FINAL TRANSCRIPT

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CORPORATE PARTICIPANTS

Ron Lataille
Verizon Communications Inc. - SVP - IR

John Killian
Verizon Communications Inc. - EVP, CFO

Ivan Seidenberg
Verizon Communications Inc. - Chairman and CEO

CONFERENCE CALL PARTICIPANTS

John Hodulik
UBS - Analyst

Simon Flannery
Morgan Stanley - Analyst

Vijay Jayant
Barclays Capital - Analyst

David Barden
Banc of America/Merrill Lynch - Analyst

Michael Rollins
Citi Investment Research - Analyst

Jason Armstrong
Goldman Sachs - Analyst

Mike McCormack
JPMorgan - Analyst

Tim Horan
Oppenheimer & Co. - Analyst

PRESENTATION

Operator

Good morning and welcome to the Verizon fourth-quarter 2009 earnings conference call. At this time all participants have been placed in a listen-only mode, and the floor will be open for questions following the presentation. (Operator instructions). Today's conference is being recorded. If you have any objections, you may disconnect at this time. It is now my pleasure to turn the call over to your host, Mr. Ron Lataille, Senior Vice President, Investor Relations of Verizon.

Ron Lataille - *Verizon Communications Inc. - SVP - IR*

Good morning and welcome to our fourth-quarter 2009 earnings conference call. Thanks for joining us this morning. I'm Ron Lataille. With me this morning are Ivan Seidenberg, our Chairman and Chief Executive Officer; and John Killian, 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 available on our 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.

Next, I'd like to cover the difference between reported and adjusted earnings this quarter. In the fourth quarter, we reported a net loss per diluted share of $0.23. Adjusted earnings before the effects of special items were $0.54 per share. The differences between reported and adjusted earnings this quarter were due to the following special items. The first one is a $3 billion pre-tax charge for severance and pension and benefit settlement and curtailment costs related to our force reduction program. On an after-tax basis, this equates to about $1.9 billion or $0.66 per share. About $950 million of the pre-tax charge is for additions to severance reserves. The remaining charges of approximately $2.1 billion pre-tax are related to pension settlement losses resulting from lump sum distributions during the quarter and curtailment costs related to the large number of employee separations.

The second item is an after-tax charge of $127 million, or $0.02 per share for merger integration costs relating to Alltel. We are also excluding $246 million after-tax or $0.09 per share in non-operational charges. These costs are related to our Wireline cost reduction initiatives, as well as costs in connection with our ongoing efforts to spin off our local exchange business in 14 states. These costs are related to network, software and other activities required for these facilities to function as a separate company.

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

John Killian - *Verizon Communications Inc. - EVP, CFO*

Thanks, Ron, and good morning to everyone. Let me start with a quick look at our fourth-quarter highlights on slide three. We have had strong cash flow growth all year long, and our fourth quarter was no exception. Cash flow from operations was up 10.8% compared with the year-ago quarter, demonstrating our continued focus on operating and capital discipline.

We made good progress this quarter in all of our key strategic areas. In Wireless we delivered a strong quarter of subscriber growth with total net adds of 2.2 million, 1.2 million of which were retail and primarily postpaid and 1 million from resellers. Wireless data revenues were up more than 26%, and the Wireless team is successfully integrating the Alltel properties, which will help growth in 2010.

In Wireline, FiOS revenues grew more than 46% compared with fourth quarter last year, and although we were somewhat surprised by the continued level of economic pressures impacting our enterprise and wholesale markets, fourth-quarter revenues from strategic services such as IP data services grew 6% year-over-year.

We also continued to tightly manage costs. In the fourth quarter we reduced our total headcount by 7400. For the full year total headcount was down about 17,000. Capital expenditures for 2009 totaled $17 billion, which was well below our targeted range of $17.4 billion to $17.8 billion, and also down year-over-year. This was the result of continued efforts to improve our capital efficiency and capture the CapEx benefits of reduced demand from the economy.

So we ended the year with continued progress in the key areas, operating with good financial discipline but still facing a very challenging economic environment.

Before we get to the operational results and trends, let's first review consolidated earnings and cash flow. As Ron indicated earlier, we generated $0.54 in adjusted earnings per share in the fourth quarter, bringing our full-year result to $2.40 per share, which was down 5.5% or $0.14 below 2008. Our financial objectives at this time last year were focused on growing earnings in the face of some tough cyclical, secular and pension-related headwinds and, just as important, increasing free cash flow by tightly managing our costs in the capital program and returning cash to shareholders.

From an earnings perspective, and this became more evident in the second half of the year, the prolonged effects of the economic downturn coupled with the incremental $0.11 per-share pension and retiree benefit impact were too large to be fully offset by growth in our key areas and the productivity improvements we achieved during the year. However, many of these earnings pressures were non-cash related, so our cash generation was even stronger than we anticipated.

Let's take a closer look at cash flow on slide five. So from a cash flow perspective we had a very good year. As you know, our Board of Directors raised the dividend in September by 3.3%. Cash flow from operations grew by $4 billion or 14.5% in 2009, led by strong cash generation in Wireless. And free cash flow of $14.5 billion was significantly higher than last year, up $4.2 billion or 40.7%.

As I said earlier, 2009 capital expenditures, which included incremental spending related to our Alltel acquisition, was $17 billion. So, in spite of the addition of Alltel, we were down about $200 million year-over-year. In addition to returning cash to shareholders in the form of $5.3 billion in dividend payments in 2009, we also utilized cash to reduce debt. On a consolidated basis net debt at the end of the year was $60.2 billion, down $4.4 billion since the end of January, which was right after we completed the financing to acquire Alltel.

