Operator

Ladies and gentlemen, thank you for standing by, and welcome to the AT&T First Quarter 2012 Earnings Release. [Operator Instructions] As a reminder, today's call is being recorded. With that being said, I'll turn the conference over to Susan Johnson. Please go ahead.

Susan Johnson

Thank you, John. Good morning, everyone, and welcome to our First Quarter Conference Call. It's great to have you with us. I'm Susan Johnson, Head of Investor Relations for AT&T. With me on the call today is John Stephens, AT&T's Chief Financial Officer; and Ralph de la Vega, AT&T's President and CEO for Mobility. John will cover our consolidated and wireline results and Ralph will give us an update on our wireless business. And then we'll follow up with Qs and As.

Let me remind you, our earnings material is available on the Investor Relations page of the AT&T website at www.att.com/investor.relations. I also need to cover our Safe Harbor statement, which is on Slide 3. This presentation and comments may contain forward-looking statements. They're subject to risks. Results may differ materially. Details are on our SEC filings and on AT&T's website.

Before I turn the call over to John, let me quickly call your attention to Slide 4, which provides a financial summary. EPS for the quarter was $0.60, a 5.3% increase over last year's first quarter EPS. Consolidated revenues were up once again, thanks to strong revenue growth in wireless, gains in U-verse services and continued improving trends in wireline business. Margins were up, both in consolidated and wireless, even with continued smartphone sales. And cash flow continues to be solid. Cash from operating activities for the quarter totaled $7.8 billion and free cash flow of $3.5 billion. We also began our share repurchase program in the first quarter. John will go into more detail. But for the quarter, we bought back more than $2 billion in shares. And with that overview, I'll now turn the call over to AT&T's Chief Financial Officer, John Stephens. John?

John Joseph Stephens

Thank you, Susan, and good morning, everyone. Thank you for being with us today. During our last earnings call, our Chairman, Randall Stephenson, laid out a few strategic focus areas for 2012. I would like to start this morning by giving you an update on what we've done so far. The highlights are on Slide 5.

First, we had a terrific start to the year. In January, we talked about our ability to execute and grow the business and laid out clear objectives for the year. At the end of the first quarter, we remain confident in our business operations and our ability to achieve guidance in every area. Second, we told you that we would begin buying back shares as part of our 300 million share authorization. We've done just that and we have done so aggressively, buying back more than 67 million shares in the first quarter.

Third, we remain focused on improving our overall growth profile by looking at opportunities to divest or restructure low-performing and nonstrategic assets. You saw us take a step in this direction with the announced sale of Advertising Solutions to Cerberus Capital Management. We expect that transaction to close in mid-year. And we continue to look for other ways to improve the growth profile of our business. And fourth, we also spoke of the importance of spectrum, not just to us but to the entire wireless industry. We've taken action by acquiring additional spectrum through smaller transactions: 10 separate transactions closed in the first quarter alone and we have 4 more deals currently in process at the FCC. We also continue to maximize our network capacity and quality with existing spectrum through network management and tiered data pricing. Our LTE rollout is growing strong. So as you can see, we are off to a very strong start in executing the plans we have laid out. And we remain confident in our ability to execute and grow the business.

Let's now take a look at first quarter operational highlights on Slide 6. No matter which financial metric you focus on, you see solid results. We grew revenue thanks to a strong wireless quarter and the best revenue growth in wireline consumer in years. Operating income margins were up across-the-board, consolidated, wireless and wireline. And we grew earnings in the mid-single-digit range. We also continue to see impressive strength in all our growth drivers. Data growth, driven by the mobile Internet, leads the way. Ralph will give you the highlights in a moment, but let me give you a few of the headlines.

We continue to set the pace in smartphone sales. We actually sold slightly more smartphones this quarter than a year ago, but our service margins were up significantly. We also had another record first quarter with branded computing sales, thanks to tablets and tethering plans. All this helped drive strong mobile data growth of almost 20%, or more than $1 billion higher than the first quarter a year ago. Throw in our lowest postpaid churn in 7 quarters, and you can see the strength of this business and of our mobile Internet strategy. We also continue to be pleased with the extensive transformation of our wireline business. U-verse continues to make impressive gains. Not only did we hit 4 million TV subscribers, but we also had strong U-verse broadband sales. Year-over-year, business wireline revenue trends also continue to improve, thanks to another strong quarter from strategic business services. So you're seeing strong execution in every part of the business and a very solid start to the year.

With that as a background, now let's look at detailed results starting with consolidated revenues on Slide 7. First quarter consolidated revenues totaled $31.8 billion, up 1.8% from a year ago. Our growth drivers continue to transform our revenue mix, including strong mobile data results, solid U-verse gains and improving trends in our wireline business. In the first quarter, 78% of our revenue came from wireless and wireline data and managed services. That's up from 74% a year ago and 70% just 2 years ago. And revenues from these areas grew almost $1.4 billion, or more than 6% in the first quarter.

