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# EDITED TRANSCRIPT

## VZ - Q4 2011 VERIZON EARNINGS CONFERENCE CALL

EVENT DATE/TIME: JANUARY 24, 2012 / 1:30PM GMT

### OVERVIEW:

VZ reported 2011 adjusted EPS of \$2.15. 4Q11 GAAP loss per share was \$0.71 and adjusted EPS was \$0.52.



## CORPORATE PARTICIPANTS

**John Doherty** *Verizon Communications Inc. - SVP of IR*

**Fran Shammo** *Verizon Communications Inc. - EVP, CFO*

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**John Hodulik** *UBS - Analyst*

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

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

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**Michael Rollins** *Citigroup - Analyst*

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## PRESENTATION

### Operator

Good morning and welcome to the Verizon fourth-quarter 2011 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. John Doherty, Senior Vice President, Investor Relations for Verizon.

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**John Doherty** - *Verizon Communications Inc. - SVP of IR*

Thanks, Brad. Good morning, and welcome to our fourth-quarter 2011 earnings conference call. Thanks for joining us this morning. I am John Doherty. With me this morning is Fran Shammo.

Before we get started, let me remind you that our earnings release, financial and operating information, investor quarterly 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.

For the fourth quarter of 2011, we reported a loss of \$0.71 per share on a GAAP basis. These results include a non-cash pension and benefits charge of \$5.6 billion on a pretax basis. This mark-to-market adjustment related to our current year asset returns, discount rate, the mortality assumption changes in our pension and post-retirement plans. This adjustment is in accordance with the accounting policy we adopted a year ago which requires us to recognize actuarial gains and losses in the year in which they occur, and not smooth the effects over a longer period of time.



Adjusting for \$1.23 per share of non-operational items, fourth-quarter EPS was \$0.52, bringing our full-year 2011 adjusted EPS to \$2.15. The comparable adjusted EPS in 2010 was \$2.08.

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

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**Fran Shammo** - Verizon Communications Inc. - EVP, CFO

Thanks, John, and good morning everyone, and happy new year. Before we get into the details, let me start with a few summary comments. We finished the year very strong, creating value for our shareholders in 2011 by generating a total return of 18.2% through a combination of stock price appreciation of 12.1% and our dividend payments. Our stock price appreciation outpaced our peers as well as the S&P, Dow Jones and broader indices.

For the fifth consecutive year, our Board of Directors approved a dividend increase, indicating their confidence in the sustainability of our business model, cash flows and our improving earnings profile into 2012 and beyond.

In 2011, we also made some smart investments for future growth and improved profitability. While very disciplined in our approach to capital spending, we continued to invest in networks and new technologies which will be the platforms for accelerated growth.

On the strategic front, we made some moves that will significantly improve our competitive position. These include the acquisitions of Terremark and CloudSwitch in the cloud computing space, several agreements to purchase additional spectrum, joint efforts around innovation with a number of partners including the cable companies, and of course, our continued leadership in the rapid development of the 4G LTE ecosystem.

We also renewed our focus on delivering solutions to customers and the markets we serve by better leveraging our capabilities across all parts of the business -- wireless, FiOS, strategic services, the cloud, digital media and our global high-speed IP network. Our recently-formed global Enterprise Solutions organization will strengthen our ability to provide fully-integrated customer solutions.

In addition to making these investments in our future, 2011 was a great year of solid execution. We posted record revenue growth in the fourth quarter, resulting in adjusted revenue growth of 6.2% for the full year, a significant acceleration from just below 2% growth in 2010.

In addition to our strong revenue results, our sharp focus on capturing operating efficiencies helped us to mitigate a number of cost pressures, driving an increase to consolidated EBITDA of more than \$950 million. We also had a strong year in terms of cash generation with \$13.5 billion in free cash flow. 2011 was an impressive year on a number of fronts, giving us tremendous confidence about our long-term growth prospects.

Now let's turn our attention to the fourth quarter, starting with a few highlights. As I just noted, we had a very strong revenue performance in fourth quarter. Our 7.7% year-over-year growth was easily our highest quarterly growth of the year, and in fact, the highest quarterly growth since the formation of Verizon 11 years ago.

In Wireless, we had our best quarter ever in terms of smartphone sales, 4G LTE device sales and customer upgrades, along with the most retail gross adds in three years. We lead the industry in retail postpaid connections, and our 1.2 million postpaid net adds this quarter demonstrates that we continue to gain market share. We are by far the market leader in 4G LTE, which is now available in 195 markets covering more than 200 million pops, with increasing customer awareness of its superior speeds, capabilities and new high-quality devices.

4G LTE is really taking hold. In addition to record device sales in the quarter, we are seeing a high level of activity at our Innovation Centers in Waltham and San Francisco. We currently offer about 20 4G LTE smartphone and data devices. And at CES, we announced two more mobile hotspots, now called Jetpacks, three smartphones, two from Motorola and one from LG, and the Samsung Galaxy Tablet. Clearly, the Verizon 4G LTE network is becoming the destination of choice for consumer and enterprise customers, which is a strong indicator for us looking forward.

In Wireline, our revenue mix continues to improve, with FiOS representing 61% of our consumer revenue and Enterprise Strategic Services making up 51% of our global enterprise revenue in the quarter. We effectively worked through the numerous challenges of the third quarter to restore



Wireline segment profitability. Wireline EBITDA increased to \$2.4 billion in the quarter, resulting in a 23.8% EBITDA margin, in line with where we ended the second quarter. Now that we are back on track, I am confident that we will see Wireline margin expansion in 2012. Again, a strong finish to a solid year, making us very confident about our growth opportunities in 2012 and beyond.

