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PRESENTATION

Tim Horan - *Oppenheimer & Co. - Analyst*

Thanks, everyone, for coming. My name is Tim Horan and I am the communication and cloud services analyst here at Oppenheimer.

It is my pleasure to have Fran Shammo, who is the CFO of Verizon, to speak here for lunch. We are just going to have a fireside chat, but please don't be bashful about asking questions out of the audience. Fran will not be bashful about responding, I know.

I just wanted to kick off what to me is, frankly, the most important topic for the industry, which is LTE. I would just like to know at a high level -- I have my own views on it. I think LTE is going to be an incredibly positive secular shift for the industry.

But I want to see maybe, Fran, you can delve into a little bit more detail on what you think it can mean for revenue growth for operating expenses, CapEx spending, and just kind of new applications. What it means for the overall industry over the next couple of years?

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

Yes, so good afternoon, everyone. So, look, I think from an LTE perspective if you look at the technology change that it has brought to the industry, I know there was a lot of speculation about the industry as a whole coming out of the first quarter of this year about the growth profile. If you look, I mean back in the fourth quarter the industry grew very well because we have a new iconic device come out which was the iPhone 4S.

So the first quarter was a little slow. Coming out of the first quarter I said that growth would continue into the second quarter, which we did better in the second quarter, and I think this will continue to accelerate for the industry. A couple things that LTE provides is not only the speed but all the other enhancements that come with that just from an operator perspective of reduced operating costs.

But I think it is also important that when you launch a network like Verizon Wireless has launched and you have built a brand around, your whole entire business around that network -- and in the last 12 years we have build our brand around the most reliable, best network in the world.

I think the LTE deployment that we have right now sets us apart from the rest of the industry. So we will have 76% of the POPs in America covered today, 337 markets and 230 million POPs. By mid-2013 we will have the same coverage that our 3G network covers.

So then when you take that network and you overlay our shared plan with that and now others are following with that shared plan, the entire industry from a shared perspective has a lot of room for growth because when you think about that network and the speed it provides, and then you take all these devices and you think about the number of tablets that have been sold in the United States that are not connected to a wireless network, you now enable people to connect those devices much easier.

So when you think about that speed and that price plan that pools those data minutes, the growth profile here is really good for the industry and very, very good for Verizon Wireless because we think we have a strategic lead here.

Tim Horan - *Oppenheimer & Co. - Analyst*

I think you have launched this shared data plan at the perfect time, frankly, because a family like mine we could maybe put six, seven devices on there, but most of the devices are 3G. And I have a feeling with LTE we are going to use a lot more data. I mean it could be two to three to four times more data.

I know you have 10 gig cap right now on the wireless shared data plan. When do you think people can really start blowing through their data caps? Not just for that plan but for your other devices.

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

Well, I think that it is too early to tell yet. I mean we have only been at this for six weeks. What we are seeing very preliminarily here with customers moving is that customers are moving to the shared plan; they are actually attaching more devices. So the number of devices are increasing.

We are going to have to wait to see what the usage profile of this is. But can we expand our data, our data pricing? Of course we can, so you just add in more tiers. But that is part of where we think the future is going because when you think about the speeds and the video capability of LTE we do project out that that usage is going to continue to substantially increase which then folks will buy up.

So it is going to be very, very easy for people to attach devices so just go beyond what we know today as a smartphone, a dongle, or a tablet. Now take it to your car, now take it inside your home for remote medical monitoring or whatever else that can happen in that house. Those can also now be attached to that price plan and everything can run off of that network.

So there is a lot of capability here just from a shared perspective that really goes into the future as you said, Tim, that you are going to add more and more devices as we go here.

Tim Horan - *Oppenheimer & Co. - Analyst*

What do you think this can mean in terms of churn? I mean churn seems to be incredibly low, but it would seem to me when you start to get people that are on six, seven, eight devices on one contract it is going to be very, very difficult to get off of that contract.

