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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the AT&T second-quarter earnings release 2009 conference call. (Operator Instructions). Please note that this conference is being recorded. I will now turn the call over to Ms. Brooks McCorcle. Ms. McCorcle, you may begin.

Brooks McCorcle - *AT&T - IR*

Good morning everyone. Welcome to our second-quarter conference call. It is great to have you with us this morning. This is Brooks McCorcle, head of Investor Relations for AT&T, and joining me on the call this morning is Rick Lindner, AT&T's Chief Financial Officer.

In a minute Rick will cover our results and Qs&As will follow. But before we get underway let me remind you that our release, our Investor briefing, supplementary information and the presentation slides that accompany this call are all available on the Investor Relations page of the AT&T website. That is www.ATT.com/investor.relations.

I also need to cover our Safe Harbor statement, which is on slide 2. And that says that information set forth in this presentation contains financial estimates and other forward-looking statements that are subject to risks and uncertainties, and actual results may differ materially. A discussion of factors that may affect future results is contained in AT&T's filings with the Securities and Exchange Commission. AT&T disclaims any obligation to update or revise statements contained in this presentation based on new information or otherwise.

This presentation may contain certain non-GAAP financial measures. Reconciliations between the non-GAAP financial measures and the GAAP financial measures are also available on our website at www.ATT.com/investor.relations.

Before I turn the call over to Rick let me start with a quick financial summary, which is on slide 3. EPS for the quarter was $0.54, and that includes $0.05 of pressure from incremental non-cash pension and retiree benefit costs, consistent with first-quarter results. EPS also reflected margin and expense pressure from or iPhone 3GS launch, as well as lower tax rate.

Consolidated revenues were stable, down fractionally year-over-year and up 0.5 percentage point sequentially, with economic pressures offset by strength in wireless, AT&T U-verse, broadband and strategic business services.

Our consolidated operating income margin was 17.9% for the quarter and 18.3% for the first-half of the year. And this was another strong free cash flow quarter, $8.4 billion for the first-half versus $3.9 billion in the same period a year ago, reflecting solid cost efforts, lower capital expenditures and also the timing of cash tax payments.

With that as a quick overview, I will now turn the call over to AT&T's Chief Financial Officer, Rick Lindner.

Rick Lindner - *AT&T - CFO*

Good morning everyone. Before we get into the details, I would like to take just a couple of minutes and talk about what we are seeing in the environment. The economic trends and the impacts on the business are generally consistent with what we saw in the first quarter. New products on our wireless and U-verse platforms continue to do very well. And we are pleased to report sequential stability in wireline consumer revenues.

But that said, employment and business formation continue to lag. And as you would anticipate, the impacts are most evident in our business results.

In this environment we have managed costs aggressively, and that is reflected in solid margins and strong free cash flow. At the same time we know that the economy will return to growth, so our objective is not just to manage during this downturn, but to prepare the business for the opportunities beyond. So we continue to invest and grow in key areas like wireless broadband, advanced business services, and our AT&T U-verse platform.

Our goal is to make sure that when the economy turns we are stronger financially and stronger operationally, with solid momentum in the areas that will lead future growth. That is a game plan for this year and the game plan behind our achievements in the second quarter, which are highlighted on slide 4.

We continue to build excellent momentum in wireless. We had a terrific postpaid quarter with net adds and churn at best-ever levels. We had a strong iPhone quarter with 2.4 million activations. And including the iPhone, the number of 3G integrated devices on our network increased by 3.5 million. All of these things helps drive robust wireless data growth and ARPU improvements.

At the same time, U-verse continues to ramp nicely, which helps drive wireline IP data revenue growth. So to sum up the quarter, we delivered solid earnings per share, operating margins and free cash flow, with some obvious economic impacts particularly in business, but with good execution on the cost side and positive momentum in our growth products.

Now let's turn and look at consolidated revenues, which are on slide 5. Revenues totaled $30.7 billion, that is down slightly year-over-year and up 0.5 percentage point sequentially. This reflects continued growth in wireless and in wireline data.

Wireless service revenues were up more than $1 billion or 9.4%. Wireline data revenues were up 5.2%, right in line with our growth rate in this category over the past few quarters. And wireline IP data revenues were up 17%, also consistent with recent trends.

These drivers offset economic impacts in wireline voice products.

As we show in the pie chart on the bottom left of this slide, our revenue mix is increasingly weighted to the growth areas of wireless data and managed services. In the second quarter 67% of revenues came from these categories, and that was up 500 basis points versus the year-earlier quarter, and 1,000 basis points from the second quarter two years ago.