Let's turn to slide 5 next. Fourth-quarter consolidated revenues grew 7.7% year over year, resulting in adjusted annual growth of 6.2%, solidly within our 2011 guidance range of 4% to 8%.

Reported earnings for the fourth quarter on a GAAP basis were a net loss of \$0.71 per share due to the significant non-cash charge associated with our pension and post-retirement plans. The largest component of this actuarial true-up has to do with how discount rate assumption, which was 5.75% at the beginning of the year. At the end of the year, this rate is adjusted to an estimate of the yields of high-quality long-term bonds, which was determined to be 5%.

Another part of this true-up relates to our return on pension assets. We assumed an 8% ROA at the beginning of the year, and we came in at 5% for the year. There were also adjustments required based on mortality assumption changes. Excluding non-operational items, we earned \$0.52 per share in the quarter, bringing our full-year 2011 adjusted EPS result to \$2.15, up 3.4% from a comparable \$2.08 per share in 2010.

Coming out of the third quarter, we indicated that we were on track to meet our 2011 earnings guidance of 5% to 8% growth. Earlier this month, I indicated that a very strong December resulted in higher-than-expected Wireless device sales, which sets up well for 2012, but resulted in us falling a little short of our full-year EPS growth target by \$0.02.

I would also remind you that our \$2.15 adjusted result included \$0.05 of negative impact, primarily from the storms in the third quarter. So from my perspective, an adjusted EPS of \$2.20 is a more logical starting point for you when considering our 2012 earnings growth potential.

Let's turn next to cash flow and capital spending on slide 6. Our free cash flow in the fourth quarter and full year was once again a combination of strong cash generation and reduced levels of capital spending. Capital expenditures for the full year totaled \$16.2 billion, representing a decrease of 1.3% from 2010. In addition to being lower than the prior year, the \$16.2 billion was favorable to our guidance of \$16.5 billion.

Our capital efficiency has improved steadily, and was below 15% for the year. With the heavy investment cycles necessary to transform our business largely behind us, we would expect our CapEx-to-revenue ratio, which is already at a historical low, to continue declining, based on disciplined capital spending and improving revenue growth trends.

In Wireless, capital spending in the fourth quarter was \$1.8 billion, bringing the full year to \$9 billion, an increase of 6.3%. The incremental spending in 2011 was a combination of 3G capacity requirements, driven by the Apple iPhone, and the continued rapid expansion of our 4G LTE network.

In 2012, we will continue to migrate traffic from our 3G EVDO network to 4G LTE, thereby freeing up 3G capacity and improving our capital and operating efficiencies. In addition, we will continue to expand our 4G LTE network coverage, which is already the largest in the nation, and our target is to have 4G LTE coverage similar to our 3G coverage by mid-2013.

In Wireline, capital spending was \$1.6 billion in the fourth quarter, bringing the full year to \$6.4 billion, a decline of more than \$800 million or 12%. The decline in spending was driven by lower FiOS buildout costs, as well as efficiency gains from investing in newer technologies.

From a balance sheet perspective, we ended the year in a strong financial position. Total debt was \$55.2 billion and net debt was \$41.8 billion. Our net debt to adjusted EBITDA ratio was about 1.2 times. As a reminder, the previously announced \$10 billion Verizon Wireless cash distribution will occur next week.

Let's now move into a review of the segments, starting with Wireless on slide seven. Our Wireless business had another impressive quarter of growth, particularly with regard to retail customer activity. Total revenue grew to \$18.3 billion in the fourth quarter, up 13% year-over-year. Retail service revenue, which includes both postpaid and prepaid, grew 7.8% year-over-year, which is a 90 basis point improvement in growth over the third quarter.

Total service revenue in the quarter grew 6.4% year-over-year, up from 6.1% growth in the third quarter. Within total service revenues, growth was impacted by year-over-year declines in roaming and wholesale revenue, which collectively amounted to roughly \$140 million in the fourth quarter. Looking forward, we expect to see less impact on year-over-year growth rates from these factors as we move through 2012.

Total data revenue grew to \$6.3 billion in the quarter, up 19.2% year-over-year. Data now represents 41.6% of total service revenue. Data revenue growth continued to be driven by web and e-mail services, which increased to \$4 billion in the quarter, up more than 34% year-over-year. Messaging revenue, which makes up about 30% of total data, grew nearly 4% in the quarter on a year-over-year basis.

Let's take a closer look at our connections growth on slide eight. We ended the year with industry-leading total connections of 108.7 million, up 6.3% from 2010. We continue to gain share in the retail postpaid market, with 87.4 million connections, driven by demand for our unmatched portfolio of 3G and 4G LTE handsets and Internet data devices.

Retail net adds of 1.5 million in the quarter were the highest we've seen in three years. Within retail, 1.2 million were postpaid and 252,000 were pre-paid. Within the postpaid net add mix, 1 million were smartphones and 400,000 were Internet data devices, the remaining being the net change in basic phones. Of particular interest, more than 700,000 of these net adds were 4G LTE smartphones or data devices.

In retail prepaid, fourth-quarter net add growth was equally distributed between tablets and phones. This quarter marks the first time in two years that prepaid phones, excluding tablets, had positive net adds. This is due to the success of our \$50 monthly unlimited prepaid phone offer, which we put in place on a national basis in mid-September.

