Operator

Ladies and gentlemen, thank you for standing by, and welcome to the AT&T Second Quarterly Earnings Release 2011. [Operator Instructions] As a reminder, today's conference is being recorded. I would now like to turn the conference over to your host, Senior Vice President of Investor Relations, Brooks McCorcle. Please go ahead.

Brooks McCorcle

Thanks, Keeley. Good morning, everyone, and welcome to our second quarter conference call. It's really great to have you with us this morning. As Keeley mentioned, this is Brooks McCorcle, Head of Investor Relations for AT&T. And joining me on the call today are John Stephens, AT&T's Chief Financial Officer; and Wayne Watts, AT&T's General Counsel. John will cover our results, and Wayne will give us an update on the AT&T, T-Mobile merger process. Then we'll follow with Qs and As.

Let me remind you that our release, investor briefing, supplementary information and the presentation slides that accompany this call are available on the Investor Relations page of the AT&T website. That's www.att.com/investor.relations.

I also need to cover our Safe Harbor statement, which is on Slide 3. And that says that information set forth in this presentation contains financial estimates and other forward-looking statements that are subject to risks and uncertainties, and actual results may differ materially. A discussion of the factors that may affect future results is contained in AT&T's filings with the Securities and Exchange Commission. AT&T disclaims any obligation to update or revise statements contained in this presentation based on new information or otherwise.

This presentation may contain certain non-GAAP financial measures. Reconciliations between the non-GAAP financial measures and the GAAP financial measures are also available on our website. And again, that's at www.att.com/investor.relations.

Before I turn the call over to John, let me quickly cover our consolidated financial summary, which is on Slide 4. Earnings per share for the quarter was $0.60, consistent with last year's EPS before a onetime gain, and up more than 5% sequentially. Our reported EPS this quarter includes $0.02 of pressure from Alltel integration costs and storm costs in the Southeast and Missouri. As we mentioned earlier this year, Alltel integration costs impact margins, Wireless churn and subscriber numbers. After this quarter, these impacts will be largely behind us.

The fundamental trends in our business continue to be quite solid. Consolidated revenue continues to grow for the sixth quarter in a row, up 2.2% year-over-year thanks to strength in mobile broadband, U-verse and advanced business offerings. Even with another quarter of record smartphone sales, our consolidated operating margin remained relatively stable with the prior year and was up sequentially. Cash flow continues to be strong, with cash from operating activities for the quarter totaling $9 billion and free cash flow of $3.7 billion.

With that quick overview, I will now turn the call over to AT&T's Chief Financial Officer, John Stephens. John?

John Stephens

Thanks, Brooks, and good morning, everyone. It's great to have you with us today. Much of the public discussion of late has centered on our planned acquisition of T-Mobile USA, and AT&T's General Counsel, Wayne Watts, will be along in just a minute to provide an update on the approval process. But while that has been going on, we have done an excellent job in executing on our strategies and growing the business.

Let me share a few highlights that are on Slide 5. Consolidated revenues were up year-over-year and sequentially, led by strong Wireless growth and increasing stability in our Wireline revenues. Earnings were solid even when including Alltel integration and storm-related costs. Margins expanded sequentially across the board, Wireless, Wireline and total, and were generally stable from a year ago. Free cash flow was strong, and we continue to expect growth for the year.

Driving these financial results was another incredible quarter in mobile broadband. Smartphone sales set another quarterly record. Postpaid ARPU grew for the 10th consecutive quarter, a record unmatched in the industry. Mobile data growth remained strong and is now an annualized $22 billion revenue stream. We also had solid net adds, with growth in every subscriber category, including having our best quarter yet in branded computing devices. And our Wireline business is showing signs that it soon will be growing again.

U-verse continues to be strong, adding subscribers, increasing triple-play ARPU and is now a $6.5 billion annualized revenue stream. In fact, fast-growing consumer IP data now represents about half of our total consumer revenues. That's right. Our Consumer Wireline business now has over half of its revenues from IP data.

And strategic business services had almost 20% revenue growth, its best performance in 6 quarters, driving sequentially stable business Wireline revenues even without significant economic recovery.

With that quick overview, let's take a look at detailed results starting on Slide 6. Consolidated revenues totaled $31.5 billion, up $687 million versus the second quarter a year ago due to continued strong mobile broadband growth, U-verse revenue growth of more than 50% and increasing stability in Wireline business revenues with strategic business service revenues growing almost 20%.

