Operator

Ladies and gentlemen thank you standing by. And welcome to the AT&T Second Quarter Earnings Release 2014. At this time phone lines are in a listen-only mode. We will have an opportunity for question-and-answer session later on. Operator Instructions]

At this time I would like to turn the conference over to our first speaker Senior Vice President, Investor Relations, Susan Johnson. Please go ahead.

Susan Johnson

Thank you, Nick. Good afternoon everyone. And welcome to our second quarter conference call. It's great to have you with us today. I'm Susan Johnson, Head of Investor Relations for AT&T. Joining me on the call today is John Stephens, AT&T's Chief Financial Officer; and Ralph de la Vega, AT&T's President and CEO for Mobility. John will cover our consolidated and wireline results and Ralph will give us an update on our wireless business. And then we'll follow with a Q&A session.

Let me remind you our earnings material is available on the Investor Relations page of the AT&T website that's www.att.com/investor.relations. Of course I first need to draw your attention to our Safe Harbor statement before we begin which says that some of our comments today maybe forward-looking. As such they are subject to risks and uncertainties, results may differ materially. And additional information is available in our and DIRECTV's SEC filings and on the Investor Relations page of AT&T and DIRECTV's websites. I also wish to direct your attention to the information regarding SEC filings that is included on the slide.

Before I turn the call over to John, I would like to provide some additional context for the quarter on Slide 4. We talked with you the last few quarters about how we've been transforming our business for growth. This quarter we saw a significant progress, particularly with our repositioning of the wireless business model. First on the network front. Our Project VIP investment plan continues to deliver or transforming our network to a premier IP video-centric network and the results have been impressive.

Our 4G LTE build now covers more than 290 million people and we expect to complete our deployment by the end of the summer. And our fiber build out to cover more businesses is going well. We've now passed more than 500,000 business customer locations since we first announced Project VIP. At the same time we are investing in our network, we are investing in our customers by repositioning the wireless value proposition.

Several years ago we successfully led the transition to usage base to data pricing and now more than 80% of our postpaid smartphone subscribers are on those plans. Now we are making another successful pivot away from the traditional device subsidy model with AT&T and our Mobile Share Value plans. Customers can now pay directly for their devices and exchange for lower service pricing. That's an equation that really works for our customers, as you can see with this quarter's record subscriber metrics. And it's an equation that works for us.

With this an important strategic shift away from device subsidies which has historically netted out to be a multi-billion dollar cost each year. This move away from the subsidy model it's happening quickly and bringing about many of the expected changes in our financial results.

The shift in revenues from service to equipment and the moderation of quarterly margin trends as we achieved increased savings in device subsidies in the back-half of the year, which as you know historically is our strongest device sales season. But the key point is that we have made a deliberate discussion to go down this path and with the results we are seeing, we believe the strategy is clearly working. We see it in our results and we hear from our customers.

With that, let me turn it over to John to discuss our second quarter results. John?

John Stephens

Thank you, Susan. And hello everyone, thanks for joining us today and as always thank you for your interest in AT&T. Let me begin with our consolidated financial summary which is on Slide 5. Consolidated revenue grew to $32.6 billion up $500 million or 1.6%. This was driven by continued wireless growth as we change our business model. Solid consumer wireline growth once again led by U-verse and growth and strategic business services.

Revenue this quarter was impacted by the shift to no device subsidy plans and wireless. Reported EPS for the quarter was $0.68, as you know during the quarter we sold our equity position in América Móvil. After-tax we had a gain of about $0.08 on the sale. The gain was taxed at a higher effective tax rate due to accounting for deferred tax assets related to foreign tax credits.

While these accounting rules will acquire this high tax rate, we are confident we will be able to utilize existing capitalized carryforwards to maximize the after-tax cash proceeds from the sale. When you normalize to the side, our consolidated effective tax rate is about 34% or about a 100 basis points higher than last year.

Also we had $0.02 of pressure from our Leap integration cost, including our non-cash items such as the amortization of customer list. You may recall that we close that transition in March, so this is the first full quarter with these integration costs. When you exclude these items earnings per share was $0.62 compared to an adjusted $0.67 a year earlier.

Consolidated margins continue to be pressured by our investments both in Project VIP and Agile and our shift away from the subsidy model to wireless. These well for our investments are expected to drive stronger growth in the second half of the year. Cash from operations continues to be strong. Cash from operating activities in the quarter totaled to $8.1 billion and capital spending was $ 6 billion with strong investments in Project VIP. Year-to-date our free cash flow is more than $5 billion and that after are more than $1.5 billion investment in our customers through AT&T Next.

Solid churn to our operational highlights on Slide 6. As you can see, we continue to execute a high level even as we transform our business. In wireless the growing popularity of AT&T Next and the Mobile Share Value plan is having an impact on our results.

The customer transition to these plans is driving a major shift in the subsidy model and at the same time helping to reduce churn increased postpaid subscribers drive strong growth of large voice data and improve our net promoter scores or our customer satisfaction results.