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

Look, we have the lowest churn in the industry now. We came out of the quarter at 0.84%. We think, again, the brand of our network draws customers to Verizon. We keep those customers because of our network, because of our customer service, and because of the breadth of options that we give our customers from a device standpoint choice and also price plan choice.

So when you put this into shared, can churn get better? It probably can and that loyalty will grow, because as you attach more devices to that you are less likely to move your business.

Tim Horan - *Oppenheimer & Co. - Analyst*

Also, the business model -- I think you guys have been at the forefront of this. Initially it was have free minutes calling between Verizon subscribers and then family plans and the handset subsidies. The handset subsidies had kind of crimped the industry profitability for a little while, but you were able to capture the really high-end subscribers who get very good returns.

But a lot of these new data devices that are being added have very, very low subsidies or none, and that seems to be where a lot of the growth is going to come from over the next three to four years. Can that really move the needle on the profitability?

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

Well, I think that, look, if you look at our profitability over the last six or seven years you have seen that we have incrementally improved our profitability over that time. We just came out of a quarter where we had an all-time record for profitability so as you move into -- subsidy is just one component of the business.

The industry has done a lot around trying to reform the upgrade policies and implement upgrade fees to try to strengthen the financial capability of that subsidy that is on a smartphone. But as you said we have also taken the track of not subsidizing tablets, less subsidy on dongles. It really is now all around the attachment of those devices into those price plans.

So can we improve on the subsidy model? I think that as we go out here, if there is another ecosystem that comes to the forefront on a smartphone, competition will bring subsidies down over time. So getting to the answer to your question, do I believe that margins continue to improve with improved subsidies? The answer is yes.

Tim Horan - *Oppenheimer & Co. - Analyst*

Very good. Then maybe back on the revenue front, are there any ways for you to capture more revenue per subscriber, either from the end-user in terms of applications and value-added services on the wireless front or maybe even from the content providers to have them start to pay you a little bit more?

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

Well, the LTE network gives us a lot of capability to do a lot of different things. So one thing that the LTE network gives is if you go back to the old days of voice -- remember peak and off peak and then weekends? Well, the LTE network allows that to happen with data, so that is something new. So there is a lot of capability into that network that we can bring a lot of different options to the forefront of building that, if you will.

I will just end it there. I think there is a lot of options with that network that we can build upon.

Tim Horan - *Oppenheimer & Co. - Analyst*

How about -- I mean one thing that I think I need (inaudible) with my Blackberry historically. I had all my contacts and a lot of my information stored in our corporate network, but personally I kind of would like a more seamless way to be able to access my content.

Not on Facebook, but either your work content, pictures, maybe Excel spreadsheets. Either wireless or wireline, kind of cloud-type content. Somewhat what Apple is trying to do with iCloud. Where are you with trying to develop products like that or would you prefer to partner with other people?

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

I think that goes to a couple things. I mean Verizon Wireless just launched the Viewdini on the tablet, but it also goes into what we are trying to accomplish around the SpectrumCo deal and the partnership with the cable companies. Bringing all of that technology into the home and dispersing that across.

But the one thing is the content rights, so that is really the big barrier today. The technology is there but the content rights only allow content to be consumed in the home. So once you leave the home now you are into a wireless world, the content rights -- I shouldn't say all because some allow it, but most content rights, like television shows and so forth, do not allow that content to flow over to a wireless divide outside the home.

So we continue to work with the content providers to change that model. But, again, this is where we said the SpectrumCo deal on the commercial agreements was something that was very, very different and could bring a lot of innovation to the forefront of exactly what you just talked about.

Tim Horan - *Oppenheimer & Co. - Analyst*

So maybe just stepping back a little bit on the wireless business, you've been gaining fairly steady postpaid share now for quite a while. I guess at least six quarters, but for the overall industry I think your postpaid adds are more than the rest of the industry combined. Do you see anything that could stop that at this point or slow that down?

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

Well, coming out of the first quarter I said that we would have an acceleration of growth in the second quarter. I would say that I continue to see that acceleration happening in the third and then into the fourth quarter.

