to market its smartphone lineup, including the iPhone, to T-Mobile's customers. AT&T also promises to make more efficient use of T-Mobile's wireless spectrum, adding it to its own plans to create a new high-speed wireless data network.

AT&T also points out that aside from the national carriers, smaller, regional ones offer competition in most places. Two of them, MetroPCS Communciations Inc. and Leap Wireless International Inc., added more than a million customers combined in the first quarter.

The pattern of results in the first quarter plays straight into the hands of AT&T's arguments for the merger, said Rebecca Arbogast, an analyst who follows telecommunications issues in Washington.

"They don't need to show that T-Mobile is in decline, but it doesn't hurt," she said.

Although regulators are unlikely to draw conclusions from a single three-month period, continued poor performance from T-Mobile through the rest of the year might affect thinking at the Justice Department and the Federal Communications Commission, she said.

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