As you know, these growth areas are driving our revenue mix to Wireless and Wireline Data and managed services. In the second quarter, 76% of our revenues came from these next-generation services [ph]. That's up from 71% a year ago and 66% just 2 years ago. Revenues from these areas were up more than 8% or $1.8 billion in the second quarter. We expect this mix shift to continue, giving us even stronger confidence in the long-term view of our business.

Now let's look at Wireless, starting on Slide 7. Our focus on mobile broadband continues to drive impressive revenue growth. Total Wireless revenues were up $1.4 billion or 9.5%, and Wireless service revenues increased 7.4%, up nearly $1 billion versus the second quarter a year ago. This was driven by subscriber gains and strong adoption of data plans.

Data continued to drive our postpaid ARPU gain. We now have an industry-leading 10 straight quarters of growth, up 2%, and we continue to bring more subscribers onto our network with tiered data plans. In just 1 year, we've added more than 15 million subscribers on tiered plans.

As I mentioned, we had subscriber gains across the board in every customer category, with 1.1 million net adds. The stats are on Slide 8. We had solid postpaid numbers, adding 331,000 during the quarter. And when you exclude the impact of the Alltel integration, our postpaid net adds were more than 500,000. In prepaid, we had 137,000 net adds, but that number grows to 186,000 when excluding the integration impact from Alltel, with continued strength in tablet activations. And we also had another solid reseller and connected device quarter, adding 248,000 and 379,000 subscribers, respectively.

Helping drive subscriber growth was our ability to keep churn in check. Excluding Alltel migration impacts, postpaid churn was relatively stable with year-ago numbers and improved from the first quarter of the year. Additionally, iPhone churn by itself improved sequentially, and iPhone sales increased year-over-year. That means high-quality customers, both new and existing ones, continue to choose AT&T. They know our network advantages, the ability to use voice and data simultaneously, the nation's fastest mobile broadband network and international roaming to 224 countries, thanks to our GSM network. All this makes a big difference to our customers, and you see that in this quarter's results.

You can see the benefit of smartphone and branded computing device sales in our Wireless data results, which are on Slide 9. We grew data revenues more than 23%. That's up more than $1 billion year-over-year. We had another record quarter with smartphone sales, 5.6 million units, both upgrades and new subscribers, our best second quarter ever. The smartphone subscribers now make up half of our postpaid subscriber base, up from just 36% a year ago. And we expect that percentage to continue to grow as nearly 70% of postpaid sales during this past quarter were smartphone sales.

Breaking that down a little further, we had 3.6 million iPhone activations during the quarter, up about 11% from the second quarter a year ago when the iPhone 4 was first introduced near the end of June. An impressive performance in this first quarter where exclusivity no longer exists. But our strongest growth was with other smartphones, BlackBerries, Androids and other devices, where we sold nearly 2.3 million devices during the second quarter. That's more than twice as many as we added in the second quarter of 2010.

ARPU for smartphones continues to be strong, 1.8x our other devices, with more than 85% on family or business plans. And these customers tend to be sticky, with churn below our average. We also had our best quarter ever with branded computing devices, adding 545,000 this quarter to reach 4 million.

As you might expect, strong smartphone sales are having an impact on margins. While these devices tend to have a higher subsidies, the customers they attract have higher ARPUs and lower churn. The details are on Slide 10. So far this year, we've exceeded our expectations and already had back-to-back record quarters in smartphone sales.

But even with our strong smartphone sales, we were able to expand Wireless service margins sequentially. In the second quarter, we had 1.7 million more smartphone sales than we did in the year-ago quarter and up slightly sequentially, yet our Wireless EBITDA service margins expanded from the first quarter. And when you exclude Alltel integration costs, service margins were 42%. You see that on our Wireless operating income, which was up more than 6% sequentially to reach $4.2 billion. Looking ahead, we expect smartphone sales to continue to be strong through the rest of the year, especially when you consider the new products and services that'll be out, our LTE launch and holiday sales.

That concludes our Wireless results. Now before we get to our Wireline results, I'd like to turn the call over to AT&T's General Counsel, Wayne Watts, to give us a brief update on the AT&T, T-Mobile merger approval process. Wayne?

Wayne Watts

Thank you, John, and good morning, everyone. I appreciate the opportunity to be with you, and I'll be brief. Let's take a look at Slide 11. We remain comfortable with the process so far and the pace at which we're moving. The staffs at the Department of Justice and the FCC, the 2 federal agencies that must approve the transaction, are working extremely hard.

They're asking all the right questions. We, of course, take each issue and question identified very seriously and respond quickly and thoroughly as we see this process through. In fact, in response to questions, we have developed a very detailed engineering and economic analysis valuing the enormous efficiencies that will result from the combination of the AT&T and T-Mobile networks. We have revealed to the agencies the results of the analysis and the magnitude of the efficiencies.