We ended the year with net debt to EBITDA of about 1.7 times.

Let's take a closer look at the revenue trends, starting on slide six. In spite of difficult economic conditions, 2009 consolidated revenues grew 1.5% compared with 2008 on a pro forma basis. Similar to the trends we've seen throughout 2009, top-line results were mixed. All of our strategic areas continued to post good growth, particularly wireless data and FiOS, but cyclical weakness in the business markets continued, primarily in volume-driven voice products.

Let's move to the segments next, starting with Wireless on slide seven. Our Wireless business continued to deliver strong performance this quarter. Total operating revenues for the fourth quarter were $15.7 billion, up 3.1% on a pro forma basis over the fourth quarter last year. Total service revenues grew 5% in the fourth quarter. As we have seen all year, service revenue growth is driven by Wireless data, which represented about 32% of total service revenues in the quarter. As I highlighted earlier, we had a great quarter in terms of subscriber growth with 2.2 million net adds. In 2009 we added approximately 6 million new customers, so we ended the year with 91.2 million customers, an increase of 7%.

Let's take a closer look now at what's driving data revenue and ARPU growth on slide eight. Data revenue is now in excess of $16 billion annually. That's up 31% in 2009. Total data ARPU was over $16 in the fourth quarter, which was 18.7% higher year-over-year. This explosive growth is being driven by increasing mobile broadband adoption with the proliferation of innovative new devices like smartphones and netbooks, as well as new data applications on these devices.

Text messaging, which makes up about 40% of data revenue, is still showing good growth, up 21% on the quarter. Revenues from non-messaging services, which make up the other 60% of data revenue, increased about 31% in the fourth quarter. As you can see on slide eight, revenue from Web and e-mail services has grown to over $2 billion per quarter, up 47% from a year ago. We believe there are significant opportunities to continue to grow data revenue. We have a strong and growing smartphone portfolio that is meeting the increased customer demand for high-speed, high-capability devices that can support a large number of applications.

Our DROID franchise is a good example. We were very pleased with the sales of our new smartphones this quarter. The Motorola DROID, the HTC DROID Eris and the BlackBerry Storm2 all posted strong sales. As you know, we have simplified our devices into three categories -- 3G smartphones, 3G multimedia devices and simple feature phones. At the end of 2009, 26% of our retail postpaid base had 3G multimedia devices or smartphones. 15% were smartphones and 11% were multimedia devices. All of these devices now require a data plan. 3G smartphones have a requirement for a $30 plan, and 3G multimedia devices have a $10 minimum plan requirement.

So, looking ahead, we see plenty of data growth opportunities, driven by new and enhanced devices and innovative applications and content, all powered by Verizon's expansive 3G network today and our new 4G network later this year.

As we think about 4G and encourage innovation through our open development initiative, it is becoming clear that the business is expanding to include opportunities in both the retail and wholesale markets. However, retail continues to be our primary focus and represents the largest portion of our Wireless business. 96% of our total customer base is retail and 82.2 million or 90% of the base are retail postpaid subscribers.

In the fourth quarter we added 1.2 million retail customers. 67,000 were prepaid and the rest were postpaid. Retail service revenue of $13.2 billion in the fourth quarter grew 5.2% year-over-year. Retail postpaid ARPU of $52.40 was stable with 0.2% year-over-year growth. And our customer retention metrics remain very strong. Retail postpaid churn of 1.06% improved by 4 basis points year-over-year on a pro forma basis, as did total churn of 1.42%.

In terms of profitability, as you can see on slide 10, we have maintained strong EBITDA service margin performance, finishing the full year at 45.9%. Our fourth-quarter margin performance of 45% was very strong, particularly in light of higher gross adds and an increased level of upgrade activity, driven by the high level of interest in the DROID, Eris and Storm2 in the quarter. So another quarter of strong and disciplined performance by our Wireless business.

Let's move now to our Wireline segment on slide 11. In our Wireline business, we continue to see a transformation of the consumer market from voice to broadband connectivity. And within our business markets, we're seeing continued economic pressures. Our FiOS initiative is gaining scale, now covering about half of our households. At the end of 2009 we had nearly 3 million FiOS TV customers and over 3 million FiOS Internet subscribers. Including DSL, we had more than 9.2 million broadband customers. Our penetration metrics are on target, and total broadband and video revenues exceeded $6 billion in 2009 and grew 25.5% in the fourth quarter.

Let's take a closer look at both the consumer and business markets, starting on slide 12. The strength of our broadband and video products continues to drive consumer revenue and ARPU growth. Consumer revenue grew 1.2% on a year-over-year basis, and we are seeing strong growth in consumer ARPU, which increased to just over $77 this quarter, up 12.6% from a year ago. FiOS ARPU remains very strong at more than $140 per month.

Consumer revenue from our broadband and video services totaled $1.5 billion in the fourth quarter, up 28.6% year-over-year. Revenue from these services was about 40% of total consumer revenue in the quarter, up from 31% a year ago. FiOS consumer broadband and video revenue totaled $1.1 billion in the quarter, up 52.2% from a year ago.

During the quarter net adds for TV and Internet both totaled 153,000. Our full-year additions in 2009 were roughly the same as 2008, so we've maintained good momentum. Our churn levels are low, and we have excellent customer satisfaction ratings.

