

FINAL TRANSCRIPT

Thomson StreetEventsSM

T - AT&T Inc at Goldman Sachs Communacopia Conference

Event Date/Time: Sep. 22. 2011 / 12:00PM GMT



Sep. 22. 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

CORPORATE PARTICIPANTS

Randall Stephenson

AT&T, Inc. - Chairman, CEO & President

CONFERENCE CALL PARTICIPANTS

Jason Armstrong

Goldman Sachs - Analyst

PRESENTATION

Jason Armstrong - *Goldman Sachs - Analyst*

Okay, welcome everybody to day three of Communacopia. This is the final stretch; it's a great lineup today. We're really pleased to have Randall Stephenson from AT&T joining us to kick things off. Randall, welcome.

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

Thank you. Appreciate it, Jason.

Jason Armstrong - *Goldman Sachs - Analyst*

Let me turn it over to you for some opening remarks and then we'll get into Q&A.

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

Very good. I'll be very brief and obviously before we get started I need to cover our Safe Harbor. There's going to be one show up here. The comments may contain forward-looking statements. They're obviously subject to risks and the details are in our SEC filings and on the AT&T website.

And I thought what I'd do is just very briefly tee up the issue I'm sure everybody will want to talk about and that what I'm able to say will undoubtedly be very unfulfilling to you because we're going to be very limited in what we discuss as it relates to the T-Mobile transaction.

What I can tell you is that the FCC's review of the merger is continuing on pace. And on the DOJ front, as we have said before, we're on two parallel paths as it relates to addressing the DOJ's issues. The first path and the one that is obviously taking most of the press right now is the litigation path and we are preparing for trial.

As you know, there was a hearing yesterday where the judge did set the date for the trial and we were looking for an expedited trial date. As we have said, this is a diminishing asset and we need to move this thing along. The judge granted a February 13 trial date and we're obviously headed down that path and preparing aggressively to litigate the transaction and their complaints.

At the same time we do remain hopeful that there may be some kind of solution that can be reached that would address all of the issues that were identified in the DOJ's complaint. And we remain confident that under either path we're going to come to a successful resolution of this issue and close the transaction.

I would point out that the benefits of the deal are unchanged. This is obviously a transaction we entered into first and foremost to address capacity constraints that we're experiencing in the marketplace, particularly as it relates to sell side density and spectrum positions.



Sep. 22. 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

There is also [sitting in advance] the ability to deploy LTE nationwide to about 97% of the US, which is about 55 million more people than we would be able to do otherwise. It represents also an additional \$8 billion of investment that we'll be making into our mobile broadband business, something I think the US is sorely in need of right now.

And it has tied with it, if we can get the deal consummated, that we would bring 5,000 jobs back from overseas and commit that nobody in these call-center operations, which there's tens of thousands of people, would lose their jobs as a result of the merger.

So support for the merger does remain deep and broad based. It obviously goes from Wall Street to Main Street. The labor unions across the board, every major labor union has thrown their support behind the transaction; the high-tech community is supportive of the transaction. There is a significant number, a broad range of elected officials on both sides of the aisle who have come out in strong support of the transaction.

So, what I would tell you is Jim Cicconi, Wayne Watts and myself are spending a lot of time on bringing this to closure and resolution. But at the same time, the folks in the business are running a pretty darn good business and I would actually suggest that I'm very pleased with how the business is executing.

We have kind of structured the organization in a way to inoculate it from a lot of the noise surrounding this. And so I'll talk real briefly about what we're seeing in the business. We came into the year with a couple of issues that were facing us that were points of interest in the market and analysts like yourself, Jason.

When we released our guidance in January it disappointed some of you that we built our guidance around a very low growth scenario for the US economy. And we actually were anticipating a very low single-digit kind of growth rate. We saw nothing in our numbers and our expectations in the hiring and the employment levels that would suggest that we were going to enter into an accelerated growth pattern in the US.

So we built our consensus -- or our guidance around a low growth scenario. Unfortunately that's proven to be the case. And that's the downside. I guess the positive is we built our cost structure and our plan around that, so we're not having to do what I would consider any major mid-course corrections to our cost structure as a result of building that. And obviously if this thing does get some traction and it begins to move then we're in a good place to take advantage of that.