Our wireless details start on slide 6, where we look at overall subscriber and revenue trends. In the second quarter we delivered 1.4 million net adds, and we accelerated wireless revenue growth. Service revenues were up more than $1 billion versus the second quarter a year ago, better than 9% year-over-year, with sequential growth at 2.7%. Total wireless revenues were up better than 10% year-over-year and up 3% sequentially.

I think these results clearly demonstrate the ability to continue wireless growth through penetration of integrated and emerging devices, which are driving wireless data.

Our wireless results were led by postpaid growth, the details are on slide 7. In the first quarter this year we were the only major national carrier to deliver year-over-year growth in postpaid net adds. And we continue to win at the high end of the market with another strong set of postpaid results. In the second quarter postpaid gross adds were up nearly 15%. We had our best ever postpaid churn, 1.09%, with sequential churn improvement in both consumer and business.

This was our fourth consecutive quarter with double-digit year-over-year improvement in postpaid net adds, up roughly 30% year-over-year and sequentially.

Postpay data ARPU was up 26%, and total postpaid subscriber ARPU for the first time topped $60, up $1.33 year-over-year and up $1 sequentially. One of the keys to our wireless growth has been our strategy of aggressively driving integrated device penetration. The trends are on slide 8.

We offer today a wide variety of integrated devices, ranging from advanced multifunction handsets for business customers to quick messaging and social networking devices. In the second quarter our total 3G integrated devices and servers increased more than 3.5 million. And over the past year the number of integrated devices on our network more than doubled. And integrated device penetration of our postpaid base increased twofold to 36%.

Integrated devices are important, because they are a key component in the platform for advanced services. ARPUs for all integrated devices are 1.8 times that of our non-integrated device base. 60% of our integrated devices are on a family plan, and roughly one-third are purchased through business relationships. And both of these factors strengthen customer retention. In the second quarter better than 60% of our postpaid sales were with integrated devices, which indicates the upside opportunity.

Integrated device growth in the second quarter was led by a strong launch for the iPhone 3GS, starting June 19. The day of the launch was the best sales day after for our AT&T retail stores. And our website, ATT.com, had it largest order day ever.

For the full second quarter AT&T iPhone activations totaled more than 2.4 million. 35% of those activations were for the customers who were new to AT&T. Better than half of the upgrades previously had no data plan. Better than 80% of the upgrades were from a non-iPhone device or a 2G iPhone, increasing ARPU, and in the case of 2G upgrades, eliminating our revenue share with Apple.

And the iPhone subscriber characteristics continue to be terrific. ARPUs are significantly above our postpaid average. Churn is much lower. Recurring margins continue to be high. And our iPhone customers continue to have very strong NPVs.

Beyond great devices, the ecosystem for wireless data growth includes a great spectrum position, a robust network, and access to terrific applications and content. And AT&T has all of these components, and as a result our wireless data growth continues to be robust. The details are on slide 9.

Wireless data revenues were up more than $900 million versus the year-ago quarter. In the second quarter our network carried more than 108 billion text messages, nearly doubled our total in the year-earlier quarter. We had more than 1 billion multimedia messages. Media bundle revenues also nearly double. Internet access revenues grew nearly 20%. And more than 50% of our postpaid subscribers now have monthly recurring data plans.

We have excellent momentum in wireless data. We have the fastest 3G data network and we are working hard to improve coverage and performance every day. Our network handles more integrated devices and more data traffic than any of our competitors.

And network performance will be enhanced as we execute the HSPA 7.2 initiative we announced in the second quarter. This effort will increase capacity and significantly increase wireless speeds ahead of 4G, something no other major carrier in the US is doing. The work is already underway, and our iPhone 3GS customers will be able to realize benefits as soon as the 7.2 upgrade is turned up.

In addition, we are aggressively deploying high quality 850 spectrum across our 3G markets, which significantly improves coverage and in-building penetration. We are deployed in 265 of our 3G markets already, and expect to have incorporated 850 in approximately 300 markets by the end of this year.

The early results from our 850 work is quite positive. Where we have completed the 850 3G integration our before and after drive tests are showing in accessibility and retainability improvements averaging 20%. Our customers are able to get network access in more places and with fewer dropped calls. And in some markets we are seeing as much as a 30% to 40% increase in 3G minutes once 850 spectrum is incorporated. So our customers are feeling the difference.

We are also taking the lead in emerging wireless devices, including netbooks and eReaders. This week, for example, we have announced plans to launch the Plastic Logic eReader early next year. We have also expanded our relationship with Jasper Wireless, which will strengthen our platform and accelerate emerging device market entry.

You will see us continue to lead in the emerging device space, which will drive growth in both data revenues and margins.

