Operator

Ladies and gentlemen, thank you for standing by and welcome to the AT&T Fourth Quarter Earnings Release 2013 Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions) Also as a reminder, today's teleconference is being recorded.

And at this time, I will turn the conference call over to your host, Senior Vice President of Investor Relations, Ms. Susan Johnson. Please go ahead.

Susan Johnson

Thank you, Tony. Good afternoon, everyone, and welcome. It's great to have you with us today. I am Susan Johnson, Head of Investor Relations for AT&T. Joining me on the call today is Randall Stephenson, AT&T's Chairman and Chief Executive Officer and John Stephens, AT&T's Chief Financial Officer. Randall will discuss our 2013 highlights and then close with a strategic perspective in 2014 outlook and John will cover our results. Then we will follow up with questions and answers.

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

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

Randall Stephenson

Thanks, Susan and good afternoon everyone and Happy New Year. 2013 was an interesting year for the industry and I would suggest you it's probably a formative year. We saw all competitors take out new positions. We saw most of the players significantly changed the value proposition for their customers. And with smartphone penetration beginning to hit some impressive levels, we have seen new business models emerge around LTE in the cloud and our case that includes things like connected homes, connected cars, video and mobile business solutions.

So from our view, the most important development that we are seeing is that the entire U.S. telecom industry is investing aggressively in advanced networks. Today in the U.S., four national carriers and dozens of regional providers are building out LTE and you just don't see that happening anywhere else in the world. The industry is now competing on price, customer service, technological innovation, and most importantly, network coverage and quality. And we think this speaks volumes about where the country's public policy has landed concerning spectrum and the importance of light touch regulation. We think it's very, very important to maintain that approach as we move forward. Because of these things, the industry is helping and it is attracting a lot of investment.

So let me give you a few highlights and then what I am going to do is turn it over to John and he will take you through the details of the 4Q. First, our revenue and EPS growth finished right on track with our guidance. Cash generation was strong both from operations and from the monetization of non-strategic assets. For the full year, we invested $25 billion in CapEx and spectrum and then returned another $23 billion to shareowners through our dividend and share buyback programs.

We ended the year with really high-quality credit metrics and our pension plan funding is in great shape. And 2013 was our first year for Project VIP and we are well ahead of schedule across the board. LTE deployment, U-verse expansion and fiber to the business, I would tell you, was a home run – as a home run year by our Network Operations Group. In terms of LTE coverage, we said we get LTE to 300 million people by the end of '14. We are already closing in on that number. We expect to be essentially done by summer.

John is going to give you the details with growth on these platforms was very strong. Mobile data is now a $23 billion revenue stream and is growing at 17%. U-verse is more than $13 billion of annualized revenues and is growing at 28%. Strategic business services are now at $9 billion at a run-rate and the growth ramp throughout 2013 and it hit 17% in the fourth quarter we expect this growth rate to step up again this year. We have rolled out a number of new technology solutions. We're adding terrific success with our AT&T net bond service. This combines our VPN network of cloud services from companies like IBM and Microsoft. What it does is it gives customers a secured connection to the cloud that they can't get on the public internet. Our mobile business solutions continue to scale, digital life and connected car were off to a strong starts and we're very enthusiastic about no contract wireless. We expect the Leap acquisition to close by into the first quarter and we're convinced that putting the Cricket brand on top of the AT&T network is going to shape things up in this space.

So if we go to slide 5, a year ago I told the team that 2013 would be the year of the network for us and that turned out to be an understatement. Today our network is best in class. We come out on top in all sorts of third party test for network quality and speed. In fact in a broad study of overall performance and that was done by RootMetrics we're head and shoulders about the field.

The chart on slide 5 shows you how we stack up and we think it's telling. We're in a dead heat with Verizon for lowest to drop calls well under 1% and our other national competitors are at twice the drop call rate or more. That's the reason we posted record low fourth quarter postpaid churn.

At slide 6, you see our network puts us in a great position for what we think is the industry's next growth wave. There is a lot of talk about the connected world ahead very different estimates on how fast it develops but I think we're all going to agree that it's a big opportunity and when you combine these pervasive, superfast LTE networks with the cloud it changes everything. It changes every industry, every aspect of our society and the economy and for this industry it means we're moving past the era of smartphone wars to rethink on how we work, how we conduct commerce, how we learn and manage our healthy and so much more. In fact the visual slide 6 captures most of what's taking place. It starts with the ultra-fast connectivity to the cloud, the smartphones are quickly becoming the remote control for disconnected world and the pace of innovation is accelerating and this explains why we're being so aggressive at Project VIP and with initiatives like our U-verse 1 Gig launch down in Austin. These things give us the ability to drive innovation and then lead in the next ways of growth and so with that I want to turn it over to John to take you through the results.

John Stephens

Thanks Randall and good afternoon everyone. Let me start with our consolidating financial summary which is on slide 7. As Randall said 2013 was a solid year for our financial results. We grew consolidated revenues by almost 2% thanks to strong growth in wireless, U-verse and strategic business services. Consolidated margins were stable even with Project VIP expenses and record annual smartphone sales and we grew adjusted earnings per share by 8.2% for the year. Looking at the fourth quarter we finished the year with an exceptionally strong earnings per share performance. Reported EPS was a $1.31, however when you exclude onetime adjustments earnings per share for the quarter was $0.53 a 20% increase from a year ago. Adjustments include an $0.89 gain from the year-end mark to market change for our benefit plans, the gain was driven by an increase in the discount rate as well as strong performance of our Benefit Plan Investments and a $0.02 gain from the sales of América Móvil shares was also one of the adjustments.

