Operator

Ladies and gentlemen, thank you for standing by, and welcome to the AT&T Fourth Quarter 2010 Earnings Release. [Operator Instructions] With that being said, I'll turn the conference now to Brooks McCorcle. Please go ahead.

Brooks McCorcle

Thanks, John. Good morning, everyone. Welcome to our fourth quarter conference call. It's great to have you with us. I know that many of you are dealing with a lot of snow this morning, so a special thanks for the extra effort to be here. As John mentioned, this is Brooks McCorcle, Head of Investor Relations for AT&T. And joining me on the call today are Randall Stephenson, AT&T's Chairman and Chief Executive Officer; and Rick Lindner, AT&T's Chief Financial Officer. Randall will provide some opening comments and perspective on 2010 and our outlook. Rick will cover results, and we'll take your questions.

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

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

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

With that, I will now turn the call over to AT&T's Chairman and Chief Executive Officer, Randall Stephenson. Randall?

Randall Stephenson

Thanks, Brooks. Good morning, everyone. Before Rick covers our results, I want to take just a couple of minutes and offer my view of the business and what you should expect from us in 2011. And as you've seen in our release, we had a very productive 2010. Our revenues grew. We grew earnings. Cash flow was strong. We closed the year well, and we expect another solid year in 2011 with continued revenue growth, margin expansion and growth in EPS and free cash flow.

As we look ahead, our confidence in the industry and our business in particular continues to be very high. We've invested heavily over the past few years, and those investments are beginning to scale. And it's driving revenue growth and margin improvements, and you know what these areas are. U-verse has driven growth in our consumer revenues now each of the last two quarters. And based on the results so far this year, we're adding more pay-TV subscribers than any other U.S. provider. Our VPN capabilities have proven to be a really strong platform for our strategic business services, and these services are going at a consistent mid-teens clip. And on top of these, mobile broadband is obviously our big driver. We just posted the best Wireless net add year in our history. In the fourth quarter, our mobile data revenues grew better than 27%, and we've grown postpaid ARPU now for eight straight quarters. As mobile broadband phenomenon just continues to exceed all of our expectations, our industry has, frankly, never experienced anything quite like it, and we haven't even talked about 4G yet.

And as you know, we've completed our nationwide HSPA+ deployment, and where we combine that with advanced backhaul, we're getting 4G speeds today up to six meg. And we have planned to launch around 20 4G devices this year, two in the first quarter.

And then on top of this, we've accelerated our LTE deployment. And when you combine HSPA+ with LTE, it's going to result in a much more consistent 4G experience for our customers. And then on the business side, when you take these mobile broadband capabilities and then layer on cloud and applications-based services, it really begins to let customers mobilize everything they do. So these are all large opportunities. They're scalable opportunities. And they're all early in their growth cycles. And as you can see from our results in sales of tablet and connected devices and our strong growth rates and strategic business services, we're way out front in each of these areas.

Now, while the future Mobility will be driven by broadband, mobile voice quality is, obviously, important. And over the last 45 days with our vendors finally clearing their backlogs, we brought online a significant amount of new capacity. And our call retainability across the country is up 20 basis points at about 99%. And we see even greater improvements in Manhattan and San Francisco, and you should expect voice quality improvement throughout this year. So that's just a real quick overview. Again, 2010 was a very productive year. We're executing well. I expect another strong year in 2011 in our key platforms: Mobile Broadband, Business Solutions and U-verse. We think they're going to provide a nice platform for growth in the years ahead.

So, Rick, I'll turn it over to you.

Rick Lindner

Thank you, Randall. Good morning, everyone. I'd like to start by providing a consolidated financial summary, which is on Slide 5. When you look at 2010, I think our financial results speak for themselves. They were strong across the board. Revenues for the year were up 1.4% and 2.1% in the fourth quarter. Consolidated margins improved even with strong sales of integrated devices. And as a result, we grew adjusted earnings by 10.6% for the year.

In the fourth quarter, we had reported earnings per share of $0.18, and that includes: $0.26 of pressure from the year-end mark-to-market change in our benefit plan accounting, which we announced a couple of weeks ago; $0.09 of pressure due to severance charges; and $0.02 of pressure from asset impairments. Excluding these one-time items, earnings per share for the quarter totaled $0.55, and that's up 10% versus the fourth quarter a year ago. And cash flow continues to be strong. Free cash flow was $3.1 billion in the quarter and $14.7 billion for the year.

Now I'd like to take a look at revenue growth and revenue mix on Slide 6. Our fourth quarter consolidated revenue totaled $31.4 billion, and that's up $653 million or 2.1%. The drivers continue to be strong Wireless growth and U-verse, which is improving our Wireline Consumer results and continued strength in strategic business services. These trends continue to transform our revenue mix.

