Operator

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

Brooks McCorcle

Thank you, John. Good morning, everyone. Welcome to our third quarter conference call. It's great to have you with us this morning. As John mentioned, this is Brooks McCorcle, Head of Investor Relations for AT&T, and joining me on the call today are Rick Lindner, AT&T's Chief Financial Officer; and Ralph de la Vega, AT&T's President and CEO for Mobility and Consumer markets. Rick and Ralph will cover our results, then we'll follow with Q&A.

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

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

This presentation may contain certain non-GAAP financial measures, and reconciliations between the non-GAAP financial measures and the GAAP financial measures are also available on our website.

Before I turn the call over to Rick, let me call your attention to Slide 4, which provides a financial summary. Reported earnings per share for the quarter was $2.08, which includes the $0.13 gain from the cash sale of Sterling Commerce during the quarter and another $1.40 gain from a previously disclosed tax settlement. Excluding these gains, EPS was $0.55. That's up about 4% versus EPS for the third quarter a year ago and up about 9% year-to-date versus the same period last year. That's our third consecutive quarter of EPS growth before significant items.

Consolidated revenues were $31.6 billion, up both year-over-year and sequentially. And that was led by strong growth in mobile broadband U-verse services and advanced business offerings. Even with record integrated device sales, our consolidated operating margin was essentially flat from the prior year, reflecting operational improvements in network and support functions and solid execution on cost initiatives.

And free cash flow continues to be strong, $4 billion in the quarter and $11.6 billion year-to-date. With that, I will now turn the call over to AT&T's Chief Financial Officer, Rick Lindner. Rick?

Rick Lindner

Thanks, Brooks. Good morning, everyone. Before we get into the highlights on Slide 5, let me first just say we're very pleased with what we accomplished in the third quarter. First off, we are excited about the trends that we're seeing with revenue growth. Not only did we have a solid consolidated revenue growth quarter that was fueled by double-digit Wireless revenue growth, but we also saw Wireline consumer revenues grow for the first time in more than two years. Second, we continue to see the benefits of our mobile broadband strategy. We had just an incredible Wireless quarter across most every metric.

New customers are choosing AT&T and existing customers are renewing their contracts in record numbers. And I think that speaks volumes about both the strength of our network and the ever-widening selection of devices that we carry. Ralph will give you more details in a moment, but we are very pleased with the improvement that we're seeing in revenue trends.

We also continue to see improving revenue trends in our business markets, and I'll speak to those in just a few minutes. But from my perspective, the thing I'm most encouraged by is that even with pressure on margins from integrated device sales, we delivered good, consolidated margins with earnings growth and continued free cash flow. And I think that puts us in great position to have a solid year in 2010 with good momentum going forward.

With that overview, let's take a look at revenues on Slide 6. Consolidated revenue totaled $31.6 billion. That's up nearly $850 million versus third quarter a year ago, and that growth is due to strong Wireless growth to solid U-verse gains and to improved business trends. Our overall revenue mix continued its transformation in the third quarter, with 73% of revenues coming from Wireless, Wireline Data and Managed Services. That's up from 68% a year ago and 62% two years ago. Combined, the revenues from these sources were up nearly 10% in the third quarter, and we expect this shift to continue, and it's one of the reasons we have a positive long-term view of the business going forward, as growth of Wireless and Data outstrips declines of legacy services.

At this point, let me turn it now to Ralph de la Vega, who, as you know, runs our Wireless and Consumer business for an update on those areas. Ralph?

Ralph de la Vega

Thank you, Rick, and good morning, everyone. It's good to have this opportunity to talk with you again. As Rick said, we have a tremendous Wireless growth quarter, everything we could hope for and more. Now what you keep hearing again and again is record. As you can see on Slide 7, record sales of integrated devices, record gross adds, record customer upgrades, record third quarter net adds of 2.6 million, record Wireless Data sales. We also had the best ever third quarter total churn, our seventh consecutive quarter of growth in postpaid ARPU, and we added 1.2 million connected devices in the third quarter, setting the pace for the industry.

These were simply the best Wireless volumes we've had in any third quarter in our history, off the charts. But you know what, we believe that we're just scratching the surface here, especially when you consider three areas where the potential is huge. First, we still see a lot of growth opportunity with integrated devices. About 57% of our postpaid base have these devices, but our sales rate is more than 80%.

Second, we believe emerging Wireless devices are just beginning to take off. And third, the business phase is just beginning to fully integrate mobile data in their operation, lots of opportunity there. So we're very pleased with our third quarter results and even more excited about the opportunity that lies ahead.

With that overview, let me drill down and cover Wireless results, starting with revenue and subscriber trends on Slide 8. Our results this quarter showed the strength of our focus on data and ARPU growth. In the third quarter, we accelerated both revenue growth and subscriber growth. Total Wireless revenues were up $1.6 billion or 11.4%, and Wireless service revenues grew 10.5%, up more than $1.3 billion versus the third quarter a year ago.

