Operator

Ladies and gentlemen, thank you for standing by, and welcome to the AT&T First Quarter 2011 Earnings Release. [Operator Instructions] And as a reminder, today's call is being recorded. With that being said, I'll turn the conference now to Brooks McCorcle. Please go ahead.

Brooks McCorcle

Thanks, John. Good morning, everyone. Welcome to our first quarter conference call. It's really great to have you with us this morning. As John mentioned, this is Brooks McCorcle, Head of Investor Relations for AT&T. And joining me on the call this morning are Rick Lindner, AT&T's Chief Financial Officer; Ralph de la Vega, AT&T's President and CEO for Mobility and Consumer Markets; and John Stephens, AT&T's Controller and CFO-designate.

We'll cover results, then we'll follow with Qs&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, and, as a reminder, 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 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 at www.att.com/investor.relations.

Before I turn the call over to Rick, I would like to call your attention to Slide 4, which provides the financial summary. Earnings per share for the quarter was $0.57, which is roughly in line with adjusted EPS from first quarter a year ago, and it's clearly up from our reported EPS of $0.41 this time last year. Our results this quarter also include approximately $0.02 of pressure from Alltel integration costs. As we have mentioned to you earlier this year, this merger-related cost will also impact margins, wireless churn and subscriber numbers, which Ralph will cover in a few minutes.

We will also see some impacts continuing into the second quarter as we complete customer migrations, but, overall, the integration process is going well and is in line with our overall expectations. Consolidated revenues were up 2.3% year-over-year, thanks to continued strength in mobile broadband, U-verse services and strategic business offerings. Consolidated operating income margin remained stable even with strong sales of smartphones, and cash flow continues to be strong, with cash from operating activities totaling $7.7 billion and free cash flow of $3.6 billion. With that, I will now turn the call over, one last time, to AT&T's Chief Financial Officer, Rick Lindner. Rick?

Rick Lindner

Thank you, Brooks. Good morning, everyone. Let me start with a couple of comments on the quarter overall. The highlights are on Slide 5. First off, we had a terrific start to the year. We saw a continuation of the positive revenue trends we've seen in the past few quarters. We had a very strong wireless quarter, with double-digit revenue growth. Stable trends in Wireline revenues driven by U-verse expansion and growth in strategic business services. Going into the quarter, we knew that with another carrier offering the iPhone for the first time, there was a possibility of some natural volatility, and our mobile broadband strategy would be tested as never before.

I'm very pleased to tell you that the results show our strategy is working. Our wireless business is performing at a high level, and customers, both new and existing ones, continue to choose AT&T. Smartphone sales continue to be strong. Postpaid ARPU continues to grow at a good clip. Churn remains relatively stable, both year-over-year and sequentially. Plus, we continued to expand into new wireless growth areas of connected devices and tablets. Ralph will provide you more details in a moment. But mobile broadband is driving unprecedented growth in our industry, and we're pleased with the results we're seeing.

We also continue to be pleased about the transformation of our Wireline business. U-verse continues to scale, helping drive consumer revenue per household up more than 6%, and strategic business revenues had its best quarter in more than two years. So on a number of fronts, it was a positive quarter and a good start to the year.

With that as background, let's look at detailed results starting with consolidated revenues on Slide 6. First quarter consolidated revenue totaled $31.2 billion, up $717 million or 2.3% versus a year ago. That increase was due to double-digit wireless growth, continued U-verse growth of more than 65% year-over-year and stable trends from our Business segment. You see these trends transforming our revenue mix. In the first quarter, 74% of revenues came from wireless, from Wireline Data and Managed Services. That's up from 70% a year ago and 65% two years ago. Revenues from these growth areas were up more than 9% in the first quarter. We are well-positioned here, and we expect these trends to continue to drive top line growth for the company as we go forward in this year.

Now, I'd like to turn it over to Ralph de la Vega. Ralph, as you know, runs our Wireless and Wireline Consumer businesses for an update on those areas. Ralph?

Ralph de la Vega

Thank you, Rick, and good morning, everyone. It's great to be with you today. As Rick mentioned, we faced a lot of questions with another iPhone competitor entering the market. That made it a little harder to predict what was going to happen in the first quarter, but, at the same time, we had confidence in our mobile broadband strategy, our network and our ability to compete.

