THOMSON REUTERS STREEEVENTS

EDITED TRANSCRIPT

VZ - Verizon at Wells Fargo Technology Media & Telecom Conference

EVENT DATE/TIME: NOVEMBER 08, 2012 / 12:45PM GMT
Jennifer Fritzsche - Wells Fargo Securities - Analyst

Welcome, everyone. We are excited to kick off the second day of our event with Fran Shammo, the CFO of Verizon. We had Fran here last year and a lot of news flow since then, I guess, ever evolving. I guess, Fran, I'd just start, obviously a very difficult last week and a half for everyone here on the East Coast.

On a corporate level can you, realizing it is still early and I can imagine there’s many hands on deck, can you talk at all about color, the impact? You had mentioned significant in the filing, but any other – more color around that would be helpful.

Fran Shammo - Verizon Communications - EVP & CFO

Yes, sure. Thanks, Jennifer. Good morning, everyone. Thanks for getting up early and coming. So let’s talk about the storm a little bit. First that I would be remiss to say that our prayers continue to go out to all those impacted people. We have several employees of our own who have lost everything in this devastating storm. So our prayers go out to everyone, and hopefully, everyone will get electricity back soon.

Second, Jennifer, I would be remiss if I didn’t say as part of our internal Verizon credo, one of the things that we say is we run to a crisis. And I think Verizon has proven time and time again that we know how to deal with a crisis. If you look back to Katrina and you look back to Irene, and now with Sandy, I am extremely proud of our employees who have dealt with the devastation of this storm.

So if we start with wireless, first off, we have deployed what we call our mobile communication units, which are tractor-trailers, into the devastated areas so that the people can go into these trailers, gain access to the Internet, start to fill out their insurance claims and so forth. We’ve moved in stores on wheels as we call them, which are remote stores, because we’ve lost several of our stores in this storm which were totally devastated, to replace those stores so that people can come and charge their devices and handle whatever problems that they have.

In addition, we have moved in a number of what we call COWs, which are cellular on wheels, to enhance the capacity and coverage because we did lose several cell sites totally in this storm. So Wireless has done a very, very good job in responding and, of course, we pride ourselves on the amount of investment that we have made in our network on the most reliable network. And I think once again we proved that we were very reliable here.

Lower Manhattan was devastated. We got that back up and running very, very quickly. So today I'm proud to say that 99% of our cells are up and running. We still have a number of portable cell sites still supporting the lower Manhattan area, but I think just an unbelievable job with our employees.

If we move into the Wireline area, first I would say I think the FiOS network held up extremely well. Unfortunately, though, when people lose power they obviously lose their TV and Internet with it, and it always follows power. But I’m happy to say that when the power is coming back, the actual fiber network of FiOS held up extremely well. And even with me personally, I had electricity out for eight days and as soon as it came back, my ONT rebooted and the network was fine. I got TV and Internet. So I think the fiber network held up very well.

Now let's move to the copper network and lower Manhattan, because the devastation is just unbelievable. Just to give you a sense of what has happened in lower Manhattan at our headquarters building of 140 West Street, at one point in time the water level was up over the security desk.
We have I think four or five sub floors below that which were completely filled with water. We have pumped out one million gallons of gas -- not gas, water. So you can just imagine the amount of physical damage in those sub floors.

Now, I have to say that again our employees within 48 hours brought in remote power, rerouted the telephone service, and we were up and running within 48 hours even with four floors under water.

I’m happy to say that Broad Street, which is another really large infrastructure and supports a lot of lower Manhattan, we finally got back up and running yesterday. But the devastation here is pretty drastic. And when you go into the barrier islands, at this point I can’t even tell you yet what the amount of damage is because we are not allowed on yet.

So from just an overall financial perspective, it is hard for me to sit here and put a number on what the damage will be. But as we said in our 8-K, it could be significant to the fourth quarter and we will take a one-time charge in the fourth quarter for that.

The other thing, though, that I want to say that I am proud of is that the Verizon Foundation made a $1 million contribution to the American Red Cross. And we’ve asked our employees to make individual contributions and our foundation will match those contributions $2.00 to $1.00, and our employees already contributed $275,000. So we’ve match that by another $550,000.