Mobile broadband and strong data adoption drove our seventh consecutive quarter of postpaid ARPU gain, a record unmatched by our peers, up by 2.0%, which includes about 40 basis points of pressure from properties acquired from Verizon Wireless. For the third straight quarter, we set a new record in terms of total net adds. Strongest first quarter ever was followed by our strongest second quarter ever and our strongest third quarter ever, with 2.6 million net adds. Postpaid net adds were about 750,000, up 50%

sequentially. Prepaid net adds totaled more than 320,000, with continued strong sales of the iPad 3G. Customer response has been very strong since the iPad 3G was first introduced in late April, and we expect that momentum to continue as we go through the fourth quarter.

We also added 1.2 million connected devices to our network in the third quarter. This is terrific business for us, lower ARPUs, but higher margins and low churn, and we're still in the starting blocks with this terrific opportunity. These results clearly demonstrate the benefits of our mobile broadband strategy.

When you look at our net adds, our ARPU gains and churn improvement is clear that our subscriber metrics have never been better, and they continue to go in the right direction. One of the key drivers behind our Wireless growth is our integrated device strategy. The details are on Slide 9. The rapid adoption of powerful integrated devices has revolutionized our industry, and customer response continues to be incredible. In the third quarter, more than 80% of postpaid sales were integrated devices. In the third quarter, we had our largest integrated device quarter ever, signing up more than 8 million subscribers, including both upgrades and net adds. We added 3.8 million 3G postpaid integrated devices in the quarter, up more than 14 million in the past 12 months, and ARPU for integrative devices continues to be 1.7x our other devices.

And these subscribers tend to be very sticky for us. Approximately 80% of these subscribers are on family or business-related plans with churn levels well below our average. These results also reflect another record quarter for iPhone activations. More than 5 million were activated during the quarter. That's more than 60% higher than our previous records, and sales continue to be strong.

As a result, data revenues also continued to be strong. We grew Wireless data revenues by more than 30%, up more than $1.1 billion year-over-year. This was also our first full quarter of our new pricing for Wireless data, and the initial results have been very positive. We're also seeing more customers being drawn to upgrade to integrated devices, adding data plans at the lower price point and then they can migrate up after data needs grow.

Our network today supports more integrated devices than any of our competitors and more data traffic than any of our competitors, and we lead in connected devices. Slide 10 shows how we built this leadership position. We have the best portfolio of integrated devices in the industry, using all major operating systems. That includes Android, RIM, Apple OS, webOS, Symbian. And last week, we announced the addition of three new devices using Windows Phone 7, our portfolio keeps getting better. Three new

Motorola Android devices are scheduled for the fourth quarter, giving us seven great Android devices for our company. Plus the BlackBerry Torch, which is exclusive to AT&T, continues to do well, and we just announced that we're launching the Motorola ES400, which is a rugged device for the Enterprise space. In addition to these handsets, we're launching HSPA+ and LTE data cards like the Shockwave from Sierra Wireless and the Adrenaline from LG. The Shockwave will allow our customers to connect to our HSPA+ network, and the Adrenaline is our first LTE upgradable device. We also offer some great emerging devices including the iPad, which begins selling in our stores next week.

Our formula is great devices plus a great mobile broadband network, and we're in terrific spot for both fronts. We have a terrific technology pack for customers. Our strategy to continuously upgrade network speed place with the strength of GSM technology and provides the most elegant path to LTE with backwards compatibility at every step. Slide 11 has more details on our network path.

Let me say that we're really excited about our network road map. We have the nation's fastest mobile broadband network today, and the best transition plan in the market. Because of the technology choices we have made, we will have a significant advantage for the next couple of years at least, and customers are starting to get it. This year alone, we already spent almost $6 billion or almost half of our capital expenditures so far this year on Wireless-related investments.

Now here's the progress we're seeing from those investments. Earlier this year, we completed the HSPA 7.2 software upgrade, making the nation's fastest mobile broadband network even faster. Now we're in the process of deploying HSPA+ to our networks. This will again allow us to increase our network speeds, and we expect the software upgrade to be completed by the end of this year.

And all the while we're making progress with our backhaul upgrades, executing a very aggressive investment and deployment program. This backhaul expansion is critical today and is the foundation for LTE. The same work has to be done to handle the massive growth in mobile broadband. What all this means for our customers is a great experience leading into LTE. We will not have the fall back issues that CDMA customers will have as they move from 4G back to CDMA Rev A speeds. Our LTE trials are currently underway in Dallas and Baltimore, with an expected launch in mid-2011 to reach 70 million to 75 million POPs by the end of next year. Customers who are excited about 4G and over the next couple of years, they will expect the smooth, fast ride to 4G, and that's what we plan to deliver. We believe this gives us a great position to continue to capture growth in mobile broadband.

