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June 2, 2011

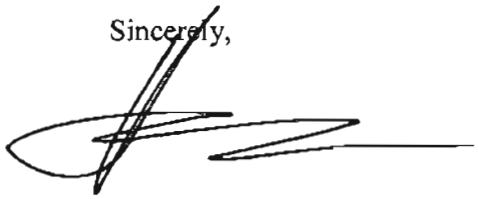
The Honorable Herb Kohl, Chairman
Subcommittee on Antitrust, Competition Policy and Consumer Rights
U.S. Senate Committee on the Judiciary
330 Hart Senate Office Building
Washington, DC 20510

Dear Chairman Kohl:

I am writing in response to your letter of May 19, 2011 regarding the proposed acquisition of T-Mobile USA (T-Mobile) by AT&T. I appreciated the chance to testify at the hearing before the Subcommittee on Antitrust, Competition Policy and Consumer Rights to discuss the transaction and the significant public benefits that will flow from it. I also welcome this opportunity to respond to your specific questions about the proposed acquisition. Enclosed, please find T-Mobile's responses to the questions that raise issues we are able to address.

Thank you again for the opportunity to address these issues. We would be happy to answer any further questions you may have.

Sincerely,



Philipp Humm
President & CEO,
T-Mobile USA

Follow-up Questions of Senator Herb Kohl (D-Wis.),
Chairman, Subcommittee on Antitrust, Competition Policy and Consumer Rights
U.S. Senate Committee on the Judiciary

Hearing on
"The AT&T/T-Mobile Merger: Is Humpty Dumpty Being Put Back Together Again?"
May 11, 2011

Questions for Philipp Humm, President & CEO, T-Mobile USA:

1 (a). AT&T's FCC filing argues that T-Mobile is a very weak company, with "capacity constraints," facing "spectrum exhausts in a number of markets" and "no clear path to effective, economical deployment of LTE," the next generation of cell phone service. Reading this filing, it is not an exaggeration to say it portrays T-Mobile as on the verge of failure.

Is that really the true picture, Mr. Humm? Hasn't T-Mobile been profitable, with operating income before taxes and depreciation of over $ 5 billion dollars every year since 2007? And don't you advertise yourself as "America's Largest 4G network"?

(b) Could T-Mobile continue to exist as a viable independent competitor absent this deal?

As I noted in my testimony before the Committee, before I joined the company in 2010, T-Mobile USA (T-Mobile) had faced revenue declines for two consecutive years due mainly to a weakened brand position. As a result, T-Mobile's profitability had declined. The management of T-Mobile has in the meantime implemented a new strategy that is aimed at leading the company back to growth. Results so far are still mixed: while revenues have stabilized, subscriber losses remain our number one concern.

More importantly, though, René Obermann and I have always been clear that we did not believe a standalone plan would be sufficient, and that we would need additional solutions to secure T-Mobile's future. While we do promote our network as "America's Largest 4G network" based on our HSPA+ technology, we do not have the spectrum needed for a clear path to LTE (Long Term Evolution), which will become the de facto standard for next generation networks in the U.S. and abroad.

2. What is your estimate of the number of T-Mobile employees who are likely to lose their jobs after this merger?

This is a question best answered by AT&T.

3. Are your pricing plans generally set on a nationwide basis? And, if so, isn't this strong evidence that we should consider this to be a national market?

T-Mobile's pricing plans have historically been set on a nationwide basis. T-Mobile's experience, however, has been that consumers buy wireless services based on availability and pricing in their local area. This local buying focus of consumers is what led T-Mobile to decide

last year to revamp and reorganize its sales and marketing organization to focus on the differing conditions in local markets so as to enable it to compete more effectively. In particular, we created locally-focused operations teams in 23 discrete local areas, each of which is tasked with tailoring their marketing and sales approaches to best compete for customers given the specific conditions of the local market. The market leaders and fastest-growing competitors vary dramatically from local market to local market, and some regional competitors are active only in certain parts of the U.S. The fundamentally local nature of demand and customer purchasing patterns in this industry are why the Justice Department and FCC have consistently analyzed the impact of mergers of wireless carriers on a local-market basis.

