Sprint Nextel to buy Virgin Mobile USA

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(AP) -- Sprint Nextel Corp. is intensifying its focus on the fast-growing market for prepaid cell phone service with a $483 million deal to buy Virgin Mobile USA Inc.

The acquisition announced Tuesday calls for Sprint to pay $5.50 in stock for each Virgin Mobile share. Sprint already owned 13.1 percent of Virgin Mobile, which uses Sprint's network to offer service.

The offer comes at a 31 percent premium to Virgin Mobile's closing share price Monday of $4.21. In early trading Tuesday, the shares rose $1.05, or 25 percent, to $5.26.

Like other prepaid vendors, Virgin Mobile primarily targets customers who lack the credit or income to sign long-term contracts or simply want a bargain over contract-based plans. It has 5.2 million subscribers who pay an average of $20 per month. Sprint has 49.1 million subscribers, including those using the network through wholesalers like Virgin Mobile.

The deal reinforces this year's main trend in wireless: The top two carriers, Verizon Wireless and AT&T Inc., are grabbing the more profitable contract customers, while Nos. 3 and 4, Sprint and T-Mobile USA, are left to compete for prepaying customers with smaller upstarts like MetroPCS Communications Inc. and Leap Wireless International Inc.

Prepaid carriers are expected to have more room to grow than contract-based services, because the pool of people who are eligible for contracts but don't already have a cell phone is shrinking rapidly.

At the end of the first quarter, 79 percent of U.S. wireless subscribers had contracts, according to a tally by Sanford Bernstein analyst Craig Moffett. That's down from 87 percent four years ago.

But Stifel Nicolaus analyst Christopher King questioned whether prepaid really is a market Sprint should focus on, given its lower prices and lower profit margins.

"The lingering question of what Sprint `wants to be when it grows up' resonates more than ever with us following this transaction announcement," King wrote in a research note.

Sprint shares fell 5 cents, or 1.1 percent, to $4.50.

Sprint roiled the industry in January by introducing a $50-per-month prepaid unlimited plan under its Boost brand. That made for an awkward relationship with its customer Virgin Mobile, which had a $80-a-month plan. In April, Virgin Mobile was able to introduce its own $50 plan after negotiations with Sprint.

Virgin Mobile's stock started the year at 84 cents, but news of the unlimited plan sent it zooming, and it continued its climb after the carrier posted a rare profit for the first quarter, even though it lost subscribers.

Sprint said it would keep the Virgin Mobile brand. Dan Schulman, Virgin Mobile USA's CEO, will run Sprint's prepaid business when the deal closes late this year or early next.

Sprint plans to retire Virgin Mobile USA's outstanding debt, which is expected to be no more than $205 million on Sept. 30.

Virgin Mobile shareholders will own about 3 percent of Sprint. British billionaire Richard Branson's Virgin Group owns 28.3 percent of Virgin Mobile. South Korean carrier SK Telecom has a 15.3 percent stake that it got last year when Virgin Mobile bought Helio, another prepaid carrier that uses Sprint's network.