

Written Statement of Randall Stephenson, Chairman, CEO, and President, AT&T Inc.

House Committee on the Judiciary, Subcommittee on Intellectual Property, Competition, and the Internet: “How Will the Proposed Merger Between AT&T and T-Mobile Affect Wireless Telecommunications Competition?”

May 26, 2011

Thank you, Chairman Smith, Chairman Goodlatte, Ranking Member Conyers, Ranking Member Watt and Members of the Subcommittee.

I’m Randall Stephenson, Chairman and CEO of AT&T, and I appreciate this opportunity to address the consumer benefits of AT&T’s acquisition of T-Mobile USA from Deutsche Telekom.

This transaction is all about consumers. It’s about keeping up with consumer demand. It’s about having the capacity to drive innovation and competitive prices for consumers. And most important, it’s about giving consumers what they expect – fewer dropped calls, faster speeds and access to state-of-the-art mobile broadband Internet service – whether they live in a large city, a small town, or out in rural areas.

This transaction will benefit consumers in many ways: improving service quality and network capacity, fostering innovation, increasing competitive pressure, and helping to ensure that America remains the global leader in mobile broadband. Consumers all across the nation will share in these benefits as the transaction will allow the combined company to build out an advanced new 4G LTE network and bring state-of-the-art mobile broadband to over 97 percent of the American population – more than any other provider and far more than AT&T alone was planning before the transaction.

This represents a private market solution to effectively address the important public policy objective of bringing high-speed mobile broadband to rural, suburban and urban communities across the nation – all without any subsidies or taxpayer dollars. This means private capital investment, much of which would not occur but for this transaction, will drive substantial benefits -- including private sector jobs in the combined company, in the vendors who support its efforts, in the communities served by the expanded LTE coverage, and in the larger ecosystem of innovative firms whose services will ride on the network.

Spectrum Capacity, Call Quality and the Provision of Advanced Services

We and Apple launched the first iPhone just four years ago. In the short time since then, smartphones and mobile apps have exploded. Mobile Internet usage and innovation have soared. A U.S. wireless marketplace that was already the world’s most competitive and innovative has become more so – to the great benefit of consumers and our economy as a whole.

Because of our early leadership in smartphones and supporting mobile apps, our company and network have carried the load more than any other. In fact, over the past four years, data volumes on our mobile network have shot up by 8,000%.

To meet this demand, we've invested aggressively. Over the past four years, AT&T has invested more in the United States than any other public company – some \$75 billion – to upgrade and expand our wireless and wireline networks. And we continue to invest at a torrid pace because the next wave is already on us – in the form of tablets, mobile HD video and more. We estimate that in 2015 we will carry the same amount of mobile data traffic by mid-February that we carried for the *entire* year in 2010. That's how fast the mobile Internet is growing.

Just about the only thing that can slow down this cycle of innovation, investment and growth is lack of capacity to meet this demand – and that's why there is such a focus on spectrum. The mobile wireless industry needs more spectrum and soon. I applaud the FCC and members of Congress for their leadership on this issue.

As FCC Chairman Genachowski recently cautioned, “[i]f we do nothing in the face of the looming spectrum crunch, many consumers will face higher prices – as the market is forced to respond to supply and demand – and frustrating service.”¹ None of us wants those things. But the fact is that even with everyone's best efforts, it will be years before significant amounts of new spectrum are made available and placed into service. That is just the reality we face.

So, to meet the ever increasing demand by consumers, we have to find ways to get more capacity from existing spectrum. That is exactly what the combination of AT&T and T-Mobile will do. Our two companies have very complementary assets, which means that combining them will create much more service-enhancing network capacity – the equivalent of new spectrum – than the two companies could have done operating separately. That, in turn, means more room for growth and innovation, fewer dropped and blocked calls, and a faster, more reliable mobile Internet experience.

Next Generation Services for Rural Areas

This combination also helps us address another critical issue. Many people and many communities today don't have access to the full capabilities of the mobile Internet economy.