Going into the quarter, we told you we had good plans in place. We told you about the stickiness of our customer base, and we told you we were prepared. I'm very pleased to say that not only did we deliver another solid quarter but, in many ways, we had our strongest first quarter ever. Take a look at some of our accomplishments on Slide 7: double-digit revenue growth, the best-ever first quarter net adds with gains in every category; best-ever first quarter smartphone sales, almost equaling our seasonally strong fourth quarter numbers; best-ever first quarter connected device net adds, continuing our strong performance in this area; and we continued to add branded computing subscribers, mobile devices such as tablets, air cards, MiFi and other data devices to our network at a strong pace.

We also posted year-over-year postpaid ARPU growth for the ninth consecutive quarter as more subscribers added data services at record that none of our competitors can match. And in a quarter that we know could be volatile, we had postpaid subscriber growth. Even with these strong sales, wireless service margins were more than 40% when you exclude the Alltel and Centennial merger cost. All in all, an outstanding quarter especially when you consider the impact of the mergers. Without a doubt, it was a quarter that validated our strategy and our ability to compete. This quarter's performance helps you understand why we're so excited about mobile broadband opportunities. We're just at the beginning of something really incredible. Mobile broadband has become the critical technology, driving growth and innovation. When you think about the additional capabilities to reach that the T-Mobile acquisition provides, you'll understand why we're so excited about this opportunity.

With that, let me cover wireless revenue on Slide 8. Our focus on mobile broadband continues to drive strong growth. Total wireless revenues were up $1.4 billion or up 10.2%, and wireless service revenues increased 8.6%, up more than $1 billion versus the first quarter a year ago. This includes growth in both data and voice revenues. Postpaid ARPU grew 2.4%, which includes pressure from the impact of the Alltel merger. Without this pressure, the increase in ARPU will be pushing 3% for the quarter. There's no better place to see the success of our wireless strategy this quarter than our net adds and churn, and this is covered on Slide 9.

Even in a quarter which we knew would be challenging, we added nearly 2 million subscribers. This includes growth in every product category. Connected devices led the way. We added 1.3 million during the quarter. We also had positive postpaid net adds for the quarter, adding more than 60,000. Excluding the negative impact of the merger integrations, postpaid net adds were around 165,000 in the first quarter. Prepaid net adds for the quarter were 85,000, and we had another solid reseller quarter with more than 560,000 new subscribers. Even though iPhone exclusivity ended in the first quarter, the churn impact was minimal. Total churn was relatively stable with last year's level, and, excluding merger impacts, postpaid churn was stable sequentially and up only seven basis points from the first quarter last year.

If you dive a little bit deeper, iPhone churn by itself was the same year-over-year. And iPhone sales increased, which means we continue to grow our iPhone base this quarter. Keeping churn levels low is critical to wireless growth and profitability, and that is why we have a strong upgrade program. We also built a sizable part of our postpaid base on family and business plans, about 80% overall, and these customers are more loyal with lower churn rates. These results speak volumes about our wireless business. New customers are choosing AT&T and existing ones continue to stay with AT&T in record numbers.

Another part of the strategy that paid dividends was our focus on smartphones. The details are on Slide 10. Smartphone sales helped drive wireless data revenue growth of 24%, up nearly $1 billion year-over-year. We had our largest first quarter smartphone sales ever, signing up 5.5 million customers, both upgrades and new subscribers. The numbers of smartphones on our network increased by about 2.4 million in the quarter, up nine million in the last 12 months. These results reflect another strong quarter for iPhone activations, with more than 3.6 million activated during the quarter. That's almost 1 million more than last year, with 23% of these subscribers new to AT&T.

We also had a strong quarter with other smartphones, selling more than 2 million other smartphones this quarter. That's twice as many as we added in the first quarter of 2010. This was driven by BlackBerries, Windows Phone 7 devices and significant growth in new Android models. In fact, during the last six months, our monthly sales of Android devices have more than doubled. We still see a lot of upside here. About 46% of our postpaid base uses smartphones today, but our smartphone sales rate is approximately 55%.

This quarter, we also began breaking up the number of branded computing subscribers added to our network. These are devices such as tablets, air cards and netbooks. We added more than 420,000 this quarter to reach 3.4 million. That's about twice as many as we had 12 months ago. Most of these were tablets with more than 320,000 added.

These customers continue to choose AT&T for a reason. Network capabilities matter to them, a faster nationwide mobile broadband network, using voice and data simultaneously on their devices and international roaming to 224 countries, thanks to our GSM network. All of these capabilities make a difference to our customers and they're a big reason we had such a strong wireless quarter.