Again, it is the industry in total, but Verizon Wireless specifically I think that people understand the value of our LTE coverage and our LTE network. I think now they are also seeing the value of the share everything plan, and I think with the combination of those two there is really nothing there that at this point will slow us down.

Tim Horan - *Oppenheimer & Co. - Analyst*

Maybe can you talk a little bit about how your network capabilities compare to a Sprint, a T-Mobile, AT&T at this point? I guess that really is the core of where your major advantage comes from as you are kind of talking about. But are they doing anything to really catch up to you, are you concerned about it at all?

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

Look, I think that a lot of the carriers are moving to the LTE technology, but, again, we think we are at least 18 months ahead on our coverage. And I think that is a strategic advantage at this point and I think that we will -- again I go back to we built our brand around providing the best, most reliable network and that is what we are doing with LTE.

I think the consumer base understands what Verizon Wireless is about and that when you want to connect, you connect. Wherever you are in the United States, when you want to get service you get service. That is what our reputation is built on and that is why we are building this LTE network the way we are.

We started way ahead of everyone else. We built the ecosystem of handsets when there were a lot of naysayers out there that said there was no ecosystem here. We have 13 smartphones now; just in the fourth quarter we had six. So we have already doubled the amount of smartphones that we have available for that LTE network. So this is building momentum within the Verizon Wireless portfolio.

Tim Horan - *Oppenheimer & Co. - Analyst*

I know it is hard to predict but one, two years from now what percentage of your devices do you think will be LTE at that point?

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

Boy, that is a really hard question to answer. I would say the majority of devices, but we still will have 3G devices for niche products. The reason I say that is as we move our 3G customers to 4G we want them on 4G because of the operating benefits we get and the CapEx benefits we get. But we also built this 3G network and it benefits us to load things into that network.

So what you saw us do in the fourth quarter of last year, we launched our prepaid Unleashed product on a 3G basic handset. We just launched our first smartphone handset into that product base on a 3G network.

So to me they are the types of products that you will see us still continue to put on that 3G network, which is you don't really need the benefits of a 4G but you can be very competitive in a niche marketplace with that 3G network because again that is a network we invested in. If we can keep that full that just returns more investment on the dollar. So you will see us do more things like that.

The other thing too is all machine-to-machine doesn't need the speed of 4G LTE. So a lot of machine-to-machine can be carried over that 3G network because it is a burst of information at that point in time. It is not something that has to go over the speeds of 4G, so a lot of machine-to-machine will be built around the 3G platform. But then, obviously, when you get into telematics and if you want to launch a video in the back seat of your car from your DVR at home you are going to want that 4G network.

So there is different places for different applications. The proof point for us is to make sure we put the right ones on the right network to return as much on the investment as we can.

Tim Horan - *Oppenheimer & Co. - Analyst*

A couple really interesting points there, but going after it sounds like the prepaid market with 3G. It sounds like you probably want to capture customers from some of the more prepaid-focused companies, would that be fair to say? Do you think there is room to expand that market?

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

I think two things. If you go back here, obviously we are a postpaid carrier so anything we do -- the religious belief is you can't do anything that is going to deteriorate the postpaid base. We think we found a niche with our prepaid product, but if you look back two years ago all the way through the third quarter of 2011 we were losing share in the prepaid market. Our prepaid net adds were negative for a period of two years.

We think we found a niche here with the Unleashed product where now we are actually growing share again. So I think we found a niche. I think people are willing to pay a slight premium to get on that most reliable network and what we are finding is people are coming to that network. So does that mean I am taking share from others or expanding the share base? I am not sure which that is, but I am gaining share in the prepaid market and that is what is important.

Tim Horan - *Oppenheimer & Co. - Analyst*

But as you free up a lot more 3G capacity would that incentivize you to maybe lower the price point at that prepaid?

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

You guys always go to lowering price points here.

Tim Horan - *Oppenheimer & Co. - Analyst*

I'm not; I'm just asking the question.

