

FINAL TRANSCRIPT

Thomson StreetEventsSM

VZ - Verizon Communications Inc at Wells Fargo Technology, Media & Telecom Conference

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PRESENTATION

Jennifer Fritzsche - *Wells Fargo Securities, LLC - Analyst*

Hello. I'm Jennifer Fritzsche, for those of you who I have not met. We are thrilled today to have Fran Shammo, the CFO of Verizon, service one of our keynotes here. Welcome, Fran.

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

Thank you, Jennifer. Good morning.

Jennifer Fritzsche - *Wells Fargo Securities, LLC - Analyst*

So, we have about 45 minutes here and I'm going to keep him on the hot seat for about 35 of those and then I will turn it over to questions.

Fran, I just wanted to start with Wireless. A lot of talk about the iPhone. You've now had the iPhone six months under your belt. You've lived through I guess the new product launch last month. Can you talk about lessons learned here? I mean if Sprint were sitting here, I would say you needed the iPhone to make you more relevant. It's impossible to say you weren't relevant before February. So what are the lessons so far in six months here with this device?

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

Well, I think it was important that the iPhone became part of our portfolio and made that happen in February. And I think that we've been running extremely well with the iPhone. Since the 4S came, we have been out of stock on backlog. And even as we speak today, we're still on backlog. So we're still on allocation, so the phone is selling very, very well.

The metrics that we have is they really haven't changed from the second and third quarter. So new to upgrade is the same metric. Smart basic phone and smartphone upgrade is about the same metric, so the phone is doing very well for us in the quarter.

But, there's a lot of other things other than the iPhone that we're launching. I actually have with me today the Droid RAZR. And you probably can't see how thin that phone is all the way back there, but it's a very, very thin phone. This is a 4G LTE phone. And the battery life on this phone is 12 hours.

So you may have heard me speak in the past that one of the issues we have always had with 4G is the battery life of the phone. And I said the ecosystem will improve it. And this phone is proof that the ecosystem has improved it because if you compare this battery life to 3G handsets, this is probably four hours longer. So, we have a lot of exciting product line coming out.

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The Apple is an important product for us, but we are not a one-device company. We have a very large portfolio. And actually as we sit here today, we actually have more 4G devices than we do have 3G devices for sale in our portfolio. So, so far, so good with the progress.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

It's probably a good segue to ask about LTE device types or promotions. It's typically the one you announced yesterday, where you are doubling the data on a holiday basis, doubling the amount of data, a smartphone user who buys a 4G phone can get. Some people mentioned that yesterday as a sign of more competitiveness in the pricing environment in Wireless. Can you comment on that?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, sure. It really wasn't a more competitiveness, so the theory behind this and those of, as you know, we had a \$30 plan for 2 gig. So now if you come in and buy a 4G smartphone for the holiday season, you'll pay \$30 and get 4 gig of capacity.

And the reason we did that was really twofold. One was we are having very good success with the iPhone on our 3G network. That obviously puts pressure on capacity and spectrum allocation. So what you've heard me say coming out of the second quarter into the third quarter is we really wanted to reduce the amount of investment we are putting into the 3G EVDO network. And you saw us do that by reducing Wireless CapEx by \$1 billion from the second quarter to the third quarter.

Now, we have a very balancing act here that we have to go forward, which is we want the iPhone user to experience what every other Verizon Wireless person experiences, which is the best, most reliable network in the United States. So, in order for them to keep that realization of that experience, we need to make sure that I don't have to put in any more capacity to 3G, so in essence, what we are doing is we are enticing people on a DROID handset to move to a DROID handset on 4G.

And just so we understand that 50% of our movement of product is in the DROID base. So, if we can move basic phone to upgrade to a 4G LTE handset on the DROID platform, that's actually beneficial for us from a financial standpoint because I won't be putting in \$1 billion to capacity that I will never use as we continue to migrate 3G users to 4G. So the theory behind this was to entice the users to move to 4G to free up the capacity for the iPhone, so that I don't have to continue to invest in the 3G network.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Great. Which offers a great segue to LTE and capacity. My numbers, not yours, I realize, but I have you probably on -- more than on pace to exceed 200 million LTE POPs by the end of this year, this calendar year, so a month and a half.