The second issue that was facing us coming in that there was a lot of debate about back in January was the idea that we were going to no longer have an exclusive on the iPhone. And we built our guidance around an expectation that in spite of that we would continue to grow our postpaid handset business. And obviously there was a wide variance of expectation surrounding that.

You've seen two quarters of results. I would tell you I'm pleased with how we've performed through that; I think we've done a reasonable job in the marketplace. We have grown the postpaid subscriber base through loss of the exclusivity. In fact, we've had two very strong iPhone quarters, really pleased with how that's gone. And in the second quarter Smartphone sales were a record for us.

In terms of second-quarter Smartphone sales, we're at a place where 40% of the Smartphone sales are non-iPhone related, which is a really good indication that we're diversifying the product mix in the marketplace. And you roll all that up, we're now at a place where we have on an annualized basis a \$21 billion mobile broadband business and it's still growing as of second-quarter at a 23% clip year over year.

We've obviously spent a lot of time and energy on the network side this year. We have completed the HSPA+ build out nationally on our 3G network; that has served to be a really good base now which we're building the LTE platform. And I'm really excited about where LTE is going. We launched five markets this past week -- Dallas, San Antonio, Houston, Chicago and Atlanta. I've been on the LTE network now for a few weeks and this is really good.



Sep. 22, 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

We've got a terrific backhaul infrastructure behind this network and this is really performing very nicely and I'm really enthusiastic about where this is going. We will achieve our 70 million to 75 million POP coverage by end of year entering I think another 15 markets between now and year end. And so the LTE build is going terrific.

The more I'm with the LTE product and kind of marinating in it the more enthused I'm getting about the combination of that with the cloud services and where this goes. And I look back the last four years and it's been a very dynamic four years. It's been something like I've not seen in this industry before.

But you begin to think about cloud capabilities and LTE combined, I think the next five years will be even more dynamic than what we've experienced over the last four. And you put all this together; this is the reason why the T-Mobile transaction is so important to us.

This is going to be a very dynamic high-growth business, the volume requirements, the capacity requirements to accommodate all this are going to be impressive and that's what T-Mobile is about, is making sure we have the capacity to address these type of capacity requirements. So, that's kind of where we stand on the business, Jason, and I'll hand it to you for any questions.

QUESTIONS AND ANSWERS

Jason Armstrong - *Goldman Sachs - Analyst*

Great, Randall, that's a really helpful framework. I did want to start out with a couple questions on the deal and I realize obviously you're limited. But maybe I can just approach the time frame that investors should be expecting.

We had a court date set yesterday, as you mentioned, February 13. I think in addition to that there was sort of a four to six week trial time line in addition to it, so that puts us in March/April for the DOJ's litigation path.

There was a separate track, as you mentioned, that's sort of the settlement track, which I have to imagine you want to progress on well ahead of that potential date. I mean that's -- both sides are incentivized to make that happen. How do we think about the time line from here and what people can expect to hear?

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

February 13 is obviously the critical date, right. And if there were going to be a settlement it would obviously precede that date. But in terms of giving you any indication as to how quickly that would move, I honestly can't. And if there were going to be any discussions they would probably heighten the closer you got to a trial date, but that's speculation on my part. So as it relates to any conversations or negotiations, if or when those occur we won't even be able to comment on them.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. You mentioned the FCC continues to move along the track as well. Is the pace of the FCC's activity continuing such that if we get resolution with the DOJ -- we haven't had a slow pace at the FCC where all of a sudden that's going to pick back up again and we get several more months?

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

No, I don't think so. The FCC and the DOJ have been working in the reviews hand in hand. And so I'm pretty sure what one agency has the other has. And the questions and the data gathering are going back and forth at a normal pace. So there's



Sep. 22. 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

nothing that I'm concerned with there that the FCC is just sitting on this. And there will be a lot of catch up for something to happen.

Jason Armstrong - *Goldman Sachs - Analyst*

As you guys look to center the debate from here in either litigation or settlement processes, one of the frameworks the DOJ uses is the potential for industry pricing and what it means. If we look at other frameworks that have been used, this came up and I think in one sentence in the complaint was efficiencies are introduced, which I know you guys have led with. Is that where you try to center the debate in the next few months?