However, Ralph will give you the details in just a moment. But we are very pleased with what we are seeing from our wireless repositioning and confident in our strategy. In wireline U-verse continues its steady performance of subscriber gains and increasing revenue.

It’s now approaching $15 billion in annualized revenues, growing at about 25% year-over-year. Strategic business services also continues to grow at more than 13% and is an annualized $9 billion revenue stream. We also reached a milestone in the second quarter when our U-verse high-speed broadband reached 70% of our total broadband base. Clearly the transition is underway.

While we have made great progress, we still have a lot of room for growth, as we expand our base through Project VIP and continue the bundle broadband with other valuable services. And of course in the second quarter, we announced our intention to acquire DIRECTV.

This will take our video and bundling strategies and our cost structure to a whole new level. We’re really excited about what this transaction can do. Service bundles are a proven winner for us, and we believe the ability to bundle services nationally will be a big plus. Overall, we are on track with full year guidance and look forward for trends to improve in the second half of the year.

We'd now like to turn it over to Ralph de la Vega, who will provide more insight on the strong wireless performance and the repositioning of the wireless business volume. Ralph?

Ralph de la Vega

Thank you, John and good afternoon everyone. It's great to be with you today. I'll start on Slide 7, as John said this was truly a remarkable quarter for our wireless business with results coming in better than expected. We've been very successful in repositioning the business model and it's happening and break next speed.

The shift is in no-device-subsidy model is unmistakable, more and more customers are choosing the simplicity of Mobile Share Value plans and AT&T Next. This model shift is driving impressive results. Postpaid churn was a record low 0.86%, the best ever for AT&T and likely and industry best this quarter.

This customer loyalty help drive our largest postpaid subscriber gain in nearly five years more than a million postpaid net adds in the quarter including very strong smartphone net adds. The shift in Mobile Share Value and Next has been dramatic in transitioning our smartphone customer base. Half of our smartphone sales in the second quarter were on AT&T Next and nearly half of our smartphone subscriber base has moved to Mobile Share Value plans since we first introduced value plans in February.

Even better when customers do switch to Mobile Share they are moving to larger and larger data buckets. We now have more than 41 million connections across 15 million accounts on Mobile Share with half on plans of 10 gigabytes or higher. And the number on larger data plan continues to grow. As more and more customers move to usage-based data plans data use is increasing.

We're still seeing nearly 50% year-over-year data usage increase on smartphones and we continue to add more smartphones connected devices and tablets. We're also starting to see the NextWave of wireless growth Digital Life is gaining momentum and had its best net gain quarter. Connected car growth is accelerating with new models entering the market such as the Audi A3 as well as 10 GM models that will grow to 30 by the end of the year. These are in addition to those are already in the market such as Tesla, BMW and others. We feel these are incredibly good results in a time of transition. Let me give you more details starting with our strong postpaid net adds and churn on Slide 8.

The move to Mobile Share Value plan has really solidified our customer base and this is critically important, retaining our smartphone base is the basis for future growth. Postpaid churn was there an all time low and churn for Mobile Share and smartphone customers were even lower. That was even more remarkable in a noisy competitive environment.

This help to drive more than a million postpaid net adds with more than half of those being phone customers as significant improvement from the past several quarters. Overall, we had more than 600,000 total net adds and that includes prepaid declines due to the second quarter seasonal pressure and continued migration of session-based tablets to postpaid.

We also saw expected second quarter pressure from our Cricket integration. We expect this prepaid pressure will moderate in the third quarter and in fact we have already seen our prepaid trends improving. Branded tablet net adds for the quarter were 250,000 and that includes 366,000 postpaid tablet net adds in the quarter.

We also saw pressure in reseller and connected devices, as we transition of the old 2G network, all this drove total return higher even with our record low postpaid churn. We continue to grow our smartphone base including migrations, we added nearly 1.6 million in the quarter. We had more than 700,000 net adds in the quarter and more than 90% of our postpaid phone sales in the second quarter were smartphones.

Sales of LTE devices also continued at a strong clip which is great for both us and our subscribers. LTE devices provide the best customer experience well also be the most network efficient, almost two-thirds of our postpaid smartphone base now have LTE phones. You see the dramatic impact Mobile Share Value plans on churn and postpaid net adds.

Now let me show you the impact on the subsidy model and revenues. Those details begin on Slide 9. Total wireless revenues for quarter were up nearly 4% as revenues continue to shift to equipment from service. Equipment revenue growth was strong in the quarter up 45% but also we expect that service revenues were impacted. We also saw revenue pressure from promotional activity early in the quarter from a change in the recognition of revenue with the sales of phones through our agents due to the AT&T Next offering.

Together these two items are about a 200 basis point impact on total wireless growth. We’re also seeing significant increases in the number of customers who bring their own devices. This is a good thing for us, as it takes all the subsidy expense out of our model and brings on a profitable customer.

We’re continuing to see customers choosing Mobile Share Value plans in unprecedented numbers. In just five months about 24 million smartphones or about 44% of our postpaid smartphone base have moved up to subsidy model. That includes about 2 million subscribers on a limited data plans who chose to move to Mobile Share plans.

