Operator

Ladies and gentlemen thank you standing by. And welcome to the AT&T Third Quarter Earnings Release 2014 Conference Call. At this time all participants are in a listen-only, later we will conduct a question-and-answer session and instructions will be given at that time (Operator Instructions).And at this time I will turn the conference call over to your host, Senior Vice President of Investor Relations for AT&T Mr. Michael Viola. Please go ahead sir.

Michael Viola

Thank you, Tony and good afternoon everyone. Welcome to our third quarter conference call. It's great to have you with us today. I'm Mike Viola, Head of Investor Relations for AT&T. Joining me on the call today is John Stephens, AT&T's Chief Financial Officer. John will provide an update with the perspective on the quarter and then we'll follow that with a Q&A session.

Let me remind you our earnings material is available on the Investor Relations page of the AT&T website and that's www.att.com/investor.relations. I first need to draw your attention to our Safe Harbor statement before we begin which says that some of our comments today maybe forward-looking. As such they are subject to risks and uncertainties, results may differ materially. And additional information is available on the investor relations page of AT&T's website. I also want to remind you that we are in the quite period for FCC Spectrum Auction 97 and AWS-3 Auction so we cannot address any questions about Spectrum today. So with that overview, I now turn the call over to AT&Ts Chief Financial Officer, John Stephens, John?

John Stephens

Thank you, Mike. And hello everyone. Thank you for joining us today and we always appreciate your interest in AT&T. Before we report out on our quarterly results, I'd like to update you on Project VIP in the longer term view of our business transformation.

We've been focused on building ultra fast, video centric networks and providing mobile connectivity to any device, anywhere our customers needed. I am pleased to say we have made great progress. It's been nearly two years since we first announced our VIP initiatives and our plans to transition to IP networks. Basically, we are doing everything we said we are going to do and more.

We reached our 4G LTE build target in the third quarter four months ahead of schedule. The nation's most reliable LTE network now covers more than

300 million people. We continue to improve our self identity and add capacity to help keep our network best-in-class. We are also on pace with our wireline network goals. Our high-speed IT broadband network now reaches 57 million customer locations. About two thirds of our U-verse video footprint now has access to 45 megabit per second speeds.

We also continue to make progress on expanding our U-verse video footprint and we committed to deploy ultra fast AT&T GigaPower service in 17 markets. Our fiber to the business expansion also is going strong. We now pass more than 600,000 new business customer locations with fiber, well on our way to our one million goal.

The transformation of our customer base also continued in the quarter. Two years ago when we first introduced Project VIP less than half of our broadband customers had high speed IP broadband. Now a significant part of that transition is complete with nearly three quarters of our base on high speed U-verse broadband. And our strategic business services are on track to be nearly 30% total wireline business revenues by the end of this year.

The transition in wireless is just as dramatic. There has been a steady shift of our subscribers to usage based plans; more than 80% of our smartphone base is now on usage-based plans. At the same time, mobile share value has helped move customers off the traditional subsidy model. We also have launched new business opportunities that will leverage our investment in a high speed networks.

The connected car is ready to take off. In the third quarter alone we added more than 500,000 connected cars as the 2015 model start to roll off the assembly lines. Digital Life, the first all-digital all-IP home security and automation platform has launched in 82 markets and has about a 140,000 subscribers. And AT&T has completed a Network On Demand trial in Austin that will enable companies to easily order, add or change services on their own in mere real time. A commercial roll out of Network On Demand enabled Ethernet services is expected in Austin by the end of this year.

Our financial strength allows us to invest while still returning substantial value to shareholders; in fact since 2012 we have returned more than $50 billion to shareholders through dividends and share buybacks. Cash flows are strong and we have been aggressive in monetizing non-strategic assets. Including the sale of our Connecticut wireline property we have generated about 16 billion in cash proceeds from asset sales.

This has helped us average nearly $20 billion a year in free cash flow and asset sales over the last two years and we expect to do the same this year in 2014. At the same time we’ve kept our financial house in order by funding a pension plan, making significant working capital improvements and taking advantage of historically low interest rates.

This is the heavy lifting our employees are doing everyday that you don't always notice in the quarterly numbers. We are just managing for the short term or managing and investing for the long term. Now with that view, let's take a look at third quarter results starting with our financial summary on slide four.

Consolidated revenue grew to $33 billion up $800 million or 2.5% year-over-year. This was driven by continued wireless growth as we repositioned our business model, solid consumer wireline growth, once again led by U-verse and continued growth in strategic business services.

Reported EPS for the quarter was $0.58. In the quarter we had $0.03 of cost associated with merger and integration related expenses. We also redeemed some debt early in the quarter to take advantage of low interest rates; both reductions in cost had a $0.02 impact on the quarter. When you exclude these items earnings per share were $0.63 compared to an adjusted $0.66 a year earlier.

