# FINAL TRANSCRIPT

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## VZ - Q1 2008 Verizon Earnings Conference Call

### Event Date/Time: Apr. 28. 2008 / 8:30AM ET

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## PRESENTATION

**Operator**

Good morning and welcome to the Verizon first-quarter 2008 earnings conference call. (OPERATOR INSTRUCTIONS). It is now my pleasure to turn the call over to your host, Mr. Ron Lataille, Senior Vice President of Investor Relations of Verizon.

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**Ron Lataille** - *Verizon - SVP, IR*

Good morning and welcome to our first-quarter 2008 earnings conference call. Thanks for joining us this morning. I'm Ron Lataille. With me this morning are Denny Strigl, our President and Chief Operating Officer, and Doreen Toben, our Chief Financial Officer.

Before we get started, let me remind you that our earnings release, financial statements, the investor quarterly publication and the presentation slides are on the Investor Relations website.

This call is being webcast. If you would like to listen to a replay, you can do so from our website.

I would also like to draw your attention to our Safe Harbor statement. Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Discussion of factors that may affect future results is contained in Verizon's filings with the SEC which are available on our website.

This presentation also contains certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are also on our website.

Before turning the call over to Doreen for a review of our results, I would like to cover the differences between reported and adjusted earnings for the first quarter. Reported earnings per diluted share were $0.57. Adjusted earnings or EPS before the effects of special items were $0.61.

We're excluding the following special items from adjusted results. The first is a charge of $18 million after-tax or $0.01 per share for merger integration costs. We are also excluding an $81 million after-tax charge or $0.03 per share for non-operational costs incurred in connection with the spinoff of access lines in Maine, New Hampshire and Vermont. These costs are mostly related to network, software and other activities required for these facilities to function as a separate company.

As you know, we completed the spinoff on March 31. I would also note that our first quarter and prior period financials include the results of the Maine, New Hampshire and Vermont operations. Beginning with the second quarter, these operations will no longer be part of Verizon. To help investors adjust prior period results for the exclusion of these Northern New England operations, we will post reclassified historical information on our IR website within a few weeks.

These reclassifications will only affect revenues, expenses and operating income. Earnings will be the same as previously reported. We will also adjust the appropriate volume metrics.

With that, I will now turn the call over to Doreen.

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**Doreen Toben** - *Verizon - CFO*

Thanks, Ron, and good morning, everyone. Before I get into the details, let me start with some comments about our results.

Results for the first quarter were strong and demonstrate that we weathered the economic uncertainty. We turned in another quarter of mid single digit revenue growth with good margin expansion and double-digit earnings growth.

In fact, this is the fifth consecutive quarter of double-digit growth and EPS from continuing operations. Our key growth areas -- wireless, FiOS and enterprise strategic services -- continue to drive results. Verizon Wireless had a very good quarter of customer and revenue growth. Our positive momentum in FiOS drove broadband and video revenues over $1 billion this quarter. And within Verizon Business, strategic services revenue growth once again was in the low to mid 20% range.

Now let's get to some of the details. As you see on slide four, we have had continued revenue growth and steady margin expansion in each of the last five quarters. Consolidated revenues grew $1.2 billion or 5.5% in the first quarter. And although wireless is still our number one growth engine, our other growth drivers are also picking up scale and momentum.

As I noted just a moment ago, broadband and video services topped the $1 billion mark this quarter with nearly 50% growth, and Verizon Business strategic services revenues of $1.4 billion grew in excess of 23%. And while we sustained revenue growth in the mid single digits, our operating margins have expanded each and every quarter.

In the first quarter, the operating income margin grew 140 basis points year-over-year to 18.7%. Our EBITDA margins also expanded 80 basis points year-over-year to 33.8%. Bottom-line, our $0.61 of diluted EPS from continuing operations this quarter was up 13% year-over-year, demonstrating our continued ability to translate topline growth into earnings improvement.

Turning to slide five, you can see our strong cash performance. In the first quarter, cash flows from continuing operations grew 6.9% year-over-year to $5.4 billion. With our strong balance sheet and cash flows, we have continued to invest in our networks and new technologies to provide the platform for growth, innovation and productivity.

