FINAL TRANSCRIPT

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VZ - Q1 2010 Verizon Earnings Conference Call

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PRESENTATION

Operator

Good morning and welcome to the Verizon first quarter 2010 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 - SVP, IR*

Good morning and welcome to our first quarter 2010 earnings conference call. Thanks for joining us this morning. I'm Ron Lataille, and with me this morning is 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.

As we indicated on our last earnings conference call, beginning this quarter we are no longer adjusting reported earnings results, instead only reporting GAAP earnings, consistent with trends in corporate 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 nonoperational items.

For the first quarter GAAP earnings were $0.14 per share. These earnings results include a total of $0.42 of nonoperational charges, the largest of which is for reduced tax benefits related to retiree health care. This one-time non-cash tax charge totaled $962 million or $0.34 per share.

In addition, we incurred a non-cash charge of $0.03 per share related to pension settlement losses resulting from our previously announced separation plans. As you know, pension accounting rules require that settlement losses be recorded once prescribed payment thresholds have been reached.

We also incurred nonoperational costs in connection with the spinoff of our local exchange business in 14 states. As we've previously discussed, these costs are related to network, software and other activities required for these facilities to function as a separate company. This quarter these "get-ready" costs amounted to $0.04 per share. Lastly, we incurred $0.01 per share this quarter related to Alltel merger integration costs.

I would also point out that all of these nonoperational items are recorded at the consolidated level and therefore do not affect any comparison of our Wireless or Wireline segment results to prior periods.

One last item I would like to mention relates to certain revenue reclassifications within the Wireline segment, due primarily to business customer shifts between mass market, global enterprise and global wholesale. The largest shift involved businesses with 20 or more employees. These accounts are now being managed by our enterprise sales teams and the corresponding revenues will be reported on the global enterprise line. Revenue from businesses with less than 20 employees will continue to be included in the mass market line. Prior-period history has been reclassified and is provided in the supplemental schedules and historical files on our website. These changes in revenue line item reporting did not have a significant effect on historical growth rates.

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

John Killian - *Verizon - CFO*

Thanks, Ron, and good morning, everyone. Before we get into the operational details, let me start with some brief comments on the business overall and add some perspective to the results for this quarter.

In January we outlined our key focus areas for 2010. In summary, we said that we expect to continue generating solid cash flows and maintain tight control over capital spending. Second, we would continue to capitalize on our investments in Wireless, FiOS and global IP networks to grow revenues and market share, drive deeper penetration and increase ARPU. Finally, we would remain focused on our cost structure, achieve meaningful cost reductions and make sure the business is ready to quickly benefit from improvements in employment figures and the overall economy.

In the first quarter we executed on the business plan we described to you. Free cash flow grew over 25% this quarter, driven by strong cash flow from operations and lower capital spending. We saw good customer growth in Wireless and FiOS, and we may be seeing some positive early signs of recovery in the business markets.

Revenue trends this quarter were better on a consolidated basis as well as in the Wireless and Wireline segments. In Wireless, data growth was particularly strong this quarter, driven by the significant amount of smart phone sales and upgrades. We feel very good about our retail postpaid ARPU and customer retention performance this quarter.

On the cost side we continue to benefit from the synergy savings of the Alltel acquisition, and Wireless margins expanded this quarter. In our Wireline segment we continue to be aggressive and persistent in our cost restructuring to preserve margins. Force reductions of 5000 last quarter and 2300 this quarter resulted in cost savings of about $80 million in the first quarter. However, the continued economic pressures on the top line, incremental pension and retiree benefit costs and higher costs related to record-setting storms affecting much of our franchise territory resulted in a lower margin. My goal continues to be to stabilize the Wireline margin this year, and we are on track with our plans to accomplish this goal. And I'm confident that we can achieve this objective and expand margins in the future.

Lastly, on the strategic front, our pending transactions involving the sale of the Alltel divestiture markets and the spinoff of access lines are both moving forward.

With this is an overview, let's turn to slide four and start our detailed discussion of the quarter. As Ron indicated earlier, our first-quarter earnings results included the nonoperational charges you see here, a majority being non-cash and related to deferred tax and pension expense recognition. Our cash summary presents a much different growth picture. Cash flow from operations in the quarter was strong, up 7.5% over last year. Our capital spending was down $251 million or 6.8%. Free cash flow at the end of the quarter was $3.7 billion, up almost $750 million or 25.6%.