As I mentioned, we announced earlier this month that we have agreed to sell our Advertising Solutions and Interactive business units to Cerberus. In return, we will receive $750 million in cash, a $200 million note and a minority interest in the new entity. If you want to take a look at what this quarter would look like without Ad Solutions, our consolidated revenue growth would've been 2.3% and our wireless and wireline growth drivers would contribute close to 80% of our total revenue. We'll continue to sharpen our focus on our growth drivers and expect this mix transition to continue. I now would like to turn the call over to Ralph de la Vega, who will give us a wireless update. Ralph?

Ralph de la Vega

Thank you, John, and good morning, everyone. I appreciate being on the call once again. Let me start with a wireless overview on Slide 8. As John said, we delivered a great set of wireless metrics in the first quarter. Our smartphone sales were slightly better than last year, which makes for a record first quarter. And we did this while facing more iPhone competition than ever before. Strong smartphone sales drive strong data sales and data drives this business. This quarter, data revenue was up more than $1 billion. That's almost 20% growth off of a large base. In fact, mobile data is a $24 billion annualized revenue stream for us. I'm also really proud that even though our smartphone sales topped last year's record, our service margins increased significantly to 41.6%. And to top it off, we also delivered our best postpaid churn in 7 quarters.

Let me give you more details on this quarter's result with a look at revenue and ARPU on Slide 9. Our leadership in mobile data continues to drive solid revenue results. Total wireless revenues were up 5.4% in the quarter and wireless service revenues increased 4.3% versus the first quarter a year ago. Postpaid ARPU also continues to perform well. Postpaid ARPU growth was 1.7%. And when you look at phone-only ARPU, it was up more than 2%. This growth has not only been consistent 13 consecutive quarters in a row, but we also continue to do this from a much higher ARPU base than anyone else. Helping drive that growth is our growing postpaid smartphone base. We now have more than 41 million smartphones on our network. That's up nearly 10 million smartphones in just 1 year and ARPU for smartphones is 90% higher than our non-smartphone subscribers. We also continue to bring in more subscribers onto our network with tiered data plans. Just over 25 million or almost 61% of our postpaid smartphone base is on tiered plans, with more than 70% choosing the higher-priced plans. That is a remarkable transformation of our subscriber base in less than 2 years and a key factor in helping us continue to invest and build our networks while returning value to shareholders.

Another positive metric for us this quarter is postpaid churn. Let's look at that and subscriber gains on Slide 10. Postpaid churn delivered its lowest level in 7 quarters. This lower churn is tied directly to the quality of our network and the investments we've made to deliver the best customer experience. So at a time when there's more competition than ever, our customers continue to be loyal to AT&T. In fact, iPhone churn hit its lowest level in 5 quarters.

One reason for lower churn is the large number of customers on family or business plans. About 88% of smartphone subscribers are on these plans, and these customers tend to be sticky, with churn below our average. Total churn was up in the first quarter versus a year ago due mainly to churn in consumer-connected devices and in our reseller channel. But despite that increase in total churn, we added subscribers in every customer category and we've done that for 7 consecutive quarters in a row. As a result of great sales and lower postpaid churn, we added more than 700,000 subscribers in the first quarter. Postpaid net adds were 187,000, which gives us almost 70 million total postpaid subscribers. Prepaid net adds were up 125,000. Reseller net adds came in at 184,000 and we had 230,000 connected device net adds. That's lower than in past quarters for 2 reasons. In the first quarter, we saw more sales of WiFi-only computing devices and the ongoing adjustments we make for inactive devices.

Now I would like to take a look at mobile data revenue growth and smartphone sales. The details are on Slide 11. Data revenues were $6.1 billion, up more than $1 billion from the first quarter a year ago. As I just mentioned, data revenues are now a $24 billion annualized revenue stream, growing at nearly 20% a year. Data drives this business, and I firmly believe we're still in the early stages of mobile data growth, driven by the mobile Internet. We sold 5.5 million smartphones in the quarter or slightly higher than a year ago, when we set a first quarter record. Smartphone subscribers now make up almost 60% of our postpaid subscriber base and accounted for 78% of postpaid sales during the quarter. These results reflect another strong quarter for iPhone activations, with about 4.3 million activated during the quarter and about 21% of those iPhone subscribers were new to AT&T. These customers are choosing AT&T for a reason. We provide the best mobile Internet experience on the nation's largest 4G network, which lets iPhone 4S users download 3 times faster than our competitors. We also had a solid performance in branded computing devices. We added 460,000 in the first quarter, more than 1/2 of those came from tablets. We now have almost 5.8 million branded computing devices on the network, and that's up nearly 70% in the past year.

Now let's take a look at wireless margins. The details are on Slide 12. Strong smartphone sales usually impact margins. This quarter, the story is a little different. We actually sold more smartphones than we did a year ago, but our wireless service margin was significantly higher, about 260 basis points higher, delivering a service margin of 41.6% for the quarter. Some of this is due to the impact of the Alltel and Centennial mergers a year ago. But about 1/2 of the increase is due to management focus on cost containment and prudent spending.

