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JPM - A Conversation with Verizon Chairman and CEO Lowell McAdam hosted by J. P. Morgan

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PRESENTATION
Operator
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At this time all participants are in a listen-only mode until the Q&A portion of this call. I would now like to turn the call over to Phillip Cusick. Sir, you may begin.

Phillip Cusick - J.P. Morgan - Managing Director
Hi. My name's Phillip Cusick. I cover telecom and cable at J.P. Morgan. Today I'm pleased to host Lowell McAdam from Verizon on this call. Lowell is the chairman and CEO of Verizon Communications. He succeeded Ivan, as CEO on August 1, 2011 and became chairman on January 1, 2012. Lowell, thanks for joining us.

My plan here is to do sort of 35 minutes or so of Q&A and then maybe open it up for a few questions from the audience. So if you have something you want to get in you can -- the operator will tell you how later. And I think it's star one, but right now let's just kick it off.

So, Lowell, congratulations on being a year into the job. And in the past you've talked about -- I'm sorry.

Lowell McAdam - Verizon Communications - CEO
Yes. And thanks, Phil.

Phillip Cusick - J.P. Morgan - Managing Director
Your priorities being to get the Spectrum deal done, LTE and FIOS built outs, introducing the Share Everything plan. Those seem to be going pretty well. What are the next steps for the next steps for the second half of '12 and into 2013?

Lowell McAdam - Verizon Communications - CEO
Well I think you have to pay off all those things. So let me give you just kind of a quick overview of my view of the business.
Wireless is really doing very, very well. I compliment Dan Mead and the team for how they've sort of increased the momentum of the business. The LTE investment that we made is paying off in a number of ways on the cost side as well as the revenue side.

Getting this new band of spectrum really sets this business up. I don't think I've seen a business -- as you know I've worked in wireless around the world. I don't think I've seen a business that has this sort of foundation of spectrum that covers the entire country that we have. We're seeing lots of applications now that sort of sing on LTE that didn't before. And we've got the devices coming that will really play well to that as we move forward.

We're putting some platforms in place like the Share Everything plan and like the Hughes platform that will help us with machine-to-machine and adding more and more devices to an account. So I'm sure we'll talk more about all of those. They're doing quite well. So it's just leveraging those investments.

On the wireline side of the business I use the term with our team here. And Bobbie Mudge is the leader is that I'm seeing green shoots of grass in the backyard here. FIOS I think people really see the superior platform in FIOS and what we can do with that.

We're making some really good strides in modernizing the copper plant by moving customers on to FIOS and leveraging that. And I feel good about the progress there. On VES I'm sure we'll go into that in more detail, but we're retooling that business at this point. We're cleaning out the basement. We're getting rid of a lot of customized products that were very expensive and very low margins for us.

And we're replacing those with assets that we bought in Terrmark, and Cybertrust, and CloudSwitch and now Hughes, which I think will be a big play in the enterprise space. So we're retooling that business and I see a good future there, but it's not so much in my view now as what's next. It's what do we do to leverage those investments and make them return on the bottom line. I think we've got a good path to do that.

Phillip Cusick - J.P. Morgan - Managing Director

Let's follow up on a phrase you used, green shoots in the wireline business. Can you help me? Is that sort of on your business the way it's being run and cleaned up? Or is that a little bit of a sort of wider economic and macro getting a little better as well?

Lowell McAdam - Verizon Communications - CEO

I don't plan for the macroeconomics to get a lot better. You all follow closely where things are in Europe. And I don't think that's all resolved yet. You can read as many articles that say that Greece will exit the euro, and Spain and Portugal might follow them as they pull it all together and they start to improve, but a number of my colleagues that I talk to frequently in Europe are very interested in how the US election turns out because they think that will either continue the current situation or it will change the current situation. So I don't think that anybody in a position like mine can bank on the macro. So we are very focused on organic.

So on the green shoots I think we've got a number of things that help make FIOS more efficient. One of those is the media server that we'll be rolling out in the next, before the end of the year. And that allows us to be wireless inside the home. So you get to the ONT and then you have your media server. And you're either into an IP-enabled TV or you're into a very small thin client at the TV box.