Now I'd like to discuss how these network initiatives, along with subscriber and revenue growth, is impacting our Wireless margins and operating income, and those details are on Slide 12. Obviously, the record quarter for integrated device sales, which includes about 2 million incremental iPhone activations, had an impact on our Wireless service margins. Absent the costs associated with these additional activations, service more just would have been similar to last quarter. But it is important to keep in mind the long-term benefits these customers bring including lower churn, higher ARPUs and strong data growth.

In the third quarter, our Wireless OIBDA service margin was 37.6%, down from the year-earlier quarter. We believe the impact of margins will be temporary, and our expectations for total year Wireless OIBDA service margins continue to be in the low 40% range. Looking at Wireless operating income, you can see the trends that I am talking about. While the third quarter operating income was relatively flat year-over-year, year-to-date Wireless operating income is up 15% year-over-year to reach $11.8 billion.

Now let me turn and cover consumer Wireline results, starting with the U-verse update. Slide 13 has the information. We had another solid net add quarter in U-verse TV subscribers, helping drive the first year-over-year growth in consumer revenue in more than two years. We had an increase of 236,000 U-verse TV subscribers, bringing our total to 2.7 million, up more than 900,000 over the past year. Broadband and U-verse Voice over IP attach rates remain very high. More than 3/4 of U-verse subscribers have a triple- or quad-play bundle with us, and we had a very nice rebound in our total broadband adds, up about 150,000 for the quarter. This has led to improved consumer ARPUs and revenue trends.

In the third quarter, Wireline IP revenue, and that's U-verse services plus non-U-verse broadband, grew 30%. These revenues now represent more than 42% of total Wireline Consumer revenues, up almost 1,000 basis points over just a fast year. ARPU for U-verse triple-play customers was about $160 in the third quarter, up 14% year-over-year.

The U-verse TV experience continues to receive positive customer feedback. The latest J.D. Power study ranked us the highest in every region where we were ranked. We continue to add new features that take advantage of U-verse's IP TV platform. For example, we are the first U.S. TV provider to allow customers to use their Xbox 360 as a TV receiver. This replaces a need for an extra receiver and allows customers to receive chats and game invitations while watching live TV and switch seamlessly from game to TV mode.

And the U-verse Mobile app allows customers to download and watch hit TV shows and much more. It's available on four operating systems, including Android and the new Windows Phone 7. Innovations such as this has helped U-verse transform our Consumer business. We're confident this transformation and the positive impact it has on revenues will continue. Rick, that covers Wireless and Consumer, and I'll turn it back to you.

Rick Lindner

Thanks, Ralph. Before we close, let me provide a quick update on business customer trends on Slide 14. The fundamental trends underlying our business are consistent with what you've seen in earlier quarters this year. We're seeing continued signs of stabilization as we work our way through the economic downturn. But I think what is encouraging to us is the trends of our business customers in investing in productivity and efficiency, which helps drive growth in our strategic business products.

Revenues from these products such as Ethernet, Virtual Private Networks and application services were up again this quarter, more than 15%. And business IP revenues, overall, were up 8%. As you know, during this downturn, we've executed a clear and consistent strategy in business markets. First, we've invested right through the downturn, adding capacity reach and new capabilities. Second, we've won new business with a number of customer wins that played to both our global and mobility strengths. And third, as we work to make operations and service more seamless for customers, that's given us opportunities to improve our cost structure and grow margins through this downturn. Because of all of this, we are well positioned as the economy improves over time.

Now let's take a look at margins and cash flow, starting with consolidated margin comparisons on Slide 15. For the third quarter, consolidated operating margins were relatively stable at 17.3%, and that's despite Wireless margin pressure from integrated device sales. This reflects solid performance across the company. Our Wireline operating income margin was 12% in the third quarter. That's up from 11.2% in third quarter last year. This reflects improving revenue trends and solid execution on cost initiatives. Across the business, our total force since the end of 2009 is down by more than 15,000.

Company-wide, we have a commitment to operate as one AT&T, and that means delivering a single, seamless experience to customers for all of our Wireless and Wireline products. And as we consolidate and integrate operations, we have continuing opportunities for cost efficiencies. These initiatives are going well, and they've helped us sustain solid margins while also improving customer service.

Along with solid margins, we continue to deliver strong free cash flow. Our cash flow summary is on Slide 16. In the first three quarters of this year, cash from operations totaled $25.4 billion. Our capital expenditures were $13.7 billion, and that includes a 55% year-over-year increase in Wireless-related capital.

We continue to expect full year capital investment of $18 billion to $19 billion, although we're trending toward the upper end of that range. Free cash flow before dividends was $11.6 billion, and dividend payments totaled $7.4 billion.

Over the last six quarters, we have generated free cash flow in excess of dividends of more than $9 billion. In terms of uses of cash, debt is down almost $4 billion over the past 12 months. That gives us a debt-to-capital ratio of 37.8% and net debt to EBITDA of 1.5%. And all of this gives us the flexibility to continue to invest in the business and return substantial value to shareowners.