The FCC has now indicated it wants time to fully evaluate and validate these results and has stopped their 180-day clock to allow them to do so. In light of the significance of these efficiencies, it is important to us that the FCC validates this information as they continue their review, and we look forward to working with them to do so.

We said when we announced this transaction that our confidence in our ability to obtain approval is based on the facts. And while we still have work to do, we remain very confident that we can satisfy the DOJ and FCC that this transaction should be and ultimately will be approved. Those facts, including the enormous efficiencies we can realize from this merger, demonstrate that this is the surest and fastest way to address the unique network capacity constraints and spectrum shortages faced by AT&T.

The facts also demonstrate that the consumer and public interest benefits are enormous. These include better service in the form of fewer dropped calls, faster speeds and a better overall customer experience, more mobile broadband access for more Americans. By expanding our 4G LTE deployment to more than 97% of the U.S. population, some 55 million more people will receive LTE coverage in America than would have occurred without this merger. And billions of dollars of increased investments in the U.S. economy, which drives more jobs and economic growth.

These benefits are widely recognized and have led to the broad, diverse groups voicing support for the approval of the merger. Those backing this transaction include governors in 26 states, representing 150 million Americans, members of Congress on both sides of the aisle, numerous elected officials at the state and local level, labor unions representing more than 20 million workers, groups representing rural and diverse constituents. And perhaps most telling is the support from the high-tech community. They understand the importance of this transaction and what it means for the continued innovation, growth and prosperity of both of our industries.

Looking ahead, we'll continue to be responsive to those reviewing the merger. Based on the facts and the law, we remain confident we will receive regulatory approval in a timely manner.

John, that concludes my update, and I'm -- turn it back to you.

John Stephens

Thanks, Wayne. Now let's talk about our Wireline business. As I mentioned a moment ago, we are seeing several positive trends here. Let me start with our Wireline Consumer results on Slide 12. The first positive, thanks to the strength of our U-verse business, IP data now makes up half of our consumer revenue. U-verse has transformed our Consumer business. We have done an outstanding job of scaling this business from scratch just a few years ago to an annualized $6.5 billion business today. And it's growing at a 57% clip year-over-year. This has helped stabilize Wireline Consumer revenues, which grew for the fourth consecutive quarter. And as we scale U-verse, margins will continue to improve, contributing to profitability.

During this quarter, we added 202,000 U-verse subscribers to reach 3.4 million customers in service. Broadband and U-verse Voice over IP attach rates also remain solid. More than 3/4 of our U-verse video subscribers have a triple- or quad-play bundle with us. ARPU for these customers now reaches $170, up more than 8% year-over-year.

Penetration rates continue to grow. In areas marketed to for more than 36 months, we've reached 25% penetration. And we now passed 29 million living units and are on track to complete our U-verse build by the end of the year.

We are also beginning to see U-verse high-speed data have a positive impact in the small business space. Our U-verse broadband net adds were more than twice our TV additions, with much of the difference being new U-verse small business subscribers. Faster broadband speeds and mobility is a combination small business customers are looking for, and AT&T's strength in both areas is a competitive advantage for us.

We're also seeing improving trends with our Wireline business customers, which you can see on Slide 13. Pressures from a lack of business formation and weak economic and employment growth continue. With that said, the revenue trends are showing some positive signs. As you can see in our results, we were essentially flat sequentially, and we remain optimistic that we will soon see growth.

Business service revenues were down 3.9% year-over-year on a reported basis. But when you adjust for last year's sales of assets in Japan, revenues were down just 3.2%. That's the best performance in over 4 quarters. And while businesses continue to work their way through the economic downturn, they are still investing in services that help drive productivity and efficiency. We see this in strong IP data growth. We also see it in continued strong growth of our strategic business services, which is now a $5 billion annual revenue stream, growing at close to 20% year-over-year. So we are seeing some encouraging signs.

In our global enterprise operation, there is strong growth in IP data, outsourcing and integration services. Ethernet is driving sequential growth at wholesale, and wireless bundles and improving trends in broadband are helping in the small business segment. These results, combined with continued solid execution on the cost side, have helped drive improvements in margins.

Now let's look at margins and cash flow on Slide 14. For the second quarter, consolidated margins were up sequentially and stable from a year ago at 19.6%. These results were achieved with pressure from a couple of areas: the completion of the Alltel integration, the storm-related costs and a record second quarter smartphone sales. In Wireline, our operating income margin was 13.1% in the second quarter, essentially flat from the second quarter of last year, but up 160 basis points sequentially.