So that really streamlines our installation process. So that's very positive from the cost side. And our home security solutions that we will layer on top of FIOS, just the intelligent home services I think help improve the revenue side. And as you know we've done some price ups here recently which has helped our overall ARPU performance year-over-year. And we expect that to continue improving throughout this year and into next year.

So I think both the top line and the bottom line for FIOS looks better. The thing that we haven't talked a lot about a little bit here recently, but by the end of the year we will have moved 200,000 customers that are sitting on copper where we have FIOS. And we're going to move them off of copper and on to the FIOS, which helps the FIOS profitability as well as removes all the expense associated with that copper plant.
So we’re going to move forward with that. And in many areas we’re also taking customers that aren’t performing well on copper and we’re moving them over to the wireless technology. So that improves our cost structure significantly and streamlines all those ongoing maintenance costs. So that’s why I refer to the green shoots there, well certainly a lot more to do, but we’re not dependent on the economy to make the wireline part of the business perform better.

Phillip Cusick - J.P. Morgan - Managing Director

Okay, okay. As I think about just continuing in wireline you mentioned 200,000 people moving from copper to FIOS. Is there sort of a very targeted plan of areas year, after year after year that where you’re focused on cutting copper out of the business, whether they’re sort of region by region or sort of particular areas within a region?

Lowell McAdam - Verizon Communications - CEO

Yes. So we certainly start where we’ve got parallel networks. And we have a lot of those in place. And we’re attacking them from the top down based on maintenance activity or based on the ability to sell into that customer.

We see after a customer moves over to FIOS we may sell them the regular digital voice service and then use, move them over on the Internet side. And then you move them over on the TV side. So there is nice upside there.

So we look at it from maintenance cost perspective as well as a revenue potential perspective. And then you do get to a point where in a geography if you’ve got nine out of ten let’s say customers on a street that are on FIOS you’re just going to cut the tenth one over and then decommission all of the copper. So we factor all of that in to the analysis and come up with the best shareholder value contribution.

Phillip Cusick - J.P. Morgan - Managing Director

So we should think about this happening in the next year and the year after as well.

Lowell McAdam - Verizon Communications - CEO

Oh yes, yes. It’s an ongoing. No we’re also continuing to build out in the areas that we have local franchise agreement obligations. So we’re continuing to build that out. And we will be far more aggressive in cutting customers over to that FIOS plant now when we put it in initially.

In the past we had the TV service and the Internet service sort of drag those customers across. Now we’re going to be much more proactive about moving them across and then marketing into that base.

Phillip Cusick - J.P. Morgan - Managing Director

And is the regulation side a big barrier to cutting that copper off in the territory, or are they pretty much on board?

Lowell McAdam - Verizon Communications - CEO

Well certain states are more progressive than others. Texas, and Florida and Virginia kind of lead the way. And our view is this is a huge advantage because we aren’t changing the cost to a customer. We’re protecting their pricing. And they get to move on to a broadband digital service.

So as I talk to Chairman Genachowski he is very upbeat about doing this. The other states that are less supportive will stay in the 19th century technology is what we tell them. And there’s no reason they should want to do that.
Phillip Cusick - J.P. Morgan - Managing Director

And given what seems like more success in the TV business than the initial plan was, and also the savings you get as you cut out copper, what's your thought lately on expanding FIOS?

Lowell McAdam - Verizon Communications - CEO

We just have to see how things shake out. Again a little bit of this has to do with the regulatory environment. There are certain places that until they modernize it I'm not going to build one extra household.

But if we can get the media server working right, if we get the final touches on our new contract with the union that makes it more attractive for us it's not something that I would rule out, but I've got a lot in front of me to do to finish the current obligations. And at this point there is nothing further than that current obligation.

Phillip Cusick - J.P. Morgan - Managing Director

Okay. You bring up the unions. I know that this may be a little sensitive, but can you give us any update on where that is and so any update in time frame?

Lowell McAdam - Verizon Communications - CEO

Yes. I think the first thing I'd like to say is that the federal mediation service has been a very good partner in this. So George Cohen and the team down in Washington have been very helpful. I'd also say Larry Cohen, head of the union, has been a very good partner here.

I think that our objectives are to keep the Company healthy so that we can continue to provide good jobs. And I'm not going to get into the political stuff about what's middleclass and what isn't, but our bottom line is we've got a great employee group and I want to keep as many of them occupied in healthy jobs as we modernize the business, but we have to modernize the business in order to keep it healthy to provide those jobs.