Capital expenditures were flat year-over-year at $4.2 billion, and our capital efficiency continues to improve due to our topline growth. This quarter CapEx to revenue dropped to 17.7%, an improvement of 70 basis points from a year ago.

Obviously the recent acquisition of 700 megahertz spectrum was also a key strategic investment to strengthen our ability to capture the enormous growth potential we see for years to come in wireless.

We ended the first quarter with total debt of $35.8 billion and $5.5 billion of cash on our balance sheet. This cash along with the $4 billion of capital raised through long-term borrowings in April was recently used to pay for the FCC Auction 73 wireless licenses that we won.

While investing for growth is critical to value creation, we are also focused on returning value to our shareowners. To that end, we have continued to pay a very competitive dividend and also repurchase shares.

During the first quarter, we were opportunistic, taking advantage of market conditions to repurchase $1 billion of our common stock. We expect to continue repurchasing shares at a more normal rate, but maintain the ability to increase buybacks if warranted by market conditions.

So let's look now at our segment results, beginning with Verizon Wireless on slide six.

We continue to see strong customer growth, particularly in our retail subscriber base. Total net adds were 1.5 million, of which 1.3 million were retail postpaid. Retail postpaid customers comprise nearly 93% of our total base and clearly remain the primary focus of our business. Prepaid is still approximately 4% of the base, and we added 168,000 retail prepaid customers this quarter, which is about the same as first quarter last year.

As you know, only 3% of our base is not retail. Reseller net adds were 20,000 in the quarter. Our gross add performance was also strong this quarter with retail gross adds up 6.5% and total gross adds up 4.4% year-over-year.

Churn remains very low with total churn of 1.19% and retail postpaid churn of 0.93%. Both were seasonally down sequentially as expected.

Turning to revenues, we sustained our record of strong double-digit growth. Total revenues increased to $11.7 billion in the first quarter, up 13.2% over last year. Service revenue topped the $10 billion mark this quarter, up 12.8% year-over-year and 2.7% sequentially. And retail service revenue grew 13.3% year-over-year as retail service ARPU increased by 1.3% to $51.40.

About two-thirds of the growth in total service revenue is from wireless data. In the first quarter, wireless data revenue exceeded $2.3 billion, up nearly 49% over last year. Retail data ARPU increased almost $3.00 year-over-year to $11.94. Data now represents 23% of total service revenue, up from 17.5% a year ago. More than $48 million or about 74% of our retail customers had some form of data usage in the quarter, and 58% of our retail base has a broadband capable device, up from 40% a year ago.

As strong as these results are, we see continued momentum and excellent future growth opportunities ahead in wireless data.

As we mentioned on our spectrum auction conference call a few weeks ago, we believe we're in a unique position to tap into this exploding data market opportunity. The acquisition of 700 megahertz licenses clearly enhanced our spectrum position, and we achieved all of the objectives we had going into the auction.

Our first goal was to obtain nationwide clear spectrum to maximize our growth potential. We also wanted to increase the depth and breadth of our footprint, particularly as it related to future capacity in key markets.

As a result of our success, we increased our spectrum inventory by about 60%. Across the top markets, we have a total average spectrum depth of about 85 megahertz.

With regard to our open development initiative, we held our developers conference a little over a month ago in New York. The feedback has been great with lots of interest on the part of the developer community and no shortage of unique ideas and opportunities for innovation.

To say the least, the combination of our global broadband networks, our enhanced spectrum position, our 4G plans with LTE and the innovation that will come from our open development initiative makes us very bullish about our future growth opportunities.

In summary, our strong wireless performance demonstrates once again our ability to execute in a very competitive environment. We are confident in our ability to sustain double-digit revenue growth. Our continued dominance in the retail postpaid market is strengthening our high-quality customer base and helping to drive further increases in data usage and growth.

Our focus on retention and operational efficiencies has resulted in industry-leading profitability. This quarter was no exception. EBITDA grew 5.7% on a sequential basis and 14.3% year-over-year with margins expanding to 44.9%. As the industry leader, Verizon Wireless has a long list of firsts in terms of product and service innovations. Most importantly, we have made all of these firsts work to our benefit in terms of growth, retention and profitability. We're feeling very good about our position to capitalize on the enormous opportunities in wireless data for years to come.