Can you talk about -- has the -- again, lessons learned here. Has this exceed -- has the pace at which you have deployed this been on target? Have you been -- what has surprised you? Thoughts on that?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, I think we set out for a target and we have actually exceeded that target as we sit here today, which is 185 million POPs. So we will exceed 185 million POPs. I won't confirm how many we have. I like the 200 number. But we will exceed what we originally laid out.

And what we found was it's really important for us to accelerate that LTE buildout as much as we can. And the reason it's important is because as we start to bring these unbelievable devices to this network, we want to make sure that the customer



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experience on that network is at the 4G level and doesn't continue to go between the 3G and 4G network. So we think that we will be built out completely by the end of 2012, which will be almost equal to our EVDO footprint. But we are accelerating that as fast as we can because we see the expense benefits, the operating benefits, the efficiency of the network. The more we can get over to that network, the more beneficial it is for us.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

And about a third of your net adds at this point are data-only devices, MiFi devices. So much of that has been 4G. As we look into 2012, do you think that data contributions here -- subscriber, that data-only contribution, your subscriber growth will be as high?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

I think it will, Jennifer. Our whole strategy here was -- and we know that we have seen some ARPU dilution in the Internet device category because we launched some new pricing in October, but the reason we did that was to expand the marketplace, which is exactly what we are seeing. So we see more net adds coming in. Year over year, I think we're up between 50% and 60% on a year-over-year basis on net adds into that Internet device category. And Wireless has done a really good job and there are no longer any 3G Internet devices available other than some tablets, but all of the MiFi and the dongles are now all 4G. So we really don't sell 3G devices.

So we're moving all of that usage, which is actually a higher-usage customer into that 4G network, which is much more beneficial for us. So I actually see that as an expansion even for the industry as more and more tablets come to marketplace, technology changes, we're going to see I think a growth in the Wireless industry that nobody really understands yet what it looks like, but the tablet technology is really going to elevate the entire industry from an Internet usage perspective.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

To build on that point, a lot of people say that now that -- you know using the denominator of the United States we're more than 95% penetrated. Where is growth left in Wireless? And what I would point to is other areas. M-to-M comes to mind. Prepay comes to mind. Can you talk a little bit about your strategies on both those fronts, mainly with prepay with Unleashed.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Okay. So I think there's a couple things here. So the way I look at the industry is this, is okay, yes, voice is starting to decline a little bit, but you have now a smartphone entrance. I'm at 39% penetrated in my base, so I have a lot of runway for smartphone penetration in my base to increase the ARPU. And then as I said in the second quarter, we will see an acceleration in ARPU. We saw that in the third quarter. I think we will continue to see that. So as I continue to penetrate that smartphone base, that's one area.

The second area which I just mentioned is tablets. I don't think we've really seen what tablets will do from a usage base point of view, an ARPU point of view into the future, so I think that's a growth category.

The other one -- and I will stick to postpaid in a second, then I will get to Unleashed. The other one is the M-to-M. So machine to machine is a whole new category where I think we are making really good progress. And you had the benefit of going up to our innovation center in Waltham, Massachusetts. And you saw all the technologies and all of the application providers that we're working closely with. We, today, have over 200 devices that are certified on our network from an M-to-M perspective. So this is another category which is really just starting to take off now. So I view that as another growth engine for the industry, not just for us.



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And then as far as prepaid goes, we've kind of dabbled in prepaid. We've always said that it's an important segment for us, but it's not a segment that we're going to chase if it doesn't deliver the profitability and value proposition to our customer. And I think we have found the niche with our Unleashed product. So the Unleashed product is a \$50 ARPU product which gives you unlimited voice and text, very, very limited access to data or the Web. And we trialed this in Florida and Southern California.

