

FINAL TRANSCRIPT

Thomson StreetEventsSM

VZ - Verizon Communications Inc at Bank of America Merrill Lynch Media, Communications & Entertainment Conference

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CORPORATE PARTICIPANTS

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David Barden

Bank of America Merrill Lynch - Analyst

PRESENTATION

David Barden - *Bank of America Merrill Lynch - Analyst*

Once again, we're very pleased to have Verizon's Chief Financial Officer, Fran Shammo, with us here today. Thank you everyone for joining us for this first Telecom session in the ballroom.

QUESTIONS AND ANSWERS

David Barden - *Bank of America Merrill Lynch - Analyst*

I don't think Fran was here last year, but for those of you that were, I remember John Killian announced that he was going to be leaving the Chief Financial Officer post at the time, and now, Fran, you've had a chance to step in. I think in the intervening period, we've also had now -- Ivan decided to move from the CEO role to the Chairman role.

And I guess my first question, maybe, for today, would be, looking at that amount of change that's happened, could you kind of articulate, with Lowell McAdam now kind of putting his fingerprint on the business, what kind of strategic, or kind of tactical changes have you seen evolving at Verizon as the result of new leadership?

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

All right, good. Thanks, David, and good morning, everyone. So, yes, let's talk about the transition. So the transition has been extremely smooth. From a strategic standpoint, I don't think really anything has changed. The strategy is the same. This year, we're really just focused on executing on the strategy that was laid out, and that is, execution of LTE for wireless, execution of continuing to improve margins for wireline.

Though the one thing that I will say that probably is the biggest change since Lowell has taken over is, Lowell is very focused on process reengineering. And Lowell just appointed a new individual that will report directly to him, which will be really responsible for overall process reengineering within Verizon.

And I've said before as well that there is a lot of things that we can do internally to synergize between ourselves, that can bring a lot of synergy savings to the bottom line, just as -- just within ourselves, without dealing with anyone else, between wireless, wireline, and even within corporate.

So Lowell is very focused on that. I am very focused on that. So that is one, probably, big, big overall tactical change that has taken place. But beyond that, the strategy is still the same. There really has been nothing strategically that's different. Both Lowell and I do have a very -- focus on, which Ivan told us to get there, which is really around educating the enterprise on shareholder value.

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So we have gone through a very detailed training which is now going down into the lower levels around, really, what is shareholder value, and how do you create shareholder value? And how does it individually impact each individual person's job, even down to a collection rep, and how do they create shareholder value? So Lowell has kicked off that entire program as well. So there are probably two of the biggest changes, David.

David Barden - *Bank of America Merrill Lynch - Analyst*

Thanks for that, Fran. Shifting gears, maybe, a little bit, to wireless. Obviously, in the last couple weeks, the biggest news has been now that the DOJ has moved to block the AT&T/T-Mobile merger, I think that you guys kind of expressed a relative sanguinity with respect to the announcement of the deal. You know, you guys kind of do what you do. People respect it. You've been rewarded commercially for it, and whether the deal happened or didn't, it wasn't going to be a big deal for you guys.

Do you guys now, though, that the deal was announced, and now it seems to be kind of in limbo, is there an incremental opportunity for you guys to go after either T-Mobile's customer base, or the AT&T customer base, or is this just kind of a -- this is not something that comes up in the Boardroom and the business meetings at Verizon today?

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

Yes -- no, I mean, I think we've been very consistent with this. We've stayed on the sidelines of this, and we are executing on our business strategy. And regardless of when that announcement was made, when it -- now, what they're faced with there, it is not changing our strategy one bit.

So from a wireless strategy standpoint again, we are totally focused on elevating and really expanding the ecosystem of LTE, building that out, and really executing on that strategy.

We launched the iPhone this year -- that continues to be a strategy. We're bringing new products to bear there.

The one thing I will mention, though, that I think that this does bring to light for the industry, is that somewhere along the line, there has to be some type of spectrum reform, because one of the reasons that AT&T did this transaction was to acquire spectrum. So, if you're not going to allow a carrier who needs spectrum to acquire that spectrum, that is an industry issue. And that really implies to all of us. And I think that's the one thing that's going to be highlighted here is, okay, if this doesn't happen, then what is the government going to do to solve that problem? And that's where I think we definitely have to have spectrum reform in the industry.