As you might expect, our strong smartphone sales and high upgrade levels had an impact on margins, and the details are on Slide 11. Smartphones tend to have higher subsidies and quick messaging devices than feature phones, but they also have a very attractive customer profile as well, with lower churn, higher ARPUs, which are about 1.8x our other devices, and strong data growth. That's why we implemented an aggressive smartphone promotion strategy in the first quarter, slightly increasing our advertising and marketing spend. You can see the results in our smartphone sales. In the first quarter, we had about 2 million more smartphone sales than we did in the first quarter of 2010. About 9% of our postpaid base upgraded their device in the quarter, signing a new two-year contract with the company. Without the merger upgrades, about 8% of our base upgraded during the quarter. Again, that speaks volumes about the customers' confidence in AT&T, especially this quarter.

These sales did impact wireless margins in the first quarter. Our wireless EBITDA service margin was 39%, down from the year-earlier quarter but up sequentially. Factoring in customer migration costs from the Alltel and Centennial mergers, service margin would have been 40.5%. Wireless operating income was up more than 30% sequentially to almost $4 billion.

Now let me take a moment to discuss our Wireline Consumer results on Slide 12. We had another strong quarter with our U-verse services. We've done an outstanding job scaling this business within the last few years with solid net adds, strong revenue growth, growing penetration, strong voice and broadband attach rates, with growing triple-play ARPU and improving profitability. This helped drive our third consecutive quarter of year-over-year revenue growth in consumer Wireline. We added 218,000 U-verse TV subscribers in the quarter, bringing our total to 3.2 million, up about 900,000 over the past year. Broadband and U-verse voice over IP rates remain very high. More than 3/4 of U-verse subscribers have a triple or quad play bundle with us, and ARPU for these customers continues to grow significantly, up 15% year-over-year to reach almost $170. U-verse now is on an annualized revenue stream of approximately $6 billion. We also continued our recent trend of total wireline broadband net adds, up 175,000. Together, IP products now represent a $10 billion annualized revenue stream and nearly half of total consumer Wireline revenues, growing at over 26% year-over-year. That covers wireless and consumer. I'd now like to turn it over to John Stephens to discuss wireline business and consolidated results. John?

John Stephens

Thank you, Ralph, and good morning, everyone. Let's first take a look at business consumer trends, which are on Slide 13. What we are seeing so far in 2011 is consistent with the fundamental trends we saw last year. Revenue trends, while still down, have been stable the last three quarters, particularly when you adjust for the third quarter 2010 sale of our local Japan assets.

But there are some encouraging signs. Strategic business services, revenues from products such as ethernet, VPNs and application services were up almost 19%, our strongest quarter in more than two years. This drove business IP revenues up more than 8%, once again, led by the growth in VPNs. These results continued trends we have seen throughout this downturn. Consistent investment in strategic business solutions and IP data, services that help drive productivity and efficiency. This has transformed our business wireline revenue mix. Data and other growth areas such as Managed Services now comprise 61% of our revenues, up 200 basis points in the past year. We expect the shift to continue as more and more businesses move to the cloud and IP-based solutions, areas where we are well-positioned. We also continue to execute well. Operating expenses are improving, helping drive margin expansion. So there are some encouraging signs. Any economic improvement would be beneficial as we have not built an economic turnaround into our expectations this year.

Now, let's look at margins and cash flow. Consolidated margin comparisons are on Slide 14. For the first quarter, margins were up sequentially but down from a year ago at 18.6%. On the wireless side, this reflects a couple of things. Merger integration and related costs that Ralph mentioned and significantly higher smartphone sales. Our Wireline operating income margin was 11.5% in the first quarter, down slightly from the first quarter last year. We remain focused on cost initiatives throughout the company as evidenced by the total force reductions of almost 6,000 this quarter. This helped offset margin pressure from declines in voice revenues and storm-related expenses that occurred in the last -- in the first quarter.

Our commitment to operate as One At&T continues to deliver financial benefits as we consolidate and integrate wireless and wireline operations. And as we talked about operational efficiencies and simplify product offerings, we have continuing opportunities for cost savings. These initiatives are going well and help us sustain solid margins while also serving customers with a best-in-class operation.

Along with solid margins, we also continue to deliver a strong free cash flow. Our cash flow summary is on Slide 15. In the first quarter, cash from operations totaled $7.7 billion. Capital expenditures totaled $4.2 billion, with more than 50% year-over-year increase in our wireless capital to reach $1.9 billion. Free cash flow before dividends was $3.6 billion, and we made a dividend payment this quarter for $2.5 billion. In terms of other uses of our cash, we reduced debt by more than $1 billion in the first quarter and debt is down almost $4.5 billion over the past 12 months. Our net debt to EBITDA ratio is now at 1.53.