In the fourth quarter, 73% of revenues came from Wireless, from Wireline data and from Managed Services, and that's up from 65% two years ago. Combined revenues from these sources were up 9% in the fourth quarter. And in fact, the fourth quarter marks the first time where our Wireless revenues have surpassed Wireline. We're confident that this mix shift will continue as mobile broadband continues to be a huge growth driver.

You'll see the impact of mobile broadband in our Wireless results, starting on Slide 7. It was another terrific Wireless growth quarter. Total Wireless revenues were up $1.4 billion or 9.9%, and Wireless service revenues grew 9.6%, up more than $1.2 billion versus fourth quarter a year ago. This was driven by continued subscriber gains and strong data adoption. Data drove our eighth consecutive quarter of postpaid ARPU gain, a record unmatched by our peers, up by 2.2%, and we continue to have the highest postpaid ARPU in the industry.

Churn, both total and postpaid, continues to reach or match best-ever levels. We also had our best net add quarter ever, adding 2.8 million subscribers in the fourth quarter. In fact, we had our best ever year with 8.9 million subscribers added to the network in 2010, and that doesn't include those added through the Alltel property acquisition. Net adds in the fourth quarter were led by an increase of 1.5 million connected devices, the highest quarter ever. These devices bring lower ARPUs but attractive churn and margin characteristics.

Postpaid net adds for the quarter were 400,000. Prepaid net adds totaled more than 300,000, with strong iPad and Android-based tablet activations. In fact, during the quarter, we added 442,000 tablets to the network, and we also had a solid reseller quarter with nearly 600,000 new subscribers.

Our Data revenues continued their exceptional growth. The details are on Slide 8. We grew Wireless data revenues by more than 27%, up more than $1 billion year-over-year. Integrated device sales, those are handsets with QWERTY or virtual keyboards in addition to voice functionality, are a key driver of this growth, and we had another incredible integrated device quarter, our second highest sales quarter ever. Signing up more than 7.4 million subscribers, both upgrades and new customers, these sales netted 3.4 million new 3G postpaid integrated devices in the quarter, and were up more than $13 million in the past 12 months.

Our results also reflect another strong quarter for iPhone activations, with more than 4 million activated during the quarter, resulting in 90% of our iPhone base being under contract. And in addition, our other smartphone sales increased significantly over the previous quarter. ARPU for integrated devices continues to be strong, 1.7x our other devices, and these subscribers tend to be very sticky for us, with more than 80% of the integrated device subscribers on family- or business-related plans with churn levels well below average. And the good news is we continue to have room to grow. About 60% of our postpaid base use these devices today, but our sales rate continues to increase and is now more than 80%.

Obviously, integrated device sales, along with high upgrade levels, have an impact on margins. The details are on Slide 9. Within integrated devices, we're also seeing a shift to a higher mix of high-end smartphones, devices that use an advanced operating system such as RIM, Apple OS or Windows 7. These devices tend to have higher subsidies than quick messaging devices, but they also bring higher ARPUs due to more robust data capability. And our customers continued to upgrade to higher-end smartphones in record numbers. In the fourth quarter, we had about 2 million more smartphone sales than we did in fourth quarter of 2009. And over 9% of our base upgraded their device in the quarter, signing a new two-year contract in the process, and I think that says a lot about the confidence and the loyalty they have in AT&T.

Smartphone sales and upgrade levels did impact fourth quarter Wireless margins. In the quarter, Wireless OIBIDA service margin was 37.6%. That's flat sequentially and down from fourth quarter a year ago. And for the year, our OIBIDA service margin was 40.7%. The offset to higher device subsidies is the long-term value these customers bring, including higher ARPUs, lower churn and strong data growth. And you see that in our Wireless operating income which was up more than 10% for the year to reach $15.3 billion.

I'd like to turn now and cover our Wireline results, starting with consumer trends on Slide 10. This was another strong quarter for U-verse, and it drove our second straight quarter of year-over-year revenue growth in Consumer Wireline. We had 246,000 U-verse video net adds in the quarter, and we hit an important customer milestone earlier this month when we reached 3 million subscribers. Broadband and U-verse Voice over IP attach rates remained very high. More than 3/4 of U-verse subscribers had a triple- or quad-play bundle, and the ARPU for these customers continues to grow, up 14% year-over-year. As a result, our U-verse economics are attractive and growing. It is now a $5 billion annualized revenue stream, and U-verse exited the year with positive impact on margins.

We also had another strong quarter in total broadband adds, up 210,000 year-over-year. Our Wireline Consumer IP data revenues, that's U-verse services plus non-U-verse broadband, grew 30% for the year, and these products now represent 45% of total Consumer Wireline revenues, up almost 1,000 basis points over the past year. We expect continued U-verse growth and scale to drive further improvements in our overall Wireline financials.