So I am proud of what Verizon has done from a community perspective, but individually from a financial perspective, I can’t answer the question at this point.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Understood. Again, we are, what, 10 days out of this event, so thank you for that color. The other big news on your front is the labor contract. I think these days honestly are blending together, but it was last Friday I think you quantified the impact of the contract saying savings of $250 million to $500 million.

Can you -- by our end, our estimates, the high end of this range would translate to over 100 basis point improvement in Wireline margin. Am I thinking about it the right way? Can you offer any further color there?

Fran Shammo - Verizon Communications - EVP & CFO

Yes, so what we’ve said is the financial terms of this for 2013 will be about $250 million in savings, and that will grow to $500 million by 2015. We really won’t see any savings in the fourth quarter of this year. Although there will be savings, we also have the one-time bonus that was agreed to be paid in the agreement. So that will offset any benefit there.

So in the fourth quarter, it is pretty much no benefit at all from the contract. So starting 2013, we will see that $250 million benefit. The other thing I would say, though, is that is just the hard savings that we can calculate from benefit concessions, pension caps, and everything else that is in that agreement.

The one thing that we can’t really put our arms around that we know is going to be more cost savings and really productivity improvement is all the work rule changes we have. So it’s hard for me to sit here and put a number around that, but we believe that will actually add to the $250 million to $500 million over time.

Now I do want to caveat that that is in a vacuum as to the union contract. I think what is also important to understand, too, is every year we go through a pension mark to market in the fourth quarter. And obviously with the discount rate of where it is going, there is going to be some increased pressure from an operating expense standpoint just on normal pension expense.
So the union contract benefit will be somewhat offset by some of this other pension expense that normally comes from a fourth-quarter adjustment on return on assets and discount rates. But again, with the union contract I think we've got a very fair contract for both our employees and for the Company going forward.

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

If we could just, sticking with the Wireline theme, if I could dig a little into FiOS. In a quarter that is typically higher with net adds, in the fourth quarter -- I mean, again, in light of everything with Sandy I want to keep this in perspective, but you had talked about 150,000 to 170,000 net adds. Realizing what you said, I (inaudible).

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

When I came out of the third-quarter call looking at where our volume was in September, I was very comfortable with that. Given where we are now with Sandy, obviously our entire workforce is dedicated to restoration activity. So obviously, the net adds of FiOS will suffer. At this point, I just don't know yet what that range will be, but it will be less than the 150,000.

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

On FiOS, you have made recent price increases. Was it over the summer; am I right?

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

It was during the first, second and third quarter of this year, we had a progressive increase on a number of fronts.

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

Can you talk about how those have been received? I mean the ads have been still quite good; how customers are taking this?

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

Well, I think with any price increase you have some elasticity, and we did see a little bit of uptick in churn. But I think that in comparison to a lot of our competitors, we at FiOS really had no price increases for a period of two years prior to this increase.

If you look at the cable industry, historically they increase price every single year on a regimented fact. So we were a little bit behind the market, if you will. And for a superior product, there was no reason why we could not sustain that price increase. So I think overall, we were very pleased, but there was a slight pickup in churn.

But I think that has now settled down and we are well on our way, and you can see that based on the results of our revenue growth -- and I said that I am very comfortable getting to that 5% by the end of the year, and you saw us come out of the third quarter, and I am still very comfortable we will get to that 5%.

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

The big picture on Wireline before moving to Wireless, there is so much in play right now. You have the strategic services, fiber over copper initiative, Hughes integration, cloud, etc. Can you talk a little bit about overall margins direction there?
And then I’ll couple in with that your thoughts on enterprise, because we came out of the AT&T Analyst Day yesterday and they were pretty pointed in making the case that businesses right now are a little bit in frozen mode, and decisions aren’t being made as quickly.

Fran Shammo - Verizon Communications - EVP & CFO

I think coming out of the third quarter, as I said, I agree with that. I think enterprise companies are still continuing to sit on the sidelines. I’m sure you are going to ask about the tax cliff and all that, so I will hold that comment. But I think until a lot of things of uncertainty get resolved, I don’t see enterprise improving.

The economic environment has to do with that. Obviously, the European environment impacts us as well. So there is a lot of things there, and I would say at this point I think flat is what we can expect until we see some things and some things addressed by the Administration going forward.