We now have less than 10 million subscribers on a limited plans; our lowest level in years. At the same time, customers who are ready to upgrade are increasingly turning to AT&T Next. More than half of our smartphone sales in the quarter are 3.1 million were on Next, as you can see on the pie chart on the left of the slide, we have about 7 million AT&T customers who are Next customers at the end of the quarter. But the total number of subscribers on non-subsidy plans is about 24 million.

This gives us a large number of subscribers who will move to AT&T Next when they buy a new device. By the end of the year, we expect the percentage of Next sales to increase considerably as customers begin to upgrade their phones. And in fact we are already seeing customers do this, virtually all of our pre-Next customers are choosing AT&T Next when they upgrade in our company-owned stores.

And we expect sales to increase with our agents and in national retail where we’re just beginning to ramp up Next. The change in the device subsidy model is driving a shift in our wireless mix, but it is also driving higher value with improved churn and more sustainable margins.

I’ll turn it back to John, so he can give you those financial details on Slide 10. John?

John Stephens

Thanks Ralph. Ralph talked about the great results we saw in wireless in the second quarter. Let me take just a minute dive deeper into the financial and customer value impacts. If you look at the overall customer value that shift away from the subsidy model is very positive. Churn plays a big role in this.

Take a look at the customer value illustration on the upper left of the Slide 10. With the year-over-year 16 basis point improvement in postpaid churn, the average life of each of our customers is extended by 18 months. With Mobile Share Value pricing servers ARPU is to drop on a comparable basis. But when you factor in the average life of a customer’s lifetime service revenues actually increased and example percentage that have increased $400 per customer when you are AT&T with over 50 million phone customers. That’s a real opportunity to generate great value.

So in short, the customer value increases with Next and this doesn't even take into account the reduction in equipment subsidy. Going to AT&T Next also takes way most if not all of the net subsidy cost. That's why can't just look at service ARPUs anymore to get a comprehensive view of our business.

Phone-only service ARPU is down for the quarter, but when you add in Next billings you get a more accurate idea of what an average customer pays us each month. The average monthly Next billings for the equipment are about $27 per month, driving our phone-only ARPU higher with Next.

When this $27 per month is spread over the entire base it adds about $2 in ARPU per customer in the quarter. As the Next base rose, so will this impact on ARPU. We've actually already seeing this. Service ARPU with Next improved throughout the second quarter and for June was more than $65, are almost $1 higher than the quarterly average as equipment purchases increased throughout the quarter.

Another benefit of moving off the subsidy model which is at the previous highs and lows of our margins become more stable. We did in this business a lot of time and we've seen two big drivers to sales upgrades. That's a holiday season and the introduction of new devices. In the past we usually have mixed feelings about those events was great for sales, with that subsidy cost pressured margins and financial results.

Now with about half of our smartphone subscribers already are in non-subsidy plans and that number going up every day. We're feeling really pretty good about the position we are in. If you look at our expectations for the rest of the year, we anticipate service margins to be more than 40%, while postpaid phone-only ARPU with Next billings will continue to increase as more customers upgrade their phones.

Our wireless repositioning story is definitely work in progress, but it's definitely working. The benefits are clear, lower overall churn, higher postpaid net adds, customers buying larger buckets of data and a shift away from the unlimited plans.

First of all, customers like it, they like the clear and simple pricing and we feel really good about where we are and we're excited and look forward to the second half of the year. Those are our wireless highlight; I would now like to discuss our wireline business starting with consumer on Slide 11.

U-verse has been a solid and consistent story for us; we continue to see solid subscriber and revenue growth. This help drive 3% revenue growth in consumer, total U-verse revenues are now approaching a $15 billion annualized revenue stream and they are growing at about 25% year-over-year.

U-verse now represents 62% of consumer revenues. They had a 11.5 million broadband customers after adding almost 500,000 in the quarter. That's more than 70% of our total broadband base that compares to just 40% two years ago. We also added a 190,000 TV subscribers in the quarter, which gives us 5.9 million total U-verse TV customers.

The big factor in the success of U-verse is our ability to bundle. More than 97% are virtually all of our video customers had some kind of bundle with us. And two-thirds of our U-verse TV subscribers take three or four services with us. ARPU for U-verse triple play customers continues to be more than a $170 a month.

Now to drive growth while reducing churn, in fact triple play bundle customers has significantly lower churn than standalone customers. We see continued opportunity here, our market penetration stands around 20% for U-verse broadband and TV. But that penetration increases the longer we are in a market, plus this Project VIP expands our customer reach, we believe we can achieve much more.

We also continue to deploy GigaPower as part of our Project VIP build sales of our Ultra-fast broadband service have exceeded expectations at Austin and we've announced our intention deploy in Dallas and North Carolina.

Now I'm taking to our business wireline results on Slide 12. Wireline business continues to be a story of the economy and the shift to IP data and away from legacy services. Strategic business services, services such as VPN, Ethernet, Hosting and other advanced IP services grew by more than 13% in the quarter and more than 14% year-to-date. And now represent more than $9 billion annualized revenue stream.