4. AT&T argues that cell phone prices have fallen sharply over the last ten years. But most of the data about cell phone prices over the last decade reflects the prices for voice calling. But in recent years, cell phones – especially smart phones – are increasing being used for <u>data</u> – that is, to connect to the Internet. Have prices for data usage fallen over the last three years? What is likely to happen to the price of data in coming years, especially if this merger is approved?

AT&T testified that there has been a 90 percent reduction in the prices for wireless data service, on a per megabyte basis, from 2006 to 2010. After the merger, we have every reason to believe that this trend will continue. As the GAO (General Accounting Office) itself has indicated, prices have declined steadily in the past decade as wireless companies merged to create efficiencies. As noted in the joint Public Interest Statement filed at the FCC by DT and AT&T, the technological benefits and synergies of the transaction will create significant network efficiencies and capacity gains, which historically have led to lower rather than higher prices. Without the transaction, the two companies face capacity constraints, which could lead to increased consumer data costs over time as the companies try to manage network congestion.

Follow-up Questions of Senator Patrick Leahy (D-Vt.),
Chairman, Senate Judiciary Committee

Hearing On
"The AT&T/T-Mobile Merger: Is Humpty Dumpty Being Put Back Together Again?"
May 11, 2011

Questions for Philipp Humm, President & CEO, T-Mobile USA:

1) One argument that both AT&T and T-Mobile use in support of this acquisition is the potential efficiencies of the deal. Principally, you have represented that the resulting allocation of the companies' combined spectrum will enable AT&T to provide 4G access to more consumers than both companies could otherwise. AT&T and T-Mobile also state that absent the acquisition, T-Mobile does not have the capability or plans to provide consumers with its own 4G service, and its current HSPA+ service is not truly 4G.

    a) Is it correct that T-Mobile is authorized by the Federal Communications Commission (FCC) to characterize its HSPA+ network as "4G"?

    b) What showing did T-Mobile make to the FCC to influence that determination?

The FCC has not played a role in defining these technology standards.

T-Mobile and other wireless providers characterize HSPA+ as "4G." The terms "2G," "3G," and "4G" are abbreviations for "Second Generation," "Third Generation," and "Fourth Generation," respectively. They refer to technology cycles in the wireless industry. GSM, UMTS, HSPA, and LTE are technologies used by the wireless industry to deliver mobile wireless services HSPA is an abbreviation for "High Speed Packet Access" whose initial implementation was a 3G service. HSPA+ (also known as Evolved HSPA) advanced the HSPA capabilities further to be considered a 4G service. LTE is an abbreviation for "Long Term Evolution." It is the latest technological standard for wireless services and is considered a more advanced 4G service.

The primary differences between these technologies are related to data speeds supported, spectral efficiency, and latency. Each new air interface typically improves upon each of these technical issues as compared to past standards.

    c) Do you believe that T-Mobile's current HSPA+ network competes with the 4G networks offered by AT&T, Verizon, or Sprint? (Please explain your rationale.)

As noted above, T-Mobile's HSPA+ network is a 4G network. HSPA+ will continue to be utilized internationally as well as domestically. However, LTE is a major advance for the mobile

industry in terms of performance and efficiency. LTE deployment is just starting to gain momentum. T-Mobile requires a clear path to LTE because LTE offers long-term spectrum efficiencies over HSPA+. LTE will have 1.5 to 2 times faster peak data rates than HSPA+, will drive down latency, and improve and lower signaling overhead.

2) In his testimony before the Committee, Mr. Stephenson stated that AT&T has "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 [AT&T's] pre-merger plans."

   What number of those 55 million additional Americans could otherwise be served by T-Mobile's current HSPA+ network, which it advertises as a "4G" network?

While both HSPA+ and LTE are 4G technologies, as explained above, LTE is a major advance for the mobile industry in terms of performance and efficiency. It is the latest technological standard for wireless services and is considered a significantly more advanced 4G service. The primary differences between these technologies are related to data speeds supported, spectral efficiency, and latency. LTE constitutes a step-change as compared to past standards. That having been said, T-Mobile's current HSPA+ network covers only approximately 65 percent of the U.S. population. AT&T's commitment in this transaction is to increase its planned LTE coverage to over 97 percent of the population.