But overall from a Wireline perspective, as I said on the third-quarter call, we are taking this opportunity to do some different things. You mentioned fiber to copper migration, or copper to fiber migration, and we continue to do that. And we’re being very successful in the results that we see there.

Obviously, with the storm of Sandy, there’s going to be some more conversion of copper to fiber because we are going to have the opportunity to do that because the copper is destroyed. So that program will continue.

From just a product rationalization standpoint, we’ve discontinued a lot of unprofitable product, so we’ve moved away from just naked DSL. It doesn’t make financial sense to offer that anymore.

In the Enterprise space, we are really rationalizing our product. We’ve talked about how we are individually going to our Enterprise customers and saying, look, we are no longer going to support the TDMA network and you need to make decisions of moving to fiber, and we will help you move to fiber.

So those things have to happen, but that is going to take some time for us to do that. But overall, with the union contract, with our Verizon Lean Six Sigma program, with all of the initiatives we are taking, with the addition of Terremark and Hughes which are growing nicely, I’m still confident that we can improve our Wireline margins in 2013.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

I’m going to bring up the question. I mentioned the AT&T analyst day yesterday. I would be remiss if I didn’t bring up what they talked about. They talked about a lot of the stuff you’ve done, moving from copper to fiber. I guess they have done it in a slightly different way. I don’t think you’ve contacted the FCC on a national level. But any color or thoughts around -- am I right in thinking that a lot of the stuff they talked about you are implementing right now?

Fran Shammo - Verizon Communications - EVP & CFO

We have done a lot of this more on a local basis. Carrier of last resort, we have already gotten relief from a number of states on carrier of last resort. We are no longer called the carrier of last resort in a number of states that we deal in.

We have done things in the State of Pennsylvania where we have a broadband commitment, and we are going to fulfill that broadband with LTE, not with Wireline assets. So we’ve already made that type of a shift in an individual footprint that we have.

I think we are in a little bit of a different place because for us with our FiOS build, I’ll have 70% of my households covered with FiOS. So I think I’m in a little different of a place and time versus where AT&T sits. But I think we are on a good path to execute on what we’ve talked about with the copper to fiber migration, with the regulatory environment on a state-by-state basis, and getting relief where we need relief at that local level.
My footprint is fairly small, and it is concentrated in the Northeast corridor, other than California, Texas and Florida, which are smaller footprints. But we are dealing with it on the local footprint on the relief that we need at that level.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Let’s shift to Wireless. Your Share Everything Plans which were announced in June have been wildly popular. As of the end of September, they were 13% of your base. Where do you – can you talk about the acceptance of these, where you see that penetration, or the penetration of these plans eventually ending up in your base?

Fran Shammo - Verizon Communications - EVP & CFO

It’s hard for me to predict because we are running well ahead of what our business case was, where we came out at the third quarter. But obviously, they are being very well-received. Every new customer we add has to take a share plan.

Our current base has a number of options as to what they want to do. Obviously, if they want to stay on unlimited, they have to pay full price for the phone. We have a number of customers who have made that choice. We also have a number of customers who have made the choice to move off of unlimited over to the share plan.

So from just an overall perspective of how shared has worked, it’s being very well-received. As I said many a time, it is running above all of our expectations. Dilution is not as much as we anticipated. The adoption rate is higher. The attachment rate of devices is higher.

If you come out and you look at the third quarter, we said that on average we had 2.6 devices per account. The share plans are much higher than that. And the share plan ARPA is much higher than the average ARPA. So when you look at the all-encompassing, it is doing exactly what we said, which would be this would be an acceleration of our top-line revenue over time.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

ARPA, average revenue per account, it’s a new acronym you’ve introduced, and given us pro formas for those backdated. That has shown nice growth, high single digits. Is that something you see accelerate – that rate of growth accelerating as we look into --?

Fran Shammo - Verizon Communications - EVP & CFO

I think that right now, obviously, we forecasted we would have some dilution. So I think what you saw if you looked at the run rate, we dropped from the 7% down to the 6.5%. I think as momentum builds in the share price plan, I think that it will track very closely to the service revenue growth, and that is what I would envision.