So to say the least, we are very upbeat about the prospects for wireless growth in 2008 and beyond.

Turning now to wireline, our strategic FiOS products continued their impressive growth. In the first quarter, growth in FiOS TV customers accelerated to 263,000. That is a sequential increase of 16%. We now have more than 1.2 million FiOS TV customers, which is 19% penetration.

So over the past year, we have added more than 850,000 customers. Total broadband subscribers -- DSL plus FiOS Internet -- increased to 8.5 million, up 1.1 million or 15% from a year ago, and we added 266,000 broadband customers in the quarter.

In FiOS Internet we have just over 1.8 million subscribers, representing 23% penetration. Retail residential lines declined 622,000 in the quarter compared with 616,000 last quarter and 619,000 in the first quarter a year ago.

We continue to see an increasing correlation between TV availability and line retention. At the end of the quarter, we were able to offer video to 82% of the 7.9 million FiOS homes open for sale, expanding our triple-play availability.

Earlier this month we filed our New York City application for a video franchise covering 3.1 million homes, many of which are MDUs. We already passed about 20% of these premises with fiber.

So the FiOS initiative is going very well, and we are gaining scale and momentum. As we move into new markets, we have a great opportunity to sustain and accelerate both customer and revenue growth.

In addition, our capital unit costs are trending lower as we scale, and we continue to be focused on productivity. We are clearly on track to attain our goal of at least 25% FiOS TV penetration and 35 to 40% FiOS Internet penetration.

The consumer retail business is increasingly centered on broadband, video and bundles. Our high-growth broadband and video revenues represented almost 25% of the $3.8 billion legacy consumer revenues this quarter and were up 56% year-over-year. Broadband and video have also driven consumer retail ARPU to $61.02, an increase of 9.6% year-over-year.

The average FiOS ARPU of about $129 per month is more than double the overall consumer retail ARPU, and since not everyone has all three services, the triple-play ARPU is even higher.

You may recall we increased prices for selected products in the first quarter last year. We anticipate increasing prices once again in certain products and bundles in the second quarter this year.

Now let's take a look at Verizon Business. In this market we continue to see strong demand for our strategic services which are focused on IP and data growth opportunities. Total revenues of $5.2 billion grew 0.4% year over year.

As we discussed on our last earnings call, first-quarter revenues were impacted by some customers moving traffic off of our network. These strategic takebacks resulted in a loss of 1 percentage point of year-over-year growth. We believe that the first quarter will be the low point in the year for Verizon Business revenue growth and expect to see steady improvement as we work through this loss.

On the top chart on slide 12, I have displayed our global retail enterprise revenue, which is clearly our primary strategic focus. Again, the growth rates in the last two quarters reflect the effects of the strategic takebacks.

Strategic services now represents about 27% of total Verizon Business revenues, which grew 23.5% over first quarter last year, driven by private IP, managed services and security.

Along with the accelerating transition to IP, we're seeing a growing trend on the part of global customers to outsource their managed and professional services. We are increasing our ultra long haul capabilities and expanding our global reach to meet this continued solid demand.

In summary, we are seeing continued shift to data in both the consumer and business markets, as well as ongoing secular changes, particularly in consumer. Total data revenues now represent almost 40% of total wireline revenues, and data growth is accelerating, up 14.8% this quarter compared with last year.

We are well positioned to address these secular changes as evidenced by the growing demand for our key strategic products. We expect the customer demand for FiOS to continue, as well as demand for our strategic services in the enterprise space as more customers transition to IP and look to companies like ours to manage their networks and provide data security.

Similar to prior years, we made investments in marketing and productivity improvements initiatives early in the year. These investments, along with the full effect of the telecom price increases and revenue improvements in enterprise, will help drive revenue growth and year-over-year margin expansion. We have significant opportunities to reduce costs. For example, we expect operational improvements in FiOS to continue, and we are very much on track to meet our goal of becoming EBITDA positive this year.

As far as force reductions are concerned, we have steadily reduced wireline headcount over the past several years. In 2007 we reduced our wireline workforce by about 6500 people. We expect this trend to continue with ongoing reductions planned throughout the year. We are constantly focused on reducing our access costs, and we continue to work hard in the systems integration area.

