Sprint Nextel posts first revenue gain in years

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In this Monday, Oct. 26, 2009 file photo, a sign hangs outside a Sprint store in Saugus, Mass. Sprint Nextel Corp. on Wednesday, Oct. 27, 2010, reported the first quarterly increase in three years, as improvements in Sprint-branded and prepaid service offset the continued flight of subscribers from the Nextel network. (AP Photo/Lisa Poole, file)

(AP) -- Sprint Nextel Corp. on Wednesday reported its first quarterly revenue increase in three years, as improvements in Sprint-branded and prepaid service offset the continued flight of subscribers from the Nextel network.

But its net loss widened compared with a year ago, when a large tax benefit boosted results. Investors also figured that the subscriber gains came at a high price, and they sent shares down.

Sprint, the country's third-largest wireless carrier, gained a net 644,000 subscribers in the July-September period, compared with a loss of 545,000 in the same quarter last year. It ended September with 48.8 million.

Its quarterly loss amounted to $911 million, or 30 cents per share. That's larger than its loss of $478 million, or 17 cents per share, a year earlier.

Though tax effects were the main reason for the larger loss, new subscribers meant Sprint sold more phones at a discount. Typically, a carrier subsidizes each new smart phone by hundreds of dollars, then counts on making the money back in service fees over the run of a two-year contract.

The lower operating margin appeared to spook investors. Shares of the company, based in Overland Park, Kan., fell 49 cents, or 10 percent, to $4.29 in midday trading Wednesday. That erased two months of gains.

Barclays Capital analyst James Ratcliffe said investors were expecting the improvement in subscriber numbers, but margin decline causes doubt about the long-term benefits of upgrading customers to smart phones, even though they come with monthly data fees.

Sanford Bernstein analyst Craig Moffett was even more negative, saying the results amounted to "as a sizable miss." Sprint's results are improving late in the game, when almost everyone already has a phone, and bigger rivals AT&T Inc. and Verizon Wireless have tied up most of the smart phone subscribers.

Revenue rose 1 percent to $8.15 billion from $8.04 billion a year ago. Subscriber improvements were part of the story, but Sprint also benefited in comparison with last year through the acquisition of affiliate iPCS Inc., which closed in the fourth quarter of 2009. Without it, revenue would have declined by 3.2 percent, according to Moffett's calculations.

Analysts surveyed by Thomson Reuters had on average expected a smaller loss of 28 cents per share on lower revenue of $8.04 billion.

"Although our momentum continues ... we realize we have much progress still to make," said Sprint CEO Dan Hesse on a post-report conference call. "We're in a hypercompetitive industry with strong, capable competitors, so making continued progress is hard work. But we intend to persevere."

Sprint, which is based in Overland Park, Kan., continued to lose subscribers on contract-based plans, which are the most lucrative, because of the decline of Nextel. Its phones with walkie-talkie functions have been popular with work crews and other professionals, but the Nextel network is poorly suited to smart phones, and the core Nextel base is eroding.

Sprint compensated for the loss of contract-signing customers by adding people on "prepaid" plans, which cost less.

In the fourth quarter, Sprint expects to continue to gain subscribers overall, and for trends to improve in contract-based plans.

In recent years, Sprint made a push to use excess capacity on the Nextel network for cheap unlimited-calling plans under its Boost Mobile brand. But even that effort is flagging now, and new prepaid subscribers are being put on the Sprint network instead. The company has started talking about converting some of the Nextel spectrum over to "Sprint" use.

The burden of operating two incompatible wireless network has weighed heavily on Sprint since the 2005 acquisitions with Nextel Communications, widely hailed as one of the most disastrous deals in the telecommunications industry.

Sprint has a complicated relationship with Clearwire Corp., a company with yet another incompatible network. Sprint owns most of Clearwire and resells access to the network as "Sprint 4G," but doesn't control the company or consolidate its results.

Clearwire is looking for billions of dollars in funding to expand its network nationwide, and it looks like that would come from Sprint. Clearwire's other investors, which include Google Inc. and some cable TV companies, don't have appear to have the appetite for more. However, there are reports that Clearwire is looking to raise cash by selling some of its spectrum holdings.

"The overriding issue from a stock perspective in our view, remains the company's 4G strategy and its relationship with Clearwire," said analyst Christopher King at Stifel Nicolaus. He adds that he's "cautious" on Sprint until it provides more clarity.