Operator

Ladies and gentlemen, thank you for standing by and welcome to AT&T's third quarter earnings release 2013 conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions). Also as a reminder, this teleconference is being recorded.

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

Susan Johnson

Thank you, Tony. Good afternoon, everyone, and welcome. It's great to have you with us today. I am Susan Johnson, Head of Investor Relations for AT&T. Joining me on the call today is John Stephens, AT&T's Chief Financial Officer. John will provide an update with perspective on the quarter, then we will follow with Q&A.

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

Before I turn the call over to John, let me cover our consolidated financial summary which is on slide three. Consolidated revenue was $32.2 billion, up 2.2% driven by continued wireless growth, impressive U-verse gains and rapid growth in strategic business services. Reported EPS for the quarter was $0.72. That's up more than 14% over last year's third quarter. This includes $0.03 from the previously disclosed transfer of spectrum and $0.03 from income tax items. When you exclude these items, earnings per share was $0.66, an increase of almost 6.5% year-over-year.

Cash flow continues to be strong. Cash from operating activities for the quarter totaled $9.2 billion and free cash flow was $3.2 billion and more than $11 billion, year-to-date. Also in the third quarter, we bought back about 55 million shares for $1.9 billion and year-to-date, we have returned more than $18 billion to shareholders through dividends and buybacks.

With that overview, I will now turn the call over to AT&T's chief Financial Officer, John Stephens. John?

John Stephens

Thank you, Susan, and good afternoon, everyone, and as always, thank you for your interest in AT&T. Let me start with an overview on slide four. There is a lot we really like about the quarter. we grew revenues and EPS and cash generation continues to be robust.

But when you look at what's driving the business, the one thing that stands out is Project Velocity IP or Project VIP. As you recall, we announced this plan just about a year ago. We said we would invest aggressively to expand our 4G LTE footprint, that we would expand U-verse broadband reach and that we take fiber connectivity to a million new business locations. Thanks to the great work of our network organization, we have made terrific progress on all of these fronts, including having the nation's fastest and most reliable 4G LTE network. And you can see the positive results in our third results.

Our total Wireless subscribers increased by nearly 1 million and our mobile data revenues grew nearly 18%. Revenues from our strategic business services, including VPN, Ethernet, hosting and other advanced IP services posted strong growth of nearly 16%, and the one thing that has been the most excited is the outstanding performance and future potential of U-verse, we reach 10 million total U-verse subscribers this quarter. Thanks to our best TV net gain in nearly five years and a record third quarter broadband sales. That's quite an achievement in this tough economy.

This helped drive our first $1 billion U-verse revenue month ever and that's growing at 28% year-over-year. This has been an incredible seven years since we first introduced the service, but project VIP has allowed us to take this platform to a whole new level and we are obviously excited about the road ahead as we build on the VIP platform to create a network that is increasingly software-defined and video-centric.

With that in mind, let me give you a quick update on the progress of project VIP, starting on Slide 5. Our project VIP initiative, focused on expanding the growth platforms of our business. These include expanding our 4G LTE to 300 million POPs by the end of 2014, executing on our spectrum and network quality initiatives, expanding our highly successful U-verse services to 8.5 million new customer locations with high-speed broadband going to 57 million or approximately 75% of our wireline customer locations while also bringing faster speeds and brining fiber to 1 million additional customer locations. We are going to get this done, but at the same time, we are going to move to enhance our spectrum portfolio to meet the massive growth needs of our wireless data business today and into the future.

Un-drawing all of this, we are strengthening our financial structure and our balance sheet to give us the ability to invest and maintain financial flexibility.

Even though it hasn't been a full year since we first laid out our plans, we are on track or ahead of schedule with each of these initiatives.

To give you a build update our wireless progress on Slide Six. Our 4G LTE build continues to exceed our original expectations. We now reached nearly 250 million pops. The performance of our network has been outstanding. We have the nation's most reliable 4G LTE network according to our analysis of data from Nielsen, a well-known and leading global information and measurement company.

PC World and PC Magazine also said our speeds are the fastest and RootMetrics, who study national network performance in 125 cities, said overall call, data and text networks ranks first or tied for first in 56 of the 78 cities studied today in the second half of this year. At the same time, we have also made significant progress in our spectrum position.

Last November, we laid out a carefully planned spectrum strategy that would help us meet our mid-term needs, I am pleased to say, we have successfully executed those plans. That includes the purchase of WCS spectrum, 700 megahertz B Block and other recently closed deals and we have already placed into services substantial part of the acquired 700 B Block spectrum. Along with other pending transactions, this gives us a strong runway for our LTE expansion as we look ahead to future SEC auctions to address longer term spectrum needs.

