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Regulators Let Cingular Buy AT&T Wireless

Merger Will Create Biggest U.S. Cell Firm

By *Yuki Noguchi*

Washington Post Staff Writer

Saturday, October 23, 2004; Page E01

The \$41 billion merger between Cingular Wireless LLC and AT&T Wireless Services Inc. won approval from the Federal Communications Commission yesterday, according to federal sources close to the agency, paving the way for major changes in the lucrative cell phone market.

The FCC and Justice Department plan to announce on Monday that both agencies have signed off on the deal, although the regulators will require Cingular to make some concessions in return, according to the sources, who declined to be identified because the decision has not yet been made public.

Cingular's purchase of AT&T Wireless will give the company about 47.6 million customers -- roughly 27 percent of the nation's wireless market and enough for it to surpass Verizon Wireless as the nation's largest cellular provider. It will serve all of the top 100 markets in the United States.

To satisfy the antitrust concerns of regulators, Cingular will have to sell AT&T Wireless's business, including stores and customers, in 16 mostly rural and suburban markets, according to the sources. The company also will be ineligible to buy additional airwave licenses in areas where the

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combined company controls 70 megahertz or more of spectrum; 189 megahertz is the total available for use by cell phone companies in a market. Additionally, the company will have to sell a portion of its airwave licenses in some other markets.

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Spokesmen for Atlanta-based Cingular, Redmond, Wash.-based AT&T Wireless, the FCC and the Justice Department declined to comment on the pending merger.

Company officials and some analysts say the combined resources of size and marketing power could mean cheaper phone bills, new high-speed services and better network coverage for Cingular and AT&T Wireless customers. Cingular, along with its two parent companies -- SBC Communications Inc. and BellSouth Corp. -- also could step up its marketing of bundled packages of local, long-distance, and wireless service.

But consumer groups and some smaller rivals said the dominance of Cingular and its parents could hurt customers. The Phoenix Center for Advanced Legal & Economic Public Policy Studies, a policy think tank, estimated the merger could narrow customer choice and result in an 8 percent increase in wireless prices.

The deal is expected to close soon after regulatory approval is announced.

The two Democratic FCC commissioners, Michael J. Copps and Jonathan S. Adelstein, joined the three Republicans in the decision but dissented in part, citing concerns that the merger would concentrate too much power in the telecommunications industry, sources close to the FCC and the industry said. SBC and BellSouth are leading local phone providers in Southern and Southeastern states, and Cingular is also a dominant wireless carrier in parts of those regions.

The two commissioners argued for substantially greater divestitures in those areas and for stronger language ensuring that Cingular does not get preferential prices to connect to the land-line networks of its parent companies.

In the end, they were able to secure the additional divestiture of six markets beyond those initially proposed, according to a source close to the commission.

After an eight-month approval process, Cingular faces the two-year task of integrating the companies' networks, which are built from a hodgepodge of technologies. It must clean up AT&T Wireless's tarnished image, and it must market itself effectively to keep

customers from defecting to other carriers looking to take advantage of any missteps.

"Like every merger, you'll have skeletons in the closet; you just hope they don't come alive," said Roger Entner, an analyst with the Yankee Group, a market-research firm in Boston. "Cingular must clean them out quickly."

The combined company will employ about 70,000 people. Although it may lay off thousands of workers, Cingular said it will not make cuts until next year. The AT&T Wireless brand name will be transferred back to its former parent, AT&T Corp., six months after the deal closes.

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