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

Well, yes. If you think about the DOJ's complaint and what the DOJ will have to show in court is they'll have to show the ability for us as a result of reduced competition to unilaterally increase prices. Will there be consumer harm as a result of this?

And our premise on doing this deal all along has been that it will drive an incredible amount of efficiencies. You can go to some markets -- this one would be an example of that -- where you will get a 30% to 35% lift in capacity. And the whole idea that you can have that kind of lift in capacity in a high-growth high-demand market and that it would have anything other than a suppressive effect on prices seems mathematically inconceivable. Right?

So obviously the efficiencies will be a very important part of this debate when it gets into litigation. And the efficiencies argument have been used extensively by the Department of Justice in reviewing any number of our transactions for a long period of time. So efficiencies will be the core of the debate in court and are those efficiencies real and the implications of those efficiencies on pricing.

This also gets back to why you can look at an industry like this over the last 10 years and see an incredible amount of consolidation. Obviously while there's consolidation you always have new entrants coming in, right, and always feeding the funnel of new capabilities.

But you've seen over 10 years a significant amount of consolidation in this industry. At the same time you've seen prices come down by 50%. It's the efficiencies that drive this; it's an industry where efficiencies are critical to keeping prices intact.

Jason Armstrong - *Goldman Sachs - Analyst*

I guess lastly on the deal, to follow up on that, the efficiency to be worked in the AT&T wireless Cingular merger, what's different now that the DOJ's framework has changed and it's not working?

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

I would say in terms of just the core logic, the only thing that has changed is they've become even more critical. In a mobile broadband environment where the capacity requirements are so much more extreme, where you have 8,000% growth in volumes over a four-year period of time the efficiencies argument becomes even more critical.

Because you are getting to places in this industry where you have exhaust situations in certain markets. And when you hit exhaust in a market like this what is the implication? The implication is that prices have to move up. What would keep them from moving up? Efficiencies, bringing more capacity, more output into the marketplace keeping prices down.



Sep. 22. 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

Jason Armstrong - *Goldman Sachs - Analyst*

You mentioned macro in your opening remarks and you guys set the framework for guidance. In the year there was no expectation really of a pickup which people I think would have pushed back on at that point, now nobody is really pushing back on that.

Several years ago you made comments about sort of the low-end consumer and the comment was it's starting to roll and you were way ahead of anybody else and spot on. What are you seeing now as it relates to the low-end consumer? Are you seeing any sort of patterns that would indicate we're about to head into something similar?

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

I'm not seeing anything new. We're seeing -- in all candor we're seeing right now what we saw in December of last year, the patterns are pretty much the same as it relates to the consumer and that is at the low end it's a less active consumer, if you will. At the high end it's still -- the market's -- it's kind of flattish, but it's still a decent and vibrant market and people are still buying and spending.

It's of the business side where the real indicators continue to just trouble you. And those indicators are -- we have not had new business starts since early 2009, they have been negative since early 2009. And you want a good indicator of economic growth and economic activity for our business, that is the one that we zero in more than anything.

And so you're sitting here still in kind of a languid situation, where new business starts continue to run at a negative level. Until you start to see the kind of confidence in new business starts go into the positive territory we do not anticipate what I would call any kind of meaningful acceleration of growth.

We're also -- when we talk to our customers up market, we're talking to them about 2012 needs and 2012 requirements. And you're just still in a situation where you talk to companies, their expectations, there are more expectations for force going down than for force going up in the US, I'm talking US specifically now.

And so obviously our business is one that tends to be heavily employment driven. As employment picks up that's when we see our business and investment cycles increase in our business.

And so just getting a core lift in demand, we're not seeing the signs that that is about to take off and accelerate. So we're sitting at a place right now where I would tell you if I had to give you my forecast and build my plan for 2012, it wouldn't look a lot different than what we assumed for 2011.

Jason Armstrong - *Goldman Sachs - Analyst*

And part of the assumption for 2011 actually was a rebound to growth and you consider through all business services by the end of the year -- a lot of different moving parts. Is that still the outlook?

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

Oh, yes, yes. We built our business plan around an expectation that you're going to see this core kind of business product set continue to be very weak, because it's just a basic demand, employment driven, investment driven demand cycle -- so your core voice, your core data products, what we call our strategic services.

