Dish Network offering to buy Sprint in $25.5B deal

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Three Dish Network satellite dishes are shown at an apartment complex in Palo Alto, Calif., in this Feb. 23, 2011 file photo. Dish Network is offering to buy Sprint Nextel Corp. in a cash-and-stock deal it values at $25.5 billion, saying its bid is superior to that of Japanese phone company SoftBank. (AP Photo/Paul Sakuma, File)

Dish Network Corp. is trying to snag U.S. wireless carrier Sprint Nextel away from Japan's Softbank Corp., the latest sign that satellite dishes are losing their relevance in the age of cellphones that play everything from YouTube videos to live TV.

Dish offered $25.5 billion in cash and stock on Monday for Sprint, which Dish says beats the Japanese offer.

If the Dish deal goes through, it would create a unique combination of pay-TV and wireless operator. Dish's hope is that it would lure customers with the promise of a TV service that they can take with them out of the house, on their phones. It has already broken ranks with the pay-TV industry by providing a set-top box that can send recorded shows to iPads.

"You want to be in your home with video, broadband, and data, and voice, and you want to be outside your home with those same things," said Charlie Ergen, Dish's executive chairman. "And while the cable industry does a really good job in your home, and the current wireless industry does a really good job outside your home, there's really no one company on a national scale that puts it all together. The new Dish-Sprint will do that."

Sprint Nextel Corp.'s stock jumped on the news, as investors anticipated a bidding war between Dish and Softbank. Sprint had accepted the Softbank offer and was expecting to close on it this summer. Sprint, the country's third-largest cellphone carrier, said it would evaluate Dish's offer.

For years, Dish has been able to grow rapidly by luring cable TV subscribers with better deals. But its subscriber numbers have been flat for the past three years. Unlike TV cables, satellite dishes aren't good conduits for Internet access. That means that Dish and larger rival DirecTV have been left behind in the rush to connect homes to broadband, while cable has been able to retain customers by offering TV, Internet and phone bundles.

Ergen has been looking for a way into the wireless world to counter that. Dish has been buying space on the airwaves, so-called spectrum rights, for cellphone service or wireless broadband. But the Englewood, Colorado, company has been repeatedly rebuffed in its efforts to partner with cellphone companies to put its spectrum to use.

"People have generally blown him off and not taken him seriously," technology consultant Tim Farrar said. "This is really saying 'We are serious.'"

The latest bid comes amid a ferment of deal-making in the wireless world. The two largest carriers, Verizon Wireless and AT&T Inc., are trying to bolster their spectrum holdings, while the next largest, Sprint and T-Mobile USA, are trying to make alliances to better compete after years of seeing their subscribers move to the bigger players. T-Mobile USA has struck a deal to merge with No. 5 MetroPCS Communications Inc., and Sprint's deal with Softbank would give Sprint a much-needed cash infusion.

On a conference call Monday, Ergen said that Dish is a better fit for Sprint because it can combine its spectrum rights with Sprint's. Dish can also use its army of satellite dish technicians to install antennas for wireless broadband on customer's roofs, creating a competitor to cable and phone-line broadband. It could also save money by combining its call centers and back-end functions with those of Sprint.

Dish has 14.1 million TV subscribers, making it the No. 2 satellite-TV company after DirecTV. Comcast Corp. is larger than both and is the nation's largest subscription-TV provider. Sprint, which is based in Overland Park, Kansas, has 55.6 million wireless devices on its network.

Dish said that its proposed transaction includes $17.3 billion in cash and $8.2 billion in stock, leaving Sprint shareholders with 32 percent of the combined Dish-Sprint. Dish put the total worth of the offer at $7 per Sprint share, which is a 13 percent premium to its Friday closing price of $6.22.

Softbank is offering $20.1 billion in cash, and shareholders get to keep 30 percent of Sprint.

Shares of Sprint rose 84 cents, or 14 percent, to close Monday at $7.06. Because that's above Dish's offer, it indicates that investors are expecting a sweetened bid from Softbank or Dish. Dish shares fell 86 cents, or 2.3 percent, to $36.77, as the broader market retreated and investors figured that to own a piece of the combined company, it would be cheaper to buy Sprint shares instead.

The fight over Sprint pits two high-stakes gamblers against each other. Masayoshi Son, the CEO of Softbank, is a famously aggressive deal maker. Dish's Ergen is a former professional poker player and the engineer of risky deals such as the acquisition of the Blockbuster video-store chain.

"It appears to us that Sprint is in a solid position from a negotiating standpoint," Stifel Nicolaus analyst Christopher King wrote in a research note.

He said Softbank could comfortably raise its bid. Dish isn't as strong as Softbank financially, but King said Dish is a "strategically desperate" bidder and might be forced to raise its offer, as it needs Sprint to gain a foothold in wireless.

Sprint might not be Dish's last chance, however. Farrar said that if Dish is outbid by Softbank, an alternative might be to buy T-Mobile USA instead.

Cable companies, Dish's chief competitors, have also repeatedly sought an entry into the wireless world but have largely abandoned those efforts, daunted by the high cost of setting up a network. Instead, some of the largest ones have partnered with Verizon Wireless to co-market wireless and cable-TV service. Because cable modems are the most popular way to connect a home to the Internet, cable companies are also able to capitalize on the popularity of the Internet in a way satellite companies can't.

Ergen said during the conference call that Dish believed that Softbank undervalued Sprint. Although he would not say whether Dish would raise its bid for Sprint if Softbank came back with a higher offer, he said that Dish would be more than will to pay the $600 million breakup fee for Sprint and Softbank to terminate their proposed transaction.

Another component of the Sprint purchase is wireless network operator Clearwire. In December, Sprint agreed to buy the portion of Clearwire it didn't own for $2.2 billion.

That deal would give Sprint control of an affiliate it depends upon to provide high-speed "Sprint 4G" data services on some of its phones. The Clearwire deal is contingent on the Softbank deal going through, as Sprint lacks the money to complete it on its own.

Dish made its own bid of about $5.15 billion for Clearwire in January. Ergen said that Dish has not formally withdrawn its Clearwire offer and that its Sprint buyout bid is not contingent on Clearwire going through with the Sprint offer.

Further complicating the picture, Clearwire revealed Friday that it has received an offer of $1 billion to $1.5 billion for some of its spectrum rights from an unnamed company. The Wall Street Journal on Monday identified the prospective buyer as Verizon Wireless. Verizon declined to comment.