Operator

Ladies and gentlemen, thank you for standing by and welcome to AT&T Fourth Quarter Earnings Release 2012 Conference Call. (Operator Instructions) As a reminder, today's teleconference is being recorded.

At this time, I'll turn the conference call over to your host Ms. Susan Johnson. Please go ahead.

Susan Johnson

Thank you, Tony. Good afternoon everyone, and welcome to our fourth quarter conference call. It's great to have you with us today. I'm Susan Johnson, Head of Investor Relations for AT&T. Joining me on the call today is Randall Stephenson, AT&T's Chairman and Chief Executive Officer and John Stephens, AT&T's Chief Financial Officer. Randall will provide opening comments and then close with 2013 guidance and John will cover our results, and then we'll follow with Qs & As.

Let me remind you our earnings materials are available on the Investor relations page of the AT&T website that's www.att.com/investor.relations.

Of course I also need to cover our Safe Harbor statement, which is on Slide 3. This presentation and comments may contain forward-looking statements. They're subject to risks. Results may differ materially. Details are in our SEC filings and on AT&T's website.

With that, I'll now turn the call over to AT&T's Chairman and CEO Randall Stephenson. Randall?

Randall Stephenson

Thanks Susan and good afternoon everyone. I'm just going to make a couple comments before we let John take you through the results. But many of you were on the call a year ago and you probably recall me talking candidly with you about what we had to get done in 2012 and our number one priority was spectrum. And I also said, we needed to accelerate our shift into our growth businesses. And I also made it clear that we're going to be very aggressive in returning value to our owners and this where we focused our efforts during a year.

And on the spectrum front, we have signed nearly 50 deals and those include introducing WCS spectrum into the mobile ecosystem for the very first time, and actually just kind of fresh off the wire today we formerly closed the NextWave acquisition, which was the property that included the largest block of that spectrum. So that transaction has closed today.

You put all these deals together and they increase our average national spectrum by a third. And while everybody in the industry is always going to be looking for more spectrum, at this stage I like our position.

The spectrum was obviously an important piece of the puzzle for Project VIP and we outlined Project VIP for you in the November. And this is without a doubt the most comprehensive organic growth initiative for us in several decades. And it includes expansion in both wireless and wireline.

And most of you are familiar with the plan, it includes LTE covering 300 million people by year end 2014 with an extensive network specification aspect to it, IP broadband to 75% of our wireline customer locations, fiber into a million additional business locations and we plan to execute a full transition of our network to wireless plus IP.

Then once the Project VIP is complete, nearly all of our customers will have access to high-speed broadband through wireless, wired or some combination of both. So this going to give us a much larger platform for new services, it will improve our revenue mix and it's going to improve our cost structure for many years to come.

Most important, it will let a layer on services that we believe we are going change every aspect of our customers lives. How they buy things. How they manage and secure their homes. How they access entertainment. Their experience behind the car wheel is going to change. There is going to be a whole healthcare ecosystem change. And I can go on, but it's clear that the industry is moving beyond the device and into a new era of solutions and services.

We also delivered solid financial results. For the year, we had on an apples-to-apples basis revenue growth of 2.4% and adjusted EPS up 8.5%. Our cash from operations came in over $39 billion. We invested $20.5 billion in capital of spectrum.

We paid out $10 billion in dividends and increased our dividend for the 29 consecutive year. We bought back 6% of our shares, which will reduce dividends by about $700 million per year. And if you combine the buybacks and dividends we returned $23 billion to our owners last year. And we do this with a very small increase in debt and we refinanced $12 billion of our debt to take advantage of the low rates.

And then on top of that, we began the process to solidify our pension plan and we are contributing a preferred equity interest in AT&T mobility, which is our best asset into the plan, and we are working with the Department of Labor to complete that this year. All this give us a really good starting point for 2013. And here is what you would expect from us.

An aggressive rollout of Project VIP, you'll see us scale several new businesses this year, including Digital Life, our mobile wallet JV, connected cars and a number of others. And over the next few years these represent billions of dollars of new revenue opportunity for us.

In a quarter you should expect us to maintain a strong balance sheet and continue returning value to our owners. So I think we are executing well, I like how we are set up for 2013.

And so, with that, I'm going to turn it over to John Stephens to take you through the quarter, and then I'll be back to walk you through more details on our 2013 outlook. So John?

John Stephens

Thanks, Randall, and good afternoon, everyone, and thank you for joining us today. Let me begin by providing a consolidated financial summary, which is on slide six. When you look at 2012, our adjusted financial results were strong across the Board, revenues, margins and earnings per share. When you exclude our divested Ad Solutions business and adjust for the Superstorm Sandy impacts revenues were up 2.4% for the year and 2.8% in the fourth quarter.

Operating income increased 4.8%. Consolidated margins improved even with record smartphone sales and as a result, we grew adjusted earnings per share 8.5% for the year. And we had our strongest ever annual cash flows.

Cash from operating activities totaled $39.2 billion in 2012 and free cash flows were $19.4 billion. That strong free cash flow allowed us to be aggressive with our share buybacks. We repurchased more than 370 million shares during the year.