Improving revenue trends and our focus on cost initiatives throughout the company helped offset pressure from declines in voice revenues. Our One AT&T initiatives continue to do well. We continue to target cost efficiencies and simplify product offerings to deliver best-in-class services while also achieving cost savings. We still see a lot of opportunity here as we move forward.

Along with solid margins, we continue to have strong cash flow. Our cash flow summary is on Slide 15. In the first half of the year, cash from operations and working capital initiatives totaled $16.8 billion. Capital expenditures were $9.5 billion, with a 29% year-over-year increase in Wireless capital to reach $4.4 billion. Wireless capital includes work with our LT [ph] build, which is on track to be launched later this summer. And as noted in our earnings release, we're slightly increasing our guidance for full year capital investments. We now anticipate capital expenditures in the $20 billion range as we continue to invest in our wireless network.

Even with this increase in capital spending, we still expect free cash flow growth year-over-year, and we're not changing that guidance. For the first 6 months of the year, free cash flow before dividends was $7.3 billion, and dividend payments totaled $5.1 billion. In terms of uses of cash, debt is down almost $3.4 billion over the past 12 months, and our debt-to-EBITDA ratio is 1.48. Our strong cash flow and balance sheet give us the flexibility to retire debt as it comes due, to invest in the business, including funding the T-Mobile acquisition, and to continue to return substantial value to shareholders through dividends.

Let me close on Slide 16 with a quick recap and a look ahead to the second half of the year. First, revenue trends are moving in the right direction. Continued strong Wireless growth, IP data driving stability in Wireline results, both of these helping expand margins sequentially in both businesses.

Second, Wireless continues to exceed expectations. Record smartphone growth and strong branded computing device sales drove our net adds. Stable churn and increasing postpaid ARPU brighten our outlook for the full year. Our plans to launch 4G LTE service this summer remain on track, providing even more opportunity for us. And as Wayne mentioned, the T-Mobile review process continues to move forward.

And third, the transformation of our Wireline business is driving positive revenue trends with year-over-year consumer growth and relatively flat sequential business revenues. These results add to our financial strength and our sound balance sheet.

In summary, we had a solid quarter, which adds to our confidence as we head into the second half. We expect continued solid results as we focus on executing on our strategy and growing our business. And we are excited about the industry's potential and about our position for long-term growth.

Brooks, that concludes our prepared remarks. We're ready for the Q&A.

Brooks McCorcle

Okay. Great. Keeley, I think we're ready to open up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question will come from the line of Simon Flannery of Morgan Stanley.

Simon Flannery - Morgan Stanley

John, I wanted to come back to the point on the Wireline revenue growth. I think you'd said Wireline soon will be growing again. I know Randall has commented that enterprise revenues could turn positive exiting 2011. So can you perhaps just give us a little bit more specificity around when you think Wireline may be able to turn positive overall and some of the -- just get into some of the drivers of that?

John Stephens

We almost had sequential revenue growth this quarter. So we're on the cusp of that now, and whether that happens in the third quarter, the fourth quarter or soon thereafter, we're really right on the cusp of that now. What's driving it is a number of things. We're still getting great results out of our wholesale business and Ethernet and other products, doing some good business in network integration, supporting some of our key partners in that. We're starting to see some improvement through the U-verse product in small business and our ability to bundle that with Wireless. And we are continuing to see some investment in the global enterprise space by companies. So we're real optimistic that we're going to see it. We just missed it this quarter.

Simon Flannery - Morgan Stanley

And macro isn't assumed to do anything major for the rest of the year?

John Stephens

We are not -- as we said from the start of this year, we have not assumed a significant return to -- or significant growth in the economy, either in employment or in GDP growth. We've been fairly conservative on that and consistent with what has been said on these calls in prior quarters.

Operator

We'll go next to the line of John Hodulik at UBS.

John Hodulik - UBS Investment Bank

Quick question on ARPU. It looked like the postpaid ARPU growth decelerated a little bit quarter-to-quarter. Is that a function of the higher sales of the computing devices? And if you could talk a little bit about maybe what the differential is between computing device ARPU and maybe handset

ARPU and the trends in between there? And then I guess just going forward, do you expect that deceleration to continue as we move through the year?