We also saw $0.07 of pressure from cost associated with an early debt repayment and a $0.06 charge for cost associated with employee retirement specifically an early retirement program as Randall mentioned. Our solid cash flow and strong balance sheet also allowed us to be aggressive with our share buybacks. We repurchased more than 366 million shares for the year returning nearly $23 billion to the shareholders through dividends and share repurchases. And since we began our buyback program at the beginning of 2012 we have bought back 737 million shares or about 12% of our outstanding shares.

All in all, we turn in a very strong financial performance for the quarter and for the year.

Now, let’s look at our operational performance for the quarter starting with wireless. Revenue and ARPU are on Slide 8. Strong wireless revenue growth was driven by the network strength and by data-hungry smartphones and tablets. Data is now a $23 billion annualized revenue stream and it’s continuing to grow growing at nearly 17%. That helped drive 4.8% service revenue growth and total wireless revenues were up 4.5%. Postpaid ARPU growth was strong. For the 20th consecutive quarter, we saw total postpaid ARPU growth as a record unmatched in the industry. And our postpaid phone-only ARPU increased by 3.9%. And that’s growing up with higher base than anyone else. We did have adjustments in the quarter that bring the run-rate closer to 3.7%, but either way, a very impressive performance. Our phone-only ARPU includes smartphones, but also includes our low ARPU feature phones and wireless home phones, which make this growth even more impressive.

Now, let’s move to net ads and churns, the details are on Slide 9. Our churn story is nothing short of exceptional. In a quarter, where we saw increased competitive activity, strong seasonal promotions and competitive offers targeting our postpaid base, we turned in our lowest ever fourth quarter postpaid churn, a record of 1.11%. We are very proud of that. This helped drive a solid quarter of postpaid gains with almost 600,000 net adds, including nearly 300,000 smartphone subscribers. And overall, we added more than 0.5 million branded smartphones in the quarter both postpaid and prepaid. We also added about 440,000 branded tablets as well. Network coverage and quality is the top reason customers choose AT&T and thanks to the high-performance of our 4G LTE networks. We have been very successful in attracting and keeping high-value postpaid customers. We are also taking steps to address the more value conscious customer. Competition for these customers is intense, but our network gives us an important advantage.

On the postpaid side, we have several initiatives underway, including new mobile share value plans and other targeted promotions. In prepaid, we have made steady progress in adding smartphone subscribers. In the fourth quarter alone, we added more than 230,000 prepaid smartphones to our network that gives us a base more than 2 million prepaid smartphones. And ARPU for these customers is more than 70% higher than our non-smartphone prepaid base. Once the lead transaction is approved, we will be an even better option for value conscious consumers. We believe the cricket brand on our network will be a great combination.

Now, let’s take a look at our growing smartphone base. Those details are on Slide 10. Smartphones continue to take a bigger share of our phone sales, a record 93% of our postpaid phone sales were smartphones in the fourth quarter. That increases our postpaid smartphone base by 1.2 million. For the full year, our postpaid smartphone base grew by nearly 5 million subscribers. Overall, 77% of our postpaid phone base are on smartphones that compares to about 70% a year ago. Smartphone sales were strong $7.9 million in the quarter and data usage per smartphones continued to rise increasing by more than 50% year-over-year. We haven’t seen an incredible response to AT&T Next, especially when we introduced the new mobile share value plans and sales improved throughout the quarter. Overall, more than 15% of all smartphone sales during the quarter or AT&T Next sales with the sales percentage in company-owned stores much higher. These strong sales reinforce our belief that focusing on what the customer wants is the right move whether it's a new device every year or the ability to take advantage of bring your own device service plans we need to continue to focus on the customer. AT&T Next did impact our cash flows since we’re financing the handset but that’s all right we know these customers and we know their credit profile. Overall this program is a great value for both our customers and us.

In the quarter we reached 7.1 million of mobile share accounts those accounts include more than 21 million postpaid subscribers or about 3 subscribers per account. Take rates on a high-tier data plans for both mobile share and pure data customers continue to be strong. In the last year the percentage of customers on those plans is nearly doubled growing from 13% to now 24% with about a third of the mobile share customers on plans of 10 gigabits or higher. At the same time mobile share value plans are attracting customers who may not need such large data buckets.

The new plans offer customers more savings and provide no annual service contract options giving our existing and new customers even greater choice. Now let’s talk about wireless margins both details are on slide 11. Subscribe by taking a look at the full year. For 2013 our wireless EBITDA service margin was 41.3% that is a 170 basis point increase from a year ago even though we sold more smartphones during the year. There are a number of reasons for this improvement, revenue growth (indiscernible) throughout the year thanks to our expanding smartphone base and increasing data usage.

Second the strength of our network makes the difference, we’re seeing outstanding speed and reliability performance and great efficiencies as more and more customers upgrade their LTE devices more than half of our smartphone base are now on LTE capable devices. Our new upgrade policy also added a positive impact on margins as it's strong AT&T Next sales.