Looking at the fourth quarter, we have reported earnings per share of a negative $0.68 but excluding $1.12 adjustments, earnings per share was $0.44, a 10% year over year increase. These adjustments included $1.10 of non-cash pressure from the year end mark-to-market change for our benefit plans. This actuarial loss from the benefit plans was solely by the reduction in the discount rate from 5.3% at the end of last year to 4.3% at the end of this year and $0.02 of pressure due to storm impacts from super storm Sandy.

Now let's look at revenue growth and revenue mix. Details are on slide seven. Fourth quarter consolidated revenues totaled $32.6 billion, that's up 2.8% year-over-year when you exclude Ad Solutions and the storm impacts. Driving this growth was strong mobile Internet results, excellent U-verse gain and continued strength in strategic business services.

On the left side of the slide you can see how our growth drivers, wireless, wireline data and mainline services have become a larger and larger part of our business. In the fourth quarter 81% of our revenues came from these areas. That's up from 69% just three years ago. And revenues from these areas were up $1.4 billion in in the quarter, our almost a 6% growth rate. We expect this mix shift to continue and by 2016 we expect these growth drivers to represent close to 90% of our total revenue.

Now let's move to our operations results starting with wireless, revenue and ARPU on slide eight. Wireless data continues to drive solid revenue results. Data revenues were up more than 14% in the quarter that helped drive 4.2% service revenue growth and total wireless revenues were up over 5.5% in the quarter. Data revenues were impacted somewhat by the growth of mobile share plans with unlimited messaging and voice are standard for those plans and we booked messaging revenues in our wireless voice category while mobile share data revenues go to data.

You can also see the impact of data growth when you look at ARPU. Postpaid data ARPU grew at nearly 12% and total postpaid ARPU which includes postpaid devices such as tablets was up 1.9%. And phone-only ARPU was up 2.5% growing off a much higher ARPU base than anyone else. Postpaid ARPU was impacted somewhat by super storm Sandy. In an effort to help those in the storm's path we waived all over dues (ph) both voice and data. Without that revenue loss total postpaid ARPU growth for the quarter would have been about 2.1%.

One of the highlights of the quarter was our strong postpaid growth where we had our largest gains in 3 years, details are on slide 9. We added almost 800,000 postpaid subscribers in the quarter with strong gains in smartphones, tablets and mobile premise solutions. Overall we added 1.1 million new subscribers with additional gains in connected devices and reseller.

Prepaid net adds were impacted by declines in both session based tablets and go phone. Branded computing subscribers are up 26% year-over-year driven by strong tablet sales. Postpaid churn also had another strong quarter, down from the year ago fourth quarter and smartphone churn was even lower. The growing number of subscribers on family, business or Mobile Share plans also help reduce churn. Subscribers on these plans tend to be stickier with lower churn.

Let's now move to smartphone sales in our usage-based data plans on slide 10. Mobile Share growth was dramatic especially when you consider that we give customers a choice with taking those plans or keeping what they already have.

These plans were first introduced late in the third quarter of 2012. By the end of the fourth quarter, 6.6 million subscribers were on Mobile Share plans or about 10% of our postpaid base. And these subscribers were on 2.2 million accounts, which gives us an average of about three devices per account.

Take rates on the higher data plans continue to run above expectations. More than a quarter of Mobile Share accounts have 10 gigs or larger plans. And we continue to see a steady movement of subscribers on unlimited plans taking advantage of Mobile Share. More than 15% of our subscribers are moving from unlimited plans to Mobile Share.

Overall more than two thirds of our smartphone base has moved to usage-based plan in the last two and one-half years, and we expect that trend to continue. We also had another record quarter for smartphone sales. Our wireless team sold 10.2 million smart phones, the most smartphones ever sold by any U.S. carrier.

Those sales accounted for 86% of all postpaid sales and 89% of postpaid phone sales in the quarter. Smartphone subscribers now account for almost 70% of our postpaid phone base.

When looking at the full year, our smartphone base grew by almost 8 million. These are the premium subscribers in our business. ARPU was twice that of non-smartphone subscribers and they have much lower churn.

We also saw our best ever Android and Apple device sales in the quarter. More customers continue to choose the iPhone on AT&T's network. We activated 8.6 million iPhones in the fourth quarter with about 16% new to AT&T from about the same percentage of new subscribers as last year.

Now, let’s take a look at margins and operating income growth on slide 11. As you know, the investments we've made to drive record smartphone sales impacted margins. While we continue to make progress in improving our margins, we also are more than willing to invest in smartphones because of the benefits they bring. Those include higher ARPU, lower churn, strong data growth and with that growing operating income, which was up more than 6% for the year.

In the fourth quarter, wireless EBITDA service margin was 29.1% about the same as last year's fourth quarter. And it was nearly 30% taking into account the impact of Superstorm Sandy.

For the full year, our EBITDA service margin was 39.6% and was 39.9% while adjusting for storm impacts. So even though we sold 1.5 million more smartphones in 2012 than we did in 2011, our wireless EBITDA service margins for the year improved almost 100 basis points and improved even more when you account for the storms.