Our U-verse deployment is also well underway. Those details are on Slide 7. We had increased our U-verse broadband customer locations by about 2.5 million this year, with about 1 million of those being video capable. Ultimately, our 8.5 million customer locations will be video enabled.

In the third quarter, we also increased U-verse broadband speeds up to 45 megabits per second. We continue to rollout new markets but we already offer those speeds in every region to almost two-thirds of our U-verse base. And we are moving forward plans for speeds of 75 megabits per second and faster.

We have also begun deployment of 100% fiber broadband network in Austin, Texas that will deliver speeds up to one gigabit per second. So while this will help drive a strong U-verse sales in the third quarter, almost all our gross adds of the third quarter came from non-Project VIP areas. This means that there is even more room for growth. More opportunity as we go forward with our VIP footprint.

On the business side, our fiber build to multitenant buildings now reaches about 200,000 new customer locations. That's well on our way to reach our year-end target and our one million locations target by 2015. We have also made tremendous progress with our financial objectives.

Let's turn to slide eight for those details. We committed to optimize our capital structure while investing aggressively in our networks. I am pleased to report that we are on target across the board. First, we have moved to equalize our pension plan assets and liabilities for essentially fully funded pension plan. The Department of Labor has published a proposed exemption for our voluntary contribution of a preferred equity interest in our wireless business and this, along with an expected increase in discount rates, would move us to essentially fully funded status with our pension plan by the end of this year. We are very proud that we are one of the few companies that still provide a pension benefit and with these moves our employees and retirees can have the confidence in knowing that these benefits are very well funded.

At the same time, we have also taken steps to help manage our healthcare costs, both for employees and retirees and continuing to move toward low-premium, high value consumer driven plans. We have also been focusing on finding efficiencies in financing our debt. And even though our total debt is up, year-over-year, our interest expense this year is down. Our average effective interest rate is down more than 60 basis points per year, while the weighted average time of the majority of our portfolio has basically remained unchanged. We have also been active in monetizing asset which improves our cash position, the recent tower sale adds to our financial strength and adds to the flexibility provided by earlier transactions. These moves help support our A credit rating, the highest credit rating among U.S. based telecom companies and the foundation for all of this, cash flow continues to be strong.

On top of our capital investment, we have continued our share repurchase program. To-date we have bought back 684 million shares with annualized future dividend savings of more than $1.2 billion per year. Combining share buybacks with our dividend, we have already returned more than $18 billion to shareowners this year. More than $40 billion returned since the beginning of 2012 and we are doing this while maintaining a best-in-class credit rating. A significant achievement at a time of increased capital investment. That's a quick update on Project VIP.

Now let's turn to our operational performance, starting with wireless on slide nine. Data revenue continues to drive wireless revenue growth. Data is now at $22 billion annualized revenue stream and it's growing at nearly 18%. It has a lot of runway as customers continue to increase their data bundles. That helped drive 3.7% service revenue growth this quarter. And total wireless revenues were up more than 5% in the quarter.

Postpaid ARPU continues to be industry leading for the 19th consecutive quarter. We saw the total postpaid ARPU growth. That's a record unmatched in the industry and our phone-only ARPU, again, increased by more than 3%. Our phone-only ARPU includes smartphones, but also includes our lower and feature phones and wireless home phones as well, which makes the growth even more impressive.

We also had a very strong net add quarter. Those details are on Slide 10. In fact, we had close to a 1 million total subs. Versus the third quarter a year ago, our postpaid net adds more than doubled. Our 363,000 postpaid gain in this quarter, included 178,000 new smartphone net adds, they are part of our overall 1.2 million new smartphone customers which will I will walk you through on the next slide.

This was accomplished even though we did see some impact from handset supply constraints. We also lead the industry in postpaid tablet gains. Tablets continue to be strong growth opportunity for us, with strong margins and much lower subsidies and the vast majority of tablet added in the quarter were LTE devices.

While we are positive on smartphone net adds, we are seeing some pressure with our more price-sensitive subscribers on low-end 2G feature phones. We continue to be excited about our pending acquisition of Leap Wireless that allow us to better compete in the prepaid space and we are continuing to move forward to an expected first quarter 2014 close.

Speaking of prepaid, it had its best performance in two years. As many of you know, the migration of tablets to postpaid plans has pressured this part of the business and we are still seeing that, but the introduction of LTE-capable go phones and new pricing plans that helps for growth at the higher end of the prepaid space for customers interested in usage-based pricing.