Cash from operations continued at a strong rate and we also continue to find ways to monetize assets. Together, that has generated $32 billion in cash year-to-date. With year-to-date capital spending of $17 billion and about $7 billion paid in dividends so far this year. With all of that our cash position remains strong even as we continue to return substantial value to shareholders.

Now let's turn to our operational highlights on Slide five. The third quarter was another solid step forward in the transformation of our business. This includes strong subscriber metrics in both wireless and wireline and continued growth in strategic business services. In wireless, we saw good in fact great trends in a challenging environment including more than 2 million net adds that included adding twice as many postpaid subscribers as we did in the year ago third quarter. Record low third quarter post paid churn, solid wireless revenue growth and improving adjusted service margins even with record third quarter smartphone gross adds and upgrades.

We also saw the continued transition of our customer base to AT&T Next and Mobile Share Value plans while also realizing sequential ARPU phone growth. In wireline, U-verse hit some important subscriber milestones. We now have more than 12 million high speed broadband subscribers. The transition phase of moving our broadband base to IP is nearing completion with about 75% of our total broadband base on our higher speed service. And we also reached more than 6 million U-verse video subs that helped drive strong U-verse revenue growth and continued wire line consumer gains.

U-verse is now a $15 billion annualized revenue stream growing at nearly 24%. In wireline business, strategic services growth continued at a strong pace. It's now a $10 billion annualized revenue stream growing at more than 14%. With those highlights, let's now drill down and take a look at our operating results starting with wireless.

We had a great net add quarter. That's a trend we've been seeing throughout the year. Overall we added more than 2 million total subscribers led by postpaid and connected devices. We added nearly 800,000 new postpaid subscribers that's twice as many as the year ago quarter, about 450,000 of those were tablets and computing devices with the remaining net adds, phone and some digital life.

And year-to-date we've added more than 2.4 million postpaid subscribers which also doubled last year's pace. Another key point with our postpaid net adds is that we are adding these customers while maintaining high credit standards. These are rock solid high quality, new subscribers. These net adds exclude any migrations from our prepaid segment.

Connected devices also had a strong quarter as we started to see significant impact of the connected car with nearly 1.3 million connected devices were added in the quarter including more than half a million cars.

Churn turned in another strong quarter, in fact it was our best ever third quarter postpaid churn that follows our best ever churn in the second quarter and churn from Mobile Share Value and AT&T Next customers is even lower.

Total Churn for the quarter was up slightly to 1.3%, 1.36% reflecting a larger prepaid base with the March acquisition of Cricket. These are solid results in a challenging environment. We saw our competitive intensity pickup in an iPhone launch quarter with all major carriers now offering the iPhone and we expect that to continue as we move into the holiday sales period in the fourth quarter.

But we believe strongly in the quality of our network, our award winning customer service and the value proposition we offer customers. Our results so far this year show we are on the right track and we are looking to finish the year strong.

Now let's look at revenue and ARPU on slide seven. We continue to see a shift in wireless revenues as customers sign up for Mobile Share Value plans and away from the traditional subsidy model. Total wireless revenues for the quarter were up nearly 5%, service revenues were stable year-over-year and equivalent revenues were up more than 40%. A take rate for AT&T Next was about the same as last quarter, about half of gross adds and upgrades. We also saw an increasing number of subscribers bringing their own device to our network, about 460,000 or 7% of smartphone gross adds were bring your own device or BYOD. That's more than four times what we saw in the year ago third quarter and more than 1 million BYODs customers year-to-date.

We continue to have a large base of customers on discounted Mobile Share Value plans who have yet to migrate to Next. About 20% of our smartphone base is on Next, but about 52% of smartphone subscribers are on the non subsidy pricing. This means that there are about 20 million potential Next customers we expect to upgrade, that's up from 17 million at the end of the second quarter.

Next take rates continue to be strong in company-owned stores nearly all are more than 90% of our Mobile Share Value customers with pre Next pricing or choosing AT&T Next when they upgrade in company owned stores. They all come without a customer choice, customers can choose the plan that is best for them and that's great for us, and right now most customers are choosing to go off the subsidy mile when they upgrade or add a new line.

Also in the quarter, we continue to see customer's buy up larger data plans and more interested in device insurance. This is helping drive revenue. Now let's look at postpaid ARPUs. The expected trends we talked about last quarter are happening as more customers take AT&T Next. Phone-only service ARPU is down year-over-year but up sequentially. When you add a Next doings you get a better view of what an average customer pays us each month.