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

I think at this point we are very, very satisfied with where the prepaid market is. We are a premium to that prepaid market and, based on our growth trajectory right now, we are very comfortable with that price point.

Tim Horan - *Oppenheimer & Co. - Analyst*

You talked about using the 3G for some machine-to-machine and clearly there is some applications there, but in talking to machine-to-machine providers over the last 10 years they were always concerned that we were going from 1G to 2G to 3G to 4G. They need -- a lot of times when they put equipment in they want it to last for 20 years or be in a location for 20 years like remote monitoring or in automobiles that might last 10, 15. They were very excited about LTE because they see it as kind of a 20-year technology.

I guess do you see LTE as a 20-year technology, or is there any real 5G that you are seeing in the next five, six years like we saw with 3G? And should that really help to stimulate the overall machine-to-machine market once we have faster speeds, more standardized products, and better coverage?

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

First of all, 4G I think is a long-term technology but I don't think we can discount 3G. I think 3G is still going to be around for a very long time, because again there are a lot of applications that can run off of that network that is very efficient and will be very cost effective for both the carrier and the person that we are selling to. So I think just because 4G is there doesn't mean 3G goes away. I think that is the important point.

How long LTE goes; I am not a technology guy, I can't answer that question, but I think it is absolutely a long-term technology. I think there will be revisions to that technology over time but, as you said, Tim, we have an innovation center out here in Waltham, Massachusetts. We have tons of people, application developers, who are working in our labs with us to develop technologies for the 4G network.

Tim Horan - *Oppenheimer & Co. - Analyst*

At that point we have a question right here. We have a microphone coming there, Brian.

QUESTIONS AND ANSWERS

Unidentified Audience Member

How is the backhaul issue coming?

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

Our backhaul issue has never been an issue. Again, I think you go back to what have we built our brand around. But fiber to the cell we are significantly done on that with all of the cells for 4G LTE being fiber.

Our IP backhaul is plenty of capacity. We have actually started to launch some of the first 100 gig circuits in the world and we had several of them in place now. We continue to expand on that so our backhaul is in very good shape.

Tim Horan - *Oppenheimer & Co. - Analyst*

Anyone else? Right here.

Unidentified Audience Member

How are you going to make your M2M more than just a commodity?

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

I think that is an interesting question because I think it depends on what machine-to-machine you are talking about, because a lot of these applications are extremely small in revenue but millions and millions of devices.

So if you think about putting a diabetes monitor in your home where you take your blood sugar every day and that feeds into a database for the doctor to look at that is going to be a very, very inexpensive data feed. But as you think about the millions of devices you'd get in there, now you start to get a lot of volume that generates revenue. So it is hard to say it is going to be commoditized because there is only so many people that can provide that network.

Now if you get into telematics that is a whole different story, because now you are feeding video into the car. That is a much more expensive proposition, so that is going to be more of a shared price plan, if you will, within our shared. So you may be attaching your car but it is going to take from your data bundle that you have already bought on a retail basis.

So it depends on whether it is an enterprise application for a machine-to-machine or a retail application for a, quote, machine-to-machine.

Unidentified Audience Member

I have a question regarding the enterprise business. Whether it be from a macroeconomic environment or from changes in the competitive environment, what impact are those two factors having on your enterprise business causing it to -- business to strengthen or weaken?

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

So a couple things around this so, first, let's talk about the economic condition. I mean obviously outside the US is struggling at this point from an economic standpoint and we are feeling the pressures from that. We are also feeling pressure on a top-line basis from the FX issue. So coming out of the second quarter I talked about the FX issue, I talked about the economic issue.

But then there are other things that we are doing internally to really reshape the portfolio here. So if you think about selling CPE, which is the hardware, if we sell that in a bundle with managed services that makes all the sense in the world to do that.

But if people are going to come to me to just buy a server that I drop ship to their prem, that is not really a business I need to be in. It is an extremely low margin business. It eats up resources. It is not good for me to be in that business, so we are moving away from that business.

That is putting pressure on my top line. So just coming out of the second quarter I think that was like $84 million of my increase on a year-over-year basis. But that business is business that others can do better, not my niche.