And what we saw was is that the uptick in our prepaid product escalated. But more importantly, which is what we watch and protect every day is there is no migration from our postpaid base. So, we think we found a niche. We launched this with the distribution of RadioShack coming online. And so far, the results are very favorable. So I'll talk more about this at the end of the first quarter, but I do think that we will start to gain share in the prepaid market.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

On the postpaid side, we talked about the promotion announced yesterday. And you mentioned 39% of your base has smartphones. But to get to that other 60%, a case could be made that it's not going to be the heavy data user. So right now you have one data plan on the postpaid side with smartphones at \$30 per month. Is other, such as AT&T, T-Mobile, to some extent Sprint, certainly with Anytime Any Mobile is testing like lower end data plans, a \$15 plan for 200 megabits. You're testing that in some -- or is doing that and you are testing it in some areas. Is that something we can expect to hear more from you on?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, yesterday, we also launched, which wasn't picked up because everybody was focused on the 4G Double Your Minute package, but we also launched nationwide the \$20 300 megabit plan, again on a holiday promotion. So if you go back to last year's fourth quarter, we launched a \$15 150-megabit plan, and we did that for the fourth quarter. And we felt that was important for the holiday season because of family share. And to your point, maybe family share don't want to pay the \$30 for the 2 gig, so we feel that the \$20 entry point is more favorable to that. But again, it's a holiday promotion. It will end. And we believe that our price point going forward is the \$30 price point.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

That brings in a bigger question about Wireless pricing in general. You all have talked about, Fran, just a way that -- where you see the market going. Almost I kind of use the gas tank analogy, use what you -- a total data pricing. Not so much the voice SMS data. Just this is what you're going to have and this is how you use it, is how you use it, where you use it, what tablet, etc. Where do you see this eventually going and how long does it take to get there?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so this is an interesting question because if you go back and look at what happened to voice over time, first voice started out where paid one price, you got minutes and then somebody else paid price and got minutes. And then we moved into the family share scenario, where for \$10 at a line, the family started to share one bucket of minutes. The ecosystem with data I think eventually will get to that same point in time. Because today, if you think about it, if you have a smartphone and a MiFi card and a tablet, you potentially are paying \$30 for each one of them and getting 2 gig on each. And what I think we will eventually get to is you will get to a bundled package for a certain amount of data that you can use across your devices.

Now, what we have to be very careful of, and again, I don't know how long it will take us to get there, this could be a year; this could be two years, but I think we will eventually get there. But for us, for Verizon, it's very important that when we move there, this is a value creation for both parties. It's not a dilution for us and a value for the consumer. It's a value creation for both. And I think that's really where the rubber will meet the road as we start to think about how do we get to that point.

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But if you look at family share, when we initially launched family share as an industry, everybody thought that oh my gosh, we are tanking the industry. And really -- what happened was the industry expanded. And I think that's what you're going to see, the same thing happen with data over time.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Spectrum -- it's a big question, and you have a lot of it. But you have been on -- Verizon has been on record I think, Tony or David, saying that you're good through 2015, and at that time then you maybe would use -- need to buy some more.

In your ideal wish list, I mean I assume you would want more 700. Would you be interested in maybe some divestitures that come if a deal is approved; I'm not asking you to handicap that, but from others, from AT&T anyway.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so from a spectrum utilization, I think what David and Tony and Lowell, and we have all said is we're in pretty good shape through 2015. And then at that point we're going to need to start to think about what happens in 2016 and 2017 and capacity.

And the good thing here is that we have some flexibility because we can -- as 3G volume on voice starts to convert over to VoLTE on 4G, which will start to happen in 2012, that spectrum can be reappropriated over to the 4G network. So we have some flexibility there.

But at some point, we're going to need more spectrum. And I think as we sit here today, we are always looking for opportunities to buy spectrum. And you probably see -- we don't make a big splash of it -- but every month we are acquiring spectrum in little pockets from little holders here, there and everywhere. And we will continue to do that.