David Barden - *Bank of America Merrill Lynch - Analyst*

Well, maybe following up on that theme, I guess, what's the ideal reform initiative? What happens in the next two to three years that would be a best case scenario for Verizon and from the spectrum reform?

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

Well, I think that the government has to release spectrum to the carriers who need it, and can use it, and will build it out. This theory of trying to give it -- spectrum to people who want to hold it for investment purposes and then turn it, doesn't really benefit the consumer, doesn't benefit the industry. And I truly believe that placing caps on carriers who have the capital capacity to build out and bring innovation to the forefront, by containing that, you're really not innovating the industry, you're not helping the consumer on products that people want.

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So I just think that overall, the government has to somehow alleviate the pressures of spectrum, and allow companies who want to acquire it, and build it, and innovate, be allowed to do that.

David Barden - Bank of America Merrill Lynch - Analyst

You know, just going back to this AT&T/T-Mobile thing, obviously, one of the reports out is that Verizon is planning on launching this \$50 unlimited prepaid featurephone plan this week. You know, that's going to go -- obviously, that's probably been in the works for quite some time, and that's going to be a product that's going to benefit, I think, from any kind of weakness at T-Mobile.

Why was now the time that that plan got launched, instead of a year ago, or a year from now?

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

Well, we -- you know, obviously, from our perspective, postpaid base is our bread and butter, and that's what we live to protect every day, and we make sure that anything that we do on top of that does not cannibalize that base.

So, as we dabbled in prepaid, we always had our prepaid products, it's always been a premium to the business, and I've gotten questions before, Fran, aren't you focused on prepaid? Prepaid is an important channel to us, but it's an important channel to us in the facet that we live, which is, it needs to return the profitability that we expect from our product line.

Why we decided to go now is, we trialed this in Florida and San Diego, and what we found from that trial was, it elevated our prepaid market share, so it did what we thought it would do in the prepaid market, but it also did not cannibalize our postpaid base. So it worked the way we thought.

Now, this is a premium product to the industry. It does not really include data. It only includes Web 2.0, which is a minimal amount of data, so it really is just an unlimited text and voice plan. It's premium to the market, but again, we are a premium provider with a premium network, so we feel that we should get a premium price for the product.

Now, the reason that we decided to go -- launch this now, was really in conjunction with our partnership with RadioShack, which will be launching in just a matter of days, and we felt it was extremely important that RadioShack have a prepaid product from Verizon, because they're heavily a prepaid distributor for prepaid.

So we thought that that was a very good timeframe for us to go, and it also built on giving them a product that they could sell for Verizon.

David Barden - Bank of America Merrill Lynch - Analyst

Got you. The -- another thing that we're kind of expecting, and this is something we did talk about a year ago, and we're now looking at a launch of another, kind of new iPhone generation. You guys launched the first iPhone that you were able to sell kind of midstream through its lifespan. And now you've got an opportunity to kind of be there day one for a brand-new consumer device, which has some very demonstrable consumer appetite.

At the same time, it looks like there's going to be yet another seller, in the form of Sprint, in terms of this iPhone. How do you balance out those factors? What are you expecting to happen when the iPhone comes, based on your experience now?

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

Yes, so let me start -- I really can't comment on any of that, to be honest, because I just don't know anything about that. So here's where I sit on this.

This is a refresh of a product, and we love refreshes of product, we're excited when it comes. We'll be ready for it when it comes. But again, you know, it is just one product in our portfolio.

So this past week, we launched our Motorola Bionic phone, which is an LTE phone. And I've said before that with LTE smartphones, probably the biggest negative, if you will, for the phone, was battery life. And I said that as we go and mature on this product line, and the ecosystems mature, and as battery technology improves, the battery life will improve. And I think what you will see, and it's selling quite well right now, is the Motorola Bionic has solved the battery problem. It's probably as good as a 3G device right now.

So -- and as we continue to build out our LTE portfolio, that will just continue to improve the battery life, because it will stop flipping back and forth between 3G and 4G, which is really where the battery is consumed most, by continuing to search between the two networks.

So again, we're excited for the refresh of the Apple phone when it comes. We'll execute on that. It will be the first time that we'll have a, quote, parity phone. So we'll see what happens. But again, it's just one of our products that we sell.

David Barden - Bank of America Merrill Lynch - Analyst

And again, this is kind of venturing into wild speculation, but just last quarter, we saw the round numbers -- you sold about twice as many iPhones as LTE phones. You mentioned that battery life has been one of the challenges. People just want their phone to work.