<u>Questions to ALL WITNESSES:</u>

1) Will consumers benefit from AT&T's acquisition of T-Mobile?

Yes. As noted in the Public Interest Statement filed with the Federal Communications Commission, AT&T and T-Mobile face network spectrum and capacity constraints, and this merger provides by far the surest, fastest, and most efficient solution to that challenge. The network synergies of this transaction will free up new capacity—the functional equivalent of new spectrum—in the many urban, suburban, and rural wireless markets where escalating broadband usage is fast consuming existing capacity. This transaction will thus benefit consumers by reducing the number of dropped and blocked calls, increasing data speeds, and dramatically expanding deployment of next-generation mobile technology. Indeed, the transaction will give the combined company the scale, resources, and spectrum that will enable it to deploy LTE to more than 97 percent of Americans—which AT&T has indicated is approximately 55 million more Americans than under AT&T's current plans. That deployment will help fulfill the Administration's pledge to "connect every part of America to the digital age," and it will create new jobs and economic growth in the small towns and rural communities that need them most. This transaction will leave the wireless marketplace fiercely competitive; indeed, AT&T's massive LTE deployment will intensify broadband competition throughout the United States. Finally, the transaction will promote America's global leadership in mobile broadband innovation.

2) In what ways might AT&T's acquisition of T-Mobile benefit consumers?

As I stated in my testimony before the Committee, the combination brings together two uniquely compatible companies, achieving extensive synergies, while greatly benefiting the American economy, consumers, and particularly T-Mobile customers. We have identified, at least, 4 major benefits for T-Mobile customers:

First, T-Mobile customers will enjoy improvements in their coverage through access to AT&T's low-band 850 MHz spectrum.

Second, the transaction will result in near-term network quality improvements for T-Mobile customers.

Third, the transaction will also give the combined company the resources and spectrum it needs to broadly deploy next generation 4G LTE service.

Fourth, the transaction will allow the combined company to increase capacity and to significantly reduce costs, which will drive prices down and enhance opportunities for innovation – making the US an even more dynamic and competitive market.

3) In what ways might AT&T's acquisition of T-Mobile harm consumers?

For the reasons cited above, we do not believe that the merger will have an adverse impact on consumers.

Follow-up Questions of Senator Mike Lee (R-Utah),
Subcommittee on Antitrust, Competition Policy and Consumer Rights
U.S. Senate Committee on the Judiciary Hearing On
"The AT&T/T-Mobile Merger: Is Humpty Dumpty Being Put Back Together Again?"
May 11, 2011

Questions for Philipp Humm, President & CEO, T-Mobile USA:

1. One much discussed aspect of this proposed merger is that T-Mobile apparently has no clear path on its own to developing a nationwide LTE network. Apart from this merger, what are your spectrum capacities and prospects for developing and deploying a high-speed network capable of meeting consumer demand for data traffic?

As discussed in the Public Interest Statement filed at the Federal Communications Commission in support of the merger, T-Mobile will face significant spectrum constraints, despite substantial investments in spectrum and network facilities. We have experienced explosive growth in mobile wireless demand over the past several years and by 2015 we expect data traffic on our network to be at least 20 times that of the 2010 level. Based on our most recent projections, T-Mobile will face spectrum exhaustion in a number of significant markets over the next three years.

Due to spectrum exhaustion, difficulty in aggressive re-farming of existing spectrum holdings, and a lack of other viable spectrum options, T-Mobile has no clear path to an effective, economical deployment of LTE. LTE is a major advance for the mobile industry in terms of performance and efficiency. LTE offers long-term spectrum efficiencies over HSPA+. LTE will have 1.5 to 2 times faster peak data rates than HSPA+, will drive down latency, and improve and lower signaling overhead. Given the burgeoning demand for mobile broadband data, there is a need for greater spectrum bandwidth to meet the capacity and data speed requirements.