Phone-only ARPU with Next billings improved sequentially by 2%. The average monthly Next billings were about $29 per month driving our ARPU with Next higher. As the Next base grows, so does the impact on billings. We also continue to see strong growth in data billings, those details are on slide eight.

Wireless data billings increased by nearly 24% in the quarter. This was due to the increasing number of devices on the network and customers choosing 10 gigabit plans or larger. More than half of all Mobile Share accounts are on these plans. During the quarter, we added more than 2 million Mobile Share accounts giving us 16.7 million in total, that's three times as many as we had a year ago. And we averaged about three connections per Mobile Share accounts or nearly 47 million connections in total. That's roughly 60% of our overall postpaid base.

Smartphone sales continue to be strong; in fact, we had 6.9 million smartphone gross adds and upgrades. That's a third quarter record. And it would have been even higher without inventory constraints.

We added $1.2 million subscribers to our smartphone base including about including 500,000 smartphone net adds. Most our sales continue to be smartphones, about 91% of the flow share.

About two-thirds of our postpaid smartphone base use LTE phones. As you know, LTE devices provide the best customer experience, while also being the most efficient on our networks.

Let's now look at our wireline results, starting with consumer on slide nine. U-verse hit two subscriber milestones in a quarter. First, we now have more than 12 million high-speed broadband subscribers, after adding more than 600,000 in the quarter.

U-verse broadband is now 73% of our total broadband base and 75% in the consumer broadband base, that's up 70% in the last two years, that's help to drive total postpaid – that help drive total positive broadband net adds in the quarter.

We also continue to deploy our ultra high-speed GigaPower service. We now offer 1 gigabit speeds in Austin and have turned up the service in Dallas and Fort Worth. We've also committed to deploy GigaPower in 14 additional markets including Houston, Miami and Atlanta.

We also passed the 6 million mark with U-verse TV subscribers and in 216,000 in the quarter, and bundles continue to play a big role in our growth. More than 97% or virtually all of our video customers have some kind of bundle with us, most often broadband and video. And nearly two-thirds of U-verse TV subscribers take three or four services with us.

ARPU for U-verse triple play customers continues to be more than $179 that helps drive revenue growth while reducing churn. In fact triple-play bundled customers have significantly lower churn than standalone customers. All this help drive 3% revenue growth in consumer, total U-verse revenues are now more than $15 billion annualized revenue stream and our continued growth at nearly 25% year-over-year. U-verse now represents 64% or nearly two-thirds of our consumer revenues. That compares to 54% just the year ago.

Now let me take you to our wireline business results on slide 10. We also reached another significant milestone in the wireline business. Strategic business services, those are growth services such as VPN, Ethernet, hosting and other advanced IP services are nearly a $10 billion annualized revenue stream for us now.

The services backup more than 28% of business wireline revenue and grew by more than 14% in the third quarter. At our current growth rate strategic business services should be about 39% of business wireline revenues by the end of the year. Overall business revenues decline by 2% in the quarter. Service revenues were also down 2% year-over-year.

The shift to IP data and away from legacy services, as well as the economy is the story in wireline business. But within the business there are some differences. Our retail service revenues actually grew year-over-year.

Those are service revenues from an enterprise and small business. Enterprise revenues were up 1.7%, that it's best performance in years and the six consecutive quarter of service revenue growth.

Small business trends also improve as even with a lack of new business formations. On the other hand, wholesale is again challenged by network grooming issue. We also make a strategic decision to refocus the wholesale business.

That reduce wholesale revenue is about $50 million in the quarter and we expect that amount to increase in the fourth and thereafter. The positive trends in retail service revenues are encouraging, and as is the transition IP services from legacy product.

But the economy and fewer business starts continue to make for a challenging environment and clearly call for the government to move toward actual form legislation. Now let's look at consolidated and wireline margins on slide 11. For the quarter, our adjusted consolidated margin was 17.2% compared to 18.5% a year ago quarter. Wireless margins were pressured by strong adoption of mobile share value plans, solid customer growth, promotional activities and the leap acquisition.

However, when compared to the year ago third quarter, adjusted wireless EBITDA service margins actually expanded to 4 to 3.1. As the solid performance given our strong postpaid and smartphones that adds, as well as record third quarter gross adds and upgrade.

Wireline margins were pressured by increasing content costs and transformation expenses, lower legacy revenues also contributed to the pressure. But this pressure was partially offset by growth in consumer revenues, gains and strategic business services and solid execution or in cost initiatives.

Now let's move to cash flow, our summaries on slide 12. In the first nine months of the year cash from operation totaled $25.6 billion and $8.7 for the quarter. Capital expenditures were 17 billion and $5.2 for the quarter.