If the Bionic, and kind of current generations of the LTE phones are getting there, should we start to see a little bit more balance in the portfolio, in terms of smartphone sales?

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

Well, obviously, as we continue to expand the footprint of where LTE is available, you would expect that LTE handsets would continue to build upon the percentage of the portfolio. And again, as we continue to launch new devices, and there will be several devices coming in the December timeframe for the holidays, again, as we expand that portfolio, and more people join in that portfolio, it should become a bigger portion of our portfolio.

But again, you know, we're very excited to have the Apple phone in our product line as well.

David Barden - Bank of America Merrill Lynch - Analyst

The -- you guys were selling iPhones with an unlimited plan. You guys were selling smartphone unlimited plans. In February, you kind of moved to a tiered plan in summer. A couple of questions on that. The first would be, have you seen any kind of network stress, or anything that's kind of potentially threatened your network position in the market, because of rapid adoption, or usage of these smartphones in new ways as a result of the iPhone launch, or in any other way?



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

The answer to your question is no, because we prepared for the launch of the iPhone for a year before it happened. So we built up the EV-DO capacity, and we continue to build that through the first quarter.

Now, as we have come into the second half of this year, I've been pretty clear that the EV-Do capacity, from a CapEx perspective, will now start to decline, because we feel that we're at the pivotal point of that capacity.

So, the key for us right now is not that we have a constraint on capacity, but it is very important for us to start moving 3G customers to 4G. And the reason that's important is because 4G is a much more efficient technology. It's five times more cost effective to operate. So there's an inherent benefit every time we move a customer from 3G to 4G. Plus, there is a spectrum utilization efficiency that goes hand in hand with that, because I don't want to continue investing in 3G spectrum when we want to invest in 4G spectrum. So, we have to balance that equation.

But I would say, no, we're not in a -- any type of a capacity constraint at this point in time.

David Barden - Bank of America Merrill Lynch - Analyst

And I guess my last question on that topic would be, you know, just from the standpoint of having moved so recently from an unlimited model to more of a tiered model, were you able to gauge that there was any consumer resistance to that? Did you have a day when people went, what? I have to do what? Tiered? I don't understand that. I'll come back tomorrow after I understand it. Because there's going to be a lot of different approaches at the margin on smartphone sales. There's one guy out there continuing to sell unlimited, and I wonder if that really matters in the marketplace.

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

Yes, well, I mean again, we compete -- we don't compete on price plan only. We compete on our network reliability and being the best network in the United States. We believe we win there.

So again, I think we proved that with the launch of the iPhone when we did it back in February, that the voice quality of that phone is far superior to any other network there is. So, that's what our brand is built on.

Now, as far as going to a tiered pricing, I think I -- we'd be disingenuous to say we didn't have our road humps with offering tiered pricing to the consumer, but it was more of an internal issue with our own sales force being comfortable in educating consumers on the tiered pricing, where they were used to just selling them unlimited plans.

So I would say that was probably a two to three week event until they got comfortable speaking to the tiers, what it means, educating the consumer, what is -- what does 2 gigs give you, what does 5 gigs give you, what 10 gives you.

So once we got over that, we're really not seeing an issue at this point in time in our channels, where a customer is not buying from us because we're tiered pricing.

David Barden - Bank of America Merrill Lynch - Analyst

The other side of the volume handset equation, obviously, is the whole point of this exercise was to drive the revenue. You guys, at the beginning of the year with the iPhone launch, got very excited about the opportunity to get smartphones into your base in a real way, and you've had some pretty good success in terms of driving phone ARPU.

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Are you satisfied that you're kind of getting the returns from these smartphone investments that you wanted, both iPhone and LTE, in terms of revenue per user? Is it going to plan? Is this what you want us to see?

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

Yes, I think we're extremely satisfied with where we're at with smartphone penetration. Obviously, we said that we probably fell a quarter behind where we expected to be, because we expected a refresh sooner on a product than it came. So, that was probably a miss. So we think that we gave that into -- we would get to 50% penetration in smartphone by the end of the year. I think that's flipped a quarter.

So from a smartphone penetration, probably a flip of the quarter there. But on the ARPU side, I think that -- if I can say, the expectant of the outside versus us, it would accelerate a lot faster than it did. And I think it -- what we're looking at is, this is a marathon. It will continue and improve in time. And I said that the end of second quarter, I think you'll continue to see the improvement happen here as we go through the year from an ARPU perspective, and expectations of where we think we will be. But I think we're right on course where we expected to be.