In the fourth quarter wireless EBITDA was nearly $6 billion an impressive 35% increase over last year and wireless EBITDA service margin was 37.4% also much higher than a year ago. When you look at the full picture this was a very strong wireless quarter for us from churn to smartphone sales to margins to network performance, these solid results in a hotly competitive environment gives us confidence as we look ahead.

Now let me turn to our wireline story starting on slide 12. U-verse finished the year just as it started with strong subscriber gains increasing penetration and growing revenue. In fact U-verse helped drive consumer revenue growth of nearly 3% in the fourth quarter. U-verse continued it's record of strong high speed broadband gains. We added 630,000 U-verse broadband subscribes in the fourth quarter and 2.7 million during the year. U-verse now represents more than 60% on a total broadband base. These subscribers not only have a higher ARPU but churn is significantly lower as well.

We believe we have had a tipping point with U-verse broadband with the growing base of U-verse subscribers we feel confident that we can grow broadband subscribers even stronger this coming year. We also continue to excel in video. Well some companies are excited about actually gaining customers we added almost 200,000 subscribers in the quarter and nearly 1 million for the year plus we had our lowest TV churn ever in the fourth quarter. That tells us that customers not only want U-verse but they stay with us once they get it. But we expect to maintain this momentum. We continue to add new features such as TV everywhere which allows customers to view programming on smartphones and tablets inside their home and out and increased broadband speeds nearly 2/3rds of the U-verse TV footprint can now get speeds upto 45 megabits per second. U-verse is now a $13 billion annualized revenue stream growing at 28% year-over-year and makes up 57% of our total consumer revenues. U-verse was a solid story from start to finish during 2013 and we expect that to continue as we expand U-verse coverage with Project VIP.

Now, let’s move to wireline business, which you can see on Slide 13. First, let’s start with some of the really good news. Strategic business service continues to be a bigger part of business services. Those service products such as VPN, Ethernet, cloud, hosting and other advanced IT services now make up more than 25% of business wireline and growth is accelerating up more than 17% year-over-year. We continue to see U-verse high-speed broadband growing in the business space. Increasing speeds and broader coverage open the door to new growth opportunities with small and medium-sized customers. We are also seeing increasing momentum in cloud and integrated service offerings. We are one of the top cloud providers in the world and adding scale. For example, we already have more than an exabyte of virtualized storage. Much of this is driven by steps we are taking to move our own business processes to the cloud. Our goal is to be an entirely cloud-based enterprise within the next three to five years.

Our own IT operations are probably the most aggressive cloud operations around. So we are just selling cloud applications. We are customers. We are users as well that helps focus us on developing new cloud-based products, such as NetBond. NetBond helps our customers safeguard their information by extending their virtual private networks into the cloud, which functions like a normal VPN site and keeps data separate from other users' traffic. And NetBond reduces latency by up to 50%, which means that businesses have access to the data almost instantly. We believe NetBond will drive even more growth.

We already are the VPN market leader with a multi-billion dollar annual business and we had our best fourth quarter VPN growth in years. These growth products help transform our revenue mix, but we still saw lower revenues in the quarter. Total revenues were down 3.4% versus the year earlier quarter and we are essentially flat sequentially. Business service revenues declined 2.4% year-over-year. Behind all of this are the overall economic trends. The outlook is still uncertain. Customers are still delaying buying decisions. Business starts lag to slightly better than a year ago. And unemployment is slowly improving. The labor force participation is the lowest that's been in more than 30 years. It's still a slow market, but we are hopeful that we will see an improving economy to get this part of the company growing again.

Now, let's look at consolidated and wireline margins on Slide 14. Even with Project VIP expenses, U-verse gains and record-breaking annual smartphone sales, consolidated margins remained relatively stable. Wireless margin improvements help offset this pressure. For the year, our adjusted consolidated margin was 18% compared to 18.2% last year. This pressure in wireline was expected. Much of it is tied to Project VIP and other success-based initiatives. We had almost 1 million new U-verse TV subscribers and they were trailing expenses from VIP investments and depreciation expenses were also higher.

We continue to take steps on the cost-cutting side as well. This includes the introduction of project Agile. Project Agile is a major new initiative that is transforming how the company organizes and operates around customers to deliver a best-in-class customer experience as an all IP, all mobile and all cloud services company. You see considerable opportunity to reduce cost through simplifying processes, standardizing platforms and making our customer interactions effortless and efficient. Randall will talk more about this initiative in just a few moments.

Now, let's move to cash flow. Our summary is on Slide 15. In 2013, cash from operations totaled nearly $35 billion. Capital expenditures were 21.2 billion as we deployed Project VIP and free cash flow before dividends was 13.6 billion. This was impacted somewhat by the tremendous success of AT&T next. We also have been very opportunistic in monetizing some of our assets this includes the tower transaction Crown Castle, sales of some of our América Móvil shares and sales of some of our real estate assets. These items generated $7 billion in cash for the year and nearly 6 billion in additional cash in the fourth quarter alone.

All this and free cash flow generated about $20 billion in cash during the year and strengthened our cash position. Our balance sheet remains solid, net debt (indiscernible) during the year however our average effective interest rate is down compared to last year thanks to debt refinancing early repayments to debt and at historically low interest rate and a net debt to adjusted EBITDA ratio 1.73 is well below our 1.8 target and down from the third quarter even with our Project VIP investments.