2. As is often the case, a primary challenge in analyzing this merger is defining the relevant market. Some argue that AT&T and T-Mobile compete in a national market with four major carriers, while others claim that the wireless market operates at the regional level and includes many local carriers.

    a. Do you consider your main competition to be the national carriers—Sprint, AT&T, and Verizon—or regional carriers like Cell South? Where do you fall in the market?

Competition in the wireless industry really takes place on a local level. If a consumer needs a new handset or wireless service, they will shop all the carriers that offer wireless service in their area and will likely compare their service offerings across various elements—value, network strength, customer service, device availability, convenience of the nearest distributor, and other factors. This local buying focus of consumers is what led T-Mobile to decide last year to revamp and reorganize its sales and marketing strategy to focus on the differing conditions in local

markets so as to enable it to compete more effectively. In particular, we created locally-focused sales operations teams in 23 discrete local areas, each of which is tasked with tailoring their marketing approaches to best compete for customers given the specific conditions of the local market. The market leaders and fastest-growing competitors vary dramatically from local market to local market, and some regional competitors are active only in certain parts of the U.S.

T-Mobile considers itself a value player and therefore competes primarily with Sprint and the "AYCE-players" like MetroPCS and Leap.

b. Without your low-cost unlimited plans as part of the national market, what alternatives will be available to customers looking for an affordable national provider?

As noted above, today, about three-quarters of all Americans live in areas that are served by at least five facilities-based wireless providers. Competition is particularly intense for value-driven customers, which make up the core of T-Mobile's customer base. And consumers increasingly have additional choices in the market, including new facilities-based providers, wholesalers, and mobile virtual network operators.

We believe that the U.S. wireless industry will remain fiercely competitive post-transaction. Companies such as Sprint, MetroPCS, and Leap offer low-priced unlimited plans, and they will continue to put intense competitive pressure on AT&T and the other wireless providers after the merger. By relieving capacity constraints and producing new, increased capacity and efficiencies, the merger will permit AT&T to compete even more aggressively to retain and win customers.

3. In T-Mobile's Reply Comments before the FCC in August of 2010, you described the existing market, in which Verizon and AT&T controlled 60 percent of subscribers and revenue, as including "a disturbing trend toward increasing market concentration."

   a. Do you still hold that position? If not, what has changed in your analysis?

First, T-Mobile has consistently said that the U.S. wireless marketplace is highly competitive at the retail level. In fact, we made that statement in an FCC filing just days before the one from which this quote was obtained. For the reasons explained above and in the Public Interest Statement (and related documents) filed with the FCC, we believe that this transaction will enhance competition in the industry.

Second, the context the quotation cited is important. In the pleading that you referenced, T-Mobile was urging the FCC to take actions to increase the availability of inputs such as low-band spectrum to promote even more robust competition. We continue to believe that the FCC should make it a high priority to free up more spectrum, including low-band spectrum for use by the wireless industry.

   b. Do you believe that two companies controlling 80 percent of the market would constitute "a disturbing trend toward increasing market concentration"?

As discussed above, T-Mobile has believed and continues to believe that the U.S. wireless marketplace is highly competitive. We firmly believe that the U.S. wireless industry will remain highly competitive after this transaction, and that U.S. wireless consumers will reap the capacity benefits of that competition through enhanced network quality, lower prices, and speedier access to 4G LTE throughout the country. Specifically, the efficiencies and increased capacity enabled by this transaction will lower costs and increase output, which will lead to lower prices and greater innovation than would occur absent the transaction.

4. It has been suggested that T-Mobile's non-union workforce would be better off if it became unionized as part of the merger with AT&T. Do you agree?

T-Mobile treats its workers fairly and with respect. In fact, we have won several "Best Places to Work" awards, including we have achieved Fortune Magazine's list of 100 Best Places to Work in the U.S. in past years. We have also been named one of World's Most Ethical Companies for the last three years in a row, as determined by the Ethisphere Institute. AT&T's unionized workforce appears to be supportive of AT&T as an excellent employer as well.