And Larry understands that and has been a good partner. It's been a long process to educate each other on the issues, but over the last -- George Cohen and I talked last night. He said it's now 35 days since we had our first session in DC. We've made really a lot of very good progress. And we're -- you're never done until you're done, but Larry and I spoke this morning. And we speak every day and I'm optimistic that we're going to get something done here that will be a good thing for both sides. Neither side will be doing back flips over this, but it will be a good opportunity for both of us to make the business more healthy.

Phillip Cusick - J.P. Morgan - Managing Director

That's interesting. And how does that, and we're a year in, change into not having a contract there? Does that change or does it have the potential to change your pace of capital spending or the ability to grow the business from here once you have a union contract?

Lowell McAdam - Verizon Communications - CEO

No. I don't think so, Phil, to be honest. We've moved the business forward and our employees have been -- they want to see the business win. So I can't tell you that I've seen -- frankly things have been smoother in the last year than they were the six months prior to the contract expiring because everybody's kind of in the positioning mode.
And over the last year we've been focused on the table and trying not to do inflammatory things. So the -- I don't think it's had an impact on the business in a big way, and more streamlined rules, better benefits, structures will only help the business be more effective and more viable as we go forward, but I'm not going to sit here and tell you it's going to make a change in the capital spend.

Phillip Cusick - J.P. Morgan - Managing Director

Okay, okay. Let's just talk about sort of outside of your FIOS territory. Can you give us an update on how that's going? It seems like both you and AT&T have pulled back in terms of willingness to compete. You've talked about pulling back on naked DSL. Do you think that DSL long term is able to compete with cable outside of that fiber footprint, and if so how, and if not then what sort of happens to the business over time?

Lowell McAdam - Verizon Communications - CEO

Well we don't have a lot going on outside of our wireline footprint with DSL. And look. I think people want more and more speeds. And that's why we invest in LTE. And that's why we invest in FIOS.

And so DSL isn't a bad technology. Analog voice on wireless wasn't a bad technology. It's just customers need change and we need to change with it as a business. So it's not like we're running around killing DSL. Customers are doing that for us as they choose.

So we spend a lot more time thinking about home fusion, and LTE deployment and how to gracefully keep DSL in the mix, but we're not going to be investing heavily in DSL. Customers aren't asking for it.

Phillip Cusick - J.P. Morgan - Managing Director

You bring up wireless as an alternative. At what point does LTE really become an alternative to a wired broadband solution?

Lowell McAdam - Verizon Communications - CEO

Well I think it is today for a DSL alternative and our home fusion product is doing very well in the marketplace and we're addressing some of the rural markets through our rural partnership program, but I think LTE inherently is a lot more efficient. And we're doing a lot of things to make it even more efficient.

We obviously talk about needing more spectrum, but we also invest a lot in compression techniques and we invest in our spectrum sharing work that we have going on with the Department of Defense, but I think it already is at the low speeds, but it's not -- at least you won't see Verizon trying to compete against FIOS with LTE. That's not in the cards here until you have an unlimited supply of spectrum. And I don't think that's coming anytime in my career.

Phillip Cusick - J.P. Morgan - Managing Director

But not even in FIOS territories, but in some sort of non-FIOS areas against a real cable broadband plant, do you see that as competitive or just sort of a way to do something better than DSL, but maybe not for the sort of higher end user.

Lowell McAdam - Verizon Communications - CEO

Yes. Our turn, what we call project turnpike, which is the cable TV cooperative venture obviously we have made the statement that we view it as a cooperative product versus a competitive product. I don't think that any wireless technology is going to be able to do what FIOS or Docsis 3.0 is going to be able to do.
Phillip Cusick - J.P. Morgan - Managing Director

Okay. That's fair.

Lowell McAdams - Verizon Communications - CEO

Not profitable for us. I think our investors should be concerned if we went out there and said we are going to start doing that.

Phillip Cusick - J.P. Morgan - Managing Director

Before we go too far into wireless I just want to wrap it up a little bit on the wireline side. There has been a lot of chatter about Apple talking to carriers about a setup box, whether that's a TV, or a video service or just an STB, but would Verizon have any interest in partnering with someone like Apple in the TV space?