Overall we believe that about half of our wireline cost structure is variable, which gives us confidence in our long-term outlook for wireline margins. We remain committed to increasing wireline EBITDA margins to the 30% to 33% range during the planning period.

So to wrap up, our growth strategy once again drove strong results in the first quarter. We have built positive momentum in all key growth areas. Our network capabilities and the strength of our products and services position us well to continue driving growth and margin expansion.

At the same time, we have operational initiatives in place to reduce costs. We believe that our strong cash flows will enable us to continue investing for growth and improved productivity for years to come. Our balance sheet is strong. We remain committed to increasing shareholder returns through competitive dividends and share repurchases. We are fully confident of our ability to grow the business, deliver strong operating results and create solid long-term shareowner returns.

In short, we expect 2008 will be another year of strong operating and financial performance. And with that, I will turn it back to Ron.

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**Ron Lataille** - *Verizon - SVP, IR*

Thanks, Doreen. Operator, Doreen and Denny are now available to take questions.

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## QUESTIONS AND ANSWERS

**Operator**

(OPERATOR INSTRUCTIONS). John Hodulik, UBS.

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**John Hodulik** - *UBS - Analyst*

A couple of questions on wireline margins. They came in a little bit lighter than we expected, and I heard the comments on sticking to the 30 to 33% over the planning period. Can you give us an idea of how you expect the margins to trend for the quarter? Is this the low point in the quarter, and then you go up from here, or are we going to bounce around here for the next couple of quarters? And then maybe how that relates to what we saw in '07. Should we be sort of flattish versus '07 or up versus '07?

And then, Doreen, you talked a little bit about some investments in marketing and productivity. Can you give us a little bit more color on what some of the spending was about here in the first quarter?

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**Denny Strigl** - *Verizon - President & COO*

Let me begin with this one. So yes, first-quarter margin was flat year-over-year. If you look back at the last couple of years, the first-quarter margins are typically lower than the third and fourth quarters and the full-year average.

So for us this year was no different, and it is what we had expected. Although there are always some puts and takes every quarter, there were no changes in the key drivers. Those being FiOS -- EBITDA showed good improvement. Definitely some secular shifts in the core, but no significant change in trend. There are some timing issues that affected revenues and margins.

For example, in consumer the first quarter last year included $70 to $80 million of price increases. We decided to implement those price increases or similar price increases in the second quarter of this year. And then also in enterprise, and Doreen and I have mentioned this before, we had some what we call strategic takebacks. There are actually some large accounts that were lost either before or just after our MCI merger. It has taken some time for those accounts to -- the revenue actually to diminish. However, we are at a high point on that now. We will see that again in the second quarter of this year, and then we will work through it.

So what is the outlook? Our outlook for wireline margins has not changed. As Doreen mentioned on her formal remarks, we are committed to increasing wireline EBITDA margins to 30 to the 33% range. And my operating plan this year targets 80 to 100 basis point improvement in margins. And frankly, it is what Ivan and I are paying our executive team to do. So I'm targeting margins that move from the mid 27% run-rate to the low 28% range.

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**Doreen Toben** - *Verizon - CFO*

I guess just on productivity, mostly I would call it blocking and tackling. It's a lot of systems work. We are really focused on reducing average handling time in the centers. We have been working on order simplification, some multi-sessions for the reps, billing simplification. We are also doing a lot on more self-service, trying to get more click to chat, which drives our costs down. Trying to put some things through national screening to avoid misdirect calls. So I would call it a lot of blocking and tackling. And on the marketing side, just a lot more media spend, some of it being the TV in the first quarter.

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**Operator**

Tom Seitz, Lehman Brothers.

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**Tom Seitz** - *Lehman Brothers - Analyst*

Obviously a lot of angst when the unlimited plans were announced earlier this year. Can you share with us what you are seeing in terms of current customers moving down and up, as well as anything you are seeing with respect to new customers in this category?

And I guess in a related vein, can you talk to us about what data take rates are with these unlimited plans?

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**Denny Strigl** - *Verizon - President & COO*

I will take that question. So the status of the unlimited plan is as follows. And we do not typically comment on pricing results, but given the controversy of the unlimited plans, I would like to try to put this to rest.