In addition to investing in our business we also return substantial value to shareholders for the year. We repurchased about 366 million shares for around $13 billion. We make dividend payments for the year totaling nearly $10 billion. This makes our total return to shareholders for the year by at $23 billion and in the last two years we returned more than $45 billion a record unmatched in the industry.

Now before I hand it back to Randall let's take a quick look on how we delivered on 2013 guidance that's on slide 16. So how did we do for the year? On adjusted basis we expected upper single digit EPS growth, continued revenue growth, did wireless and consumer wireline and stable consolidated margins and that's what we delivered. We set out ambitious Project VIP targets increased them during the year and still came in ahead of forecast. We're also excited about the Leap acquisition and how we will support our Project VIP deployment. Once the deal is closed we will take a look at how it will impact our cell sites bill plans and densification initiatives.

We continue to generate cash both through asset monetization's and free cash flow. We also took several steps to manage our debt helping reduce the cost of debt even as we invested in future growth and through it all we remain focused on the shareholder returning substantial value through dividends and buybacks. All together a solid year during a transformational time in our business and I will turn it back to Randall to talk to you a little bit more about that transformation. Randall?

Randall Stephenson

Okay thanks John. I will close with just a couple of comments so can't expect from us in 2014. I will reiterate what we laid out when we Project VIP and that was 2014 is our peak year for VIP investment and our outlooks is very consistent with that original plan. We will continue to be aggressive on the network front. We expect to hit our LTE coverage target ahead of schedule this year. We also have a big effort in terms of network densification and cell sites. We will further ramp our U-verse and business fiber builds, video we believe is a big growth opportunity so we have a major initiative to make our network the best in class for video delivery for both wireline and wireless and longer term we're taking the lead in virtualizing our network to shift functionality from hardware to software. And overtime we believe the pay-offs in operating efficiency and speed to market are going to be significant. In terms of our investments and growth, mobile data and U-verse while they are beginning to scale to very large businesses in and of themselves we're still very early in their growth curves and the same holds for our strategic business services. As John pointed out with the Cricket brand on top of the AT&T network you should expect us to be disruptive in the no-contract space this year.

We have a number of new services that we will begin to move the needle this year. We will Digital Life into a number of more markets. We have taken a leadership position and connected cars, we have already announced agreements with GM and Ford, Nissan, Audi, BMW, Tesla and there are more to come.

And as I mentioned we have a number of new cloud, security and mobile solutions for business and in parallel we're also reengineering how we operate. We have a major effort this year to re-architect our enterprise customer experience, rethinking every step in the end to dramatically shorten our intervals. Across our business, we are driving to make 80% of our customer interactions digital and online by 2020 and Project Agile is all about streamlining operations around an all IP cloud and mobility experience and is a first step about 5,600 employees took voluntary retirement in the fourth quarter. Most of those were management employees. We have additional Project Agile initiatives underway, which will require some investment and we expect run rate savings in the $3 billion range by 2017.

If you go to Slide 18, it lays out our financial expectations for 2014. They are very much on track with what we laid out for you. We launched Project

VIP some 14 months ago, so there shouldn't be any surprises here. We expect consolidated revenue growth in the 2% to 3% range. This doesn't include any impacts from our planned Leap acquisition. We expect stable consolidated margins with adjusted EPS growth in the mid-single-digit range and this does not factor in any future share buybacks. And we expect cash from operations in the $32 billion range.

2014 capital will be in the $21 billion range exactly what we laid out earlier for Project VIP with savings from our original plan offset by capital for Agile and some new network projects. And again, we expect 2014 will be our peak investment year for Project VIP. And with the step up in cash taxes, we expect free cash flow this year in the $11 billion range with similar levels for 2015. Post VIP we expect free cash flow and dividend coverage to trend back to the historical levels. We also expect cash from divestitures from some non-strategic assets and all of this is based on some rather conservative assumptions, that includes U.S. economic growth of around 2%.

Finally, I know everyone saw the filing we made with UK Takeover Panel yesterday. I think the statement speaks for itself. We have talked in the past about how we view the European market. We don't have much to add. Again, we are on track with and in most cases we are ahead of what we committed to you where we rolled out Project VIP. We have a lot of opportunity ahead of us. The initiatives we are executing have really good payoffs in terms of growth and cost structure. And 2014 is going to be a very productive year for us. So Susan, with that, I think we are ready for questions.

Susan Johnson

Thank you, Randall. Tony, I think we are now ready to open it for Q&A session.

Question-and-Answer Session

Operator

Thank you very much. (Operator Instructions) Your first question in the queue will come from Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery - Morgan Stanley

Okay, thank you very much. Randall, just very quickly, can you just give us some color on exactly why you have at this point you had to file with the UK Takeover Panel? And then John on the free cash flow, can you just give us a little bit more detail around the cash taxes and what the impact is in 2014 and ‘15 and what the CapEx is likely to be on ‘15 to get to that $11 billion number? And is there any impact on working capital from the Next program as that starts to ramp this year as well? Thanks.