And so people outsourcing whole network operations, our cloud capabilities, our hosting capabilities, our Ethernet capabilities and so forth -- those are growing 19% and that's putting much on pace. It's a little lower than we expected coming in, but it's



Sep. 22, 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

pretty much on pace. When you're starting to approach 20% on that scale of revenue stream, that's a fairly healthy revenue growth rate. And that's what we're anticipating playing out through this year.

So you get to a place this year where kind of the legacy products, they continue to decline, but leveling out a bit. And these strategic services at 19% growth -- we actually have line of sight there's a chance that we actually hit positive growth in the business segment in the fourth quarter in spite of kind of a languid economic scenario.

Jason Armstrong - *Goldman Sachs - Analyst*

Back on the consumer side, given your comments. I guess when we look at wireless there's been kind of a lull in competitive activity. We've gotten into a situation over the last (multiple speakers).

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

I haven't noticed that, Jason.

Jason Armstrong - *Goldman Sachs - Analyst*

Low in a sense of new handsets launches. The question I guess is, as we've looked at June iPhone launches over the past several years we've seen competitors of you guys really fight that. And that's created a lot of volatility in 3Q results. It's generally driven a lot of volume activity. As we look at this year there's I think then at least a three month lag between the expectation of a new iPhone and the reality of when we're now expecting it.

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

I think Al Gore announced it's going to be in October, yesterday.

Jason Armstrong - *Goldman Sachs - Analyst*

(Laughter). But is that an appropriate way to characterize 3Q? It seems like relative to prior expectations 3Q may be a little bit light, 4Q is setting up to be a very competitive heavy volume quarter. Is that sort of the right way to think about it?

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

Yes, if it plays out the way you articulate it, if there's an iPhone refresh, for example, in the fourth quarter, then what you do is you kind of swap fourth quarter and third quarter in terms of those volumes and heavy competitive activity. And then obviously the fourth quarter is always a very heavy quarter in mobility because the holiday season is just an overwhelming lion's share of the volumes in the course of the year. So in the scenario you outlined fourth quarter would be a very heavy quarter for us.

Jason Armstrong - *Goldman Sachs - Analyst*

As we think about the iPhone moving to competitors and there's sort of been one wave of this with Verizon. You guys were a little bit off cycle in terms of launching the device. As you think about the next wave, because wave one you've done a great job insulating the base and they performed better than people expected. Wave two is potentially another competitor getting the iPhone and then all of a sudden everybody launching at the same time. How confident are you that you've got the insulation for wave two?



Sep. 22, 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

Randall Stephenson - AT&T, Inc. - Chairman, CEO & President

I think the market, any time there has been another competitor launch an iPhone around the world the expectation for what happens to the folks who had it before is always overblown. And it's interesting because when you have multiple players participating in the market it just gets a lot more attention, a lot more press and you just kind of see the boat in general lift.

And I think what's going to happen if there's another player enter with an iPhone it's going to be the same dynamic as you saw in the last quarter. There's a new entrant and so that will obviously have its effect in terms of share and growth. But at the end of the day the competitive dynamic is going to be exactly the same -- meaning that our iPhone vis-a-vis another competitor is going to be the exact same competitive dynamic.

We have an iPhone that has a global coverage, I mean literally 200 countries, it's the only one that you can take outside the US and utilize. It's going to be on a much faster network capability and it's going to have the same talk serve differentiated capability versus the other competitor. So that competitive dynamic will be no different this time than it was the first time and I'm very confident we'll do very well with it.

Jason Armstrong - Goldman Sachs - Analyst

And talk a minute about 4G. You talked about the evolution of LTE, it's exciting, it's changing the game. You talked about LTE plus cloud and sort of the five-year time frame, a real game changer. How do we think about the pace of your 4G rollout?

You've talked about the POP target for this year, on track for that. But as we think beyond this year and even right now, activity levels in particular with the T-Mo deal maybe being a little bit more uncertain, has this changed the pace of activity around LTE and the expectation?

Randall Stephenson - AT&T, Inc. - Chairman, CEO & President

No, the next three years, two and a half years we're all hands on deck to launch the Tier 1 markets with LTE. And getting the backhaul in place, that has been going on for a year now. The HSPA+ overlay is basically done. And so now it's going in and touching every cell site and every market that we're going to launch.