In Wireline, first-quarter capital expenditures of $1.6 billion were down $437 million year-over-year. In Wireless, capital costs were higher by $219 million. Although we've started the year conservatively, I would reiterate that our 2010 guidance for capital spending is in the $16.8 billion to $17.2 billion range. As far as the balance sheet is concerned, we continue to reduce leverage. In the first three months we've reduced net debt by $1.7 billion, and net debt is down more than 10% from a year ago.

Let's now turn to revenue trends, which are on slide five. Consolidated revenues for the quarter were $26.9 billion, up 1.2% from the first quarter a year ago, a better growth rate than each of the last two quarters. This reflects improvements in both Wireless and Wireline. Wireless revenues were up $661 million or 4.4%, driven primarily by data. Wireline revenues were down 2.9% this quarter, due primarily to continued economic pressures in our business markets.

But FiOS revenue growth continues to be strong, up 40% year on year. This is the third consecutive quarter of lower year-over-year revenue declines in Wireline.

With that snapshot of revenues, let's move to the segments next, starting with Wireless on slide six. In the first quarter, total service revenues were up $770 million or 5.9% versus the year-ago quarter, and we saw a strong sequential improvement of 2.2%, which is the highest sequential growth rate we've seen in the last six quarters. This revenue performance is, of course, driven by a strong focus on expanding the data market. Data revenues, which comprised one third of total service revenues in the quarter, grew 26.4% year-over-year. Total data ARPU was 18% higher than a year ago.

In terms of the components of data growth, quarterly revenues from Web and e-mail services was $2.4 billion, up 43.5% from first quarter last year. Messaging revenues of $1.8 billion grew 16.2%. Our strategy continues to center on taking advantage of the expanding smartphone category. Our approach has been to feature a number of different operating systems and platforms, which gives us the opportunity to not only attract new customers but aggressively upgrade existing customers to high-end, data-capable devices. In addition to the obvious benefits to metrics like ARPU and churn, this will drive sustained data revenue growth, and we have plenty of upside in terms of data penetration.

At the end of the first quarter, more than 30% of our retail postpaid base had 3G multimedia devices or smartphones, up from 26% at the end of 2009; 17% had smartphones, and 13% had 3G multimedia devices. We believe customer demand for data mobility will only increase as we further strengthen our device lineup and feature innovative applications and content.

Let's take a look at customer growth on slide seven. We've added a new chart this quarter to highlight a category of "other connections" not previously disclosed or counted in our subscriber metrics in the past. At the end of the first quarter we had 92.8 million customers and more than 100 million total connections. Our high-quality customer base is heavily weighted toward retail postpaid customers, which comprise 89% of our subscriber base. This customer segment remains our key focus as we continue to drive revenue growth through increased data usage and penetration.

In the first quarter we added more than 1.5 million net new customers with 423,000 retail postpaid net adds and 1.3 million reseller additions. With regard to the change in the mix, we typically see seasonal effects in the first quarter. In any given year the sequential decline in retail postpaid net adds between fourth and first quarter can be about 25% to 30%. This quarter the decline was magnified, but we did not see any significant shift in market share, overall porting ratios or any increase in churn. In fact, or churn rates improved. Total churn showed declines both on a year-over-year basis and sequentially and postpaid churn posted a 6% improvement compared to the first quarter last year.

I would also add that these improvements are from already remarkably low industry-leading churn levels. Although total Wireless market penetration is above 90%, we are still very bullish about our growth opportunities in the retail postpaid market. By continuing to strengthen our smartphone device lineup and offering differentiated services like NFL Mobile and Skype Mobile, we will stimulate upgrades within our existing base as well as attract and retain high-value customers.

Net adds in our reseller channel were very strong again this quarter, which is not surprising given typical prepaid seasonality. The reseller market is a low cost channel for us and an effective way for us to attract the incremental prepaid customer. I would also remind you that we do not have unlimited pricing arrangements with our reseller partners.

The new category, other connections, totaled 7.3 million at this time and will include all kinds of machine-to-machine devices like vehicle tracking, telematics, eReaders, consumer electronics, smart grid solutions, medical alert devices, essentially anything that has a wireless chip in it.

Looking ahead, particularly when we commercialize LTE, the proliferation of these types of devices will be another source of incremental wireless growth. As we've mentioned in the past, we have a separate organization dedicated to Open Development, and Verizon wireless is taking a leadership role in facilitating and stimulating innovation in this area. Examples include nPhase, which is our joint venture with Qualcomm to provide advanced M2M solutions, the establishment of the Verizon Technology Innovation Center in Waltham and the creation of the 4G Venture Forum.

