FINAL TRANSCRIPT

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PRESENTATION

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

Welcome back to the main session in the ballroom. Thank you all again for coming. My name is David Barden, head of the US Telecom Research Group for Bank of America Merrill on the other side of Jessica's wall.

And right now we are going to kick off the ballroom telecom presentation with Verizon Communications. We are very pleased to have with us today John Killian, who is the Chief Financial Officer of Verizon. He has been with the Company for 31 years. Before he joined as Chief Financial Officer back in, I think it was probably March of 2009, he was the head of the Business Services Group, and has held a wide range of positions there.

Maybe you have seen his name in the Wall Street Journal very recently. He earlier this week announced that he is going to be retiring from Verizon. And we will probably end up talking a little bit about that with him as he is coming up here. But to begin the presentation, I think John has a five or seven minute presentation to go over some of the highlights of Verizon, and then we will do some Q&A. So welcome, John.

John Killian - *Verizon - CFO*

Great, thanks for that opening and set up. Maybe my remarks should be 30 or 40 minutes, given what you want to talk about in there, but it is great to be out here in California.

I always like to make a little bit of news for Dave right before his conference. I would like to thank Bank of America Merrill Lynch for the opportunity to have a chance to take part in their conference again this year, and return to sunny California. We are usually in New York or Boston, so it is nice to have a change of pace.

I would also like to just extend our thanks to Bank of America, because we do a lot of business with them as a supplier. We run a lot of their networks, a lot of their mobile services, and they also do a lot of banking business with us also, and do a great job.

Before we get started I would like to draw your attention to our Safe Harbor statement. The factors which may affect future results are contained in our SEC filings, and are also available on our website.

I would like to start out with some brief remarks and just a few slides to help frame our discussion today, providing some insight and perspective on how we are thinking about the business.

I believe that our first-half results demonstrate solid performance and reflect the fact that we continue to operate with a great deal of discipline. In terms of cash flow, we have had exceptionally strong growth with continued tight controls on capital spending.

In Wireless we are competing very well, with data revenue growth being driven by smartphone sales to both new and existing customers. As a result, we have seen increasing year-over-year growth in postpaid ARPU, as well as improvements to our industry-leading customer retention metrics.

In Wireline our EBITDA margin improvement in the second quarter was driven primarily by cost reductions. As I noted on our quarterly earnings call, we had approximately 11,000 volunteers for our enhanced separation offer in the East and Mid-Atlantic regions to our associates. So this, coupled with some similar offers in other parts of the country, will go a long way towards helping us achieve our Wireline force reduction objectives for this year.

As all of you know, we recently completed the strategic transactions that were part of our overall transformation, namely the sale of certain wireless markets we were required to divest as part of the Alltel acquisition in 2009, and then the access line spinoff and merger transaction with Frontier.

Last week we released six quarters of reclassified historical segment information, pro formas, reclassifying the effects of those transactions for purposes of better comparisons going forward. This information is available on our website.

So let's start with a look and discussion around our cash flow. As you can see on this chart, we have had consistently strong cash flow from operations, with free cash flow up 76.7% year-on-year. At the same time we have also been disciplined in terms of capital spending. For the first-half overall CapEx of $7.7 billion is down 5% year-over-year.

And as I previously said, we are reallocating capital between our segments, with higher spending in Wireless and less spending in Wireline as we wind down our FiOS build initiative.

A top priority for us in terms of cash utilization is to continue to reduce leverage. At the end of June net debt was just under $53 billion, down $7.5 billion or 12.5% since the beginning of the year. Our net debt to EBITDA ratio was about 1.5 times at the end of the second quarter. And I expect that we can drive that even lower by year-end.

Regarding dividends, you know that our Board of Directors approved a 2.6% dividend increase on September 2, which on an annual basis increases our dividend from $1.90 a share to $1.95 per share. In addition, shareholders received $1.85 per share in value through the Frontier transaction.

This marks the fourth consecutive year that our Board has approved a dividend increase, demonstrating their confidence in the strength of our cash flow and balance sheet, our financial discipline, and our commitment to return cash to our shareholders, even as we continue to invest in our networks for long-term growth.

Big picture, we are looking to achieve sustainable revenue growth across the business, improve earnings, and return value to you, our shareholders. So let's take a closer look at our Wireless business.