Now let's take a look at business Wireline on Slide 11. Here, we're seeing the same consistent trends impacting the business that we have all year. As the lack of growth and business formations and employment continue to put some pressure on the Wireline business, you see that in our fourth quarter service revenue results, which were down 4.3% year-over-year on a reported basis and 3.5% after adjusting for the third quarter sales of the company's Japan assets. We are, however, seeing some bright spots in our federal networks contracts and in our Wholesale business, and we had our strongest quarter of the year in strategic business products. Revenues from these products including Ethernet, Virtual Private Networks and application services were up over 17%. And overall business IP revenues were up 9% in the fourth quarter and contributed to positive business data growth.

Plus, we continue to do well, selling Wireless into the business space. We're seeing a fundamental shift with more enterprises asking us to help them deploy full mobile solutions, solutions that bring together mobile broadband, cloud computing, seamless access to applications and even social media. We're well positioned to lead in this transition, and we're excited about this future opportunity.

Now I'd like to take a look at margins and cash flow. Consolidated margin comparisons are on Slide 12. We said at the beginning of last year that we expected stable to improved consolidated margins when compared to 2009, and we delivered on that. For the year, our adjusted consolidated operating income margin was 18.5%, that's up from 17.7% in 2009. This reflects improving revenue trends in both Wireless and Wireline Consumer and solid execution of cost initiatives across the company. Our Wireline operating margin remains stable from 2009, and that was driven by improving revenue trends and good cost management.

Across the business, total force was down by more than 16,000, and we're making great strides with One AT&T. As we consolidate and integrate Wireline and Wireless operations under One AT&T, we continue to drive down costs. These initiatives strengthen our ability to sustain solid margins and put us in a unique position among our competitors to serve customers seamlessly with a best-in-class operation. These initiatives have achieved expense savings of more than $1 billion a year. And recently, we launched our next phase of One AT&T designed to simplify our product offerings, and we anticipate significant value from these new initiatives on top of our normal cost management efforts.

Along with solid margins, we also continued to deliver strong free cash flow. Our cash summary is on Slide 13. In 2010, cash from operations totaled $35 billion, capital expenditures were $20.3 billion, with a more than 50% year-over-year increase in Wireless capital. Our free cash flow was $14.7 billion. I do need to point out that as we go forward and prepare to launch our LTE network in 2011, we will no longer capitalize interest for the radio spectrum we purchased to use for LTE. This will increase interest expense and reduce 2011 earnings per share by $0.07, as well as reduce capital expenditures.

Dividend payments in 2010 totaled $9.9 billion, and over the last six quarters, we've generated almost $9 billion of free cash flow after dividends. In terms of uses of that cash, our debt level is down almost $6 billion over the past 12 months, with a debt-to-capital ratio of 37% and an adjusted net debt-to-EBITDA ratio of 1.56. Our strong balance sheet and cash flow gives us the flexibility to continue to invest in the business while returning substantial value to shareholders.

And with that, I'll now turn it back to Randall Stephenson for closing comments. Randall?

Randall Stephenson

Okay. Thanks, Rick. Before we go in to the Q&A, I just want to make a couple of additional comments. Just looking back at the last three years, we've executed with a lot of discipline through this downturn, and we've marketed well. We've won customers. I think we've done a very good job on the cost side. When you look at the metrics Rick just walked you through, I think it's pretty clear that AT&T is coming out of the downturn stronger, both operationally and financially, than we were going in.

We have a better balance sheet, better revenue trends, better margins and a more growth-oriented business, and then all of this reflects solid execution by the people across this company. And as you look ahead, most important thing we've done over the past few years is that we've built and we've scaled some very nice growth platforms for the future. Mobile broadband, U-verse, VPN and cloud-based services, and we've invested very aggressively in all these areas. We've kept CapEx strong. We've acquired high-quality spectrum. And while we've done all of that, we've maintained the financial strength to return substantial value to the owners. We've increased the dividend now for the 27th straight year, and we authorized a stock repurchase.

So as we look forward to 2011 and I've laid this out for you on Slide 15, we have a solid plan to continue growing revenues, earnings and cash flow. And so here are the variables: We do expect healthy contract subscriber growth in 2011 even with the introduction of another carrier for the iPhone. Obviously, this is going to make things a little bit harder to predict early on in the year, but with the introduction of new Android and other devices, we think the smartphone market will continue to be very strong for us. And this is consistent with what you saw on the fourth quarter, which was our second highest smartphone quarter in our history; we also had a strong fourth quarter in tablets and connected devices, we expect that momentum to continue through 2011 and beyond; we expect to expand our Wireless and our Wireline operating margins; and excluding the capitalized interest impacts, we expect 2011 EPS growth in the mid-single digits or better. And as the market settles beyond 2011, we have an opportunity to accelerate our EPS growth even further; we're targeting capital this year in the low to mid-$19 billion range, and we expect free cash flow will be up from 2010.