Let's take a closer look at our retail performance on slide eight. Our focus continues to be on the retail postpaid market. It is the largest and most important portion of our business. Retail service revenue, which accounts for about 85% of total wireless revenues, grew 5% in the first quarter on a year-over-year basis. As I mentioned earlier, our retail postpaid ARPU this quarter grew 0.6% versus the year-ago quarter. This accretion is driven by our data growth strategy with an increasing percentage of our customers using smart phones and multimedia devices.

Device upgrades were strong as 8.6% of our postpaid base upgraded in the first quarter, representing an increase of almost 15% from a year ago. This is extremely positive from a churn and ARPU accretion perspective. Customers are responding very well to our portfolio of smartphones and multimedia devices. 36% of device sales from our direct channels were smart phones with a $30 monthly data plan, and 24% were from multimedia devices which have a minimum $10 monthly data plan attached.

The pricing simplification we implemented in January is helping to drive some of these excellent metrics, and the results were exactly what we anticipated. While we experienced the downward migration of customers from the $99 unlimited price point, we also saw a healthy migration of customers up to new $69 unlimited price point.

Another positive development is an increasing percentage of gross adds or new customers opting for voice plans at 900 minutes per month or more, which obviously bodes well for revenue and ARPU. As Lowell described on the investor call in January, our goal is to drive further smartphone penetration and stimulate data growth, which will offset some of the voice declines. In addition, as we launch LTE later this year, having a large number of data customers provides us with a great opportunity to meet their increasing need for higher speed and more sophisticated application-based devices.

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The first-quarter results indicate that this is the right strategy. Revenue growth improved, our key customer retention metrics improved and we saw retail postpaid ARPU accretion.

In terms of profitability we had another excellent quarter, generating $6.4 billion of EBITDA, up 5.7% from first quarter last year. Our first quarter margin performance of 46% is a strong result, reflecting both lower retail gross additions and stronger upgrades to higher end devices. I think the wireless team did a great job this quarter, driving this margin result, given our aggressive upgrade strategy.

Looking ahead, you can expect us to continue achieving both growth and profitability with a focus on gaining share in the retail postpaid market and increasing the penetration of smartphones and other data devices, which will further expand the data market.

Let's move now to our Wireline segment on slide 10. As I mentioned earlier, we continue to see both cyclical and secular pressures in our Wireline consumer and business markets with total Wireline revenues down 2.9% from a year ago. Our broadband and video products are driving a significant shift in our consumer revenue mix, and we continue to be very pleased with the success of FiOS. FiOS revenues are up 40%, and ARPU increased 5% year-over-year. Managed and IP services continued to transform the business revenue mix. In the first quarter, strategic services revenue in enterprise was up 4.2%.

Let's take a closer look at both the consumer and business markets, starting on slide 11. A year ago FiOS made up about 30% of our consumer revenue. At the end of this quarter, FiOS represented more than 41%, a significant increase in just four quarters. The strength of our broadband and video products continues to drive consumer revenue and ARPU growth.

Consumer revenue in the first quarter grew 0.9% on a year-over-year basis, and we continue to see strong growth in consumer ARPU, which increased to more than $78 this quarter, up 12.3% from a year ago. The entire FiOS initiative continues to be very successful, and we saw very positive levels of customer additions for both FiOS TV and Internet this quarter. We have surpassed the 3 million customer mark in FiOS TV with 168,000 net adds this quarter, and with 12 million homes open for sale, penetration of FiOS TV is 25%.

In FiOS Internet, we added 185,000 customers this quarter, bringing our total to 3.6 million. With 12.6 million homes open for sale, Internet penetration is 29%.

Let's move next to our business markets on slide 12, which shows our global enterprise and global wholesale revenue performance. As you can see, revenue in each of these categories has been relatively stable for the last five quarters. As a result, we are seeing improved comparisons on a year-over-year basis. Global enterprise revenues was down $57 million or 1.4% in the first quarter compared with a 4.8% year-over-year decline in the fourth quarter. The steady increase in the number of private IP site activations is an encouraging indicator, as are CPE sales, which were higher than we typically see in the first quarter. Enterprise long-distance usage volumes, which have typically seasonal fluctuations, showed year-over-year growth for the first time in quite a while.

All of these factors point to early signs of a recovery that should help our revenue performance in future quarters. Global wholesale revenue in the first quarter declined $69 million or 2.9% year-over-year compared with a 4.9% decline in the fourth quarter. While we continue to see growth in Ethernet services related to wireless backhaul, we are not seeing a pickup in wholesale long-distance usage volumes yet. Foreign currency effects this quarter were similar to what we have experienced in the fourth quarter.