Slide 13 shows our global enterprise and global wholesale revenue performance. As I said earlier, we continue to see economic pressures affecting both the business retail and wholesale markets. High levels of unemployment continue to impact usage volumes, and we are not seeing any significant pickup yet in capital or IT spending by our largest customers. We are encouraged by the continued growth in quarterly revenue from strategic services, which grew 6% year-over-year and about 3% sequentially, led by sales of IP data services.

Global enterprise revenue declined 4.5% in the fourth quarter as compared with a 5.3% decline in the third. However, adjusting for the impact of foreign currency effects, revenue growth declined 5.4% year-over-year and about $125 million sequentially. Fourth-quarter CPE sales were down about 9% year-over-year, further indicating weakness in IT spending. Global wholesale revenue also declined 4.5% in the fourth quarter. We are seeing growth in Ethernet services related to wireless backhaul and in migration of traditional data services to IP, but usage volumes continue to be down 4% to 4.5%.

We continue to believe that the primary leading indicator for sustained improvement in the business market will be a return to hiring on the part of large enterprise businesses, so while we are holding our own with existing customers and remaining competitive when it comes to new business, the signs of recovery are slow.

Let's talk about the Wireline profitability picture. As shown on slide 14, Wireline EBITDA margin in the fourth quarter declined 70 basis points sequentially to 23%. There are three conditions that we are working very hard to offset -- temporary economic pressures, ongoing secular changes and incremental pension and benefits expense. I can assure you that we have a strong focus on our cost structure and we have taken several actions that will help us in 2010. We reduced our Wireline-related force by 13,000 people or about 9% in 2009. About 5000 of these employees came off the payroll late in the fourth quarter, and we expect a similar level of annual force reductions in 2010.

Along with these force reductions we are also looking at a number of initiatives to simplify our Wireline operations and drive costs out of the business. For example, we are working on a comprehensive redesign of our entire call center infrastructure which will reduce the number of call centers and improve our utilization and efficiency metrics.

Another example is a wireline network consolidation initiative that will result in operating efficiency improvements. We believe that a combination of better revenue performance and improving economy, the effect of our ongoing force reductions and our ability to achieve some of these other cost reduction opportunities will help improve margins over time. We are also focused on our capital spending. Wireline CapEx was down $905 million, or 9.2% year-over-year.

Before we get to your questions, I would like to provide some additional details on our 2010 outlook and our key focus areas, which are on slide 15. In Wireless we will continue to focus on growing revenue and market share, expanding data penetration and growing data revenue, developing LTE and offering 4G services in 25 to 30 markets before year end and capitalizing on the successful integration of Alltel. Lastly, we will also remain disciplined in balancing our growth initiatives and profitability.

In Wireline we will continue to capitalize on our investments in FiOS and our global IP networks by driving higher FiOS penetration and growing ARPU and revenue, and by increasing our market share in professional and managed enterprise services and growing strategic services revenue. As I said earlier, we will remain focused on our cost structure and achieve meaningful cost reductions and we will make sure the business is ready to quickly benefit from improvements in employment and the overall economy.

We have taken steps in both our Wireless and Wireline segments to strengthen the business going forward. We continue to expect solid cash flow generation in 2010. Our capital spending in 2010 is targeted to be in the range of $16.8 billion to $17.2 billion. We expect Wireless CapEx to be modestly higher year-over-year, reflecting increased demand for smartphones and higher data usage. And we expect Wireline CapEx to continue to decline. So we'll have flexibility to allocate capital dollars between the segments.

In addition to the capital spending I just described, we will use cash to pay down debt. I'm targeting to reach a net debt to EBITDA ratio of 1.4 to 1.5 times by year end. I do not anticipate any share repurchasing activity at this time. And of course, I expect we will maintain a competitive dividend.

Consistent with previous years, I won't give specific earnings guidance. However, there are a few items I would highlight. There will be approximately $0.04 to $0.06 of incremental pressure on EPS due to non-cash pension and retiree benefit costs in 2010, which is down from the year-over-year impact in 2009. And the annual effective tax rate attributable to Verizon is expected to be in the range of 33% to 35%.

Finally, as we report results in 2010 we will no longer adjust reported earnings results, instead only reporting GAAP earnings, consistent with trends in corporate reporting. By eliminating adjusted results, we will simplify our financial reporting. Of course, we will continue to provide the detailed information you need to understand and analyze our reported results, including the identification of material non-operational items. For example, as we approach completion of the strategic transactions we initiated in 2009, we will fully disclose any related costs and the impact of divesting properties in our financial results.

And with that I'd like to turn it back to Ron.

Ron Lataille - *Verizon Communications Inc. - SVP - IR*

Thank you, John. Ivan and John are now available to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

In the past, you guys have given targets for Wireless margins. Could you maybe update us or do you think it's possible to hold profitability at this level, given the increasing number of upgrades in the higher-end phones and what seems to be more competition in the industry recently?

And then a quick follow-up to that -- there is more strength than we expected in the reseller channel. How do you expect that to evolve as we move throughout the year? Do you expect it to grow from here, or is that becoming an increasing focus, just based on how the market is evolving?

John Killian - *Verizon Communications Inc. - EVP, CFO*

Yes; we are very pleased with our Wireless margin performance as we look at '09. For the full year we were 45.9%, just short of 46%. Fourth quarter, we came at 45%. As you know, we don't provide specific point guidance there, but we really had a very strong year.