So this is an outlook that reflects the quality of the growth platforms. It also reflects our proven ability to execute on the cost side. And I'd add that it does not include any kind of significant lift from the economy. And I'm hopeful we're going to see more from the economy this year. We're beginning to see a few encouraging signs. But we do not have any kind of economic turn built into our expectations and that just reflects our approach. As most of you know, we tend to be very conservative in these areas. So we had a very productive 2010. We are confident 2011 is going to be strong as well, and what has me most excited is this industry's potential over the next few years and how AT&T is positioned here in the long term.

So, Brooks, with that, I think we're ready for questions.

Brooks McCorcle

Okay, great. John, I think we're ready to open up the line for questions.

Question-and-Answer Session

Operator

[Operator Instructions] First, we'll go to the line of John Hodulik with UBS.

John Hodulik - UBS Investment Bank

A quick question on the guidance. I guess as it relates to the earnings growth for 2011, I would have expected something more of a -- I guess you could call it a loss of iPhone exclusivity dividend in terms of so much faster earnings growth. Maybe, Randall or Rick, could you talk a little bit about your strategy going into 2011? Obviously, a lot more smartphones, but do you expect that to -- and I know a lot of confidence about the group being able to grow the postpaid base, which I think is you don't hear a lot of, but do you expect to have to spend more or advertise or increase subsidies or how do you expect to -- is that really the difference there that margins might not expand as much as the lower iPhone shipments would probably suggest?

Randall Stephenson

John, this is Randall. I'll take it first and then let Rick add some color to it. But when you look at the guidance, there a couple of things that are underlying it and I just spoke to them. But just very briefly, obviously, the economy, we are not expecting any kind of dramatic lift in economic growth. And this is -- we think it's fairly conservative. I think it's prudent that we set our cost structure around a slower economic growth scenario. But we're beginning to see some encouraging signs. Businesses are investing again, and we're seeing early indications of that. We are starting to see some hiring. But the reason we moderate this is business starts to continue to be negative across the country, and that's probably one of the best early indicators for us when this thing begins to turn. So we're hopeful as we kind of work through this first quarter and second quarter, we begin to see the business starts turn and with any luck, we'd get some upside from the economy there. The second area, though, is this idea of an iPhone going on to a second network. This is going to create some volatility in the first part of the year, and it's going to be kind of hard to predict the first part of the year as Verizon launches an iPhone. But as I mentioned in the comments, I feel fairly confident we're going to be able to grow over the course of the year through the disruption, and there's a couple of reasons for this. And one of them is if you just look at the fourth quarter, it was no secret that the iPhone was going to be available on a competitor's network, and the competitive environment was reflecting that. And in spite of that, we had our second-best integrated sales quarter ever, and iPhone sales continued to be very strong in the fourth quarter. In fact, it was among the best quarters we've ever done as well. We sold 4 million iPhones, and that just kind of gives us some confidence in terms of customer loyalty to the network. And so again, it'll probably-- it may be rocky in the beginning of the year, kind of volatile, hard to predict, but we think as we work, the market stabilizes, we'll be able to grow through it. The other thing is the sales mix will change this year. We have not been very aggressive in the Android portfolio, and we're bringing Android into the mix very aggressively this year. You've seen some of the devices that we'll be bringing in. And so we're going to be a heavy participant in the Android market this year, and so you're going to see a significant shift in mix. And then you add Windows 7 and RIMs products are actually starting to do very well and getting a lot of traction in the market and then our sales channels. We think were actually going to have a nice mix shift and do quite well in those areas. And then last, we're really starting to feel good about the network situation. We're making a lot of progress here. And as I commented in the opening comments, we had a significant clearing of backlog from our vendors in December. We were having some serious capacity constraints in key markets, and we really saw the backlogs clear. And we spent the last 45 days literally just bringing capacity online in a rather dramatic fashion, and we're seeing those numbers move. And so you put all this together, we actually feel like, again, with a little volatility in the first part of the year, we can grow contract subscribers through the course of this year.