As we drive growth in wireless, we are also delivering solid margins and we continue to have a strong wireless margin outlook. The details are on slide 10. Our second-quarter wireless service EBITDA margin was 38.3%, reflecting a slight decline from the previous quarter, driven by better than anticipated iPhone volumes.

Excluding the incremental impacts of the iPhone launch this quarter, our wireless margin would have been above 40%, and generally in line with the year-earlier quarter and first quarter of this year.

It is worth looking at the margin trend we saw in the second quarter this year, versus the impact we felt from the iPhone 3G launch in the third quarter last year. This is shown on the chart on this slide.

With similar iPhone activations, 2.4 million, and similar subsidies, the margin impact was just one-third of what we saw last year. That reflects operational improvements in our business, obviously, and most of all it reflects the increased base of Premier customers we have built with attractive ARPUs and attractive recurring margins. As a result, our longer-term outlook for wireless margin expansion is unchanged in the mid-40% range.

Let me turn now and talk about our other major initiative, AT&T U-verse TV and related services. Slide 11 has an update. We had a solid net add quarter with an increase in U-verse TV subscribers of 248,000, bringing our total to 1.6 million. Across all eligible living units U-verse TV penetration now it is in the double digits. And in areas marketed to for 18 months or more, we are seeing penetration rates in the high teens.

We continue to add features. And it is clear that the great potential of U-verse is not just in video, but in a set of integrated, interactive services made possible by an all-IP platform. And we are seeing progress in that transformation. U-verse broadband attach rates continue to run above 90%. And the attach rate for U-verse Voice, our voice over IP service, has moved up and is now above 65%.

More than three-quarters of our U-verse customers were either triple or quad play, combining TV, broadband, voice and wireless.

U-verse has steadily gained scale, and based on our second-quarter results our annualized revenue run rate from U-verse services now approaches $2 billion and growing.

And looking more broadly at our total TV subscriber base, our DirecTV relationship is going well. We added more than 100,000 subs in the second quarter. We now have more than 2 million bundled satellite TV subscribers. And our total TV penetration, U-verse plus satellite, is now nearly 14% of households served.

U-verse made an important contribution also to broadband net adds. The details are on slide 12. Our second-quarter increase in total broadband subscribers combining wireline connections with wireless 3G laptop cards was 209,000. That is a significant increase year-over-year. And is a pretty good number for the second quarter, which as many of you know is affected by seasonality.

Wireline broadband net adds were driven by U-verse. Our U-verse high-speed Internet connections nearly tripled over the past year to 1.6 million. And they were driven by continued growth in standalone broadband, often combined with wireless.

Our recurring ARPU from wired broadband improved this quarter, up 3% year-over-year and sequentially, reflecting an increased percentage of customers on higher-speed tiers.

Customers increasingly choose broadband with the expectation of a full range of wired, mobile and portable choices. And that is what we are uniquely able to provide through our wired broadband network, the nation's fastest 3G wireless data network, and our industry-leading Wi-Fi footprint.

U-verse and broadband have helped our overall consumer trends. The highlights on slide 13. While regional consumer revenues were down 6.4% year-over-year, that was a slight improvement from the quarter before. And regional consumer revenues were relatively flat sequentially.

As we show in the chart on the left, our growing mix of TV and video customers helped deliver our sixth quarter in a row with year-over-year growth in consumer revenues per household, up better than 2%. This reflects nearly 30% growth in consumer IP data revenues. That is a combination of broadband and U-verse.

And where we have U-verse our voice and overall connection trends are better. When you look at total consumer connections, our second quarter decline this year was 40% less than a year ago, despite a more difficult economy. As U-verse continues to scale we are starting to see improvement in stability in our key regional consumer metrics.

Now as I said at the outset, where we are seeing the deepest economic impacts is in business. And we have a summary on slide 14. Total business revenues, that includes enterprise, wholesale, as well as small and midsized customers, were down 5.6% year-over-year. Excluding equipment sales, business revenues were down 4.3%.

Economic impacts on revenues are fairly straightforward, with little change from the first quarter. We have seen pressures across business product lines, but the largest impacts are volume related in traditional voice and legacy data products.

The sectors where we have seen the most impact, as you would expect, are in finance, transportation and manufacturing. In terms of profitability some of the areas where we have seen volume declines also carry lower margins, products like equipment and international long distance. And fixed cost reductions in sales and network have kept overall business margins relatively stable.

The improvements we are making in our cost structure in sales, customer service, access and network are important and will provide operating leverage as the economy rebounds and revenue growth returns.

Competitively we continue to do well in the market. The new contract we just announced with DHL is an example. And while we expect the current trends to continue in the second half of 2009, our longer-term view of business continues to be quite positive. AT&T is well-positioned with customers and capabilities in the global business space.