And free cash flow before dividends is $8.6 billion and $3.5 billion for the quarter. We did monetize about $500 million of Next receivables in the quarter as there continues to be great interest from financial institutions and additional tranches in the future are possible.

Net dept to adjusted EBITDA was 1.7 and our credit rating continues to be among the best in the industry. In terms of uses of the cash, dividend payments year-to-date totaled $7.2 billion and we continue to be opportunistic with our share buyback program.

Our asset sales strengthened our balance sheet and cash position, when you will include the $1.9 billion in short term investments, we had $4.3 billion of cash at the end of the third quarter. We also to expect to close the sale of our wireline asset in Connecticut and the Frontier this Friday, which will enhance our cash position with $2 billion in proceeds.

Let me close with the quick summary of the quarter on slide 13. We continue to make progress with our business transformation in this quarter throughout this year. That includes the repositioning of our postpaid base of the subsidy model.

Total share counts continue to grow and of our 57% of our gross adds and upgrades to the quarter were either AT&T next or BYOD. At the same time we continue to see strong total and postpaid net adds with low postpaid churn in a very challenging environment.

We also continue to rationalize our business portfolio. This includes completing the sales of the América Móvil equity interest, closing Connecticut wirelines property transactions two months earlier than we had expected, and exiting select low margin wireline wholesale businesses.

This rationalization as well the impact of more BYOD devices than we had expected and fewer net AT&T net gross adds and upgrades will impact revenues. The company now expects full year consolidated revenue growth in the 3% to 4% range.

Even with this change we expect that Next rates will increase for the rest of the year and continued strong BYOD will help with margins even with traditional fourth quarter holiday pressure.

So overall we continue to have confidence in our strategy and our ability to compete in this challenging environment.

With that Tony, let's go at and take some questions.

Question-and-Answer Session

Operator

Thank you very much. (Operator Instructions) The first will come from Mike McCormack with Jefferies. Please go ahead.

Mike McCormack – Jefferies

Hey, guys. Thanks. John, you have made a lot of protective moves this year, obviously, and we're seeing phone-only ARPU stabilizing, but EBITDA has gone ex-growth. I guess just trying to think into 4Q, I'm assuming that the expectation clearly without subsidies is to see a decent number in year-over-year growth and EBITDA.

And then just, as part of that, if you could identify what you're seeing out there with respect to recent data points from the iPhone with respect to sticker shock on this whole issue of people being concerned about layering EIP payments on top of the existing plan? Thanks.

John Stephens

Thanks Mike, I appreciate your question. Now first of all on the sticker shock issue itself, quite frankly with 90% plus of the people come into our stores, we're not seeing – I won't say we haven't seen one or two, but we're not seeing any strong number at all of sticker shock, and the reality of it is for a person to come in and go to a subsidized model, they've got to come up with $240 plus whatever taxes they have to pay. And if they stay on the Next model, they not only get the cheaper service on a monthly basis but the upfront costs are really only about $50.

So, from a sticker shock it's much more positive to go on Next than it is to come up with that down payment for the subsidized phone. So we – and we're really aren't seeing that at all. On expectations for the fourth quarter, won't go into details, but as we've said before we expect a significant improvement in margins, EBITDA service margins in the fourth quarter compared to prior years and we are still working towards achieving what we said in the past and that is all four quarters this year to be 40% EBITDA service margins or better.

Mike McCormack – Jefferies

Okay. Thanks John.

John Stephens

Thank you.

Operator

Thank you. Our next question in queue will come from John Hodulik with UBS. Please go ahead.

John Hodulik – UBS

Okay. Thanks. Good afternoon, guys.

John Stephens

Hey, John.

John Hodulik – UBS

Hey. So my question is on the improvement on the ARPU side. John, could you just talk a little bit about what the drivers are of the sequential improvement we saw in phone ARPU and the improvement we saw in the postpaid ARPU?

And then, as it relates to the pre-Next program, it looks like you went from 17 to 20 in the quarter to real slowdown. Have you guys repositioned the basis as much as you think is necessary or are we going to see that reaccelerate in the fourth quarter? Thanks.

John Stephens

Great. So, on the ARPU story, I think the biggest issue with the improvement is really the people buying the bigger buckets and buying – upping plans, as we've mentioned. We had over 50% of the customer base at the 10-gig or bigger plans. We believe that that is really helping on the ARPU side. We still have – we still expect more customers to migrate to the Mobile Share Value plans, so we may still see some more pressure from the existing customers on that ARPU side, but buying the bigger bucket is definitely helping.