So if you say if there is a little bit of an acceleration here, I think there could be some acceleration, but it’s too early to tell yet.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

My bad, when you first introduced these plans I felt they might be confusing to the customer. I’ve been proven totally wrong. And my checks on the porting trend would indicate – I mean they were always in your favor, but much more so in your favor. Is that consistent with what I know you see?
Fran Shammo - Verizon Communications - EVP & CFO

Well, I would say that there is probably a number of things contributing to our strong growth. One is I think Share Plan is one, but I also think our device lineup. We have a very wide range of device lineup, especially around 4G LTE. I think that obviously our lead on 4G LTE and the footprint that we cover and the reliability that our reputation has been built on, I think word-of-mouth is spreading that we have the superior network from a reliability standpoint. And that the 4G LTE in our coverage is -- I think we say that we have more covers than all of our competitors combined. So we will have completed this build by mid-2013.

So I think there is a lot of things around as to why I was confident in the first quarter when I said you will see an acceleration of our growth through the year, and I think that has proven to be correct. And I continue to think that you will see an acceleration in the fourth quarter from the third quarter.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Can you talk about your LTE network? Because I do think that those ads, the bar chart ads, are so effective and it really resonated with we have this, everyone else has this. Can you talk about the performance of your LTE network versus your peers? Again, you are so far ahead, but just the overall performance. Probably more of a question for Tony, but I know he can see the reports and stuff.

Fran Shammo - Verizon Communications - EVP & CFO

Look, we've built our reputation on the performance of our networks. The 4G LTE network, obviously in the very beginning when we pioneered the network, we had some flaws here and there. But that's normal when you stand up a new state-of-the-art network.

But currently today it is extremely stable, it is performing very well. 35% of our data traffic is now carried over that 4G LTE network, and you can see that people are massively migrating to that network, via share plans, via the handsets that we are offering. So there is a lot of things contributing to the increase of that network and the people's reception to that network.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

The key to the network is spectrum, which we've all been brainwashed to believe it's kind of the lifeblood of these networks. You have some spectrum for sale, the 700 megahertz A and B Block. But on the third-quarter call you did even talk about maybe internal plans to deploy that. Can you let us know where we are in the process or any thoughts you can give around that?

Fran Shammo - Verizon Communications - EVP & CFO

Well, the process is still going. The auction is still there. We have some what I would call serious discussions going on around some of that spectrum. Again, I'd be remiss not to mention that some people thought that this was a bargain purchase, which I've continually said it's not. And I think what we are seeing is that there are certain portions of the spectrum that I think if we could get serious, I think we could sell.

But then there is other portions that we're probably not going to sell, and we are developing those internal plans to launch that spectrum within our portfolio. So it is too soon yet. I think we have to let this process play out. And as I said, I think it will play out by the first quarter and then we will have more to report on.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Can you talk about your spectrum runway? Do you feel comfortable? I think you've said on record of being with SpectrumCo five years plus, or five years.
Fran Shammo - Verizon Communications - EVP & CFO

I think with the SpectrumCo acquisition, we are sitting in a very good place right now. And I would say in five years is probably a good road map, but also we are opportunistic. So if there is something out there that fits into our portfolio, obviously we are going to go in and get that to fit into the portfolio. Because when spectrum comes up for sale, it is a once-in-a-lifetime to either buy or not buy.

And so you have to be very opportunistic in this, and obviously with the auctions coming up, we want to play in those auctions. And so we will see how this all plays out. But it doesn’t mean that I’m going to be out of the market for five years because if spectrum comes up for sale and we think it is good spectrum that we can use in our portfolio, then we will purchase that spectrum. But right now, we are in a very, very good situation.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

The auctions coming up, some believe that the government timeframe is wildly optimistic to get that. We’ll hear more from some regulatory people later, but would you agree with that, that it’s coming off a --?

Fran Shammo - Verizon Communications - EVP & CFO

I think if history would show, it normally takes them 10 years to auction license, and if they are really fast, maybe it is five. But yes, I think this is a long process.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Got it, okay. Consolidation, I alluded to a lot has been happening since last year; really, the last month or last seven weeks. You had Sprint and Softbank; you’ve had PCS and T-Mobile. And now even just yesterday with Sprint and US Cellular, an interesting move, especially for the Carlsons. Can you talk a little bit about your role, how you see Verizon? I mean, do you have enough on your plate right now? Is there any thoughts on the Wireless side that you will play in consolidation, or are you just happy to see it go on around you to make a more rational market?