The fourth quarter at 45% did see the impact of a very heavy level of upgrade activity and, as you can see in our numbers, very strong growth in the fourth quarter. We had the series of new smartphones introduced in early November, so the DROID, the Eris -- they have been extremely well received, and particularly a strong take-up in the fourth quarter. So that was some of the impact we saw there.

We think we are very well positioned in the Wireless business in 2010. We have the right handset lineup. We're getting more and more data penetration, very good data growth. So our focus is, as it has been in the past, on both driving growth and profitability. We won't put out a specific target, but we feel very good about our position and our ability to continue to drive industry-leading margins in the Wireless business.

On the reseller side, you are right -- very good performance in the fourth quarter. We added 1 million new reseller customers, as we mentioned. Now, a point of interest here -- this comes from several different resellers contributed to this. It just wasn't one party. The other point I would make is that the new resellers that are coming in are coming in at much higher ARPU levels than the traditional reseller base we had in the past. So we also see this as an opportunity to expand the marketplace.

We haven't changed our strategy. Our strategy is still very much focused on the postpaid base and the retail base. But that doesn't mean we are not going to participate in other segments of the market where we can drive positive NPVs for our shareholders. And that's how we see the reseller market right now.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

John, could you give us an update on the Alltel synergies, what we've had so far and what we can expect going into 2010? And on the FiOS adds, the numbers were a little bit lower than we had expected, sort of second quarter in the below 200,000. Is this a sign of maturity, perhaps, or is it more seasonal? Or, is this the run rate we should be thinking about into 2010?

John Killian - *Verizon Communications Inc. - EVP, CFO*

On Alltel, I'm very pleased with the progress we made in 2009. We are through all of the billing system conversions for the former Alltel. So they are all now on our billing areas. Our target for the year was $500 million to $600 million in expense synergies. We actually did a little bit better than that. Our target for full year 2010 is $1 billion to $1.1 billion. We are well on path for that.

We are not fully done with all of the integration work. The integration work remaining in '10 is more around network. We got a lot of network integration work done in '09, but we have more cell site conversions to be done, and we'll be working on that.

So we feel very good. We spent a little bit more on the CapEx side in '09 on Alltel integration than we had originally anticipated, but the aggregate amount we will spend will be the same. So there will be a little bit of a benefit, less spending in '10 as we go through there. So I think Alltel has turned out to be very positive for us, and we expect it to continue to be positive.

From a FiOS perspective, Simon, we are pleased with our overall FiOS performance. And as we look back on the last several years, we continue to see expanded penetration; very good ARPU, as we pointed out, over $140; really strong video ARPUs and great reaction to the product. Churn is running low and continues to run low, and we've also seen, as we expected to do, continuation in improving our operational metrics and the fiber network running with much lower maintenance cost than the copper network.

Now, when you think about growth, two years in a row we've gained over 900,000. Over those two years we've had fluctuations quarter by quarter. It hasn't been an exactly linear climb up. So we feel very good that there still is a lot of opportunity to expand penetration. We will have new homes being opened for sale also. So we feel good about our position here. Fourth quarter, I think there was a little bit of impact from the economy, from consumer spending. But we think, as we continue to enhance the product, we are very well positioned.

Operator

Vijay Jayant, Barclays.

Vijay Jayant - *Barclays Capital - Analyst*

I have a question for Ivan, really a bigger-picture question. In 2010, obviously, you have some strategic sales and some pension-related pressure on your earnings. So can you actually talk about the true organic growth you could drive in the business,

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both in terms of earnings and cash flow in 2010? And how is that going to be driven? And beyond 2010, can you talk about the sustainability of the dividend, given most of the free cash flow is coming from Wireless?

Ivan Seidenberg - *Verizon Communications Inc. - Chairman and CEO*

So it's a good question and it's something we've discussed here. Generally, when we turn the clock back a year and look at the beginning of 2009, we assumed that we would get a little bit more momentum from the economy. And we were comfortable that a lot of our organic plans would pick up momentum. So here we are at the beginning of 2010. We feel that our organic momentum is good. We had good growth in all our strategic areas, as John pointed out a minute ago. But we are facing some more significant headwinds than we thought we would face from the economy.

So, to answer your question, when we look at 2010, just the way our management team put the year together, we have a lot of confidence that we can continue to drive success in our organic areas. As John mentioned just now, on FiOS we feel we have a good formula in Wireless. And so I think that we feel we are in pretty good shape on that score.

The economy won't help us as much as we thought. So the truth of the matter is, from an organic standpoint we are shooting for some modest organic growth as you look at our core business going into 2010.

Now, when you wrap that around the broader question you asked about shareowner returns, I think our strong suit in 2010 is obviously going to be the excellence of our operations and the generation of cash. So we'll be able to continue to delever. Our credit metrics will improve our balance sheet -- our balance sheet will get better. We'll be able to focus on maintaining a very strong and competitive dividend.

As you mentioned, there's two transactions that will be completed, and particularly the Frontier one will offer investors an opportunity for some added value creation. So when you add this all up, we're looking at the possibility here in 2010 that we can drive total returns, total shareowner value in terms of what shareholders can expect, somewhere in the high-single digits. That's our view of how the year could pan out.

There's some risk to that. There's also some upside. The economy could be an upside. But our view this year is we have discounted a lot of help from the economy because, in my view in talking to other companies and our work on the Business Roundtable, even if the economy starts to pick up, it won't be until maybe the end of the year, which won't have a big material impact on 2010.