In Wireless we have had solid performance in all the key metrics, resulting in industry-leading profitability. Our revenue growth performance has been strong, driven, of course, by our focus on expanding the data market. Service revenue growth in the second quarter was 6.3% year-over-year, with data revenue growth of just under 25%.

We are very focused on taking advantage of the rapidly growing smartphone device category. Our approach is to support a number of different operating systems and platforms, and to offer a robust lineup of devices, which gives us the opportunity to not only attract new customers, but upgrade our existing customers.

We are hugely bullish about this opportunity, most notably because we see plenty of upside in terms of smartphone penetration. At the end of the second quarter 20% -- only 20% -- of our retail postpaid customers had smartphones. So with our strong device lineup, and the great early success of our Droid franchise, we expect to be able to drive deeper penetration.

So far customers have responded very well with smartphones representing about 40% of device sales from our direct channels during the second quarter. And our strategy of stimulating data revenue growth is also improving customer retention as our churn metrics in the second quarter, in particular, were excellent.

Looking ahead, particularly with the commercial launch of LTE later this year, we believe that our network advantage will become even more evident and differentiate us more than ever before.

Lastly, in terms of profitability, we had an excellent first-half, generating more than $12.7 billion in segment EBITDA, up 7.4% from a year ago. Our first-half 2010 service EBITDA margin expanded to 46.4%, up 60 points from the same period last year.

In Wireless our continuing focus will be on achieving both growth and profitability, with our priorities centered around gaining share in the retail postpaid market. Let's talk about our Wireline segment next.

On the consumer side our broadband and video products continue to drive a significant shift in our revenue mix. The strength of our FiOS broadband and video products, together with our increasing scale, should continue to drive positive revenue and ARPU growth, and help to offset the secular and competitive pressures in this part of the business.

In the second quarter FiOS revenue grew more than 33% year-over-year, and FiOS ARPU, which now exceeds $145, was up 7% over second quarter last year. On the enterprise side, growth in strategic services, which includes security, IP and other managed solutions, continued to transform the revenue mix. These services, which represent just over 40% of global enterprise revenue, grew 6.3% year-on-year, and 3.6% sequentially.

While revenues in the business market continue to be affected by macroeconomic pressures, we are beginning to see some signs of stability. But I would say we are still cautious in our optimism, as usage volumes and unemployment figures have not shown any meaningful change.

A significant area of focus, as you have heard consistently from us, relates to our cost structure. More specifically, we are driving the business to achieve meaningful cost reductions and positioning the business to operate more efficiently and quickly benefit from eventual improvements in the economy.

In the Wireline business we made good progress in our workforce reduction initiatives, reducing headcount by 12% from a year ago. As I mentioned earlier, we had very good acceptance to our enhanced incentive offer. About two-thirds of these employees went off the payroll in late June or early July, with the remainder scheduled to leave the business later in the third and fourth quarter.

We are making good progress in other cost reduction initiatives as well. I am referring to efficiency savings in areas like real estate, network convergence, supply-chain, inventory management and energy. In addition, we continue to push self-service and efficiencies in our Wireless retail locations. We also have more Alltel synergy saving opportunities, particularly in areas like network integration.

The Frontier transaction culminated a strategic transformation that we have undergone since the inception of Verizon 10 years ago. During this process we have aligned our Company with the major growth trends driving our industry. We have simplified the business through divestitures and restructured through both acquisitions and investments. In the process we have significantly increased our exposure to the growth areas of the future, namely wireless, broadband and global connectivity.

The upshot is an improved revenue mix and profile, and an outstanding set of high-value assets with greater potential for future growth. We are also confident that over the long term we can grow profit and shareholder returns.

In the second half of this year we expect a continuation of the trends we are experiencing in our Wireless business. We believe we can continue to grow the business in terms of new customers and drive higher smartphone adoption, leading to increased ARPU and revenue growth.

In Wireline, although we don't expect any significant economic-driven improvements in the second half, we will continue to capture savings from our cost reduction programs.

In sum, we are optimistic about the outlook for the second half of the year, and our stated objective is to grow earnings in the second half of this year by 5% to 10%.

With that, Dave, I will turn back, and I know I'm anxious to get to your questions.

QUESTIONS AND ANSWERS

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

Thanks, John. I appreciate the endorsement of Bank of America's many things we are doing for you. (multiple speakers) But I still have to ask the questions. So thank you very much. And first -- let me be the first, certainly on the sell-side, to congratulate you on a long and successful career at Verizon, 31 years. And I hope that retirement shaves 10 strokes off of your game.