So we are pleased with the results of our $99 unlimited plan. We are seeing good growth in high tier voice plans. We are seeing churn benefits and data growth, and let me give you some specifics.

Nearly 90% of our unlimited plan gross adds are single lines. In the first quarter, our unlimited plan accounted for 13% of our single line retail postpaid adds. That compares to about 4% choosing the $99 or above tiers before the plan was launched.

Additionally many, a high percentage of the new customers who choose an unlimited plan also choose our select or premium data packages. So from a churn perspective in March, which was the first full month after the launch, our average daily disconnects declined 6% from previous months, and that is at the voice access tier $79 and above. As expected, our churn improved in the high tiers as well, and at this point we're very happy with the way this plan is moving in the market for us.

**Tom Seitz** - *Lehman Brothers - Analyst*

So even with some customers moving down, this basically was accretive in the first quarter it was rolled out? Is that correct?

**Denny Strigl** - *Verizon - President & COO*

Remember there is only one month in the first quarter, but it was in the first month as far as we can see very good for us and accretive, yes.

**Operator**

David Barden, Banc of America Securities.

**David Barden** - *Banc of America Securities - Analyst*

Just two if I could. One, Denny or Doreen, just on the flip side of the wireline margins equation, you guys were at the top end of your 43 to 45% margin expectation for the quarter. If one wanted to look at it on the positive side, one would say that you guys are taking great market share even at the high-end of your margin band and you might go north from here. On the other side, you might say that this is the low watermark for wireline margins and that as wireline margins drift up, you might decide to bring the wireline margins back down to take share over the balance of the year. I would love to kind of hear your thoughts on that.

Just as a second question, just to kind of tie off the year-over-year comparisons, Doreen, I remember last year changes in depreciation methodologies and things were an issue in how they affected earnings in the quarter. Could you just address what if any changes this quarter took place? Thanks.

**Doreen Toben** - *Verizon - CFO*

You flipped between wireless and wireline. Are you asking both?

**David Barden** - *Banc of America Securities - Analyst*

No, more about whether the objective with wireline margins is either to balance off wireline margins, and as wirelines margins go up, we should expect wireless margins to come down. Or given that you are at the high-end of your wireless margin guidance and you are taking the highest market share in the market, are you comfortable now at the higher end of these levels and maybe even going north from here?

**Doreen Toben** - *Verizon - CFO*

First of all, no, we're not balancing off wireless margins to wireline margins. We do not do that at all. So the first part of the question was no.

I think we stay with our 43 to 45% guidance on wireless margins. I'm not going to go different than we have given you on traditional metrics. And then what else was in that question? Was there anything else?

**David Barden** - *Banc of America Securities - Analyst*

I think that was the crux of that question. And then the second part was just on the depreciation year-over-year.

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**Doreen Toben** - *Verizon - CFO*

On the depreciation, we had a very small movement in depreciation, and we disclosed that in the 10-K I guess. And so, no, there is really not much change. So if you look at our depreciation in aggregate in total, you are not going to see much difference year-over-year when you go to the Verizon levels, so not much of a change.

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**Operator**

Simon Flannery, Morgan Stanley.

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**Simon Flannery** - *Morgan Stanley - Analyst*

I wonder if you could drill down into broadband for us a little bit. We obviously saw continued strong FiOS results, but DSL continues to soften. Maybe you can update us on the number of FiOS customers that are taking DSL now and some of your moves to upgrade the speed on that side of the FiOS footprint. And what do you think is driving the year-over-year declines? Is it really an issue of saturation or market share, or are we seeing some economy there as well?

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**Denny Strigl** - *Verizon - President & COO*

Simon, here is what I will say about that. First, DSL gross adds, as you may have seen here, are up sequentially this quarter 6%. But migrations to FiOS Internet were up 100 basis points to 23%, and business migrations were up about 400 basis points. Excluding FiOS migrations, churn has not changed. We expect this dynamic to continue. We're boosting DSL speeds to your question to 7 megabits in some areas, and we're also doing some additional marketing. This is designed to help the gross adds, but also we feel you can expect continued migrations to FiOS Internet, and migrations actually we think could accelerate.