Secondly, on the Next take rates, the two uniqueness of the quarter -- two items that are unique this quarter, were one, the significant BYOD and while those 400,000 plus BYOD devices really don't bring us much if anything in the revenue and caused an adjustment in our thoughts on revenue they don't bring any expense either. And so we'll take those every time we can get them. That seemed to have an impact on the Next take rate.

The other issue is where inventory was available in the launch month, which was September where customers have a much higher experience, better experience going to Next in a company owned stores. But in the launch cycle sometimes inventory was constrained, so people would go into different locations where our experience level in Next hasn't been as high, particularly in some of the new channels like some of the big-box stores or some of the manufacturer stores. So, we'd expect that to get to those higher levels over time, so we do expect the rate to increase. It's just going to take a little longer time than we had expected.

John Hodulik – UBS

All right. Thanks

John Stephens

Thanks.

Operator

Thank you. Our next question in queue will come from Joe Mastrogiovanni with Credit Suisse. Please go ahead.

Joe Mastrogiovanni – Credit Suisse

Thanks for taking my question. John, I just wanted to clarify the postpaid net add estimate did not include internal migrations from prepaid. And then, to what extent did you see prepaid migrations to postpaid may be coming from your peers and have you made any changes to your credit standards?

John Stephens

So a couple of things, we haven't made a changes to our credit standards in any way shape or performance that will be significant or any change, that would change any traffic. Secondly, we do not count any migrations from for example our Cricket product into our AT&T product. Those will be excluded not only for phones but for tablets, that's how we count or have ever counted that information.

I can't comment necessarily give you lot of significant information with regard to any change in the migration from the customers that are porting into us whether they were previously prepaid or postpaid customer of the other carriers. I can't – I don't – and what I mean to mean to say by that is, I can't – I don't want to indicate that there's any significant change in that. I am not aware of that, so I'll leave it at that.

Joe Mastrogiovanni – Credit Suisse

Got it. Thanks.

Operator

Thank you. Our next question in queue will from come from Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery – Morgan Stanley

Thank a lot. Good evening. John, are you still committed to the $21 billion capital spending guidance? [You imply just] [ph] a $4 billion number for the fourth quarter. And how are we thinking about that for -- is $21 billion still a good number for 2015 under VIP? And then on wireline margins, you talked about some of the content costs, some of the transformation costs. When do we see those margins start to stabilize? Thanks.

John Stephens

Simon, we are still committed to the $21 billion [range] [ph] for 2014 which is the guidance we've been giving, so that gives us some room possibly 21.5 down and $20.5 somewhere in that, so that's I would suggest is a range, but yes we're still committed to that. Yes, we expect that to be further step down to capital spending in the fourth quarter that was planned. If people are wondering how that might accomplished, I will tell you that if you look at what the network team has accomplished with regard to getting 300 million POPs with LTE coverage and getting 600 million business locations passed with fiber, getting 57 million customer locations passed with IP broadband capabilities. We are ahead of the game so to speak in what we laid out and so there's a real opportunity to manage capital in that way and still continue to meet our target. It's a benefit of being ahead of the game on some of the build.

With regard to 2015, I won't give any additional guidance. I will specifically give - additional guidance we'll give that in January and update our guidance like we normally do. I will suggest you this though, we still expect tax extenders to get passed in the post-election session of Congress and those to get signed.

If that doesn't get signed, I would suggest you the companies, all companies, will have to take into account that change in their ability to invest because it's a financial change in their balance sheet and their cash flow statement. And that would be for us it would definitely be taken into account and what we decide on our investments next year.

But quite frankly, I think many companies it would have an immediate impact if it's not passed on their March or their first quarter tax return payments for this year and that might add a little more immediate impact on capital spending by other parties.

My point here is I think tax reforms, specifically tax extenders, needs to be completed. With regard to wireless margins, two pieces to that story and there certainly is the content piece and we've got a strategic resolution or opportunity to make improvements on that.

But secondly on our transformation piece, as you heard in our presentation, 75% of our DSL customers have converted to high-speed broadband products and we've converted significant number of feature phones to smartphones, all of this conversion going on.

In the wireline space that conversions had a lot of costs. Those costs are getting behind us now. When you have 75% of the base on high-speed, you've incurred those costs. So that gives us an opportunity to improve margins going forward.

And we'll tell you there is second transformation going on and that's how we serve our customers. How we take orders. How we provision and – how we validate those orders. How we provision them. How we activate service.

We are actively working on mechanizing that ordering process, mechanizing that validation, that provisioning planning process. Those network is not yet completed. We've made a lot of great traction, but that will certainly continue on into next year. And once we have that complete those two pieces of our transition cost will be behind us and that will give us the opportunity to really grow margins. That's what we're looking forward to.

Simon Flannery – Morgan Stanley

Thank you.