We've taken other important steps that will have a positive impact on margins but aren't yet showing up in our results. First, the impact of new data pricing plans that we announced earlier this year was minimal this quarter. Second, there was also minimal impact this quarter with a higher upgrade fee that we announced in February. And third, we have yet to see the impact of the new upgrade policy that we introduced last year. We expect all of these to provide additional margin support going forward.

We'll continue to invest in smartphone subscribers. You know the long-term value they bring: lower churn, higher ARPUs and strong data growth. Our strategy has been to grow this base, which we continue to do while keeping existing smartphone subscribers on our network. Handset upgrades were about 7% in the first quarter, which tracks nicely with our stable smartphone sales forecast for this year. We also saw a positive lift in our wireless operating income, which is up more than 11% this quarter. We feel that much of our success this quarter in sales and churn can be tied back to the quality, the speed and the reach of our network.

And I would like to take a look at operational improvements we made in this area during the first quarter. Highlights are on Slide 13. In the first quarter, the nation's largest 4G network became even larger. We now cover 260 million POPs with our 4G network and we cover thousands more cities and towns than our closest 4G competitor. This means that we deliver the best mobile Internet experience to more of the country than ever. But you don't have to take my word for it. Last week, PCWorld released the results of our 4G speed test and declared that AT&T's 4G LTE network delivered faster download speeds than any other carrier tested in the 9 markets surveyed. And that is great news. But it gets better. See, they also said that AT&T's ace in the hole was pairing our LTE and HSPA+ networks. PCWorld called it, "The fastest combination offered by any carrier." And I can't say anything better than that. It really puts an exclamation point behind our network strategy and our goal of providing the best mobile Internet experience for our subscribers. Customers know this and they love our 4G network.

About 30% of our smartphone subscribers use a 4G-capable device, and that number continues to go higher as we introduce new and compelling LTE devices, such as the Nokia Lumia. At the same time, our LTE 4G rollout continues to go well, 35 markets so far, including St. Louis earlier this month. We're on track to double our LTE coverage this year. And our LTE build will be largely complete by year-end 2013. We continue to look for ways to make the network experience even better. Our enhanced backhaul build continues. 86% of our data traffic now travels on it. We're also making good use of WiFi and Distributed Antenna Systems. We have the largest WiFi network in the country, with nearly 30,000 hotspots and we have 3,000 Distributed Antenna Systems in high-traffic areas, such as arenas and stadiums. So we're off to a great start this year, and we are very excited about what lies ahead. With that, I want to turn it back to John to discuss wireline results. John?

John Joseph Stephens

Thank you, Ralph, and a great quarter. Now let's take a look at wireline, starting with business, which you can see on Slide 14. We continue to see improving business revenue trends. In fact, in many ways, we had our best quarter in years. Strategic business services continue to lead the way. That's products such as Ethernet, VPNs and application services, which were up 19% for the quarter and is now more than a $6 billion annualized revenue stream for us. That helped drive service revenues to its best growth rate in 4 years, down only 0.3% compared to a decline of 4.4% in the year-ago quarter. And total business revenues were down less than 1%. And again, the best comparable that we have had in years.

A big factor of this success is accelerating data revenue growth. Its 4.2% growth was the best we have seen in years. Driving this are positive trends in almost every part of the business. Global enterprise had its fourth consecutive quarter of increasing data growth. Our wholesale business actually grew service revenues in the first quarter for the first time in 3 years. And revenue trends in small business continue to improve, with solid growth in bundles. This success helped our wireline business margins improve year-over-year for the fifth consecutive quarter. We are very pleased with these results. The progress has been slow but steady. And we still expect that wireline business will return to revenue growth this year, even without the benefit of a lift from the economy.

Let's now turn to our wireline consumer results on Slide 15. We have done an outstanding job scaling U-verse in the last few years. This has helped drive wireline consumer revenue growth by 1%, strongest revenue growth in years. Total U-verse subscribers, both TV and High Speed Internet, reached 6.2 million in the first quarter. U-verse TV net adds continue to be solid, as we hit 4 million subscribers. TV penetration continues to expand, more than 27% in areas marketed to for 42 months or more. And consumer U-verse is now an $8 billion annualized revenue stream, growing at about 38% year-over-year.

If U-verse was a standalone company with its annualized revenues, it would be in the Fortune 300. Not bad for a business that we started just over 5 years ago. Meanwhile, our U-verse broadband net adds continue to accelerate, more than 3x our TV additions, which includes new U-verse small business customers, where we grew subscribers this quarter. This helped drive overall broadband growth as customers moved from DSL to higher-speed U-verse services. Faster broadband speeds plus mobility is a combination small business customers are looking for, and AT&T's strength in both of these areas is a competitive advantage. So all in all, a very solid quarter in wireline, both in business and in consumer, with improving trends in both areas.