Let me close by recapping a few items on Slide 17. Again, first, we had a terrific Wireless quarter, breaking about every sales record that we track. And in addition, Ralph's team delivered continued growth in postpaid ARPU and lower churn.

We are also very pleased with our Wireline Consumer business, which achieved positive growth this quarter thanks to U-verse and the transformation those services are making in the business. Combined with continued solid cost management, this helped us deliver very strong financial results, with solid revenue and earnings growth and stable year-over-year consolidated margins, even with record Wireless device sales. Put this together with the results from the first half of the year, and you're seeing the makings of a very good 2010. Year-to-date, we're growing revenue. We're expanding margins. We're increasing earnings, and cash flow remained strong, giving us the ability to continue to invest in the business and return value to shareholders.

Brooks, I think we should stop there, and we're ready to take some questions.

Brooks McCorcle

Okay. John, let's open up for questions.

Question-and-Answer Session

Operator

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

John Hodulik - UBS Investment Bank

Rick, can we talk a little bit about sequential margin trends, maybe in Wireless and Wireline. In Wireless, it would make sense, I think, given the fourth quarter seasonality we normally see on that. You could maybe see some additional pressure on there, especially if the upgrades stay high, if you could comment on that? And then on Wireline, some of the growth metrics were better than we thought, and despite that, you still had better-than-expected margins I was wondering if that trend can continue as well?

Rick Lindner

Yes, let's talk a little bit about margin trends. First off, as Ralph mentioned in his remarks, we would expect at this point margins in Wireless to rebound and be stronger in the fourth quarter versus the 37.6% we had in third quarter. The amount of increase there and improvement is a little difficult to project at this point. It's going to be based on the volume of integrated device sales, particularly as we go through the holiday season. But even with that, I would expect margins to be a bit stronger in Wireless. One other thing that is impacting or will impact Wireless margins in the fourth quarter and probably for the next two or three quarters is the transition and conversion of the customer base that we acquired from the former Alltel properties. As we're now getting to the point where we're going to begin aggressively moving that customer base from their current network to new GSM networks to new billing systems. And in the course of doing that, we're going to have to provide that base with new devices, and there'll be subsidies involved in that. And we talked about all of that as part of the acquisition when we first announced it. But I just wanted to remind you, we're now, as we move into the fourth quarter, we're going to be getting into that period where we'll be going through that activity. But even with those, I would expect some improvement in Wireless margins. On the Wireline side, as you mentioned, John, we've had very good results in Wireline margins, and that business is going through a massive transformation as it moves increasingly from voice and legacy Data Services to U-verse to IP-based Data Services and to Managed Services. We've managed that transition, I think, very well. It's an ongoing effort here, believe me, in terms of finding ways to be more efficient in the business. And the one AT&T initiatives that I mentioned in my remarks have been a major contributor to that, and it really does involve almost an internal merger and integration of organizations, processes, systems that support Wireless and Wireline, and we have to move in that direction in order to be able to interface with customers and provide single points of contact, and that's really the way customers want to deal with us across both our

Wireless and Wireline products. But at the same time, it's contributed to our ability to take a lot of costs out of the business. As we go into the fourth quarter, I would expect there to be the normal seasonal pressure that we have on Wireline margins, and you've seen that typically every year. It's a function of two or three things. One, being the fourth quarter typically has fewer business days, which affect things like long-distance revenues, for example. So it impacts both revenues and margins. We also typically have a bit higher overtime rates in the fourth quarter due to holidays and due to some of the typical seasonal weather patterns we get in some of our regions. But beyond that, we'll continue to focus on margins on the Wireline side. When you step back from all of that, our expectation is still to be for, in total, for the year, as we guided, in the low 40s in EBITDA margins for Wireless and in the lower 30s in the EBITDA margins for the Wireline business.

Operator

Our next question is from Jason Armstrong with Goldman Sachs.

Jason Armstrong - Goldman Sachs Group Inc.

First, on Wireless postpaid ARPU, if we sort of deconstruct what's going on. Data seems a little bit stronger. Voice a little bit lighter. I'm sure Alltel, I believe also, a universal service fund cut contributed to this. I'm just wondering if you could size up this for us and help us think about the outlook here for postpaid ARPU growth. And then second just quickly on buyback. I think there's a sense that a buyback will be a big part of the discussion at the December board meeting. But I'm wondering there's been some recent debt ratings agency discussions I think in the late summer that implied risk to ratings. So I guess the question is how does this play into your approach in terms of what the appropriate leverage capacity is for the business and the potential for a share buyback?