With the scale, resources and synergies this transaction provides, we can and have committed to provide cutting-edge LTE mobile Internet service to more than *97 percent of the U.S. population* – nearly 55 million more Americans than our pre-merger plans and millions more than any other provider has committed to serve. And, you know as well as I the benefits this kind of deployment will bring to small towns and rural communities in education, health care and economic development.

¹ *Prepared Remarks of FCC Chairman Julius Genachowski, CTIA Wireless 2011 (March 22, 2011), available at http://www.fcc.gov/Daily_Releases/Daily_Business/2011/db0322/DOC-305309A1.pdf.*

In particular, LTE networks deliver higher speeds and much-reduced latency, which means that we will see many new innovative wireless services that offer real-time interaction. LTE will give businesses located in rural America the same powerful tools enjoyed by those located in major cities. And, rural consumers will particularly benefit from real-time access to a wide range of resources that would not otherwise be as readily available. This will revolutionize telemedicine, allowing doctors to have real-time interactions with patients remotely and providing much more robust, accurate and immediate assessments of information from monitoring devices and data-intensive tools like MRIs. It also will make distance learning initiatives much more effective.

LTE will also support revolutionary new capabilities like cloud computing, which will give wireless consumers access to far greater computing power and data storage from handsets that are thinner, lighter and have much longer battery life. We have only started to think of the possibilities, but the transaction will allow us to bring these benefits to rural and urban areas alike, creating the information infrastructure needed to improve education, health care and public safety and to boost businesses, create jobs, and lower costs.

Widespread Recognition of the Transaction's Consumer and Economic Benefits

We will deliver these benefits with the only unionized wireless work force of any major carrier in America, which explains why the Communications Workers of America, AFL/CIO and other unions have strongly endorsed this merger.

Indeed, the benefits for consumers and especially rural Americans have led an extremely wide range of organizations and experts to immediately recognize the manifest consumer and economic benefits of this transaction. Support for the transaction is broad and deep, and includes unions, minority groups, many local representatives, and industry experts.

Continuing to Set the Pace in Wireless Services Innovation

Consumers also benefit from AT&T's continued role in promoting U.S. leadership in wireless innovation – a role this transaction ensures will continue. The wireless communications industry is one of America's great and ongoing success stories – ever faster services, powerful new handheld devices, applications that expand daily, lower prices, and the personal and professional benefits that come from consumers being able to connect to information located anywhere from virtually everywhere.

AT&T is proud to have played a leadership role in the cycle of innovation that has produced this mobile broadband revolution: our world-class research institution AT&T Labs, our industry-leading outreach to and support of developers, manufacturers and others throughout the wireless ecosystem to speed the design, testing and introduction of the best new wireless devices and applications; our unparalleled research collaborations with and support of more than 80 public and private universities across the country; and, of course, our networks upon which entire new and growing sectors of the economy depend.

But we are just getting started.

With the right resources, we can combine robust new network capabilities with the immense storage and processing power of the “cloud” to give consumers and businesses instant and seamless mobile access to everything on their home and work computers or on any other Internet-connected device or machine – applications, data, e-mail, video, *everything*. We will truly be able to “mobilize everything.”

The increased efficiency in spectrum use, which is at the heart of this transaction, is also crucial for maintaining the virtuous cycle of wireless innovation. With the spectrum and network capacity lift provided by this transaction, AT&T and its partners can continue to develop, introduce and aggressively promote innovative, but capacity-consuming services, devices and applications.

Manufacturers and software developers can be assured of access to the combined company’s customer base and improved networks as they design and launch their products, spreading the cost and risk over more potential customers for their innovations. And, by continuing to improve service quality and product offerings, AT&T can keep the pressure on its competitors to innovate and introduce new and better services.

Instead of the inevitable slowing of innovation that would take place in the absence of a solution to impending spectrum exhaust, the transaction will produce a series of positive ripple effects throughout the economy as AT&T, its partners, users of its networks, and its competitors are all driven to innovate more aggressively and creatively.