And that now make up more than 27% of business wireline revenue and for the first time strategic business service revenues are now more than half of our total wireline business data revenues.

Overall wireline business revenues were down to 0.9%, service revenues were down a little more than 2% in the second quarter. But that's on track with recent trends and the slow economy. When you look at each of the business components that make up our wireline business, you'll see some different stories and different trends. Enterprise service revenues were actually up about 1% year-over-year.

And this was its fifth consecutive quarter of year-over-year growth rate improvement and our enterprise channel continues to provide significant sales opportunities for our wireless services. Wholesale again was challenged by network proving of some of our wireless customers. And we also saw in the impact of our acquisition of the Leap this quarter as those previous external wholesale revenues now are internal to AT&T.

While our small business is benefiting from wireless bundles and continued U-verse broadband growth. The lack of new business formations is still impacting the business opportunity.

Now let's look at our margin story on Slide 13. You can see the margin impacts from changes in the wireless subsidy model and Project VIP on our margins. In the second quarter when adjusting for Leap integration expense wireless EBITDA service margin was up slightly to 42.6%. That's a strong performance especially when you consider our very strong postpaid and smartphone net adds in the quarter.

Adjusted EBITDA was $6.5 billion stable year-over-year, the total EBITDA margin was down due to the impact of the 24 million smartphones moving to Mobile Share Value pricing, some promotional activity we had in the first half of the year. And new business investments and things like Cricket and Digital Life.

For the quarter our adjusted consolidated margin was 17.7% compared to 19.1% in the year ago quarter. As Ralph said, the shift to Mobile Share plans ahead of equipment purchases pressure our results.

Wireline margins were down from a year ago, but essentially flat with first quarter levels. The decline in revenue from legacy services was part of the impact, but at the same time success-based video content cost retransmission price increases and expenses for project Agile and VIP also cause pressure.

For example overall content cost increases for more than double, the total increase of wireline operating expenses for the entire quarter. But this wireline pressure was partially offset by growth of consumer revenues gains in strategic business services and solid execution of cost initiatives.

We expect project Agile and are moved to software defined networks to provide margin help, project Agile drive efficiency and speed to market as we transform how the company organizes and operates all around our customers.

As we've said before, we are reinvesting in savings at this point, we feel real opportunity to reduce cost through this effort. We expect run rate in savings in the $3 billion range by 2017.

Now let's move to cash flow, our summary is on Slide 14. In the first half of the year, cash from operations totaled nearly $17 billion and about $8.1

billion in the second quarter. Capital expenditures were up $11.8 billion for the six months and 16 for the quarter. Free cash flow before dividends was $5.1 billion year-to-date on track with full year guidance even with investments in Project VIP and our wireless customer base.

We did monetize $800 million of our Next receivables in the quarter and there continues to be great interest at additional sales. But even after that our net investment in customers increased by more than $1.5 billion during the year. So we expect to meet our free cash flow guidance even with the substantial working capital invested in AT&T Next customers. And net debt to adjusted EBITDA was at 1.71 as we maintain the best credit rating major U.S. telecom company.

In terms of cash, I think you know the story, dividend payments remain our first priority and year-to-date total $4.8 billion and we continue to be opportunistic with our share buyback program.

Our asset sales including América Móvil also strengthened our cash position and balance sheet. We ended the quarter with more than a $11 billion of cash about 4.6 that has already been used for debt redemption leaving more than 6 billion of cash on hand at the current time.

We have balance in flexibility to pay down more debt and position ourselves for the upcoming spectrum auctions and DIRECTV acquisition, while investing in the growth of our business. In fact I believe we're continuing to maximize our balance sheet efficiency. We expect another $3 billion of asset monetization by the end of the year, with the sale of our Connecticut wireline property and remaining proceeds from our América Móvil sale.

The DIRECTV transaction continues to move forward, Brazil's antitrust regulator has approved it without restrictions and we have completed the reviewing process at the state level without conditions, which included Arizona, Louisiana and Hawaii. We also received good news today when the Department of Labor's approval notice allowing us to fund our pension plans with the preferred equity interest in América Móvil was posted in the federal register website.

Now let me close with a quick summary and a recap of our full year 2014 expectations.

There continues to be a lot of moving parts in this quarter and throughout the remainder of the year. We're confident; we're heading in the right direction. We staked out our course in our plan for the year and we are confident that we are on the right track. First we expect consolidated revenue growth at the low end of the 5% range to define that, but said that, we will say that the range is, we define that range as 4.5% to 5.5% and expect the numbers of the AT&T Next upgrades to ramp substantially in the second half of the year powering that growth.

Second, we see stable consolidated margins as we've begun to realize greater benefits, as more customers shift away from the subsidy model to the back-half of the year. We continue to expect adjusted EPS in a low end of the mid-single digit range even with the pressure from Leap integration cost and loss of the América Móvil equity income. We're still targeting capital spending in $21 billion range even as we accelerated investment in the first half of the year. And we expect free cash flow in the $11 billion range even with strong AT&T Next sales.

I now will turn it back to Susan to take your questions.