Ralph de la Vega

Jason, this is Ralph. Let me try to size up the postpaid ARPU question for you. I mentioned in my comments that the Alltel acquisition impacted us by 40 basis points as the customers that we acquired with those properties had lower average postpaid ARPUs than those of AT&T's, so that accounts for 40 basis points. There's another 70-plus basis points that are accounted for as a result of lower regulatory fees, including the universal service fund fees and the regulatory cost recovery fees. If you put those two things together, that accounts for almost more than 100 basis points of difference. If you add that to the 2% growth that we reflected in this quarter, then it's pretty much in line with what we have been reporting for the last several quarters, somewhere north of 2% to 3% ARPU growth, and we expect that as we continue to sell more integrated devices, our base has the capability to continue to get on higher ARPUs in the coming quarters ahead.

Jason Armstrong - Goldman Sachs Group Inc.

And, Ralph, just a follow-up, Alltel was in for the full quarter, the USS cut is that a full quarter impact as well, so we're sort of a good run rate for now?

Ralph de la Vega

The full run rate should be reflected in the fourth quarter, Jason. We'll double check that for you. But I'm pretty sure it's in for the full quarter.

Rick Lindner

Jason, on the buyback, first of all, we kind of stepping back and looking at the business and cash flows and capital structure. We had another good cash flow quarter in the third quarter. And in fact, one of the things we've been very pleased with is over the last two years, as we've gone through a very difficult time, the company's continued to reduce strong cash flow, and that's given us the flexibility to continue to invest in areas where we see opportunities for growth, including doing a couple of Wireless acquisitions that we've closed in the last year. And it's also given us good, solid support for our dividend and growing the dividend, and it's allowed us to pay down debt and strengthen the balance sheet. We are sitting right now, similar to where we were last quarter about this time at kind of the upper end of our target credit metric ranges. And part of the reason we continue to stay at that kind of same range over the last quarter is because we have been absorbing the acquisition of the Alltel properties. As we go forward, as cash flow permits, I think we're going to and as we migrate solidly into our target ranges, I think then that gives us flexibility in addition to continuing to invest in the business and support the dividend, to look at some other alternatives like share repurchase. In terms of the ratings activities, we have essentially not changed our, for many, many years, our desire and commitment to maintaining a strong balance sheet. And I can tell you in the last six years, we have not changed essentially the credit metrics that we target to support a strong balance sheet. But each of the rating agencies look at the numbers and the results and have their own proprietary calculations and their own targets, and it's different for each one. And so we will continue to be very consistent in the metrics that we target in some cases. For example, I think the rating activity you're talking about is S&P moving us to a credit watch position. If you look at their press release when they did that two or three months ago and look at the numbers they put in that release, we would have to delever substantially to the tune of as much as $15 billion in order to hit the ranges they were targeting. And I think that's beyond the level that we are targeting in our credit metrics. So we continue to be very consistent in how we're applying that. I think that's the right way to manage the business, given the capital intensive nature of the business, the size of our business, the size of the debt portfolio. I think it's prudent, and we will continue to be consistent with that as we move firmly into our target credit metrics as I've said. That and the cash flow gives us a lot of flexibility to continue to invest where there's opportunities, to continue to support the dividend and to consider other alternatives like share repurchase.

Operator

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

David Barden

Ralph, I guess my two questions, if I could, are for you. First would be, could you talk about a little bit about your reaction to the reports that Verizon has chosen to, number one, price a little bit higher for their entry-level services like $15 for 150 megabytes relative to you guys? And then also, their decision to kind of maintain an unlimited data plan relative to where you guys decided to try to cap people out of two gigabytes, and kind of your interpretation of that from a competitive standpoint and from how you think they're positioning relative to AT&T will evolve going forward? And I guess the second question would be within the context of your 40%, kind of low 40% margin guidance, I guess based on history, you guys have said that there's a positive net present value proposition for iPhone customers, it would seem that if there's an end to the exclusivity of that iPhone in the future, that getting as many of those customers locked down as quickly as possible would be the rationale thing to do into the biggest selling season of the year. Could you talk a little bit about your thinking on kind of the promotional and marketing end of the year?

Ralph de la Vega

David, it's difficult to comment on competitor prices. I want to be very careful other than to say that I'm glad to see that more and more in the industry are, in fact, realizing that spectrum is a valuable resource. And our pricing data consistent with valuable resource that needs to be taken into account. So I think it's interesting that several of our competitors are now offering customers the choice of a lower-priced plan if they use a lower amount of data, and that's consistent with our view that, that is fundamentally the right approach for the long-term benefit of the industry. So that will be my viewpoint on that. In terms of the value of customers that are signing up for either iPhones or integrated devices, those are the highest APV value customers that we have. So we like to see them sign up in record numbers like we did this past quarter. 8 million in total in terms of integrated devices. It's a fantastic quarter, and I think it guarantees that we are getting under contract these very valuable customers in record numbers. So I'm very pleased with both of these issues.

David Barden

Ralph, if I can just follow up on that real quick, would be do you feel that if Verizon has an unlimited plan and you have a limited plan that you're at a competitive disadvantage but an economic advantage? Is that how you think about it or how should we think about the relative positioning?