Rick Lindner

John, the only thing I'd add to that in terms of any color is obviously, as Randall said, there is probably a little more volatility and it's a little more difficult to project this year in 2011 and certainly the first half of this year. But there is, obviously, there's an interplay in the modeling, in the guidance, in the expectations between -- in the Wireless side between volumes and mix of volumes and device sales and what kind of margins and earnings growth you expect. And as Randall said, as we look at the trends and we look at the trends particularly in the last quarter or two, what we're seeing is continued strong iPhone sales despite the anticipation of the iPhone being nonexclusive. We did over 9 million iPhones in just the last two quarters. That's a pretty phenomenal number when you think about it. That, plus the high upgrade rates we've seen and the growth we're seeing in sales of other smartphones -- smartphones with a RIM operating system and a Windows operating system, the Android models we've got coming on into the device lineup in 2011, I think are very exciting. So our guidance is based on a presumption that we're going to continue to see strong sales of smartphones, and we're going to continue to grow the business. We're going to grow it in customers, in ARPU and obviously, in revenues. In terms of how you compete in this environment, again, we feel we're in a good position. We're going to have a tremendous device portfolio for customers to choose from. We've got a network evolution path, I think, that is -- will be the most elegant from a customer standpoint by having both HSPA+ across our entire footprint as we roll out LTE. And then finally, as Randall said, we are seeing and expect to see continued significant improvements on the Voice side. So that's essentially the position that we'll compete from as we go into '11.

Operator

Our next question is from Simon Flannery with Morgan Stanley.

Simon Flannery - Morgan Stanley

Just following up on that last question. Is there any change in the trends in January since the formal announcement of the Verizon iPhone? And then can we talk about the cost side of the equation? In '11, you had strong productivity performance, 16,000 head count reduction. Where are we in terms of ongoing opportunities, both Wireless and Wireline, in 2011?

Rick Lindner

Yes, Simon. It's too early, I think, to comment much in terms of January trends. You always have kind of a bit of a lull as you get past the holiday season. But again, we're seeing, I think, continued good sales activity. I think the iPhone 3G model at a $49 price point will be an attractive model for our customer base. And again, as you look at the fourth quarter activity, the level of upgrades we had, which is really the second highest level of upgrades and customers signing two-year contracts that we've ever had only surpassed by the third quarter of last year combined with the sales of smartphones, I think both of those bode well for the business in an environment where the iPhone is not exclusive. In terms of the cost side, and we touched on this a bit in the presentation, but we see continued opportunities, both in the Wireless and Wireline sides of the business, and it's driven by a couple of things. First, the One AT&T initiatives, which is really, it's been a series of initiatives over the last few years. And as we mentioned, we just, at the end of last year, kicked off a new set of One AT&T initiatives targeted at simplifying some of our product offerings. But these initiatives, if you step back from it over the last several years, have consistently been providing cost reduction on a year-over-year basis in excess of $1 billion a year. And we see the same kind of opportunity going forward as we look into 2011 and 2012. But secondly, and this is kind of a broader piece of it and it gets to a comment Randall made in the presentation about the opportunity to begin to accelerate some of the trends in the business as we get even past 2011, is we talked about the change in the mix of our business. And what you're seeing is that some of the growth platforms, and U-verse is a perfect example, those growth platforms are beginning to scale. And just a natural part of our business, as those products and platforms scale, the margins improve. So we're seeing steady, consistent margin improvement there. And as we go forward and particularly as we get out past 2011, you start to see some of the drag on the business from legacy products like Wireline voice start to decline, and it's the combination of those two things that I think gives the business opportunity to begin to accelerate both in terms of revenues and margins as we go forward even past 2011.

Operator

Our next question is from Mike McCormick with Nomura.

Michael McCormack - Bear, Stearns & Co.

You've done a pretty good job, you had obviously [indiscernible] integrated devices -- maybe just a comment on postpaid ARPU growth. It looks like there's been about [ph] in here in the sort of mid-2% range. Do you guys have any expectation for acceleration there as we go through 2011? And then secondly, Verizon seemed to put up a pretty good quarter that contributed to net adds using these MiFi devices for the iPad. Does that cause you guys to think about changing your strategy there?