Susan Johnson

Thank you, John. Nick I'm going to return the call back to you for instructions for our Q&A session.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question today comes from the line of Mike McCormack with Jefferies. Please go ahead.

Mike McCormack – Jefferies

Hey guys thanks. Maybe just to comment on the churn side, obviously you're getting the benefit probably it's somewhat due to lower pricing points, how do we get more confident that this is going to be a long-term benefit? And then just secondarily on the Leap side, how many of those customers if any we're able to migrate on the postpaid platform? Thanks.

John Stephens

Ralph do you want to take the question?

Ralph de la Vega

Yes, let me comment a little bit on that, Mike when John was going over the chart he was explaining just the extension that we see in the customer life time value, when you take our overall churn going from 1.02 to 0.086. The thing that is really encouraging to me is that that is the total average for postpaid. When you look at smartphones, you see a similar change and what is driving the overall churn down our smartphones. And then when you look at smartphones on Mobile Share Value plans and Next they are even lower.

So what we're doing is working, I'll give you one proof point that was really encouraging to me in the second quarter.

In the second quarter typically churn for our company goes up in May and June compared to April. What we saw in this quarter was a change in the trend, so both May and June were actually lower in churn than April despite all the competitive activity that's going on. So we feel very certain that as more and more customers sign up to Mobile Share Value plans and Next it solidifies our scores in terms of churn and we're seeing the same thing in our net promoter scores. Our net promoter scores for customers who are in Mobile Share Value plans compared to family talk for example are twice the number.

So every indication we have from our customers is that these are sustainable and sustainable even during some pretty intense competitive activities as we always see in the wireless business. Now you are asking about Cricket, let me give you a quick update on Cricket. As you know, we actually launched Cricket on a nationwide basis, the new Cricket on the 19th of May. So that was relatively short, but I'm very pleased with what happened we successfully converted both the AIO brand the old Cricket brand to the new Cricket brand. We rebranded the stores and we started converting customers at rates that we expect that from the old CDMA network that LeapPad to our GSM network and Mike the results are really, really encouraging. As you know that network covers 97% of the customers, it doesn't include roaming. But what we're seeing is net promoter scores again of Cricket customers improving month after month as they get the sample, the GSM network compared to their old CDMA network.

And so the migration are on schedule and we're seeing improving trends in terms of the net additions since we completed the conversion. In fact if you look at the second quarter, Cricket numbers compared to a year ago, we have reduced the factors (ph) by one-third. Just in the first quarter alone and what we're seeing in July is an improving trend that I'm sure we'll continue throughout the year. Again as customers sample this great network that they have now that is a nationwide network as we move those customers over, we are seeing lower churn.

So, we feel really good about what we did with Cricket and we're really excited about the results we're seeing with Mobile Share Value plans and Next in driving lower churn.

Mike McCormack – Jefferies

Hey Ralph I'm sorry just for the clarification on the Leap migration, did you get any benefit on the postpaid side from customers from Leap?

Ralph de la Vega

No not any significant improvement no Mike there was no – no significant movement from prepaid to postpaid in our case.

Mike McCormack – Jefferies

Great that's helpful. Thanks Ralph.

John Stephens

Thanks Mike.

Susan Johnson

Next question.

Operator

Thank you. Our next question is from John Hodulik with UBS.

John Hodulik – UBS

Okay thanks guys. Maybe first just a follow-up to Mike's question for Ralph and then another one for John. Ralph is there any, I like that where you are going with the churn, is there any risk that churn could start to move up within the Next phase once the – maybe the pre-Next people that you've moved over they are do for handset and we're probably looking the new iPhone later this year. We start to see the bill sort of, they've already seen the bill were down start to see it go back up again and maybe talk about your experience there? And then maybe for John, in your prepared remarks at the beginning of the call, you talked about some stronger growth and stronger trends in the second half. Is it just equipment driven or can you give us a little more detail on what some of those trends are and to the point where we have an eye when we will start to see service revenue trends start to churn?

Ralph de la Vega

John on your comment about what happens as people upgrade to Next as we have mentioned in my comments, we're already seeing about half of our smartphone sales go on Next and that's the same experience that you are referring to and those customers when we sample them their net promoter scores are high. So we are not seeing any concerns at this point and I think that once they get on Next they are going to be able to get the new smartphone every year or every 18 months depending on the plans that they select. So we feel really good so far, but everything we have seen from the plans no major concerns.

John Stephens

John specifically the customers that we allow to go up on the Mobile Share Value plans early and then it's subsequently come in. We've seen great stay on rates over 90% of the company-owned stores where they've stayed on the Next program. So they like it, they really seem to be very sticky. So we feel good about where it's going, but we're going to watch closely.

John Hodulik – UBS

Got you.

John Stephens

With regard to the stronger trends there is a couple of things that are just really important, one when you add a million customers on the quarter and we added total change was 1.6 million smartphones that was a conversion of about 900,000 feature phones to smartphones. And then there was net adds postpaid smartphone net adds of 700,000. So that's a really significant number, we had another good quarter of tablets, about 350,000. But we really had great performance on our smartphone net adds. So that gives us confidence in generally more revenue.