Postpaid device sales, which include both gross adds and upgrades, were significantly higher this quarter, driven by the Apple iPhone 4S as well as the increasing popularity of our 4G LTE smartphones and Internet data devices.

Retail postpaid gross adds totaled 3.6 million in the quarter, an increase of 10% sequentially and 7.6% year-over-year. The percentage of postpaid customers upgrading this quarter moved up to 10%.

The continued demand for our Wireless products is not only driving growth in connections and revenue, but also strengthening our industry-leading customer loyalty metrics. Our churn metrics this quarter were excellent once again, with retail postpaid churn of only 0.94%, an improvement of 7 basis points over the fourth quarter of 2010.

Now let's turn to slide 9 and take a closer look at our smartphones and retail postpaid ARPU metrics. As I said, we had a record quarter in terms of smartphone sales, increasing the penetration of our retail postpaid phone base to 44%. A year ago, smartphone penetration was 28%, so we have made very good progress in 2011. 70% of all retail postpaid phones sold this quarter were smartphones, a solid increase from 60% in each of the last two quarters.

During the quarter, we activated 4.3 million Apple iPhones and sold 1.6 million 4G LTE smartphones. In addition, we sold roughly 700,000 4G LTE Internet data devices. As I said, sales of 4G LTE products are clearly gaining momentum.

Shifting now to ARPU, retail postpaid ARPU was \$54.80 this quarter, up 2.5% year-over-year. Retail postpaid phone ARPU exceeds \$56, up 4% on a year-over-year basis. Postpaid Internet data devices have an ARPU of just under \$49, which was down 11% from a year ago. This decline was mainly due to a strategic price change we made in the fourth quarter of 2010. We made this pricing move to expand the market, given our expectation that the superior capabilities of 4G LTE will generate more demand and increase data usage on these devices.

We did expand the market in 2011, with approximately 3.8 million unit sales, which included mobile hotspots, USB modems and tablets. We now have about 7 million subscribers with these devices, representing about 8% of our retail postpaid base.

While the unit growth of these devices is diluting our overall retail postpaid ARPU at this time, fourth-quarter revenue growth from these devices was 10% on a year-over-year basis. In addition to making a positive contribution to top-line growth, the greater efficiency of our 4G LTE network means that this data revenue is also generating higher margins and driving improved profitability.



Let's conclude our Wireless segment review with a discussion about profitability on slide 10. 2011 was another strong year of industry leadership in terms of margin performance and cash generation. With the introduction of the Apple iPhone and numerous 4G LTE smartphones during the year, we indicated last January that margins would fluctuate in certain quarters depending on new device rollouts and sales. Looking back on our quarterly margin performance in 2011 shows this to be the case, with strong sales in the first and fourth quarters pressuring EBITDA. As I mentioned, the sales volumes in the fourth quarter exceeded our expectations, but obviously will create more opportunity for growth in 2012.

Our strong performance in terms of customer additions and market share gains, coupled with increased smartphone penetration, drove increases in retail service revenues and accelerating phone ARPU. In addition, our intense focus on cost efficiency is clearly helping to mitigate the cost of higher equipment subsidies.

Our industry-leading customer retention has also helped margin performance, which is a testament to the quality and reliability of our network and to the overall customer experience.

Verizon Wireless continues to be the industry leader, and with another year of impressive overall performance, we've built great momentum heading into a new year, expecting to sustain our strong growth and profitability. Let's move to our Wireline segment next on slide 11.

Total revenue in the fourth quarter was \$10.1 billion, a decline of \$150 million or 1.5% year-over-year. With the full year, Wireline revenue totaled \$40.7 billion, down 1.3%. In the fourth quarter, consumer revenue grew 1.3% year-over-year, driven by FiOS revenue growth of 18.2%. In Global Enterprise, fourth-quarter revenue also grew 1.3%, driven once again by Strategic Services, which increased 14.7% year-over-year. As I've said, Strategic Services, which include Terremark, are a growing portion of our revenue mix, representing 51% of total enterprise revenue in the fourth quarter.

From a profitability perspective, the fourth-quarter Wireline EBITDA margin recovered nicely from the challenges of the third quarter, increasing 240 basis points sequentially to 23.8%. Let's take a closer look at our revenue performance, starting with mass markets on slide 12.

Fourth-quarter revenue from mass markets increased 0.7% on a year-over-year basis. Consumer revenue, which represents a majority of this category, grew 1.3% in the quarter. Consumer ARPU steadily increased throughout the year and is now more than \$96. I would also highlight that our residential connections trends continued to improve. We lost 183,000 retail residential connections in the fourth quarter, representing a 7.3% decline, compared with a loss of 303,000, or 9%, in the fourth quarter last year.

In broadband, we added 201,000 FiOS Internet subscribers in the quarter, increasing our subscriber base to 4.8 million and penetration to 36%. By adding in our 3.9 million high-speed Internet or DSL customers, we ended the quarter with a total of 8.7 million broadband connections, adding a net positive 98,000 broadband connections in the fourth quarter.

In FiOS video, we added 194,000 subscribers in the quarter, bringing our total to 4.2 million and increasing our penetration to 32%.

Within our FiOS subscriber base, about 3.5 million customers are triple play and FiOS ARPU increased in the fourth quarter to more than \$148 per month. In terms of our deployment, we ended the year with 16.5 million premises passed, adding just over 900,000 in 2011. We had 13.6 million homes open for sale for Internet and 13.3 million for video.