Our strong balance sheet and cash flow continue to give us the flexibility to invest in the business through both capital improvements and strategic acquisitions, while also returning substantial value to shareholders. With that, I will now turn it back to Rick for closing comments.

Rick Lindner

Thank you, John. Let me recap the quarter on Slide 16. First, we're off to a good start for the year, with solid revenue growth in both wireless and consumer wireline and stability in our business markets. Second, we had another very strong wireless quarter, a performance that was particularly satisfying when you consider the challenges we faced. We told you last quarter that we expected positive contract subscriber growth for the year, even with the introduction of another carrier for the iPhone. And we delivered on that outlook in the very first quarter. When you add in record first quarter net adds, strong sales of branded computing subscribers and higher postpaid ARPU, you can understand our confidence in the mobile broadband strategy and mobile broadband opportunity. We're also very pleased with the continued transformation of our Wireline business. In fact, fast-growing data and video services now exceed voice revenues in Wireline, thanks to U-verse and continued strong growth in strategic business services. And our financial strength and cash flow remain strong, allowing us to return value to shareholders as we continue to invest in our business.

So we're off to a good start to the year, with solid first quarter operating results and a positive long-term outlook for the business. Brooks that concludes our prepared remarks. I think we're ready to take some questions.

Question-and-Answer Session

Operator

[Operator Instructions] We'll go to the line of Simon Flannery with Morgan Stanley.

Simon Flannery - Morgan Stanley

First, Rick, wishing you all the best on your retirement. You'll be missed. Thanks for your help. Ralph, could you update us on the LTE rollout? What are sort of the key steps you're going through right now? Where you stand? And then, what's the updated timing on POP coverage on that? And any updates you have on sort of network performance in some of the major markets that are currently? That would be great.

Ralph de la Vega

Sure, Simon. Our LTE rollout is on track and continues to move at the same pace prior to the announcement of the T-Mobile transaction. We're planning to commercially launch our service mid-year, and we plan to cover 70 million to 75 million POPs by the end of the year. Our network team is working around the clock doing the necessary modifications and building the network. We've got handsets and devices ready to go, so we're really excited. What I'm really excited about is we had a very good first quarter, and that we have not yet turned up our LTE capabilities. So I expect that future quarters, when we have that capability in hand, will even give us better momentum.

Simon Flannery - Morgan Stanley

And then on the network performance today?

Ralph de la Vega

The network performance today, Simon, is getting better. You know, we've got the nation's fastest network, and it keeps getting faster. We saw an increase in national broadband speeds over the last six months. We've had solid improvement in voice metrics thus far this year, and we improved both voice retainability and voice accessibility. The only concern we have with network is the long-term capacity constraints that we face with Spectrum. And as you know, that's one of the things that will hopefully be relieved with the T-Mobile transaction.

Operator

Our next question is from John Hodulik with UBS.

John Hodulik - UBS Investment Bank

Just a couple of questions on wireless. Actually, Rick, in the past, you guys have said you thought the churn levels would be elevated in the first half and start to head down in the second half given the expiration of the exclusivity. Is this the kind of increase in churn? Churn was -- the increase is, certainly, much less than we thought. Is the kind of level that you think we should expect to see going forward here, maybe in the second quarter? Or do you think that the expiration of some of the contracts that you guys signed two years ago accelerates that a bit? And then, secondly, on wireless, the prepaid numbers, you have a net add to 85,000, a bit less than we thought. Verizon is testing some new prepaid plans. Is that an area where you think you might need to get more aggressive?