What is important is that total broadband remains strong. This quarter FiOS Internet subs were up by 1 million year-over-year and DSL up about 170,000.

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**Simon Flannery** - *Morgan Stanley - Analyst*

Okay. And no real impact from bad debts on the economy or anything like that?

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**Doreen Toben** - *Verizon - CFO*

No, we're taking a look at -- as you know, I look at daily, weekly and monthly metrics. As far as uncollectibles, we're not really seeing it at all. So no change in trend there at all or in lines, so no, from the DSL and uncollectibles not at all.

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**Operator**

David Janazzo, Merrill Lynch.

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**David Janazzo** - *Merrill Lynch - Analyst*

Doreen, last quarter, following up on the economy, last quarter you had ticked off a number of metrics that you are monitoring across the business. Can you give us an update on that?

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**Doreen Toben** - *Verizon - CFO*

No, I still look at all of those metrics, even more if I can get ahold of them, and we're really not seeing changes in trend. Actually if you look at wireline, the uncollectible number is actually down year-over-year, so it is much improved. Wireless is certainly stabilized if I look at access line trends around the country. Trends have remained the same. So, as I look at all that, it is the same.

I would also point you too, if you look at just our volume metrics, we had very strong wireless net adds. The FiOS net adds were really strong. Verizon Business funnel remains strong. ARPU was up both in consumer and wireline and wireless. Data revenues were up. The broadband video increased.

So no, right now although I'm continuing to monitor, but as I'm looking at this, I'm really not seeing any change in trends and no concerns at this time.

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**David Janazzo** - *Merrill Lynch - Analyst*

And you had mentioned a correlation between FiOS and access line losses, and I have heard you give statistics on that before. Can you give us an update and the latest thinking on that?

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**Doreen Toben** - *Verizon - CFO*

It continues to get stronger and stronger. I mentioned a couple of times that I look at those central offices or areas in every single one of the states where we have FiOS videos, say, for over six months. There is an incredible correlation at a minimum 250 basis points. Many areas much higher, 500, 700, 1000 basis points in those areas that have both data and video over six months. So the correlation continues very strong.

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**Operator**

Michael Rollins, Citigroup.

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**Michael Rollins** - *Citigroup - Analyst*

I was wondering if you could talk about how dilutive FiOS is to the EBITDA and EBITDA margin currently, and what are your plans to breakeven on that basis?

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**Doreen Toben** - *Verizon - CFO*

Right now I would say that it is really on track to be EBITDA positive, so we feel really good about the numbers. We feel really good about all the capital and expense metrics that we are seeing. Capital is probably better than I expected. All the expense metrics on hours and what not actually better than planned. So at this point, FiOS is really not diluting on a sequential basis the EBITDA. So you're not seeing -- that is not a cause of the sequential decline at all and still expect it to be positive by the end of the year.

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**Operator**

Mike McCormack, Bear Stearns.

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**Mike McCormack** - *Bear Stearns - Analyst*

A couple of things. First, on the Verizon Business side, can you guys just give us an update on where you stand on the margin improvement opportunity there, and also maybe just comment on the competitive dynamic?

And secondly, Doreen, you mentioned that there is a possibility for pricing increases in 2Q on FiOS product. Can you just give us a sense for how you guys feel comfortable doing that as far as the competitive dynamic, whether it is the cable pricing or demand on your side? Thanks.

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**Denny Strigl** - *Verizon - President & COO*

Mike, let me begin this question. Okay. So overall for Verizon Business, we're feeling very good about the competitive strengths we have in the marketplace. Unsurpassed global network capability, some solid sales and service teams in place with global reach and scale. Broad product portfolio led by IP capabilities both MPLS private line IP, security services and ethernet portfolio and coverage. I think we're in very, very good shape against the competition. So maybe, what is selling for us?

We are seeing increased opportunities with large complex deals as more enterprises look to outsource and consolidate to one vendor. We have been pleasantly surprised over the last couple of quarters in that regard.

So we're also selling IP network services, and that is actually driven by growing data communications requirements. Security services led by Cybertrust offerings going well for us. And managed services for LAN, WAN and other devices looking good for us.

