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Sprint to Reveal iPhone Cost to Fix 'Mistake,' Chairman Says

By Scott Moritz - Oct 12, 2011

[Sprint Nextel Corp. \(S\)](#) Chairman James Hance said the company made a mistake in failing to disclose the future costs of selling [Apple Inc. \(AAPL\)](#)'s iPhone and it will provide the information this month.

The third-largest U.S. wireless operator fell two trading days in a row after an Oct. 7 investor meeting in New York, sliding 26 percent to the lowest level since February 2009. The event grew "ugly," according to [Walter Piecyk](#), an analyst with BTIG LLC, as Sprint said it needs to raise capital and refused to give detailed forecasts in response to repeated questions.

The iPhone, which Sprint began selling this month for the first time, has upfront expenses because the company subsidizes the cost to consumers in exchange for service revenue.

"Friday was tough on the stock, tough on everybody in terms of the way it came across," Hance said in an interview. "It was a mistake not to disclose the impact of the iPhone -- a mistake we will fix. We will talk about the impact when we talk about the third-quarter earnings."

The chairman also said Sprint's board supports Chief Executive Officer [Dan Hesse](#) and his management team. Sprint has tumbled 81 percent since Hesse took over in December 2007, through yesterday, compared with an 18 percent drop in the [Standard & Poor's](#) 500 index. The decline, punctuated by the analyst day drop, has put the CEO "on thin ice," said Ed Snyder, an analyst with Charter Equity Research in [San Francisco](#).

"There's really no thought of doing anything with anyone on the management team," Hance said. "We are supportive of management."

'Blame Us All'

"What we should have done is a better job of disclosing everything financially -- iPhone, Clearwire, all the questions hanging out there," Hance said.

"I blame us all, frankly," he said, referring to the company and board. "Collectively we missed it."

Sprint rose 8 percent to \$2.57 at the close in New York and has dropped 39 percent this year.

At least seven analysts cut their ratings on the stock after the investor meeting, citing concerns that

rising spending will hurt liquidity. Sprint, based in [Overland Park, Kansas](#), said it will raise money to shift to long-term evolution, or LTE, wireless technology, the standard used by [AT&T Inc. \(T\)](#) and [Verizon Wireless](#).

The latest upgrade strategy represents one of several strategic shifts that are getting expensive for shareholders, said Ben Abramowitz, an analyst with Kaufman Bros.

“Management credibility is lost with investors,” Abramowitz wrote about Sprint, as he downgraded the stock to “hold” from “buy.”

Network Vision

Sprint has been struggling to compete with AT&T and Verizon, the country’s largest wireless operators. Sprint has lost money for 15 consecutive quarters and in July missed second-quarter estimates by enough that its stock dropped 16 percent, at the time the largest decline since 2008.

At the strategy summit last week that Sprint called Network Vision, Hesse and his lieutenants explained how the company would upgrade its wireless network for the higher-speed LTE technology. Still, Hesse and Chief Financial Officer Joseph Euteneuer didn’t provide forecasts for profit or revenue, and they said all the financial information provided excluded the impact of the iPhone.

“They have a real credibility problem right now,” said Scott Dinsdale, a high-yield bond analyst at Montpelier, Vermont-based KDP Investment Advisors. “We were really positive on management beforehand because they’ve done a really good job of navigating the company through a lot of pitfalls. Now I feel like they’ve got an incomplete plan.”

‘Seriously Important’

Hance said the meeting was designed to explain how Sprint would simplify its wireless networks, shifting to new technologies to save money in the long term.

“That was seriously important to Sprint,” he said.

Analysts and investors expressed frustration over the lack of clarity about the relationship with partner [Clearwire Corp. \(CLWR\)](#). Though Sprint now uses Clearwire’s network to provide high-speed, fourth-generation wireless services, Hesse said it would only commit to using Clearwire’s network through 2012 and may not continue after that. Clearwire plunged 32 percent that day.

When [Craig Moffett](#), an analyst with Sanford C. Bernstein & Co., asked whether Clearwire will be able to survive on its own, Hesse said analysts would have to ask Clearwire about its financial position. He also said service for Sprint customers would continue even if Clearwire files for bankruptcy.

Hance said the partnership is still important to Sprint.

“No question we want them to do well; it’s in our interest that they do well,” he said. “Nothing good happens in a restructuring and there’s nothing good in the outcome of that.”

To contact the reporter on this story: Scott Moritz in [New York](#) at Smoritz6@bloomberg.net

To contact the editor responsible for this story: Peter Elstrom at pelstrom@bloomberg.net

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