And the number of upgrades was down for the year about 5% which provided further margin support. We are making progress with margins and we expect that progress to continue going forward.

Now, let's look at our wireline operations starting with consumer, which you can see on slide 12. A quick look at our U-verse results helps explain our confidence as we expand these services to 75% of our wireline base through project VIP. We continue to see strong subscriber growth, both video and high-speed broadband. This in turn has accelerated customer revenue growth to 3% in the fourth quarter, our best performance in more than four years. We continue to hit new and higher benchmarks with U-verse, including 8 million total U-verse subscribers, 4.5 million U-verse video customers with 192,000 net adds in the quarter and 7.7 million high-speed IP broadband subscribers. That's nearly a 50% increase for the year with more than 600,000 added in the fourth quarter and for the first time, our consumer high-speed IP broadband subscribers outnumber our legacy broadband customers.

And while overall broadband subscribers remained steady in the quarter, total broadband ARPU was up more than 10% year-over-year. U-verse is now a $10 billion annualized revenue stream growing at 38% for the full year. And IP data revenues driven by U-verse now represent 61% of consumer revenues, up from 53% just a year ago. But we believe the best is yet to come. We think there is a lot of room for growth here, penetration rates are just starting to climb so the runway is long. And with our project VIP expansion that opportunity will only grow as we bring U-verse video and high-speed IP wired broadband to million more customer locations.

Now let’s move to business which you can see on slide 13. The story in the fourth quarter is similar to what we've seen all through 2012. Customers delayed combined decisions due to concerns with the economy. The fiscal cliff uncertainty lasted the entire quarter and small business starts continued to lag last year's level. But the silver lining in the fourth quarter was some small signs of revenues stability.

On a sequential basis, revenues were up due to growth in enterprise. Service revenues were up slightly versus the third quarter and wholesale revenues also showed signs of stability. Overall business and the wireline revenue was down 2.1% in the fourth quarter, slightly better than the 2.6% drop in the third quarter. So it’s been another challenging year but through and all we have been able to continue to hold margin steady while transitioning legacy products to IP data services.

Our strategic business services also continued to grow, that includes products such as Ethernet, VPNs and application services, which were up 10.5% for the quarter and up 13.5% for the full year, and data revenues continued to grow even in this challenging environment with IP data revenues up 2.4% year-over-year and still a weak market, but we are cautiously optimistic that this business is showing some signs of stability. And we are hopeful that an improving accounting will get this part of the company growing again.

Now let's look at margins and cash flow. Consolidated margin comparisons are on slide 14. Even with strong postpaid net adds and record breaking smartphone sales, consolidated margins improved. For the year our adjusted consolidated margin was 18.2%. That compares to 17.8% in 2011. Wireline operating income margin also expanded during the year as wireline continued its transformation from voice to IP data. This helped to offset declines in legacy services and a sluggish economy thanks to improving revenue trends in consumer, scaling IP and solid execution of One AT&T cost initiatives. We continue to keep a sharp eye on cost efficiencies, and we see more opportunity to reduce expenses as we move ahead.

Now let's move to cash flow which continues to be outstanding. Our summary is on slide 15. Cash from operations was a record $39.2 billion, and we had record free cash flow as well. Free cash flow before dividends was $19.4 billion, up more than 34% from a year ago. Strong cash flows give us the flexibility to invest in the business and return value to shareholders through dividends and share buybacks. We were able to do all of these in 2012.

Capital expenditures were $19.7 billion with more than half of that invested in our wireless business. Dividend payments for the year totaled $10.2 billion and we repurchased more than 370 million shares or about 6% of outstanding shares worth about $13 billion.

We completed our initial 300 million share buyback authorization in the fourth quarter and began buying back shares under our second 300 million share authorization. When you look at both dividends and buybacks, we returned $23 billion to our shareholders during the year.

In terms of uses of cash, our net debt-to-adjusted EBITDA ratio increased only slightly to 1.58, and net debt edged up as we took advantage of historically low interest rates, with a net debt-to-capital ratio of 43%.

As we begin our Project VIP investments, our balance sheet is sound, our debt metric solid, our strong cash flows give us the flexibility to invest in growth, while returning value to shareholders.

Now, before I hand it back to Randall for our 2013 outlook, let’s take a quick look on how we delivered on 2012 guidance. I’ll ask you to look at slide 16.

On an adjusted basis we expected consolidated revenue, margin and EPS growth, and that's what we delivered, that include hitting on the high-end of our EPS range. We also expected the mobile Internet to drive wireless growth and we saw subscriber gains, postpaid ARPU growth and expanding wireless service margins during the year.

We over deliver on wireline margins and consumer wireline growth, thanks to the increasing strength of our U-verse services, we bumped up our free cash flow estimates during the year, but finished the year even stronger than expected, and CapEx ended the year in the range we expected.

We also were aggressive on the share buybacks, adding a second 300 million repurchase authorization during the year, and as Randall said earlier we knocked that out of park in executing our strategies in 2012.

Altogether, an excellent performance in a challenging economy and a performance that gives us confidence as we head into 2013.