So I hope that answers the question. Now, one more point -- we feel much more bullish about 2011, because in 2011 I think we all have furthered our position in a lot of the areas we are working on organically. And there should be, clearly, some impact and positive impact from the economy as we go forward.

So we are thinking this is a year where we do better than we did in '09, and '11 should be even a stronger year after that.

Operator

David Barden, Banc of America/Merrill Lynch.

David Barden - *Banc of America/Merrill Lynch - Analyst*

If I could ask two, the first one on Wireless -- I guess, notwithstanding the expectations of organic growth in the key strategic areas, I guess in the fourth quarter, for instance, service revenue in Wireless -- and I know this is not a sequential business. But it was up about 20 basis points. That's the lowest sequential revenue growth over the last five years we've seen, by as much as

100 basis points. And, John, I go back to some of your comments from the introduction of the new pricing plans, where we were expecting voice pressure to be the first thing felt and then data upside later.

So I guess, as we look into a tougher year from a net add growth standpoint, are we maybe at the point where we're going to start to see some more volatility and possible negative Wireless services revenue growth here? And if not, I'd love to hear the argument there.

And the second piece, if I could go back to the FiOS side of things, obviously third-quarter the target was a 250 run rate. We showed up in the fourth quarter with 150. Last quarter you were very aggressive on promotions. You've reversed out of those promotions. You've raised prices for FiOS and some of the low-end DSL stuff.

So it feels like, as you focus on profitability, you are willing to sacrifice market share in the near-term. And also I'd love to hear your thoughts on that.

John Killian - *Verizon Communications Inc. - EVP, CFO*

A couple thoughts here for you. Yes, we have seen a deceleration in Wireless service revenue growth as we've gone through the year. As we went through the year, though, you saw a pretty good pickup as we went through the third and fourth quarter and continued strong pickup on net adds on the retail postpaid side. And you also saw the positive impact on the reseller side.

When you look at ARPU here, and particularly the one I focus more on is postpaid ARPU, so we continue to grow. Growth slowed down a little bit, 0.2% growth as we went through the fourth quarter. The voice side, the rate of decline was about the same level in the fourth quarter as it was in the third quarter, but we continue to see very strong growth on the data side.

So I think, as we look to 2010, we think we can accelerate growth on data. A little bit we are competing in a disadvantaged position through the early part of 2009 in terms of our smartphone lineup. We think we've done a lot to fix that. The DROID has been extremely well-received. As you know, we have additional new smartphones being rolled out in January, the Palm product in particular. So our handset lineup is very strong.

Our data attachment rate is very strong. We are seeing a much higher penetration of both smartphones and multimedia phones. In the script, we mentioned about 26% of our base at the end of '09 comes from either a smartphone or a multimedia. If you look at our fourth-quarter direct sales, it was a factor of 2.5 times that in terms of mix. So we're going to be getting a much higher ARPU customer coming through, and I think we'll see more of the benefits there as we go through in 2010.

On the trade-off of growth and profitability, as I mentioned to you on FiOS, we feel we are in a very good position on the FiOS side. We are also focused on driving strong margins. As you know, content costs go up, other kinds of factors. So we're not going to stand still from a price perspective. But you are right; we have changed our promotions in the first quarter. We've gone away from $150 cash back. That wasn't because of pressure on profitability; it really was on driving market reaction to our proposition. So now we are leading with an $89 offer. That's bringing traffic in, and then we have significant opportunity to upsell.

So if you look at our FiOS platform, we think we are extremely well-positioned. All of the consumer reports are rating it very highly. Our customer reaction to the product is very positive. So we think we can continue to improve the profitability of the FiOS offering and, at the same time, continue to sustain growth.

We don't think every quarter is going to be exactly alike. You need to react pretty quickly to different competitor offerings. But we feel good about our FiOS position.

Operator

Michael Rollins, Citi Investment Research.

Michael Rollins - *Citi Investment Research - Analyst*

Shifting back over to the Wireline margin, can you help us a little bit more in terms of timing? Maybe if we just strip pension out for a moment and think about the Wireline margin on a cash basis, how would you think about the recovery in terms of the pace of the headcount reductions that you've done to date and your planning? And if you can also overlay that with how you are looking at FiOS economics improving for 2010?

John Killian - *Verizon Communications Inc. - EVP, CFO*

I think we had three factors in particular that are impacting our Wireline margins, and particularly in '09. And we are going to live with some of this as we go through 2010. I think the biggest factor in '09 as we look back really is the economy. If you look at our enterprise business and our wholesale business, both of them were down in the 4% to 5% range in the fourth quarter. Earlier in the year, the wholesale business was down a little bit more than that.

So the economy, particularly in those areas, had a significant impact on the ability to sustain and hold margins as we lost some of that, and particularly on the wholesale side, some of that higher-margin revenue.

We've also got the issues with shifts from the secular side with some of our traffic moving to the Wireless side. So we are dealing with the secular pressures that we've been dealing with. And as you mentioned, another big factor last year was pension and benefits.

So our focus has been to do a couple of different things. But at the lead of this is to take a lot of costs out of the business. Now, if you look back in '09, our force reductions were much more back-end loaded. So Wireline business in total, we reduced about 13,000. We've reduced the total workforce by about 17,000. About 4000 of that was related to Alltel integration, so the pure Wireline -- but it was much more back-end loaded, so we didn't see as much of the benefit of that in '09 as we would have liked to have seen. We will see benefit of that in 2010.