The other thing is that we are looking at -- if you look at technology change, now we have been in the IP world for a number of years and MPLS, but we still have customers who are on IP VPN, Frame, ATM. They have to go away. We can't continue to invest in those networks and we can't continue to dedicate resources to that platform.

So we are now in discussions with those customers to say we are giving you an end date, you either have to convert to the IP platform or we are going to be moving -- we are not going to support your platform anymore and you are going to have to take your business elsewhere. Because from a just moving forward down the road perspective, these customers have to move to IP. There is too much benefit for them not to move, but there is some capital intensity for these customers to move.

So the question is do I take the capital that I would invest to keep that platform alive or take that capital and help the customer move their network to IP so I can get more efficient than they can actually realize the benefits. So you may see some top-line pressure from that as well. But the view that we have is all these measures eventually improve our margins and that is really what our focus is on, improving the margin of the overall enterprise space.

That is why we made the strategic investments in Terremark and now we bought the Hughes platform for the machine-to-machine application. We see that those things are higher margin, more growth engines for the enterprise business.

Unidentified Audience Member

How are competitive conditions?

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

This is an extremely competitive environment, from both carriers but also all of the consulting firms and all the other niche players you have out there. The enterprise business is extremely competitive.

But I think the one advantage that a few of us have in this industry is we have the networks. If we can build on those networks and provide the value adds beyond that there is really no reason for anybody else to compete against us. But it is an extremely competitive environment.

Tim Horan - *Oppenheimer & Co. - Analyst*

And on the network front, how would you characterize your current fiber coverage and build an ability to serve mid to large enterprise customers?

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

We continue to invest heavily into our fiber network every year; that is really not our issue. Our issue is not coverage. Our issue is the fact that, going back to the previous question, voice and data has been commoditized.

So the issue now is how do we add the value on top of that core voice, core data and build on things like the Terremark and the cloud perspective. Then you bring in the Hughes platform which is the intelligence behind machine-to-machine that can sit in the Terremark cloud and drive those types of solutions into those enterprise spaces.

So really, Tim, it is more of getting into a portfolio that can help grow but utilizing that underlying asset as the core. But, unfortunately, that has been commoditized over the years.

Tim Horan - *Oppenheimer & Co. - Analyst*

I guess we hear -- I just hosted a fiber panel and they are saying a lot of their -- they are selling to a lot of small midsize customers. A lot of those customers five years ago were only taking 10 megabits, now they are taking 100, 200, 300, 400, even 500 megabits at certain points.

Can you start to price that? Are we at a point where that will kind of start to grow the ARPU? If you have that fiber in place you have a huge cost advantage over others, and I know there has been a lot of legacy revenues that have been evolving. But where are we at a point now where that line growth more than makes up for that, or when do we hit a point where that line growth more than makes up for that?

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

Our IP revenue stream is in fact growing and it is in fact growing in profitability. The issue we have, though, is you don't see it because we still have all this legacy voice and data that is just declining. And you see that in our wholesale business as well.

So the key for us is to transition everybody over to this IP platform and then be able to build the value proposition above that IP platform. And that is really where the value comes in and that is really where we are seeing our larger and medium-sized customers, really with our Terremark asset and the security asset that we have, they are really -- Terremark is still growing at double digits in the 20%-plus range. So that platform continues to grow.

And that is really where the value-add comes because when we walk into a customer and talk about -- they know that the table stakes we bring to them is the core network. But then when you start talking about cloud and you start talking about the efficiencies that you can bring to their operating margins that is where the sales pitch comes in. But that is the higher margin product for us and that is really where we need to move the portfolio.

Tim Horan - *Oppenheimer & Co. - Analyst*

I would assume you can save your enterprise customers a lot of money by moving to the cloud or their IT infrastructure to the cloud. Is that something that they are really taking you up on? Is that a sales pitch that they are willing to listen to and to pursue?