You know, one of the questions you all have asked us in the past concerns competitive pricing pressures, and the market continues to be competitive. But we think Verizon has benefited from consolidation and weakness in some of the other competitors. Pricing will always be competitive, but we continued to focus on value. So the writedown activity has been stable, and first quarter of '08 is pretty much in line with first quarter of '07.

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**Doreen Toben** - *Verizon - CFO*

I think on the margin side for Verizon Business we have made great progress, so that has been on plan. I would point to one thing, and I think you have heard us talk to it before. The fact the large strategic revenues that we lost from one or two particular customers actually had very good margins. So that was part of the sequential decline in margins was really driven out of a particular contract or two from that standpoint.

And then, Mike, what was your FiOS question? Was it on pricing?

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**Mike McCormack** - *Bear Stearns - Analyst*

Just the pricing increase, how you are comfortable doing that, whether or not the cable pricing is that wide of a disparity and just thoughts generally.

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**Doreen Toben** - *Verizon - CFO*

Yes, I think you will see us move up pricing probably end of this quarter, early next quarter. Obviously we think it is a superior product. We think we have had great sales. We're very comfortable moving up the pricing at this point.

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**Mike McCormack** - *Bear Stearns - Analyst*

Are you seeing a disparity between the competitive pricing and where you guys are?

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**Doreen Toben** - *Verizon - CFO*

No, I think we are actually pretty close. I mean everybody still has that $99 bundle, and then there is a little bit of a tax issue with us. I did disclose in the script for the first time the $129 ARPU, which I think is once again that is not the triple play. That is the average, which if you would assume that is an average and not everybody has the triple-play, that says the ARPU for the triple-play, of course, is much higher than that. I think that is a pretty impressive number as I at least look at the competitors.

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**Operator**

Tim Horan, Oppenheimer.

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**Tim Horan** - *Oppenheimer - Analyst*

Two clarifications first, and a well, then a follow-up. Doreen, is this tax rate a pretty good run-rate to retain do you think? I might have missed this in your commentary. And then maybe an update on where you are with your FiOS penetration in your most mature markets at this point.

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**Doreen Toben** - *Verizon - CFO*

Yes, on the tax rate actually we had given guidance of 35 to 37. I would probably tell you I might move that guidance down to 35 to 36. I'm actually looking -- there are some issues that are under I would tax -- make sure I used the right word -- I guess investigation. And so we may have something settled next quarter which will, in fact, bring the rate lower for the second quarter. And so I would use sort of a 35 to 36 rate as opposed to the 35 to 37.

And on the penetration question you had as far as FiOS was what?

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**Tim Horan** - *Oppenheimer - Analyst*

Just in your most mature markets, you know the ones you have been in for more than two years, where you are at now?

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**Doreen Toben** - *Verizon - CFO*

I guess in TV I would say we're certainly well over 25. I mean we have got some with a 4 in front of it, and then we've got several with 3s in front of it, so very strong. I would say on Internet I think almost everybody has at least a 2 in front of it, and many of them have a 3 in front of it. So I would say some in the 40s, which is at the high end, and then mostly in the 20s.

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**Tim Horan** - *Oppenheimer - Analyst*

And then, Doreen, in your comments you said in five quarters of double-digit earnings growth, and you're not seeing a real big impact yet from the economy. Any reason that cannot continue?

I mean if I am looking at the trends here in wireless, it does seem like the margins can continue to expand there, and you talked about wireline margins expanding, the tax rate kind of being stable, depreciation being stable. You're doing stock buybacks. It looks like the double-digit can continue for awhile maybe absent the economy really slowing?

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**Doreen Toben** - *Verizon - CFO*

You know, Tim, we do not give quarter-specific guidance. We have certainly given business plan guidance. So over the plan, we're certainly comfortable with double-digits. I do not disagree with certainly wireless continues to go well. Wireline, Denny gave you some guidance as to where we think it will go. But I'm not going to give you specific quarterly guidance.

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**Operator**

Chris Larsen, Credit Suisse.

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**Chris Larsen** - *Credit Suisse - Analyst*

The first is just a clarification. On the price increases on the FiOS side, is that an indication you're going to increase the $99 bundle, or are those components in there?