Lowell McAdams - Verizon Communications - CEO

Well I think we look at everybody. We're not -- we've said this for years we are not a closed shop. And so when Tim and I sit down and same thing with Eric Schmidt on the Google TV side you see what sort of options are there. And we're not afraid of over the top. That's why we did the Redbox venture so that we're positioned well whether it's a broadcast TV kind of approach or whether it's an over the top approach. So we don't rule out any of those things. Right now we think that customers are still in the mode of a FIOS offering, but we're positioning ourselves with Redbox to be able to win either way.

Phillip Cusick - J.P. Morgan - Managing Director

Okay, makes sense. Let's shift over to wireless a little bit. You just mentioned spectrum. Do you think that -- again congratulations on getting the spectrum deal done. And this must set you up for quite awhile, but there is some chatter that the FCC will do a -- start talking about another auction. How do you think about the potential for that auction? At what point would Verizon want to come in and be buying more spectrum if that happened in 2014? And if it did then when do you think that would actually be usable?

Lowell McAdams - Verizon Communications - CEO

Well typically, and it's gotten more and more difficult, right? I remember the days of when we did the C block and PCS that it probably took 18 months to clear it. So it depends on the type of spectrum. If it's already like the C block and the 700 you can get that into the market very quickly, but our track record over the years is from the time the spectrum is identified it's ten years before its in commercial use by the time it goes through the auction process, and the clearing process and everything else.

So we have to pay attention to these auctions as they come up. We're in a pretty good position today obviously. We -- there's nobody else in the world -- I talk to Vittorio a lot and of the other big carriers. And there's nobody else in the world that has C block, a big chunk of C block and a big chunk of AWS that touches every American. And that makes it a lot easier for us to manage our networks.

And most others are spending a lot of time trying to figure out which frequency is available and how to get the handsets that it impacts not only the network, but the handset performance as well. I think the key -- I know you're sort of alluding to the spectrum caps. And the thing that I think we've missed in past auctions and the whole dialogue around spectrum caps is there needs to be a requirement that you put the spectrum into commercial use very, very quickly. And that will stop sort of the stockpiling of the spectrum.
And then the other factor is that we have a tendency to think that each carrier needs, make up a number, 20 megahertz of spectrum in New York. Well if you don’t have any customers in New York you don’t need any spectrum. And if you have 10,000 you need another. If you’ve got 16 million like we do then you need a different number.

And I think there’s a recognition at the FCC now that a spectrum cap just isn’t a number. It’s a number based on utilization. We’ve got to get as a country into being efficient with the spectrum. It’s not an unlimited resource.

So we need to look at who’s using it efficiently. And I think that will be involved in the discussion that the chairman wants to have around spectrum caps. And I welcome that discussion because I think we’re in a very good position of being good utilizers of spectrum. And then you move into who gets to bid into the auction, but we expect to be a player.

Phillip Cusick - J.P. Morgan - Managing Director

And having just gone through an FCC process and given what we went through with AT&T and T-Mobile last year, there’s a lot of talk about consolidation. How do you think about the potential for consolidation in this wireless industry? Do you see Verizon participating at all, or if not how do you -- do you think that there can be among the other players?

Lowell McAdam - Verizon Communications - CEO

Well first let me make a comment about the FCC, and the DOJ and this last approval process because this was really out of the box. Nobody saw this coming. And they frankly took a little while to figure out how they wanted to think about it.

And I am complimentary because they took the time to see that this relationship could really take telecommunications to a whole different level in the US. If you can tie your car, your set, your TV set, your PC, your tablets, all the other things into a seamless experience we can do something here that nobody else in the world can do.

So they teamed with that though. They had to be careful that there was robust competition out there. And so we spent a lot of time educating them. I think we've come out in a very good place here. So there wasn't a battle royal here. And I think we ended up in a place that's going to make a difference for the infrastructure. So I think that's positive.

On looking forward I'm not chomping at the bit at -- and I don't see a need to do a whole lot of big transactions here. We are much more, and you've seen it based on our recent acquisitions in relatively small pieces, Hughes, Cybertrust, CloudSwitch, Terremark. They're not big deals.