There's just a lot of hands in the planned activity associated with doing this. We are going at a very, very high pace; we're investing an incredible amount of capital. The next two and a half years are business as usual. We're going to hit those markets.

T-Mobile, the question it brings is what do you do then with the Tier 2 markets? Can you still hit all those Tier 2 markets? And spectrum position and the economics suggest that if you didn't do a T-Mobile transaction you wouldn't launch the same markets as you would. So that's kind of a downstream two and a half years out issue and what it does to the pace of LTE deployment.

Jason Armstrong - Goldman Sachs - Analyst

As you guys look at one of the gating factors here and what this deal really hinges on is spectrum and access to spectrum and just sort of problematic policy management in the US of that we've seen around spectrum deployment.

If there's risks around the T-Mo deal -- one of the things Lowell said yesterday when evaluating spectrum bands, he said his range goes from 700 up to 2.5, which was a little on the high end, just a little different than I would've assumed. Your range as you evaluate sort of viable spectrum bands, what do you think it is?



Sep. 22. 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

Randall Stephenson - AT&T, Inc. - Chairman, CEO & President

Right at the same place. 2.5 stretches it, 2.1 -- in fact we're equipped, we're launching in 2.1 in Chicago LTE has launched on the 2.1 AWS spectrum. So those are the ranges that we think are really going to be effective for delivering the broadband experience that's expected. I mean it will work in higher ranges, but if you're going to want this 15 meg type experience ubiquitously on a loaded network, which is really important.

There are moments in Dallas when I get 30 meg, 35 meg, but when you load a network you're not going to get that. To get a 15 meg consistent experience, probably you go much above 2.1 it's going to be hard to get that kind of consistent reliable experience.

Jason Armstrong - Goldman Sachs - Analyst

As you think about 4G, one of the things we heard initially was the economics being built around at a minimum of the cost curve and then presumably a revenue opportunity as well. But if nothing else we get big cost efficiencies. As you guys get into LTE, is the impression changing? What's the bigger benefit here, cost curve versus revenue benefit?

Randall Stephenson - AT&T, Inc. - Chairman, CEO & President

Oh, they're both really important. The cost curve benefits are going to be significant. And again, it's an efficiency issue. If you push traffic off of HSPA to LTE you're going to get a 30% efficiency lift by virtue of just moving that traffic and that's really, really important. That obviously has huge implications on the cost to deliver a megabyte of data. And that is one we're focused on; it's one we're anxious to get to.

It not only creates a cost benefit but it gives you a capacity lift, right. I mean, how do you get more capacity? You move and migrate to the newer technology. We've been doing this now for many years -- from 2G to 3G, you got a big capacity lift. From HSPA to HSPA+ you got not as big but you got some capacity lift, some efficiency lift. Going to LTE you get another step change efficiency lift.

So the efficiency, gaining more capacity, driving the cost curve down is critical to LTE on the revenue side, as I said in the opening comments and you have referred to as well. The ability to combine not just faster speeds, that's really important and this 15 meg speed is what everybody focuses on and gets their eyes focused on. That is not going to be the most critical element of LTE.

The most critical element is the low latency, a flat IP-based network with really low latency, meaning you hit an app or you hit a capability on that phone and it's an instantaneous effect on the network. Think of it as feeling like you're always on, you are always connected. And these devices that are going to be LTE you're going to have that kind of always connected it feel to them.

Then you combine that with the cloud and, again, push all the content on these devices up into the infrastructure layer of the business, push it up in the infrastructure where it's not here anymore and then begin to think what this always on, high-speed capability, all global capability with your content resident in the cloud. It may be ours, it may be Apple's, whoever's it is, it doesn't really matter. But it's resident in the cloud.

Now you're beginning to distribute this content to -- we had a conversation last night -- to your automobile. I mean the music that's on here is the music that's on your Smartphone is the music that is now in your car. Your mapping and your weather applications and your stock tracking applications are in all of these locations and they're synced.



Sep. 22. 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

This is why I say over the next five years this will be more dynamic than what we've experienced over the last four. So there's a major revenue opportunity attached to this as well.