Now let's look at margin and cash flow. Consolidated margin comparisons are on Slide 16. We said in January that we expected to deliver improved consolidated margins this year, with wireless margin expansion and stable wireline margins. Our first quarter results show that we are on track. Our consolidated operating margin was 19.2%. That's up from the first quarter a year ago and sequentially, thanks to growth in wireless and consumer wireline revenues and operational efficiencies. We saw improving wireline revenue trends impact our wireline operating margin, which was up year-over-year. Also helping to offset declines in legacy services were solid cost management, scale in U-verse and solid execution with our One AT&T cost initiative.

Along with solid margins, we continue to have strong cash flow. Our cash summary is on Slide 17. In the first quarter, cash from operations totaled $7.8 billion. Capital expenditures were $4.3 billion, with more than 1/2 of that invested in the wireless business. Free cash flow before dividends was $3.5 billion and dividend payments totaled $2.6 billion. In terms of uses of cash, total debt is down $3.8 billion from 2 years ago, with a debt-to-capital ratio of 38% and a net debt-to-EBITDA ratio of 1.48. We also began to aggressively pursue our authorized share buyback. In the first quarter, we purchased more than 67 million of our 300 million share authorization or about $2.1 billion worth of stock. We will continue to purchase shares under the authorization, which could include open market purchases, structured programs such as accelerated share repurchase and other programs, including 10b5-1 plans where appropriate. When you look at both dividends and the stock buyback, we returned $4.7 billion to our shareholders in the first quarter alone. We are very proud of our financial management. Our balance sheet is sound, our debt metrics solid and our strong cash flow gives us the flexibility to invest, to retire debt, all the while returning substantial value to our shareholders.

Now before we get to your questions, let me close with a quick recap on Slide 18. First, we are off to a very good start for the year. We are executing well against the strategy we laid out in January while delivering a strong financial performance. We also continue to be a pacesetter in the mobile Internet, the wireless industry's #1 growth driver. Data revenue growth is strong, postpaid churn is down and smartphone and branded computing device sales continue to grow. At the same time, wireline is transforming from legacy products to IP data and is poised for growth. And our balance sheet is second to none in our industry, while returning substantial value to our shareholders through dividends and share buybacks. So all in all, a solid start to the year, with growing confidence as we move ahead. Susan, that concludes our prepared remarks. We're ready for Q&A.

Susan Johnson

Okay, great. Thank you, John. I think we are ready to open up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And first, we'll go to line of Simon Flannery with Morgan Stanley.

Simon Flannery - Morgan Stanley, Research Division

Ralph, impressive numbers on the churn. It's best in quite a few quarters. Can you talk about the outlook for churn? Is this sort of a good new base level? Or do you think there's opportunities here to drive this further as your smartphone loading continues to build? And then John, you got the directory sale through. Can you talk about where we stand in reviewing the rural access lines?

Ralph de la Vega

Simon, let me address the churn question. Yes, I think there's room for improvement. I think we're always focused on that metric, which is a key metric that allows our business to grow in every way. We think that the improvements that we're making in the network and in the customer experience are significant and that quite frankly, the best is yet to come. So I'm very bullish on keeping churn low and even performing better than what we have seen here in the first quarter. I'm very bullish on the LTE network that we're building. As you heard me say, the PCWorld article is a great article that really tested our network in 9 cities head-to-head against the best in the industry and we came out on top. And so I am very excited about the prospects that a great LTE network with HSPA technology bring to the marketplace. I mentioned this in my earlier messaging, but I want to repeat it, that I think we're on the verge of a tipping point with the mobile Internet. IDC released the figures that last year at the end of the year, for the first time ever, the shipments of smartphones topped the shipments of PCs. And then when you add on top of that tablets, which are mobile devices, it's estimated that we have reached the tipping point with the mobile Internet, that from here on out, you can expect to see more and more increases in people accessing the Internet through their mobile devices. And that plays to our strategy of building a great LTE network on top of our HSPA network, and then rolling out terrific new LTE devices like we just did with the Nokia Lumia. I think that combination of network, devices, applications, when you combine it with cloud computing and HTML5 capabilities, it says that customers are going to continue to access the mobile Internet in ways that we have not seen before. And that applies both to business and consumer customers. Our business team did a terrific job this quarter in adding subscribers and connecting them to the network. So we're very bullish on the outlook for the mobile Internet and churn. It goes a long way to say that customers love what we're doing in this area.

John Joseph Stephens

Simon, let me address your question with regard to our portfolio analysis processes on specifically rural access lines. As we've said before and as I think you're aware, the key here is that at this time, we don't have a broadband solution for rural America right now. So over the next 12 to 24 months, we'll spend -- we'll continue to spend time analyzing that situation and analyzing alternatives for it. I won't speculate about what conclusions we might reach or what impact that might have on our financial metrics. I will tell you that we are very aware and very proud of being known as a strong, consistent dividend payer. And our philosophy in that regard has not changed.