From my perspective, 2011 was a very good year for FiOS, both operationally and financially. For the full year, FiOS revenue grew 20% to \$8.3 billion. Looking ahead, our focus will once again be to increase penetration, drive market and wallet share gains, realize more efficiency from a cost perspective and expand margins.

Let's move next to our business markets, starting with Global Enterprise. Strategic Services continued to drive the year-over-year improvement in Global Enterprise revenue, led by very strong growth in advanced services such as managed network, call center, IP communications and our cloud offerings. In the fourth quarter, these services totaled \$2 billion, up 14.7% year-over-year, representing just over half of Global Enterprise revenue. As we've seen for the last several quarters, the growth in Strategic Services outpaced the decline in core enterprise services. Terremark revenues were up about 10% sequentially in the fourth quarter and roughly 18% year-over-year.



Within our Global Enterprise Solutions, we are focused on shifting our product mix to higher gross service offerings and we continued to gain traction here. In less strategic areas, like core voice, data and hardware, we've continued to look for ways to improve overall margin profitability. One example is our deemphasis on sales of hardware or CPE, particularly drop-ship equipment that is not part of an overall Enterprise Solutions bundle. During 2011, hardware sales were down roughly \$340 million on an annual basis. In the fourth quarter alone, hardware revenue was down \$147 million, or 21.6% year-over-year.

Looking at the services revenue component of Global Enterprises reveals a more positive growth trend. In the fourth quarter, Enterprise services revenue grew 2.7% year-over-year, excluding Terremark, which was not part of our results a year ago. If Terremark was included, the rate of growth would have been higher but would not represent a true baseline.

In Global Wholesale, revenues in the fourth quarter declined 7.6% year-over-year, due primarily to declines in voice, where we continued to experience secular pressures and lower volumes, offset in part by increases in certain data services. Our deemphasis of certain nonprofitable international voice routes created downward pressure on revenue, but did contribute to improved wholesale margins.

Let's move to slide 14 for a 2011 wrap-up. We had a strong finish to a very solid year in 2011, giving us great momentum and confidence heading into the new year. Wireless, FiOS and Enterprise Strategic Services all contributed to significant improvements in adjusted revenue growth, where we moved from just under 2% in 2010 to more than 6% in 2011. These revenue improvements and our focus on capturing operating efficiencies helped us to mitigate various cost pressures throughout the business, creating solid growth in earnings and strong free cash flow, supported by our disciplined approach to capital spending.

On the strategic front, we made a number of investments that have improved our competitive position and differentiated us in the marketplace, setting the stage for future growth and improved profitability.

I believe investors recognized our progress in 2011, as our stock price appreciation and competitive dividend generated a total return to shareholders of 18.2%.

We enter 2012 with great confidence in our ability to take advantage of the market opportunities we see in our key strategic growth areas. As I mentioned in my opening remarks, you will see a renewed focus on delivering solutions to all of our customers and the markets that we serve by better leveraging our capabilities across all parts of the business.

Our Global Enterprise Solutions organization is just one example, highlighting a more integrated approach in how we develop and deliver customer solutions, including a vertical industry focus into areas like education and health care as examples. Another example is the way in which we are managing our top multinational accounts, in collaboration with Vodafone where this makes sense for both companies.

In terms of our acquisition of AWS spectrum from SpectrumCo, we are looking forward to closing the transaction after review by the Department of Justice and approval by the FCC, which we anticipate by midyear.

We are also making progress in our additional agreements with the cable companies, subject to the DOJ's expected review. Just last week, Comcast and Verizon announced that we are offering each other's products and services in Seattle and Portland as our initial markets. We expect to launch in additional cities in the coming months.

We have great momentum in Wireless and we expect to build on that strength, driving further penetration of smartphones and furthering our leadership position in 4G LTE. In FiOS, we expect to drive higher penetration in existing markets and effectively capture pent-up demand in multi-dwelling units and new markets.

And in the enterprise space, we are clearly gaining traction as a leading global provider in the information technology solutions space. The integration of Terremark and the addition of CloudSwitch have significantly improved our competitive position, giving us a unique set of capabilities that combines solutions around the network, data center, security and cloud infrastructure.





Another key focus area will be to continue to drive operating efficiencies across and throughout the entire business. With the formation of our Operational Excellence and Process Transformation organization reporting directly to Lowell, we are devoting dedicated resources to examining all costs and processes, including product rationalization, back-office operations and system consolidation. The upshot of our ability to execute and capture these incremental revenue opportunities and operating efficiencies will be an increase in the cash flows of the business.

As I said, the heavy investment cycles of the first 10 years of Verizon are largely behind us, and we have transformed ourselves into a Company very well-positioned in the growth markets of the future. We have the platforms, we have the people and we have the capabilities. We are poised to build on the strong foundation we have, accelerate the momentum we've achieved, further increase investment returns and create significant shareholder value in the years to come.

With that, I will turn the call back to John so we can get to your questions.

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**John Doherty** - Verizon Communications Inc. - SVP of IR

Thanks, Fran. Brad, let's open it up for questions, please.

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## QUESTIONS AND ANSWERS

### Operator

John Hodulik, UBS.

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**John Hodulik** - UBS - Analyst

Good morning, guys. If we could just start with -- or stay with the 2012 outlook. Last year, Fran, when you gave the 5% to 8% earnings growth, you also suggested that that could double in 2012. Is that still the right range as we look forward here?

And then turning to postpaid ARPU, you had a big quarter in terms of smartphones and Internet devices. Based on what you're seeing now, how do you expect those sort of growth trends on the postpaid ARPU side to progress maybe in first quarter, and then an outlook for 2012, if possible. Thanks.