But I think the more important thing is, is that the federal government needs to get their hands around this. Now there's some really good news coming out of Washington about potential auctions coming and freeing up some spectrum and the D Block being assigned to safety, which we are very much in favor of and letting them have their own spectrum. But I think as an industry, we need to get spectrum into the people who can build the spectrum out. And that's really the important thing for us because this is a capital-intensive industry. There are only a few players that can do this. And by having spectrum sit in holders who do not build it out or have no intention of building it out and spending it in five years to make a profit really makes no sense. So we want Washington to do the auctions.

In the meantime, we are open to divestitures. If the merger is approved and there's spectrum that comes up and we can bid on that spectrum, we will be happy to bid on that spectrum. So we're always looking for that opportunity.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Okay. Thank you for that. Can you comment on Wireless competition right now? Again, I'm not going to ask you to hedge on your thoughts on AT&T, T-Mobile getting done, but it does -- a lot of outcomes can persist either way depending on that ruling. As you sit here, do you think the industry does need consolidation to chase what some others might call a shrinking pie?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, I guess two things. One is, I think we've been pretty public to say we think the industry needs consolidation without regulation. And that's a key. We don't want regulation in the industry if it needs to be consolidated. If it comes with a lot of regulation, then leave it alone.

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Now, as far as the shrinking pie, I think I -- on your previous question, I don't think the pie is shrinking. I think there's opportunity here to grow this industry through M-to-M, through tablets, through prepaid. So I don't see the pie shrinking. I just think that there are -- there needs to be a little bit of a consolidation so we get some better competitors if you will. And from a competition standpoint, I think we have proven ourselves when we can compete head to head, we normally win.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Shifting to Wireline, third-quarter backing out strike and storm-related expenses, you saw -- you would have seen continued sequential improvement for the sixth quarter in a row, if my math is correct. Can you talk about where you see this going? Can that direction continue to be achieved?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes. So I think that Lowell and I are both focused on continuing to improve the Wireline margin. And obviously as time goes, it gets harder and harder. So the low-hanging fruit, we've got. Now it's going to take some hard work.

And Lowell has set up -- Holly Hess that reports directly to him now that's in charge of reengineering for the entire corporation. And Holly is setting that up. And her whole purpose in life is to go in -- really into the Wireline, also Wireless, but more so on the Wireline side, to really look at reengineering the process and getting more cost out of that process. So I think what you will see is we are committed to continuing to improve that Wireline margin. It may not be a sequential to sequential quarterly, but over time, that Wireline margin will continue to improve.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Can you talk a little bit about the shifting composition of your consumer revenue? One of the things that struck me writing all these notes for third quarter for the ILECs, yourselves, AT&T, is access lines not declining, so there -- I don't even think I wrote about it in my notes. It's not an important part or as meaningful a part of the conversation.

Can you talk about FiOS's contribution, where you see this going, just how that mix has shifted even in the last four years?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Okay, yes. So from an access line loss perspective, I think we're making good progress here. If you look at a year ago, our access line loss was an 11%. We're now running -- this quarter we came out less than 8%. So the decline is starting to slow. Still losing the access lines, but it's only declining slow.

And I attribute some of that to a good conversion from a copper voice customer to our FiOS voice customer. So I think we're making really good progress when we sell a package into a home, we're getting that copper customer over to that FiOS voice customer, so we're maintaining that customer. And I think that's why you're starting to see the slopes decline.

But I think the bigger story is -- you're pointing to is FiOS now accounts for almost 60% of my consumer revenue. So as that pie builds, that access line revenue is going to become less and less significant to us.

And as FiOS continues to build, we continue to get more efficient with FiOS. Our costs continue to come down. From an operating cost standpoint, it's twice as more efficient than the copper network, so as we continue to build there and continue to improve on that profitability, FiOS profitability continues to increase for us. So it's a good scenario to have.