When you add up the acquisitions on top of our organic growth, we added more than 1 million retail postpaid and prepaid subscribers in the quarter. Connected devices are also doing well as more businesses turn to us for productivity, through machine-to-machine solutions.

Reseller revenues increased year-over-year, however resell had a net loss of 285,000 subscribers, primarily due to losses in the low revenue 2G subscriber accounts. We are also seeing solid results in churn. Postpaid churn was down slightly year-over-year and total churn both, sequentially and year-over-year. Both are notable achievements in this noisy competitive environment.

Let's now talk about our smartphone growth, which I mentioned earlier. Details are on Slide 11. We continue to grow our smartphone subscriber base, both from new customers and some current feature phone subscribers upgrading to smartphones, a record 89% of our postpaid phone sales were smartphones and we now have 75% of our postpaid phone base on smartphones. We expect that percentage to keep growing. These are the premium subscribers in our business. They have twice the ARPU of non-smartphone subscribers and much lower churn and the average usage on smartphones is continuing to grow at a rate more than 50% year-over-year.

Smartphone set another third quarter sales record of $6.7 million and we added 1.2 million new smartphone subscribers in the quarter. We also continue to subscribers moving to the usage-based data plans. Overall, 72% of our smartphone base has selected these plans and a growing number are choosing mobile share plans. We added more than 1 million new mobile share accounts for the quarter to reach 5.3 million. These accounts include more than 16 million devices on mobile share keeping us on a pace of about three subscribers per account.

We continue to see strong take rate on high-end data plans for both mobile share and tiered data customers. In the last year, take rates have grown from 9% to 22%. With 58% of the remaining on medium-size data plans. So we have got a strong base but we still have room to grow. We have announced earlier this month that all new customers will now be on mobile share plans. Mobile share plans have already been popular with new customers and we offer several different plans that will best meet their needs.

Now let's take a look at margins on slide 12. Our wireless EBITDA service margin was 42%. That's does not include the impact on the gains from the transfer of spectrum. We sold 600,000 more smartphones in the third quarter than a year ago and we had a third quarter record number of postpaid tablets as well. But even with this growth, our wireless EBITDA service margins expanded 40 basis points year-over-year. Upgrades were far ahead of last year's pace and flat sequentially and our upgrade rate for the quarter was 7.3%. The upgrades continue to solidify our high-value customer base and move them to more efficient LTE phones.

So with a high level of upgrades, we have increased the number of subscribers under contract in the quarter. These subscribers continue to bring long-term value including our higher ARPU, lower churn and strong data growth. And increasing the number of LTE devices on our network is driving greater network efficiency as well as increasing data usage. It is also moving customers offer our 2G network, which eventually will allow us to repurpose that spectrum for other uses. More than 40% of smartphone subscribers are now on 4G LTE devices.

These efficiencies were offset somewhat by costs associated with new product offerings such as Digital Life and expanding our prepaid wireless offerings. We now offer Digital Life in more than 50 markets. Looking ahead, we expect lower year-over-year upgrades in the fourth quarter as we start seeing the benefits from our new 24 month upgrade model. Customers are also responding well to AT&T Next as sales increased through the quarter and we have continued to expand the program to additional channels. The strength of our network has become a real selling factor for our wireless business. We are seeing outstanding speed and reliability performance and greater efficiencies as more and more customers upgrade to LTE devices. Our accelerated Project VIP, LTE build and improved coverage add to this momentum.

Now let me turn to U-verse. And I would simply say, that I don't think there is a better wireline growth story in the industry than U-verse. Turn to slide 13 for those details. Strong revenue growth and record net adds are a compelling combination. And when you add in expansion of our platform to millions of more customer locations, it's pretty easy to see the runway for U-verse is very long. We have several important U-verse milestones in the quarter.

First, we reached 10 million total U-verse subscribers. More than doubling the number we had just two years ago. That includes high-speed broadband subscribers where we added third quarter record 655,000 customers. Almost 60% of our broadband subscribers are now on the U-verse platform. We also had a second-best U-verse TV net adds ever and the most in almost five years, which keep us as the fastest growing pay-TV provider in the country. In fact, we now have more pay-TV subscribers than any other telco. U-verse revenue growth has been just as in process and is the fastest growing part of our business. We had our first $1 billion U-verse revenue mom in the third quarter and this seven-year-old startup is now a $12 billion annualized revenue stream, growing at more than 28%. U-verse now represents 54% of total consumer revenues, which grew 2.4% in the quarter. The record of success gives us even more confidence in project VIP and U-verse build that goes with it.