John Stephens

I think there's a number of items that are going on. First of all, our smartphone ARPUs continue to be 1.8x or better our non-smartphone ARPU. So we continue to get some positive results from that as we penetrate that. You get a higher penetration of the smartphone in the postpaid base. But specifically, with our tiered pricing and our $15 and $25 plans that we have out there, as well as our new emphasis on postpaid computing devices, we are getting into a segment of the market that has somewhat lower ARPUs than are standard but are still very profitable for us. We're not going to turn away those sales. Those are very good, profitable sales. But they do have some slight impact on the margin -- or excuse me, on the postpaid ARPU percentages. I will tell you this. We're still very pleased about the growth we've had, and we're pleased that we -- -- on a run rate, our smartphone sales are about 70% of our unit sales. And we are currently -- only about 50% of our postpaid customers are smartphones. So we have some room to grow in that area.

Operator

We'll next go to the line of David Barden, Bank of America.

David Barden

Just a couple of questions, if I could. First obviously, Alltel, Centennial impacts had a little bit of a depressing effect on margins and churn and subs this quarter. Have we worked all the way through that? Or is there still going to be a tail heading into third quarter? And then I guess second, maybe, Wayne, if I could just ask a question on the T-Mobile merger. Obviously, plan A is to press ahead and get this deal done by the first quarter of next year. But if it were to emerge that the headwinds were gathering against you, what is the plan B strategy? Would it be to cut bait and say, "We just couldn't do it?" Or would it be to press ahead for as long as is necessary and kind of keep this deal alive into the second quarter of next year, the third quarter of next year, however long it took to get it done?

John Stephens

David, let me -- this is John. Let me take the question on the Alltel and Centennial. Effectively, the customer migration and virtually all of the integration effort is completed. There are always some trailing expenses. We expect those to be -- not to be material. But there will be some slight amount. As I said, we don't expect those to be material. Our experience also is after we've done some of these conversions, churn could be a little bit higher for a few months as customers get used to their new devices and make a decision. As you know, we completed our customer migration near the end of June. And so these customers are using these phones, some of them for the first time in June. And so as they get through July and August, there may be a little bit of churn impact, but we're not expecting any of that to be material. And effectively, we believe we are completed with the integration process. Wayne, you want to take the T-Mobile question?

Wayne Watts

Sure. David, it won't surprise you to hear that our focus is entirely on plan A. We're confident that plan A is going to be the result. We're going to keep working towards that, and we think that's the result we'll attain. I would point out the contract does allow extensions. It allows time for an additional 6 months, which would take us into the second and third quarter. But we're entirely focused and we will remain entirely focused on finishing in the first quarter.

Operator

We'll go next to the line of Michael Rollins at Citi Investment.

Michael Rollins - Citigroup Inc

Going back to the Wireless side, one of the things that you guys have been dealing with as you've been increasing the penetration of smartphones to both new and existing customers is that higher subsidy and replacement cost. Are we getting close to the point where if you look at the totality of the activity, the dollars that you spend on replacement start to peak out, and so that then becomes maybe a source of future margin expansion at some time down the road? Or is this something that just as the activity of your subscribers continues to pick up, that we just have to build into the business case for the Wireless segment?

John Stephens

Mike, I think the critical piece here is the change we've already made in our upgrade policy, Mike. And when we announced the change, we made it prospectively effective, which means that effectively, we don't see any of the impacts of that upgrade policy for 12 months or until the first quarter of next year. But we've lengthened that upgrade policy to more of a 24-month standard. That had been more of a 13-month average for us in most of our situations. So we believe that, that management of that cost, we've addressed it. But I will tell you we continue to focus on it, and we continue to be sensitive to it because it is an important piece of the value equation and it's an important piece for us in determining the value of our customers and the profitability of our Wireless business.

Operator

We'll go next to the line of Mike McCormack at Nomura.

Michael McCormack - Nomura Securities Co. Ltd.

Just maybe a quick follow-up on the Wireless margin question. I guess you guys identified the fact that you'd be at about 42% if it weren't for Alltel and Centennial. Is that a good starting point when we're thinking about 3Q? I know you talked about the idea that we might have some bleed-through, but it didn't sound like it was a big deal. So I just wanted to get a sense of what we should be thinking about from a starting point. And then obviously, if there's an iPhone refresh, there might be other issues there. And then secondly, can you guys give us any sense of the percent of the iPhone activations that were the 3GS? And also, how many of the iPhones are upgrades?

John Stephens

Yes. Mike, on your first question with regard to margins, I certainly view it as a good starting point, the 42% as a good starting point to looking towards the margins for the rest of the year. And certainly, that's how our team is looking at it. And as you point out appropriately, we've had some great sales. And depending upon volumes exceed where we've at today, that will pressure margins. But quite frankly, we've had great sales already, and we're at the 42% level that you referenced. So that, I think, is a good starting point. I think, Mike, we'll pass on giving you the details on any of that information, and I'll leave it to Brooks' team to distribute that information as appropriate.