With more details on that let me hand it back over to Randall. Randall?

Randall Stephenson

Okay. Thanks, John. I’m going to be real quick because we want to get the questions here. But just a couple of comments on what you can expect from us in 2013. And what you’re going to see is a very aggressive execution of Project VIP and we’re actually off to a very strong start there. And as part of that, we expect to take our LTE build to 250 million or more POPS by year end.

We going to see us launch several of our new growth businesses I discussed those earlier and we’re looking at CapEx in 2013 in the $21 billion range, and obviously, there will be an emphasis on wireless and Project VIP.

In terms of financials, we expect to delivery EPS growth in the upper single digits or higher. Consolidated revenue growth should exceed 2%. Consolidated operating margin should be stable and wireless margins should expand.

We expect cash generation to be strong in fact free cash flow after CapEx will exceed $14 billion. This gives us room for continuing share repurchases and actually we expect to complete our current buyback authorization as early as midyear.

So I characterize this as a very achievable outlook, I mean, you know our history, we tend to be conservative, and this assumes no lift from the economy.

So, to close, I like how we are executing. We have a really strong financial position, which gives us the opportunity to invest aggressively and continue returning value to our owners. And I like the moves we are making to expand our growth platforms.

And so, Susan, with that, I think, we'll get ready for questions.

Susan Johnson

Thank you, Randall. Tony, I think, we are now ready to open it up for our first question.

Question-and-Answer Session

Operator

Thank you very much. (Operator Instructions) Your first question in queue will come from Phil Cusick with JP Morgan.

Phil Cusick – JP Morgan

I guess two quick ones, first, Randall in your quarter recently as I don't know if this is right or not but saying that international or European acquisitions may be inevitable to continued growth. Can you address that for us? And then second, for John, going through this buyback by midyear, that's great. What do you think about the potential to reauthorize and how does the board think about that so far?

Randall Stephenson

Yeah sure Phil. As it relates to international I was asked about consolidation, not just some level of consolidation was inevitable. And obviously we don't comment on M&A rumors. But here is what I'd ask you to think about. As you consider what's happened in the last five years in the U.S. it's been impressive what transpired in the mobile Internet revolution and the U.S. has been outpacing the rest of the globe fairly considerably. And I think most people expect the rest of the world will catch-up and so the question you have to ask is are there opportunities for us to participate in that growth outside the U.S. And we look at this from a lot of different ways as more and more people around the world begin to deploy LTE. There are probably some opportunities to create some unique roaming arrangements, roaming each other's networks at different cost structures, which may change that dynamic somewhat the opportunities to partner, like you've seen this partnering in China, China Telecom deal that we did. And you will probably see those kind of deals more and more in the mobility side, do you invest at the infrastructure level is a big question.

And there's really another aspect to it and that is can you participate in this growth outside the U.S. at the application level? And this year is going to be very instructive in that regard to us because services like digital life, which is really – I mean that's over the top application for home security and monitoring and so forth, and is it possible to carry those platforms outside the U.S.? We are already licensing that platform to companies in Europe. And so Kindle's platforms we extended and over the top model outside the U.S. So as we kind of look at this we do believe that U.S. experience will replicated outside the U.S. and we're just trying to decide how is that we would participate in that, there are lot of avenues for that.

Phil Cusick – JP Morgan

That sounds like acquiring something is less on your mind than other opportunities.

Randall Stephenson

There is just a lot of different ways to think about it and that's all I am trying to characterize here, Phil. There are lot of options.

John Stephens

Phil, with regard to your question, first and foremost it's a board decision on the authorization, so we're going to work within authorizations we have currently. Secondly, in evaluating and providing information with regard to share buyback, first and foremost it's a question of valuation of shares compared to the market price that is out there and we look at what analysts say. We look at our own internal valuations of share price and we look at what the market is trading the stock at. But before you get to a further authorization you need to make sure that one, your cash flows from your business which – we have really very solid cash flow performance, you have to make sure you can continue to reinvest first, you can continue to pay your dividends first. And you have to have enough cash flow leftover to be able to take advantage of opportunities like Randall mentioned today, an opportunity to give some more spectrum in the Nextwave transaction that we closed today.

And if you're comfortable with that, then you go into the decision of what you'd do with that extra capital. That's a process we go through on a regular basis and we will continue to do that. This is a unique time from a market perspective in that the cash costs of our equity are high compared to traditional interest rate and borrowing capacity that's out there. And that's the reason why we incurred slightly more debt than we usually carry.

Operator

Our next question in queue will come from Simon Flannery with Morgan Stanley.

Simon Flannery – Morgan Stanley

I wanted if you could talk about the CapEx side of the equation and you talk about 21 million just a mid-single-digit increase year-over-year. How should we think about that in the context of the analyst meeting and up to sort of $22 billion. What's the delta there and are we still looking at 22 possibly over the couple of years or do you think you're going to be more efficient in achieving some of the goals. And could you be, be more specific about what you're going to see with project VIP in '13, you've talked about the LTE rollout but perhaps on the wireline side, should we be sort of hitting a third of the three-year targets over the next 12 months or any other color on that would be great? Thanks.