Now, let's move to wireline business, which you can see on Slide 14. The broad outline for our wireline business trends continue what we have seen in recent quarters. Obviously, there's a challenging economic environment for business services. At the same time, we are seeing growth in productivity services, like advanced data, the cloud and the mobility. In fact, as I mentioned earlier, revenues from strategic business services, were up almost 16% in the quarter and have grown to almost a quarter of business wireline revenue.

Our U-verse broadband is definitely making noise in the small business space with record gains up nearly 100,000 new high speed broadband customers in the third quarter. That's quite an achievement in this tough economy. As our integrated solutions that take advantage of our global network and mobility strengths, we had several key wins recently. For example, GE announced that it will connect its machines through AT&T network and cloud, creating the first highly secure wireless communications network for GE's industrial Internet.

Another recent win Delta Air Lines will put over 19,000 mobile devices in the hands of flight personnel to help personalize the in-flight experience for Delta's passengers. These contracts highlight the importance of mobility and integrated IP network. The majority of our large business customers also purchased wireless services from us. We think the integration of wireless and wireline services for our business customers will be a big advantage going forward.

Now, let's look at consolidated and wireline margins on Slide 15. For the quarter, our reported quarter consolidated operating margin was 19.2%. This includes a 70-basis point benefit from the previously disclosed transfer spectrum. On and adjusted basis, year-over-year margins were down. Margin pressure was largely due to record smartphone sales and expenses related to project VIP investments. We told you a year ago that there would be pressure on wireline margins with project VIP, we are seeing that this quarter, including success-based U-verse customer addition costs and trailing expenses from our capital spending. This pressure was partially offset by growth in consumer revenues, operational improvements in network sales and support functions and a solid execution of cost initiatives.

Now, let's move to cash flow. Summary is on Slide 16. In the first nine months of the year, cash from operations totaled $26.9 billion, capital expenditures were $15.8 billion as project VIP investing rose and free cash flow before dividends was more than $11 billion.

In terms of uses of cash, total debt was stable in the third quarter with a debt-to-capital ratio of 46.9% and a net debt to EBITDA ratio of 1.76. If you include the cash from the recently announced transaction with Crown Castle, our net debt to EBITDA ratio would drop to around 1.64. We also continue to buy back shares. We repurchased about 55 million shares in the quarter for just under $2 billion with our dividend. This makes our total return to shareholders year-to-date of more than $18 billion, more than $40 billion since the beginning of 2012.

We continue to look for opportunities to improve our business. We are working with regulators on our proposed acquisition Leap Wireless, and we continue to expect that deal will close in the first quarter of 2014, and we expect to close our recently announced tower transaction before the end of the year.

As I mentioned earlier, keep a strong financial foundation is a priority for us. Our balance sheet is sound, our debt metrics are solid and our strong cash flow gives us the flexibility to invest in growth initiatives while returning substantial value to shareowners.

Now before we take questions, let me close with a quick recap of the highlights for the quarter. Those are on slide 17. Project VIP network initiatives continue to move ahead of schedule. Revenue growth was solid.

Consolidated wireless and consumer wireline. Consolidated wireless margins were stable. Even with pressure from strong smartphone sales and Project VIP expenses. And EPS continues to grow. A solid wireless quarter was complimented by a tremendous performance by U-verse. And when you add in strong strategic business service results, our confidence in Project VIP growth platforms gets even stronger. Looking forward to finishing the year strong and building momentum as we move ahead.

With that, Susan, let's go ahead and take some questions.

Susan Johnson

Thank you, John. Tony, I think we are now ready to open it up for some questions.

Question-and-Answer Session

Operator

(Operator Instructions). Our first question in queue will come from Phil Cusick with JPMorgan. Please go ahead.

Phil Cusick - JPMorgan

Hi, guys. Thanks. John, I guess the first question is, how do you think about using the tower proceeds? And the 1.64 you just mentioned, is that the way the rating agencies looks at it, given the shifting obligations?

John Stephens

That's good question, Phil. First of all, I think the rating agencies will take into account the lease commitment and we are working through that with them for the stated first lease plus some level of renewals. We are going through that process now. Don't have a certain number for how much they will but I would expect it somewhere in the 10 to 15 year range of lease payments is what it seems to be approaching, which is certainly less than half of the total proceeds. I know those are real general numbers but you are right, they will take some of that into account. That's the first question.

The second question is, with regard to what are we going to with the proceeds. I don't have a specific answer for you on that. We are going to follow the same pattern we have had before. One, keep the dividends strong. Two, keep investing money in our networks to grow the business and to transform the business. Three, keep financial flexibility. We have been able to do all that before we got these proceeds. So we feel good about that.