Rick Lindner

John, I'll give you a perspective on churn and the impact there in the contract customers, and then I'll let Ralph address the prepaid wireless question. In terms of churn, frankly, we expected a slight uptick in churn when another carrier launched the iPhone. Our expectations, I think we're generally less more modest in terms of churn increase than external expectations. We believed in our broadband strategy, our wireless strategy. We felt we were prepared for changes in exclusivity. And, actually, the results came in better than we expected. And as you heard from Ralph, there's very, very modest change in overall churn and in postpaid churn levels. And I think, one of the most surprising areas perhaps is the fact that iPhone churn basically stayed flat. It did not increase. And I think, as you know, as you think about what drove that and what caused those results, frankly, I think it had less to do with customers being under contract. Of course, we always work hard with our upgrade policy to keep customers under contract, and we do believe that it helps overall churn levels. But the fact is that, it was well known for months and quarters in advance that another carrier would launch the iPhone. And yet, we continued to see customers upgrade their devices, enter into new contracts in the third and fourth quarters last year and in record numbers. And that continued into the first quarter this year when the phone was available on another carrier. And the reality is, even if customers were under contract, they have the ability to break that contract, pay a termination charge and most likely, take that device that they had and sell it and recover most, if not all, of that contract termination. So I don't think having customers under contract had that large of an impact. What I do believe has an impact is what Ralph touched on earlier, and that is the device. And you have to remember the iPhone is a device that carries a lot of data usage and a lot of data traffic. For heavy data users, being on our network, having a faster data experience, having simultaneous voice and data, having the ability for high-end users who do any amount of international travel to be able to use that device, not just in the U.S. but around the world, all of those things were important to the iPhone customer base. And so I think that speaks as much as anything to what we saw in the first quarter and to churn levels. And as we go forward, based on what we've seen, certainly, to date, we're not expecting significant changes in those churn rates or in the iPhone churn rates as we go forward in the balance of this year. Ralph?

Ralph de la Vega

Yes, let me add a couple of thoughts, John, on that same subject and then I'll talk a little bit about our prepaid. One of the interesting things in the quarter to add to what Rick has said is that our momentum for sales actually increased throughout the quarter. What we saw happen early in January, when the iPhone was announced to go to another carrier, is customers took notice, waited to see what was going to happen and once they compared, and they understood that on our network the iPhone works faster, that it has simultaneous voice and data, and it works in over 220 countries, I think they made their choice, and we saw that increase in the February and March timeframe. So we're very pleased with the momentum. I think the customers understand the trade-offs, and they're making their choices. And I'm very, very pleased that our marketing message got through, and that we maintain and actually grew momentum throughout the quarter. In terms of prepaid, we continue to look at a number of things in prepaid. You probably saw that we just announced our first smartphone on prepaid with LG. It's a low-end smartphone on the prepaid market. We think that there is the same level of interest in that market for data in a prepaid product. So we've launched it, and we think we have high hopes that, that will stimulate prepaid demand. But we continue to look at all or other kinds of aspects of the prepaid business to grow it, but to grow it profitably.

Operator

Our next question is from Michael Rollins with Citi Investment Research.

Michael Rollins - Citigroup Inc

I wanted to just follow up on two things. First, on the business revenue side. Can you talk a little bit about how we should look at the stabilization in Enterprise and small business revenue, maybe what drove that in the quarter? And is this the turning point where maybe in the next few quarters, we could start to see some sequential growth take shape? And on the other side of the Global business segment, wholesale looked like it took a step down in the quarter. If could you talk a little bit more about what happened on that part of the Global business revenue?

John Stephens

Thanks, Mike. This is John. A couple of things with regard to the Enterprise space revenues. After taking into account the sale of our Japanese local asset business, we did see the stabilization and the trend. I think for us, it's the movement towards the IP and the strategic services which is helping us trend that. We have not planned for an economic turnaround, but, as that occurs, we will see those trends improve throughout this year and into next year. And I guess our viewpoint would be that we would hope for positive revenue in that area in 2012. On a longer-term basis, we believe it to be a GDP or GDP-plus type business. On the small business side, the opportunities there are really in the data side in our IP DSLAM strategy, where we've got about 50% of our central office covered with the IP DSLAM capabilities, which is allowing us to provide some really competitive products in the data area. When you combine that with our unique position to provide mobile services, we believe we are seeing some traction in the small business area. But that has been tempered by the fact that business formations in that space are just really challenged right now. That's an economic matter that, I think, any participant in the market is dealing with. Lastly, on the wholesale side, we just continue to see challenges on all aspects of that business as our customers continue to trim their networks and look for efficiency. And that's an area that we'll continue to focus on as we go forward.

Rick Lindner

Mike, this is Rick. I think just a couple of points I'd add, on the wholesale side and the wholesale numbers you're looking at, I think as we kind of disclose the breakdown of our business segments, we include, we group wholesale along with federal and government, education and medical segments of the business. And so if you just look at our pure wholesale portion of the business, we've seen some improvement there. And, in fact, we've seen some nice results driven to a large degree by providing Ethernet transport to cell sites for other carriers, but we are seeing some weakness in the government areas of the business. On the federal side, federal revenues are still growing year-over-year. But the growth rate in this quarter declined, and I think, at least to some degree, that has to do with budget issues in Washington that are causing different agencies to tighten their belts a little bit. And that, of course, in the state area, the budget pressures there are having an impact. But wholesale by itself is moving along pretty well. When you put it all together, our expectation as we go forward in this year, will be to see improvement in the revenue trends on a year-over-year basis, and we expect to see that as we move into the second, third and fourth quarters. I think the extent of that improvement and, certainly, the point in time when we get back to positive revenue growth in business is heavily dependent on the strength of the economy as we go forward in the balance of this year.