And then you can also see in the results that we also provided for further force reductions in 2010, and you should think about that at about the same level that we did in 2009. So our team will be extremely focused on right-sizing the cost structure. There's a series of other areas where we will be attacking. It's things like real estate, or reducing square footage. As we bring the employee base down, we have excess facilities within the system. So we will go through a process of terminating some leases. We'll sell some additional buildings. And you can just get a feeling that virtually every expense line will have a lot of pressure on it.

Now, we also look at expanding penetration in the marketplace, so it isn't just cost. As mentioned earlier, we just did a couple of price changes on FiOS. We don't think they are going to inhibit our ability to grow, but we think they are going to allow us to drive more margin from a FiOS perspective.

Now FiOS you mentioned. FiOS is performing pretty much where we thought it would be. We continue to see improving profitability as we go further through the investment. We think that will continue to accelerate as we go through 2010. It's not exactly like the original business case we've laid out. Some pieces of FiOS have done better than others, but we are pleased with our FiOS performance.

Operator

Jason Armstrong, Goldman Sachs.

Jason Armstrong - *Goldman Sachs - Analyst*

A couple questions, maybe first on Wireless. A good quarter in postpaid relative to, I think, what we expect from the rest of the industry. Much of what you did in the quarter in terms of the ad campaigns was directed at AT&T in particular. I'm wondering if you can speak to porting ratios in the quarter in terms of where the strength came from. Was it AT&T and mapped out the ad campaigns, or was it broader strength, if you can speak to that?

And then second question I guess just getting back to FiOS. I know you said churn remains low. I wonder if you can give us any more granularity to help us think about the gross add, churn, net add picture as we went through 4Q.

John Killian - *Verizon Communications Inc. - EVP, CFO*

On porting, we did see improvement in the fourth quarter on porting overall. We don't give specifics on carrier by carrier, but we are pleased with our performance there. We were definitely at a disadvantage on the higher end of the market with our smartphone lineup. The introduction of the DROID and other products helped us a lot there. So we're pleased with our performance from a net add perspective, and we see that opportunity to continue on the porting side as we go into 2010.

Churn is running, both on the video and data product, in the low 1's in absolute terms. And it has improved a little bit but stayed very steady despite a very competitive market on FiOS Internet and the TV side. We think a lot of that has to do with the quality of the offer that we have, the product we have and the enhancements that you can see through the advertising that we continue to make. So links to things like Facebook and Twitter and adding -- continuing to add added value that isn't available through a lot of the competitor offerings. So by strengthening the quality of the product, it's having very positive impacts on churn.

Jason Armstrong - *Goldman Sachs - Analyst*

And so with churn where it is, you guys are obviously managing the gross add channel around FiOS. Can we maybe talk about the conceptual framework? I know we've had a couple questions on profitability on FiOS. But just conceptually, there's a couple of different paths as it relates to profitable growth in FiOS, and one argument would be scale the business as quickly as possible to gain leverage over content costs, which could be the bigger issue over time. The other path would be worry about install costs right now. Can you help us think conceptually about that over the next couple of years?

Ivan Seidenberg - *Verizon Communications Inc. - Chairman and CEO*

Yes; Ivan here, Jason. I think, if you look at this from an operational standpoint or, as you might say, conceptual, we think we've learned a lot in watching the evolution of this FiOS. So let's start out with what John said, is we got really good, terrific grounding with our customers. Now, for the past two or three years, we have had these big events in which we open a lot of homes for sale which generates a point of pressure in the marketplace where we do a lot of promotions, our competitors do a lot of promotions and we get some footing in a marketplace.

Now, what we've found is, given that we are out there a long time, and we've watched a behavior that once offices are open for two or three years we've seen a very steady improvement in penetration that we are very satisfied with. And so we have discovered the idea that if we focus a little bit better, we're going to get the market without having to necessarily overheat the market at any point in time.

So I think where we are now is, we naturally have to experiment with a couple of things. But what's maturing is the fact we are nearing our full plate of passing homes. And so you just don't market now the same way you might have marketed when you first opened it. So I think we are more conscious about the fact we're confident we'll get the market. We have to make sure we're careful about profitability.

Now, I would also say this. FiOS is doing fine. The other point I'd make is, I'm not happy about the fact the economy has slowed down the improvement and the earnings on the business side. So the issue is, when we look at the whole Wireline segment, we do need to balance a little bit of profitability to make sure that where the economy is hurting us that we offset some of that by not being too aggressive on the FiOS side. So it's a timing question.

So where I'd ask you to think about this is we think we are going to get the market; we'll just time it a little bit different. We'll try to do a little bit better, hold our own on the business side. And, as John said, the glue that helps us here is a fairly aggressive focus on our cost structure. So maybe that's a way that we are thinking about the evolution of the Wireline sector as we move into 2010.

Operator

Mike McCormack, JPMorgan.

Mike McCormack - *JPMorgan - Analyst*

John, could you just walk us through -- looking at the postpaid ARPU trends, still looking at growth, it's fairly tepid. I'm just trying to figure out, if you could talk about some of the voice weakness and some of the triggers there.

And then, second, on the Wireline side, you mentioned some of the back-end loading of the 2009 headcount. Could you give us a sense for how the 2010 headcount reduction, in your mind, will roll out throughout the year?

And then, lastly, on Wireline, as operating income continues to decline to getting close to almost a 0% margin, is there some sort of asset write-down trigger that you're looking at?