Operator

Our next question is from John Hodulik with UBS.

John C. Hodulik - UBS Investment Bank, Research Division

Maybe Ralph, just a quick question on spectrum. The deals that you guys have done sound like they're helpful in addressing some of the spectrum needs you guys have. Could you maybe talk a little bit about it in, one, your potential interest in the B block that Verizon will be selling over the 700 megahertz spectrum they have, and maybe sort of needs going forward, especially as all this data traffic demand increases?

Ralph de la Vega

Yes. John, I don't think it's appropriate for us to speculate on what would happen with the Verizon spectrum. But we've said before, we prefer low-band spectrum. That is our preferred option. And we did get low-band spectrum with the Qualcomm purchase, which is something that we're looking to put into play with our LTE aggregation capability. And like John Stephens mentioned, we have been looking for small acquisitions, which we've done several in the first quarter already and we'll continue to look for more because we don't see this data growth slowing. I think I mentioned several times in the call that I think this mobile Internet is going to continue to drive data growth. And so we're going to continue to look for the FCC and others to bring spectrum to market so that we can address the longer-term needs that we have, and quite frankly, that the industry has.

John C. Hodulik - UBS Investment Bank, Research Division

Okay. One quick follow-up. You guys did very well in terms of upgrade rates. It's 7% versus the 9% last year. And as you said on the call, you really even haven't even seen the benefits of the fee or the tighter upgrade standards. Is that 2 percentage point difference year-to-year, is that what we could expect going forward? Or do you think that delta can expand as these initiatives kick in?

John Joseph Stephens

All right. John, as the way we look at it is I think we gave guidance that we expected smartphone sales to be 25 million for the year. That's what's been out there. That's what our expectations are. We're not moving off of that. I clearly understand the reasons for your question and so forth, but right now, we're going to stay in that range. I will tell you the things you mentioned are one of the reasons we have growing confidence in meeting our guidance and continuing to perform total company and in the wireless margin area very well.

Operator

Our next question is from Phil Cusick with JPMorgan.

Philip Cusick - JP Morgan Chase & Co, Research Division

Two things on wireline and, I guess, the economy overall. Can you give us an update on what you're seeing in terms of economic trends, both in terms of business and then in also consumer housing? And also how do you think about U-verse growth going forward? What we hear from some people is concern that video slows down now that your addressable markets are sort of fully covered. Should we think about this 200,000 video adds sort of continuing at a pace that it's been for the last year? Or should that slow down from here?

John Joseph Stephens

Thanks, Phil. From an economy standpoint, I would suggest to you that we -- as I mentioned before, we've not assumed any lift in the economy throughout this year. And quite frankly, to date, I don't believe we've seen it. I think you know very well about the current status of unemployment metrics, interest rates, business starts. But I will tell you that a couple of things have gone on in the sense of we continue to see large business willing to invest in strategic services and the efficiencies they bring. And the uptick in the strategic services revenue growth year-over-year at 19% gives us confidence that, that's going to continue. So businesses are willing to invest in those new next-generation products and services and efficiency. On the consumer side, specifically in the mobile area, I think our results speak for themselves in the sense of when you offer a good quality product, your consumer, customer's not only willing to you come to you but willing to stay with you. And we've had great results there. On the U-verse side, we continue to be optimistic about our growth for the video product. As we mentioned, for those markets we're in longer than 42 months, we're at a 27% and growing penetration rate, much closer to the 16% on an overall basis right now. So I think it's obvious that there's more opportunity. But in addition to that, we've been very pleased by the broadband additions that have been available through the U-verse platform, over 700,000 additions to U-verse broadband in the quarter. And those not only help our consumer business but also help our small business customers. So that's our approach and that's how we're looking to that transition and the securing of that customer base with high-speed broadband.

Philip Cusick - JP Morgan Chase & Co, Research Division

Got it. For your 200,000 adds this quarter, would you say you're limited by sort of demand or by the ability of your installed base to go out and do the work?

John Joseph Stephens

I will tell you to get to the 200,000, our install team did a great job in coordinating with our sales team to not only get that level of installs completed but to do it in an efficient basis. And so I would suggest to you that it's a positive response for the quarter in the sense of the coordination and the achievement. And quite frankly, I expect that type of performance and that type of cooperation to continue. It proved to be very successful for us in the first quarter. And I know the teams involved believe that and are going to continue that. So I wouldn't look to any, if you will, governor or limiter on either side.

Operator

And next, we go to Tim Horan with Oppenheimer.