Ralph de la Vega

Here's the way I would think about it is we had record sales quarter this past quarter when everybody else was still offering unlimited plans. It says that the scheme that we came up with to give customers assurance that they were not going to incur a lot of overdues, and at the same time, give them a price break. It's a useless data. It's working extremely well. I was really, really pleased, Dave, to see how customers are signing up in record numbers for both new customers and upgrades. And this is not a significant issue. Our sales people have no issues in selling our products with their data plans that we anticipate that those trends will continue into the future.

Operator

And next, we go to Brett Feldman with Deutsche Bank.

Brett Feldman - Deutsche Bank AG

I was hoping we could talk a little bit about what's going on smartphones. This quarter, we saw the usual trends were really strong smartphone sales was correlated with a temporary step back in your margins. And as Ralph noted, you got the point where a large majority of your sales of smartphones and we're seeing that at every other operator as well. So with this huge scale that we're seeing in demand for smartphones across the industry, should we expect to get to a point where you're not going to see such high level of subsidization on the devices?

Ralph de la Vega

That's a great question. You would expect that if smartphone sales continue to drive at this range, that there will be a reduction in the cost. And I think what it's going to be interesting is to see how some of these smartphones kind of develop in terms of having a lower-end smartphone, if that's what customers want. We're seeing an interesting set of devices that can become available that perhaps are lower cost devices, but they probably also will have lower memory and some other things that lower the price. So it will be interesting to see what customers eventually opt for. But I think the technology and the capability with these operating systems are that they can be such that they can adapt to all sort of lower-priced SKUs and the question is, will that be something that customers buy? We all always have the view that we should give the customers the choice, and that we have a wide range of devices with different price points. So if they want a low-end smartphone, that maybe doesn't have as much processing power or as much memory, they can have that. And still have all the great access to the Web, to their applications with a lower-end device, and our view has always been to give the customers that choice.

Brett Feldman - Deutsche Bank AG

How much visibility do we have here? I mean, we're already hearing a lot of prepaid operators saying that the vendors are trying to get to them a $100 smartphone, not immediately but also in the not too distant future. I mean, if the prepaid guys can eventually get there, it would seem that you guys get there. I mean, is 2011 a year where maybe seasonal swings in smartphones sales may not be correlated with such intense seasonal swings in margins?

Ralph de la Vega

It's going to be interesting. My guess is this will develop over time. There won't be a one-time event that will happen on any particular quarter. And if the customers do want a lower-priced device, we are going to see it gradually develop. We've seen all kinds of different capabilities on the devices. The key, in my view, is will customers want the lower-end device. And look if they want the lower-end device, AT&T has the volume and the scale to be able to deliver to them as good as anybody in the planet. So I'm very comfortable that if that's the trend, we'll be able to offer a competitive device. But my estimation, if that happens, it will be gradually over time. It won't be a one-time event in a particular quarter, down in 2011.

Operator

And next, we go to Jonathan Chaplin with Crédit Suisse.

Jonathan Chaplin - Crédit Suisse AG

First, I was wondering if you could give us a sense for whether there are any big promotions that you expect that haven't been announced yet that would come in the fourth quarter that we could use to kind of gauge where margins would come in for Wireless. And then second, it looks like you're coming in at the higher end of that $18 billion to $19 billion range for CapEx. Could you give us some kind of sense for what the mix is going to look like between Wireless and Wireline? And whether we're sort of the peak spending level for Wireless CapEx, what's that the level we should expect for the next few years?

Ralph de la Vega

Jonathan, this is Ralph. I'll address the promotional and let Rick talk to CapEx. We always have some great fourth quarter promotions, but I don't it would be wise to announce to my competitors what we are planning to do. Just rest assured that there's always some great promotions in the fourth quarter. We will have some great promotions in the fourth quarter like our competitors will have. But I would expect that it would be similar to what you see in past quarters.

Jonathan Chaplin - Crédit Suisse AG

Will the one-year upgrade promotion continue, Ralph?

Ralph de la Vega

I am not going to be able to comment on any specifics.

Rick Lindner

So Ralph took the part of the question that we couldn't answer and then shifted the other one to me. He's starting to get the hang of these earnings calls. In terms of capital expenditures, it's always a function of timing and demand in the business. And so as I mentioned in our remarks, I think we'll probably trend towards the upper end of the range. Our Wireless CapEx is up year-over-year about 55%. We talked about being $2 billion higher for the year this year versus last year in Wireless CapEx and year-to-date, that's about where we are. So I think everything's coming in pretty much as we expected. You did see this year a shift in our -- while the overall capital levels haven't changed dramatically, you have seen a shift between Wireline and Wireless. I think as we go into the next year or two, I think you'll continue to see some shifts there. And that's a very natural transition. It's following the shifts in the business. Wireless is nearly 50% of our revenues today. And in addition, as we look forward over the next year, we've got commercial deployment of LTE on the Wireless side. And at the end of '11, we'll be starting to wind down the primary build activities we had around U-verse. And so all of those things will contribute, as well as the trends in the business toward shifting some capital between Wireline and Wireless.