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

I would say a year ago no. But I would say with the economic pressures that we are faced with and everybody looking to be able to reduce their cost structure, when you walk into a customer and present the solution that says we could save you somewhere between and the model shows 10% to 30% on your operating IT costs by moving things to the cloud -- now you're not going to move everything to a cloud because there are certain things that you're going to want to hold close to the vest, but there are other things that can be easily moved to the cloud that are not strategic to your business that you can get a 10% to 30% reduction in cost. And that is the easy piece.

What made that difficult then was, okay, so we want to move this application from our private cloud to your public cloud, how do we do that? Which then is why we invested in CloudSwitch to have that software that could move that application over without any disruption and if they want move it back. CloudSwitch was that niche software product that we bought to do that.

So we think we have the portfolio, we now just need to execute against that.

Tim Horan - *Oppenheimer & Co. - Analyst*

And is that product -- does that work well? Do the customers like it?

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

Yes, yes.

Tim Horan - *Oppenheimer & Co. - Analyst*

And about the training of your sales force to be able to sell a product like this that is really quite different?

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

As you know, John Stratton is now in charge of the total Verizon Enterprise Solutions, which also includes wireless. He has designated the group into verticals and those teams are now becoming experts in those verticals, around cloud, around the devices that fit into that vertical from a medical or an energy or a retail space. So they are becoming experts within that field and that is really where the training is focused in right now.

Tim Horan - *Oppenheimer & Co. - Analyst*

It seems like it has taken -- well, not taken -- obviously taken many, many years with all the different pieces, but it seems like the pieces are in place right now for you really to start to sell this product very well and to provision it very well.

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

Yes, I would agree with that.

Tim Horan - *Oppenheimer & Co. - Analyst*

Can I start to move the needle on Enterprise revenue growth?

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

I think our Enterprise business, if you take the economic situation away and if we could get back to a stable economy, both internationally and get a little bit of growth here in the US back, I think in 2013 we could see a different portfolio than we see in 2012.

Tim Horan - *Oppenheimer & Co. - Analyst*

Just maybe shifting a little bit to CapEx, not just you but the whole industry over the last 12 months has kind of spent well below the Street expectations. Is there anything that you are seeing in terms of more efficiency you are getting out of equipment or lower-priced equipment or anything that you have done or you think the rest of the industry is doing that is more of a secular shift?

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

I can talk to us specifically. We are down year over year because last year we were building up our EVDO for the iPhone launch. So if you look at the first half of last year on Wireless where we are I think around $1.3 billion less year over year in wireless and CapEx, but that is because we were building the 3G network out. Now we are continuing to build the 4G.

So I think the way I look at this is the guidance I gave was my CapEx would be flat to down, but my CapEx to revenue ratio will continue to improve. Lowell and I are very focused on where do we make the investments going forward so that we would get a very good return going forward in more of a short term that what we have been in the past is more of a long term.

So we are very strategically focused in where we are going to strategically invest, but I would say that, barring everybody else's comments around equipment costs and all, obviously you get synergies every year, but I would say the biggest piece of us is we are really focused on a 4G network now. Then in Wireline making those strategic investments in the backbone, in Terremark, and Hughes.

Tim Horan - *Oppenheimer & Co. - Analyst*

Frankly, it does seem to be a shift for the whole industry for whatever reason. I don't know what has happened in the last 12, 18 months to focus a lot more on higher returns on capital investments. You can see it even Sprint, Metro PCS their EBITDA is coming in a lot higher; CapEx is coming; pricing seems to be up quite a bit.

I mean I think partially in the case of those companies they were running out of cash and they didn't have a lot of choice but to focus on generating a lot more free cash flow. And that was one thing I think we saw in the quarter that was kind of surprising, the level of EBITDA margins. Do you think this is somewhat sustainable for the industry that we can be a little bit more pragmatic about having better returns?

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

Look, I think it is definitely a focus of Lowell and I. If you look at the Wireline side of the business, I mean even within the consumer business we have made a shift that said we are going to focus more on the profitability of FiOS this year. And that is important for us to do, because we need to generate the cash flow so that we can reinvest in those platforms.