Additionally we are seeing people take insurance, almost sort of 50% clip on our Next sales. So that's going to help and we continue to find satisfaction of those insurance rates anywhere from $7 to $10 a month. We see really good results there. Third, we're seeing people buy bigger buckets as we mentioned. I think we mentioned Ralph mentioned that there was 14 million or so Mobile Share Value accounts, over half or about half of those are taking 10 Gig or better.

And with the new phones coming up people are using more data, we continue to see usage growth which is going to drive revenue growth. All of those things are what give us confident in what we see and why we believe there is going to be real opportunity for improving revenue trends.

Lastly, there are much so we think the Next take rate and especially with the opportunity for maybe some new devices in the holiday season will also generate some improvement in our numbers. So feel really good about kind of the whole package not just the equipment story.

Ralph de la Vega

John one other thing that I think we both feel good about is if you look at those larger data buckets we mentioned that about half of our base is on buckets that are 10 gigs or higher. But if you look at actually as customers add lines to their Mobile Share Value plans, we're seeing that number that are selecting the 10 gig or higher plan to be 70%. So we got about half the base, but on the – the ones that are getting added the take rates are even significantly higher.

So it gives us great encouragement and as you look at Mobile Share and Next, number one is producing lower churn and number of customer life times. Number two, it's actually reducing our subsidies and number three, is resulting in these large data bucket purchases that we know will increase ARPU as we define it now could be phone-only ARPU plus Next billings. Those are expected to increase for the remainder of the year. So we feel really good the strategy is working and it's evident is intending the results.

John Stephens

John let me give one other thing that I'm sure (indiscernible) about 200 basis point pressure in the wireless margin, wireless revenue growth this quarter and it has to do with, we're now selling our – our Next program through our agents. And so and sort of recognizing the revenue when we deliver to the agent, we recognize the revenue when they deliver to the customer and so that delayed and have the impact on revenue score. By the end of the year, we think we'll get that back especially in the holiday season where the inventories are traditionally low.

In addition, we had some early on in the quarter; we had some pressure from some promotional activities, as you know we really have a round of significant promotional activities since the April timeframe. So we think we've got most of that pressure buying this. When you put those two things together, we have a better starting point that we may appear based on our – on the appropriately reported results.

John Hodulik – UBS

Got it. Okay thanks for the detail guys.

John Stephens

Thanks.

Susan Johnson

Next question.

Operator

Our next question is from the line of Joe Mastrogiovanni with Credit Suisse.

Joe Mastrogiovanni – Credit Suisse

Hi thanks for taking the question. Ralph can you give us the sense for the exit rate for churn at the end of the quarter? And then John you just mentioned the promotional activity, do you have an idea of how much of the sub-growth was actually driven by the promotional activity we saw early on in the quarter?

Ralph de la Vega

First on the churn in the quarter, as I mentioned earlier what is really encouraging is that we saw both May and June be lower than our postpaid churn in April and usually is the reverse. So it says that that the plans that we have put in place are bending the curve in the right direction, trending to lower churn in the back-half of the quarter as suppose to being higher which is traditionally what we have seen in mobility. So it is very encouraging and we're seeing very good churn levels at this point. So, I think anything that will drive it in a different direction.

John Stephens

We – shall we bolster in the whole operation, we are very optimistic about churn continuing to improve kind of an year-over-year basis compared to the historical levels. So we feel really good about that. With regard to the net adds we have, we really haven't had any significant promotional programs in a fact in May or June, we had some in March and some of the cost of those were appropriate carryforward when the customers are earning those discounts were actually on April. So we really didn't see much in the way of significant customer change with regard to that. We may have seen some of that benefit in March, but I will tell you it seems like in the new environment we and a lot of our competitors were very active in that. And quite frankly we were not; we were not as active as others.

Ralph de la Vega

By the way Joe one other point of reference, the 0.86% churn number as far as I know if you go back and look at the history of wireless is the second lowest churn ever reported by a company in the history of wireless and the one that was lower than that was only two basis points lower two years ago. So not only is at the lowest were AT&T, but some of the lowest churns ever reported by any company in wireless.

John Stephens

Obviously Joe we feel real good about where we are and how we're performing and the team is doing great job.

Joe Mastrogiovanni – Credit Suisse

Okay guys thanks.

Susan Johnson

Next question.

Operator

Our next question is from Simon Flannery with Morgan Stanley.

Simon Flannery – Morgan Stanley

Thanks a lot, good evening. John on capital spending you reiterated the $21 billion that implies about a 20% drop second half versus first half and I know there has been a lot of talk in the market around the CapEx freezes and so forth. So perhaps you could just provide a little clarity about how you are going to get there and what impact that has on wireless or wireline? And then for Ralph, I think in the June release you said about one half of customers would be on no-device plans by mid-year and two-thirds by the end of the year. I think you hit 44%, so as we go into Q3 and Q4 you're still targeting about two-thirds number or are we coming in a little bit lower than that? Thanks.

