

## **AT&T sees 3Q slowdown in iPhone activations (Update)**

October 20 2011, By PETER SVENSSON , AP Technology Writer

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(AP) -- Running one of the nation's biggest wireless networks has been a reliable way for AT&T Inc. to boost revenues, quarter after quarter, as people loaded up on phones, and then traded up to smartphones. But the easy money may already have been made, AT&T's latest results show.

AT&T said Thursday that its wireless service revenue grew just 4.3 percent in the July to September period versus a year ago. That growth rate had often topped 10 percent in the recent years, but has now been declining for a straight year.

Contributing to the slowdown in growth was the delayed launch of the latest iPhone model, which just missed the end of the quarter. AT&T said it activated 2.7 million iPhones in the third quarter, the lowest number in a year and a half, as people waited for the new model.

On Tuesday, Apple Inc. surprised investors with global iPhone sales figures that were below lofty expectations. But sales of the 4S were very strong in the first three days in stores, so AT&T may already have made up for a slow third quarter.

But the longer-term trend behind the sluggish growth in service revenues may be that people are starting to reach the ceiling for what they're able to pay for phone service each month. More than half of AT&T subscribers now have smartphones, which means they sign up for data plans. But AT&T's revenue from phone calls is declining almost as fast as data revenue is increasing.

"The wireless business simply isn't a growth engine anymore," said Sanford Bernstein analyst Craig Moffett.

AT&T is trying to juice the wireless business by buying No. 4 carrier T-Mobile USA for \$39 billion, but the Justice Department is trying to stop the deal, saying it would remove a competitor and raise prices. Observers give it only a small chance of being completed.

Dallas-based AT&T reported its net income fell to \$3.62 billion, or 61 cents per share, for the quarter, down from \$12.3 billion, or \$2.07 per share, a year ago, which was boosted by the sale of a subsidiary and a tax settlement. Excluding those items, last year's earnings were 54 cents per share.

The latest earnings matched the average forecast of analysts polled by FactSet.

Its revenue slipped 0.3 percent to \$31.5 billion from \$31.6 billion a year ago. That was slightly below analysts' expectations of \$31.6 billion.

In morning trading, AT&T shares fell 10 cents to \$28.99. The stock trades in a tight band, but is closer to its 52-week high low of \$27.20 than its 52-week high of \$31.94.

AT&T's recruitment of subscribers to its contract-based wireless plans continued to recover in the third quarter after being slashed earlier this year by the advent of the iPhone at Verizon Wireless. Contract-based plans are the most lucrative.

In the quarter, AT&T gained a net 384,000 subscribers on contract plans, excluding the effects of two minor acquisitions. That was roughly in line with analyst expectations and an improvement from the first quarter's figure of 62,000. However, it was still only half the number it

gained in last year's third quarter. Most phone companies are finding it harder to gain subscribers now that almost everyone has a phone.

AT&T added a total of 2.1 million phones and other devices to its wireless network, for a total of 100.7 million phones and other devices on its wireless network. Half of the gains were non-phone, low-margin devices like Kindles.

Cable companies kept chipping away at broadband customers from AT&T's wired side, and AT&T's buildout of U-Verse, its own cable-TV service, slowed down. It added 176,000 TV subscribers to U-Verse, the lowest number in three years. Total broadband subscribers were flat - the worst third-quarter showing yet for the company.

AT&T eked out a 0.2 percent increase in consumer wireline revenue compared to last year, as U-Verse barely made up for the loss of phone lines.

AT&T provides local phone service in 22 states, mostly in the Midwest and South.

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