Jason Armstrong - *Goldman Sachs - Analyst*

Back to your comments on the cost [curve of that]. People think about the margin outlook in wireless. The moving parts going forward are different than the moving parts historically. How do we think about maybe medium-term margins especially in an LTE environment?

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

So the network cost -- the per-unit network cost, this will continue to get better. They've continued to get better year in and year out for the last number of years on the wireless side. The backhaul requirements are going up; there are dramatic increases in backhaul requirements which is a huge portion of the cost curve.

However, those backhaul requirements -- the backhaul is going to an Ethernet-based backhaul which scales far more elegantly from both a cost and a capability standpoint. So I even think there's going to be -- while the demands for backhaul go up it's going to be a far more efficient backhaul environment. So I think actually you're going to get better economics on the backhaul side.

So all of that suggests that your cost and your margin per megabyte being delivered should be improving over time. I would also suggest that when you get to an environment with these types of devices and automobiles connected, it's a different business model.

I mean the Smartphone business is going to be with us a long time. I think that is going to be a key critical device for people for a long time. So there's always going to be a big subsidy model tied to that. But the really big growth opportunities of these kinds of devices tend to be a much lower subsidy model. The connected devices in the home will be a much lower subsidy model than what we're accustomed to. So that will change the margin dynamics as well.

These connected device revenues, they're a much lower per user revenue, but the margins are much better and they're immediate margins. And so the dynamics are going to change. But you put all that together over the foreseeable future, I feel pretty confident we're going to be able to keep margins in this 40% plus range.

Jason Armstrong - *Goldman Sachs - Analyst*

And the other component, as you mentioned, is the Smartphone component and the subsidies that are attached to Smartphones, which is they're moving up into the right -- I guess the carrier community, what they'd love to see at this point is an ecosystem that includes not just Apple and Google and Android, but another potential strong number three. We talked about this for a while last night as well. There's a range of different opinions as to the viability of that, but maybe you can give us your outlook.

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

There will be. I mean there will be other players. As you say, we're motivated for that. We're architecting our network design; we're architecting all of our systems to be very open. We want them open, we want them easy to plug and play for any multiple number of handset manufacturers as well as OS providers. And so obviously Apple and Android are running hot and they're running a very, very hot.



Sep. 22, 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

Can a Microsoft become a significant scale player in this over time? I just -- they're a large-scale software developer. I would assume that they will be able to be a significant and meaningful player in the Smartphone OS. Their OS is a pretty good OS. Can they surround that with an app environment? Will HTML5 offer them an opportunity?

Will there be somebody else come out from -- somebody outside the existing players? I don't think that's inconceivable. Will RIM be a viable player in the long haul? A lot of resources, a lot of commitments, some really bright people in that company. So, yes, I think they'll be viable. So there will be more than two over the long haul. And who will be the other key player, your guys' guess is as good as mine. But RIM and Microsoft will definitely give it a run.

Jason Armstrong - *Goldman Sachs - Analyst*

Let me ask a couple more questions; I'll switch gears to wireline and then after that I'll open up to the audience. If we can think about wireline margins maybe in the context of your comments on business having different moving parts and strategic services sort of overwhelming a lot of the legacy stuff and returning the growth there. What does that mean for the margin profile of the business?

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

So this transition of our revenue streams in business has been happening over the last three years. We didn't just wake up and have the strategic services, a multi-billion-dollar revenue stream growing at 19% overnight. While we have been doing that we've actually expanded our business margins.

You do that with just basic core productivity improvements year in and year out in your core legacy businesses allowing you to invest in new services. And so having your legacy revenue streams declining and keeping your margins in check is just a productivity effort and we have a number of things.

You've heard us talk about our One AT&T initiatives, that's a broad range of initiatives. But basically what I would tell you is that's a series of initiatives that are set up to ensure that year in and year out we're hitting minimally 5% productivity, targeting 7% to 8% productivity year in and year out in this business. I think those are sustainable in our business. We've demonstrated over time we can hit those.

Jason Armstrong - *Goldman Sachs - Analyst*

So when you combine that with on the consumer side sort of getting to a certain scale in the U-verse product -- we obviously went through a number of years where that was a more nascent product and absorbing up-front cost.

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

Right.

Jason Armstrong - *Goldman Sachs - Analyst*

That outlook here for stable to improving margins in sort of wireline totality?