John Stephens

Thank you, Simon.

Operator

Our next question in queue will come from Brett Feldman with Goldman Sachs. Please go ahead.

Brett Feldman - Goldman Sachs

. Thanks a lot. Just a follow-up here. You talk about an expectation that your Next take rate is likely to increase into the fourth quarter, after kind of stabilizing in 3Q. I just want to clarify, is that because you are putting more emphasis on that in the channel or are you seeing something else that's driving it? And then just in terms of other sort of margin drivers into the fourth quarter, can you give us some thoughts on where you think we're going to see the upgrade rate come out?

John Stephens

Yes. Brett, let me give you the simplest answer I can with regard to the Next rate improving. Our stores in September had some shortages on inventory where customers went -- our customers went and bought inventory from channels. Our stores our company-owned stores have the highest performance of Next take rate.

So now that those inventory constraints we’re expecting to get behind us. They’re not quite there yet, but we expect them to get behind us, we’ll back to more normal sharing of that. That’s the first reason. Second reason is, as we rolled up in Next program in the manufacturer stores and in the national retailer stores, there’s learning curve and we are going through that and as we go through the learning curve the Next take rate of those operation has been improving. Those are the two reasons why we think that the overall take rate can improve.

Any time we have a launch of a new device in a month, it challenges a lot of pieces of your operations. In this case it challenged our Next take rates. With regard to margin activities, we’re going to have the -- we continue to have the focus on expense management across the enterprise, but I think you probably know that with regard to percentages on upgrade rates we’re not going to give any guidance on that and I wouldn’t suggest there would be any differences one way or the other they need to have in a fourth quarter holiday season with a new product launch out there.

Brett Feldman - Goldman Sachs

Great. Thanks for taking my questions.

John Stephens

Sure.

Operator

Thank you. Our next question will come from Phil Cusick with JPMorgan. Please go ahead.

Phil Cusick – JPMorgan

Hey, guys, thanks. I guess a couple of housekeeping things. One, can you reiterate or not the $11 billion in free cash flow and your EPS guidance that you'd given earlier in the year?

And then, second, just following up on Brett's question on the Next mix, given the -- what I think is a tougher credit requirement and the limits on distribution, how big of a mix on gross adds could this be, do you think? Is there an upper limit around 75 or 80 that this doesn't go above? Thanks

John Stephens

So, Phil, we’re not changing guidance with regard to EPS or free cash flow. We’re still in that $1 billion range. We’re still – I think what I said before is the low end of the mid single-digit EPS range. The only caveat I give to that is if we continue to have quarters where we add 2 million customer, we’re not going to turn down the opportunity of 2 million postpaid customers or the kind of wireline growth we’ve had in a strategic services, we’re not going to turn that down just to make a goal that the finance guys may have set. We’re going to do what’s right for the business, but sticking by what we said before.

With regard to the Next take rates, I think you hit on the right point in the sense of there is always going to be credit scoring impact on the availability or the qualification of our customers. So there always be some customers who would be better suited of our other arrangements or another products.

We welcome them. We love to have them. But we’re not likely to go with the Next program for them. Secondly and I think as importantly is customers just want to have choice and so we will look to make sure that they have a choice if they want to use the Next program. That’s fine. We’ll another opportunity for them.

With that being said, we certainly expect that with this Mobile Share Value pricing going to two-thirds of our base by the end of the year that there is significantly step up in the number of Next customers compared to what we have today.

Whether that all occurs in the fourth quarter or some of that occurs in 2015, we’ll have to wait and see, but either way it still a good long-term investment for us and we believe a good long-term situation for our customers.

Phil Cusick – JPMorgan

Got it. Thanks, John.

John Stephens

Thank you, Phil.

Operator

Thank you. Our next question will come from Jennifer Fritzsche with Wells Fargo. Please go ahead.

Jennifer Fritzsche - Wells Fargo

Thank you for taking the question. John, I just wanted to explore the SMB. You realized some significant bucking of what I would think would be a different trend, just because all our checks show that the cable guys have been nothing short of aggressive. Can you talk a little bit of what you are seeing or what you're doing differently there to -- or is it just macro? Are you leading on wireless, et cetera?

John Stephens

Kind of all the above Jennifer, I am glad to the call. A couple of things, one, we're putting a lot of fiber and a fiber whether you think about U-verse fiber and then U-verse fiber where many people think is consumer also can be available for business, but also the fiber that's passing those business locations.

We are finding that that fiber is enabling us to really go in and not only reinforce our customer position with existing customers but be very competitive in offering services to new customers.

Talking about your strategic services piece in the small business is growing healthfully. It's not a big base as of today, but it is growing well and the customer seems to like those services and are willing to take them.