John Killian - *Verizon - CFO*

I hope at least 10 strokes off my game, to be honest with you. I would be disappointed if it is only 10.

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

I think, obviously, we read -- my first reaction was oh, no, John is not going to come to the conference -- but thank you for coming to the conference -- when we read in the Wall Street Journal you were leaving, or planning to leave Verizon.

But it is an interesting time to make that choice. We've got -- on the one hand, we've got Verizon Wireless losing their CFO. We have had a lot of senior exits out of Verizon over the last two years. We've got Sir John Bond at Vodafone, the Chairman there, your long-time partner. He is potentially leaving. Vittorio Colao is reorganizing Vodafone and the Verizon Wireless ownership interest inside Vodafone.

And so there's a lot of moving parts, and it seems like if you had been able to stick it out 32 years, that things might have been simpler for the organization that you're leaving behind. Could you talk about the timetable in a little (multiple speakers)?

John Killian - *Verizon - CFO*

I guess, I don't think staying six months more would have made things simpler, to be quite honest with you. So let me just tell you all what is behind my thinking and also right up front -- and these are all fair questions. I am the CFO of Verizon, so it is important for me to be here. I will be doing the third quarter by the way, and very focused on that, and finishing out the quarter.

But Verizon is in very good shape. We have a great management team. I personally believe if we don't have the best CEO in America, which I think he is, but he is certainly the best CEO in the industry. Been there a long time, just a great, great leader.

We have focused a lot over the last several years on management succession. We have a very deep bench. I can tell you there are multiple people within Verizon that could fill my role and fill it extremely well.

Now you referred to a lot of things. I don't know what John Bond leaving Vodafone has to do with Verizon, but that's okay, Dave. You are right, we have had some other people leave, but that is all part of the normal process. Ivan has made it clear that he is on a timetable, where probably in his 65th year he would leave the business. That is the way our normal succession has gone in the business. So as you're doing that you're getting ready for all of that.

My decision, by the way, is a totally personal decision. For the last 8 years for Killian Corporation reasons -- Killian family reasons, my wife has been living back up in Boston. She has got a 93-year-old mother, a couple of other things like that. And I just ran out of gas living away from -- and coming back and forth every week.

I love the job. I love my boss, love the Company. As I mentioned, there is no underlying issue here whatsoever. Part of my thinking, to be candid with you, is I felt I owed Ivan early warning about this. As many of you know, there was an 8-K filed in -- I guess it was -- you probably know better than me, Dave -- I guess it was January or December, where Lowell McAdam, who is a great individual, great leader, has run our Wireless business for quite a while, he and I were named as potential secession candidates.

So I didn't want to have the Board and Ivan get too far down the road. And I felt it important to me -- and Ivan and I have been discussing this over the last several weeks -- he had me talk to some of the Board members. Ivan and the Board asked me to think about it, which I did over a couple of weeks, and then this past weekend I came to a final decision, and we decided to announce it.

So that's the story. But, again, I just want to echo, business is in great shape. We came off a good second quarter. We gave you some guidance, because we knew there was some confusion. Not something we typically do is give a lot of guidance, but we said, we expect to grow earnings 5% to 10% in the second half of the year. That is still our expectation. So we are very pleased with the businesses.

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

You mentioned just now the narrative that has been going on in this succession debate has been that there has been two candidates. 2 minus 1 equals 1, and that means that it is your decision is -- it means that Lowell McAdam is going to be the next CEO of Verizon. Has he sent you a thank you letter yet?

John Killian - *Verizon - CFO*

Who the next CEO or Chairman of Verizon is not in my job description. So that is a Ivan Seidenberg and Board -- really a Board decision. So here is what I would say to you is all along Lowell and I have had -- his office is right across the hall from me. We have a relationship like that. So he has a lot of confidence in me, and I have a lot of confidence in him.

But where the Board ends up going, again, is not in my job description. The timing of what they decide to do will be up to them. But the one thing I would leave investors with, this will be very well thought out. We want stability. One of the reasons I'm here today, I want to make sure people knew what was the background here, because I know everyone is looking for a subplot. Everyone thinks there is some other reason under here; there isn't.

So I did an interview with The Journal on Monday night, and they were looking for the subplot. So there is really no other story here.