Michael McCormack - Nomura Securities Co. Ltd.

That's fine, John. Just maybe a quick follow-up on the storm cost. I'm assuming that, that hit Wireline. Can you give us an impact on the Wireline margin for the quarter?

John Stephens

Yes. I mean, the impact of the costs were about $50 million. So it would have been about 30 basis points on that margin. So that's what they were. Those were really the tornado costs. We refer to them as storm costs, but those were the tornado costs that hit the Southwest and Southeast part of the United States.

Operator

We'll go next to the line of Craig Moffett with Sanford Bernstein.

Craig Moffett - Sanford C. Bernstein & Co., Inc.

I wonder if I could ask a question about cash taxes. You've obviously benefited, as have all capital-intensive companies, from the stimulus plan and the accelerated depreciation. Can you just look forward into next year, and particularly into '13, as that starts to reverse and give us a sense of what we should expect in terms of cash taxes?

John Stephens

Yes. Everybody here knows I like talking about taxes. Specifically, it has provided us a benefit. And it is providing some benefit for us in our decisions to invest in capital. While we've got great demands on our mobility network and great customer adds, it is an appropriate time to make those investments because of the bonus depreciation rule, so we're trying to take all things into account in making those decisions. I view it this way. Yes, depreciation is something, and these bonus depreciation rules are something that even out over time. But we continue to focus on cash strategies at the company. And if you look at my 12/31/10 financial statements, my annual report, you'll see that even though we had significant bonus depreciation over the last 3 years, our deferred tax liabilities actually went down fairly significantly. So we managed that tax liability from all aspects of our business. But you are right, the bonus depreciation does level out over time, and we see that in, quite frankly, in the '13 and years after viewpoint.

Operator

We'll go next to the line of Jason Armstrong of Goldman Sachs.

Jason Armstrong - Goldman Sachs Group Inc.

Maybe just a quick one and then a broader question. First, on the CapEx guidance, the move higher here. I'm just wondering, is this sort of one-off and tied to specific projects in Wireless? Or is the interpretation here that we're sort of stepping up longer-term capital intensity in the business? And then secondly, I guess just broader question. There's been a lot of talk and focus recently on cannibalization risk to traditional text messaging, and in particular with some of the data points coming out of Europe. Could you guys talk us through maybe why it's different here? And what, in your mind, are the real barriers you have in place to seeing cannibalization of text messaging?

John Stephens

On, Jason, on your first question on CapEx, I don't view it as a step up or down either way and a change in kind of the long-term viewpoint of CapEx for the Wireless business. I view it as our business unit sold a lot more phones and was real successful in the business and the volumes of use by our customers is greater than we expected. So we're making the investments today so that we can provide them the best-quality service. Additionally, I will tell you that because of the current environment, the bonus depreciation rules, it makes it economically, from a cash flow perspective, better to do it today than maybe wait till next year. So we're just trying to be prudent with the shareholders' money and have that opportunity that was provided by the economic recovery legislation and utilizing it. That's really how we view it. And really focused on the customer, making sure they get the best service. With regard to text messaging, it's just a really different set of facts for us. First of all, we have bundled plans that tie text messaging into our voice and data services. We have unlimited texting plans that are very attractive. We just have a much different economic situation that doesn't easily invite anybody to come in and try to interrupt that revenue flow that's coming to us. Particularly, we have a postpaid contract environment where we provide subsidies on the phones, and customers come to us because we do, do that. And while it does generate some issues with regard to our margins, it also provides us a tie into the customers that allows us to manage through some of those issues that you're referring to. So we monitor it real closely. We keep our eye on that revenue stream because it is important to us, but I do believe we're much different than many of the stories that are coming out of the European markets for the texting issue.

Operator

We'll go next to the line of Phil Cusick of JPMorgan.

Philip Cusick - JP Morgan Chase & Co

Maybe a follow-up and then a question. First on the branded data devices, you talked a little bit about this earlier. This has been a fairly slow grower versus the industry overall. As you roll out LTE sort of second half and then next year, do you expect that to accelerate and get a little more aggressive there? And then second, on Wireline broadband, sort of net neutral for quite a while here, at least relative to the industry. Is the shrinking overall sort of losses in non-U-verse areas? Or is this just fairly neutral across the board?