Now with that overview of market and operational trends, let me close with a look at margins and cash flow. Consolidated margin comparisons are on slide 15. We said at the beginning of the year that we expected our 2009 consolidated operating income margin, before incremental pension and retiree benefit costs, would be stable with 2008 results.

For the first half of the year our reported consolidated operating margin was 18.3%, and approaching 20% when you exclude the incremental pension and retiree costs. This puts us on a good path against our full-year margin outlook, and reflects solid progress in both wireless and wireline.

Cost reduction initiatives are ahead of schedule, as we consolidate support functions, network operations and business services. Total force declined by nearly 6,000 in the quarter and 14,000 in the first-half of the year. And as I outlined earlier, we have good momentum and margin opportunity in our wireless business.

Along with solid margins, we also continue to deliver strong free cash flow. Slide 16 provides a cash summary. Cash from operations over the first-half of the year totaled $15.8 billion, up from $13.5 billion in the first-half a year ago, due to cost initiatives and the timing of cash tax payments.

Our capital expenditures for the first-half totaled $7.4 billion. Free cash flow before dividends was $8.4 billion, and dividend payments totaled $4.8 billion. Since mid year 2008 we have reduced debt, net of cash on hand, by more than $9 billion. Our balance sheet is sound, debt metrics are solid. And with cash on hand we have the flexibility to retire additional debt as it comes due in the second-half of this year.

Slide 17 provides a quick recap for the quarter. We had a strong wireless quarter. And with our spectrum, network and device lineup we are well-positioned for sustained wireless growth. While many are worried about high penetration rates and slowing wireless growth, our postpaid customer growth, ARPU and revenue growth all accelerated this quarter.

We continue to grow U-verse, and the platform is performing very well. U-verse is driving improvement and stability in our consumer business, as we expected. In business despite a difficult environment, we continue to grow IP data and advanced business services. And with our capabilities and improvements in cost structure, we are uniquely positioned to benefit as the economy returns to growth.

And finally, we are delivering on what we said we would do this year. We are managing costs aggressively, which supports margins. We continue to invest in the key growth areas for our future. And we are delivering strong free cash flow, while maintaining a sound balance sheet.

Brooks, that concludes my prepared comments. I think we are ready to take some questions.

Brooks McCorcle - *AT&T - IR*

Sandra, we are now ready to open up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

On the iPhone, impressive results, but Apple had talked about supply constraints. Perhaps you could just give us a sense of to what extent those -- you experienced those, and where are we in terms of sorting this out and getting demand and supply matched up?

And secondly, could you talk a little bit about GoPhone had a weaker quarter, about what is going on there and what are your plans to address that?

Rick Lindner - *AT&T - CFO*

With respect to iPhone, it was absolutely a terrific launch. And it certainly surpassed our expectations in terms of demand. In fact, you have to step back and kind of put it in perspective. This is now the third generation of the product, and yet demand was very strong, and continues to be strong well into July now.

I think in terms of supply, Apple discussed that and talked about that on their call. And they are certainly doing everything possible to keep units in the supply chain. And we are out of units in some locations, but we continue to get units in every week. So I think we are doing a reasonable job of keeping up with the demand right now. But I think as Apple said on their call, it is difficult to predict how the demand continues over this next month or so, and exactly at what point we will have full supply in all of our locations. But the overall launch was terrific.

With respect to GoPhone and pre-paid results for the quarter, pre-paid results were weaker for the quarter. Obviously we had a net loss of customers of about 400,000. We had lower churn year-over-year. And we have been working to bring churn down and we are seeing some benefits there. But the impact was more on the gross sales side. And certainly we are seeing impacts from other competitive offers in the market.

One thing I think is important and to keep in mind is to put pre-paid for us in perspective. Pre-paid represents about 4% of our wireless service revenues, and it is less as a percent of EBITDA. Obviously, we recognize there is certainly some opportunities for us there in that portion of the market, and so you will see us continue to address that and make some tweaks and changes to our product offers. But one thing that I think we feel is important is we are not going to put offers in the market that we don't feel will be profitable or earn a reasonable return. And we won't do anything, obviously, that would impact or cannibalize our postpaid base. But it is an opportunity for us, I think, going forward.

Operator

John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Just a quick follow-up on the comments about the strong July. It sounds like the iPhone refresh really had a meaningful impact on the quarter, even though it was really just out there for two weeks. As we look ahead into the third quarter, really I guess the 2.4 million number from an activation standpoint looks like we could go higher from here, given a full quarter, and then maybe increased availability.