Timothy K. Horan - Oppenheimer & Co. Inc., Research Division

And just a follow-up on John Hodulik's question. John, maybe do you think the handset policies though are going to be impactful? I know you're sticking to your 25 million upgrade. But do you think they're meaningful and maybe the timing of that impact? And then maybe the same thing on the wireless pricing front. I know you've made some pricing moves here. Have you seen much impact yet in the quarter? Or when do you maybe [indiscernible] start to hit the revenue statement? And lastly, on the pricing moves, do you think you have any other pricing moves out there over the next 12 months? Or you're in a pretty good spot at this point?

John Joseph Stephens

Let me try to respond to it and I'll ask Ralph to add to it as he can so capably do. First of all, we won't talk about any pricing initiatives going forward. Those are things that we wouldn't discuss on this type of call or publicly at all. With regard to the pricing changes we've had, we had one that came in at the end of January with regard to our tiered data plans. And while that went into effect, it had a very minor impact in the first quarter and it will come in as people renew their plans. So the impacts of it will be spread over many quarters. That gives us optimism that we'll continue to see the benefits and growing benefits. But it won't give us an immediate -- and it did not give us an immediate benefit in the first quarter. Secondly, the change in the upgrade fees went into effect in March. And so we saw very little impact in the first quarter. We will see that throughout the year, but it is in place now. So we will see it for the full quarter in the second quarter and there forward. With regard to the handset policy, yes, I believe it will have a meaningful impact on us in managing those handset costs. But I think it's a very reasonable policy in comparison to the marketplace and will provide us the opportunity to continue to not only attract but to retain customers.

Ralph de la Vega

Yes. Tim, what I can add in terms of the pricing from a sales point of view is that we haven't seen any significant impact to any of the pricing moves that we've made. Our sales team continues to sell well. We have great traffic in our stores and we're very pleased with where that situation stands. In terms of the handset policy, I think John said it all. But I do want to clarify that we typically expect handset upgrade volumes to fluctuate when there are new devices in the marketplace. They go up and down and they'll be subject to that. That's no different than what we have seen in the past, but we feel really good about the forecast that we gave you for flat smartphone sales year-over-year at this point.

Operator

And we go to David Barden with Bank of America.

David W. Barden - BofA Merrill Lynch, Research Division

Two, if I could. Just first, maybe, Ralph, as we think about the second half coming up here, in the second half of 2010, AT&T took a lot of actions to lock down a good portion of the subscriber base to ensure that there wasn't a big market share swing with the launch of the Verizon iPhone. We're going to be coming up on the second anniversary of that in the second half of this year. And as you think about kind of more expensive upgrade policies and more expensive tiered plans, what is your game plan for kind of tackling the risk of churn maybe in the second half of the year as those guys come up for renewal? And then the second question would be maybe for John, on the U-verse kind of overhaul, you guys talked about in the rural markets making a big push, especially in small business to upgrade from DSL to U-verse. We've seen big swings, 700,000-plus U-verse Internet minus 600,000 DSL. How far through this process are we? How is that going to kind of evolve over the rest of the year?

Ralph de la Vega

Yes. Dave, this is Ralph. Let me just try to address the first part of the question. I think what we're doing to address any concern in the second half of the year is what we normally do with the basics. And I really love where our basics are in this business in that our network is expanding with 4G capability. It keeps getting better. Other people are saying it, customers are noticing it. You see that in our churn numbers, both for total postpaid and iPhone. So I think all the fundamentals are moving in the right direction. And I know we're going to get better on the network side. I also can tell you that I said briefly that we're working on the customer experience. I'm very proud that our retail team in the last several quarters have been ranked #1 by Nielsen in terms of their willingness to recommend in our retail stores. Just an incredible progress being made there by Paul Roth and the retail team. And so a combination of those 2 things is the best that we can do to ensure continued success, continued low churn, that is to give customers great service, both from a network point of view and from a customer service point of view. And we're very proud of those -- the progress that we've made in both of those areas.

John Joseph Stephens

David, if I could add to what Ralph said. We had a significant growth in smartphones. We're up to 40 million -- over 40 million of our postpaid customers on smartphones. And I think the percentage is around 88% of those are on business or FamilyTalk plans. So while Ralph's got greater activity going on with regard to customer care, the customer rules approach and we have great developments in the network, we also have great pricing packages that we think customers will choose to stay because they're getting great bargains, either in our FamilyTalk or our BusinessTalk plans. David, with regard to your question on U-verse, where we are seeing this is in maybe the urban markets where our U-verse is built out. We have made significant progress in the area. Our broadband U-verse base is about -- it's just under 6 million customers today. And as we mentioned, we grew over 700,000 in the quarter. So we're seeing a quick migration, which gives us confidence that we can compete with all broadband providers on speed and price and quality of service. We would expect that this transformation, which has accelerated over the last year, will continue. And so we are optimistic about continuing to shift our 16 million broadband customers from legacy DSL products and services to our next-generation U-verse high-speed broadband.

Operator

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

Michael Rollins - Citigroup Inc, Research Division

I was just trying to consider the prospects for future postpaid ARPU growth. Can you discuss how ARPU's performing for customers who have had a smartphone for 1 year or 2 years? And also, are you seeing a significant difference in data usage and spending for those smartphone customers that are on a 4G-capable device versus a 3G-capable device?