Fran Shammo - Verizon Communications - EVP & CFO

I think – obviously, we do little buys each quarter, quite honestly, whether it is a limited partnership buyout and those types of things. But I think it would be hard pressed for me to say that Verizon Wireless would go out and consolidate with another major player in the US. I don’t think that is a feasible place to be. I don’t think we would ever get that approved.

So I think that we are very, very satisfied with our asset base. I think that our growth shows that, the network performance shows that. So we are really concentrated on, as I said back in January of 2011, the key for Verizon Wireless is to execute on the plan we laid out. And it’s not necessarily via acquisition.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Just on CapEx, again prior to Sandy, it seemed to me that there was messaging around -- and realizing you haven’t given 2013 guidance -- the messaging around CapEx trends being lower, not higher next year. Did I pick that up right, or any sort of color you can offer as to how we look at capital?
Fran Shammo - Verizon Communications - EVP & CFO

So for this year coming out of the third-quarter call, I said that I felt better in the sense that our capital year-over-year would be down. I was saying flat to down. I said it would be down. Even with Sandy there may be some pressure on my capital spend here in the fourth quarter, but I'm still pretty confident that we will be down year-over-year. And the way that, without giving too much guidance here, the way I would look at 2013 is it will be flat with 2012.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Okay, even though you will have a full LTE network built behind you by the middle part of next year?

Fran Shammo - Verizon Communications - EVP & CFO

Well, because I think you also have to factor in that I now have 35% of my data traffic running on LTE, as our adds continue to increase, as our upgrades continue to migrate into the 4G network. We pride ourselves on our network performance and handling our capacity.

So I'm not going to shortchange on that, and it's too early to tell what our planning is in 2013. But I guess the message I would send you is I don't see us spending more in 2013, so right now I would say it would be flat.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Appreciate the color. Can you talk about stock buyback? Again, not to compare you to AT&T; they've been aggressive. You've talked about it being on standstill until next year. Any thoughts there, especially at these levels?

Fran Shammo - Verizon Communications - EVP & CFO

I still think I'm in the same place. We've executed on a lot of different strategies. Obviously, we executed on our pension strategy with the annuitization of some of our pension plans. And we contributed -- we will have contributed $3.4 billion into the pension plan this year. So we are doing some other things with the excess cash we have to strategically set us up for the longer term.

I think 2013 will be a year where we will be in a position to buy back shares and, of course, there is always this contention of is it the right time; is it the wrong time; do investors want it; some investors don't want it. So I think we will have to play that out, but we should be in a position to make those types of decisions towards the tail end of 2013.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

I know you get this question every appearance, you make but I have to ask about --.

Fran Shammo - Verizon Communications - EVP & CFO

It's got to be a Vodafone for the next question.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Exactly, you knew exactly where I was going. Verizon Wireless dividends, Vodafone, we are sitting at almost mid-November at this point. Last year we heard before now. You've alluded to a December board meeting. Any other color you can provide?
Fran Shammo - Verizon Communications - EVP & CFO

There is really no other color. We will have our board meeting in December, and the board will decide whether to do a distribution or not. And at the time if they decide to do one, then we will announce it at that point in time.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Regulatory. Just given Tuesday's announcement with the reelection of the President, general fact on your regulatory radar screen. There has been talk about putting more spectrum screens in place, and you guys have been openly kind of saying, let's bring it on, let's discuss New York. We have this many customers, etc. Just general thoughts as to what are your kind of hot topics to watch from a regulatory side.

Fran Shammo - Verizon Communications - EVP & CFO

Look, regulatory is always a big issue for us, and we fight it every day, and we've been fighting it for years. So Administration has some impact of that, but this has been a topic of conversation for years. Spectrum caps have been in the conversation for years.

I think with our SpectrumCo deal that we have, what I would say is I think there was some very, very good conversations between the FCC and us on different markets require different things. I think if you look at this most recent devastation that we just realized, it is extremely important for the value of the consumer to make sure that there is enough spectrum for people to be able to communicate.

And I think this really came to light here in New York City, and you can't pick winners and losers as to who should have spectrum and who shouldn't. The consumer chooses their carrier based on a number of things. They don't base it based on spectrum. And the government should not pick a winner and loser based on regulating how much spectrum a carrier should have.

