

Apple profit for year slips while iPhone sales soar (Update)

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Apple employees applaud as they welcome the first shoppers arriving to purchase the new Apple iPhone 5S and 5C, at the Apple Store in Glendale, California, September 20, 2013

Apple on Monday reported that it raked in billions of dollars as iPhone sales soared to new highs, but that costs of making its coveted devices was squeezing profit.

Apple said that it made a profit of \$7.5 billion as iPhone sales sizzled in

its recently-ended fourth fiscal quarter.

The US tech giant closed out its fiscal year with a net annual profit of \$37 billion, an impressive figure but the first annual decline in earnings in 11 years.

"We're pleased to report a strong finish to an amazing year with record fourth quarter revenue, including sales of almost 34 million iPhones," Apple chief executive Tim Cook said in a release.

The quarterly profit was down 8.6 percent from a year earlier, but ahead of most analyst forecasts. It came on revenues of some \$37.5 billion in the quarter ending September 28, up four percent year-on-year.

California-based Apple reported selling 33.8 million iPhones, setting a new record for sales for a September quarter.

Apple said that iPad sales inched up to 14.1 million in a slight rise from the 14 million sold during the same quarter last year.

The current quarter was expected to be a more telling one for iPads, since Apple last week beefed up the line with a slim iPad Air model and an improved iPad Mini ahead of the prime holiday shopping season.

The new iPads will be sold alongside existing versions starting November 1 in more than 40 markets around the world. For the first time, China will be among the countries getting the latest iPad models on launch day.

"I think it's going to be an iPad Christmas," Cook said during an earnings conference call.

Apple last week also showed off upgrades to its notebooks and desktop

computers along with free software to sweeten the deal.

Apple reported that it sold 4.6 million Macs, compared to 4.9 million in the year-ago quarter.

"We're excited to go into the holidays with our new iPhone 5c and iPhone 5s, iOS 7, the new iPad mini with Retina Display and the incredibly thin and light iPad Air, new MacBook Pros, the radical new Mac Pro, OS X Mavericks and the next generation iWork and iLife apps for OS X and iOS," Cook said.

Apple's board of directors also declared a cash dividend of \$3.05 per share of common stock.

"We generated \$9.9 billion in cash flow from operations and returned an additional \$7.8 billion in cash to shareholders through dividends and share repurchases during the September quarter, bringing cumulative payments under our capital return program to \$36 billion," said Apple chief financial officer Peter Oppenheimer.

Apple shares were about a dollar below the market close of \$529.88 in after-market trading that followed release of the earnings figures.

Apple said its gross profit margin was 37 percent compared to 40 percent in the year-ago quarter.

Narrowing of Apple's profit margin was due in part to "a richer mix of iPads with higher cost structure" and some new Mac computer models that also cost more to make, Oppenheimer explained during the earnings call.

And it said the outlook for the current quarter was similar, with a margin expected between 36.5 percent and 37.5 percent.

"Where (Steve) Jobs was focused like a laser on profit, Cook is focused like a laser on revenue," independent Silicon Valley analyst Rob Enderle said in a reference to Apple's late, legendary co-founder.

"The problem is that Apple stock trades on the Jobs model and the profit margin is slowly collapsing."

Cook told analysts that, contrary to speculation by analysts and in news stories, Apple's recently released iPhone 5C was not intended as a low-priced model aimed at developing countries.

"If you look at the iPhone line, we are selling the iPhone 4S as our entry offer; the 5C as a mid-tier offer, and then the 5S," Cook explained.

In a sign of the strategy's merit, iPhone sales in China were reported to be up about 25 percent last quarter.

"We have a pretty good quarter in China," Cook said. "We obviously want to do better."

Apple is continuing to invest in extending its reach to more parts of the Greater China region, according to the chief executive.

"Apple is still outperforming most of the companies on the market," Enderle said.

"It is not the difference between failure and success; it is the difference between being a superstar and a good company."

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