Randall Stephenson

Let me start, Mike. This is Randall. In terms of ARPU, what's driving ARPU for the industry is moving these postpaid bases onto integrated-type devices, and we have been hitting this really hard for the last three and a half years. In fact, we're, by a sizable margin, way out front of the industry on this. We have more than 60% of our customer base, postpaid customer base now on integrated-type devices. And if you look at just the sales channel, the sales funnel, about over 80% of the sales into our postpaid base are on integrated devices. And then by the way, that number just keeps creeping up quarter in and quarter out, and so I don't think 80% is going to prove to be the cap on what percentage of these bases have integrated devices. So we've got quite a bit of room to run just in our traditional postpaid base on ARPUs, and then those ARPU improvements are significant when they move onto integrated devices. So we'll continue, as an industry, to push that, and we'll continue to move that along. I think 80% is going to prove to be a floor and not a ceiling. So plenty of room there. When you think about MiFi, we're selling MiFi-type capability today. If you think about what those MiFi products are serving, largely they tend to be serving tablets. As you know, we have the 3G capability built into the tablets, predominantly, that we sell. And when you look at what we sold in the fourth quarter, we sold 442,000 tablets that are running on the network, and so I kind of compare the two. Those are equivalent. And so we're having very, very strong results in terms of selling tablets, and I'd tell you to keep in mind we're really early on in tablets. I mean, this thing is still in its infancy, and we think this has a lot of room to run. And by and large, the tablet market is being dominated by the Apple products, the new stuff is just now coming online. And so you're going to see a lot of Android-type tablets come online, and that'll push that along as well. So we think we have a lot of opportunity in terms of tablets. And I would also tell you not to disregard the connected devices. This is a huge growth area for us. And so if you think about ARPU being the first place we're obviously going as an industry. Smartphones and integrated devices, tablets are going to be a significant driver to revenue growth as we move forward. Connected devices are proving to be very powerful, and we added 1.5 million of these in the quarter and kind of setting the pace for the industry. And I believe the connected devices products are going to accelerate as we move into 4G capabilities. So you put all those together, and it gives us a lot of confidence, we're going to continue to grow this Wireless business for the next few years.

Michael McCormack - Bear, Stearns & Co.

It does seem like the definition of the different categories of Wireless adds is making comparability a lot tougher these days.

Randall Stephenson

Yes, I think it is, and we, probably as an industry, we're going to have to land on that. But I think just talking about tablets, it's going to be a category that's very, very important for everybody. And so we're going to give you more visibility into that.

Rick Lindner

I think one of the strong things about the quarter, Mike, is that we did grow customers across every category. We grew customers in postpaid. We grew customers in prepaid. We grew it in reseller and as Randall said, had a record quarter in connected devices. There is some comparability issues because, as you know, a large majority of the tablets that we've talked about, those sales were of the iPad and to the extent they're going to consumer customers, they tend to be under a prepaid rate plan. But it's a plan where we're seeing good consistent usage and ARPUs from. But we put it in the prepaid category. So I think as you're comparing our results and as you're looking at growth, it's helpful to understand that or to put the two categories, the prepaid and postpaid, together from a comparative standpoint.

Operator

Our next questions from Phil Cusick with JPMorgan.

Philip Cusick - JP Morgan Chase & Co

So let's focus a little bit on the Wireless margins. It doesn't seem like the guidance implies that, that moved toward or to low- to mid-40s like we've talked about. What's going to happen to get to that point, do you think? Number one. Number two, what's the sort of cost cutting potential within the Wireless business? Can you expand on that a little bit? And then number three, the upgrade policy here, so very aggressive, and I see Verizon pulling back a little bit. Is that part of what's required to get to that sort of mid-40s margin? And does it make sense to start pulling back here, or do you give it another year to really upgrade your base before you start really tightening down on those upgrades?

Rick Lindner

Those are good questions, Phil. First of all, in terms of guidance and our expectations for Wireless margins, we finished the year in 2010 at 40.7% in terms of OIBDA service margin. Our expectation going into '11 and beyond, frankly, is that we'll continue to grow Wireless margins. And so I don't think in terms of a longer-term basis or our expectation for that business longer term hasn't changed. Our plan is to continue to grow the margins there, to grow it on a consistent basis and obviously, respond and compete in the marketplace. But there is an opportunity here, and it's important, I think, to take advantage of that opportunity to migrate your base up into higher-end data capable devices, and the upgrade policy is a part of that. But we'll continue to watch and see what's happening in the marketplace and make decisions that we feel are right for the company at the time in terms of striking the right balance in increasing smartphone penetration, as well as managing upgrade cost. And that's purely what it is, it's a balance.

Philip Cusick - JP Morgan Chase & Co

And what about the potential to sort of cut cost away from that?

Rick Lindner

Well, two things in Wireless. Like all of our businesses, as you continue to grow and scale, you have the opportunities to increase margins. I think a broader device lineup, and you see us even broadening the device lineup as we go into 2011, just naturally creates a more competitive environment among device manufacturers and gives you opportunities to mitigate and manage subsidy costs, which are important. A couple of areas, in addition, as we've pointed out, some of the incremental areas, the tablet sales, which come on generally at low to no subsidy levels, in many cases, offer good margin opportunities. The connected devices provide incremental margin opportunity. And on the cost side, the One AT&T initiatives that we're pursuing really allow us to reduce costs because we're combining organizations and processes that support both Wireless and Wireline businesses. So those benefits accrue both to the Wireline and to the Wireless portions of the business. So those are the things that give you the opportunities to continue to expand the margins there. But we see a lot of upside in Wireless margins as we go forward over the next few years.