Randall Stephenson

So let me try and answer couple of your questions. First and foremost, the $22 billion we gave in November was -- that information went into a three-year plan. Since that time, we've really been able to put pencil to paper from an engineering perspective and really work specific business cases in a more detail level. That's providing some of our opportunities.

Quite frankly, we had more efficiency in our capital program last year and -- for example, we mentioned that today we have about 174 million POPs covered with LTE. Our commitment for the year had been 150. So we're ahead of our achievement and spend some money officially, we're taking that into account.

And then lastly, we've been able to identify some, if you will, shared savings where the overlap between our wired and wireless projects in VIP are going to allow for some more efficiency. All of those pieces go into the guidance that's $21 billion and we are comfortable with that $21 billion range.

Specifically, with regard to achievements, we are expecting to get $250 million POPs covered with LTE by the end of this year. We will also make -- we're not disclosing specific levels of fiber building or expansion of U-verse footprint this time but you can think about it as kind of ratable builds to schedule as we go forward.

And we are moving forward today with some of the fiber building efforts and moving forward, immediately hit 13 on very many of those velocity projects. It's not a question of moving capital or cost into later years. With our financial flexibility, we will do as much as we can as early as possible.

Simon Flannery – Morgan Stanley

That's helpful. Thanks.

Operator

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

John Hodulik - UBS

Hey, thanks. Maybe a question on the wireless side. During the year, you guys changed eligibility requirements in the institute of these. Do you think that there is still some other levers you can pull that it could be used to enhance profitability. And then Randall, maybe as you look out over the year, there has been some significant changes in the wireless industry. Do you expect to see any change in the level of comparison as we move through the year? Thanks.

Randall Stephenson

Good question, John. Certainly, we do believe that there are additional opportunities for us to focus on our cost structure, improve profitability and specifically in wireless. If you look at the changes to our upgrade cycle policies, they reduced our upgrades by about 5% this year. If you guys do the math, you will find itself in the 1 million phone reduction, 1 million upgrade reduction range. So it did have a significant impact in some of the other steps we took generated benefits for us.

We're going through a continual process of evaluating those on that side as well as evaluating cost structure opportunities and one AT&T type opportunities for additional efficiency. So those are ongoing optimistic that those exist and that is part and parcel of our guidance when we say that we expect wireless margins to continue to expand in '13.

John Stephens

In terms of, John, the industry dynamics, it should be an interesting year. There is a lot of talk and lot of press on the different industry players. And it's kind of hard to estimate what's going to happen. I think the way we're considering it internally is, probably, a little bit of open field running this year as T-Mobile and Metro PCS come together. I don't know what the timing is on that.

I don't expect that to be a significant impact on 2013. But when they get that transaction close, we expect there to be some dynamics in the marketplace that -- as we'll have to respond to some of it, we find interesting like the handset financing that they're doing.

That's something we've looked at on several occasions. I kind of like the idea, commend them for trying it. It will be something we're going to watching, how it is received in the market place. And in terms of other players, it's just -- it's hard to say what the dynamic will be. But I think it will be just a little bit of open field running this year.

John Hodulik - UBS

Got it. Thanks guys.

Operator

Our next question in queue will come from Michael Rollins with Citi.

Michael Rollins – Citi Investment Research

I was wondering if you could talk a little bit more about the enterprise and the business environment, your exiting last year and early this year, are you seeing any changes in the sale cycle or the competitive intensity and can you talk about what's built into the plan for this year in terms of – are you expecting it to get a little bit better, stay the same as the back half of '12, just some added color would be helpful. Thanks.

Randall Stephenson

I will start and let John chime in with some details but we are seeing little glimmer of hope on the enterprise side. It's really hard to predict this segment right now when you have continuing resolutions and you have fiscal cliffs, and you have debt ceilings, and you have sequesters and people are a little bit stuck right now. And it's been this way for about six months. But when you look at the mid-level market and above we actually saw positive growth in the first quarter. We have not seen that in quite some time. The pressure on the enterprise segment is coming from small business and particularly state and federal governments and there the spending cycle is really slow. And obviously the spending is down considerably. And so if we get through a lot of the budget situation perhaps you can expect to see some lift but our current expectation Michael is we build the plan around economic growth that's sub 2% right now. In fact, it's a very low assumption. Business fixed investment, we're not anticipating any great lift from fixed investment increases or hiring.

And so we've built our expectations in this guidance we gave you around some rather slow economic indicators and our hope is at this mid-level enterprise business and above that they will continue investing in productivity efforts because productivity efforts tend to require the types of solutions that we bring to bear particularly in mobility. But it's a little uncertain right now.

John Stephens

Mike, the only thing I would add to that is that we are continuing to see some investment in strategic business, services and people willing to invest in growth. It is slow. And secondly, with our project VIP investment we hope to self-generate some changes in the small business by providing some additional broadband services and capabilities as we do with some of our fiber to the building, some of our expansion of our U-verse footprint and give us some opportunities on a self action – self-led action to help increase our performance in small business but it's just as Randall said, we did not bake into our expectations for '13 any form of significant economic lift or significant recovery.