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**Fran Shammo** - Verizon Communications Inc. - EVP, CFO

Thanks, John. Good morning. First of all, on the 2012 outlook, so let me start here. Actually, John and I are doing this call remotely from our Innovation Center up here in Waltham, which is just a pillar of how we are going to accelerate our growth in the future. As many of you visited this facility, you saw the innovation of the products and the services, which I believe are pioneering the industry of developing these types of solutions that will increase our revenue from a machine-to-machine perspective and everything that is going to be driven over our LTE network, which we believe we are a market leader in.

So if you take the Wireless asset and then the FiOS asset and you look back to what we said back in January of 2011, when Lowell and I first stood on the stage live, we stated that we had a year execution in front of us and we had certain targets that we wanted to hit. And I think coming out of this year, I would say that my position has not changed from where I stood on that stage.

So growth opportunities for the future I believe are there. As I said in my script marks, I believe that the \$2.15, as you look at it for 2012, should be a baseline of \$2.20 as you project our growth out. But I would reiterate that my position from January has not changed as I sit here at the end of this year.





Going on to postpaid ARPU growth, I think if you look at this, we continue to grow our ARPU growth. I think that from an overall perspective, if you break that down, we had our phone ARPU grow to an all-time high of 4%. Now if you look back, that was 3.3% in the second quarter. That went up to 3.7% in the third, and now sitting at 4% overall. So you can see that the smartphone penetration is accelerating that phone ARPU growth.

As we've talked in the past, the Internet category has some dilution in it; so year-over-year, we are down 11%. And this is reflected back when we changed our prices back in October. So on an ARPU perspective of Internet devices, down 11%. But overall revenue growth from that category, as we said, we did this to expand the category. And again, this quarter, we were up 24% year-over-year in the amount of Internet devices we added, and we continue to have our strongest quarter of the year.

So we are executing on the expansion of that category. So year-over-year, the actual revenue is up 10%, even though there is some dilution in the ARPU side.

So I think, John, to answer your question, I am extremely positive and I stay with what I said coming out of the third quarter. We continue to see that we can accrete our ARPU into the future of 2012.

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**John Hodulik** - UBS - Analyst

Okay. Thanks, Fran.

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**Operator**

Jason Armstrong, Goldman Sachs.

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**Jason Armstrong** - Goldman Sachs - Analyst

Maybe a couple questions just related to Wireline margins. Fran, you talked about continued improvement into 2012, and I'm just wondering if you can help us with the baseline for that comment. Is that meant to be improvement off the 23.8% exit rate or is that a sort of general 2012 versus 2011 comment?

And then related to that, can you just help us think through what the bigger drivers of improvement would be and if that includes any sort of benefit from the labor negotiations. Thanks.

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**Fran Shammo** - Verizon Communications Inc. - EVP, CFO

Thanks, Jason. So the 23.8% coming out of the fourth quarter, what I would say is we are very, very confident that through all of the things that we are doing on Wireline first start off with FiOS and our continued penetration there, and we continue to gain market share in every market. New York continues to be our highest growing market there. So FiOS is a critical component to the growth of the Wireline on a top-line basis.

The other strategy that we've talked about a little bit in the past is the strategy of migrating our copper plant over to the FiOS plant, now that we have substantial FiOS passing prems where there is also copper. So what you are going to see this year is a very strategic initiative that we go out and we look at areas where there are chronic copper problems, and we start to transform them onto our FiOS network.

And the math would say if there is a chronic problem that we have to visit more than two times a year, the actual financial benefit of us transforming that to FiOS pays for itself within that year. So we will strategically start to go in there. What that brings is that brings an enormous expense savings to us from just an overall operational plant perspective. So that is one big component.

The second is obviously, with the new organization of Enterprise, we believe that with the acquisitions of Terremark and CloudSwitch, we continue to grow that top line. As I said, Terremark had an outstanding quarter, sequentially up 10%. That came out of a September all-time high booking. That will continue into '12, because obviously those bookings don't book all in the same quarter that you sell. In this business, it takes six to 12 month to record that revenue. So I think we are continuing to expand on our cloud services basis, which also helps top-line revenue for Wireline.

And then you get into the cost initiatives, which continue to really be a focus of the whole business unit. So from a foundational standpoint, what I would say is this -- is on a linear basis, you will see us increase Wireline margin. Will we have some setbacks here and there? Obviously, in the first quarter we have a lot of tax resets and so forth. So from that perspective, you may see us decline a little bit in the first quarter. But from that point, we will accelerate and continue to overall improve the Wireline margin of the business.

Now on the improvement side, I would tell you that we continue -- from a labor negotiation standpoint, we continue to negotiate at the table. Obviously, as I said before, we expect that we need to reconfigure the cost structure of our Wireline business, and that gets to the heart of the healthcare and the pension benefits of the Wireline representative employees. So our position has not changed, and we will continue to negotiate in good faith with the union, and we will report out when those negotiations are ended and where we end for that contractual period.

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

Fran, that's helpful. If I could just ask for one clarification, just on the prior EPS commentary. You said nothing has changed from your January position. I am just -- the clarification I guess would be the interpretation around the January position. Because the math of it would tell you 5% to 8% growth and then double that. So 10% to 16% growth. But then the separate interpretation was double the rate of 2011 growth. So are you saying you're comfortable in doubling the rate of 2011, or you are comfortable with the original 10% to 16%?