So the key point here is that revenue is stable and there is some optimism for improved performance in a recovery starting in the second half of the year. Let's cover Wireline profitability next.

From my perspective we are competing well in the market and we remain focused within the Wireline segment on four key strategies -- driving FiOS growth, improving enterprise, driving costs out and capital efficiency. In the first-quarter the fundamental trends underlying the overall Wireline results have not changed. The secular changes in the consumer market and the impact of the economic downturn in our business markets are still quite evident. And, while Wireline revenues are still declining, it is at a lower rate, which is positive.

The facts are that in the first quarter the sequential decline in Wireline revenues was nearly $0.25 billion. We did realize about $80 million in savings this quarter attributable to force reductions. However, these savings were more than offset by a combination of cost pressures, including an unusually high amount of storm related costs and incremental pension and retiree benefit expenses.

I am confident that, as we go through the year, we will be able to stabilize the Wireline margin with a combination of better revenue performance and our cost restructuring efforts. Every line item of expense is being attacked within our Wireline business. Let's take a look at some of the key areas.

First, headcount -- in January I indicated that our plans were to reduce the Wireline workforce by a similar level to what we achieved in 2009. A reduction of 10,000 people, for example, results in an annual run rate cost savings of about $600 million. In the first quarter we reduced our workforce by 2300. Keep in mind that our teams have executed well in this area with more than 28,000 reductions since the beginning of 2008.

Next, real estate -- we have been doing an extensive amount of work rationalizing our real estate portfolio to reduce costs. This includes plans to close facilities and reducing square footage, reductions in energy usage as well as facility maintenance savings. Our plan identifies roughly $125 million in cost savings in 2010 alone. Over the course of the next three years, we plan to reduce our total square footage by about 10%.

Other initiatives involve cost savings from network convergence, which includes center consolidations, operating and support system eliminations and new technology efficiencies. We've identified $100 million in projected savings here by the end of 2010. Other areas of projected savings include managing third-party interconnect and content costs and a variety of reduction initiatives associated with supply chain, inventory management and energy. Over the course of the next two years we have plans in place to resize our cost structure and capture run rate savings in the range of $1.5 billion to $2 billion. Once again, we have a well organized and realistic plan, and I'm confident that we will capture these savings.

To sum up, as we move into the second quarter we remain focused on the key areas I mentioned earlier -- first, continuing to generate solid cash flows and maintaining tight control over capital spending. Second, continuing to capitalize on our investments in wireless, FiOS and global IP networks to grow revenue and market share, drive deeper penetration and increase ARPU. And, third, remaining focused on our cost structure, achieving meaningful cost reductions and making sure the business is ready to quickly benefit from improvements in the employment rates and the overall economy.

Ron, I'll turn it back to you now for questions.

Ron Lataille - *Verizon - SVP, IR*

Thanks, John. Brad, John is now available to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Maybe just a couple quick questions on Wireless. It seems that the growth seems to be draining out of the postpaid market, in general, pretty quickly. Is this a good sort of mix of net adds we can expect between postpaid and reseller going forward? And if so, I know there's a lot of moving parts, including some pretty strong postpaid ARPU trends. But what are the margin implications? We've typically, in the past, talked about mid-40s. But given this potential shift in growth going forward, how do you see margins playing out from here?

John Killian - *Verizon - CFO*

John, good morning, and it's good to hear you got back from London. I heard you were stranded over there.

John Hodulik - *UBS - Analyst*

Yes, it was a longer trip than I thought.

John Killian - *Verizon - CFO*

Yes, let me give you a couple of thoughts here on this. If you look at the quarter, we gained 423,000 postpaid customers. Typically, the first quarter is down seasonally somewhere in the range of 20% to 30%. Obviously, that was magnified in this quarter. We came off a very strong fourth quarter, as you know, where we had gained 1.1 million really on the back of the strong introduction of the Droid and the Android-based operating devices. We had no really major new devices launched in Q1.

The Android itself based operating system continues to do very well. In fact, when you look at actually gross numbers, we moved more of them in Q1 than we did in Q4. So we are very satisfied with what we would label as the Droid franchise. And you're going to hear a lot more about that in the coming months, particularly with an important launch for us coming up shortly, which is the HTC Incredible, which the early reviews on are extremely positive.

Now, the other thing in the quarter -- we put a lot of emphasis around upgrades, and we did see an uptick of about 15% in our upgrade level. Now, that's great news for us. It's great news for ARPU, it's great news for retention. And by the way, we see of a lot of ability with tail winds there to continue to do well with that.