Operator

And next, we go to the line of Tim Horan with Oppenheimer.

Timothy Horan - Oppenheimer & Co. Inc.

Ralph, two questions if you don't mind. Could you maybe talk about the different handsets out there? It seems like the iPhone, based on your numbers, are still kind of pulling ahead of their competitors here. I guess Droid being the main competitor. When do you think maybe that could reverse a little bit and I guess your flow anyway where the Droid and the new Microsoft phones can start to gain a little bit more share on iPhone? And then secondly, can you give a little bit more color when you upgrade to HSPA+, what the customer experience is like? Because I assume the churn on the iPhone issue is going to be largely dictated by network quality and maybe just a little bit more update on where you are with the backhaul upgrade and what will become six months from now or so?

Ralph de la Vega

Yes, what is happening in the industry and by the way, it is my view that the U.S. now is leading the world what it comes to smartphones and tablets. The development of the applications and operations systems are leading the U.S. to be at the epicenter of everything that is happening new with smartphones. And I think what you're seeing is more choices coming into the marketplace and every year, everybody's phones seem to be getting better and better and better. So I think what is happening in the industry the battle is a battle of innovation cycles, who can innovate quicker and faster based on the fact that all these OS have a very good base capability. It's all now about innovation. I've never seen innovation cycles come quicker. And so I think we're going to have the opportunity to do is to offer customers an incredible choice of applications and services based on this innovative capabilities. But if you look at Android, it has some very good and fast innovation cycles. So does Apple. Microsoft just came out, and they've already announced they're going to upgrade some things in that infrastructure and operating system in early next year. So I think it will be a race of innovation to see who can develop the most innovative products and services. And the thing that I liked about our position is we believe we believe in having a wide choice of OSs, having every single major one. So that if there's any innovation that is important to our customer base, they know that they can come to AT&T, and we'll be able to have it for them. And that's been our view. In terms of HSPA+, I think any speed that we can provide to the network to make it faster, makes all these devices faster. The beauty about it is that the faster network speeds that we're offering today make these devices really come to life. If you have a slower network, I don't think you're going to get utility out of the processing power and the memory capabilities and the video that these devices are capable of delivering. So I think our HSPA+ piece will take a one additional level and give you a fantastic experience when you have one of these processors that now have one gigahertz as a basic core processor. But what we see in the horizon is actually dual core processors, two processors as fast as one gigahertz each. So you can imagine that those devices, unless you have a really fast network, are not going to be able to deliver the best experience to our customers. So that's why I like our positioning so much that we'll have HSPA+ delivered by the end of the year. We're going to have the capability to begin the backhaul upgrades and to provide the services on a geographic basis as soon as the backhaul is complete, and when you get one of these devices with one gigahertz processor, maybe even dual processors, they're going to absolutely hum. They're just going to be awesome. And so I think those are the trends that I see in the marketplace, and we're very excited because I think it plays to our strengths.

Rick Lindner

Tim, this is Rick. Let me offer just a couple of additional comments on both of those questions. One on handsets and devices, Ralph's exactly right, and we're seeing an unprecedented level of innovation. And it is just fun in this business, frankly, to see the innovation, the new devices, the new features that are coming out literally every quarter. But I want to make sure while it's fun to talk about all the different devices of handsets, I want to make sure that we don't lose sight of the real story here from our perspective. And the real story here is this quarter, with as large of a postpaid base as we have, well over 80% of the devices we sold into that postpaid base, both upgrades and new gross adds, were integrated devices. That's astounding, and it's huge compared to even where we were just a year ago. And I think what that speaks to is the combination of the features in these devices along with the network speeds that Ralph talked about has really facilitated a value proposition for customers and has turned the mobile phone into a mobile computing device. And increasingly, customers want to be able to access applications, access the Internet and receive content via their mobile devices. That is really the real story here. And it leaves us into a Mobile Broadband business for us that's approaching a $20 billion a year business, and a business that's growing at 25% to 30%. That's underlying it. That's the real story, and I think the opportunity for us and why we're excited about this space. And why, frankly, we continue to push integrated devices, we continue to push Data Services into our postpaid base. The other thing that I want to comment on really relates to the overall customer experience in our network as we migrate up first, as we migrated up to HSPA 7.2 and then to HSPA+ and then to LTE. I think we've got the opportunity over the next few years to offer a superior experience on these devices because to facilitate the kind of Data Services and applications and devices that we're going to have and everyone's going to have on the network and that customers want, it's going to require mobile broadband speed. And as a result, you see all the carriers rolling out 4G networks, whether they be LTE or whether they'd be WiMAX or other technologies. But everyone is working to increase speeds. The advantage that we'll have is not just in terms of the speeds available on these new 4G networks. But initially, these 4G networks are going to cover a relatively small piece of geography. And in our network, as customers move off of that geography, they're going to have a great experience in LTE as they move off of that geography. They're going to have a very, very good experience in HSPA+ across our network. And that will be an advantage versus other carriers where you will see a significant decrease in speeds when you're out of their 4G footprint.