David Barden - Bank of America Merrill Lynch - Analyst

My last question on that is, just with respect to the tiering itself, and kind of the opportunity to monetize those heavy users, how close are we to a point when tiering will actually be, in and of itself, one of those big revenue drivers? Because right now, it's usually more of a way to throttle back CapEx and maybe discourage usage. But there's going to come a time when people are wanting to watch movies and do all these things.

Is it a year away, is it three years away? When you look out into the future, how do you see that inflecting?

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

Yes, I -- it's hard for me to say what the timeframe is, because it seems like this industry is moving so fast, so quickly. But the reason we went to tiered pricing, the main purpose of it is, when we launched LTE, and we look at the usage projection from a video consumption perspective, and as we bring more end to end solutions, both consumer and enterprise, and the amount of data that's going to flow through those devices, we felt that LTE really was the pivotal point of where usage is really going to start to escalate, really, sequentially, very quickly.

So, where we're at is, that will come in time. I can't tell you when it will happen. But we do believe, with the tiers that we have set up, we have set ourselves up for ARPU accretion in the future.

David Barden - Bank of America Merrill Lynch - Analyst

I just want to shift gears maybe a little bit, to the wireline side of the business. And we talked a little bit about the news in wireless, iPhone, and AT&T/T-Mobile. And the wireline side of the business, the news has been a little bit more mixed. There's been the union -- kind of moved off work for a couple of weeks, and now they're back at the job, but we obviously got hit by Hurricane Irene. Can you kind of talk about what kind of implications that's going to have for the quarter, for the rest of the year? How do we think about monetizing those issues? Because we've seen them have an impact in the past.

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

Yes, so, I'm not one up here up to make an excuse for storms, but I think the catastrophic events that we've experienced over the last, really, three to four weeks on the East Coast have really taken an impact to the operations of the wireline business. So let me go back in time here, just to kind of lay this out, and then I'll get into the financial impacts.

But August 6, 45,000 represented employees walked off the job. Management came in. Our focus was around repairs and maintenance, and maintaining our current customer base. And I think we did a fairly decent job reacting to that and accomplishing that.

Now, what fell behind, of course, was installations, and that was installations on FIOS, that was PIP installations, so anything that was provision and installations, that got put back on a lower priority than repairs and maintenance. So coming out of those two weeks, we obviously had built up a backlog of provisioning. Repairs and maintenance was a little -- slightly higher than normal, but we -- pretty much normal.

The 45,000 came back to work for a week. They immediately went to work. They were excited to be back to work. We did not -- there was a lot of impression that there would be some slowness happening as they came back. We did not experience that at all. They went right to work and started to really pick away at that backlog of installations. So we started to catch up there.

Then a week later, Hurricane Irene hit. And unfortunately for us, Hurricane Irene started at the southernmost tip of our service, and actually went up through the entire footprint of our service, and ended in the northern part of our service. This was a very unique storm for us, because normally, when we have a storm, we can mobilize from other areas and handle the storm, and then go back to work. This was very, very different.

And it was very different from a perspective of, when trees fall and take power lines down, they take everything down. It doesn't matter whether you're FIOS or you're copper, it's down.

So what happened was, we were three times our normal repair load. So everyone was focused on getting that back. Obviously, the first, most important thing for us was employee safety, because there was a lot of hazardous conditions out there. They're working 12 hours a day, 7 days a week, to catch up on the repairs and maintenance. But again, the installations fell behind.

Then we start to make headways in repairs and maintenance, and Tropical Storm Lee comes through. And 20 inches of record rain, historical flooding. I've heard people quote that this was the 500 year effect of the amount of water that we saw, on some of the flooding that we saw.

So, putting that all together, where we stand today is, we are probably within two to three weeks of getting the repair and maintenance load back to our normal level. But now we have this significant backlog of installation, and that's probably going to take us 90 to 100 days to work down.

Now, from a financial standpoint, the storm impact will probably be about \$200 million to \$250 million on a pretax basis to the wireline unit. Now, having said that, I want to shift to wireless a second. Wireless actually was not impacted by the storm at all, which is what you would expect from the most reliable network in the United States, and it proved it once again. So from a wireless standpoint, they are hitting on all cylinders. The network did not suffer at all. So wireless, in my view, will have a good quarter.