Ralph de la Vega

Let me answer the last one first Simon, and yes that's exactly what we're targeting. What we have seen Simon is first of all we started with our company-owned retail stores and it was a huge smash hit. Then we brought in our dealers and they have been a huge smash hit, almost exactly the same performance that we saw in our company-owned retails, which are much higher than the averages that we are reporting. Now we're bringing national retails, these are national retail agents that have not sold Next up to this point, will be coming online. And so we expect those to come online in the third and fourth quarters further increasing the rates. So we're fairly confident that you're going to see an increase from the rates that we reported in the second quarter.

Simon Flannery – Morgan Stanley

Perfect, okay.

John Stephens

Simon with regard to the CapEx story as we did reiterate that we will be in a $21 billion range and we're going to stay with that. With regard to the commentary on over about a billion dollar spend in the first six months; I guess I'm more aware of the commentary that the talk that many have had that we had changed our spending patterns based on those numbers. It would seem that some people are misinformed maybe have been more about the spread or the hearing amongst our – amongst our spend. If you're thinking about how we're going to get down to the $21 billion, I would suggest this we are very near complete with our $300 million LTE build. And in fact we expect to complete that later this summer. So most of the spending for that and much of spending for the network intensification has been already placed. We just need to go out and utilize and put those assets in the services, which we have to do.

Secondly, we've done a lot of other of our systems and other corporate work with regard to laying out fiber and other things that we expect will moderate in the second half of the year and focus more on the utilization of assets that we placed in service. So, certainly it will be a challenge and be a lot of work. We feel good about the fact that we can stand at $21 billion range.

Simon Flannery – Morgan Stanley

Thank you.

Susan Johnson

Next question.

Operator

Our next question comes from Amir Rozwadowski with Barclays.

Amir Rozwadowski – Barclays

Thank you very much and good afternoon folks.

John Stephens

Good afternoon.

Ralph de la Vega

Good afternoon

Amir Rozwadowski – Barclays

Earlier this quarter you folks mentioned that you've been able to secure some financing for your handset receivables which I believe Randall had alluded to as an opportunity during your most recent analyst event. Now that we've seen a couple of quarters with the Next program, do you see further opportunities to finance some of these receivables? And then secondly there has also been a lot of chatter around the possibility of extending bonus depreciation, John the scenario that you've spent a decent amount of time looking at. But love to hear thoughts around where you think legislation is and where it ultimately shakes out and the potential opportunity here with respect to your sort of cash flow positioning?

John Stephens

Sounds great, we are let me turn it Amir, first of all Citi was our lead bank in the Next monetization transaction that we completed in June. We received about $800 million in cash from the monetization of some of our Next accounts receivables. With that being said, we still had a net investment and are customers of $1.5 billion more than $1.5 billion actually from January 1st to June 30th. What we learn from that is, it wasn't just Citi, but it was a number of other banks stepped up and we're interested in joining in the contortion to buy those receivables there was plenty of demand.

The financing costs were extremely low, very, very attractive and the terms and conditions were very attractive. So we went ahead and did it, we also, we are also very pleased with the fact that the collection of major banks established the real validity and the real value of those receivables. And we believe there continues to be great demand in fact all the participants and that have come back to us and said and asked us. So we'll get further opportunities that we believe that's one other reasons why I feel comfortable are, cash flow guidance for the year in the sense that we have that one of those levers is the monetization process. So it gives us great comfort.

Second piece is we're optimistic on bonus depreciation giving at least extended, there has been a number of builds out there, some to make it permanent others to extend it. There seems to be a general sense that the extenders will get completed and approved, but maybe not until later this year. That would be a very good thing for capital intensive industry like us and help us continue to make significant investments in our network. The biggest cash impact for us would be in 2015. We would certainly help 2014, but the biggest cash impact for us would be in 2015, because of some of the new answers of tax rules.

And we're we follow carefully and we're looking, we're looking for every opportunity to promote that legislation.

Susan Johnson

Next question.

Operator

That comes from Mike Rollinswtih with Citi Investment and Research.

John Stephens

Hello mike.

Mike Rollinswtih – Citi Investment and Research

Thanks for taking the questions. Just a couple of follow-up if I could please. I think last quarter you mentioned what the installment net receivables were at the end of the quarter, I was wondering if you can give us an update there? And then secondly, if I can just go back to the churn improvement that you saw during the quarter, how should we think about who specifically the improvement came from, in other words did it come from customers that were had a contract and were able to churn but took advantage of the no-sub Mobile Share Value. Was it customers earlier in their life that may have churn prematurely or you were able to capture a benefit from this, a way to think about the segments of customers were you saw that churn savings? Thanks.

John Stephens

I think the Mike couple of things, one I think the biggest churn improvements we saw over are quite frankly in smartphones in the overall category of smartphones where the smartphone churn is lower than that 0.86 postpaid churn we saw. Secondly, the customers who participate in our Mobile Share Value plan as they are churn is also lower than the 0.86%. So as those plans grow and as our smartphone, 80% smartphone base continues to go to flow share of 92% you can understand why we are optimistic about further kind of churn improvement and the opportunity we continue this good run we're having.