Ralph de la Vega

Mike, let me give you some thoughts on the future of postpaid ARPU. I feel very good about the guidance that we've given you to look for the 2% range. And I think we mentioned on the call that when you look at phone-only ARPU, that's actually already north of 2%. And what I really like about what we see with customers these days, and I want to make sure everybody gets this, our research has demonstrated to us that whereas a couple of years ago, customers are actually afraid to use some of these smartphones because of the technology, they were not sure they could deal with them. Two years hence, the feedback that we're getting when we do customer research on these smartphones say that customers now feel that these devices make their lives easier. That's a huge, huge change in the attitude of customers. So they're accepting smartphones in numbers that we have never seen before. And the good thing about that, which is why I feel good about the trends for postpaid ARPU, is that smartphones have ARPU that is 90% higher than quick messaging devices or feature phones. So customers are loving these devices for their ease-of-use now. I think the ecosystem, the combination of the various OSs, the application developers and enabling networks that we're building are making it real easy, very low-latency networks, very great speeds are all leading to better usage. When you talk about better usage, then we see ARPU growth opportunities. And it's a little bit too early to tell you what we're seeing in the trends between 3G and 4G. But generally, when we make faster networks available, we see that customers' usage grows. And that's why I like so much our position on tiered data plans, that we have over 60% of our customers now on tiered data plans. So if they want to use more data, they can use more data, and we'll see ARPU and revenue growth as a result of that.

John Joseph Stephens

Well, if I could add, I want to make sure everyone's aware, the 60% on tiered data plans is a change from 12 million customers first quarter last year to almost 25 million customers today. So it's actually double that base. And what we're seeing is 70% of those customers are taking the higher tiered plans. So as Ralph eloquently laid out the increase in usage, his team has also structured the arrangements with the customers that there will be [indiscernible] associated with that increased growth. So we feel like we're very well positioned there.

David W. Barden - BofA Merrill Lynch, Research Division

And just a quick follow-up. Are you seeing a significant upgrade rate for those to take low tier and then eventually move to higher tier? Or is the 70% really just when they first pick their rate plans, 70% just choose the larger bucket upfront?

John Joseph Stephens

I think we are seeing some movement upfront, but we do see a fairly large take rate on the larger buckets on an upfront basis.

Ralph de la Vega

Yes, I think that the nature of these networks, Mike, because of their speed and their latency and the usage, I think customers will trend to use the higher-tiered plans as they go to the higher-speed networks.

Operator

Our next question is from Jonathan Chaplin with Crédit Suisse.

Jonathan Chaplin - Crédit Suisse AG, Research Division

So 2 quick questions, if I may. First, sorry to hop on the upgrade rate, but it's a key driver of margins for you guys for this year. So 7% is a phenomenal rate to start off the year. Looking at the trends last year, the upgrade rate improved in 2Q and 3Q. Should we expect that same trend to continue this year? Or are we looking at an unusually low upgrade rate in 1Q after a very heavy upgrade rate in 4Q? And then the second question is just if you could give us a little bit more context around the split for CapEx between wireless and wireline for the year? It looked like wireless came in a little heavier than expected this quarter. Wireline was a little lighter. I'm wondering if there were any anomalies in there or whether that's going to be a trend for the whole year as well.

John Joseph Stephens

Thanks, John. And John, we're not going to give a breakdown by quarter of any expectations with regard to the upgrade rate. I think we'll stick with flat year-over-year of smartphone sales, the 25 million number. So hopefully, that's helpful to you. With regard to the CapEx side, there's the 3 buckets that we have. It's really the wireless, which took about 1/2 of our total CapEx budget, that's the direct wireless spend. Our wireline bucket, which took slightly less than 1/2. And then some of our shared services, or if you will, dual-use projects, where we have shared usage by both wireless and the wireline business. I will tell you on the 2 point -- about 1/2 of the CapEx, you see we continue forward on a timely basis in line with our expectations on our LTE buildout. That's going well. We're optimistic about that, and quite frankly, on the continuing service quality and expansion of our capabilities to our overall network in wireless. I think those results are showing up in churn as very positive. And I think that's what Ralph was referring to before. But that's the basis for the spend.

Jonathan Chaplin - Crédit Suisse AG, Research Division

Got it. And so should we expect -- I think guidance is for CapEx being roughly flat overall. Should we expect roughly 1/2 of that to be wireless for the full year? Or does wireless ramp through the course of the year?

John Joseph Stephens

I think it will be that level or slightly more as we continue to move forward with our LTE buildout and other capacity buildout, and quite frankly, as we've completed our U-verse basic build and initial passage of the 30 million homes.

Operator

Our next question is from Mike McCormack with Nomura Securities.