The next issue is then, what do you do with the money afterwards? You pay down debt, you buyback shares, do you keep it for additional flexibility? We will go through that evaluation, but I will tell you, we are going to continue to be opportunistic and buyback shares. I think we have shown that over the last year and a half and that hasn't changed. But we will be careful and opportunistic with that.

Phil Cusick - JPMorgan

And if I may, just one other quick one. What have you seen from the last 30 days in terms of the impact of the government shutdown and business decision making, government decision making and how should we think about that for the fourth quarter?

John Stephens

Phil, it's an interesting question. First and foremost, from directly from the business that we get from the government, I wouldn't suggest you that it's a significant or material amount anyway. There has been some changes. There is so many from usage changes and some adjustments in the amount they are using. So from that perspective, it's not material, not significant in anyway.

From an overall perspective, on just the business environment, the regulatory environment and now the inconsistency or instability of the government environment, I think it affects all businesses and we are seeing that. Our customers are being careful and being prudent and because of that, business investment in general has been slower and as you can see in the employment levels, employment may also be impacted. So I think it is much more of an indirect impact on us than a direct impact.

Phil Cusick - JPMorgan

Got it. Thanks, John.

John Stephens

Thank you.

Operator

Thank you. Our next question will come from the line of Simon Flannery with Morgan Stanley. Please go ahead.

Simon Flannery - Morgan Stanley

Thanks a lot. John, you went through Project VIP in some detail and obviously some add results. Can you help us think through the trajectory of the wireline margin? When do you see the peak dilution from some of this investment? Is this something that we are kind of close to bottoming or is there a few more quarters of pressure. Related to that, CapEx was up significantly. If you would spend the same level in Q4, you would be above your 21. Any sort of changes in the timing there or it a little bit higher than the 21. Thanks.

John Stephens

First and foremost, Simon, with regard to the CapEx spend, we are not trying to limit CapEx spending by a standard compared to last year. We are were trying to smooth it out and get into a normal course, so I think we are on track for the guidance we provided and comfortable with that, but I will tell you that the team that is building our networks is keeping things moving very quickly and we are encouraging that activity in the sense that if they can build it, we are going to be supportive of it. We think that's really good for the customer and services and the company as a whole, but I do not expect any variance from the guidance we provided previously on CapEx.

Secondly, with regard to margins, I will tell you that way the sales activity has gone and the way the build has gone, I would expect some continuing pressure, because of success-based customer costs and quite frankly trailing expense on the build out of the U-verse base and we are going to have build out the U-verse base certainly well in defense, certainly throughout '14 and into '15 - certainly expected in the '15, so we will see some continuing pressures.

I don't mean to suggest that it would be accelerating in any way, but I don't expect us to get back to our norm, higher level of normal margins for at least another year, but I am more than happy to pay for the success the team is having with regard to the customer additions.

Simon Flannery - Morgan Stanley

Operator

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

John Hodulik - UBS

Thanks, guys. John, on the wireless side, I have heard you guys say that that you are seeing pressure on the low end of the postpaid with some subscriber loss there. Is there anyway, one, you could maybe sort of trend that for us how that's been trending or talk about anything you could do to aggressive or maybe even sort of size the exposure there, because I think you guys have mentioned it before and I think that [some focus]. Then related two more major announcement today related to tablets. How are you guys think of that compared to the fiber that is another relatively small change or something there could be more [meaningful].

John Stephens

Let me go to the first question. With regard to the wireless market overall, it continues to be competitive and there continues to be a lot of, as I mentioned in my comments, noise around what's going on. I think the first thing to step back from is to realize that our churn was down year-over-year in total churn on postpaid basis and [churn], so even with all this activity our churn numbers are doing really well. We had expected, we are hopeful to improve on that, but we think the power of our network and the power of our customer service is certainly helping that churn aspect and that's the real measured business.

Secondly, I really want to point out, we are seeing some pressure in feature phones. We are seeing it from quite frankly two perspectives. One is about close to 70% of our feature phone losses come to us as smartphones. If you see in the quarter, we added 1.2 million smartphone customers to our base, but only 180,000 of those were new adds, the rest of them were conversions basically for our existing feature phone base, so that's where the most of them came from, so that's the pressure of the 2G, as a lot of our customers are stepping up and frankly doubling their revenue with us.

Now, there are some customers who are really price-sensitive, who are looking to others and we have come out with new plans both, in mobile share and in the tablet area to addresses those needs and try to give value on a reasonable basis to those customers, so I view this as kind of normal competitive process and with a great network, great customer service, we are going to be able to work through this very quickly.

