

Qwest 2Q profit up 18 pct on one-time tax savings

July 29 2009, By PETER SVENSSON , AP Technology Writer

(AP) -- Qwest Communications International Inc.'s second-quarter earnings rose 18 percent because of one-time tax savings, even as revenue continued to slide as customers abandon landline telephones, the phone company said Wednesday.

Qwest's net income for the period was \$212 million, or 12 cents per share, up from \$180 million, or 10 cents per share, in the same quarter a year ago.

The Denver-based company paid \$5 million in income tax in the quarter, compared with \$118 million in the same period a year ago. It said the low tax rate was a one-time effect of tax settlements from prior years and the recognition of previously unrecognized tax benefits.

Revenue fell 9 percent to \$3.09 billion as consumers continued to cancel landline service. Qwest is the main local phone company in 14 Western states.

Analysts polled by Thomson Reuters had expected Qwest to post earnings of 10 cents per share on \$3.14 billion in revenue.

Qwest shares fell 10 cents, or 2.5 percent, to \$3.96 in morning trading Wednesday. The stock has risen 13.5 percent so far this year.

A third of Qwest's revenue decline resulted from the company stopping the resale of [Sprint Nextel](#) Corp.'s wireless service late last year. It now

helps [Verizon Wireless](#) sell service to its phone customers, but doesn't recognize the subscriber fees as revenue.

Qwest modestly improved its earnings outlook for the year. The company now expects earnings before interest, taxes, depreciation and amortization to be \$4.25 billion to \$4.4 billion. It had previously set the low end of the range at \$4.2 billion.

Qwest also pulled back on its capital expenditure forecast, saying it now expects to spend at most \$1.7 billion this year, down from a previous view of \$1.8 billion.

The company ended the quarter with 7.3 million phone lines in service, down 11.8 percent from a year ago. It is offsetting some of the decline by selling more Internet service, but overall, revenue in the local-phone business fell by 7 percent, excluding wireless.

Last week, Qwest said it was doubling the maximum available download speed in some areas to 40 megabits per second. That's part of an overall push to increase Internet speeds by drawing optical fiber closer to homes, shortening the distance the signal has to travel over old copper phone lines. Cable companies, which are competing with Qwest not just in broadband but in phone service, are also boosting their speeds this year.

Qwest saw a net increase of 34,000 broadband subscribers during the quarter. Chief Operating Officer Tom Richards told analysts on a conference call that the rate households cancel their landlines drops 30 percent to 50 percent in an area when Qwest introduces broadband.

Unlike larger phone companies AT&T Inc. and Verizon Communications Inc., Qwest does not have its own video service that competes with cable, though it does resell DirecTV Group Inc.'s satellite

service.

Chief Executive Ed Mueller said the company is looking into creating some sort of "HOV lane" for subscribers who want to get high-definition video through their Internet connection, using gadgets like Roku Inc.'s Player, which streams movies from Netflix Inc. and Amazon.com Inc. to a TV set.

The "HOV" service might help video providers by storing movies locally on Qwest's network, shortening the distance that data need to travel over the Internet, Mueller suggested in an interview.

Richards said Qwest is still looking at whether to apply for grants under the federal government's \$7.2 billion broadband stimulus program. Qwest has until Aug. 14 to apply for grants, which could be used to expand Internet service to underserved areas or boost speeds.

"If it makes sense for Qwest, we'll do it," Richards said.

Services for large business and government customers did better, with revenue growing 1 percent to \$1 billion despite the weak economy, which competitors blame for their own sales declines.

The business of carrying long-haul data and voice traffic continued to decline, with revenue falling 14 percent to \$712 million.

In June, Qwest called off at auction to sell the long-haul division, saying the network was more valuable to the company than the amount it would raise in a sale.

Qwest did not say how much the bids it received were worth. News reports indicated Qwest received bids far below the \$2 billion to \$3 billion it wanted.

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Citation: Qwest 2Q profit up 18 pct on one-time tax savings (2009, July 29) retrieved 27 April 2024 from <https://phys.org/news/2009-07-qwest-2q-profit-pct-one-time.html>

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