Can you talk a little bit about the impact on the margins? It would -- I would assume that if it is higher in the third quarter you would see more pressure on margins even from the 38.3% that you guys reported. Are there any other sort of offsets that could come in as ARPU improves and potentially churn continues to come down that could offset the pressure we could see from additional activations next quarter?

Rick Lindner - *AT&T - CFO*

It is hard at this point to predict the impact on margins in the short term. We do know that as we start to benefit from the recurring ARPUs and revenues from this customer base, that margins will grow. And we are confident in growing margins back over the 40% level and eventually into the mid-40s. But it is difficult to predict this next quarter or two, just based on the fact that we have been surprised thus far with the strength in demand for the iPhone 3GS.

So we will just -- we will see how it goes. I would tell you this, we are certainly -- it is good growth for us, and so we are certainly going to pursue it as we continue to see demand for the iPhone and demand in total for integrated devices.

And a couple of things to note in it, this quarter the percent of iPhone customers -- new customers that were upgrades versus new to AT&T, went up a little bit. It went up to about 65%. That has been fairly normal. Whenever a new product is launched we tend to see more upgrades in the first few weeks, and then it begins to -- in the past it has settled down into that 60/40 mix. Given the size of our iPhone base now though I think it wouldn't be surprising to see upgrades be more in kind of a mid-60%s range.

But one interesting thing, what we are seeing in the upgrades so far has been very encouraging. 60% or more of the upgrades in this quarter were coming from a non-iPhone device. And with those customers we are seeing pretty significant growth in ARPU, as they add data packages. In fact, if you look at all of the iPhone upgrades this quarter, over 50% of those customers didn't previously have a data package on their phone.

And then 20% or more of the upgrades this quarter we're moving from an iPhone, but it was -- they were moving from the 2G iPhone to the 3GS. And that upgrade from the 2G iPhone helps us in a couple of ways, as we mentioned. It also -- it adds ARPU as they increase the size of their data plan, but then also reduces our revenue share commitment. So even the upgrade activity we saw this quarter, I think, was very positive.

Operator

Chris Larsen, Piper Jaffray.

Chris Larsen - *Piper Jaffray - Analyst*

A couple of questions for you, Rick. The first is, you have done a terrific job in delevering the business. It looks like you could actually almost end the year right around 1.5 or possibly below 1.5 turns debt to EBITDA. At what point do you stop focusing on buying back debt that has an interest rate of 6% and buying back a stock that has a 7% yield on it and obviously no tax benefits?

And then secondly on the CapEx, if I look at your spend right now, it looks like you have done about $7 billion. The guidance implied somewhere around $17 billion to $18 million. Does it still seem plausible that you'll spend ballpark about $10 billion in the back half of this year?

Rick Lindner - *AT&T - CFO*

First of all, in terms of capital structure and use of cash, we are in a very good position right now. The strong liquidity position -- we've got no CP outstanding and about $7 billion of cash -- reported cash. So that is -- actually on a net debt, if you took cash net of debt, our debt to EBITDA would be down around 1.6 right now.

However we do have -- as you know, we have roughly about $5 billion in acquisitions -- wireless acquisitions to close yet, so that will be a use of cash for us in the second half of this year. And then we will also be using that cash to handle debt maturities and refinancing as it occurs in the second-half of this year.

Our objective and commitment is to bring our credit metrics down to 1.5 or below. And then I think once we have achieved that we will certainly be looking hard at share repurchase. But I am pleased with the results we have had over the last six months -- really over the last year -- in terms of cash flow and cash accumulation and reduction of debt.

In terms of CapEx, our CapEx will be a little more back end loaded this year in terms of the second-half of the year, but I expect we will be in the $17 billion, $18 billion range that we have guided to. We are stepping up CapEx in a number of areas. And probably the number one area is in wireless, where we are continuing to build additional coverage and capacity in 3G, as we talked about in the presentation, moving 3G down into the 850 megahertz spectrum.

And importantly in addition to that, we are spending, and will be spending, some dollars in the wired portion of the network providing the backhaul between the cell sites and the switches. That is important as we continue to evolve the wireless data network, and as we roll out beginning late this year, HSPA 7.2. You've got to have that wired infrastructure to handle the data traffic there. So my expectation is that we will be in the guidance range for CapEx.

Chris Larsen - *Piper Jaffray - Analyst*

Thanks, Rick. Very helpful.

Operator

Jason Armstrong, Goldman Sachs.

Jason Armstrong - *Goldman Sachs - Analyst*

A couple of questions, maybe on consumer wireline. A bit of a positive inflection in the trend rate. Rick, can you just walk us through the puts and takes in your mind that would help us think through whether this is really the start of a positive trend, or maybe conversely things that make this stabilization may be a bit more questionable in your mind?