Randall Stephenson

Yes, hi Simon. In terms of the, they call it a 2.8 announcement we made in the UK yesterday, anytime you get a lot of noise around any kind of M&A, it’s kind of standard procedure for the Takeover Panel to contact the parties that are being mentioned and ask them to make a declaration. And so we were contacted over the weekend because of a lot of press surrounding us in Europe and asked to make a declaration. So we have made the declaration we did. I really don’t have much more to add than that, just technical requirement by the panel.

Simon Flannery - Morgan Stanley

Thank you.

John Stephens

Simon, on the free cash flow, I will take it from the standpoint of we are expecting that $32 billion of cash from operations in the $21 billion range and on CapEx is the biggest generator. When you look at the $32 billion and you compare it to this year, the major changes is the pickup in cash taxes, some of it’s from our pension funding strategy that we implemented last year, some of it’s from depreciation. It does incorporate continued growth in the Next program and it does incorporate what is effectively pressure from that program, but that is all inclusive. Likewise, if you look at ‘15 some of the same things are happening, we will have certainly continued tax pressure, but we will also have growing, we would expect to have some growing pressure for Next and some growing and strong I should say CapEx but our operational improvements and our revenue growth and our profitability improvements will allow us to cover that and keep it stable and keep as very comfortable in our coverage ratios.

Simon Flannery - Morgan Stanley

So CapEx is around that 21 billion again in ’15?

John Stephens

Not specifically giving guidance on that but I would tell you that in prior conversations we talked about CapEx being the current year 21 for ’13 and then 20 and 20. We have opted for Project Agile this year and we will continue to have I would expect we will continue to have some project Agile efficiency investments going forward.

Operator

Our next question in queue will come from Mike McCormack with Jefferies. Please go ahead.

Mike McCormack – Jefferies

I guess it's good for the industry that the consumers are back to being willingness to pay for full handsets. Maybe John just your thought on recent in the current quarter the impact of Next on churn and then looking through the tracking of throughout the quarter obviously December very strong month. Is there a seasonality for that or should we be thinking about or how should we be thinking about percentage growth adds or upgrades as we progress through 2014 and then secondarily your comments regarding Cricket, is there something to be read through that meaning that some of these folks who are getting EIP contracts from the industry [ph] maybe will be better off in the Cricket type product or when we say shake things up I guess I’m trying to understand what that means.

John Stephens

So let me take a couple of the questions Mike and kind of go from there. If you look at where we were at the end of the third quarter we had about 10% of our handset sales being through the next program. During the fourth quarter that grew for the overall fourth quarter we had about 15% for about a 1 million handsets sold under the Next program and we came out of the quarter at about 20%. We continue to see strong sales in the first quarter so that’s what we’re dealing with regarding and that’s a very good opportunity for our customers. They like the program, the last thing is accusing it and certainly we like it. While I’m confident that Next has had a positive impact on the churn I would suggest you that the award-winning customer service, our retail stores, give our customers and a really great network performance are also really significant factors in that real reduction in our churn rate in the fourth quarter. I can’t point to you just one item I got to tell you that I believe it's the network performance, it's the sales efforts, the quality service and quite frankly the good choices including that our marketing team has put out there.

Randall Stephenson

Hey Mike as it relates to the Leap acquisition we have spent the last 6 or 7 years chasing capacity in our network build and we have been very reluctant to move down market because we have some very, very high value customers, high ARPU customers that we're ensuring that we maintain network quality and capacity there. As we make the move to LTE and as we continue to push the network build and create capacity it's created a whole new opportunity for us to think about the value segment and the no contract segment and as we get into the Leap acquisition as we really study the Cricket brand we're finding that it is a very, very strong brand and we really believe that if that end of the market as you pull it a no contract type service on top of an AT&T network our coverage, our quality, our performance we are convinced there is a real opportunity to grow. We're convinced that we can grow from a couple of standpoints and that is what we have seen in terms of moving smartphones, deeper, deeper penetration on postpaid that play has yet to be run in the prepaid segment in a meaningful degree and you should expect this to be very assertive and very aggressive to push smartphone penetration in the no contract space and to be aggressive as it relates to pricing, we will be using a different brand we can do something's that will be disruptive in the market and we're actually getting more and more excited about it the closer we get to closing in the first quarter.

Mike McCormack – Jefferies

Just sort of just looking at it as a bifurcation of credit risk and understanding some balance sheet risk there as well?

Randall Stephenson

That's exactly what it is and also given you the flexibility to do something's in the marketplace with a different brand that you wouldn't do with the traditional brand.

Operator

Thank you. Our next question in the queue will come from the line of Phil Cusick with JPMorgan. Please go ahead.

Phil Cusick – JPMorgan

Hey guys, a couple. One, Randall, just to follow-up real quick in your regulatory conversations the last week, have you learned anything new, no, not necessarily about you, but of U.S. companies ability to buy assets in Europe whether those are NSA issues or otherwise? And then second John, given the high payout ratio for '14 and it sounds like '15 should we assume that the days of big buybacks are pretty much over for now. Is there any room to raise the leverage there? Thanks.