So I think that there will always be a little shuffling if you will of spectrum because you can make your networks more efficient and you can do some swaps back and forth like we did with T-Mobile. So that's all good, but I don't want to be prohibitive. And I will fight very hard to make sure I'm not prohibited from doing any M&A, but I'm a fan of the IBM approach here.

They do hundreds of acquisitions, but they're all small pieces to the puzzle that create a very rich picture. And that's where our head is.

Phillip Cusick - J.P. Morgan - Managing Director

Okay. And do you see the potential for M&A within the other carriers?

Lowell McAdam - Verizon Communications - CEO

Well look. No matter how hard the government tries to prop up certain carriers, unless they have the stomach to make the investments, this is a big capital. We get criticized for that, right? It's a big -- it's a very capital-intensive business. That's the reality of the business. So if you've got a carrier...
that's too small to make that sort of bet then it's better for the government to let them combine with another carrier that can and utilize those assets more efficiently than it is to try to create a sense of false competition because at the end of the day it doesn't help the customer.

Phillip Cusick - J.P. Morgan - Managing Director
Okay. And while we're on M&A, people have talked about Verizon and Vodafone doing something to clean up the Verizon Wireless ownership probably as long as I've been on Wall Street.

Lowell McAdam - Verizon Communications - CEO
So let me understand. Verizon Wireless is probably the best asset, wireless asset anywhere in the globe. And it's and Vittorio will tell you it is the most valuable asset that Vodafone owns. What are we cleaning up here, Phil? I need to be -- I need to understand that.

Phillip Cusick - J.P. Morgan - Managing Director
And I think that may be the problem is that Wall Street wants to see it sort of owned by one person. And yet it's a pretty high class problem with a lot of messy solutions. Is it -- do you think of it as a problem at all?

Lowell McAdam - Verizon Communications - CEO
Well it is run by one person. And that was the -- and I full credit to Ivan and back to Chris Gent. They had the understanding to know that you can't run by committee. And they've set it up so Verizon runs it. And I think that the results have proven out very well.

So it's not a huge -- it's not anything that I stay up overnight thinking about. I think about how are we innovating, how are we making the next investment, how are we squeezing out another ten basis points of margin. And Vittorio and I don't spend our days talking about how we "clean up a partnership" that's working pretty well.

Phillip Cusick - J.P. Morgan - Managing Director
Got it. Let's switch over to a little more on the operational side within wireless. Talk to us about the motivation for changing the pricing structure, moving to the Share Everything plans.

Lowell McAdam - Verizon Communications - CEO
Yes.

Phillip Cusick - J.P. Morgan - Managing Director
Nice to see --

Lowell McAdam - Verizon Communications - CEO
This was something that I think we started talking about three years ago, Phil, and because it's based on customers. Customers and okay family share is fine, but you've still got to allocate minutes. And yes we don't know whether we're using this device or that device.
And they've wanted to have pooled plans. Gosh we've been talking about pooled plans forever. And what we saw here with LTE coming is that everything is just going to be data with voice over LTE, and text messaging, and voice minutes and all that stuff is it's antiquated.

So we saw that trend awhile ago. And as you look at things like the intelligent home and all the other machine-to-machine, do I want to have an account for my car, and an account for my thermostat, and an account for my air conditioning and all that? Nobody wants that. It's difficult for us to bill and it's impossible for the customer to understand.

So we've been working our systems to make sure that we could do this and it wouldn't be kludgy in earnest for two years. So I think this it's just our whole idea is platform, and scale and applications that ride on those platforms. So this gives us the platform now with Share Everything that we can add any kind of device that comes out, any sort of application that comes out. And we can simply bill it for the customer.

So I think it's been very well accepted. We're very pleased with it and I think it's only going to get better for us.

**Phillip Cusick - J.P. Morgan - Managing Director**

And given all the devices that are -- you mentioned a few, but a lot of the devices that are coming down the pike that are going to be wirelessly enabled, can the wireless business at Verizon continue to grow at this rate in growing revenue in sort of the high single digits for quite awhile? Can this continue even in what seems like a saturated environment for the more traditional products?