And then maybe second question on enterprise. You had guarded comments, obviously, around what you are seeing. That has been echoed in the industry. If we look at companies that are deemed to be more sort of midcycle enterprise providers, maybe sort of hardware/software, they are starting to talk about at least small inflection points.

You have been later in the cycle in enterprise traditionally, but given what we have heard from the others, this has sort of put us on a path for 4Q of this year or 1Q of next year for potential positive inflections in your enterprise business. Just thinking through this, I am wondering if you agree with that and how you might think through that?

Rick Lindner - *AT&T - CFO*

First of all, in consumer we were pleased with the results this quarter. I think it is probably still early to call it a major change in the trend. But the fact is our consumer revenue connections -- the revenue connection loss for the quarter was significantly below second quarter of last year in a quarter that, as you know, typically is seasonally weaker.

The puts and takes of it are pretty simple, I think. Solid results with both U-verse video as well as broadband certainly is helping. And the fact that as we are adding U-verse customers two-thirds of those customers are taking the U-verse Voice over IP product. It is also providing lift. And that product is -- we call it a U-verse Voice or a VOIP product, but from a consumer standpoint what they are buying is they are buying a wireline voice product. And so that has been positive.

Then when you look at the basic access line trends in consumer, we have actually seen the access line loss there flattened out somewhat. And so that is where the VoIP product and solid broadband and video are starting to help those revenue connection trends. And if we can improve the revenue connection trends, we know the revenues will follow. And the fact that it was sequentially pretty flat between first and second quarter is a positive sign for us.

Things are moving there in the direction that we expected. I would say we are pleasantly surprised with the movement, given where we are in the economy.

On enterprise, our plan and how we are planning the rest of this year certainly, we are not planning on an economic recovery that would drive a turn at this point in enterprise revenue growth and volumes. If it occurs or starts to occur earlier, we will be pleasantly surprised. It will be a good thing. But we are planning the rest of the year, I think, appropriately in planning it cautiously.

We do know that business revenues and volumes will return. I think for us to see it in a meaningful way in our business we have to see some real improvement in some key economic indicators. We've got to see improvements in employment. We have to see improvements in gross fixed investment, new business formations.

And as you start to see those metrics really turn back positive, not just decline by a smaller amount, but turn back positive, then you will see growth in this business.

And one of the things that I have to commend the business team -- and Ron Spears and his team, in this year is that they recognized early on that this would be a difficult year economically. They began working hard last fall on the cost side of the business. So despite pressures obviously that we have seen in revenues this year, they have been able to keep the margins in business stable.

And that is a pretty strong feed, not just because we are seeing some revenue pressures, but we are also seeing some transition from some higher margin products like legacy voice to data, IP and managed services, which traditionally have been lower margin. And they have been able to offset those impacts on the margin line.

I do think that will position us well. As the economy does start to turn we will be able to leverage those cost improvements as we start to see some growth in the top line again.

Operator

David Barden, Banc of America.

David Barden - *Banc of America - Analyst*

If I could come a couple on wireless maybe. First, we've gotten some pretty specific game plan details from Verizon, for instance, on their LTE deployment for the next couple of years in terms of the scope of what they want to deploy and the kind of product that they want to put out there. I was wondering if you could try to give us some corresponding color for what specifically you are hoping to accomplish with the HSPA, plus buildout in terms of coverage timetable and capability.

If I could, the second question would be, obviously you have had very strong growth in data ARPU. If you look at the 18% increases year-over-year in integrated devices, which you are sharing have an 80% higher than average ARPU, it would suggest that those new players added 16% revenue per user growth year-over-year. But we are still only reporting 2% postpaid ARPU growth year-over-year, which further implies that everyone who is not an integrated device subscriber has ratcheted back their spending pretty aggressively.

So when you look at that dynamic, what is your comfort level that we can continue to push this 80% premium ARPU further and further into a base that seems to be ratcheting back their wireless spending?

Rick Lindner - *AT&T - CFO*

Good question questions. I think first of all on wireless data and plans in the evolution of that network, I think what we are doing is going to be a very logical and really an elegant transition for our customer base in terms of wireless data.

First of all, we will start to roll out HSPA 7.2 near the end of this year. And once we begin the rollout, we will move it through our 3G footprint fairly quickly, because it is primarily -- it is primarily a software upgrade in the network. We are making some changes and enhancements, particularly in the back haul network, to support it, but those are enhancements that will be required as we then move to 4G as well.