Randall Stephenson

Yes. So, Phil, I was in Davos actually and I had an opportunity to meet with several folks, there were administrations and policymakers and so forth. And my main objective for last week as it related to those conversations was we have had some business impacts from the NSA revelations and they have not been inconsequential. We are having customers ask us a lot of questions. We are having policymakers ask us a lot of questions and is affecting our ongoing business today irrespective of anything that might relate to some M&A or whatnot. And so I was really there to discern what was the attitude and the disposition and try to help formulate our own plans as it relates to those. And it's fortuitous with the President made his speech the Friday before, I think that speech was helpful in terms of the policymakers in Europe understanding where the administration here. The President is going on beta data collection and so forth. And so I would tell you it was net-net a productive set of discussions and I feel like we have a path just as it relates to our ongoing business operations there today.

John Stephens

Phil, let me comment on your questions with regard to buybacks. First and foremost, I'd make the point very comfortable with our payout ratios. Feel really good about our balance sheet, you can see that our debt ratios are well within line and are within our previous guidance that we have been able to generate strong cash from operations, but quite frankly, we have also been able to generate strong cash from asset monetizations, not strategic assets. And we still believe we have opportunities there. As the set transaction, announced transaction would imply, so I feel very comfortable not only for '14 and '15 with where we are at on our payout ratios. With that being said, our assumption is the business plan and our guidance that we gave, it was not based on additional buybacks. We will continue to buyback opportunistically. I will tell you we have about 160 million shares left on our authorization, so that would give you a gating factor unless our board will give us more guidance. But we feel real good about our payout ratios and where our balance sheet is. It remains very strong.

Phil Cusick - JPMorgan

Thanks guys.

Operator

Thank you. Our next question in queue comes from the line of John Hodulik with UBS. Please go ahead.

John Hodulik - UBS

Okay, thanks. Maybe Randall, could you comment on the competitive environment you are currently seeing in the wireless market and maybe look out to when you are expecting – how are you expected to evolve in '14? And I guess specifically with T-Mobile's new ETF strategy, it seems to be the first promotion that really targets family plans, I mean is that something that you see is more of a significant change in the competitive landscape or just sort of more of the same promotion that we see in the past? Thanks.

Randall Stephenson

Yes, hi John. As I have mentioned in my opening comments, it was a formative year for the industry. And I would tell you what is probably most interesting to me as we look at what has played out in 2013 and carried into the first month of 2014 is the idea that our customers are demonstrating an interest desire even to put more of their money into the handset in exchange for lower monthly pricing. And that's what you see happening in the marketplace right now. More and more customers are moving to the handset financing plans picking up more of the cost of the handset with the desire to have a lower monthly rate. And so we are seeing that play itself out.

And you are seeing kind of the whole market move there, all players are introducing these kind of plans and our customers are loving it. You heard John talk about the take rates and now in December, 20% of all of our smartphone sales were on these types of arrangements. And so one can say well, that's great margin opportunity, but then your turnaround to reinvesting it back into the customer in terms of better pricing in the marketplace. And so that's kind of working out very interesting. As it relates to the impact on competition, there is a lot of noise, but at the end of the day we study this nine ways to Sunday and we have made a lot of moves in the marketplace ourselves and fourth quarter churn was the lowest fourth quarter churn we have ever experienced and it just continues to reinforce that you have to be aggressive in the marketplace, you've to constantly have your ears to the ground and attuned to what the customer expects that you better have a high quality network experience both data and voice and we really, really feel good about what was accomplished in 2013 in terms of network quality. Again our voice quality is on par with the best in the industry, in the United States and when you look at everybody else in the industry we're running drop call rates that are half of what the nearest competitor is running. So competitor intensity is going to remain strong I've no doubt that you will see that continue, I have no doubt that you will see us continue all to modify our value propositions but as I pointed our earlier I think what you will see us get most competitive is moving down into the value space with the Leap acquisition and using the Cricket brand.

Operator

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

David Barden - Bank of America Merrill Lynch

Two if I could, first Randall obviously without a win for the carriers net neutrality space you guys are out at CES with some of your sponsored data trials visible for the marketplace. Obviously Ed Whitacre kind of started this conversation many years ago with the marketplace. Could you kind of tell us how you see the next steps unfolding and when if ever we might be able to see a real monetization of this opportunity? And then second John just for you on the EPS guidance two pieces I wanted to talk about just one obviously we're going to get about 2% benefit year-over-year from the ending share count relative to the mid-point of 2013 and then obviously on the next program we're going to get a lot more equipment revenue being booked for a fifth of the customers coming in the door than we do under the old plans, by my math we should see roughly a $1 billion more revenue dropping into the EBITDA line, dropping into the earnings line for 2014 that's going to be about another 4% or 5% benefit. So we're already at 7% kind of earnings per share growth year-over-year before we have even started to work on the business. Could you kind of talk about (Audio Gap)

Randall Stephenson

For the last couple of years the industry came together and worked and agreed to a framework as it related to net neutrality, the SEC promulgated into rules. We did have this court order. From our standpoint David that changed really nothing. It doesn't change anyway that we will operate, I really don't believe it's going to change much of what anybody in the industry will do. As you pointed we introduced our sponsored data plans which you know the easiest way to articulate it is like 1800 data where companies may want customers to access their content and they would be willing to pay the price to let those customers access their content. We can't find that that violates anybody's net neutrality rules or in place today. It's perfectly volunteer it's opened to any company that might want to do this, you think about the kind of situations that are driving this moving on and it's very interesting. So for example UnitedHealth they have a number of young mothers who are not getting good education and training on prenatal care and obviously it's driving their healthcare cost up. UnitedHealth says we have a lot of information, a lot of data. We want to motivate these young women to come watch and to take advantage of and they say if we would like to pay for it to make sure that there are no constraints, nothing gets in the way from these women taking advantage of these training to address their prenatal care and so they said we're willing to pay for that and provide motivation and incentives for these young mothers to be to take advantage of that. I'm struggling to figure out what the argument against those types of services would be.