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Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Sticking with FiOS, some of the cable companies have pointed the finger directly at Verizon and AT&T, but more at Verizon being hypercompetitive. Can you kind of comment on what you are doing out there? Would you -- what is your view on the competition right now?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, I think that -- I think we are competing head to head. I don't think we are hypercompetitive. I think our price points are similar to their price points. Hypercompetitive, they are extremely competitive on win back and save material. So from a gaining market share perspective, I think we are extremely competitive. I think the differentiation here is the product. I think the product is superior and that may be the hypercompetitive scenario, is it's a superior product at a very good value to the customer. And we are seeing very good progress with this.

So we slowed a little bit in the third quarter due to the storms, but as I said on the third-quarter call, I think we will probably add close to 200, possibly maybe even slightly more than 200 for the fourth quarter.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Fran, can you talk about the penetration rates in some of your older FiOS markets; what are you seeing in those type of aged markets?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes. So we hit another milestone in the third quarter. We actually exceeded 40% penetration in Potomac. In Keller, Texas, which was one of our first markets, we're actually in excess of 50% penetration. New York, although lagging the market from a penetration standpoint, it is now our fastest-growing market. So we're really starting to see some steam here that says we see 40% penetration overall in the next few years.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

In New York, your move, I can't remember when you did about a year and a half ago, away from the contract requirement with MDUs -- maybe it was not even a year ago. I don't remember, but that has certainly helped. I assume that has been a major driver of that?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, and when you're operating in an MDU, the average life of an MDU customer, believe it or not, is six to seven months in New York City. So to try to get them to sign a contract was probably not a very good competitive start. So we did away with that contract. And now what we do is we are entering agreements with the landlords, and there's incentives to the landlord that when that turn happens and a new tenant comes in, there's an incentive to rehook FiOS back up. So that the model that we are running with right now.

And then also, there was a big significant shift that we did in our sales force. We would have one salesperson who was responsible for 50 buildings.

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Now that one salesperson is more likely to be in charge of five buildings, and the compensation structure is built around penetration of the building, working with the landlord. So we have seen that the model is really starting to grow and really start to progress our penetration of New York City.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Shifting to enterprise, can we talk about the composition of revenue there as well? It's nicely evolved with the addition of Terremark. Can you talk about as we move -- as you continue to move away from like the legacy revenue that probably will never come back following 2008, can you talk about where you see as the main drivers here. Is it the cloud? Is it the Terremark? Is it the combination of both?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so I think a couple things in enterprise. We -- we're approaching 50% now of that revenue stream being on a strategic product set, so that's obviously where our focus is. We're always going to have the core voice in LD, but obviously that's been commoditized over the years. So the focus is to shift into this more strategic club set. So by buying the Terremark asset, the strategy that we see is that cloud is really going to be the enabler for enterprise in the future.

So if you go today, we believe that we can cut the cost of an enterprise between anywhere from 10% to 20% depending upon what solution they take by implementing applications on the cloud. Now we just acquired CloudSwitch because one of the impediments to that was from an enterprise customer saying well, if I move it to your cloud, that means I have to rewrite some of the applications to get it there, then what if I want to bring it back?

What CloudSwitch does is they're sitting in the middle with software that actually enables them to move that without any software development. And they can move it back and forth at will between the cloud and their data center depending upon what they want to do. So it's very, very flexible for them.

So we think with the combination of these two assets with where, quite honestly, machine to machine is going and even with some of the Wireless assets, this cloud that Terremark brought to us and the infrastructure that they brought really will be an elevation for us in the enterprise space going forward.

So, strategic product set from a security standpoint, professional services and then latching on the cloud to that I think is where we really are focused from a growth perspective in the future.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

And I know Terremark is different from Savvis, but CenturyLink spoke to lighter Savvis bookings in the third quarter. You spoke to record Terremark bookings in September. And can you just talk about -- I mean the government exposure is there. We hear the headlines that government is pulling back. What are you seeing just in that small part of the business?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

So what we're seeing is by bringing the Terremark assets into the family of Verizon, there was a lot of things that Terremark needed that Verizon brought to the table and then obviously the data centers the Terremark were brought to the Verizon table. So the combination of those two, plus the security asset of what Verizon had and what Terremark brought to the table, we believe that we have a product set that, quite honestly, can't be matched in the industry right now.