Operator

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

David Barden

Two if I could. The first one, I just wanted to return to this ARPU equation as it relates to integrated devices and smartphones. Obviously, we saw a 2.2% postpaid ARPU growth in the fourth quarter. But if we look at the first half to the second half of the year, it's more like 1% growth. And if we look from second quarter to fourth quarter, it's actually less than 0.5% growth. And we've seen some of the strongest ever quarters that you guys have ever reported in terms of upselling customers and upselling into integrated devices and smartphones. And so with the incremental competition we've got coming in 2011, what gives you guys the comfort that just doing more of what you've been doing is actually going to continue to create year-over-year ARPU growth? Because the trends seem to be really sliding towards little or no growth even now at this stage before the real competition has come. And the second question is, on the other side, Rick, I think you said U-verse is actually contributing positively to margin now. Could you elaborate a little bit, is it positive margins or is it greater margins than the average of the Wireline base helping the overall total?

Rick Lindner

Sure, David. First of all, on the ARPU trends, I think I understand that the numbers you were using -- I'm going to use a bit different set of numbers there, but I think we're talking the same thing. If you looked at our results, our postpaid ARPU growth in the first half of the year, we were in the kind of 3%-plus range year-over-year and in the second half on a year-over-year basis, it scaled down to kind of a low 2% range. There were two items that had some impact there. The biggest, the largest was the impact of regulatory fees and recovery charges that are embedded in the service revenue and the ARPU. And those fees and charges are just cost pass-throughs, and they do go up and down over time based on the costs incurred. And in the second half of the year as we reset those costs, the costs had gone down, and so the regulatory recovery charge went down. And so that contributed to really the reduction of going from a 3%-plus kind of year-over-year ARPU trend to a low 2% ARPU trend. So when you kind of strip that aside, what you're seeing is Data revenues and the impact on ARPU has been -- continued to be very good and very consistent through the year. So that gives us comfort going forward. And then on top of that, I think as you continue to see Wireless data traffic growth and you start to think about the opportunities in a 4G environment and the applications there, as that usage grows, you will continue then to see growth opportunities in Data ARPU as well there. So that's kind of the ARPU trend. On U-verse margins, let me give you two data points. U-verse has crossed and looking at the business in total, including not just the recurring margins but the acquisition costs associated with customers, the margins are positive from an EBITDA standpoint. They are below the average Wireline margins but they are positive and they're growing every single quarter. And that's just a function -- that's just the normal course that happens when you have a base and the base is relatively small in the beginning, and you're adding a lot of customers, the acquisition costs overwhelms the recurring margins from that base. But we're definitely seeing that trend improve, and it's turned positive. But secondly, if you look at -- put the acquisition, customer acquisition cost aside for a minute, and to give you some idea of the capability in U-verse from a margin standpoint, the recurring margins of our U-verse customers are well into the 40s, which is, obviously, on an EBITDA basis, significantly above our Wireline EBITDA margins. So again, that's what gives us, I think, comfort about the projected improvements and the opportunity we've got with U-verse as it scales.

Operator

Our next question's from Chris Larsen with Piper Jaffray.

Christopher Larsen - Piper Jaffray Companies

First, I just want to make sure I have this clear. If you take the 400,000-plus tablets in the prepaid and then the 400,000 or so postpaid customers on a combined basis, we're in that range of about 800,000 units. Just trying to get back to that comparability issue. And then secondly, you exited fourth quarter with a year-over-year growth rate of around 2.1% and the full-year average was about 1.4%. What should we think about as we're going into 2011, is there anything that should make us think that the growth rate in 2011 on a top line won't be above that of what we saw in 2010, just given the exit ratio?

Randall Stephenson

Your comparison of our postpaid plus the tablets, I think that's a fair comparison. I don't have exact insight into some of the other folks' numbers. But you think about a tablet, which is running a $30-type of ARPU and put that with our postpaid adds, the two together are probably a good comparison to what some of the others are doing. In terms of the top line, our guidance is really -- we should see top line growth comparable to what we saw in 2010. And again, so much of this is dependent upon the Wireline side of the house until we can get some economic lift on the Enterprise business side. I hope we get some upside surprise there. But we're just assuming a fairly low economic growth rate during the 2011 time frame and that we can get the Enterprise business side kind of moving towards that growth profile by year end. But right now, our current estimate is that we kind of keep the top-line growth rate about what we saw in 2010.

Operator

And next we go to Tim Horan with Oppenheimer.

Timothy Horan - Oppenheimer & Co. Inc.