So you're going to the easy ball. I've no doubt you will see them scale. It's the same way the long distance industry grew and scaled and I think mobile data and mobile internet services will follow some of the same paths. So stay tuned but I don't see the court ruling on net neutrality changing anything in terms of how we operate or most anybody else in the industry for that matter.

John Stephens

David on your second question a couple of quick comments, we are giving a guidance of that EPS growth in the mid-single-digits range. You are right we will get a little lift underneath the wings from the buybacks that took place in '13. We are not assuming anymore working. In the wireless space, we do expect some benefits not only from that, but also from our 24-month upgrade cycle. But I will tell you some of the customers on Next, while they are electing that, they are also as Randall mentioned electing to do, to choose the bring your own device pricing platforms. And so those benefits from Next just may be moving from our service revenues. And you will see the different mix of revenues with the equipment and service, but we are positive about the wireless market and about continue to expand margins.

On the consumer side, U-verse is doing great. We continue to expect to see growth. You saw the kind of numbers they posted on video in the fourth quarter and early on for the year as well as high-speed broadband with initial footprint. We are real optimistic there. Business is still challenged with strategic services are going great. The base is up to 25% we expected to expand. And with that expansion, it should come out to expand the growth rate. So one of the challenges, well the challenges are in a real slow economy, lack of investment by the private sector in the U.S. economy. And quite frankly, we still have – well, we have made a lot of progress in our voice, legacy voice headwinds and we brought that from what it was in 2011 by 22% of our revenue base is now down to 17% and in the fourth quarter down to 16%. We still have to overcome those challenges in a low employment slow economy environment. When you put that all together, we are optimistic about the year, but we are at that mid-single-digits guidance.

David Barden - Bank of America Merrill Lynch

Got it. Thanks John. Thanks Randall too.

Randall Stephenson

You bet. David, I would just add on that if we can get some type of U.S. economic growth in that 3% to 4% range, it changes the equation for a lot of us. And I am hopeful, I am not yet optimistic, but I am hopeful and you can assume that we, AT&T and the business community in general, are going to be pushing an agenda. I hope to hear the President speak on several of these issues tonight, first and foremost, business tax reform. I just can't think of anything that would move this needle faster and to a greater extent than the business tax reform. And I do believe the administration and Congress are all supportive. Here is an area where everybody has coalesced and it seems like its right for getting done. Trade is obviously huge and immigration report, everybody is talking about these. Everybody in Congress, the administration is expressing a desire and a need to get this done. If you could just get a couple of these done, I think it takes us 2% to a 3% plus growth profile and that does change our view of this is what.

David Barden - Bank of America Merrill Lynch

Thanks Randall.

Operator

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

Joe Mastrogiovanni - Credit Suisse

Thanks. John, you have been able to find opportunities to monetize some non-core assets, do you see any additional opportunities as we move forward and how should we think about the use of the capital from these types of transactions?

John Stephens

So I think, Joe, thanks for your question. First and foremost, we are always looking for opportunities. The most recent example of that was the announcement of the Southern New England Telephone transaction at $2 billion, the transaction we expect to close at the end of the year. I will tell you that we will continue to look at things like real estate, like we did last year with other opportunities. In a company of our size with a quarter of $1 trillion balance sheet and a company that has the history, a 100-year-old plus company, we have opportunities. We will continue to search those out. And as some of the economics on real estate and other things improve, we are optimistic about those. With that being said, we are going to keep our balance sheet strong like we always had. We are going to keep our credit metrics strong as we have and we are going to be opportunistic with the use of that cash. We feel good about where we are at, feel good about our, I think how we treated our shareholders and our ability to continue to keep that in the forefront as we invest for our customers and our employees.

Joe Mastrogiovanni - Credit Suisse

And do you think this could maybe give you an opportunity to ramp some of those buybacks as we have seen it slow over the last couple of quarters?

John Stephens

Well, with certainly all of those things that we have taken into account as we make those decisions, but I do want to make sure I am clear on the guidance that for next year, our EPS guidance did not assume a ramp up in the economy and did not assume any buybacks. And as we said before, we are going to be opportunistic with our buybacks and make sure that they are done from a position of strength as we have been doing, as we continue to remain with a strong balance sheet.

Operator

Thank you. Our next in the queue will come from the line of Adam Ilkowitz with Nomura. Please go ahead.

Adam Ilkowitz - Nomura

Just one question on the balance sheet side, you had made a move on the pension plan to fully fund that. I wanted an updated on the preferred equity contribution if you could and then on the wireless side, the postpaid gross additions I know that this is a top quarter with some of the moves that were going on but I was wondering if on the high-end postpaid side you're looking to accelerate itself in anyway? Thanks.