Randall Stephenson

But what's kind of interesting Michael and it gets a little bit obscured in how industry reports numbers. But we talk about enterprise being in decline on the fixed line side, when you look at the spend on the wireless side though, enterprise spending in total is actually rather healthy but it's just the spend is really being directed towards mobility and the world of tablets and the world of smartphones is really driving significant spend in enterprise business. So in total it is growing, the fixed line side is little pressured for the reasons we talked about.

Michael Rollins – Citi Investment Research

And just a follow up briefly, is there a way investors should think about how much of your sales on enterprise are now tied to wireless, is there a metric that you want us to keep in mind in terms of the demand from your customers to bundle the build together and work with you on a combination too?

Randall Stephenson

Yeah, Mike, the best indication of what is going on there is what we're seeing in some of the VPN and cloud hosting services which are really part and parcel generated by a lot of the employee mobility issues that the large corporations are facing. But we don’t have a direct breakout either on the mobility or on the wireline side that tie those two back and forth and we’ve chosen not to do that for clarity of information as opposed to we think we could draw some challenges, we'll rethink that, and continue to reaffirm right now. I think the way we get information is the clearest picture for you.

Operator

Our next question in queue will come from the line of Mike McCormack with Nomura Securities.

Mike McCormack – Nomura Securities

Thanks. John, just looking at the wireless margins as we progress into 2013 and I think John’s comment -- John Hodulik's comments sort of hit on it as well, thinking about the impact on subsidies, well, we can change there. But I’m assuming we’re going to have a decent snapback as we go into Q1, any color on that?

And then secondly, also regard to smartphones, is there going to be an issue eventually where we have smartphone penetration reaching heights that, when we start talking about record activations of smartphones are becoming sort of a bad word, meaning we are seeing more smart-to-smart and is there still ARPU opportunity to gain from the subsidy from that?

And then lastly, again, John, thinking about the targeted leverage and the dividend payout, when you think about, how many shares you think about repurchasing over period of time, are you targeting an absolute reduction in dividend payment itself?

John Stephens

So let me kind of go through, I guess, lot of questions here Mike, let me go through those. First and foremost, certainly the dividend reduction that results on the buybacks and as Randall mentioned, I think, this year we are going to stay close to $700 million in that because of the share buyback process is an important piece of it.

But quite frankly, it's not the controlling piece, certainly taking into consideration, but that’s not we’re targeting. It has more to do with the balancing the capital structure in today's environment with some certainty for longer term while protecting our ability to invest, pay dividend and keep flexibility for things like we mentioned, whether it would be NextWave or the Atlantic Tele-Network acquisition that we recently announced.

That's the balance that we have to have, the cash cost of debt today is much lower than the cash cost of our equity and so that give us that opportunity. We're just trying to do balance while retaining flexibility protecting the dividend. That's it.

Secondly, with regard to smarthphone, once again, whether we are talking about percentage of sales of -- smartphones as a percentage of phones sold, which was up 89% this quarter or smartphones as a percentage of total postpaid devices, which was about 86%, either one of those is well above our smartphone penetration of about two-thirds today.

So we have a natural -- with the existing base we have a natural growth opportunity, just by converting those to smartphones and we've been growing that percentage of our postpaid base smartphones 2% to 3% a quarter, so that's going to continue for some time.

Two, as we are saying we added 400,000 tablets or nearly 400,000 tablets this quarter. So we are seeing the data-only devices, data centric devices like tablets draw generating lot of growth, we believe that will continue.

Our LTE rollout, 74 million POPS and moving to 250 million POPS is going to generate speed, which we think will generate usage, which we think give us the opportunity because of our new usage in tier data plans and the movement of our customer base to that will allow us to grow revenues.

So, we are optimistic about our position and then when you add on Digital Life, when you add on connected cars, when you add on the healthcare infrastructure that analysts talk about, when you add on the mobile premise solution or the home-based mobile phone.

All of those opportunities along with our mobile wallet are going to give us real chances to continue to grow revenue and at a scale base, when you are a player of our size. So we are optimistic about that.

With regard to the wireless margins and consistent with what John was asking earlier, we are just looking at every aspect of our arrangements with our customers of our service, trying to make our service effortless but very efficient, and so we are looking at all of those and believe there is still opportunities to improve margins through making things easier on our customers while we are reducing costs on ourselves, so.

Mike McCormack - Nomura Securities

Yeah. That's good. And just on the margin side, you're obviously anticipating improvement in '13 versus '12, I'm assuming, you don't want to try to put any parameters on that?

John Stephens

No. No. We are just going to -- we are going to stick with very simply put, we are going to represent to you like we did in 2012, what we can achieve and we are going to take that same approach this year.

And I'm sorry, Mike, I -- we are -- that we are going to -- we are going to have improvement in margins. We are not going to disclose quarterly margin analysis and yes, as you well know, there is going to be seasonality with regard to it, based on a whole number of items that we go through. So, but I think you're well aware of those items.

Mike McCormack - Nomura Securities

Great. Appreciate it guys.