Operator

Our next question is from David Barden with Bank of America Merrill Lynch.

David Barden

Just questions. Number one, if we could return to the Wireline margin question, obviously, you guys highlighted a couple of qualitative issues. Can we talk a little bit more about quantification in the quarter of maybe some of the seasonal step ups in the storm costs and how we should think about that margin, maybe lifting back up in the coming quarters? I mean, this was the first time in, I think, maybe 10 quarters that we actually saw the total value expenses go up rather than down. And then I guess the second question maybe, Ralph, just on the ARPU side, could you talk a little bit about at this stage of the game, what's driving ARPU? Is it getting the feature phone subs into that $15 price tier? Was it really about selling these $50 iPhones and upselling guys who are already in the integrated device tier up to the smartphone level? What's really with the mechanics behind where ARPU's going today?

John Stephens

Greg, this is John Stephens. On the first issue you had with the margins, quantifying the first quarter storm-related cost over time, maintenance repairs and some of the payroll tax issues, it's about 100 basis points or about $150 million. And so, we would expect that's included in this first quarter, and we would expect things to improve and grow margins going forward. Couple of other things that you were seeing that we're dealing with is with growth in our U-verse business, while very positive and a good story and good overall growth, brings with it some lower margins from our legacy products. I think you're familiar with that. But we do expect to see continued improvement in margins throughout the year. I'll hand the other question over to Ralph.

Ralph de la Vega

David, the thing that is driving ARPU is our fundamental strategy to continue to move customers into smartphones with higher revenue data plans. So what we did this quarter, which worked extremely well, was to offer customers lower our price options to get into a smartphone, not just from the point of view of the price plans but also the device pricing. The iPhone 3GS at $49 is selling very well. We also have the HTC Inspire and the Motorola Atrix, two brand-new Android devices that are selling very, very well. So what you see, are people that are stepping up from quick-messaging devices and feature phones and stepping up to the higher data plans, and that's what's driving ARPU.

David Barden

And if I could just quick follow up, Ralph. I know you guys shared smartphone penetration of the base this quarter. Can you share the integrated device penetration this quarter, which I think is something you guys have been sharing for the last couple of years?

Ralph de la Vega

I think that the integrated device penetration stayed approximately about the same level as we did last quarter. So we increased smartphones to integrated devices that are approximately the same level as they did last quarter, and we grew the overall smartphone base at the same time. So that's very positive for us.

Operator

Our next question is from Craig Moffetwith Sanford Bernstein.

Craig Moffett

Can you drill down a bit on the wireless consumer versus Enterprise trends? It's not something you'd break out, but is it fair to assume that Enterprise wireless has started to show some acceleration, and, if so, what does that say about consumer on a net basis? And then, similarly, if you could just share a little bit about the porting ratios that you had outside of the iPhone. What were you seeing with respect to other carriers beyond just Verizon iPhone you met?

Ralph de la Vega

Greg, in terms of consumer versus Enterprise, we've had very good success on the Enterprise side, both in CRUs and IRUs. Our customers in the Enterprise side, of course, are just following this wave of growth that we're seeing with smartphones and, specifically, tablets. So we're very pleased with their results, and they complement the growth that we have seen in the consumer markets. So all that other metrics that we've talked about, overall, are doing as well or maybe a little bit better on the Enterprise side. So we're very, very happy with the Enterprise results. In terms of the porting ratios, porting ratios since the beginning of the year and through the iPhone released to another competitor have actually gone up after our customers made their choices and started re-upping the contracts and signing up in what turns out to be a record quarter for smartphone sales. So we're very pleased with the performance of our Enterprise business, and we're also very pleased with the uptick in the porting ratios that we have seen subsequent to the launch.

Craig Moffett

Can you share any quantitation of either of those impact?

Ralph de la Vega

No, we do not provide that data publicly, Craig.

Operator

Our next question is from Mike McCormack with Nomura Securities.

Michael McCormack - Nomura Securities Co. Ltd.