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**Fran Shammo** - *Verizon Communications Inc. - EVP, CFO*

It is more of I am comfortable with where we said we would be in January of '11. So my position has not changed.

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

Okay, thanks.

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**Operator**

Simon Flannery, Morgan Stanley.

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

Thank you very much. Good morning. Very strong results, obviously, from the iPhone; we've seen it across the industry. You talked about a very strong December. How should we think about Q1 versus Q4? Is this a product that is going to continue to have legs into the first quarter of the year? Or do you think the first quarter is going to be a more normal quarter, as we had had in, say, the first nine months of the year, including the sort of original iPhone launch? So any trends? I know it's early in the year, but I think -- how we should be thinking about Wireless margins in Q1?

And then staying on Wireless, you noted that there was some pressure on other service revenues from wholesale -- roaming; I think you lost a Telematics customer. If you could just give us a little more color around that, and what is going to sort of make that better in 2012. Thanks.

**Fran Shammo** - Verizon Communications Inc. - EVP, CFO

Thanks, Simon. From a Wireless margin perspective here, look, I think I look at it this way. You talk about one product; I talk about a whole portfolio of products. So if you look at our LTE lineup, and just to give you some numbers, we sold [11.4 million] (corrected by company after the call) Android-based products, and if you do the math for the quarter, is about [10.9 million] (corrected by company after the call) iPhone products. So they are both extremely significant to our portfolio.

If you look at LTE, we are coming out of the year with almost 18 devices on our network, and we will add six more in the first quarter of this year, leading us to 24.

So I think the way we look at it is our momentum coming out of the fourth quarter into the first quarter -- and obviously, the first quarter will be more of what we saw in the first three quarters, because obviously the fourth quarter is always a much higher volume quarter, just because of seasonality. So I would think that, Simon, on this one, what I would say is this, is we have a proven track record in Wireless that we both drive profitability and growth. And I would expect that in 2012, we will get back to and continue to improve on the Wireless margin.

So if you look at what we did in the third quarter, going back, we had an iPhone in our portfolio. We had three quarters under our belt with a very -- real large lineup of 4G LTE devices, and we produced the highest margin in Wireless in the history of the Wireless business at 47.8% margins.

So I guess what I would say to you is that we will strive to continue to improve on the Wireless margins, not only on the top-line growth perspective, but we also in the last two years trimmed out almost \$3 billion of cost in our Wireless business. So again, I think the focus will be to improve and continue to grow, as well as improve on the profitability of the Wireless margins.

On the wholesale side, there are two things happening. Obviously, I reported out at the third quarter that with the sale of the Alltel properties, we knew that AT&T would be moving that traffic off of our network, which they did.

And then in the reseller base, I think it is very important to note that the resellers that we have contracts with are mainly prepaid resellers. And as I've said in the past, as this has declined in the last couple of quarters, we have an issue with us which is -- I will only enter into agreements that are win-win for both.

And right now, the market is at a point where I'm not going to compete on the wholesale rates that are in the marketplace. Although this is an extremely important channel for us and we continue to work with our highest resellers, we do have a shift mix in the reseller base. So we added 371,000 net reseller adds, but some of this is a mix change going into lower what I would call live-source type offerings and more universal service fund type offerings; so they carry a lower ARPU than some of our historical prepaid voice resellers would. But overall, the profitability of this is very substantial.

But I also think it is important to note that as we attack the prepaid market, we performed and launched our Unleashed product, which coming out of the third quarter I said and was very optimistic that this would be the first quarter that we showed positive net adds in that product space, and we actually did. So from a net perspective, we had net adds in prepaid for the first time in at least the past two years. So we are starting to gain momentum in the prepaid market, both through the reseller channel, but also through our Unleashed channel.

So I think that is what you can continue to see. So that is for the wholesale roaming side. So John, next question.

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**Simon Flannery** - Morgan Stanley - Analyst

Thank you.

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**John Doherty** - Verizon Communications Inc. - SVP of IR

Thanks, Simon, appreciate it. Next question, please, Brad.



**Operator**

Phil Cusick, JPMorgan.

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**Phil Cusick - JPMorgan - Analyst**

Hey, guys. Thanks. Maybe let's talk about CapEx to start. You talked about better efficiency in the slide deck. With the revenue rising, should we think about that being sort of flat? And then also on the cash outlay side, can you talk about cash taxes in 2012? Do you expect that to be sort of in line with GAAP taxes or maybe a little higher as depreciation starts to slip away? Thanks.

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**Fran Shammo - Verizon Communications Inc. - EVP, CFO**

Thanks, Phil. From a CapEx perspective, coming out of the first half this year, I stated that we would have very strong management of our capital expense as we continue to build out the EVDO network, and the capacity required to carry the iPhone on the 3G network from a capacity standpoint. And I think you've seen that Verizon Wireless has managed this extremely efficiently by moving higher-end Internet devices off of the 3G network onto our 4G network.

And just one other note is in the fourth quarter, all of our Internet devices sold, 100% of those adds were all on the 4G LTE network.

So I think from a CapEx standpoint, what I would say is I would not expect any change here, from a disciplined capital spending coming out of the back end of 2011 going into '12. And as I said, we will continue to improve our overall CapEx-to-revenue ratio. So I wouldn't expect you to see anything differently than what we've executed on through 2011.

As far as cash outlay from a cash tax perspective, as you know, the bonus depreciation is Safe Harbor for 2012, so there really is no additional cash tax from the bonus depreciation. And obviously, there are still a lot of things that we are looking at for 2012, from a bonus depreciation discussion down in Washington of an extension of that, possible overall corporate tax restructure. So we look at those things.