**Lowell McAdam - Verizon Communications - CEO**

Yes. If you look back and yes I think it was '08 when we did our open network initiative about the time we were going into to build the C block, I talked about 400%, 500% penetration. And it's just funny that we still talk about 90, 95, 100% penetration as a ceiling. That to me is it's not an interesting conversation. To me it's all about -- just think about all of the people on the call and all the devices they have. And then you start adding in all your appliances in your cars, in your home, and your security system and all that stuff. And so I think we can keep growing.

My -- that's part of our job that we use the term there’s always a higher gear is to continue to innovate. And my job is to make sure that the platforms are in place so that people not only inside Verizon, but outside Verizon can innovate on that.

And I look at when Brian Roberts and I sit down with Dan Mead and Neil Smit. And we say, okay, what kind of products can we bring to market that ride on these platforms? The idea is 15 minutes later somebody takes a breath and then what’s next? So there are lots of possibilities there. So I think we can continue to grow.

**Phillip Cusick - J.P. Morgan - Managing Director**

Okay, okay. And do you think that there's either need or ability to be raising prices in this industry? It seems like you had pricing power for some time and you've only started to exercise it a little bit. Or is revenue growth going to be more driven by again sort of increased usage and more and more devices over time?

**Lowell McAdam - Verizon Communications - CEO**

Well it's going to be combination of both I think. So it's to me the most interesting thing is to find more applications as a way to increase revenue.

Just telling the customers you're going to pay more for what you have is that's a tough sell, but when you can bring in the ability to watch your football game anywhere you want to, and yes it uses data, but people get to then make that choice. Do I want to do that or don't I?
When you give them the ability to do all their banking mobile like we are with Isis and they get to make that choice, and that does drive more data usage and therefore higher revenue. So I always like the approach of more applications, but I also understand fully, and I think customers do too. And you see it in our churn number and our growth numbers that it’s worth paying a little bit more for a higher quality product. And we’ve made our careers on delivering the highest quality product in wireless and we’re going to continue to do that.

Phillip Cusick - J.P. Morgan - Managing Director

You mentioned Isis. That’s something that we’ve been hearing about for a long time, but what’s the potential to actually see that in sort of in the market getting a real traction with customers over the next couple of years?

Lowell McAdam - Verizon Communications - CEO

Yes. I think it’s good. Without talking for other companies, I meet even as recently as this week with the CEOs of the big card companies and the big banks. And I think the difference with Isis is that we bring the scale of the carriers, so with T, and T-Mobile and us all there that’s kind of almost a one-stop shop. And we’re not trying to prohibit anybody, so if the other carriers want to join in they’ll be able to.

And we have made it attractive for all the card manufacturers. We’re not doing an intercept card kind of thing where they want to bring their American Express, or their MasterCard, or Visa or whatever they want they can do that. That all fits easily in the wallet.

We’ve made a hole for the coupon companies, so when they want to come in customers will have to opt in. And if you look at the ecosystem and the ability for them to tailor offerings and customers to decide what offering they want to choose, it’s not all jammed down their throat and it’s not a closed system so you have to use only My Maps, or only My Search Engine or only my whatever, I think it’s attractive.

So we’ll roll out our trial in Boston and Salt Lake by the end of the year. We’ve got a good group of merchants. We know technically how this works. So you’re at the usual life cycle right now where you’ve got a lot of different fragmented offerings out there. And I think two years from now you’ll be down to a couple of wallets. And I do expect Isis to be one of them.

Phillip Cusick - J.P. Morgan - Managing Director

And what’s going on in the enterprise wireless segment? Are companies like J.P. Morgan sort of buying into the wireless data device trend as well?

Lowell McAdam - Verizon Communications - CEO

Well I guess you guys could tell me, but yes I do see that. The interesting trend here, and we can probably talk a little bit about our retooling VES, but we have been very pleased with the response to an integrated offering.

The enterprise is you’re all -- probably everybody on the call is part of an enterprise account. They’re all looking for ways to be more efficient and cut their costs in this economy. And we’re a great way to do that.

And having the cloud service and we’ve got a very good track record on security. That always comes up in my discussions with these, the large customers. And we’ve got some modernization to do to make our IP backbone more efficient, but we’re now looking at 500 gigs of throughput on the backbone in some cases. So we’re a very good global solution for these multinationals.