John Stephens

Thank you.

Operator

Our next question in queue will come from the line of Jason Armstrong with Goldman Sachs.

Jason Armstrong – Goldman Sachs

A couple questions, I guess first for Randall, realizing you obviously just did WCS and QUALCOMM, when do you envision the next opportunity to look for meaningful additions to your stock and portfolio, and if you look at the SEC and the current attempt to sort of better define the rules for you around spectrum ownership and potential caps, how does that influence your view on timing? And then second question just for John, at the analyst day you guys obviously had pretty extensive detail and commitment on potential decommissioning of copper plant. As you start to get into those efforts from an engineering perspective and really gauge your response from regulators on the feasibility, how quickly do you think those efforts can progress and really translate into changes to the cost structure?

Randall Stephenson

Hi Jason, on the spectrum you'll see in all likelihood some additional purchases of spectrum this year filling in some holes. And so you will see us continue to do some of that during the course of 2013. But in terms of when the next meaningful block of spectrum will come on the market, that's obviously the government's next auction and they've talked about a 2014 date. I hope that, that's accurate. I would be impressed and surprised if it were. Our expectation is that hopefully they can get into the market in the 2015, 2016 timeframe. And when you think about spectrum caps, Jason, it's interesting what's happened over the last year is the industry dynamic has kind of I think made the spectrum caps issue I think far more interesting. It looks like Sprint is about to secure a significant amount of spectrum, T-Mobile combining with Metro PCS obviously their spectrum depth and position is radically different.

And so our view and our expectation is as we get closer to a government auction that the need to do a lot of evaluation on spectrum caps seems less and less relevant and it seems like there is going to have to play into this -- an equation of how much spectrum does an entity hold versus how much spectrum are they using and we continue to reinforce that spectrum caps is the wrong way to think about this. The right way to think about this is ensuring that spectrum markets are fluid and liquid and that there are aggressive build requirements on spectrum. You put those two Things in place and you ensure kind of a market-based economic allocation of spectrum. And so that's what we continue to push forward. We're actually not anticipating any significant spectrum caps being placed that would inhibit any of the players from engaging in an auction in the future.

And when you consider the situation that the federal government has right now in terms of the fiscal problems that we're facing I would expect that Congress would be most interested in having an auction that would yield the greatest benefits and the greatest benefits and spectrum caps do not go hand in hand.

John Stephens

Jason, with regard to the decommissioning capital plan issue, we continue to work that issue not only on a network engineering and our IT guys with regard to products and services and all the issues really the – transitioning to an all IP service based providers but we are also working it from an external affairs on the regulatory side. I will tell you from a cost savings perspective that there are no significant cost-savings expected in this guidance that we gave for 2013. And I would suggest you that is a – it is a number of years out. It's not that it will not be achieved but it's a number of years out in the sense of – this is a longer process to work with all the interested parties and make sure we do it right, do it effectively and do it successfully. Working it, lot of activity on it but I wouldn't suggest you that there is a significant improvement in cost structure in '13 because of it.

Operator

Our next question in queue will come from the line of David Barden with Bank of America.

David Barden – Bank of America

I guess two. First, John, could you, on the guidance change, the increase in earnings per share growth expectations from mid-single digits at the analyst day to now high single digits, could you clarify if that's more about the timing and pacing of buybacks, or is there something fundamental that's improved relative to your view that you gave I guess in October, and if you could kind of elaborate a little bit on what that is?

And then, I guess, second, I don't know, Ralph is on the call, but maybe Randall, just as you look at your wireless business, I think that you've got a lot of advantages relative to as you mentioned some of the interesting events that are going to take place this year. But as you look at yourself relative to Verizon, they are taking three times the net ads that you took in the quarter, including tablets maybe four times, if you exclude tablets, they are guiding to 10% higher margins in 2013 versus what AT&T got in 2012. LTE is about a year ahead?

I mean, how do you think about trying to close the distance with respect to Verizon? Do you care and what do you prepared to do in terms of margin market share promotions to really address that gap that's emerged? Thanks.

John Stephens

Okay. Let me take the increase in EPS first, first, I think the -- at the Analyst Conference, we were talking about a three-year cycle or three-year term. And so, that was the information we provided there and I think as we told you that we'd update specific guidance in 2013 on this call. So that's -- there are different timeframes, different patterns just from the get go.

I will tell you, we have taken the account some of the really solid results that we had in the fourth quarters, specifically with regard to tremendous wireless sales and postpaid net adds, great performance on broadband and our consumer U-verse business, great performance on TV. So, and quite frankly, some really good news from our enterprise business sides.

So, we update that, we take that into account and of course, we take into account our recent share repurchase, but really the answer your question, I think is more about we were talking about two different sets of time period. One was the three-year general information, today is a commitment on guidance that we expect meet or exceed.

David Barden - Bank of America

Got it.

Randall Stephenson

In terms of the comparison versus our competitors I think you asked the question do we care or think about it, you probably know us better than to ask that question, and of course, we care, we think about it a lot and we focus on it and our objective is to not lose share throughout the course of this year and to -- actually get to a point where we gaining share vis-à-vis our competitors.