If the carrier has 3 million customers in New York City and needs spectrum to provide the value to those consumers, then that spectrum should become available to them. So that is kind of the way we look at it, and we've had a lot of good conversations with SpectrumCo on that and we are willing to have a lot more conversations. But that is kind of our viewpoint on this one.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

The FCC, and there may be changes there, but seems to be messaging around kind of this creeping duopoly we are seeing in the US with you guys being a big part of that, and the very significant distance between the third and fourth player and number one and two.

If we were to see consolidation around you, would you view that as positive? I mean it seems like to me you work on your own house, you worry about your own house, others don't really -- you don't have to worry about them. But if you saw a stronger third and fourth come together, would that -- worry is too strong a word. Would that make you happy that you'd have a more rational market, or how do you think of that?

Fran Shammo - Verizon Communications - EVP & CFO

Look, I think that a strong industry across the board is good for everybody. And with the recent announcement with Sprint, I think that's a good thing. I think that will help Sprint build what they need to build and become stronger, and I think that's good for the industry. I don't see that being a bad thing at this point.

We've kind of said that there had to be consolidation in the industry. We are seeing that, and we are okay with that.
Jennifer Fritzsche - Wells Fargo Securities - Analyst
Let me ask one more question and then I'll turn it over to the audience for Q&A. Just your balance sheet. Are you satisfied where you are on your leverage ratio? It is really good. Do you see that changing from the -- was it 1.1?

Fran Shammo - Verizon Communications - EVP & CFO
Yes, our net debt to EBITDA is 1.1, but I think it is -- I would be remiss again if I didn't say that that is not the way the rating agencies look at us. Because they factor in the 55%/45% ownership of Wireless, and then they also factor in our unfunded liabilities. Some factor in the unfunded liabilities of OPEB and pension.

So look, I think the key for us is we are satisfied with our debt ratios. But as you'll see in this year, we continue to pay down that debt, and I don't see that strategy changing at this point in time.

Jennifer Fritzsche - Wells Fargo Securities - Analyst
Okay.

Fran Shammo - Verizon Communications - EVP & CFO
But as an overall, Jennifer, I am happy with our leverage. I am not necessarily worried about the rating. I'm not necessarily worried about the leverage.

Jennifer Fritzsche - Wells Fargo Securities - Analyst
Terrific. I'm going to open it up to Q&A here. I certainly have more questions. Anyone else? We're going to get the mic to you.

QUESTIONS AND ANSWERS

Unidentified Audience Member
Just in terms of small cells, have you guys thought about deploying that in the network? And then any timing on rolling out LTE on the AWS spectrum.

Fran Shammo - Verizon Communications - EVP & CFO
Well, from a small cell perspective, we already do that in specific instances where we need to. As far as AWS goes, that really -- AWS was built for -- purchased for capacity purposes. So if you look at our LTE deployment, we are deploying LTE on the 700 megahertz contiguous footprint that we have across the United States.

And the reason we did that is because it is extremely efficient from a coverage standpoint. AWS being a higher frequency is extremely efficient for capacity purposes. And where we need that capacity, we will start to deploy that AWS. I don't have a time frame as to when we will start to deploy that AWS.
Jennifer Fritzsche - Wells Fargo Securities - Analyst

I have to ask about pension because you’ve alluded to it. Can you talk a little bit about the color behind the Prudential arrangement you announced?

Fran Shammo - Verizon Communications - EVP & CFO

Yes, so on October 17th we announced that we were going to enter into a annuitization agreement with Prudential, where we will move $7.5 billion of our pension liability to them on an annuity basis. And actually what that means is Prudential will take over the assets and the liabilities and will manage the payments to approximately 41,000 retirees.

These are retirees who were management retirees prior to January 1st of 2010. It does not impact current management employees; it does not impact current union employees; and it does not impact retiree union employees. This was just strictly management employees.

The benefits to those retirees will not change. Prudential is a great company. They manage hundreds of billions of assets, so they are poised to do this. They do millions of payments a month to retirees, so another 41,000 is not big for them to do.

From a company perspective, it just helps us to remove some of the volatility of this very volatile asset and liability off of the balance sheet of Verizon. So by taking this and reducing our balance sheet exposure by $7.5 billion actually improves our balance sheet and strengthens our financial position.