John Killian - *Verizon Communications Inc. - EVP, CFO*

Mike, let me take a couple of these, and then Ivan is going to comment too here. So if you look at the postpaid ARPU, as I mentioned earlier, yes; the last quarter we grew 0.2%. So we are still seeing growth. The pressure, as all of you know, is more on the voice side. So we were down 7.4% in the fourth quarter, we were down 7.3% in third quarter.

So good news there from my mind is it didn't get much worse in the fourth quarter. Now, the drivers here -- there's a couple different things that I'd point to. Clearly, as people have gone through bigger buckets of minutes, we are seeing less overage. That's not a surprise. We expect that to continue, particularly with the attractiveness of our new Unlimited plan. And we think, by the way, that's going to lead to people buying up, and that will create a good opportunity.

Texting has taken the place, as we all know that; the explosion on texting has had some pressure. Another area where we had some pressure in the third and fourth quarter is we have a lot of growth in our Family Plan customers. Some of that was tied -- more growth than we had in the first and second quarter -- some of that was tied to the Alltel billing system conversions that we went through. So that also contributed.

And then, as you look at the full year, early in the year we were not participating as much as we would have liked to on the higher end of the marketplace, part of that because of the device lineup. So I think, as we've gone through 2009, Lowell and his team did a terrific job getting the device lineup in a very strong position.

From a Wireline perspective we are still driving a lot of cash flow in that business. You saw the fourth-quarter numbers, the full-year numbers. So cash flow is very strong. A number of the earnings depressants are non-cash in nature; it's some of the pension and benefit items. The FiOS investment is doing extremely well. We have very high depreciation reserves in the non-FiOS area, so we always go through all of the GAAP requirements on impairments and those kinds of things. We will continue to do that. But as of the moment, we are in good shape there, and the cash flow is strong and our depreciation reserves are in pretty good position.

I'm going to ask Ivan to comment here too.

Ivan Seidenberg - *Verizon Communications Inc. - Chairman and CEO*

On the census and the headcount plans, just to put this in perspective, it's a good question. If you look at 2009 and 2008, the force reductions were about the same in both years; for the core Wireline business, about 13,000 each, in each year. So if you look at 2010 and assume it's about the same number, it's fair to say that the way you calendarize it, it's probably about a third to 40% that will be done in the first four to six months of the year. And then you will see some reductions a little bit after that with a heavy concentration toward the end of the year, just like we did in 2009. And the fourth quarter of 2009, I think our number was 5000.

So I think, if you look at it that way, you'll see a fairly big down payment early in the year, some spreading out and then another big lump of it, our actions, will be in the end of the year.

Mike McCormack - *JPMorgan - Analyst*

Thanks. John, any thoughts on the impact on CPE in the quarter on those enterprise and wholesale trends? Is it a meaningful difference?

John Killian - *Verizon Communications Inc. - EVP, CFO*

Mike, any impact on what?

Mike McCormack - *JPMorgan - Analyst*

The impact of CPE on this enterprise and wholesale revenue growth earnings?

John Killian - *Verizon Communications Inc. - EVP, CFO*

I'd say, Mike, if there was something that maybe surprised us a little bit in the fourth quarter was, if you remember in the third quarter, we thought we were seeing a rebound in enterprise and even a little bit in wholesale, in terms of traffic. We didn't see that carry through in the fourth quarter, and we actually saw some economic weakness there. Our CPE numbers were actually down in the fourth quarter, both from the third quarter and down pretty significantly from the fourth quarter of '08, not because of product, not because of portfolio, not because of losing deals; there were just -- there was less spending being done in the marketplace.

Ivan Seidenberg - *Verizon Communications Inc. - Chairman and CEO*

I might add that our activity is still strong. I think there are a lot of RFPs. We're making a lot of visits, we're talking to a lot of customers. It just seems that we are encouraged by the fact that people are getting ready to get ready to do something. But you go across the country and you look at people's spending habits, [they] just not seem to be in a position where people are unleashing their budgets. And I think this is what we saw in the CPE budget, and I suspect we'll continue to see that for a while longer.

Operator

Tim Horan, Oppenheimer.

Tim Horan - *Oppenheimer & Co. - Analyst*

Two broad questions; one, the impact of the iPhone; and then secondly, just maybe some broad earnings per share thinking for this year. You guys have clearly been operating the best wireless network in the US and probably globally. But the iPhone and high end smartphones have been taking down networks all over the place and impacting margins. How do you avoid that from happening to you?

And maybe related to that, if you can give us some color where the trends are right now with the existing high-end smartphone sales as a percentage of total sales, maybe even usage, so that when you do get the iPhone we can just gauge how much more of an incremental impact that will be.

And then, John, there's a lot of moving parts in earnings per share this year. Can you just give us maybe some really, really high-level -- do you think you can actually grow earnings per share this year, even with the disposition of the Frontier assets and other assets, given the pressure from that and from the headwinds on the pension?

Ivan Seidenberg - *Verizon Communications Inc. - Chairman and CEO*

We'll double-team this question. I think, on the iPhone question, I think your summary is fair. I think we should start out with the idea that, as the iPhone has been out in the marketplace for now several years, they've gotten some good traction. It's a good product, and they've done a good job.

I think, as you move forward though, as we move to LTE and we start to see a completely different dynamic out in the marketplace with eight times the capacity and much lower cost per transport of a megabit, I think we are feeling very comfortable that the smartphone market will move into more parity for us with respect to handling that.