And the big piece that they continue to tell me they appreciate is okay now I can mobilize a lot of these applications and even develop apps that sit on the Android device, or the Apple device or Microsoft device. And I can use it seamlessly anywhere in the world and I can come to one place to get it.
So we've got a lot of work to do here, but I think adding the pieces that we've added over the last couple of years has strengthened that platform. And we'll make it more efficient here over the next couple of years. And I think that will return some nice contributions to the bottom line. We're not there at this point, but we will get there.

**Phillip Cusick - J.P. Morgan - Managing Director**

Okay. Let's shift over to smartphones for a second. We've talked a number of times and you guys have talked about the hope for sort of a strong third smartphone ecosystem. We saw Microsoft launch some things and Nokia launch some things this week. And hopefully that turns into something, but do you have expectations that either that or something else can become a really strong third ecosystem in the near term?

**Lowell McAdam - Verizon Communications - CEO**

Yes. I do. I think you've got a couple of things going on here and Microsoft, and I talk with Steve frequently about this. I think they've really made this a priority for them. And the products that we will launch with them towards the end of the year I'm excited about. And I think early returns from customers are positive.

The thing that I like about Microsoft is it's not necessarily tied to one piece of hardware. So if Nokia comes up with a great form factor that's great. Samsung's in there. HTC can be in there. So there's a -- I think there's a risk portfolio with Microsoft that I like.

I wouldn't count RIM out yet. I think they're working it and they've still got a pretty good franchise. I think that the dark horse here might be Samsung because Samsung after the latest verdict out in California they're liable to just -- they've got the capability to go out on their own and do their own operating system. And they've tinkered with it in the past in some other efforts that they've had with other carriers around the world.

And Intel's in there with their operating system. So I think there's a potential elephant in the room with Samsung. And we'll see how they play.

**Phillip Cusick - J.P. Morgan - Managing Director**

That would be interesting. You're now at about a 50% smartphone mix. You've really picked up the speed of your handset turnover in the last year and a half, two years. As the smartphone adoption rate rises do you anticipate an eventual sort of slowdown in the rate of handset turnover? Or is this -- do you think this is a new normal?

**Lowell McAdam - Verizon Communications - CEO**

Like I think it goes by the typical lifecycle of any product like this. You'll see -- we've seen a huge number of advances spurred by the iPhone over the last three, four years. And I think as the tablets come on now that may end up being the hotter device. And that's you see some of the smaller ones coming out, smaller tablets coming out, larger smartphones, whatever you want to call it.

So there's always some sort of a new device that comes in and changes the portfolio mix. So I think smartphones as you know them today I think there's still headroom. We're at about 50%. You see carriers around the world at 75%. Again a lot of that is driven by what sort of applications we put on them.

And if you get a killer application and we think some of this integrated service between mobile and your home will be a great application that will drive a lot volume. It will sort of ebb and flow.

**Phillip Cusick - J.P. Morgan - Managing Director**

Yes. I want to open it a little bit for questions. Operator, can you instruct people if they have a question?
QUESTIONS AND ANSWERS

Operator
(Operator Instructions).

Phillip Cusick - J.P. Morgan - Managing Director
As we wait for that let’s talk about sort of capital returns going forward. Yesterday you raised your dividend by 3%, which is some acceleration versus last year, but still pales in comparison to your earnings growth. Can you give us a little background on how the board came to the 3%? And is there a potential for further acceleration down the road?

Lowell McAdam - Verizon Communications - CEO
I will shy away from guidance on our dividend, future dividend here, but look. Our general philosophy is that we want to grow the business, grow our EPS and distribute the excess cash pretty freely to our shareholders. We know that they’re looking for that dividend yield is the reason to be attracted to our stock. And that’s why we make all of those platform decisions and capital decisions that we make.

So we -- could we have done a bigger dividend this time? Yes, but I think what we want to show our shareholders is sustained growth and they will grow along with us.

So the 3% is certainly sustainable and we expect -- I don’t want to be in a position where I do a -- make up a number of 5% dividend and then have to fall back. Then customers or our shareholders are kind of like, well, what do I expect from you? So I think they ought to be able to expect stable and increasing dividends because we’ve got stable and increasing profitability of the business. That’s what our goal is.

Phillip Cusick - J.P. Morgan - Managing Director
Good. Let’s take one question, operator.

Operator
Our first question comes from Robert Reitzes. Your line is open.