Lastly, when we get Leap closed in the first quarter, we will have even another avenue, another methodology, another process, really to put in your portfolio and to challenge that low-end side of the business.

Operator

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

David Barden - Bank of America Merrill Lynch

Hi, guys. Thanks for taking the question. I want to start off just by, maybe taking that question another step, John. On the network conversation we are having today, its night and day. You guys have really started to try to take ownership of that most reliable network position in the marketplace. But if you look at the subscriber performance, year-over-year, this year versus two years ago, you aren't really seeing, I think, a commensurate amount of market share that you are able to take from the rest of the marketplace with that ownership position of the most high quality network in the market. Can you kind of address how you want to try to monetize the increased capital investment that you have been making in creating this network in terms of more than just converting existing customers into smartphones but try to make more of it in terms of share gains?

Then I guess, the second question, if I could, just in terms of the Next program. Obviously, getting people to take the Next program is very value accretive to the business, both in terms of the absolute value that these guys pay you and also from an accounting perspective you get better margins from that. Can you talk about what percentage of gross you are seeing that are taking this program? So we can think about how its going to have an impact positively on the fourth quarter? Thanks.

John Stephens

Okay, good question. Let me kind of comment on both the questions, David. First and foremost, I would suggest to you that more than doubling our postpaid phone adds is something that I am impressed by. I understand you are challenging it, but I am very pleased with it, especially at the same time when we are growing the prepaid market with regards to the GoPhone because of the challenges that we have there. When you add that performance to 700,000 connected device adds, we are adding about 1 million customers to the network in the quarter. It is very good. And the reseller customers that we add, as we said, we have low revenue, we still do reseller revenue in the quarter even with the reduction in customers and there are mainly 2G type customers, which quite frankly, as everyone knows, we are in the process of repurposing that spectrum anyway. So it's dealing with a situation we are going to have to deal with over the next few years. So we are, if you will recognize the fact that there has been real improvement, we certainly are striving for further improvement.

When you get into the getting a return on the investments we are making I would suggest you this way, when you look at the total revenue growth of 5%, you really bring that Next issue into the revenue story in the sense of it is real economic revenue we are getting. And so our revenue growth, when you take into account are both service and equipment, it is down to 5% level. But if you look more at just, what you call a service revenue piece of it, David, the story goes like this.

First, we are growing smartphone penetration. So we are getting more people on smartphones. As they do that, they are using more data. That's why our key data growth of nearly 18% is. When you look at that then, we look at what they are buying and they are continuing to buy in high level data usage plans. So we doubled the percentage of customers who are buying, kind of the 10 gig plans over the year. It went from 9% to 22% of that customer base on usage plans.

If you think about that, that is just the start. There is a long way to go to add revenue through existing customers. When we complete the LTE build and we have this video centric network out there on the wireless space, we expect to see continued growth. All of that is just on the existing customer base and then you move forward with things like Digital Life, like the connected car, like the additional prepaid business we will be investing in. We are pretty excited and pretty confident in our ability to get really solid returns out of our investment.

David Barden - Bank of America Merrill Lynch

All right. Thanks, John.

Operator

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

Joe Mastrogiovanni - Credit Suisse

Hi, thanks. John, you mentioned that the competitive environment is getting a little more aggressive. As we look over the next six to 12 months in wireless, how should we think about the balance between subscriber growth and profitability and are you willing to accept some pressure on the margins to maintain or even pick up share if there is an opportunity with the new network quality metrics that you have been showing.

John Stephens

Yes. Good question. We are always interested in growth, but we are always interested in smart growth, the profitable growth. We are not going to do anything to build one stead up at the cost of our shareholders return to investment, but yes, you know, we are going to watch it very carefully.

The biggest change over the next six to nine months we will see I think is the continued build out and completed build out of our 4G LTE network, because that's a big advantage for us. Two, it will be our ability to close the Leap transaction and use that Cricket brand and infrastructure to really take advantage of that marketplace in a different way with different capabilities than we have today and that's what real positive for us.

Operator

Thank you. Our next question in queue will come from the line of Jason Armstrong with Goldman Sachs. Please go ahead.

Jason Armstrong - Goldman Sachs

Great. Thanks maybe a couple of questions. First, John, in relation to your comments on and you said this a couple of times the best credit rating amongst U.S. telcos. Is that merely sort of statement of where you are now or is that a commitment to maintaining this credit rating in the future?

I guess I am getting the obvious question here, clearly there's an ability to add a lot of leverage. Verizon just proved that out and you have pointed to rather large opportunities for a potential global M&A, so just trying to think that up.