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And what we're seeing is Terremark, by coming into the Verizon family and getting some of the other things that they needed like access to Asia Pac which they did not have access to; building out their new data center in Amsterdam which we needed in Verizon because we were out of capacity, so by combining these two, there's more ability to sell this product. And what you saw in the third quarter is Terremark was pretty successful in the booking.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Just the last question in -- on the Wireline is SMB. Cable guys are talking about it; my CLECs are talking about it, all as a great opportunity. They all seem to be going after you. How can Verizon -- you and AT&T. How can Verizon -- what is your strategy there? Are you leading on Wireless? How do you differentiate yourself?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, I think you have to segment this space right now. So small business, I would say of all the issues right now I think is still impacted by the economy. And what I've said before is the inwards are down by 50%. So there's less new startups, less new ability to chase new business in that segment. So what we have is we have our current core.

And so then when you segment that between what's in the FiOS footprint and what's outside the FiOS footprint, in the FiOS footprint it's a very different story. Outside the FiOS footprint, where I only have HSI, I'm at a competitive disadvantage. So cable has a better speed product. Their broad band is better than HSI running at 1 to 3 megs versus their 10 to 12 and sometimes upwards to 50. So there is a competitive disadvantage there.

What we are trying to attack the space with is more of a bundling with Wireless, giving them more of an option with Wireless. But I think that this has been a struggle for us in the last two quarters. And it really comes to, I'm not losing any more to the competition, but it's I'm not getting the new gains and the new startups that I was to offset that before. So it's something that we still need to work on.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

I lied; one more question on Wireline. Just as we look at access lines and you look at FiOS build is, you're done or beyond the 17 million goal, would you consider doing another spinoff selling of legacy access, legacy non-FiOS access lines, similar to what Frontier bought from you? Is that even in your game plan?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well I think right now, Lowell and I are very satisfied with the portfolio we have. Everywhere we're at, we have built FiOS. The outlining areas are probably not an area where you could segment them off and sell them, so I think right now we are happy with what we have.

And I think -- if you think -- if you listen to what Lowell says, what Lowell says is Ivan gave us a set of assets that we think are second to none in the industry. What Lowell and I now have to do and the business unit heads have to do is put these assets together and go to market in a more unified way. And I think that's what you're going to see from us going forward, especially around small business, especially around video between FiOS and Wireless. So you're going to see us progress more in more of a unified product front rather than just a Wireless product versus a Wireline product.



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Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Shifting gears to consolidated company question, as I look at -- we've talked a lot about LTE, my number, not yours, I think two-thirds of the country will be covered by year end. FiOS, you talked about. That's done. That build is winding -- our units -- that CapEx is spent.

As I look -- I'm not asking you to predict 2012 -- but as I look to 2012 from a CapEx directional point, my logic given those two statements would indicate lower than higher. Am I thinking about it the right way or --?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

That's good thinking. I think that -- just to elaborate here, I think -- first of all, I'm not going to give guidance for 2012. But I think if you have seen what we've done over the years, we have had a shift between Wireline and Wireless. We're going to continue to aggressively build the LTE, but as I said, you can expect the CapEx -- we're going to hit guidance for this year. And we declined our EVDO buildout and we will see what 2012 holds.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Okay. On the Wireless side, again, a nice problem to have. You are generating a ton of cash. You have announced that you have committed a \$10 billion dividend to the parents from Verizon Wireless. Can you talk about other uses of cash? We touched on spectrum. But beyond that, where you see -- for the Wireless cash flow [now]?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so I mean we -- I announced the -- we went to the board and Verizon Wireless board approved the distribution to the parents back in I think it was June. And I did that so I would stop getting questions on the dividend. So we announced the \$10 billion dividend payable January 31.