John Stephens

Phil, on the data devices, we saw some growth this quarter. Computer branded devices, I think, were in the 550,000 range, 545,000 range, and we saw -- and certainly driven by tablets. And particularly, we saw some growth in our postpaid tablets. I think about 1/3 or a little less than 1/3 of our tablets were sold on a postpaid basis. So we're seeing that growth today. And yes, as we roll out LTE and get into a different collection of products that are going to be out there, we're real excited about that. So yes. Additionally, because we're in this unique position of onerous economics on a business that touches not only Wireless, but Wireline Consumer and Wireline Enterprise, we feel like we're pretty uniquely positioned to utilize those data devices with our enterprise customers, providing their employees mobility opportunities. So we're excited about it. We look forward to it, and we have seen some growth in this quarter better than we've had in the past. With regard to broadband, the critical issue for me is while we did perform better in this second quarter than we did last year, we did have about 12,000, 14,000 lost customers. But the reality of it is, is we had over 400,000 customers convert from DSL to higher-speed U-verse-type broadband. That includes some small business customers. The point there for me is that we're here once again, giving you another example of where we're transitioning the business to the next-generation high-value services where we have real good retention, real good service opportunities and really good value opportunities for our customers. I'm much more excited about that and what that will play out, particularly with the ability to bundle it with mobile that we have. And that's where we're focused on the business.

Philip Cusick - JP Morgan Chase & Co

And so as we think about the areas that are not being upgraded, is there sort of a -- the business is falling off in those areas? Or again, they're sort of stable in those markets?

John Stephens

I think we are seeing some challenges in those markets. And I guess the long-term response that we're going to have to that really is going to come out of what Wayne was talking about with regard to the merger transaction in the sense that once that approval is reached and we're able to build out, we're going to have 97% of the country covered, which is really going to be probably a similar level of percentage of all our customers. And we'll be able to, if necessary, if it's appropriate to provide that kind of service to them. I think that's the longer-term answer.

Operator

Next we'll go to the line of Chris Larsen of Piper Jaffray.

Christopher Larsen - Piper Jaffray Companies

Two different areas of questions. First, maybe, Wayne, if you could just talk a little bit about there's been some high-level departures at the DOJ, and then yesterday, a senior senator came out on the judicial committees saying we should block the merger. Do either of those things have a material impact on your ability to close the transaction? And then secondly, the incremental spend that you're talking about here, so the extra $1 billion, is this an acceleration of your 4G LTE spend? Is it traditional backhaul? Is it extra 3G? Is it all the above? Could you give us an idea of where that might wind up falling?

Wayne Watts

Chris, this is Wayne. I'll go first. With respect to the changes at the Department of Justice, look, I had a lot of respect for Christine Varney, and I would have loved to see her stay there until we finished this transaction. She obviously had an opportunity she took advantage of, and we wish her the very best there. Having said that, she's left behind an extraordinarily talented staff, a staff that we've been working with on a day-to-day basis on this transaction. And they're going to continue to work hard and push through. And I think that's why even Christine said that she did not view that her leaving would change the timing of the transaction, and I believe that to be accurate. With respect to Senator Kohl, we have a great deal of respect for Senator Kohl and his staff. I've met with him and his staff a number of times. And we often have very candid discussions, and this is one where we simply disagree on, on the outcome here. But most importantly, we have to recognize that while Senator Kohl's opinion deserves a great deal of respect, he's not a final decision-maker. And there are certainly examples where Senator Kohl has opposed transactions that were approved, and we believe that'll be the case here as well. So the short answer is, Chris, I don't think that either one will have a material impact on the timing or the outcome.

Christopher Larsen - Piper Jaffray Companies

Wayne, if I could follow up, and this may be more Jim's area, but any sense for how fast you might see new appointments at the FCC for those vacancies, or soon-to-be vacancies?

Wayne Watts

The only thing I could say is the understanding we have is the administration's working hard to get those slots filled. And I'm sure they're going to continue to do that, and we hope that they do.

John Stephens

Chris, with regard to your questions on CapEx, I think the answer is yes. It's on all of the items you mentioned, but I'd give you this focus. It's really a focus on the Wireless CapEx spend, and it's across in the categories you talked about. But it's really focused on providing a better experience to the customer and handling the volume increase we've seen because of customer growth and quite frankly, more customer usage. So the short answer to your question was yes.

Operator

We'll go next to the line of Brett Feldman at Deutsche Bank.

Brett Feldman - Deutsche Bank AG

I'm actually going to kind of follow up on one of the questions Phil was asking about the data devices. I mean, if you isolate the announcements here around tablets, what's interesting is what a small percentage of overall tablet sales are being sold with cellular capabilities. And it just seems like you've got this huge opportunity to penetrate this rapidly growing product category, and you haven't quite clicked on it yet. I'm just wondering is it as simple as getting the LTE and putting more speed into the device? Or are you considering something maybe broader here in terms of how customers would pay for those things? For example, would you move to more of a subsidy model to get the price point down? Do you think that the service pricing could be tweaked a bit? I'm just wondering where you think your best opportunity here is.