Rick, I'll test your math knowledge one more time before you step down. Just thinking about wireless margins, and we strip out the impact of Alltel and Centennial, it looks like cash costs were up about $1 billion year-over-year and, obviously, you have your 2 million additional smartphones, including iPhones. But could you just helps us understand maybe the differences in SAT between an iPhone and a regular smartphone? And then just maybe secondarily, the impact of Verizon getting the iPhone with their marketing or advertising, is that sort of a one-time expense that you expect to go away?

Rick Lindner

I'm sorry, Mike. What was the last part of your question?

Michael McCormack - Nomura Securities Co. Ltd.

When we think about that $1 billion cost increase year-over-year, how much of that is just incremental SAT related to smartphones and iPhones versus spending in advertising and marketing because of the Verizon iPhone coming online?

Rick Lindner

Mike, I think the majority of the cost increase and, certainly, the majority of the margin impact that you see year-over-year in our results is related to the smartphone sales and the increase in those smartphone sales year-over-year. What we're seeing in the businesses is two factors that are impacting margins. One is higher upgrade levels. So those overall volumes in upgrades are higher, and then we're seeing a significant mix shift out of lower-end devices, some lower-end feature phones and even versus what we've seen the last couple of years, a lower mix in lower-end quick messaging devices toward smartphones. Now, obviously, there's some upfront costs to that. We believe there's significant advantages to that. Advantages in terms of customer satisfaction and churn advantages, significant advantages in ARPU, even when you go from a quick messaging device to a smartphone, there's a significant ARPU benefit there. But the actual cost by device depend on the individual smartphones that you're selling, because those devices, as well, vary by device in terms of subsidy. But let me just leave it with the majority of that cost increase had to do with additional subsidies related to smartphones, along with -- obviously, we're putting a lot of investment into the network to handle the volumes and the traffic that we're seeing. And when you put that additional investment in, it increases our costs associated with cell sites and cell site leases, equipment maintenance. There's a lot of trailing expenses, all the backhaul associated with it, and so those are the two areas where we're seeing some cost increases, and the cost increases in the network side associated, is really associated with volumes and revenues. And it's not having as significant an impact on the overall margin percentage. But the smartphone penetration, the upgrade volumes and so forth, is having more of an impact there. And that's something Ralph and his team are working very hard on in terms of as we go forward, managing those levels and managing cost to drive margin improvement as we go forward in this year.

Michael McCormack - Nomura Securities Co. Ltd.

Rick, if you don't mind, just give us a little bit of detail on the stepdown in D&A. Is that change in useful lives? Or is it something else that we should be thinking about?

Rick Lindner

No. If you look at depreciation itself, year-over-year depreciation itself was up slightly as you would expect. Amortization was down and that was simply merger-related amortization primarily in wireless but actually both in wireless and wireline that, that's just falling off. Within the depreciation categories, I think we did have a small decline in depreciation in the Wireline business but was more than offset by increases in wireless. And on a net basis, consolidated, there was a small increase in depreciation.

Operator

Our next question is from Jason Armstrong with Goldman Sachs.

Jason Armstrong - Goldman Sachs Group Inc.

In terms of that wireless trends through the quarter, Ralph, you had some interesting comments on the trend rates seeing momentum improved through the quarter. I'm trying to get specifics here. Was this an iPhone-specific comment and, I guess, to what extent was this tied into the $49 pricing on the 3GS product that you have? Or was this more of a comment on broad momentum in wireless, i.e., you've weathered competitive LTE launches with Thunder Bolt, et cetera and really see holistically momentum improving through the quarter. And then, I guess, second question is just on ARPU, does the rate of postpaid ARPU growth rate is positive relative to expectations this quarter? Are you comfortable that the rate of growth continues to improve from here? I guess you get some benefits from lapping Alltel in 3Q so it's the momentum there, but are we comfortable that it continues?

Ralph de la Vega

Jason, this is Ralph. And, yes, what happened with momentum, it was, holistically, wasn't just to one specific device. What we really liked is that we had good momentum from the iPhone portfolio but we also had some terrific momentum from the new Android portfolio. The sales of Android devices with the Motorola Atrix and the HTC Inspire, our brand new Android devices are off to a very good start. So we saw great impact on momentum from our iPhone portfolio but, also, the Android portfolio was very strong as were other devices. And so, holistically, it was a very strong quarter. Once the customers got over the load of what to expect, they saw what the competitor had, and they made their choices. So I feel very, very strong about that. When it comes to ARPU, I feel even better because we have just begun to roll out the 4G Android devices, and we know we have LTE coming in the middle of the year and in the second half of the year, Jason. So my expectation is once customers get to see the mobile broadband strategy that AT&T has, where you're going to get a great LTE experience with these new devices, but then you're going to fall back to our HSPA+ capabilities so that the transition from high-speed of LTE to high-speed of HSPA+ is almost seamless, is something they're going to love. That to us means higher ARPU, more data usage, and we feel very strongly that we're on the right path, promoting the right products. And with the network capabilities we're going to have by the end of the year, I feel it puts us in an even better position that we are in this quarter.