Now as far as going into 2012, I think that we are hedging on that there may be some spectrum that comes available. Wireless still has \$12 billion gross debt on their books that will mature over the next several years and we will pay down the maturities in 2012. So we will see where we go from here and what opportunities post up and we will see where we end up in 2012.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Just on a consolidated company to that same -- building on that same leverage question, you've done a great job of managing your leverage ratio. You're now inside your target of 1.3 on a last 12 months basis. Where do you see -- is that your still steady-state leverage goal or have you moved beyond that?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

No, I think we would like to stay between that 1.3, 1.4 metric from a net debt to EBITDA ratio. Now, obviously when you do the \$10 billion distribution to the parents, that net debt ratio will change because some of that cash will be actually going outside the door, at least the \$4.5 billion due to Vodafone. So that metric will shift back and forth depending upon where that cash ends up and is distributed out. But we think that that's the right range for us, and then we will see what the potentials are into 2012 and 2013.



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Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Before I turn it over to questions, I'm personally getting a lot of questions on pension. It's certainly a hot topic right now. With you and AT&T and others on my list to have pension obligations. Is there anything you can -- color you can add to that or --?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, sure. So from a pension accounting standpoint, I look at it two ways. You have the pension GAAP accounting point of view, which is all noncash. And under what we adopted last year, we will have to do a mark-to-market adjustment here in the fourth quarter. So what that means is I have to adjust what my assumed rate of return was to the actual rate of return. We have to adjust for the discount rate decline, with the interest rates have come down, so the discount rate will come down. So in the fourth quarter, you will see a charge for mark-to-market for pension plan, but that is all GAAP accounting. It actually has no impact on cash.

And the mere fact that you do a mark-to-market in the fourth quarter has no influence on what the outer year of pension contribution will be because that's determined by the IRS regulations. And each year, we will see this fourth-quarter mark-to-market charge. Some years, it's going to be down. Other years, it's going to be in a huge positive. But it doesn't really mean anything to the actual cash contribution into that plan.

So I know some have asked, well, what is your cash contribution for 2012. We're not going to release that yet. We'll talk about that in January. But it doesn't have -- it is not influenced at all by what happens in the accounting records.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

Great. Thanks for that color. All right. We have about 10 minutes left. Any questions from the audience? And if -- Monica is going to bring a microphone over.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Good morning. First question, you mentioned early in your talk that you have more 4G devices you're selling today than 3G devices. Now does that mean on an aggregate basis, 4G unit sales exceeds 3G unit sales today? And if not, why not? And when might you cross that threshold? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes. If I said sell, that probably wasn't the right word. What I said was we have more 4G devices in our portfolio than 3G devices today. So, the actual ratio of smartphones though, if you look at DROID versus others, DROID is 50% of the portfolio. Now some of that is still 3G. And of course, as I said before, the whole strategy we have here is to move into more of that 4G perspective. But all the Internet devices that we are selling are 4G now. So if I said sell, that probably was the wrong word.

Unidentified Audience Member

I guess I'm trying to understand, are you selling more 4G units today on an aggregate basis than 3G, even though you have more 4G (inaudible)?

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Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, no, the question you are going to ask me, we don't release the information.

Unidentified Audience Member

Oh, okay. Thank you.

Unidentified Audience Member

A couple of questions on the cantenna. I imagine that the -- well it's a niche products, but in any case, it's -- I would imagine the provisioning is going to be -- and the install is going to be DIRECTV. But is the billing on the DTV platform or is it on your platform?

And then is the marketing also led by them or is it going to be more like what you would do with a CLEC, where it's more local door knockers and feet on the street?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Okay. So, cantenna, so for those of you that don't know what the cantenna is, which is a really bad name -- you can tell an engineer came up with that name. That is not a commercial name.