We have done a lot of work in modeling what the DROID does, what the Palm will do, what the Eris does and what the BlackBerry does. So we feel we know what the capacity limitations are in this, and we are feeling pretty good that we are out in front of this issue. And to the extent that usage picks up, I think our guys have done a very good job in making sure that we stay in front of that issue. And I know most investors are worried about that. But over the course of the last 10 years, this is what we pride ourselves on doing. So I'm comfortable that we are in good shape on this.

We've spent a lot more capital in the last two years on capacity than probably people realize. And I think, when you look out, as we move into 2011 and we start to get into full deployment of LTE, we're going to get a big, big improvement in terms of our efficiency. And so we are feeling good about that. So I wouldn't think there's anything to worry about on the capital. When something comes along that would drive us to suggest we need to spend more, we'll tell you. I don't think at this point there's anything to worry about.

Now, on EPS, I'm not too sure we're going to be able to give you more than I gave you earlier, but I'm anxious to see what John is going to say about it.

John Killian - *Verizon Communications Inc. - EVP, CFO*

So, Tim, let me just walk you through a couple of things here. So if you think about full-year '09, we are $2.40 of EPS. The non-operational factors that we're looking at right now are P&B, which is $0.04 to $0.06, so use $0.05. The trust property sale, which we are targeting close by the end of the third quarter, is about $0.06 also, so use $0.05 for that. So take the $2.40, take it down $0.10 for that, you are at like a $2.30 number.

The goal of the management team is to show operational growth off of that $2.30. So that's what we are very focused on. We have a number of things that I think will help us there. If you think about the Wireless business, we believe we will grow profitability in the Wireless business. We're going to have pretty good revenue growth, we think. We're going to continue to grow our share, as we mentioned earlier. More data plan penetration should be very positive to us, and we'll also have the benefit of the synergies.

On the Wireline business we have the same kind of issues we had in '09 to work through. We will see some benefit from the force reductions. But the biggest unknowns to me right now is, what impact is the economy going to have. So our plan assumes there's a pretty good recovery in the second half of 2010. That really is key to our performance. If you look at '09, by our estimates the economy lost about 4 million nonfarm jobs from an employment standpoint. We see that growing as we go through '10. The first quarter we see slightly down. In our forecast, that's what we're assuming, but a pickup in the second half of the year.

So that will be a big variable which will have impact. If we do better on the economy I think we'll see positive volumes coming through our wholesale business and our enterprise business from that perspective. So it certainly is our focus to grow organically beyond the adjustments.

By the way, on the Frontier-related spend, we are targeting second-quarter close on that. So we'll work through the details of that as we get closer to a close.

Tim Horan - *Oppenheimer & Co. - Analyst*

Now, are you assuming increased dilution if you do get the iPhone or other smartphones? Those devices do have a lot higher handset subsidies. Would that not have an impact on your earnings?

John Killian - *Verizon Communications Inc. - EVP, CFO*

Tim, we've already factored into our assumptions very strong smartphone performance. Yes, I think I mentioned earlier, our base is about 26% smart or multimedia. Fourth quarter, our factor on that was about 2.5 times that on our direct sales. So we are seeing good performance in the smartphone and multimedia side. Our plan assumes that, actually assumes greater than that from a sales perspective as we go through 2010. And that's all factored in.

Ron Lataille - *Verizon Communications Inc. - SVP - IR*

Brad, at this point I'd like to turn the call over to Ivan for some concluding comments.

Ivan Seidenberg - *Verizon Communications Inc. - Chairman and CEO*

I think John just summarized very well. Just a couple of points. I think, first of all, thank you all for your questions. You've picked up on all the key points, so you all know the issues that we are working on. If I had to put a small emphasis on a couple of things, let me just make sure that we're all in the same place.

So when we look at 2010, looking at Wireless, we are committed to maintaining reasonable growth and profitable growth. And we understand that it can't come at any cost, but we do think we have a differentiated business with key attributes and we can drive continued expansion of our share in this space, and we'll do that, and we'll do it smartly.

One of the things we haven't talked about is that we have lots of opportunities in Wireless to continue to even make the business more efficient. I think, if you look at our cost numbers in 2009, you would see that there's probably room for improvement to get our cost per gross adds or our cost of business into even a better shape. So I think part of the issues you raised about how we fund the growth and how we maintain profitability would be to make sure that we do as good a job as possible in Wireless on that. And the Alltel synergies helped with that a great deal.

On the Wireline side I'd like you to think about the fact that we feel we have a great platform in FiOS. But we recognize that our total value creation is not being helped by -- unless we start to turn the corner on moving the margin issue up again. We're not going to overstate what we can do, but the issue there is profitability in the Wireline sector is going to be a focus for us, and we need to build some momentum so that, as we head toward the end of the year and into next year, you can see some good progress on that.

Our strong suit, as I said earlier, is going to be our operating metrics are good, our cash is strong, our dividend is strong, our balance sheet is strong. So the key for us is, until the economy picks up, is to hunker down and do all the things that you would do from a smart cash management position, make sure we return sufficient value to shareholders to keep people interested in our stock and then participate in a broader expansion of the economy, once that begins to happen.

So, Ron, let me turn it back to you.

Ron Lataille - *Verizon Communications Inc. - SVP - IR*

Thank you, Ivan, and that concludes our call today. I appreciate everybody listening in. Take care.
