

In the battle for market share in the cellular market, AT&T (T) and Verizon (VZ) have far outdistanced Sprint (S), and the respective stock prices and market caps reflect that. But desperation may have forced Sprint to do the previously unthinkable: rent out use of its 3G smartphone network as a backup to wifi based smartphones. A new company in Cary, North Carolina called Republic Wireless has teamed up with Sprint and a special LG (KSE: 003555) smartphone to create a \$19 per month unlimited wireless plan.

How do they do it?

Up until now, nobody has been supporting wifi calling on smartphones, because it would severely impact those giant monthly fees that the carriers get from users for accessing those expensive 3G and 4G voice, data, and messaging networks spread out all over the country. Much of the profit for the carriers comes at that magic moment when a user exceeds their 'monthly plan' minutes or data allowance, and the huge excess fees kick in. Monthly smartphone bills exceeding \$100 are common for smartphone users, regardless of whatever their monthly plan might be.

Tablets are different. They are sold as wifi only units, or as 3G or 4G enabled units through the carriers. But none of the handset makers enable wifi on the smartphones, because they are threatened with being cutoff by the carriers if they do so. Even mighty Apple (AAPL) has been afraid to challenge the carriers this way, so it continues to supply cellular only versions of the iPhone.

But now the cartel may have been broken. Republic Wireless has sourced a wifi enabled smartphone from LG, which goes to any available wifi network first for both calls and data. If it can't find one, usually because the user is on the move, it then switches to the Sprint 3G network as a backup. Republic estimates that many users are within reach of a wifi at home, at work, or at their usual hangouts about 80% of the time, thus the low \$19 price for the occasional use of Sprint's 3G.

Republic Wireless just went live with its beta program on Nov 9, and the traffic to the site was so heavy that it went down for a period of time that day. There are some caveats at the moment, such as only one smartphone model available initially, but if Republic can get this worked out it may represent an opening of the floodgates to the long awaited wifi smartphones. The carriers have and continue to invest billions in their 3G and 4G networks, and the last thing they can afford to do is give up all that traffic to ubiquitous (and generally free and generally faster) wifi networks on the internet. Now that LG has agreed to enable wifi priority smartphones and Sprint has agreed to rent its 3G network as a backup, this could spell major trouble for the other carriers.