So we focus on it. We're doing a lot of work in terms of just margin expansion and as we commented early on our guidance, we expect to expend our margin again this year, and so objective is to get our margins comparable to our competitors and also equalize share, so it's a competitive dynamic, a competitive marketplace, and so, that's the front part of this industry.

David Barden - Bank of America

Thanks Randall.

Operator

Thank you. Our next in queue will come from the line of Timothy Horan with Oppenheimer. Please go ahead.

Timothy Horan - Oppenheimer

Thanks guys. And two for Randall while I have you. With the re-elected Obama administration, Randall maybe just some thoughts on what you think they might focus on. Are you optimistic or concerned about any issues they might focus on? So one thing I have really scene is they seem to want to have much faster broadband speeds. Do you think there's anything they can do to really help the deployment?

And secondly, Randall, while we have you, I mean, Apple is still a very large percentage of your iPhone sales and it doesn't seem like the subsidies have really declined in that for the last six years. With Android catching up in terms of quality, it would allow more global consolidation, do you see a point where those subsidies start to decline and if so, when? Thanks.

Randall Stephenson

Sure. In terms of the administration's view on our industry and what we might expect, the current chairman has expressed obviously an interest in having broader broadband deployment. We're actually very supportive. We would like to see the administration come out with a position that is very, very supportive of broad-based broadband deployment.

And in our VIP announcement, it fits perfectly in line with that and in fact, the administration has expressed appreciation for our commitment to investment in extending the broadband. So I don't see any big issues coming out of the administration that they're going to change our plans or change how we view the industry right now.

I think the biggest issues that could impact our industry and our company tend to be more macro policies in nature, tax policy for example. Do we get a big budget deal done and if we do get a big budget deal done, is there an appetite and an interest in doing tax reform? And we would obviously be very, very significant supporters of tax reform, we would really love to see the effective rate on profits come down and understanding that means some of the preferences like bonus depreciation may have to be compromised but we think that's a good thing. It's good for industry and we think it's healthy for the U.S. economy. So those are the issues that are probably most impacting to us.

I think other policy issues that are kind of unknown, they could affect the industry or us specifically the Affordable Care Act as those regulations were published what kind of impact will that have because that's just a big uncertainty that we're all waiting, trying to understand exactly how that's going to affect all others.

And so the macro will be probably more important, Tim, and more relevant to us in 2013 than industry specific issues. As you think about subsidies, we are very encouraged by the new device line that we're seeing come into the marketplace. And we had a record quarter in terms of selling Android devices. I'm very enthusiastic about the Windows 8 devices that are coming into the market place.

And in 2013, we're going to see more and more of those. We think a good, vibrant, healthy set of options for our customers and the whole ecosystem is really, really good for our customers. And it's a good healthy environment for competition among all the players which from our standpoint would probably be good for us as well.

So we're optimistic about what we've seen coming into the line-up in 2013 and a good healthy competitive set of handsets across different OS' actually very optimistic about Blackberry 10. Hope that it proves to be as good as it appears to be, so.

Timothy Horan - Oppenheimer

Anyway, thank you.

Susan Johnson

Tony, this is Susan. I think we've got time for just one more question.

Operator

Thank you. The final question will come from Brett Feldman with Deutsche Bank. Please go ahead.

Brett Feldman - Deutsche Bank

Thanks for getting me in. During the quarter, I believe, you were running a promo on your tablets. I think it was a $100 rebate, which sort of looks like an experiment with subsidies on tablet. I'm just curious what was your experience with that? Did you find that it ended up having a meaningfully positive effect on people buying tablets and attach them to their data plans or are you finding that the tethering option is accomplishing that without the cost?

Randall Stephenson

Great question, Brett. I'll answer the question this way. If you looked at our results, you will see that we added just under 4000 tablets for the quarter, which is a significant number for us in the postpaid space. And we do believe that the $100 promotion was part of that and was part of the success.

When we looked at what those customers bought and what they added to in their mobile share or on their separate plans, we were pleased with the ARPUs that we got out of it and so we viewed it as a positive and think of it as a tool that could be really beneficial to help us grow the business from a data centric device.

Brett Feldman - Deutsche Bank

So do you think you may get a little more of permanent feature in the way you priced tablets or just use it as a one-off motional from time-to-time?

Randall Stephenson

I think we're going to look at that on a regular basis and decide it as we go forward with it. In the fourth quarter, the results were positive, not only on the sales activities but on the revenue commitments that we got out of it from a monthly basis. So the ARPU aspects of it will also more than satisfactory to us. So we felt like it was a very successful strategy.

Brett Feldman - Deutsche Bank

Thanks for taking my question.

John Stephens

Thank you. With that, I want to thank all of you being on the call with us this afternoon. We've closed the year with another strong quarter and delivered on the expectations that we laid out for you at the beginning of 2012. And as Randall mentioned, we are positioned well for 2013. We are focused on growth and have a solid achievable plan that will help us get there. Thanks again for being on the call and as always thank you for your interest in AT&T. Have a good evening.