John Stephens

So first and foremost with regard to the (indiscernible) funding. We continue to work with the Department of Labor for an official approval that process continues to go well for purposes as we had filled and we publically stated we have made the contribution, we did that in September of last year and when you look at our audited pension financial statements this year they will be essentially fully funded. They will be at the 99.8% or a 100.2% funding. So that's gone well, we do not have an official ruling yet from the DOL but we're still very optimistic about it and quite frankly I will tell you I'm complimentary about the work in the way we have been respected by the individuals at the Department of Labor. They have been good to work with. With regard to gross additions and our wireless, we're also looking to be competitive, we're always looking for opportunities to continue to grow what has been just a great business for us. As Randall said we're continuing to respond not just the competition but what our customers want and we will continue to focus on offerings and products that will allow us to do that. I will tell you that we're looking at sustainable growth, profitable growth, growth that gets for both us and the customers not growth that does not make economic sense long term.

Operator

Thank you. Our next question in queue will come from the line of Michael Rollins with Citi Investment. Please go ahead.

Michael Rollins - Citi Investment

First for Randall if you go back to your page 6 diagram, how much of your strategy do you want to be the enabler of these applications with your network versus out rightly owing the applications that scale when you compare it to a la carte alternatives? And John if I can broader question, back on the dividend coverage how should investors be thinking about the coverage aspirations that AT&T has on a two year view and how should they think about how much comes from growth in revenue or cash flow from operations versus lowering the CapEx overtime? Thanks.

Randall Stephenson

Michael on enabler versus owing the end user or the finished service, answer to the question is yes and it depends. As you think about LTE and cloud capabilities there are some we will take it all the way through the finished service. Classic example of that would be home security and home automation that connected home that is a finished service that we're monetizing at a retail level. As you think about our NetBond product we're enabling other people via APIs and capabilities to monetize through us providing a secure environment for cloud services (indiscernible) we have our own cloud services out there that we're selling at the retail level as well. You can think about in terms of health services. We're opening up APIs allowing companies to come and put their devices and their applications and use our network services to accommodate that. We think this is a rather sizeable opportunity. Payments, mobile payments we're working with a JV Isis where Verizon and T-Mobile are partners in that JV that is a finished service. So it's going to cover the gamut. We think the opportunities are really large, the connected car is probably going to be both.

They are going to be subscribers who the car is like an additional device, they add-on to their data bucket but the auto manufacturers will look at us as a platform and they will sell finished services in the car through our connected capability as well. So again to answer your question is yes, all of the above.

John Stephens

Mike we forgot the dividend coverage, let me reiterate we feel very comfortable about the dividend coverage for ’14 and ’15 but with the continuing revenue growth, with the opportunities that the VIP network platform provides it's not only for products and services and revenue, but quite frankly for efficiency through Project Agile. We believe that you will see us trend fairly quickly to historic – more historic levels of dividend coverage. And quite frankly, I am opportunistic that we can get to better than that. I think that’s a mix of efficiency from the payoff from Project VIP and high-quality IP networks as well as the revenue growth that comes from those products.

Michael Rollins - Citi Investment

Thank you.

Susan Johnson

Tony, I think we have got time for just one more question.

Operator

Thank you. And that question will come from the line of Amir Rozwadowski with Barclays. Please go ahead.

Amir Rozwadowski - Barclays

Thank you very much and good afternoon folks.

Randall Stephenson

Good afternoon.

John Stephens

Good afternoon.

Amir Rozwadowski - Barclays

On the churn front, I mean, certainly you reported the lowest fourth quarter postpaid churn coming out of you folks, given some of the recent initiatives in part launched by you folks during the quarter for carriers to absorb ETF fees, should we expect your postpaid churn and perhaps the industries for that matter to go up here given what seems to be more increased flexibility to shift between competitors?

Randall Stephenson

Good question and thank you for that. Let me give you a couple of comments. First of all, our churn improvements were not just in our wireless business and we are very proud of those, but I need to point to you that we had really great performance in U-verse churn and consumer video churn. So we are really pleased with churn and an overall customer satisfaction with this network quality we have. Secondly, I will tell you that when people talk about things like floating ratios and offers for ETF, the real measure of the network and the real measure of customer satisfaction is churn, floating issues or ETF issues are a subset of that. Historically, about a third of our customers who made a change ported their numbers, about two-thirds didn't. And so when you have unusual and sometimes uneconomic offers to pay someone's ETF, you may shift floating ratios, but that may not have any change to the total churn picture, it's just a difference between those customers who made a change with or without porting. Well, we certainly have a competitive environment and we are certainly going to keep our eye on the ball and make sure that we continue to respond to what customers want in a sustainable process, but we think those are the driving force, those choice manage the driving issues not necessarily just one ETF offer or another.

Amir Rozwadowski - Barclays

Thank you. That's very helpful. And then one last question if I may on the release from yesterday, has anything changed in terms of review on the regional market outlook for Europe over the longer term with respect to the potential opportunity for mobile data for someone who opts to invest in the region? Thanks very much.

John Stephens

No, our view of Europe hasn't changed at all.

Randall Stephenson

So with that, let me take this moment to thank all of you for being on the call with us today. We close the year with a solid performance, solid quarter and a solid year. Our growth platforms are going strong. Our wireless network is best-in-class and our capital structure is solid. And as Randall mentioned, we are positioned well for 2014. Focused on growth, we have a solid achievable plan that will help us get there. Thanks again for being on the call. And as always, thank you for your interest in AT&T. Have a good evening.