As we go forward, just a couple of thoughts for you. We believe we can do better from a postpaid perspective than we did in Q1. That will be particularly on the backs of new product introductions. We are not ready to throw the towel in, to say that postpaid growth is going to be substantially lower. Now, by the way, we recognize where penetration is. We don't think we're going to have 2 million quarters, but we think we can do better than we did in Q1.

Now, I would also underpin this saying we are going to be very responsible in terms of how we go after that. We are very focused on profitability, making sure we get the right mix. We do have a huge upgrade opportunity, as I mentioned before. And the other thought I would give you here is that this is really a foundation, as we look at it, for our LTE launch later this year. We are more excited than ever about the prospects and the capability of LTE. So, as we get more and more of our customers with smartphone-based devices, it's going to be a very nice transition into the LTE launch.

Now, a couple of thoughts for you here on margin. We had a very good quarter from a margin perspective, 46%. As you know, we don't have particular point guidance out there. We have seen, particularly in these economic times, a bit of a mix shift towards the all-you-can-eat plans. That's really driven more on the lower end of the marketplace. We've seen some of our prepaid base move to the reseller plans. We've seen some of the lower end of the market. That will probably continue for a little while, but we still believe there will be a lot of strength on postpaid.

Now, just to refresh you on this, our reseller pricing is not unlimited. Okay? It's really a bucket of minutes. The reseller customers that we are attracting now carry much higher ARPUs than our traditional ones and are very profitable and are not dilutive to our overall margin. So we think we can continue to grow margin quite nicely in the Wireless business and be in a very good position.

Operator

Tim Horan, Oppenheimer.

Tim Horan - *Oppenheimer - Analyst*

John, just a clarification on the postpaid adds and then the strategic question. Can you maybe talk a little bit how postpaid adds progressed through the quarter? And I guess you are saying you are not really seeing any shifts in market share because I guess we are hearing at Sprint and T-Mobile that Sprint, particularly, is doing a little bit better with some of their new pricing moves. But just to clarify, you're not really seeing any shifts there?

John Killian - *Verizon - CFO*

On that is, our market share remains strong. We're still port positive here, so I'd say we are pretty even in performance as we went through the quarter. We probably picked up a little bit towards the March time frame. But again, just to reiterate, we believe there still is postpaid growth out there for us. We believe our network and our offerings are a differentiator.

Tim Horan - *Oppenheimer - Analyst*

Just on the strategic front, there's been a lot of articles lately about Vodafone and their ownership of Verizon Wireless and some speculation on how to simplify that. What do you think is the most likely outcome here? Is maybe just status quo fine for you guys for the next couple of years? And related to this, there was a few articles, I think some misunderstanding on the dividend. You got a lot of calls that you might have to cut the dividend because the Wireline can't support it.

Do you see any issue in porting cash up from the Wireless unit to corporate unit? I don't see what the concern is, other than you have to pay some of that cash to Vodafone. But they are a shareholder like everyone else.

John Killian - *Verizon - CFO*

Tim, it's a real surprise I'm getting this question, by the way.

Tim Horan - *Oppenheimer - Analyst*

Yes, right, right.

John Killian - *Verizon - CFO*

So let me give you a couple of thoughts here. One is, we've just passed the 10th year anniversary -- hard to believe -- of Verizon Wireless being created, and in partnership with Vodafone I think our teams have done a great job. We've had a great working relationship with them over the last 10 years, and the business is doing extremely well.

Now, let me hit the dividend issue first because I think it's important. I want to make sure, from our perspective that our shareholders understand that we view the dividend as being very safe. We are a business that generates a lot of cash flow, over $30 billion of cash flow. We have a lot of different levers we can pull to make sure we have the ability to pay the dividend. And I'm surprised that becomes as big of a question as it does become, given all of the levers and all of the cash flow that we have. We have numerous sources of cash that is being generated.

And by the way, paying the dividend to our shareholders -- our shareholders are a priority for us. So the dividend and making sure we have stability and being in a position to recommend to the Board dividend increases is highly, highly important to us.

Now, on the strategic side of it, Tim, over the last 10 years you and I both have watched -- there are cycles where the whole ownership question gets more and more attention. We are in one of those times right now. From where I sit, the business is working extremely well. We've never made a secret of the fact that, under the right conditions, right terms, of course we would be interested in buying out the minority interest, the 45%. Why wouldn't we be, in a business that's working as well as it is?

Now, from my perspective as the CFO, that's very much a financial transaction. We run the business today, we operate the business, we manage it, we control it. So I would look at what is the price tag that the other party -- if they were interested in selling, what's the price tag, what's the multiple, does it make sense to us from a financial perspective? I don't know where that's going to go, but our view is pretty clear on that, from that perspective.