Ralph de la Vega

Yes, Mike let me add a little more color to that, like John said when you compare the 1.02 churn to 0.86 that extends the life of a customer by a year and a half. If you do the same analysis not on the total base, but on smartphones that life extension goes to 2.5 years. The churn difference is actually greater if you compare smartphones on the same basis. So you extend the life of the customer by 2.5 years and then if you take smartphone who will have Mobile Share Value and Next you extend that even further than that.

These results are early on, but are really encouraging and it's basically says that customers who choose Mobile Share Value and Next on smartphones are driving this thing down to really low levels. And by the way the numbers that we're quoting on churn are of course total churn there is some involuntary churn. So the voluntary churn numbers are actually even lower than the ones that we have just published.

John Stephens

Mike, I will add to the sort of the installment sales, I would tell you it's a mix bag of numbers I don't want to, make sure I don't direct you to something one specific line of the financial statements. But if you look at our accounts receivable and then you add in our long-term assets that relate to Next, because some of the receivables are over 12 months. And then you look at the deferred purchase price from the city organization to get a sense where in the area of $3.2 billion of total receivables and that's after taking into account or reducing it for the – for the monetization we did. We will disclose this information in 10-Q. So I'll give you that back to say we will make sure we – as we have in the first quarter to disclose that.

Susan Johnson

Next question.

Operator

Next question comes from the line of Phil Cusick with JPMorgan.

Phil Cusick – JPMorgan

Hey guys, thanks. I guess two quick ones, first the buyback pace is a little slower, should we think of that as sort of the new run rate given the DTV transaction out there and I know you said opportunistic, but that's I mean this at this level give or take? And then second speaking of DTV, there are lot of opportunities in Latin America AMX made some assets, the Brazil auction is coming up, would you anticipate being involved in anything in Latin America between now and the close of the DTV deal or in the future, or do you think of DTV sort of it is as it is for a while? Thanks.

Ralph de la Vega

Phil real quick on the buyback, you're absolutely right the pace is moderated and certainly we take into consideration all factors the DTV deal, our CapEx spending, quite frankly our investment and our customers with Next. So I must stick with the guidance we gave before that, we are going to continue to be opportunistic, but you're absolutely right that the pace has moderated cash compared to last year.

With regard to any transactions other than the comments I have made on the DTV, we really wouldn't want to speculate on any or comment on any speculation. So we were just – we were just really focused on continuing to work with the regulatory agencies in getting the DTV transaction approved and moving forward that and we still, we're more excited about it and more confident that's the right thing to do than ever and so we want to push it forward.

John Stephens

Thank you.

Susan Johnson

And Nick, I think we're going to call for the last question.

Operator

Thank you. The last question will come from Timothy Horan with Oppenheimer.

Timothy Horan – Oppenheimer

Thanks guys. I think last quarter you gave the normalized ARPU and maybe I missed at this quarter, if you normalize for the sale of the equipment. And maybe I know you have channel sales and a few other moving parts. Can you give us what your best guess and what the normalized revenue growth was for the quarter? And then lastly, I know you said customers are bring their own, more of their own devices, but are you seeing customers kind of trade down to lower cost devices with the next plan now that they have to kind of pay it for their own? Thanks.

John Stephens

So, Tim a couple of things if you look on Slide 10 that we showed there, you can see that the ARPU plus the Next billings was about 64 little bit over $64, $64.35 that compares to last year $67 so it's down around the 4%, 4.5% range. Secondly I would tell you that if you look at that as of the month of June as opposed to the average for the quarter that's about a dollar higher. And so what we are seeing is an expectation that through the rest of this year you will see the ARPU plus those Next billings definitely increase and we'll be, we're very optimistic about the opportunity to get back on track for growth. Ralph take the question.

Ralph de la Vega

Yes, and Tim what we're seeing today in terms of bring your own devices, devices that are typically hand me downs. But we're very excited, because we see a new wave of low cost smartphones where our customers can outright purchase the device for a very low cost and in essence bringing their own device by paying cash. And the new line up of smartphones that we'll have in the second half will have several options of good looking devices, very functional, large screen at lower cost that will allow a customer to get our best price by a very simple purchase of the device. So we think that the BYOD will probably increase as the year goes on.

John Stephens

Well, for the quarter Tim our BYOD units were about three times or more than three times what they were last year. But the encouraging win for us is about three quarter or more of those, went on accounts under contract. And so the BYOD there is a required contract when they bring them put them out of the account that has a contract we feel real good about the sustainability of those and quite frankly as Ralph mentioned the fact there is no-subsidy cost those makes it really a financially attractive situation.

As we close, I want to thank you all for being with us this afternoon. We've made significant progress in transforming our business for growth in the second quarter and in particular with repositioning our wireless business model. Postpaid net adds were very strong. Specifically smartphones net adds were very strong and we had our best ever postpaid churn. And we've made great strides in moving smartphone subscribers off the subsidy model.

We feel really good about our current momentum heading into the back-half of the year and believe even stronger that our discussions to go with this model was appropriate. Thanks again for the call and as always thank you for your interest in AT&T. Have a great evening. Good night.