But I think as an industry as a whole I think you are seeing a different focus now, that it is more on returns, it is more on profitability. Can that continue? Sure. Obviously, you might have your blips here and there based on how fast something grows in one quarter versus another, but if you look at Verizon Wireless and you look at Verizon we are expanding our margins.

Tim Horan - *Oppenheimer & Co. - Analyst*

Then the massive area for you for margin expansion is really on the Wireline front, but you have underutilized plants still and you still have some union issues out there. What does it take for you to get back to industry average margins and how long do you think we can kind of get there?

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

So I think there is a couple important things here from a Wireline margin perspective. If you take enterprise out for a second because we already talked about that, let's focus in on consumer.

Coming out of the second quarter I said that we were focused much more on improving the profitability of the FiOS product and I think we are showing that. We grew our revenue by 2.5%, which was the highest in who knows how long, and I think we are going to double that by the fourth quarter. Each time we do that that drops to the bottom line, so there is that increment.

There is the union contract that is out there. Now we have been in mediation for a week and a half. I would say I think we are making good progress. There are still issues on the table; we are working through those issues. I think that eventually we will come to an agreement and that will result in cost structure reform for the Wireline business as well.

Then the third strategic thing we are doing that I think improves our margins is we are really proactively going after these copper customers in the FiOS footprint and moving them to FiOS. So if you are a voice copper customer and you call in that says you are having trouble on your line, when we go out to repair that we are actually moving you to the FiOS product. We are not repairing the copper anymore.

The benefit we are getting from there is when we move you -- if you are a voice customer and we move you to voice we now can upsell you to Internet. Once you experience that Internet of FiOS you are now buying up the speeds which is what we are seeing. If you come over as a voice DSL customer and we move you to FiOS, you now are the candidate for the video product. So there is an upsell which is definitely a benefit to this.

But the bigger benefit is we are transforming the cost structure of our copper business because the copper fails two to three times more than fiber, which means we have two to three more time that we have a tech and a truck rolling out to that copper connection. So we are eliminating that. That is going to start to increase -- really decrease our repair and maintenance expense which will help improve margins.

So I think there is three big things there that can dynamically change what we look like in 2013 if we can execute on all three of those.

Tim Horan - *Oppenheimer & Co. - Analyst*

Very good. Do you think it could be material for the EBITDA margins, 50 basis points, 100 basis points?

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

Let's not -- we are not going to give guidance here. Let's just say it is going to improve.

Tim Horan - *Oppenheimer & Co. - Analyst*

Very good. We have time for one more question out here.

Unidentified Audience Member

It seems like regulatory is very well managed, but it is an election year. Is there any risk that you see with respect to either candidate being elected?

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

I would say I think that the biggest risk that we all face during -- from a time of the election, whoever is nominated, to December 31 is the tax cliff that we face. Whoever is elected needs to deal with that tax cliff because that tax cliff could be detrimental to the economic performance of the US. So that needs to be dealt with. It doesn't matter who was elected, but that has to be dealt with.

Then on a longer-term piece we definitely need corporate tax reform in the United States. We are not competitive with the rest of the world and I think everyone understands that. That is going to be harder to achieve, but I think that Washington understands that there needs to be some change within the corporate tax structure. So I think that is the biggest thing.

Unidentified Audience Member

It seems to be fairly bipartisan that we should move it down to the high 20%s or some rate. What is the sticking point in moving it if everyone understands we need to do it?

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

You can't just move the rate because then that is just a tax decrease. You have to get rid of all these other ancillary benefits that everybody else has, so different corporations have different views as to what they want to give up.

I think we have been -- at least I have been very public with Washington that says I know we are going to have to give up things, but I think it is more important for the long-term future to just get a flat rate, do away with all the ancillary things, and let us move forward. I think everybody understands that; how you get there is a different story.

Tim Horan - *Oppenheimer & Co. - Analyst*

Great. One last one if anyone has any. Thanks so much, Fran.

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

Thank you, everyone.