The iPhone 3GS is already 7.2 compatible, so as soon as we turn up -- begin to turn up those enhancements the iPhone 3GS users -- and they drive and will drive by that period of time a fair amount of data traffic -- they will immediately be able to take advantage of the 7.2 software. And from just a practical standpoint it does two things. It will nearly double their effective -- their bandwidth and their throughput, so they will see and experience a much faster data experience.

Secondly, for us it will about double the capacity that we can handle in the network. So as we continue to grow the base of customers with integrated devices, and as that data traffic continues to grow, that is an important way for us to stay in front of the growth in the data traffic.

And then at that point we are positioned, I think, very well with the back haul infrastructure. We are positioned very well then to begin to roll into 4G and begin to implement LTE.

We want to make sure with -- we have seen this with every network upgrade -- major network upgrade or new technology in wireless, there is always a period of time where there are issues and bugs with the software and with the hardware, and we want to make sure those are shaken out, so that as we begin to deploy LTE that the platform is stable. We also want to make sure that there are a sufficient number of devices available in LTE at that point so that we can -- as we deploy it we can immediately begin to move traffic into it.

The advantage from our standpoint and from our customer's standpoint as we go through each of these transitions though is that the devices we will be selling, whether they be 7.2 or the devices that are LTE, are always backwards compatible with the prior technologies. And they will be backwards compatible with the full footprint that we offer in 3G.

So I think that is critical to customers, as new customers begin to use these new technologies that they don't see any loss and coverage as they move into them. So that is in essence the path we are on in terms of the wireless data evolution.

In terms of ARPU, first of all, we are seeing -- and we saw this quarter -- some nice growth in postpaid ARPU year-over-year, and also saw growth sequentially. That growth obviously is driven by the increase in data ARPU. But we are seeing some offsets. And the offsets are in -- tend to be right now in usage-based revenues. Some of those in voice usage, some of those in data usage. Things like international roaming and long-distance is down. And so we are seeing those economic impacts.

The good news is -- and that is, by the way, if there is one area in wireless I think where you see some of those impacts, it is in some of the usage-based revenues and it is in international roaming and LD.

Those elements will also come back as the economy comes back, and as people begin to feel more comfortable with their wireless spend, as they feel more comfortable in doing more travel. And so we believe we will continue to see then some lift there as the economy comes back. But in the meantime, the wireless data growth continues to drive stronger ARPU.

Operator

Phil Cusick, Macquarie.

Phil Cusick - *Macquarie - Analyst*

It seems what we are talking about -- really a lot of strength driven by iPhone and other high-end devices, but I think we are just increasing the exposure that the Company has to possibly losing the exclusivity on the iPhone. Can you give us some confidence that this exclusive deal that is going to happen is going to continue for quite some time, and where the negotiations are with Apple?

And then second of all, on the Centennial deals you mentioned the deals that need to close in the second-half. Can you give us an update on what the regulatory situation is there? I know you said it is in the third quarter, but it seems like Puerto Rico is becoming an issue. And can you just tell us what is going on in Washington?

Rick Lindner - *AT&T - CFO*

First of all, in terms of iPhone exclusivity, as you know and we have said from the beginning, that is something that we and Apple have agreed not to disclose in terms of the terms and the length of our agreement.

But let me step back and talk a little bit about the iPhone base, and hopefully give you some comfort about -- not per se the agreement, but what happens with the iPhone as we go forward and at some point it becomes nonexclusive.

If you look at our numbers at the end of the second quarter, we had just under 9 million iPhone customers. I think one important point to remember is that over 60% of those customers were not new to us. They were our customers prior to the iPhone launch. In addition, if you look, not just at the iPhone, but as we mentioned in the presentation, if you look at integrated devices in total, a large portion, 60% or so of those integrated devices, are part of family plans that we have. Which tend to have -- tend to be stickier and have lower rates of churn.

About one-third or more of our integrated devices are on -- are associated with business relationships. So they are company paid phones or they are phones that qualify for a specific corporate discount and corporate relationship. So when you start to put all of those things together, I think that gives some comfort as to the stickiness of this space and the ability to maintain this space going forward.

And obviously we will always have, and strive to have, a top-of-the-line, robust device lineup. In addition, the things that I talked about earlier in terms of network performance and network quality improvements, I think will also help retain this base. So that is I think -- that is our view with respect to, not just the iPhone, but exclusivity on devices in general.

In terms of the transactions pending approval, we are working -- in Centennial specifically we are working with the Department of Justice and working with the FCC on approval. We would -- I can tell you we are working to resolve any issues and get those deals approved and closed as soon as possible.

I think you have to take into account in Washington, obviously in the last six months or so there has been a lot of turnover in a lot of these agencies in terms of the leadership, as well as in some of the staff positions. So it takes a little bit longer. And this one has taken a little longer than we originally expected to get approved. But we are continuing to work at both the Department of Justice and the FCC to get these deals closed.