The discussions around merger that have been out there in the press -- Ivan commented on that recently, and it does reflect the belief of the management team. We are not convinced there's industrial logic behind putting the two organizations together. By the way, not that we are not open to listening, hearing new information on that. But we do not see a significant level of synergies. Cross-border mergers have not been, historically, highly successful. A lot of management complexity comes with that. So, while we are always interested to hear about that, we don't really see the industrial logic.

Now, on the cash flow from wireless, the great news is there's a lot of cash flow. It's growing, it's getting better, it's going to continue to get better. We've been clear what our view is of that in the short term, which is to use it to de-lever Verizon Wireless. That is still our view. We have an annual discussion with Vodafone in December of each year. We'll have another one next year.

There is not religion, though. I don't want you to think that we would never dividend cash out of Verizon Wireless. At some point, when we are in a position where leverage is much lower than it is today, and when it is appropriate, we will dividend cash out of Verizon Wireless. It's just not a 2010 event. We'll look at that again as we get into 2011. But it's an event off into the future.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

A couple of FiOS questions. There's been a lot of talk about your FiOS build plans here, and I note that Wireline CapEx was down about 22% year-over-year, although you reiterated your full-year guidance. Perhaps you could just talk about -- clarify your build year-to-date and your build plans for the rest of the year and what's going on there?

And then, on the FiOS ARPU, up about 5%, what's driving that? Is that changes in the mix, is that price increases? And where do you see that going over time?

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John Killian - *Verizon - CFO*

Obviously, I said in the prepared remarks we are very satisfied with where we are from a FiOS perspective. We are very focused on growing penetration. Our build plans; we're still on the path to build ultimately to about 18 million premises within our franchise territories. This year, we're going to pass about 1 million premises in 2010, give or take 100,000-200,000 on either side. Part of that is an intentional strategy this year to focus down on a lot of the inventory we have, a very strong focus around the MDU population within our franchise territory. We don't believe we've had enough focus there, and it's a great opportunity and a very cost-effective way to drive new subscribers in new retention.

Now, from an RCM perspective, you are right. We've had very good growth in FiOS RCM, more focused on the video side. We have had some price increases there, which are natural, in terms of the video side. We've also seen improvements in some of our video on demand kind of services that are also contributing to that.

So we are very pleased with FiOS. The profitability continues to improve. We've been operating income-positive the last couple of quarters. The cost metrics that we believed we would see ultimately with FiOS has positioned us very well, and we think we've got a great foundation here on the Wireline side for the future, that we will have somewhere in the range of, post the Frontier spinout, 70% to 80%, in that range, of footprint covered with fiber. And that's going to position us very well for the future.

We've also got focus on making sure we've got capital discipline within the Wireline business. We have suffered a little bit from the economy and some of the cyclical change. So there is focus on making sure we are investing at the right level in that business.

Simon Flannery - *Morgan Stanley - Analyst*

So just to be clear, are you going to be finished with the FiOS build at the end of this year, or might some of it now, if you are going to do 1 million a year instead of 2 million or 3 million, you are going to be a little bit more, still, in '11 and '12?

John Killian - *Verizon - CFO*

Good question, Simon. We'll have a little more to do into 2011 and maybe even to 2012. We're just stretching it out a little bit longer. We felt that was appropriate, given where the economy was, given some of the attention we've got around the Frontier spinout. Don't read this at all to be we are not satisfied with FiOS; we are very satisfied with FiOS, and we'll continue to evaluate that going forward.

Operator

David Barden, Banc of America.

David Barden - *BofA Merrill Lynch - Analyst*

First, I guess, would just be following up on that, on the FiOS side. Have you guys seen any change, you think, over the course of the quarter in the competitive dynamic in both DSL and FiOS relative to the incremental push the cable companies have been making on DOCSIS 3.0, especially Comcast, I guess? How do you think, competitively, say, looking into 2010-2011 do you think you are stacking up now relative to cable in, say, 2008-2009?

I guess the second question, if I could, would just be on the iPhone -- not the question you think, but it's clearer now, I think, than it's been that there's probably an iPhone refresh coming around the middle of the year. Obviously, last year's game plan was to wait. It came, you guys really got more aggressive on your smartphone portfolio than you had really ever been in the third quarter, and that led to a market share swing back in your favor.

Looking at it this year, what would be the game plan this year that you would do differently, if anything, to make sure that there isn't a market share swing in AT&T's favor, the way we saw last year?