And then secondly, you had the incremental margin pressure in this first quarter, some of it came from the FiOS TV offer where you got the free TV. Can you give us a quantification of maybe what we might be see trend back? There was some talk of constraints in whether it be installers or HD boxes. Can you give us an update on where you are there and how you are doing on installations of FiOS?

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**Doreen Toben** - *Verizon - CFO*

On the price increases, I think we will keep the $99 price. What we're doing is whether it is set-top boxes or it is premium channels or miscellaneous, so I think the $99 bundle will stay because that is where everybody else is. So you will see it in different spots there.

As far as giving you a specific number on the TVs, I will not do that. I will tell you that marketing expenses will probably trend somewhat down from where they were in the first quarter. And on the HD boxes --

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**Denny Strigl** - *Verizon - President & COO*

Yes, we're pretty much caught up on the HD boxes. The production is in good shape at this point. There are still some that we are replacing that had been in the field and sold early on. But pretty much through the problem altogether.

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**Chris Larsen** - *Credit Suisse - Analyst*

And then, Doreen, if I can ask one more. There is some talk that you could capitalize the interest expense in the spectrum. Have you made a final determination on that? If you do decide to capitalize it, how long can you capitalize it? Is it until you deploy the 700 megahertz spectrum?

**Doreen Toben** - *Verizon - CFO*

The answer is yes, you would capitalize it until you deploy it. At current course and speed, I anticipate that we will capitalize most of it. However, I'm not going to get out in front of my accountants in that we need E&Y and Deloitte to both sign off on the plan that we put together. So until that is really signed off by them, other than the intent is to capitalize most of it, I will not -- when I get that all done, I will let you know. But you should think about it that way.

**Chris Larsen** - *Credit Suisse - Analyst*

Okay. And then that would be amortized over the 40-year period of the spectrum?

**Doreen Toben** - *Verizon - CFO*

I guess I'm not going to go through that until I get the final signoff from the accountant.

**Operator**

Jason Armstrong, Goldman Sachs.

**Jason Armstrong** - *Goldman Sachs - Analyst*

Just a couple here. I guess first regarding the recent access line sale in Northern New England, lots of nuances you saw there at the Public Utilities Commission level. I'm just wondering as you look forward, does this change the appetite at all for further access line sales in your base?

And then second on wireless, talking about LTE here, can you give us any granularity around the cost to roll that out?

**Denny Strigl** - *Verizon - President & COO*

Jason, let me start with the access line piece. We're very pleased that we have finally gotten to a conclusion in New England with FairPoint. We think overall a good deal for both parties.

Relative to looking at other access lines, look, I think it is important to say we always look at possibilities but nothing planned at the present.

**Jason Armstrong** - *Goldman Sachs - Analyst*

Okay, great. And then wireless?

**Doreen Toben** - *Verizon - CFO*

I mean LTE as far as looking at the planning period, it is really less than EV-DO was. So this is not something that we see as a big increase to the capital budget.

**Operator**

Jonathan Chaplin, JPMorgan.

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**Jonathan Chaplin** - *JPMorgan - Analyst*

Just a quick follow-up on the wireline margins. I'm wondering if any of the normalizing items that you took in the quarter for Puerto Rico and for merger-related expenses would have been captured in wireline? And if so, it seems like most of them probably were attributable to wireline actually, in which case the margins would have been more -- I think in the 28% range?

And then just looking at the sequential pressure, I understand that the large enterprise contracts or wholesale contracts, the move to where there are very high margin revenues, is there anything else besides the enterprise contracts would have accounted for the margin pressure, or is that just about all of it?

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**Doreen Toben** - *Verizon - CFO*

First of all, no, there is no PRTC or Dominican or anything in the wireline margins, so wireline is wireline.

If you -- I guess if you were to take -- I'm not sure how helpful this is -- but if you were to take out some of the M&A normalization out of the quarters, you would see less of a sequential decline from fourth quarter to first quarter, if that was sort of your question.

And then I think a lot of it I really talked about in the prepared remarks, which was we have got some marketing costs that were very heavy in the first quarter. You know, some other -- mostly marketing in some of the Verizon Business contracts that were the first-quarter pressure.

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**Ron Lataille** - *Verizon - SVP, IR*

Operator, that is our last question for the day, and I would like to thank everybody for joining us. We will see you again next quarter.

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