John Stephens

Well, I think we're looking at it from a number of different perspectives. I think one thing we need to realize is the ability to have these float on the WiFi networks and utilize the capacity on the wire networks is important to the customers and important to us. Secondly, I would tell you that I think one of the ones -- opportunities we're most excited about is incorporating this, connecting it with our enterprise customers and working with the CIOs on all the different aspects of security and availability and so forth. And we're working -- we'll work hard to do that. That's an opportunity we're real excited about. But I will tell you, in this quarter, we did make progress. So I don't want that to be lost. I think it is important. I understand your commentary on, comments on long term, much greater opportunities. I don't disagree with all those at all. But we are making progress, and we are looking at how we -- and working very, very actively on a number of different approaches with regard to that. LTE will certainly help. That's for sure.

Operator

And that will come from the line of Jonathan Chaplin of Credit Suisse.

Jonathan Chaplin - Crédit Suisse AG

Two quick follow-up questions. So the first on, I think, CapEx. I'm wondering if you can give us some context for how much of the increase in spending is sort of front-loading capacity buildouts to take advantage of depreciation, that beneficial tax regime, versus just dealing with the massive amounts of data growth that you're seeing on the network right now. What I'm really trying to get a context for is what happens to Wireless CapEx in 2012 and beyond. And then quickly on ARPU, as you sort of take that, the penetration of smartphones from 50% to 70%, can you maintain that ratio of smartphone ARPU to non-smartphone ARPU? Or does the sort of the next slug of smartphone ARPU have to come in at a lower base so that we continue to see sort of overall postpaid ARPU continue to decelerate?

John Stephens

Quite frankly, on the CapEx issue, it's both. It's both prudent, taking advantage of the financial rules that are out there today with regard to taxes and with regard to our strong balance sheet, our ability to do it and also demand. I'm not trying to -- we are not changing in any way, shape or form, guidance on a long-term basis with regard to our CapEx. I'm not even commenting on that. I'm not suggesting that you change that. What I am suggesting is that we're prudently taking the opportunity, because of the incentives that are there today, to move forward to give our customers better service, and we feel good about that. And we feel really -- quite frankly, it's -- we feel good about having the demand. The customers are demanding the subs. That's a good thing. With regard to the ARPU issue, remember, much of the increase in the -- or the increase in its penetration is from existing customers. So generally speaking, when they go from a non-smartphone to a smartphone, their ARPUs, whether they're above the average or below the average, are going up. And so they're going to that, maybe only incrementally, but they are going up. And so they're going to be positive towards that postpaid ARPU average growth because they're coming out of the quick messaging devices or whatever and moving up the chain. What is going to be challenging to us is more of the tablets and the other devices that are going on the postpaid that may have lower ARPUs than are average today. But we are still optimistic about the revenue situation in total and quite frankly, the postpaid situation.

Jonathan Chaplin - Crédit Suisse AG

What would CapEx be if you -- if there weren't sort of bonus depreciation rules in place this year?

John Stephens

Jonathan, I can tell you that we had guidance out there at the mid-$19 billion range, and now we're moving it to around the $20 billion range. I'll leave it to you to make your judgments on whether you want to tie that to bonus depreciation. But I will tell you it was certainly taken into account. And I've got to tell you, my Wireless business unit has done well and added more subscribers than even I thought, and I have a very high opinion of them. So we're responding to that.

I think we're going to wrap it up here. I want to take a moment just again to tell you thank you very much for taking part in the call.

And let me close by highlighting a few key points. First, we delivered another strong Wireless quarter in a very competitive environment, led by our mobile broadband strategy. We had record mobile broadband sales, smartphones and data-only devices. We had solid revenue growth and our 10th consecutive quarter of postpaid ARPU growth. And as you heard from Wayne, we are comfortable with the progress of the T-Mobile merger transaction, and we remain confident of its approval.

Second, we continue to see encouraging signs in our Wireline business as we transform it from voice to next-generation IP data business. Revenue trends continue to improve, and U-verse is leading continued consumer year-over-year growth. Strategic business services are driving improvements in business trends.

And third, we had solid financial results and strong cash flows, which allow us to continue to invest in our growth platforms and to return significant value to our shareholders. This gives us good momentum going into the back half of the year and makes us optimistic about our future.

Once again, my sincere thanks for being on the call today. And as always, thank you for your interest in AT&T. Have a good day.

Brooks McCorcle

Thanks, everybody. Thanks, Keeley.