Michael McCormack - Nomura Securities Co. Ltd., Research Division

Ralph, can you just maybe comment on, you made a few comments about the ARPU story, but we've seen a reacceleration of growth quarter-on-quarter if we're looking at the data side, and that's before the price increase. And then secondly, on the voice side of the ARPU equation, still declining pretty rapidly, although the year-over-year rate of decline is the same as we saw last quarter, which is the first stabilization we've seen. Maybe just walk us through your thoughts on what's happening on the voice side? What, if any, you have, for plans on changing plan structure to deal with voice or text migration or just lowering those buckets? And then final question, Ralph, if you would, thinking about the lower upgrade percentage this quarter, is there some correlation between smartphone penetration? Meaning, you've got enough people with high-end phones, but they just don't upgrade? Is there something to be said that, that can provide a benefit going forward?

Ralph de la Vega

Okay. Mike, let me address the first one. I think that data is going to continue to drive our ARPU growth. And quite frankly, I think that it's hard for us to see a cap on that. I think that with the customer demand, the great applications, the great content that we see and the fantastic network capabilities that we're building to allow customers to consume that content, that's going to continue to drive growth for the foreseeable future. In terms of voice, what we're trying to do is stabilize voice. And we're beginning to see that we anticipate that voice will stabilize. We saw a little bit of an impact when we launched our free mobile to any mobile. But we anticipate that, that will stabilize. And then ARPU growth will continue to drive -- our overall ARPU growth data will drive our overall ARPU growth. And then in terms of the smartphone penetration, I don't have any additional insights that I can give you in terms of the higher end of the market. But typically, upgrades are triggered when there's a new device that people love in the market. And that's why I mentioned that it'll go up and down by quarters, depending on what the customer needs are. But we feel very good about where we are right now and we always give the customers the choice. We think we have a terrific lineup in every operating system, including the new Microsoft OS. And so we feel pretty comfortable that we've got a great capability to offer customers.

Michael McCormack - Nomura Securities Co. Ltd., Research Division

Ralph, I'm sorry, just on the voice commentary. I mean, is there a huge degradation for you guys if you just moved into an unlimited voice and text world? And I mean, clearly, the data part of that equation is much more costly from a spectrum and network utilization standpoint.

Ralph de la Vega

Well, we continue to look at those kind of options, Mike. We always try to look at that, and quite frankly, also continue to look at data, and how we can have data packages that address this changing trend that I mentioned with data usage. And we will address those. But I don't think it's appropriate to release those details on this call. But rest assured that we're looking at the things that you mentioned, as well as others, to address the changing trends in this industry.

Susan Johnson

Okay. I think we have time for just one more question.

Operator

And that'll be from Jason Armstrong with Goldman Sachs.

Jason Armstrong - Goldman Sachs Group Inc., Research Division

Maybe first, Ralph, you've talked a lot historically about the need to add spectrum. But when you look at Verizon potentially at this point having to commit to sell some spectrum in order to buy additional spectrum, what's your interpretation for AT&T as we go forward? Do you sense an increasing risk that you have to think about things the same way as you approach spectrum deals? And then John, obviously very strong buyback numbers in the quarter, which has pretty significant benefits to the EPS stream over the course of the year and the ability to grow that. Would you expect this accelerated level of buyback activity to continue from here?

Ralph de la Vega

Jason, in the spectrum area, I don't think that we need to abide by what somebody else may have to deal with because that's a very specific situation to a particular carrier. So no, I don't think we should feel like we have to do something similar should more spectrum become available.

John Joseph Stephens

Jason, with regard to the buyback question that you asked, first and foremost, we are pleased with the amount of buybacks we were able to achieve in the first quarter. We had good market conditions, we had good cash flows. We're ending the quarter in a good cash position with over $2 billion of cash in the balance sheet. And we were able to do that while retiring some more expensive debt during the quarter and calling some more expensive debt that we had. So all in all, we're pleased with what we've been able to do. We will continue buying back shares throughout the year. We are confident in where the company is going and our growth opportunities. The pace at which we'll buy back is going to depend on many things: market conditions, continuing strong cash flows, financial flexibility and maintaining strong financial flexibility and our debt ratios. All of those things are in very good shape right now as we speak today and at the end of the quarter. So we're very pleased with that. But those things will continue to be monitored as we go through the year and will guide our judgment on buybacks.

Before we close, I'd like to quickly summarize the highlights from this quarter. We're off to a really good start this year, which gives us confidence as we look ahead. We delivered strong financial metrics, strong mobile data growth and we continue to see encouraging trends and performance in wireline. One more item that I'd like to bring to your attention. Starting with our next quarter, we're going to be moving this call up 30 minutes. So we will be discussing our second quarter results starting at 9:30 a.m. Eastern Time or 8:30 a.m. Central Time on July 24. That's it for us. I'd like to thank Ralph for joining us once again and especially for bringing such great mobile results to the call. And thank you for being on the call. And as always, thank you for your interest in AT&T. Have a great day.