So, you have to put those two things together, but from a wireline perspective, about \$200 million to \$250 million pretax impact.

David Barden - Bank of America Merrill Lynch - Analyst

The -- and can we consider that -- is that a third quarter number? Is that a third and fourth quarter number?



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

That's a third quarter impact number, and we think that -- right now, David, I would tell you, this is a -- this is not a reset of wireline margin. This is a catastrophic event for us, so it's really more of a one-time issue, and then we'll get back.

David Barden - Bank of America Merrill Lynch - Analyst

(inaudible) you should see, now that the workforce -- because I guess we're -- we've still got several weeks before the end of the quarter, so we should be back on repairs, be done by the end of the third quarter. That expense is going to happen, and then in 4Q, it's kind of a clean sheet of paper?

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

Clean sheet of paper, but again, we've got 90 to 100 days of installation backlog that we're still working through.

David Barden - Bank of America Merrill Lynch - Analyst

So -- and that installation backlog, is that kind of uniform across -- should we think about -- so I guess the gross adds in line, FIOS connections, DSL connections, that sort of thing, that's just going to be kind of a little bit weaker quarter this quarter than typical, but fourth quarter, theoretically, we would see a much stronger than typical quarter, so that will come back?

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

Yes, I think what I would say is that the third quarter, you should expect less net adds from the FIOS side of the house. And then the fourth quarter, we'll see how that plays out.

David Barden - Bank of America Merrill Lynch - Analyst

And just on that point, to the extent that you are making installs, are you seeing breakage? And people who are waiting -- are people really waiting around three months to kind of wait for this stuff to happen for them?

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

Well, what we have seen is that our cancel rate is about the same, so we're not seeing an increase in cancels, and we're giving people three to four week dates, and they're holding to the dates right now. Now, could that change if we start bumping that out? Maybe, but right now, we're not seeing it.

David Barden - Bank of America Merrill Lynch - Analyst

Okay. Kind of zooming out a little bit more to that -- to the consumer business outside of the 3Q specifics, but I think that one of the messages that's being debated here at this conference, and I'm sure others, in particular, is this whole notion of where the video industry stands, and kind of, whether we've reached some kind of secular inflection as to whether we're seeing video start to decline now, because over the top, is this kind of new approach that people are taking.

You guys were the only ones to actually -- you and AT&T, as video providers, were the only ones to gain share, positive share, relative to both satellite companies and cable companies last quarter. That was the first time that ever happened. Is there

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anything about the secular questions of over the top, the amount of opportunity left in the video business that matters to you guys? Because you're still only 6% market share in the business. Can you still be a share taker, and not have to worry about the secular issues in the market?

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

Yes, I think that from a FIOS perspective, we believe that we have a superior product in the marketplace. With the asset of wireless, we think we can bring something very different to the marketplace, so we launched Flex View this year. We're seeing momentum gain behind that. You're going to see us do some additional things in 2012.

But we are very confident that FIOS can continue to grow at that [180 to 200] range, excluding the third quarter, because of the events. But that's a pretty steady growth for us, and I don't see an end date yet to that growth. So I think that we can continue to go down that path, and it's very important for us to do that, because as the legacy declines, we need that FIOS space to build it back up and bring the profitability of the wireline back, because I know everybody misconstrued my comment last time, when I said that FIOS was not as profitable as legacy landlines. But FIOS is more profitable than the wireline profitability overall.

So it's important for us to continue to penetrate FIOS. That will help carry the wireline margin north of where it is today.

So that's an important strategy for us, and I don't see an end date there, and I think that with the collaboration of our quad play with wireless, Flex View, some other things that we're going to do in 2012, I still think we can take market share.

David Barden - Bank of America Merrill Lynch - Analyst

Great. So I guess that the message, then, is -- you know, let's just talk quickly about enterprise. But I guess the message would be, then, that barring the third quarter, if FIOS continues to grow, FIOS margins are above the wireline margin. Wireless margin -- wireline margins should be able to grow, all things being equal.

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

Well, I'll be pretty consistent with what I said before, that the goal of Lowell and I is to continue to improve the wireline margin.