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

So moving back to the fundamental side of the equation, last year you were six months on the job, you were here at this conference. And you had come off the second-quarter conference call and there was some optimism that the margin in the business -- the Wireline business especially, was going to maybe see an uptick in the second half of 2009. You came here, you said, you know what, that is not going to happen.

And for two or three quarters there was some disappointment in Wireline margin, right up until the second quarter where it was -- fantastic progress seems to have been made.

I guess you have set out some fairly aggressive earnings expectations, growth in the second half of the year. And I guess it seems a lot of that has been headcount driven, and I guess the question becomes, what is your comfort level that this cost-cutting momentum can stay in front of 11% rates of line loss and negative RGU growth in the Wireline business.

John Killian - *Verizon - CFO*

I am pretty comfortable. I think if you look at what I talked about earlier, we have had sizable force reductions under way. Most of them have already left the table. Most of them didn't help our second quarter. So you're right, we had a very good second quarter, really on all fronts, Wireline and Wireless. Fran Shammo runs the Wireline business. He and his team are focused on every line of expense [areas].

Our headcount runs -- headcount-related costs run a little bit below 40% of total Wireline cost. The next biggest bucket is what we call telco costs, what we pay third-party carriers around the world where we don't have local access.

Then there is a range of other items. There is real estate costs, there is procurement costs. We are focused on all of them. We are making good progress. As we eliminate headcount we are eliminating square footage of real estate. We are taking that down. There is a number of other benefits there, so I think on the cost front we will do very well.

There is a couple of areas where costs will increase; one being content. Content costs are going to go up. And I want them to go up, because they are going up because we are getting more video customers, and we are going to continue to add video customers. As we add more and more on a relative basis, I think, content will improve, because we will have more scale as we go through the next round of negotiations.

But I think you heard me earlier. We put the 5% to 10% number out there. There is no backing off that 5% to 10% growth number at all. We feel comfortable with that.

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

If I think about that half-on-half kind of momentum heading into 2011, is there any reason to believe that that is a sustainable rate of momentum?

John Killian - *Verizon - CFO*

Sure. I think the cost reduction efforts are definitely sustainable. We need to get the topline growing again. If you look at the consumer side of the business, we are actually performing quite well overall. If you look at both Wireless and Wireline our consumer business is holding up well.

FiOS is doing very well. We are having -- we are very focused around FiOS. The nice thing about us will be we will end up with about 70% of our footprint for the most part with fiber directly to the consumer home, which I think will put us in a very good position. So I think FiOS is going to continue to do well.

We made a couple of changes in our approach in the marketplace, particularly in multiple dwelling units, which cover probably 25% to 30% of residences in our geography. We originally had this -- customers in MDU had to take a two-year contract. We recognized that a two-year contract in MDU just didn't work, because a lot of times people are in there for a year in a particular apartment, so we have become much more flexible in our approach; that is working quite well.

On the enterprise side, Fran, again, and his team is very focused on selling more and more of the higher margin, strategic services. Selling bundles of services to our enterprises, not only the network and the private IP services, but managing the network for them, security services on top of that, which carry higher margins.

We have also in that business, we had some international wholesale routes, where we weren't making money on them. So we were driving some topline, so we agreed to look at that. We have raised prices in a lot of different areas, and that is going to have some positive momentum also.

So I think we got every area in the Wireline business that you could think we would be focused on, we are focused on. And we've got a team that is all over it, and I think we are pleased with our progress.

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

Let me drill down on that Wireline top line a little bit more. So the telcos in aggregate have lost something between 70% and 90% net add broadband share in the market. And for every FiOS customer we are losing 0.9 DSL customers.

I guess the question becomes, is the economics of the business now such that you're willing to just let those DSL customers go, because it is not worth fighting for, or is the risk of losing them maybe promoting an idea that it is worth investing FiOS to go beyond 70% of the footprint? What do you think about that part of the business that seems to be (multiple speakers)?

John Killian - *Verizon - CFO*

Sure, that's good. I think right now our focus is on getting to a 70% on FiOS. What we have always said is once we get there we will evaluate that and selectively probably build out in some additional areas. But that is probably a 2012 kind of decision and event. But we will take a look at that.

But what we have done is we have just rolled out -- late August we have increased the speed of our DSL offerings. So we're putting a lot of focus around that. Some of the loss of DSL we are actually causing, because it is going over to our FiOS data offering. We think where we have FiOS data we would rather have the customer on the FiOS network, because speeds are superior, churn is much lower, retention is very strong.