Robert Reitzes - J.P. Morgan - Client
I’m Bob. I have a very simplistic question, but it would help me. With all the introduction of the smartphone and obviously none of us have seen the new Apple, but what type of data increase or ARPU increase do you think? I know you’re doing the pricing plan, but what -- how do -- do you have any like projections on how much that will increase ARPU or how much it will increase data searches, et cetera? I’m just I’m kind of curious how you view the new smartphones as well as the new tablets.

Lowell McAdam - Verizon Communications - CEO
Well so just so I’m clear, Bob, is there a new Apple iPhone coming out? I want my friend Tim to know that I’m not acknowledging there’s a new iPhone coming out.
Robert Reitzes - J.P. Morgan - Client

Well let's just -- all I can say is that I haven’t -- I didn't receive an invitation, but I saw the invitation where there's a 12 and a five. So I'm taking a leap of faith.

Lowell McAdam - Verizon Communications - CEO

Okay. Well look. I think that that’s what we plan on is that these new devices and the applications that roll with those devices are going to drive more data usage. And our view is it should drive more ARPU as well.

Now we're much into -- we're now and we'll talk more about this at our earnings. We are looking at average revenue per account because with Share Everything we can't look at it on a per unit basis anymore and it's frankly a waste of time.

So the expectation we have is that as you move off of 3G on to 4G the usage should go way up and your cost should come down so your profitability should improve. And so we're very focused on making sure those devices and the applications that go with them are big hits with customers.

Phillip Cusick - J.P. Morgan - Managing Director

Okay. Can we expect that -- Lowell, should we expect that going forward you no longer report an ARPU metric just because breaking it out becomes a little kludgy?

Lowell McAdam - Verizon Communications - CEO

Yes. And it doesn’t provide you any value because does it matter? If you think about it if I’m on my smartphone or I’m on my tablet, does it matter? No, it doesn’t matter to me as the network provider.

So the key ought to be on an account by account basis how much usage are we getting? What’s the revenue? What's the expense? What's the bottom line? So that's what we're focused on. So I do think ARPU is going to be a thing of the past. It’ll die off here pretty shortly.

Now what we need to do and what John and Fran are helping to do now is to help educate our investors so that they can make a very smooth transition between with your model so that you can advise them on whether we’re better off or not. We think it’s a slam dunk that we are better off in the direction we’re headed.

John Doherty - Verizon Communications - SVP of IR

And so just to help on this one, we are moving more towards a Share Everything centric reporting structure. We will be talking about accounts. We will be talking ARPA and putting that out there. And whatever we do we’ll make sure that we provide a good number of quarters of information ahead of us announcing earnings in October. So we’ll -- this will be a very well managed process and folks will absolutely know where we’re going and have the road maps to compare us from a sequential and year-over-year perspective.

Phillip Cusick - J.P. Morgan - Managing Director

Great. And we’re coming toward the end of our time, maybe final question. Lowell, where’s Verizon in five years? What’s changed from where we are today and aside from all the things you’ve already talked about, how do you position the Company today for that environment?
Lowell McAdam - Verizon Communications - CEO

Yes. The term we use inside the business, Phil, is that five years from now we want to be a global connected solutions company. And you see that with everything that we're doing today.

We don't think there's a whole lot more networks to be built. There's modernization and there's always going from this generation to the next generation so that we can improve our costs and give better service, but now it's about the security applications, the cloud services, enabling the machine-to-machine so that people can do the health care. We'll be big players in health care. You'll hear more about that from us in the next 60 days.

That's -- the energy piece is another big area of movement for us, but we all about leveraging the platforms, including the networks and then bringing the solutions out. And that's I think what we'll look -- we'll look pretty different as a business five years from now.

Phillip Cusick - J.P. Morgan - Managing Director

Good, good. Guys, thanks again for joining us.

Lowell McAdam - Verizon Communications - CEO

Okay. It's been a nice morning and hope you guys all enjoy your weekend.

Phillip Cusick - J.P. Morgan - Managing Director

Have a great weekend.

John Doherty - Verizon Communications - SVP of IR

Take care. Thanks, Phil. Thanks for those on the call, appreciate it.

Phillip Cusick - J.P. Morgan - Managing Director

Absolutely.

Operator

Thank you. That concludes today's conference. Thanks for your participation.