But a cantenna is a miniature 4G LTE cell that would actually connect to your home and light your home up for broadband service over 4G LTE. And we trialed this up in Erie, Pennsylvania along with DIRECTV. And we found through the trial that it was very, very acceptable to the consumer.

Now the issue will be we haven't commercially launched it yet. But Stanley, to answer your question, this will be a wireless product that is sold through wireless. It will be built on their platforms. And really we think the niche market for this is in the rural areas where people don't have high-speed broadband today. So this is not going to be a competitive product in the cities where you can get FiOS at 100 megabits. That's not what this is. But the challenge is, is how do we price it to the marketplace? Because again, the cantenna, although it is extremely efficient on how it utilizes spectrum, it still eats up spectrum if you put a lot through it. So we have to figure out what the pricing plan to the consumer is that's value proposition for us and a value proposition for them.

So I think we are still on target to do some type of a commercial launch here in the fourth quarter, but that's all I will say about it.

Unidentified Audience Member

But from a profitability standpoint, you are basically just monetizing the investment that you have made in coverage rather than in peak time capacity. So I'm wondering if maybe the profitability model is actually a little bit better and particularly since it's in rural areas, maybe it can qualify for Connect America funds.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

I'm not going to disagree with anything you said. I think that we will have to continue to see what marketing comes up with, but we will launch this product, but I think it is a niche product for rural area and we will see where we go with it.

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Unidentified Audience Member

And just my last question on this, Fran. Does the penetration curve that I should think about this product, is it more like what we've seen from FiOS? Or is it more like what we saw when you got your 271 approvals and you were able to get a certain penetration level of switchers that had an alternative in the marketplace for the first time.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, I think really it's too early for me to answer that question. I'm not sure what the penetration rate will be. Let's launch it and see how we do and then we'll get data.

Unidentified Audience Member

Yes. I sat in a session a month or so ago with Lowell, and he seemed to be excited about the machine to machine opportunity as perhaps an incremental driver for long-term Wireless growth in your business. And as someone who has to I guess sign up for the metrics and the financials for the overall company, is that something that you are seeing in your business in a year or two that if you call it 100 million users that you have on your wireless network, is that something that could be millions of new sort of accounts that could -- and other low ARPU, but is that something that is going to move the numbers in 2012 or 2013? Because I feel like it's been talked about for a decade and has never really happened, kind of like video conferencing. So I'm a bit skeptical, yet he was quite optimistic, so I wanted to get your read on it as well.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, I'm in the same court as Lowell is, is I think that it is a slow start because I think people are trying to figure out what exactly what this is. But as I said, we now have over 200 devices certified on the network -- some 3G, but mostly 4G. And as this ecosystem starts to gain momentum, we are now getting approached by energy companies and health care companies. And so I think what you're going to see is you're going to start see this accelerate. And it's already -- the net add number is already starting to accelerate for us.

Now it's not a big number, but I think over time you're going to start to see this grow. And I don't look at it as millions. I look at this as several hundred millions as time goes on from a machine to machine prospective. And as you said, not real high ARPU but extremely highly profitable.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

One more question.

Unidentified Audience Member

Thanks. You talk about on the Wireline side a lot about margins and you focus on cost. What about raising prices, especially in FiOS, is that a consideration?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, again, when you're fifth to marketplace in some of these areas, it's hard to increase your price when you're competing against some very, very hard-line cable providers. And right now we're concentrating on penetration. And also you have to remember that when I initially launched in this arena, it was difficult for us to penetrate the market. So now that we are gaining momentum, I think what you saw if you watched us, we actually did increase price in 2011 in the segments that we could

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because some of our customers are under contract, and we can't increase their price, but we will use all opportunities to increase prices where we can. And as long as we remain competitive and continue to penetrate, that will be the key for us. So it's an equal balance.

Jennifer Fritzsche - Wells Fargo Securities, LLC - Analyst

I think we'll wrap it up there. Fran, thank you so much.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Jennifer, thank you. Thank you, everyone.

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