So we are not at all saying we are not going after that marketplace. We are enhancing the DSL offering. We are going out with different offers and promotions in the marketplace. So we will be pretty strong out there.

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

Moving from the consumer to the SME market, we had a couple of cable CFOs up this morning talking about how one of their big strategic opportunities is to develop into the SME marketplace. When cable came up with the small business game plan, telecoms responded proactively by going out into the market, discounting multiyear contracts in order to lock in customers. That had a headwind impact on revenue growth and margins, as you guys implemented that.

Now the cable guys are going after the midmarket. Should we be anticipating that there is another round of competitive battlings between you guys and them in the midmarket and that could have revenue and margin impact?

John Killian - *Verizon - CFO*

Yes, I think, what I would say is the small and medium business has always been competitive. We had a number of CLECs operating in that marketplace for a number of years. We had good performance there in the second quarter. We actually saw some improving trends in the small and medium size of the business. As you know, everyone defines this a little bit differently.

I think the other issue I would say from a Verizon perspective is you can't look at this issue as only a Wireline issue. Because we are extremely well-positioned with our Wireless offerings, which most of our competitors don't have. So we are in a great position to go forward with more and more bundling of offers. And just think of the capability with LTE, as LTE gets out there and the kind of speeds. So I think for the future that is a marketplace we are very well-positioned in.

We did make a change within the Wireless business, where we had traditionally approached the business marketplace within a structure of four different areas out in the country. And we pulled our business organization within Wireless together into one, run by a guy by -- Mike Lanman, who's doing a terrific job. A lot of different opportunities. Working very closely though with Fran Shammo's team, Blair Crump, Ray Wierzbicki who run their business operations.

So I think we've got a lot of opportunity there. And I think we got to just capitalize on the strength of both our Wireline footprint and the depth of all our Wireless offerings, which is just going to improve.

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

Before shifting gears to Wireless, a little on enterprise, I guess, everyone wants to ask the economic question. You did have an uptick in revenues in enterprise -- global enterprise, in the second quarter. I think a lot of companies have been saying that is more CPE driven. It is a good leading indicator, but we haven't seen really any good traction in business spend on balance. What is your latest take on this?

John Killian - *Verizon - CFO*

Our performance in the second quarter was not just CPE. So if you looked at -- the way we look at it is we look at -- we cut it many different ways. We cut it by product. I take a look at it and say, what is the underlying revenue trend if I breakout FX, I breakout CPE? And we saw an improving trend in the business when you take those two out.

Second-quarter performance was good. We are still cautious though, because the economy -- and this is not a domestic US issue, this is a global issue, because we play globally in the enterprise space. And one step forward, one a half step backwards at times with the economy. So what we are looking for is -- and monitoring very closely is -- the best thing that could happen for us is to see the economy and our enterprises add jobs back. And we are seeing a little bit of that, but I wouldn't say we are seeing yet a huge uptick from that perspective, but that will be critical.

I would tell you that CPE has held in there pretty good. And again, in terms of our focused efforts to improve the margin of that business, we made some price changes on our CPE lineup. And we thought it might deter a little bit some of the level of business we were doing, and we haven't seen it yet. So we did one price increase on CPE. We followed up with another price increase on CPE, and our team was still selling it, and doing quite well with it. So that is a sign that people are starting to refresh, and those kinds of things we think there is an opportunity there.

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

Shifting gears now back to Wireless, you touched on LTE. I think that seems to be the big storyline for Verizon in the second half, I guess. Everyone is waiting with bated breath to see when and where and how it gets launched. Can you tell us where we are now in that deployment? I guess you rolled out some (multiple speakers).

John Killian - *Verizon - CFO*

I talked to Tony Melone this week. What we have said is we are going to have 30 major cities in the US, covering about 100 million people, operational in the fourth quarter. We are on track for that. So there has been no movement off of that schedule or commitment.

We have also said initially what we would be in the marketplace in the fourth quarter with laptop cards and dongles with devices, handsets being available in the first half of next year. We still very comfortable about that particular schedule.

I would just like to shift one thing you said on the front end of your question is, LTE is a big story for us, no question. We think it is going to be huge for us as we go through the next several years.

But the story of the second half of the year is really going to be smartphone penetration, smartphone success, ARPU gains on the back of that, continuing efficiency in that business. That is really what is driving the success of that business. And we see very strong performance. We saw -- a lot of people were viewing the depth of the ability to add postpaid customers in the first quarter. We said timeout; that is not the case. And we put up some pretty good numbers in the second quarter.