David Barden - Bank of America Merrill Lynch - Analyst

The -- just maybe two quick last questions, and then I'll open it up to the audience. But the -- another topic that seems to kind of be coming up every nine months now is how strong the economy is, and what the outlook is, and -- we had a tech conference, and the tech companies are all worried about what spending at the enterprise level is going to look like at the end of the year, and into next year.

And so, we always come back to this question for the telecom companies, about your enterprise business. And you guys probably have as deep a funnel across as wide a product set as anyone. Where are we today, now that we -- you know, our Congress couldn't get their budget act together, and all the rest of it?

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

Well, I think from where I sit -- I mean, obviously, the economy always plays a factor in what happens. But in the enterprise space today, we've posted two quarters of positive growth now, excluding Terremark. If you put Terremark in there, we actually grew better than GDP. But without that, we grew at 1%.



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And really, the growth area for us is the strategic side of the house. And really, what's driving that is, not that companies are spending more for more volume of data. What they're doing is, we're going in with solutions, and if you can walk into an enterprise company today in this economic situation and give them a solution on the table, that tells them that they can cut their expenses by 15% to 20%, they're willing to listen to you, they're willing to invest in that.

And really, where that is, it's all around cloud. Because we know that if you can move an application from an internal data center into a cloud space, we can save anywhere from 10% to 20% off your bottom line.

Now, there were two things in the enterprise space that really are keeping this thing from taking off, in my mind. One is around security. Enterprise is worried about the security about cloud, and I think we've conquered that.

The second is, we just went out and acquired a company called CloudSwitch. And what CloudSwitch brings is, it brings the ease of moving an application from your internal data center into the cloud and back again.

And previous -- if you don't have the software that can do that, it's difficult for an enterprise company to justify rewriting that application into this cloud over here. So if you can do that in a seamless manner, which we think that CloudSwitch has the IP technology to do that, we think that is what will elevate us.

So if I can counter the economy by walking in and giving solutions that help cut enterprise expenses, then I have room to grow.

David Barden - Bank of America Merrill Lynch - Analyst

Perfect. And then, the last question I have, just before we open it up, is just on capital expenditure a little bit, and tying into that economic question. You know, this year, you guys front end loaded a lot of your CapEx. Your guidance implies that there will be a small second half slowdown. This year, obviously, there's a lot of reasons to spend, with 100% bonus pack depreciation, that's going to kind of fade out next year and the year after. The economy looks a little bit squishier.

Is there -- are you getting, as a business, more cautious, more conservative, in terms of how you're thinking about your capital deployment outlook next year?

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

Well, I mean, I think every year, we take a very hard look at our capital allocation deployment, and you've seen that we've taken wireline down, and we built wireless up.

I think what you're seeing in the second half of this year, as we said, EV-DO capacity will come down. We will continue to build out LTE. So I think it's too premature to say what our head is around 2012, but I have to tell you, we planned for investment based on our business strategy. I can't plan around what happens in Washington DC, because I would have 75 different plans every single day.

So now what's on the table is, with the Obama Jobs Plan, bonus depreciation will be extended. If bonus depreciation -- if that plan doesn't go through, then they're talking about tax reform.

So I think that we are steady state. We did not spend more capital because of bonus depreciation, we didn't spend less capital because of bonus depreciation. We're spending capital where we believe it is most imperative to us to gain market share, to increase revenue, and return more profitability. Not -- that's our strategy.

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David Barden - Bank of America Merrill Lynch - Analyst

We'll open it up to the audience, if there's any questions that people want to bring up. And I think we have mikes, I think, on our side here.

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

Quiet crowd today.

David Barden - Bank of America Merrill Lynch - Analyst

It is, exactly. The -- I'll kind of maybe throw out -- kind of one more, coming back to maybe the consumer and the economy. I think the last time we got concerned about the economy, what we really started to see was the small/medium business, was really the canary in the mine, and also the consumer started to be acting more conservatively at the margin.

Are you able to kind of -- what is the small/medium business or consumer market telling you about -- maybe the leading indicator about what the demand profile is looking like at the margins.

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

So, let's start with the consumer. From a consumer perspective, we have not seen anything in the consumer segment from an economic issue. Nothing. And you know, it's kind of interesting, because actually, my bad debt is probably at an all-time low at this point in time. So, I'm not seeing any economic impact from a consumer standpoint.

Small business is a little different. We are feeling an impact at small business. I stated that in the second quarter. And really, where it is, is, I'm not -- it's not that I'm accelerating loss to competitors, I'm accelerating churn. It's that what we don't see is, we don't see the small business new creations that are coming to market, bringing the inwards in. And that's really where we've seen the impact of small business.