So there were really two things that we looked at, and we think that this was the right way for us to go at this point in time.

Unidentified Audience Member

Would you use that as a template to bring other parts of your pension off the balance sheet into Prudential or someone else?

Fran Shammo - Verizon Communications - EVP & CFO

At this time, we have no other plans to do anything else with the pension plan from a fashion of annuitization.

Unidentified Audience Member

Can you describe any recent conversations you may or may not have had with Vodafone as to raising the 55% ownership of Cellco Partnership?

Jennifer Fritzsche - Wells Fargo Securities - Analyst

I’m glad Nicole asked that question, not me.

Fran Shammo - Verizon Communications - EVP & CFO

Let’s see, this has been going for 12 years now. Look, it is the same conversations as we always have. They are a great partner to us. They’ve never stood in the way of expanding Verizon Wireless. It is a great asset. They understand the value of that asset.

But look, at the end of the day I continue to say if there is a willing seller, we are a willing buyer, but I am not going to overpay. So it is what it is. And they are content to be a partner and we are content to have them a partner. And we continue to run the venture and we do it the way we want, and we generate a lot of value.
Jennifer Fritzsche - Wells Fargo Securities - Analyst
Can I also ask one more while I have time?

Fran Shammo - Verizon Communications - EVP & CFO
Is it a Vodafone question?

Jennifer Fritzsche - Wells Fargo Securities - Analyst
No, it is not a Vodafone question. It is an iPhone question. My husband has been waiting three-and-a-half weeks for his Verizon iPhone, but the demand is high obviously. Can you talk a little bit about the margin deterioration? I honestly don't remember last year what the deterioration -- you've alluded to a hit. Would we expect that margin deterioration sequentially between third and fourth quarter to be worse than last year, or better?

Fran Shammo - Verizon Communications - EVP & CFO
This is a really hard question to answer because I don't know yet what the volume of business we will do in the fourth quarter. Obviously, we had really good volumes in the third quarter. We still produced a very good margin. But upgrades in the fourth quarter will be higher than the third quarter, but as I said, they will be less than a year ago.

Look, I think it is reasonable to say that there will be a dilution in our margin in the fourth quarter. At this point, because of volume, I can't put a number on that. And volume right now is very good. So I think you are going to see an acceleration of our growth, and we will have to wait and see what that is. Now, obviously with the iPhone, supply is a constraint. So we will see where we end up for the year.

Jennifer Fritzsche - Wells Fargo Securities - Analyst
As you look at -- I know this is probably more a question for your handset guy, but other OS, the Windows phone you've announced, made an announcement. I mean, I would assume you are hopeful for other OSs to be successful, and what from the pipeline you see in the reports you get do you think there is real competition out there perhaps?

Fran Shammo - Verizon Communications - EVP & CFO
Let's face facts here. Apple and Android are great platforms. They are great partners with us. They help us grow our business. I've been pretty vocal that says we need a third ecosystem. And I think Windows, based on what we have seen, it is a very good platform.

And we will launch that platform, and I hope that does bring some competition because when you have competition, then the innovation just elevates itself. And we've seen this in the ecosystem before, and it makes everybody better. And I think that is good for the industry, it's good for the consumer. So I would love to see the Windows 8 platform be a successful platform.

Jennifer Fritzsche - Wells Fargo Securities - Analyst
Great. Do we have any more questions? Okay, with that -- I'm sorry, one more.
Unidentified Audience Member

I just wanted to clarify, did you say that you expected overall Verizon CapEx to be flat in 2013 over 2012?

Fran Shammo - Verizon Communications - EVP & CFO

That’s what I said.

Unidentified Audience Member

And I apologize if you guys covered this already, but just given what -- AT&T obviously announced a fairly significant bump in their CapEx plans for the next three years. Is that -- do you view that as a competitive statement that may force you to go back and reevaluate your own spending plans?

Fran Shammo - Verizon Communications - EVP & CFO

I think you need to talk to AT&T on their plans, but I think we are pretty solid on ours.

Unidentified Audience Member

Thanks.

Jennifer Fritzsche - Wells Fargo Securities - Analyst

Great. With that, Fran, thank you very much.

Fran Shammo - Verizon Communications - EVP & CFO

Thank you, everyone.