I would expect that trend to continue, that we would put up pretty good numbers in the third quarter. And a much higher mix of smartphones and very strong upgrade performance, which will be very positive for the Wireless business.

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

Let me add to that question. So I guess expectations have been rising for AT&T in terms of how many of the new iPhones that they have sold. You guys have obviously had your own kind of new Android focused lineup. But when you say good numbers, do you mean good numbers in light of the fact you're competing against an iPhone, or good numbers relative to you having 50% more postpaid subscribers than AT&T does, and you should be able to take your share?

John Killian - *Verizon - CFO*

Continuing the trends we saw in the second quarter is what I mean. We added a significant number of postpaid customers. The trends we saw (inaudible). Our smartphone lineup is terrific. Lowell, that we just talked about, Lowell McAdam, has done a tremendous job, a tremendous job taking us from where we really were at a competitive disadvantage to where right now we feel we are at a competitive advantage, because we are rolling out in the last three or four months -- John and Kevin can keep me straight -- but there has been four or five different Android-based devices all very well reviewed. So we have the Droid Incredible. We have the Droid X. We had the Droid 2. We just had the Samsung Fascinate come out.

So our team has done a spectacular job. And then (inaudible) marketing and brand positioning of the Droid franchise, which is a Verizon positioning, coupled with the strength of our network, so our brand positioning is first class, terrific. And as you know, brand leaders continue to do well despite a lot of different people trying to jump at their heels. So our Wireless business is in great, great shape.

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

Maybe I will ask one more question and open up to some audience questions. But I guess looking into the smartphone fight into the back part of the year, if you feel like you were getting on some competitive footing from a device standpoint, I would say one of the big events this year has been AT&T shifting gears on price to a tiered model. They charge less for phones on a service base than you guys do today. They are out there experimenting with all sorts of different plans, none of which are more expensive than the plans you are offering today.

So I guess there is this expectation that Verizon has a move that it is going to make with LTE coming in -- maybe, as you said in the press before, maybe a premium price for that. Lower prices on some 3G service pricing plans to keep you competitive and push a much more aggressive device lineup. So it sounds like or feels like we're coming up to a big push from Verizon in the fourth quarter. Is that a mistake to make that assumption?

John Killian - *Verizon - CFO*

Here is what I would say. I think you're going to see the kind of push Verizon has every quarter. So every quarter we think we have a big push out in the marketplace. The pricing experiments you referred to are just that. They are very localized, there is not a master plan on those kinds of things that tie back to some big pricing change. I'm not here today to announce any kind of pricing change.

We have always said that we think long term the direction would be to some kind of tiered pricing model, but at some point in the future we will have more to say about that.

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

Which date would that be?

John Killian - *Verizon - CFO*

Some point in the future. Get your crystal ball and you can think about it. You can think of that.

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

Okay, I'm going to put you down for November. So what I will do is I will ask the audience if they want to ask any questions. I think we've got one here in the front.

QUESTIONS AND ANSWERS

Unidentified Audience Member

The question is around subsidy levels for smartphones. You said that only 20% of the [current postpaids] is currently with a smartphones. How do you think about the current level of subsidies on smartphone devices, given that you have higher ARPUs, and certainly better churn and better lifetime value of a customer? Do you feel like that is something that you will drive down over time, or do you feel like there has been so much share gain of smartphones within the base that you're happy to pay those subsidy dollars, because they are good return on --?

John Killian - *Verizon - CFO*

I think the answer here is, right now today I don't see any big change in the model that we have in place. We do have a subsidy-based model there. It is working very well for us. The kind of subsidy that I am offering I'll take what I get $100 plus ARPU customer, who also is very low churn.

So we think it is a pretty good trade-off. It is something we think about and we talk about all the time. If you also notice, and you look very carefully at our financials, and this gets back to having a very deep bench on the financial side, is you see huge inventory improvements year-over-year, particularly in the Wireless business, but also in the Wireline business.

So we have had a lot of focus on making sure we are managing inventory well. That when we made our pricing changes in January, which by the way worked exactly how we thought they would work. We also said we were going to cut down on the number of SKUs we were offering. There has been cash flow benefits from that, and we will continue to be very disciplined there from that perspective.

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

Is there a meaningful difference between the subsidy levels across different types of smartphones? And is that intentional in that perhaps a certain type of smartphone delivers a higher value customer and therefore justifies a higher subsidy?

