New AT&T phone contracts dive in 1Q

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In this April 15, 2011 photo, AT&T Go phones are shown at a Best Buy store in San Francisco. AT&T subscribers are still buying iPhones, but with Verizon now selling the phone too, it seems to have lost its power to draw new subscribers to AT&T. (AP Photo/Jeff Chiu)

(AP) -- AT&T Inc. used to draw in subscribers by the millions with the lure of the iPhone. Now, it's mostly selling iPhones to its own customers, who are trading up from other AT&T phones.

The drop in recruitment from other carriers was made clear Wednesday as AT&T said it added just 62,000 net new subscribers on contract-based plans in the first quarter, a record low. In many previous quarters, the number was above a million.

The difference is that Verizon Wireless started selling the iPhone on Feb. 10, ending three and half years of exclusivity for AT&T.

AT&T said it activated 3.6 million iPhones, up from 2.7 million a year ago. Subscribers new to AT&T accounted for 23 percent of the iPhones, down from about 33 percent a year ago.

Yet the Dallas-based company said the percentage of iPhone subscribers cancelling service was the same as last year. That means Verizon Wireless doesn't seem to be pulling a lot of iPhone subscribers from AT&T, as some had feared.

Chief Financial Officer Rick Lindner said the effect of the Verizon iPhone was "significantly less than many in the financial community and the media had expected. And frankly, the impacts were less than we had expected."

Analysts say the full impact of the Verizon iPhone will take time to be felt because smartphone subscribers are tied up by two-year contracts. But Lindner said he doesn't expect the rate of iPhone subscribers leaving AT&T to rise this year.

Verizon Communications Inc., which controls Verizon Wireless through a 55 percent ownership stake, reports its first-quarter results Thursday morning.

AT&T's net income rose 39 percent to $3.41 billion, or 57 cents per share, for the January-March period, up from $2.45 billion, or 42 cents per share, a year ago.

The earnings matched the average estimate of analysts polled by FactSet.

The earnings increase was mainly due to a reduction in taxes. AT&T's operating income fell nearly 3 percent as expenses grew faster than revenue on the wireless side, and landline revenue continued its long slide.

Wireless expenses rose in part because of the cost of issuing new phones to former subscribers of Alltel and Centennial Communications that AT&T have taken over. They also rose because AT&T sold more smartphones than last year; it charges much less for the phones than what it pays the phone manufacturer, expecting to make money back over the life of the contract.

Revenue was $31.2 billion, up 2 percent from $30.5 billion a year ago. That also matched analysts' expectations.

AT&T shares fell 13 cents to $30.18 in afternoon trading Thursday, while other phone companies rose. AT&T shares are still close to their three-year high of $31.

Analyst Craig Moffett at Sanford Bernstein called it a mixed quarter that supports his "Outperform" rating on the stock, as it's cheap relative to its earnings.

AT&T had an average quarter in terms of total new wireless subscribers: 2 million. That number was bolstered by another Apple Inc. product, the iPad, as AT&T said it added 322,000 subscribers with tablet computers. But the bulk of the net additions, 1.3 million, came from non-phone, non-tablet devices such as Amazon.com Inc.'s Kindle, security systems and GPS units.

Investors look more closely at the number of new subscribers with contract-based plans - the only way to pay for iPhone service - because they are far more lucrative. At AT&T, contract subscribers pay an average of $63.39 per month, while subscribers pay $12.94 per month for devices without contracts.

AT&T ended the quarter with 86.9 million subscribers, excluding the lowest-yielding devices, such as the Kindle.

AT&T stunned the industry a month ago by announcing that it had agreed to buy T-Mobile USA, the No. 4 wireless carrier, for $39 billion. The deal is opposed by consumer groups and the No. 3 carrier, Sprint Nextel Corp., who fear that the acquisition would bolster one of the big two carriers at the expense of competition. For AT&T, the deal would provide another way to add new subscribers.