Sep. 22. 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

Randall Stephenson - AT&T, Inc. - Chairman, CEO & President

I think we can keep them fairly stable particularly on the consumer side. We've kind of passed that peak dilution period for U-verse. And so you're coming out of that peak dilution period and, as you said, you're scaling 3-million-plus subscribers and there are a lot of scale -- in this business it's all about scale momentum, right.

And so once you begin to hit scale and grow they tend to be largely fixed cost business and those elements that are not fixed cost you have negotiating leverage so your content costs should come down as you scale, your cost per install, just the productivity enhancements on the installation and provision (technical difficulty).

Jason Armstrong - Goldman Sachs - Analyst

(Technical difficulty) different things in context, sort of the unique nature of the assets that you have. One of the things that seems to be interesting that you guys could potentially take advantage of relates to content and how you distribute that across wireline on the U-verse platform, but moving that to a wireless environment as well (technical difficulty).

Unidentified Audience Member

(Technical difficulty) T-Mobile is ultimately acquired as a transfer? Thank you.

Randall Stephenson - AT&T, Inc. - Chairman, CEO & President

So the roaming agreement is a -- we didn't put any terms of the roaming agreement in there. But it was a market-based roaming agreement; it's actually something that -- it's a decent roaming deal. So from our viewpoint that's not what I would call any value given away, it's probably a value enhancer. And you, particularly in these rural markets, putting more volumes on the networks.

So I don't see any concerns with that in terms of additional cost as it relates to break up. I believe the term -- I'll have to confirm, but it's a fairly significant term, it's a long-term roaming deal, multi-years as you might guess. The last part of the question was?

Unidentified Audience Member

So that applies to LTE and that transfers if T-Mobile is ultimately acquired by somebody else?

Randall Stephenson - AT&T, Inc. - Chairman, CEO & President

It's a 3G-2G roaming deal. And -- but, let's see, I'm trying to remember -- transfer, no.

Jason Armstrong - Goldman Sachs - Analyst

Other questions?

Unidentified Audience Member

Could you just comment on your rollout of U-verse, where it stands and when it will stop?



Sep. 22. 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

Randall Stephenson - AT&T, Inc. - Chairman, CEO & President

So we will hit end of this year our 30 million home target. And you'll always continue to push the edges of that footprint, filling holes will be more the priority than anything. So you go to a place like Dallas, there are some holes in the footprint within Dallas; you just want it to be ubiquitous. The new build will be more of that nature.

The economics are such you've kind of gotten to the place where it's hard to keep pushing the fiber and getting economics to work when you go out much beyond that. That said, we're doing a lot of IP-DSLAM deployment to ensure that we have a really good robust broadband product in areas further out from the U-verse footprint.

So U-verse, I would tell you it's largely going to be behind us this year, but the IP-DSLAM deployment will continue for the next few years, continue to extend the broadband capabilities. And then when you think about how far you can extend IP-DSLAM, here's another reason why T-Mobile is so important to me.

You're still going to hit a place where even the IP-DSLAM reach and cost are not going to work. This is where LTE becomes critical. And this is why once you get T-Mobile [into] spectrum you can even push your broadband capability even for a fixed line solution out with an LTE solution.

Jason Armstrong - Goldman Sachs - Analyst

Other audience questions here?

Unidentified Audience Member

Hi. Neil, can you share with us, as additional competitors come in, how you'll be leveraging, other than just technology, any initiatives around enhancing your competitiveness around customer satisfaction, customer delight, experience, things like that?

Randall Stephenson - AT&T, Inc. - Chairman, CEO & President

Yes, I'd love to. I have a view, we get T-Mobile closed, we get the capacity issues addressed and you make this conversion to LTE. And the objective is to get to a best in class just pure wireless network experience, that's kind of core in all markets. You've got to achieve it in New York, you've got to achieve it in San Francisco.

Get to that ubiquitous best in class network experience, that is priority number one. The competitive priority for everybody is to get to that place as quickly as you can. When you get there though there still has to be a differentiation in the marketplace. And that has got to first and foremost center around the customer experience and making sure that the customer experience also matches the network experience.