Then secondly on U-verse, as you talk about the speeds, 45 megs and moving higher just how quickly can you sort of cover the footprint with these types of speeds. Has this started to change that market share momentum in those markets at all?

John Stephens

Great. Jason, let me take the second one first. On the 45-megs Verizon although reaching today two-thirds of the footprint today and we are already seeing - it's still early with the 45 megs, but just with the U-verse platform, we are already seeing significant changes improvements in churn and in customer retention capabilities. It's what is fueling the decision to invest not only in the capital, but also in the success based expenses of converting these customers to this U-verse platform, so we are already seeing that today. We expect that with the 45-meg speeds become standard and as we move even towards 75 or higher speeds, we think that just improves our opportunity. They would be sticky to lower churn and to retaining the customers.

We are also seeing some good ARPU activity in the overall Broadband segment. That also gives us confidence, so direct question of 45-megs, two-thirds of our customers have that capability receiving today in footprint. We are ramping that up and we are moving forward to go towards 75. It's early to say a specific tied into the 45 megs, but what we have seen with the U-verse platform in total has been really positive.

With regard to the credit metrics, quite frankly, having the best credit rating and having a solid A just the facts of where we are today. We are very proud of that, we have committed back last week or last year where we did the VIP announcement that are going to strive to stay in a single A rating, we have done that and we have done that while we are paying great dividends, while we are buying back shares or making capital improvements, so it's worthy a note that we, if you will, did what we said we are going to do and we continue to hold those ratings and continue to have a lot of flexibility.

With regard to any transactions, I have got now comments. There has been enough written and said about a variety of M&A. There's nothing new to add there. No comment with regard to any of that.

Operator

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

Michael Rollins - Citi Investment

Hi. Thanks for taking the questions. Just a couple if I could. First, as you think about the multi-year trajectory for the wireless margins, what would you say the three key things are there to deliver a better margin, especially in the context of the performance that you are looking for this year versus last year where the change maybe was a little bit more muted than maybe what the anticipation was at the beginning of the year?

Just secondly, could you talk a little bit more about the evidence that you are seeing in terms of more usage from the customers. You mentioned the tiers of rate plans that customers are in terms of high versus mid for data consumption plans. Is the upgrade rate at people going to more data usage driving a meaningful amount of that wireless service revenue growth yet? And is that something that you would expect to continue to get better as we progress each of the next number of quarter? Thanks.

John Stephens

Thanks, Mike. Let me give you four high numbers with regard to your first question as opposed to three. One, continuing the network efficiency that LTE provides and driving that efficiency that LTE provides. As we give our customers LTE devices, as we are sure to get them, we are able to grow more networks, I think will be a real driver of margin expansion. I think as we continue to manage the subsidy side, not only in educating the consumers about what this phones cost, not only getting value from a trade-in process and capturing the economic value of the trade-ins that Next might do, but also getting fair pricing on the equipment side, I think, will drive our margins.

I think the data growth you just talked about is a real driver of revenue growth and it's a driver of revenue that doesn't come with any of the normal billing, administrative, sales costs. It's existing customers buying and getting more value by using more and buying more from us.

Then the last thing is just a real focus, a management of focus on efficiency and a management of focus on streamlining our cost structure. We have had that around here under our One AT&T initiative. So we are going to continue those efforts. Those are the four things from a company perspective that really will drive continued progress in our wireless margins.

On the data growth, we definitely believe there's more opportunity for data growth. If you look at the $5.5 billion quarterly revenue base or about $22 billion annualized revenue stream, it's growing at nearly 18%. That is coming from having this great network experience which enables people to use it more, so they want to use it more. They are getting a better experience. So they are buying up.

As we mentioned, our usage-based plans, only 22% of them have high data buckets today. On mobiles here, that's 10 gig. On individual plans, that's four gigs. But we have seen that more than double over the last year. It was only 9% last year. Now it's 22%. That's a lot of runway to grow. So we feel really good about that. We think as these customers have a good experience, they continue to use it more. They are going to buy more gigs and be happy with it because of the experience. So that's where we see the data growth. I won't get into specifics about how much of the 5.1% growth is related to that or how much of the buy up of that, but we are excited about the opportunity it provides.

Michael Rollins - Citi Investment

Thanks for all those details.

Operator

Thank you. Our next question in queue will come from the line of Brett Feldman with Deutsche Bank. Please go ahead.

Brett Feldman - Deutsche Bank

Thanks. I am going to stick with the wireless margin theme. You mentioned Next, which you launched during the quarter. You have new upgrade policies that are taking effect now. In light of all that, how should we be sort of sizing the margin trends in wireless into the fourth quarter? Along those lines, what are some of the key inputs? In other words, what's your outlook for things like postpaid upgrade rates or overall smartphone sales within the context of levels that we have seen in the past?