John Killian - *Verizon - CFO*

From a competitive environment, from cable on video and HSI, we really see no change. It is a very competitive environment, as you know, and continues to be. But I don't see anything in the quarter or this year that has really shifted. When you look at our results, we did better in the first quarter than we did in the fourth quarter. Our total broadband was 89,000, just short of 100,000. That was up on third and fourth quarter a year ago. So we continue to do reasonably well here. We'd like to drive to a little bit higher numbers as we go through the next several quarters. And we think, with the economy starting to come back a little bit, we're positioned for that. Our Wireline team is very focused on it.

So we don't see -- and, Dave, customer satisfaction and independent reports continue to put FiOS at the top of the list in all areas. So we think we've got a great product here. You're incenting people to change. Right? They've already got service, typically. So that's the trick for us.

So on the second question, Dave, it's really more of what we are doing now. We think we have found a very strong lineup. And, again, not just based on one operating system, but the Droid, Android-based system, the RIM systems. We've had some Microsoft launches recently. But you will see a lot of emphasis around the Droid as we go through the year. We think we have a very competitive lineup. There's no question, Apple has done a great job with the iPhone. But look at our results. We've performed very well both from a growth -- our revenue growth this quarter on the Wireless side is better than it was last quarter. Our service revenue is upticking. We have several different new devices coming as the year goes on, most notably the one I just mentioned, which is the HTC Incredible.

So I think we'll be earlier in the process this year of having very strong devices to be very competitive. But, again, based on multiple systems, and we think we'll be in a very good position.

Operator

Michael Rollins, Citi Investment Research.

Michael Rollins - *Citi Investment Research - Analyst*

Just thinking a little bit more about what you said on the Wireline cost-cutting -- so if -- I think I got the numbers right, you are saying like $1.5 billion, $2 billion cost cutting goal. If you take the higher end of that on Wireline revenue, I think it's a little over 400 basis points on the revenue. And so is your goal to take the margin level from like 21.7% and assume pension is unchanged from here, just to take that out of the equation -- are you thinking that the margin over a couple-year period can get back to like a 26%?

And as you benchmark yourself around your competition, where do you have conviction as to where Wireline margins should be for your company over time?

John Killian - *Verizon - CFO*

Let me give you a couple thoughts here. You know we don't put out guidance numbers on that and point estimates. But let me just give you a little color to what we think happened in the quarter, where we are focused on and where we think we are going.

So if you look at the margin in the quarter at 21.7%, we had to eat through a sequential revenue decline of about $225 million. By the way, we see good news there because rate of revenue decline in the quarter was only 2.9%. It was 3.9% in the fourth quarter. So we see improvement there.

We had a couple of unique issues in the quarter that hurt us a little bit. We had mentioned that this year we do have some incremental pension and OPEB costs. That was about $40 million in the quarter. We had -- and this is one we don't usually like to point to and talk to, but it was such a factor in this quarter I'm going to mention it. We did have extraordinary weather conditions on the East Coast. That minimally cost us $50 million in the quarter. That was related to a lot of overtime because of the flooding conditions, record snowfall in the mid-Atlantic states, which you usually don't have, that caused complications.

So there are a lot of issues that contributed to the first quarter. Now, when you look at our focus going forward, it's really focused around four items. It's continuing to focus on FiOS. We are very pleased with the profitability, where FiOS is. But we think it can get a lot better as we continue to get more and more scale. So that's going to continue to ramp up and help us. We think our enterprise and business services, as the economy gets better, as we go through '10 -- probably saw a little sign of that in the first quarter. I don't think there was much of it in our numbers, but we think we'll see more of that, particularly in the second half of the year. That will be very helpful to us.

Now, on the cost side, I hope you get the feel here that we are very focused on improving and continuing to improve the cost structure. I've mentioned on previous calls the last couple of years we have reduced our Wireline workforce by about 13,000 per year. And I said we would do the same this year. I actually think we have, now, the ability to do more than that this year. You'll probably read in the press later today that we did reach agreement with our unions and our East Coast unions, the CWA and the IBEW, on an enhanced incentive offer last night. And that is going to allow us to take out a significant, significant number of associates. And one of our limitations on our ability to downsize the workforce was we were limited in our ability to lay off in our East Coast contracts. We could lay off, post 2003 hired employees, and we did some of that last year. But beyond that, it was voluntary incentives that drove it.

We reached agreement on an enhancement. And I think this year we should be able to beat the 13,000 number. I'm not going to put an exact number on that yet because we are still factoring through that based on the agreement. But I think we'll be very focused on additional force reductions this year.