Operator

And that will be from Michael Rollins with Citi Investment Research.

Michael Rollins - Citigroup Inc

Just two quick questions. One is you mentioned that on the Enterprise side, 70% of the customers have converted already to IP. And can you help us think about if you look at the global Enterprise revenue change whether you look at year-over-year or sequentially, how much of that can be attributed to this conversion process of moving to lower-cost IP services versus how to think about the business organically in terms of the demand for traffic in a more normal pricing environment once you get through conversion? The second part of the question was more of a strategic question. As Wireless continues to evolve and start to take share of the broadband market more substantially, in your view, does it still makes sense for Wireless and Wireline to be part of the same company? Or are there advantages over time in thinking about what Wireless can do to compete more effectively against what is the traditional Wireline business?

Rick Lindner

Those are great questions, Mike. Let me take a shot at those and invite Ralph to comment as well. First of all, I think when you look at our business sales and revenues and look at the various business revenue streams there, again, that's a business going through a transition. We've actually crossed the line this quarter where traditional voice revenues as part of our business revenues are down below 40% of business revenues. Increasingly, it's becoming a business driven by data, by IP-based services, Managed Services and increasingly as we go forward, as companies move more of their applications and their content into the cloud, hosting cloud computing becomes more important, as well as facilitating applications through mobile devices. And I think we're well positioned in all areas of the business where there are growth opportunities. And that's why you see strategic business service revenues continuing to grow quarter after quarter at mid-teens rates. It's why you've seen in the last several quarters IP-based data revenues increasing on the business side, getting into the upper single digit rates of growth. We're also seeing impacts in other areas, still a lot of demand for bandwidth and transport. Now the revenue streams there have been flatter more recently, but that's more a function of companies increasing their bandwidth, but at the same time, grooming their networks and moving to higher speed services. And so we're seeing both on a retail and a wholesale environment, significant demand for Ethernet in backhaul. Again, all of those areas were positioned very well. The one area that has been a drag in the business somewhat has been voice volumes, and I think we will see some improvements there. But as we require some improvement in the economy in employment and as well as on the small end of the business, in new business formations. As we see that and as the business becomes increasingly driven by IP-based services that are on a good growth trajectory, I think that, that's what gives us comfort that the overall revenues on the business side will continue to improve. And as we've talked about, we think longer term this is a GDP, GDP-plus type of growth sector for us. You asked a very good question about the importance of or the need or desire to have both Wireless and Wireline assets, given this environment. And I guess what I would say, Michael, is I think more than ever before, we think there are advantages and strengths in having a combination of Wireless and Wireline assets because that's what is required to provide the kinds of service experience that customers want. And essentially, whether you're a business customer or a consumer customer, you want the convenience of mobility and mobile access to networks and to data applications and content. And you want that over a variety of devices. That's why you see the proliferation of devices on the network from all of the connected devices that Ralph's team is selling to notebook computers to tablet computing. That's the way people want to access the network. But in order to provide the bandwidth and to provide the capacity and to provide the kind of service experience you want, you've got to drive that traffic as quickly as possible into a wired infrastructure, which improves service quality and provides significantly more bandwidth. That's why, for example, in our case, that's why we believe having the Wi-Fi infrastructure and hotspots that we have across the country and around the world are so important. So in our view, we believe to provide the kinds of services that consumers and businesses demand in the future, having both Wireless and Wireline capabilities and having an integrated carrier model is the best way to provide those services.

Ralph de la Vega

Mike, of course, I would agree with that. The other thing I would throw your way is based on all the modeling that we have done, there's not enough spectrum to be able to take everything that you're sending over wired facilities and put them over Wireless, especially when it comes to video. So in the end, you're always going to need a combination of both and our view is the more integrated you are, the better you're going to be in terms of being able to give the customers what they want in the future.

Rick Lindner

Folks, I'd like to offer a couple of comments and closing. First of all, I want to thank you for taking part in the call today. And again, I just like to highlight a couple of key points. First, as we talked about, we continue to see the benefits of our mobile broadband strategy with just an incredible Wireless quarter. Record sales and activations of integrated devices, double-digit revenue growth, our seventh consecutive quarter of postpaid ARPU growth, and all of that adds up to excellent momentum in our Wireless business. And the second point that I'd like to make is that we continue to post very good, very solid financial results. Consolidated revenue growth and the revenue growth trend is improving. Wireline margins have improved, and even with pressures from record Wireless sales, we grew earnings, and cash flow continues to be strong. When you look at our year-to-date financial results, I think you see the foundation for an outstanding year, and our job now is to execute and finish the year strong. Again, I want to thank you for being on the call today, and as always, thank you for your interest in AT&T.