So, we're just going to have to wait that one out, and wait until the economy returns, and have small business start to generate again.

David Barden - Bank of America Merrill Lynch - Analyst

One of -- oh, sorry, we have -- John?

Unidentified Audience Member

Thanks. To that small business point, I mean, if you look at the competitive impact, because -- you know, cable companies have become a heck of a lot more aggressive in that market segment. And then secondarily, if you could just address the capital issue. You guys have done a brilliant job on returning capital to shareholders in the form of dividends. I think you paid your first dividend in a long while, they're a devoted following, and how you see that playing out over the long term over the long term around the wireless space.

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

Okay, so from a small business perspective, on the cable competitors, we do watch the disconnects to the competitor. And as I said, I'm not seeing an increase in competitive loss, because that was our first impression when we saw the second quarter.

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What we're seeing is, we're not getting the inwards. So we're not getting those new startups coming in. And that's really where I point to it, it's an economic issue.

And you have to realize, it's the same with me as FIOS. When I go into a cable competitor territory where they had a monopoly, obviously, I'm going to gain share. It's the reverse side on small business, where they're now attacking a base that they've never attacked before. They're going to gain some share there.

Now, it does depend on where you're at, because within my FIOS footprint, they're not gaining any share. My FIOS, actually, installed business is growing, but I have a lot of legacy product out there that, quite honestly, from a broadband perspective, is not compatible with cable.

As far as the dividend goes, we just increased our own Verizon corporate dividend by 2.6% to \$2.00. We think that is extremely important for our shareholders. As far as the Vodaphone dividend, we said we would declare it. I declared it. I really don't want to talk about it anymore. There is no policy. I declared it. I'm done. I'm not talking about it anymore.

David Barden - Bank of America Merrill Lynch - Analyst

The -- I have a question on the Vodaphone dividend. (laughter) So clearly, the -- if -- you guys do have quite a bit of -- have had quite a bit of cash on the balance sheet. You now are upstreaming, or at least have upstreamed this one-time cash from Verizon Wireless.

Is there anything about -- you know, as you look ahead, if CapEx is kind of steady, and the business is growing, and you've got a vehicle for returning cash flow from wireless should you choose to use it, is there anything about your plans on cash returned to equity holders that could be more aggressive than the kind of annual 2% dividend increase, like stock buyback programs, or other things? Would you open up the possibility that that's out there? Or are you kind of pretty satisfied that you're giving -- maintaining the maximum -- the best relationship between flexibility and cash returns that you can?

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

Yes, well, I mean, there's a lot of complexity around that question, right? So I think the simple answer is, we look at that all the time. And will I be open to a share buyback at some point? Absolutely. So it's just a matter of when that happens, and when the timing is right. This year, we decided to go to the market to refinance, because the timing was right.

So it depends where the market is, what's happening, what the cash flow position is, but yes, obviously, we look at all of those different complexities pretty much on a quarterly and a planning basis.

David Barden - Bank of America Merrill Lynch - Analyst

Okay. I think we have one last question out in the audience.

Unidentified Audience Member

Sure. At the beginning, you talked about your spectrum needs, and obviously, for the government to do something about it. If the government doesn't end up doing anything about it, or it takes long, what do you think are some of your alternatives? Obviously, there are some players out there that have -- they are holding spectrum as an investment. Your thoughts around that?

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

Well, from our own Company perspective, we believe we are in a very good situation through 2015. And when I say that, we need to start having a plan, because we will run out of spectrum at some point in time behind 2015.

So right now, we think we're in a very good position. There are opportunities -- and quite honestly, we buy spectrum every quarter. It probably doesn't end up on the map anywhere, because it's a piece here, it's a piece there. We are always looking at opportunities every single quarter to acquire spectrum that we need, and we will continue to do that.

If they're -- what I was referring to with the government, just spectrum policy is, is to get on with releasing spectrum, auction it off, getting it into the hands of the providers that can build that out, and that's really what we're focused on.

David Barden - Bank of America Merrill Lynch - Analyst

I think we've used up our time. Thank you so much, Fran. We really appreciate you coming. Thank you very much.

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

Dave, thank you very much. Thank you, everyone.

David Barden - Bank of America Merrill Lynch - Analyst

Cheers.

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