Operator

That would be from Jonathan Chaplin with Credit Suisse.

Jonathan Chaplin - Crédit Suisse AG

Just following on from the wireless margin question, Rick, since this is the last time we'll have you, and congratulations again. Should we see margins in wireless expand during the course of the year as some of the pressures that you sort of built up for in the first quarter from a cost perspective that you don't actually don't increase? And then over time, can we still get to mid-40s EBITDA margins in wireless given that the extra cost that smartphones bring with them?

Rick Lindner

Jonathan, are you hoping that since this is my last call, I'll give all the information that I wouldn't give in the past?

Jonathan Chaplin - Crédit Suisse AG

Yes, if it's not too long, Rick. There's no cost. You could give it all to us. No, I was just thinking in terms of the wireless margin guidance just sort of comments that you have made in the past, I'm wondering if...

Rick Lindner

I got it, John, and I was just teasing you. In terms of wireless margins, and what we expect going forward, we do expect wireless margins to improve going forward in the year. One of the pressures as we talked about we had this quarter was with the migration, primarily the Alltel and to some degree, the Centennial customer bases on to our network and our systems. And in order to make that migration because they're coming largely from another technology, we had to replace handsets, and there's a cost and subsidy associated with that. The first this quarter was from a margin standpoint the peak of that impact. We will see some impact going into the second quarter, but it will be less than what we saw this first quarter. And that migration, for all practical purposes, will be complete by the end of the second quarter.

And so we'll see a natural increase in margins as we go forward due to that change. In addition to that, as I mentioned earlier, there's a number of initiatives we are working to drive margin expansion and better margins in the wireless business. You saw us across the company reduce force pretty significantly this quarter, nearly 6,000. And some of that benefit will flow into the wireless business. And, certainly, it will benefit overall margins. But going forward, the individual quarter results can be impacted by specific product launches in those quarters. And obviously, the volume of smartphone sales and the volume of upgrades will impact individual quarters. But to your point, we do expect wireless margins to improve, and our expectations and our planning still move wireless margins into the mid-40s that we talked with you about on a longer-term basis. With that, folks, if I can, let me offer just a couple of closing comments. First off, we entered this quarter and this year with some questions and some uncertainty, primarily related to the change in iPhone exclusivity and the impacts that it would have on our business. And as Ralph said in his remarks, hopefully, we've answered those questions. Was there an impact from another carrier launching the iPhone? Well, the answer to that is yes, there was. We saw a very small increase in postpaid churn, and we saw a slight decline in overall flow share. But the impacts were significantly less than many in the financial community and the media expected. And frankly, the impacts were less than we expected. And we continue to grow our postpaid base. We continue to grow our iPhone base. We continue to grow postpaid ARPU and had significant growth in wireless data revenues. And I think that speaks to several things. I think it speaks, first of all, to the strength of our postpaid customer base and those specific customer relationships. I think it speaks to the ability of Ralph de la Vega's team to execute a plan and to compete in the marketplace. And I think it also speaks to the strength of our wireless data network and our franchise overall. This quarter's results give us a base to build from and momentum for growth as we move into the second quarter and into the balance of this year. And beyond 2011, we look forward to closing our acquisition of T-Mobile and to delivering all of the benefits and all of the promise of a strong, nationwide wireless broadband network to our customers, to the nation and to our shareholders. One last thing before we end the call, as all of you kindly mentioned in your questions, I have announced my retirement, and this is my last earnings call with you. I would be remiss if I didn't tell you what a pleasure it's been working with all the talented analysts and owners who have followed our company over the years. It's been an honor to have this position, and I know I'm leaving it in the very best of hands, with John Stephens and the rest of the AT&T team. And on behalf of that team, we want to tell you once again how much we appreciate your participation on these calls. And as always, we want to thank you for your interest in AT&T. And with that, I'll hand it back to our conference operator, John, to close out the call today.