Market slide clouds AT&T merger plan

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The stock market squeeze is threatening to take the air out of AT&T Inc.'s best argument for the regulatory approval of its $39 billion acquisition of T-Mobile USA.

The nation's largest telecommunications company has argued that the combination would not stifle its rivals because there was already "intense competition" in the wireless industry.

But with the market slide eroding the already-troubled fortunes of many wireless companies, regulators may be wary of a deal that could leave newly merged AT&T too strong in a market with debilitated competitors, analysts said.

Critics of the acquisition believe that with fewer companies competing for customers, it's easier for the strongest firms to raise prices and get away with lackluster service.

Sprint Nextel Corp., the third-largest wireless carrier after AT&T and Verizon Wireless, said it lost 100,000 wireless subscribers in its previous quarter, and has seen its stock drop 40 percent in the past month alone. Since Monday, when the market turmoil began, Sprint shares dropped 15 percent to $3.16 a share.

MetroPCS Communications Inc., the fifth-largest provider, has also lost about 40 percent of its stock value in the past month and has said its customers were leaving in higher numbers.

Leap Wireless International Inc. and ClearWire, both smaller national competitors, have both shed more than half of their market value since early July.

As its competitors hemorrhage revenue, market value and subscribers, regulators may be wary of creating a behemoth that would have more than a third of U.S. consumers among its customers.

"The real issue has been the meltdown of the second-tier wireless operators," said Craig Moffett, a telecommunications analyst at Sanford C. Bernstein & Co. LLC. "Each time one of these potential competitors blows up, it raises the concern that the deal will be harder to sell in D.C."

In its promotion of the merger, AT&T has frequently highlighted the vitality of the U.S. cellphone market, saying that the "intense competition was only increasing" as next-generation technologies are rolled out.

The company declined to comment on the possibility that its competitors' troubles could endanger its bid to take over T-Mobile, but spokesman Lane Kasselman said the merger would "unleash billions in badly needed investment, creating many thousands of well-paying jobs."

Antitrust regulators generally inspect such deals to determine whether they will hinder competition by creating markets with too few players, ultimately harming the consumer by leaving them with fewer choices about which products to buy or services to sign up for.

"As an individual, you have the leverage of shifting to another company - but only if there are other companies you can shift to," said Bert Foer of the American Antitrust Institute, a nonpartisan consumer advocacy organization that opposes the merger. "When you're talking about just Verizon and AT&T, you don't have a lot of bargaining power, so where do you go?"

According to a report last month from the Federal Communications Commission, as of mid-2010, the U.S. wireless industry was as concentrated as it has been since the agency began measuring in 2003. The current market, in which AT&T and T-Mobile are still separate entities, is "highly concentrated," the report says.

"It also appears that consumers are no longer enjoying falling prices," FCC Chairman Michael Copps wrote in a postscript to the report, in which he described "darkening clouds over the state of U.S. mobile competition."

If the merger were to go through, the market power of the largest companies stands to increase even more, according to a report by the Yankee Group.

The amount of market concentration would "jump dramatically" in 17 of the 27 largest U.S. metropolitan areas. That would mean higher wireless prices for consumers in some cities, including Los Angeles, Boston, Seattle and Houston, the report contends.

The Department of Justice and the Federal Communications Commission, both of which are evaluating whether the merger is in the public interest, declined to comment on the status of the approval process.

Proponents of the deal have noted that if AT&T's bid to buy T-Mobile didn't work, the company could be acquired by a company less well-equipped than AT&T to integrate T-Mobile's huge national cellular network and 42,000 employees. T-Mobile's German parent company, Deutsche Telekom AG, has repeatedly signaled that it has lost interest in its U.S. business.

"The key fact is that Deutsche Telekom made a decision not to make any more investments in the U.S.," said George Kohl, senior director of the Communication Workers of America, a telecommunications union that supports the merger. "Once that happens, there is no stand-alone future for T-Mobile USA."

Kohl and others have said a merger with the financially weaker Sprint, which also uses a different type of cell technology than T-Mobile and AT&T, could put both Sprint and T-Mobile in jeopardy, strengthening AT&T and Verizon Wireless, the current market leader, even more.

For its part, Sprint has been one of the most vocal opponents of the merger, repeatedly casting the deal as bad for consumers and wireless competition.

Charles McKee, a government affairs executive for the firm, said the weak shape of AT&T's smaller rivals spelled trouble for the health of wireless competition. "We do think that the performance of the small carriers demonstrates that the AT&T/T-Mobile merger is a real threat to the industry," he said.

If regulators approve the deal, McKee said, "You'll see AT&T and Verizon continue to profit nicely and grow at a strong pace - while those other carriers lose market share. In the end, if this merger gets passed, you're going to end up with a duopoly."