

AT&T earnings fall, but iPhone cushions the blow

April 22 2009, By PETER SVENSSON , AP Technology Writer



An AT&T store is shown Tuesday, April 21, 2009 in New York's Times Square. Strong results from the wireless business softened the effect of the weak economy at AT&T Inc., helping the country's biggest telecommunications carrier beat analyst estimates for the first quarter. (AP Photo/Mark Lennihan)

(AP) -- Cost-cutting and the lure of the iPhone softened the effect of the weak economy at AT&T Inc., helping the country's biggest telecommunications carrier beat analyst estimates for the first quarter.

AT&T said Wednesday it earned more than \$3.1 billion, or 53 cents per share, in the first three months of 2009, down 10 percent from almost \$3.5 billion, or 57 cents per share, a year earlier.

The earnings were reduced by 5 cents per share for increases in pension and retiree expenses. Excluding that item, the earnings were 58 cents per

share. The average estimate of analysts polled by Thomson Reuters, which generally excludes one-time items, was for earnings of 48 cents per share.

Despite strong wireless sales, AT&T says revenue slipped to \$30.6 billion from \$30.7 billion a year ago. That was short of analyst expectations for \$31.1 billion.

Revenue fell because the weak economy exacerbated the long-running decline of AT&T's landline business. Sales of traditional fixed phone service fell 12 percent to \$8.7 billion.

AT&T shares rose 85 cents, or 3.3 percent, to \$26.13 in midday trading.

Even as revenue declined, Dallas-based AT&T improved its overall profit margin slightly, helped by the continuing process of integrating BellSouth Corp., which it bought in 2006. It has also reduced its work force by 8,000 people since the beginning of the year, mainly by cutting jobs on the wired side of the business. It had 294,600 employees at the end of the quarter.

AT&T added a net 875,000 customers under contract in the first three months of the year, hundreds of thousands more than expected by analysts. Of the new customers, about three-quarters chose Apple Inc.'s iPhone, for which AT&T is the exclusive U.S. carrier.

The iPhone has been a drag on AT&T's earnings since last summer, when the latest model, the "3G," launched. AT&T has been subsidizing each phone by hundreds of dollars, with the aim of making its money back on service fees, since iPhone users pay 60 percent more per month than other customers.

That strategy started to pay off in the first quarter. Margins in the

wireless business are now back almost to where they were before the launch of the iPhone 3G, despite the sale of 1.6 million iPhones in the quarter. Sales were down from 1.9 million from the fourth quarter, but were strong for a non-holiday quarter without a new [iPhone](#) model.

Apple's phone also helped AT&T avoid a trend analysts are expecting to see this year: more customers signing up for prepaid service than for expensive contract-based plans. Only a quarter of new subscribers at AT&T chose prepaid in the quarter, compared to more than half at T-Mobile USA.

The big development in prepaid during the quarter was Sprint Nextel Corp.'s introduction of a \$50 unlimited-calling plan under the Boost brand. It is meeting the threat of upstarts MetroPCS Communications Inc. and Leap Wireless International Inc., which have been selling similar plans for years in limited areas. They recently expanded their service areas to include big cities in the Northeast.

On a conference call Wednesday, Chief Financial Officer Rick Lindner said that new prepaid plans from competitors have affected AT&T's sales. He said the company is trying new plans in a few markets to counter that, but will be careful not to do something that would strip customers away from its more profitable contract-based plans.

Two segments of AT&T's landline business also did well. Its cable-like TV service, U-Verse, signed up 284,000 subscribers, for a total of 1.3 million. It added 359,000 subscribers to wired broadband, a performance that bucks years of declining numbers in a saturating market.

AT&T is negotiating a batch of expired labor contracts covering 80,500 to 90,000 workers on the landline side. The expiration of the five-year contracts has come at a bad time for unions, and the company is trying to wring concessions from workers to reduce its health care costs.

The Communications Workers of America pointed to the first-quarter results, and particularly the advances in broadband, as a sign that the company is healthy and shouldn't cut worker benefits.

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