But I will tell you that even without that, we continue on a very complex organization of taxes for federal purposes, continue to strategize and continue to think of how we best utilize our structure to make sure that we have as minimal a cash outlay as possible from a cash tax perspective.

The only thing I will highlight from a cash differentiation for 2012 is the pension plan contribution, as I talked about. This will go from \$400 million up to \$1.26 million for '12, and those contributions will be made more or less smoothly through the year, but the first and the third quarter will be around \$400 million, and then evenly in the second and fourth quarter. So that really is the only change from what I would expect from a cash outlay.

The only other thing I would say is as our profits continue to increase and we grow bottom line, obviously our cash taxes will increase with them. So Phil, thank you for your question.

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**Phil Cusick - JPMorgan - Analyst**

Thanks, Fran.

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**Operator**

Timothy Horan, Oppenheimer.

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**Timothy Horan** - *Oppenheimer - Analyst*

Thanks. Good morning, guys. Just trying to understand, Fran, your comments on LTE, maybe what you are thinking on market share and on the pricing for LTE. It has clearly expanded the market, but maybe when do you think you have the ability to go out and raise prices for LTE?

And I'm not sure if you gave the numbers, but what percentage of LTE subscribers are new to Verizon, and maybe how does that compare with the iPhone?

And lastly, it just seems like LTE is such a huge advantage this year. Do consumers really understand it? Is the advantage really going to be pressed with all the new devices that you have coming out? And just how you are thinking about LTE versus your competition for this year. It would just seem it was the year you would be able to capture a lot of the high-end subscribers off your peers.

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**Fran Shammo** - *Verizon Communications Inc. - EVP, CFO*

Thanks, Tim. I think just from an overall market perspective, obviously, we believe that we are, without a doubt, the market leader in this innovation, pioneering of the technology of LTE. We have now over 200 million POPs covered, which exceeded what our original plans were, to achieve 185 million POPs.

And as I said, we initially told that we would have 3G and 4G coverage about the same by the end of 2013, and we have now said by mid-2013 we will have that coverage fulfilled.

So I think from just an overall leadership position and a market position, I think we are in great shape. From a pricing perspective, obviously, we did the fourth-quarter promotion, where we said we doubled your allowance coming, so that we would have more enticement of people looking at the 4G product. And as you can see, we had our all-time high of 4G devices moved, of over 2.4 million devices in the quarter moved from that strategy.

So I think overall pricing, what I would say is this. I think you will see more movement on device pricing than you will on overall service pricing. We will have to see what the competitive marketplace holds for this. But I think that from just an overall perspective, LTE will be a market leadership for us.

And it is not only around just the retail market, but we can't lose sight of the machine-to-machine market. And obviously, I said I was sitting up here in the Innovation Lab. There is a lot of technology and innovation that is going to come out around automobile, around healthcare, around energy conservation, that really will leap-bound anything that we see currently in the marketplace today.

So I think from a machine-to-machine perspective, we continue to see growth in our adds quarter-over-quarter, and I see that continuing through 2012 and have a market leadership position there.

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**Timothy Horan** - *Oppenheimer - Analyst*

Thank you.

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**Operator**

Michael Rollins, Citigroup.

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

Hi. Thanks for taking the questions. First, can we just get an update on Verizon Wireless debt and cash at the end of the quarter?

And then secondly, can we just get a deeper dive on what is happening in the improvement in Global Enterprise revenue? What are the products that you find are really helping the Strategic Service revenue growth? And then are you also seeing less headwinds on those downward pressures on the legacy side of Enterprise? Thanks.

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**Fran Shammo** - Verizon Communications Inc. - EVP, CFO

Thank you, Mike. From a Verizon Wireless perspective, they are going to end the year at \$12.3 billion worth of cash on the balance sheet. They have \$11.6 billion of debt. So they are actually in a surplus position of \$700 million.

For 2012, they have about \$1.6 billion of maturities coming that will be paid down. And as I said, within the next week, we will have a \$10 billion distribution to both of the parents there. So that is the situation of the cash and the debt on the Wireless side.

From an Enterprise perspective, I think that it is critical here just overall, with this organizational structure that Lowell has set up with the Enterprise Solutions group. It is key for us, because I said before, as we approached our Enterprise customers, we still had a delineation between a Wireless solution and a Wireline solution. And now that the organization has come together, with the product rationalization that I talked about, it is going to be critical for us to present one solution to our customer end-to-end. And that really, I think, will elevate where we are today just from an overall Strategic Services position.

But to get to your question, Mike, about exactly what are we selling. Obviously, cloud services, the acquisition of Terremark, the additional CloudSwitch, the opening of the NAP Center in Amsterdam, the expansion of our San Paulo, Brazil data center, which quite honestly, up to the acquisition of Terremark, Verizon really never played or had a position in Latin America, so this is a very high growth area for us. So I think, one, absolutely around the cloud.

But also the convergence of cloud and what that brings from an overall enterprise mobility standpoint and the integration of that cloud and that mobility solution, when you look at machine-to-machine and cloud and what that can bring to an enterprise customer in a vertical solution set. So I think you are going to see more and more around cloud, but machine-to-machine. And then obviously, around our IT and advanced communication offerings.