Can you give us an estimate on what percentage of your towers are fiber backhaul now and maybe at the end of the year? Secondly, just to clarify on Phil's question, Rick, on the iPhone. Do you have flexibility to end the one-year upgrade at some point in the next 12, 18 months? And then lastly, the access line trends were a little bit weaker this quarter. I know margins were a lot better. Were there some correlation there or anything else going on with the access line?

Rick Lindner

Tim, in terms of fiber deployment, we're in the low- to mid-20s in terms of deployment currently. We expect as we go through 2011 that number will significantly increase. We expect 65%, 70% of our traffic to be covered under fiber backhaul as we get towards the end of '11. So you'll continue to see that increase. That will continually improve HSPA+ speeds. And obviously, it's the same infrastructure then that is used as we roll out LTE, and it is an important component. You've got to have both the radio infrastructure, as well as the backhaul in place in order to maximize the data speeds in these networks. In terms of upgrades, what we did in 2010, as you know, in the second half of the year, is we did accelerate some upgrades by allowing customers that would have been eligible through the end of the year to begin upgrading earlier in the third quarter. And as I mentioned before, we continually look at our upgrade policies relative to the economics of these customers, what the subsidy levels are, what their usage ARPU and overall relationship with us is. And so I'm confident we're striking a good balance there from an economic standpoint, but we continue to evaluate it.

Timothy Horan - Oppenheimer & Co. Inc.

And then the access line trends were a touch weaker?

Rick Lindner

Yes. Actually, we were a bit better in terms of voice connections. I think we're seeing some improvement in the trends in voice connections in consumer. Some of that, obviously, doesn't show up in our access line numbers, Tim, because about 60% or so of our U-verse customers are using a Voice over IP product. So the revenues are comparable, but they show up as Data revenues as opposed to access lines in Voice. I think we did see some continued declines on the business side, and that's a reflection, I think, of two things. It's a reflection of, again, business customers moving to IP-based services. But it's also just some continued weakness, particularly in the [indiscernible] of the market where we've not had strong growth or positive growth in new business formations. And when you look at kind of our small business base in particular, actually we're seeing churn rates and outward activity go down and are very positive. But with negative new business formations, we're not seeing the level of inward activity that we'd like to see going forward, and hopefully, that will improve as we go through 2011.

Operator

And that'll be from the line of Brett Feldman with Deutsche Bank.

Brett Feldman - Deutsche Bank AG

Just a few quick ones here about your marketing strategy this year in Wireless. First, can you maybe give us an update on the experience you've had so far with tiered pricing, the extent to which it’s kind of done what you'd hope that it would do and maybe areas where you might evolve that during the year? And then the second, you talked about an increasing focus on Android, one of the ways some of your competitors have had a lot of success with that platform despite creating these proprietary 4G brands like Droid and Evo, are you considering a similar strategy as well?

Randall Stephenson

On the marketing side, as it relates to tiered pricing, Brett, that has done everything we would have hoped, to be quite honest with you. As you've seen, our data ARPU trend, as Rick articulated, continues to move along at a fairly steady pace. And what it has done, and I think you see this manifest itself in terms of our penetration of our postpaid base with integrated devices, it's opened up the integrated device market to a whole new demographic. And so that's one of the things that's really stimulated and accelerated the penetration of the postpaid base into smartphone. So right now, I like the structure of it. I like what we're seeing in terms of the customer behavior and the customer usage. And I really like how it positions us as we move forward into 4G networks, and then the ability to, as usage accelerates on these devices, make sure we have some capability to monetize the usage as we move forward. In terms of Android, we're probably going to be doing a number of things. Android is going to become a very broad-based OS for our portfolio, and there will be some proprietary labeled products. But Android is going to be so broad-based, it's going to be hard to put it into one single category. And so you're seeing a number of things we're doing in terms of tablet devices coming out on an Android platform, this new Motorola, which is a really exciting device, the Atrix. That will not be a proprietary brand, but it will be an exclusive to us. And so there's going to be a lot of activity around Android because it is such a broad-based platform that's going to be utilized in a number of different areas, and it's going to be a high priority for us as we move into 2011. You're going to see a lot of activity from us in Android. So that's what you should expect. Now, with that, I guess I'll close by saying I appreciate everybody participating on the call. And by way of closing, I’d just like to outline for you our discussion today that I think we have a pretty good plan for 2011. It's a solid plan. And it's got a conservative economic forecast built into it. It's the kind of plan that I think you've come to expect from us. You know our track record in terms of executing and delivering the types of plans we put in front of you. And as I said earlier, our confidence in the industry is really high, and the confidence in our company's ability to execute is really high. So again, thanks for your interest in AT&T and participating in the call, and I look forward to talking to you all. Thanks very much.

Brooks McCorcle

Great. Thanks, everybody. John, thanks very much.