So the investments we've made in the IP are starting to pay off. Lastly, you hit the nail on the head and this is what we've done on an organization perspective. It works for small business as well large business, but the ability to be agnostic with regard to the services of whether it's wired or wireless or more important the ability to combine wired and wireless services for you customers through one organization has proven to be really powerful even in small business.

And so that's how we think we're bucking the trend of no business starts but we got a long way to go and we need to keep the team's performing well but we need to keep it up and keep it moving forward, we are not making any declarations now but we do have a better feel for the situation than we did few quarters ago.

Jennifer Fritzsche - Wells Fargo

Great. Thank you.

Operator

Thank you. Our next question will come from David Barden with Bank of America. Please go ahead.

David Barden - Bank of America

Hey thanks guys. I appreciate letting me ask some questions. So the first question would be on the enterprise side. Your biggest competitor talked about what sounded like were some structural things going on in the industry on private line pricing, core connectivity pricing, and it doesn't seem to have been an issue for you guys in the quarter. So I was wondering if you guys could give us a sense as to your comfort level on the enterprise positive trajectory.

Then the second was obviously the payoff from the forward pricing initiative has been the lower churn that you have been posting up. Are you comfortable letting people look at kind of a 10 to 15 basis point year-over-year churn improvement be the new run rate baseline expectation on a go-forward basis? Thanks

John Stephens

Well thanks, David. A couple of things, one, I go to tell you the performance enterprise has to do with our people, has to do with our enterprise sales team, both on a wire and the wireless side and the performance are now what provides our largest customers. I have the opportunity of meeting with about ten of our largest customers a few weeks ago in New York and I can tell you that they are satisfied with the kind of service, the quality, the security offerings those strategic services.

So we are hard at work to continue the good progress we've made and I have decided that it is a tough environment -- very hard to continue in and our advantage is our wired network and capabilities as well as the ability to bind with wireless.

On the payoff in lower churn we've certainly seen that payoff in lower churn we are not ready to establish a standard for that mainly to get through a full year because of this process before we even start formulating those numbers, but if you will two quarters in a row of best ever churn and year-to-date best ever churn. And those churn numbers of the postpaid side all below all the two digit range, range is very encouraging, but we got to be careful to continue to work hard and move this company forward. It's a long process of transformation that we're going through and we are nearing completion but we want to make sure we finish it very strong. So I'll leave out the predictions on rates.

David Barden - Bank of America

Okay. Thanks John.

Operator

Thank you. Our next question will come from Amir Rozwadowski with Barclays. Please go ahead.

Amir Rozwadowski – Barclays

Thank you very much and good afternoon folks.

John Stephens

Hi Amir, how are you?

Amir Rozwadowski – Barclays

Doing well, John. Seems to be some interesting buzz among the supplier community around the supplier Domain 2.0 initiative. Wanted to see if there was any updates from you folks on this front in terms of developments. And also, timing to some of your earlier commentary on CapEx trajectory. In other words, what you have seen so far, does that solidify some of your thoughts on the ability to drive down CapEx intensity in terms of your expenditures in some of the out years, John?

John Stephens

We continue to be optimistic on our software directed networks or network-on-demand trial in Austin, just this last few months has grown positive or excited about the opportunity to get a launch in Austin of a product on an Ethernet basis that is what we call network-on-demand. So those things are real. It may take time to implement and to do right and the team is striving to do it right, but we remain optimistic.

With regard to the software-directed networks and the ability to use that to manage and harnessing our capital cost. We continue to remain positive. We take that into account in our spending projections in our assets. I would suggest you though it is a not a short road, but a long road when you have a company that has $100 billion of net, property, equipment that you are managing and networks that have a significant history to them. It's going to take some time, but we remain positive and optimistic and yes, we are receiving savings or achieving value from those software directed networks and we hope to increase those amounts overtime.

Amir Rozwadowski – Barclays

Great. Thank you very much for the additional color.

Operator

Thank you. Our next question in queue will come from Jonathan Chaplin with New Street Research. Please go ahead.

Jonathan Chaplin - New Street Research

Good afternoon guys. Thanks for taking the question. John, two quick ones, if I may. So the bring your own device trend seems very positive. I'm just wondering, how do you deal with bring your own device customers coming over from CDMA? Do you give them a new handset or are all those coming from just T-Mobile?

Then, secondly, I didn't quite understand your comment on the impact of bring your own device customers on the Next take rate. I would have assumed all of those customers would take Next -- would take the Next pricing. That would be what would be most attractive to them. If that's not the case, then I'm not sure why it would have impacted your revenue growth for the year. Thanks.