But there also is a differentiation as to what we sell here in North America versus what we sell outside of North America. And as I said before, outside on international, again this quarter we grew our international enterprise base by in excess of 9%. So even with all of the pressures you see around the world, we continue to grow. Now, obviously, that is because of low market share in those markets, but continued growth for us. And as we expand internationally, I think you will see more international growth out of us, especially around the cloud services. And as I said, the collaboration of Vodafone where it makes sense.

So I think there is a couple different facets there, but I am very -- I have a very good outlook for our enterprise revenue growth going into '12, even with the continued stabilization of the economy. And we have not forecasted much growth there, but stabilization would be a key. And if there is growth there, then I think we are even more optimistic on our enterprise growth.

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**Operator**

Jennifer Fritzsche, Wells Fargo.

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**Jennifer Fritzsche** - Wells Fargo - Analyst

Thank you, Fran. Most of my questions have been answered, but just on FiOS, nice growth there. I know you said it is going to be a large part of the revenue contribution in Wireline next year -- or this year, rather. Can you just comment on the pricing you are seeing there and the competitive environment, specifically with the cable players?



**Fran Shammo** - Verizon Communications Inc. - EVP, CFO

Yes, I think this is extremely important, because as I said before, I know folks are saying that we are overly competitive in pricing. But what I would say is that the pricing has not actually changed. And if anything, if you look at it, there was a price increase in 2011, and there will probably be some more price increases in 2012 as we go here.

But I think the differentiation we have here is we have a superior product in FiOS. It is taking hold in the marketplace. We are seeing -- as I said, New York is our highest-growing market. This past year, we crossed a milestone in Virginia; we passed 40% penetration on our video services. You can see we had a good quarter on broadband connection in FiOS.

And I think if you look at the line loss that we said at 7.2%, you can see that strategy of the chronic -- we started that in the fourth quarter of this year a little bit -- you can see that we are starting to convert copper voice customers onto FiOS. So continuing to grow and hold on to that declining revenue stream of the legacy product.

So I think overall, FiOS will continue to play a very important strategic role in the future of Wireline. We will compete vigorously with this. Even with the agreements that we entered into with the cable companies, if you look at the innovation agreement, that innovation will come into FiOS. And being a superior product already, that innovation will add what we can bring to the consumer base from an overall perspective.

So I think overall, I am very optimistic on our FiOS penetration for 2012.

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**Jennifer Fritzsche** - Wells Fargo - Analyst

Great, thank you.

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**John Doherty** - Verizon Communications Inc. - SVP of IR

Thanks Jennifer. Brad, looks like we have time for one more question, please.

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**Operator**

David Barden, Bank of America Merrill Lynch.

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**David Barden** - BofA Merrill Lynch - Analyst

Thanks for taking the question, guys. Appreciate it. Two, if I could. First, Fran, going back to the Wireless pricing equation, you guys have had, I think, a comfort level with your products status relative to others, pricing it at a premium. We saw a price hike a year ago from Sprint. We saw an overall kind of refresh of pricing from AT&T recently. You have talked about the introduction of new family plan prices. If you could kind of elaborate a little bit on how the pricing lever can be used to kind of grow ARPU in 2012, that would be helpful.

And then second, the Wireline revenue side would probably have grown in aggregate if it weren't really for the kind of Other segment, which kind of fell off in 4Q. Could you kind of elaborate a little bit on what is going on there and what the outlook for that is in '12? Thanks.

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**Fran Shammo** - Verizon Communications Inc. - EVP, CFO

So David, just to follow up, you are talking on the wholesale side of Wireline?





**David Barden** - *BofA Merrill Lynch - Analyst*

Sorry, on the -- there's Consumer, Small Business [equals] Mass Markets and then Strategic Services and Other, which was 1.94, down from 1.99 in 3Q.

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**Fran Shammo** - *Verizon Communications Inc. - EVP, CFO*

Okay. All right. Very good, thanks. So from an overall Wireless pricing equation, I think that we are the market leader. We set our tiered pricing structure when we launched our 4G network. And as I said, the way we positioned our 4G tiered pricing was that based on our future view of where usage would go, we saw that we had opportunity from a tiered structure and the proliferation of video through the LTE network that we would grow our revenue streams. And that is what we are seeing, just from an overall tiered pricing structure.

As we continue to mature this, we have said that we are looking at family data plans, if you will. And we continue to look at that. And obviously, the play there is to make sure that it is a win-win for the customer and a win-win for us from an accretion standpoint. So we continue to work that.

But I think it is important to note that we are a premium-priced product, but we will win in the marketplace just like we did with Unleashed. Even though that is priced \$10 above the market, we now see that there are niches of people that want to be on the best network in the world. So I think that will continue to be our strategy, and we will see here as 2012 goes.

As far as Wireline goes on that, I think wholesale, we continue to see pressure on the wholesale side of the business just from a legacy voice. And as we transform this business from a legacy voice business to a data business, continue with our fiber-to-the-cell program, which we are building out for various Wireless carriers, this continues to be very good business for us, but not quite enough to offset the voice loss. So I think we will continue to see pressure in there going into 2012.

As far as the Other category, this is legacy MCI [108] traffic call, collect type traffic, which will continue to decline. It is not something strategic for us, and we will just really move that as a cash cow at this point, and that will continue to decline.

So overall, the focus here is on the consumer Wireline margin, the enterprise portfolio and then also the wholesale portfolio.

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**David Barden** - *BofA Merrill Lynch - Analyst*

I keep forgetting about that MCI stuff. Thanks, Fran.

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**John Doherty** - *Verizon Communications Inc. - SVP of IR*

Thanks, David. Brad, that concludes our call.

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**Operator**

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

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