Brooks McCorcle - *AT&T - IR*

Sandra, I think we have time for one more question.

Operator

The last question will be from Mike McCormick, J.P. Morgan.

Mike McCormick - *JPMorgan - Analyst*

Rick, just trying to drill a little bit deeper on the wireless margin side. I know you have been talking about getting to that mid 40% range over some period of time. Is there any way to put some sort of parameters around that time frame as we are modeling out?

Secondly, on the prior guidance of getting into low 40% range as you exit the year, it is that still part of your guidance?

And then lastly, the operational improvements that you pointed out, just looking at similar iPhone activations, was about 480 basis points versus the last go around. I am just trying to see if that is a constant operational improvement that we should carry through, assuming that iPhone activations are similar to the prior year?

Rick Lindner - *AT&T - CFO*

As I mentioned earlier, I think it is difficult to predict the next quarter or two just solely because of difficulty I think in predicting iPhone volumes. And if volumes are stronger, and if they continue to be very strong in the next couple of quarters, it is not impossible for us to drive margins back over 40%, but it creates more of a challenge to do that. And so we will just have to see how the volumes come through. To the extent the volumes are high, frankly, that will be great.

As far as moving into the mid-40s, it is just continuing to do the things that we have been doing in terms of growing customer base and revenues and leveraging that drove in the cost structure. Obviously, some of that growth in the short term provides some pressure. But longer-term you grow past that and the margins are going to increase, just as you saw them increase last year.

So it is probably scale more than anything else. But in addition to that, some of the changes we have made in organization over this past year also gives us, I think, the ability to drive more margin improvement in our wireless business and, frankly, helps to maintain -- it has helped us to maintain margins in wireline over this past year.

I can't give you a specific timeframe in terms of mid-40%s, but it is certainly something we look at within our planning cycle, which generally we are looking out over the next 2 to 3 years.

Mike McCormick - *JPMorgan - Analyst*

Just maybe lastly on the tax rate. It looked a little bit lower than we anticipated this quarter. Is that something we should carry through or is there anything we should be thinking about?

Rick Lindner - *AT&T - CFO*

No, Mike, we had -- the tax rate was a little bit lower in this quarter. And it was a result of the completion of the exam periods for some of our 2003 to 2005 audit years. The completion of those, and the receipt of those exam results, and resolution of some issues there allowed us to reduce some reserves. So that is the impact you see in this quarter. I would expect for the year for us to be -- for the total year to finish in kind of the mid-30%, 35% range in terms of effective tax rate.

Mike McCormick - *JPMorgan - Analyst*

I appreciate it, guys.

Rick Lindner - *AT&T - CFO*

Okay, thanks to all of you for your questions and thanks to everybody for taking part in the call today. Let me close quickly by just underscoring a couple of points. Through the first-half of 2009 I think as a company we have executed well in a pretty challenging environment, doing what we said we would do at the beginning of this year. We continue to be focused on things that we believe will make AT&T stronger operationally and stronger financially, so that we are in a strong position to benefit as the economy turns.

We have accelerated wireless revenue growth, and our integrated device strategy is working. We are winning high-value wireless customers. The iPhone is proving to be a terrific investment for us. And you're seeing the impact, not just in activation totals, but in better churn and stronger ARPU.

At the same time we are moving forward aggressively to keep our wireless momentum strong as we rollout HSPA 7.2 to increase network speeds and capacity ahead of 4G. This gives us a better platform for emerging devices.

Our iPhone 3GS subscribers will be able to take advantage of improved speeds immediately. And it gives our customers the most seamless network experience as we make the transition to 4G.

In consumer, as we scale U-verse, consumer revenue trends are moving towards stabilization. And in business, as we manage through the downturn, we continue to add to our capabilities, maintain strong customer relationships, and improve our cost structure, which will generate operating leverage as growth returns.

We are ahead of plan on Companywide cost initiatives, and as a result margins are stable and cash flow is strong. That has allowed us to reduce debt and provide support for the dividend. We have a good cash position. In our balance sheet the credit metrics are sound, with net debt down over the past year more than $9 billion.

So in a challenging economic environment I think we've gotten a lot done this year. And based on what we have accomplished to date, looking ahead to the second-half, I think we are in a good position to deliver full-year consolidated margins, EPS and cash flow in-line with what we outlined for you in January.

I want to thank you again for being with us this morning. And, as always, I want to thank you for your interest in AT&T.

Brooks McCorcle - *AT&T - IR*

Thanks, everyone, have a great day. Thank you, Sandra.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference. Thank you for participating. You may all disconnect.