On the retail side, we have invested a lot on the retail portion of this. And I believe in the mobile business the retail experience is always going to be a critical part of the purchasing decision, the experience decision, the discovery aspects of what you can do with these mobile broadband networks.

And so you're going to see us continue to invest and enhance that retail experience. This is one of the areas where we fairly consistently get rated very high in terms of our retail experience. So continue to invest there and enhance and expand that capability. The online experience has got to be a really robust experience that I believe as you go forward does the same things -- can you explore?

What are the new capabilities that are now possible when you combine these cloud and LTE capabilities? And I, as a consumer, I don't want to just go on to -- we don't want the consumer just to come onto our Web experience and just make a straight



Sep. 22. 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

purchasing decision. We want exploration, we want discovery on these websites and these capabilities. Then these devices become a very big parts of the discovery, purchasing, customer care experience.

I've always said I don't care what company it is, if I have to call you it's usually not a good thing. And I would much rather deal with any company, whether it's American Express or my bank, I'd rather deal in a care environment in an online experience.

Continuing to push the needle to make sure that not only this kind of online on a PC in a web-based type activity, but the Smartphone itself must become -- and it is -- it's really becoming a very nice place to do your billing queries and so forth, but it has to become a full customer service experience by that mobile handset, not having to go through a website but literally it's just an experience unto itself on the mobile phone.

So continuing to invest in all of this, a best in class care experience. If you're going to invest the kind of capital that we're investing in this business, then you need to go ahead and invest in the customer experience which is what we're doing and make that just a best in class customer experience.

Jason Armstrong - *Goldman Sachs - Analyst*

Let me wrap up with just one last question; this gets to more sort of an industry question. But the wireless industry is going through a transition that's similar to what we went through in wireline several years ago, maybe 10 years ago or so where utility and the pipe is changing, it's shifting from voice to data and the pricing model kind of has to follow that.

10 years ago there was the risk of Skype cannibalizing the voice calling business. Instead it was a manageable risk over time. Now you're getting the same type of fears creeping up around text messaging and what's happened in Europe. Does that become an application that just gets commoditized by other things because of the pipe? How do you think we manage through this transition?

Randall Stephenson - *AT&T, Inc. - Chairman, CEO & President*

The US has always managed these things differently than the rest of the world. And it's obviously a very competitive dynamic here in the US and I go back to your example of Skype. Skype scales to half a billion customers around the globe and I think the number is -- 25 million of them were in the US. Why was such a small number of them in the US?

That's because voice pricing, we tend to package our products and services in the US on somewhat of an unlimited basis, but almost a fixed kind of cost element for the customer and so it drives per unit cost down. So voice per unit cost for a customer, the pricing is the lowest in the world. And so therefore Skype was never what I would call a viable replacement alternative here in the US for the fixed line side.

On the mobile side I expect you're going to see a very similar dynamic play out, texting being the latest example everybody is looking at. And in Northern Europe you saw a significant move, a couple players up there had a lot of loss of text messaging revenues because they went to over the top text messaging services.

You will see alternatives in the US emerge, you're seeing them now. But in Northern Europe the average price per text message was \$0.16, today in the US it's a penny. And it's a penny and dropping, right. So there's just a different economic motivation in the US. Now that said, over time I believe you'll see these pricing models begin to change.

I think when a customer makes a purchasing decision in an LTE environment, go two or three years out, the main driver of that purchasing decision is going to be the data bundle, not the voice bundle or the text messaging bundle, it will be the data bundle. And so the purchasing decision will be made around data.



Sep. 22, 2011 / 12:00PM, T - AT&T Inc at Goldman Sachs Communacopia Conference

And I think the pricing over time will move more and more away from a voice centric pricing model to a data centric pricing model. The question you ask yourself is on a Smartphone today we're getting \$80 a month average revenue per user, what does that look like in this environment?

Our basic belief is because of the cost dynamics of this industry that you still have an \$80 kind of bundle at the high end of the market, but it's a very different composition. It's going to be a more database composition of that ARPU than it is a voice-based composition.

Jason Armstrong - Goldman Sachs - Analyst

Great. Randall, thanks so much.

Randall Stephenson - AT&T, Inc. - Chairman, CEO & President

Thank you, Jason. Thanks for having me.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2011, Thomson Reuters. All Rights Reserved.