In addition to that, we are also very focused around cash flow in the Wireline business. That ties back to some of the other questions, and capital efficiency will improve. So I'm not going to put a number or a date on when this is going to turn, but I think I am convinced that we have all of the right initiatives in place. We have the conviction to get it done, and that we should see the ability to stabilize and then improve our Wireline margins over time.

Michael Rollins - *Citi Investment Research - Analyst*

If I could just ask one follow-up, when you typically lose revenue, you're typically able to take some costs out of that as well. Should we look at the cost-cutting target of $1.5 billion to $2 billion as incremental to what you normally are able to take out with revenue, so sort of an extra turbo boost, if you would, to the reduction in cost? Or does that $1.5 billion to $2 billion incorporate what you expect to save as revenue erodes for whatever period of time you are forecasting?

John Killian - *Verizon - CFO*

Just a couple of thoughts here, Mike. I think with the news of last night we might be able to do better than even the $2 billion. So I'm not going to give you a breakout of how much is tied to -- what I think you're going to see is improving top line within the Wireline business, based on FiOS and the enterprise side, and you are going to see very visible cost reductions. Some of that is incremental to the normal, but I'm not going to place an exact number on that.

Operator

Mike McCormack, JP Morgan.

Mike McCormack - *JP Morgan - Analyst*

Can you give us a little more detail around your comment about market share shift within Wireless and you guys not seeing that, sort of the metrics that you are looking at there? Because certainly, it seems like the pay-in-advance marketplace is taking more and more share of growth out in the market. I'm just trying to see if you are looking at purely churn within your base or just loss of gross adds overall.

And then, secondly, on the enterprise stuff it sounds like we've got some good data points coming from both AT&T as well as you guys. Can you just give us a little more color on where you are seeing that, whether it's demand for new orders, things coming through the pipeline?

And then sorry to bother you with the last one. But in addition to the enterprise comment, how important is the enterprise recovery to your margin stability comment in Wireline? Is it that equally with cost reduction, or is there one that's more important than the other?

John Killian - *Verizon - CFO*

On your first one, on market share, we look at really every month we get studies from Nielsen on share shifts and all of that. Obviously, we look at our churn numbers, which are terrific, the postpaid churn at 1.07%. We look at our porting ratio. So from our view, we are hanging in there very nicely, and that's at a time where there is a little slow down, as you mentioned, on the postpaid side.

So we feel good about where we are on Wireless market share, and we think we'll continue to do well as we go through the year. From an enterprise perspective, a couple of thoughts here for you -- our number in the quarter only down 1.4. It had been down 4.8 in the fourth quarter, 6.2 in third quarter. Even when you adjust for FX, we were down 2.3 in the quarter versus 5.6 in the fourth, 5.3.

So we're definitely seeing improvement here from an enterprise perspective. We've repeatedly said we've been very successful in winning new opportunities in the marketplace. We continue to do that. A number of those are incremental. We're still seeing moves on both a private IP perspective as well as security services. We did see some benefits in the quarter also from CPE. That's a good indicator, I think, of the economy. So that is all -- puts us in a good position.

Now, on how important is it, it's important. But relatively, there are four or five different major contributors that we need to get them all clicking. Cost is probably number one right now in terms of our biggest contribution but continuing the progress on FiOS, continuing the progress on enterprise, are all very important.

So, I know you have another call at 9;30, so I think we're going to call this a wrap. I just wanted to leave you with a couple of closing comments here. First of all, let me thank you for joining us today. If you look at our Wireless business, we continue to see great opportunities to grow the business and to make the business more efficient. Our strategy around aggressive 4G deployment and increased smartphone penetration through multiple operating platforms will drive data growth and continue to differentiate us from our competitors.

We remain committed to maintaining reasonable growth and strong profitability in our Wireless segment.

On the Wireline side we believe that the strategy we put in place a few years ago, that is, having a smaller footprint with the majority covered by FiOS, coupled with a more global enterprise business focused on multinationals, is the right strategy that also differentiates us from our peers and will help drive growth for the long-term. I also recognize that the issue on the Wireline segment is stabilizing and improving profitability. I do not want to overstate what we can do here in the short-term, but I believe our cost reduction initiatives will gain traction, and with an improving economy we will see better Wireline margins.

Finally, we continue to deliver strong cash flow metrics. Our dividend is strong and safe. We are maintaining good discipline in our capital spending, and our balance sheet is solid.

Thanks again for joining us today on the call.

Ron Lataille - *Verizon - SVP, IR*

Thanks, John. And, Brad, that concludes our call. And thanks, everybody, for joining us today.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation and for using Verizon Conference Services. You may now disconnect.