John Killian - *Verizon - CFO*

There is different subsidy levels across devices. Some of that depends on the manufacturer, where the manufacturers have said it is on their own efforts and issues. Yes, that is the way it has always been, and probably will continue to be for while.

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

I don't see another question out there, so what I will do is I will tie back to my John Bond question and bring up the Vodafone topic again, which is --

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John Killian - *Verizon - CFO*

This will be interesting. I never thought anyone would tie my announcing I am retiring to John Bond.

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

I am a storyteller. I will knit it together. So we've got a year and a half until theoretically Ivan is maybe going to announce his retirement. The CFO of Verizon is leaving. The CFO of Verizon Wireless is changing. Vittorio Colao, CEO of Vodafone, is changing strategy for the Verizon Wireless ownership stake. The pressure that has been on the Chairman of Vodafone, who has been the architect of the legacy policy, has been such that he is considering leaving now. So there is this very high degree of change around a $50 billion relationship between Vodafone and Verizon Wireless.

There is no secret that everyone has wanted it to get resolved. Either the Vodafone equity holders want a dividend coming out of Verizon at a minimum. Ivan has always wanted to buy that piece of the business back, but no one has ever been able to figure out how the tax thing could be solved. Or Vodafone could conceivably pick up the resources and buy out Verizon. And they have actually talked about that as a possibility in a Wall Street Journal article 48 hours ago.

So I guess from your perspective as the finance guy inside Verizon, talk to me -- what does this Company look like 24 months from now? If you could -- let's walk through it.

John Killian - *Verizon - CFO*

I think the business 24 months from now looks like a very strong business, led by our Wireless business, much higher level of smartphones in the business, good ARPUs, growing ARPUs. Data explosion from that perspective. So I think this business is going to look very attractive as we go out.

Now, you said a whole bunch of things there, so let me just -- I don't want people to think there is darts here. So the CFO of Wireless leaving, John Townsend has been the CFO. We have one Vodafone employee in the business, it is John Townsend. He has been there 5.5 years.

So it was a planned rotation that we had for John to go back. He's going back -- he has done a great job for us, by the way. JT has been a superb financial guy. He is going back for a great opportunity for him, which is to be the CFO of their European operations. I think to take some of what he learned here in terms of the operating model and bring it back to Vodafone. We have the individual coming in from the Vodafone, who has been running their India operation, Andrew Davies. Lowell and I jointly interviewed him, met him, top-class guy. So I think we are in a very good position there from a stability standpoint.

I can't comment on what Vittorio is doing with his business. I haven't studied that or -- we are focused on driving shareholder value in Verizon. That is where I am focused on. We're going to have financial discipline around what we do.

I know whoever my replacement ends up being, and again, there is very capable people I think, they will be focused on the same things I am focused on.

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

We have time for one last question. We've got one over on the left.

Unidentified Audience Member

You talked about the leverage levels going below 1.5 times --

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John Killian - *Verizon - CFO*

Yes.

Unidentified Audience Member

In this current financing environment. So some pundits would say that is way too low. Can you give us some thought around that? Also, you are way under-levered or you are on your way to being way under-levered in your joint venture as well. So if you could tie that in (multiple speakers).

John Killian - *Verizon - CFO*

So, look, our Board here is -- and we have kind of made a commitment with the rating agencies to bring our leverage as we report it down, you know, coming out of the Alltel transaction. We originally said 1.3 to 1.4 times. We are focused on that, probably driving it a little bit lower. We are also focused though on returning some cash to shareholders. That is why we had the dividend increase.

Now someone said to me, you only raised the dividend $0.05. But if you look at the value our shareholders got, when you say the dividend, they are picking up from the $1.85 and value we gave them through Frontier, it is really more like a 12% dividend increase, not counting the $1.85, but the dividend they are going to get from Frontier. So we are also very focused around that.

So no change in plan there. We are still focused on delevering. The prime focus right now is on the Wireless business, because that is where we put the debt related to Alltel. We are making great progress there. By the way, the business is a cash machine. It is generating cash better than we even thought. We expect it to continue to do that as we go through the rest of this year. So I think we are in a very good position.

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

I think we have make that the last one. Thank you so much, John, for coming.

John Killian - *Verizon - CFO*

Thank you, Dave.

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

Next up in this room will be Sprint and CFO, Bob Brust.