Increased Competition Among Many Competitors

Some have suggested that the extraordinary consumer and economic benefits would come at the cost of reduced competition and increased prices. That is simply not true. All T-Mobile customers will have the choice of retaining their existing rate plans or switching to an AT&T rate plan, and they will thus have *more* choices than before, including a state-of-the-art LTE service that T-Mobile had no clear path to offer on a standalone basis.

The combination of AT&T and T-Mobile could not possibly derail the powerful forces of competition in one of the nation’s most competitive industries. Wireless industry output is exploding and is on track to increase many times over by 2015. The pace of innovation is even more remarkable. Prices have dropped rapidly, whether measured on a revenue per voice minute or per megabyte basis. Advertising is among the most robust and aggressive of any industry. None of that will change: output will continue to rise, prices will continue to fall, new companies will continue to enter, all of these competitors will continue to wage fierce marketing campaigns to attract and retain customers, and the U.S. wireless marketplace will remain the most competitive in the world.

The vast majority of American consumers have a choice of at least five facilities-based wireless providers – and that does not even count new mobile broadband providers like Clearwire and LightSquared that are building nationwide 4G networks or the many successful wireless resellers. Certain critics may attempt to create a myth that only a few national competitors exist, but wireless competition occurs primarily on the local level.

Those local competitors often include Sprint, Verizon, and AT&T, but there are many other strong competitors in the marketplace. No-contract, “all you can eat” service providers like Leap and MetroPCS have been competing aggressively and rapidly expanding their service areas, and are poised to offer more advanced devices and services more widely. Regional carriers like U.S. Cellular, Cellular South, Allied Wireless (formerly Alltel), and nTelos compete aggressively in their core markets and offer nationwide service through roaming arrangements. Incumbent cable television and telephone companies such as Cox Communications and Cincinnati Bell offer wireless service to their large customer bases. And, there are new, well-financed entrants that are poised to enter the wireless marketplace.

Moreover, T-Mobile does not exert strong competitive pressure on AT&T, and other providers already fill—or could easily move to fill—whatever competitive role T-Mobile occupies today. Sprint has re-emerged with aggressive pricing plans and a successful 4G platform. Regional or locally focused carriers have achieved estimated customer shares in excess of T-Mobile’s in particular markets. And MetroPCS and Leap have expanded into new markets and are offering inexpensive, no-contract service with nationwide coverage, including in 22 of the top 25 markets (between them).

Any concern that the wireless industry is or could be dominated by AT&T, Verizon and Sprint merely because they have the largest subscriber bases today should be put to rest by 1Q 2011 results recently reported by MetroPCS and Leap, which together gained more than a million net customers in the last quarter alone.

Increased Call Quality, New Services, and Competition

Let me close by underscoring a very important point. This transaction will increase overall network capacity beyond what the two companies had separately, because it allows for more efficient use of existing spectrum and network assets. Our two companies have extraordinarily complementary assets. We use the same technologies. We hold spectrum in the same bands. We have network grids and cell site locations that mesh together extremely well. As a result, the network synergies of this transaction will allow us simultaneously to improve the quality of existing services (reducing dropped calls and enhancing broadband data speeds) and to create new capacity to carry more mobile Internet traffic.

In this industry – in any industry really – it is a fundamental concept that increased capacity is the foundation for sustained, vigorous competition and innovation. The U.S. wireless marketplace is the most competitive in the world, and it will remain so following this transaction. Over the past decade, U.S. wireless prices have steadily and dramatically come down; this transaction allows that trend to continue.

So, to summarize, this merger will help us meet fast growing traffic volumes. It will deliver the network quality and the new services that customers are demanding. It will bring more families and towns into our high-tech future. And, it will enhance competition and innovation.

That’s a quick overview of this transaction’s benefits. Again, I thank you for the opportunity to present our views to you this morning.