John Stephens

So, Brett, it's a good question and I feel a lot of comments you had will be parts of the answer of the question. First and foremost, we are not giving specific guidance for the fourth quarter on those margins. But we are not changing our overall guidance for the year. We are going to stick by the guidance we gave specifically on wireless margins that we are going to grow margins, year-over-year. So that will give you some indication of what we expect in the fourth quarter.

Secondly, the push points that you mentioned, the upgrade cycle going to 24 months tied to the contract is a policy now tied to the contract. The Next improvement, this data revenue growth that we see, other efficiencies we put in, not only from the LTE network being more efficient but what we put in the cost structure, all of those things give us confidence that we are going to be able to meet that year-over-year LTE objective. So that's really how I think about it and why I feel comfortable with standing by the guidance we gave at the beginning of the year.

Brett Feldman - Deutsche Bank

And do you have any initial color you can give us on the adoption rate of Next?

John Stephens

Yes, we haven't been giving that publicly. And quite frankly, we are still pretty early in that. So as we get through a full upgrade cycle with the new device and plenty of supply on those devices and go through a holiday season, we will probably have a lot better insight. I am not committing to release that data at that time but I will tell you, it's early in the process. We have been pleased and we think it's been a good customer experience where they can capture the value of the trade-in phone, which is really the key to it. It's the economics that makes sense for both parties.

Operator

Thank you. Our next question in queue will come from the line of Jennifer Fritzsche with Wells Fargo. Please go ahead.

Jennifer Fritzsche - Wells Fargo

Thank you for taking the question. Just a question on the mobile share plan, I think you said 72% of your smartphone base is now under hedged. You have a year under your belt with this experience. Are these customers proving to be stickier customers I would think so, because your postpaid churn was lower than I was looking for.

John Stephens

Yes. Thanks, Jennifer. I think 72% of our smartphone customers are on usage based plans, so Jennifer that would include not only the mobile share, but the tier data. The mobile share is about 16 million of our customers. It's about 5 million accounts, about three per account but, yes, we are having good results with those with regard to the plans, not only with smartphones, quite frankly, in general. On churn, on revenues and on the quality of the customer experience, so while we don't publish those specific numbers, yes, we are having good results with that. We believe as we have shown with some recent changes in mobile share plan, it's an appropriate way for us to move forward.

Susan Johnson

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

Operator

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

Amir Rozwadowski - Barclays

Thank you very much for taking the question. John, it does seem that you folks are benefiting from your investment initiatives that you announced just under a year ago. I was wondering if you may be able to provide us with some color on where you expect spending trajectory to go perhaps beyond just the near-term, because I know you addressed that in earlier question and if that has shifted given the fact that you seem to be ahead of plan with respect to your initial plan.

Also, I was wondering, if you could provide any color around the Supplier Domain 2.0 initiative that you have seen now that it's been unveiled and to the vendors, because it does seem that longer-term that initiative could provide significant cost savings down the line.

John Stephens

Let me try to address your questions. I think we said in the past that we would expect the CapEx for this year to be in $21 billion range and for '14 and '15 to be in the $20 billion range and at this time we are not adjusting that or changing that.

Once again, we are going to be very thoughtful about accelerating any build programs, and where we can do it efficiently, we will do that. I will tell you that the one due issue or one issue that's coming up is that with the Leap announcement and with our ATNI purchase, we may have some additional capital requirements related to those.

As we said publicly, we will announce the financial implications, specifically of Leap, when we close the deal which we expect to do in the first quarter, so we are not changing any of the guidance that we talked about for the three-year.

Longer term, we really do believe that software-directed networks are an opportunity for us. We think it gives us an ability to not only improve quality, but manage cost effectively, so we are excited about that. I think early results from that have been encouraging and the early results of our network team has been encouraging but I don't want to suggest to you that it is going to have an impact in the guidance that we have already given. I don't want to suggest or imply that we are going to move away from that.

Amir Rozwadowski - Barclays

Great. Thank you very much for the incremental color.

John Stephens

You are welcome.

First, let me close with a quick recap. We delivered strong EPS and strong revenue growth. We delivered solid wireless gains and terrific U-verse results for the quarter. We continue to make significant progress across our growth platforms, mobile data, U-verse and strategic business services and our project VIP expansion brings us even more opportunity. Our momentum is solid and we are setting the bar on network performance, which we believe, leaves us well positioned for future growth.

Once again very sincere in telling you thank you for being on the call. We really do appreciate your interest in AT&T and have a good day.