John Stephens

Okay, quickly speaking on the BYOD device, these devices are coming not only from competitors who operate similar networks or whose devices will operate on their network which maybe more than one competitor whose devices may actually work in our networks. But they also come from devices that are previously one end of the door and we are less at home and then these are handed down either to family or friends, neighbors or whatever the case maybe, people they buy them over eBay and bring them and have already paid from.

So they come from a variety of sources, they could be reusing devices that had previously formed through our networks. That’s the first case. The second case is if those phones would have been sold by us, we would have had a – we are depending upon what the device cost a $500 of revenues and $500 of cost. It wouldn’t have provided any margin, it wouldn’t have provided any contribution but it would have provided revenue.

So we still are getting our customer adds and we are getting a efficiency with the re-use of devices, we're just not getting any revenue out of them and that is quite frankly a big piece when we are talking about over a million devices so far and choose your number on how much revenue we will get out of each one of those devices. You can understand the impact it could have even on a company of our size as revenue. So that's the point there. We would have assumed that those kinds of devices people would have come in and gotten Next. Secondly, I would tell you we are making a distinction here. These BYOD devices aren't getting the Mobile Share Value plans and generally speaking, they are getting the lower price service because they are bringing the device. They just are not getting Next because they don't have to pay for a phone.

Jonathan Chaplin - New Street Research

Got it. Okay thanks John I appreciate it.

John Stephens

No problem. Thank you.

Michael Viola

Hey Tony, this will be our last question.

Operator

Okay, thank you sir. And that will come from Michael Rollinswtih with Citi. Please go ahead.

Mike Rollins - Citi Investment and Research

Thanks for taking the questions. Two, if I could. First, as we think about your move to consumption-based pricing and we also think about some of the changes in the sizes of the buckets for data, can you give us a sense of what's happening as you increase the data buckets, you try to encourage customers to spend more on data? Are you getting more in data revenue relative to those that might have started at a higher plan and can use the same amount, but moved to a cheaper bucket?

Then the second question is if you just had an update on the regulatory process with the DIRECTV deal. I think the FCC put out an update on their clock today, and I am just curious if you could talk about the implications of that and any update from your perspective. Thanks

John Stephens

Sure on the data bucket I am referring back to the slide that we showed with regard to data billings and that they were up, of about 3.4% year-over-year. So what we're seeing in this opportunity is this that we are buying off particularly with the Mobile Shave Value plan or try to get the 10 meg buckets so there are 10 gig buckets excuse me with buying up anyway. And then you got to have some impact in some cases on average rates and so forth, but quite frankly about the customer experience comes out of having these bigger buckets also. Additionally, and probably it's supporting us anything, when they buy those data buckets they are adding things. They are going to add tablets, they are going to add variables, they are going to add other devices. Soon we have no adding connected cars and so what we – add other family phones or other members of the family tablets.

And so what you see is they buy up these buckets and then they start using, I mean getting more functionality and then they are more tied to us. If you look at our Mobile Share Value accounts, I think we have about 16.5 million almost 17 million and we have about 47 or 48 million devices or connections on them. So these data buckets and that's what happening its helping us get pretty sticky with the customers and that's how we feel.

The data billings increased almost over 20% is clearly what we point to you to say what's going on with the data side. With regard to the DIRECTV the FCC didn't make a decision today to stop the clock that decision has nothing to do with the merits of our deal or any information that we've provided. The FCC is automated clear that there was concern about the confidentiality of the information that sometimes when companies provide the FCC and they are trying to deal with those issues.

We are confident in the FCC rigorous procedures for keeping the information confidential and we're ready to provide them with the information they have requested from us. While the FCC is stopping the clock on merger review is fairly common, that today's decision doesn't change our view that we'll be able to get the deal approved and closed by the first half, in the first half of 2015.

So Mike that's the color I would give you around that. We're still optimistic about the transaction. The stopping of the clock is not an uncommon or rare experience and it has something to do with other issues than the benefit of our deal or the merits of our deal. So we'll continue to support the process and look forward to getting the transaction closed within that originally announced one year kind of time frame.

Mike Rollins – Citi Investment and Research

Thank you.

John Stephens

Before we close, I want to thank all of you for being with us this afternoon. As you can tell we have continued to make significant progress in transforming our business not only in the third quarter but all year long that now includes repositioning our postpaid base of the subsidy rattle but we've also did that while having strong net adds, strong postpaid gains and record levels of churn. We also had a strong performance in wireline with continued strong performance in new version strategic business services and our ability to combine our wired and wireless services for our customers benefit. We look to continue that solid momentum into the fourth quarter and finish the year strong.

Once again thank you for being on the call. As always we thank you for your interest in AT&T and have a great evening. Take care.