Fran Shammo - Verizon Communications - CFO

Thanks, Brett. Good morning, everyone.

Brett Feldman - Deutsche Bank - Analyst

The way this session and most of our sessions are going to work is this is going to be a Q&A. I will ask most of the questions for awhile here, but I definitely want to leave some time at the end so you guys can ask questions. After all, this is your conference; I want you to take advantage of the opportunity here.

Fran, just to get things started, I was hoping we could just sort of take a big picture view of what’s going on in the industry and in particular with your business. We are not done seeing this industry transform, particularly in the wireless space. We have a lot of pending deals. Some of them have become a little controversial.

Could you maybe recap what you’ve done at Verizon, say, over the last 10 years to sort of position your business to make sure that you’re set up to grow for the next 10, particularly as the whole industry migrates to broadband? And whether you think there is any areas where there is still a meaningful incremental investment you need to make.

Fran Shammo - Verizon Communications - CFO

Thanks, Brett. Good morning, everyone. And welcome to probably one of the nicest hotels you will ever stay at.

But, listen, I think that starting this out if we begin with Wireless. If you look at Wireless and what Verizon has done, our basic pennant here is that we built a brand around being the best, most reliable network in the world, quite honestly. We measure ourselves around the world and, obviously, we want that to be true here in the states.

So if you look at what we built, we built our brand around a network, back in 2011 where we launched into the newest technology around LTE and now have built that network out. We will be done with that network here midyear. We will have the same amount of coverage of our 4G LTE network as we did with our 3G network. And we feel that having the best, most reliable network is absolutely the key to success in the wireless business.

In addition to that we launched our Shared Everything plan in June, which was the first time that the pricing paradigm in the industry had changed over the last 10 years, because it was very voice-centric pricing. You had to buy a bundle of minutes; data you paid more for.
This kind of flipped the whole model saying, you know what, voice and data are now included in your bundle for unlimited and now you are really just going to pay for data. So it kind of flipped the whole model around.

We think that based on coming out of the fourth quarter and what we experienced throughout 2012 coming out of that quarter with 23% of our base on the Share Everything plan; the growth numbers that we put up. People are coming to Verizon because of the quality of the network, because of shared pricing; because of the flexibility that we give them, the lineup of handsets that we have.

So I think that the success for us, quite honestly, is just to continue to execute on that strategy, Brett, around being the best, most reliable network there is. The LTE network eventually migrating more over to VoLTE over the next two years, voice over LTE, so the progression of that network is key to the success in the wireless industry from our viewpoint.

If we jump over to the Wireline business, really what we have done here is we have really made investments in what I would call the platforms. So if you think about the consumer side of the house we have invested in the FiOS platform. Now we are about our eighth year into this; our penetration rates are starting really to accelerate. We have some markets in excess of 50% penetration rates with our FiOS product.

We are now shifting more into really concentrating on the broadband piece of that product, and the speed that the fiber to the home can give you we believe it can’t be matched with anyone. We have a superior product. We are starting to price that product more competitively in the industry.

So I think for the consumer side of Wireline it is around making sure that we continue to advance in the linear TV model with the fiber brand. Really give the speeds that customers want; being able to monetize those speeds.

So if you think about our copper-to-fiber migration, which we started last year. We did 200,000 homes; this year we are going to do 300,000. We move people from copper to fiber.

We price them at the same rate, but then we give them the choice to start to upgrade that speed from the 15 to the 25 to the 50. And what we are seeing is people are willing to pay for that additional speed, so we can monetize that fiber network more.

Then going into the enterprise side, what we are doing is we are looking at additional platforms. So if you think about -- we purchased Terremark. We bought Hughes Telematics, machine to machine. We are looking at using the FiOS backbone to deliver enterprise solutions. So really just investing in the platforms that we have today.

To answer your question from an overall perspective, I don’t think there is anything big that I need at this point. Could there be some little niche fit-ins, like a Cloud Switch to make the cloud work more efficiently? Maybe, but right now there is really nothing that we urgently need.

Really, it is around executing on the platforms that we have invested in over the last 10 years and bringing them into the forefront.

Brett Feldman - Deutsche Bank - Analyst

So it sounds like you are reasonably comfortable with the assets that you are operating right now. There is an asset you don’t own 100% of, though, which is your best asset, which is Verizon Wireless. It seems that the discussion has picked up again recently about whether there may be a route to getting full control over that.

I think you guys have said pretty consistently you are very interested in owning the rest of that business. And more recently we have heard things like you are able or it is feasible. I was hoping maybe you could give us a little more color on what you mean by that.
Fran Shammo - Verizon Communications - CFO
This is one I am getting tired of talking about. So I guess the news is there is nothing else to talk about. There is really nothing new here, so there is really no additional update.

I think what happens here is the press makes a bigger deal out of this than we do between the two partners and, quite honestly, there is really nothing else to report.

Brett Feldman - Deutsche Bank - Analyst
To someone who observes this it just seems that it is ultimately a matter of whether or not you and Vodafone mutually agree that it is time to do a transaction or not. And we like to put a lot of brain damage as to whether you would buy it in phases or all at once.

But is it really just a matter of you would like to and if you can both agree, it gets done? And if you can't, then I guess it just doesn't?

Fran Shammo - Verizon Communications - CFO
Well, I don't think our appetite in the last 12 years has changed. I think we have always said we would love to own their 45%. I don't think that changes, but at this point there is really nothing new to report.

Brett Feldman - Deutsche Bank - Analyst
So last question on it, just because the concept of feasibility has come up; for our own sake, as we do our own math here. Are there any boundaries -- you are an A-rated credit for example. Is there anywhere where you say, listen, I just wouldn't do a transaction that would result in a downgrade, or something along those lines? And you sort of set that as the outer limits and just stay within that and that is okay with you?

Fran Shammo - Verizon Communications - CFO
To be honest, I mean we really even haven't thought that far ahead because that is all hypothetical that you have a transaction in front of you that you can do. And, quite honestly, I mean we are not there.

I think the way I would say it is we are comfortable with our rating right now. Commercial paper is very important for us. We want to be an investment grade and probably one notch above investment grade because of commercial banks. So there are kind of the things that we worry about under our present state.

I don't think about that transaction and what that does to us.

Brett Feldman - Deutsche Bank - Analyst
All right, we will leave it at that.

Fran Shammo - Verizon Communications - CFO
Thank goodness.
Let's get back into talking about Wireless. I am interested to hear your view on the growth opportunity in Wireless, because if you take a step back and you think about the industry, for years it was a net-add game. It has increasingly become an ARPU story as you try to get smartphones into your customers' hands. You are more than halfway through that process now.

Can you talk about how you guys think about the source of growth in the Wireless business over the next couple years and what you are doing, whether it's Share Everything or any other initiatives you put in place to make sure you are best positioned for that?

Fran Shammo - Verizon Communications - CFO

So I think that, at least from the way we look at it, the net-add game is not over and I think that has been proved out with the Share Everything plan. So what we see our customers doing now and the way we design this plan was we were really enticing the consumer to add more devices without a lot of penalties.

So if you think about what happened in the fourth quarter, and you think about tablets, I think that -- I heard is 70% of the tablets that have been sold are just WiFi enabled or not connected to a network. What we have seen is when we launched our Share Everything plan we really thought that the uptick of tablet attachment would increase.

What has happened is the tablet attachment hasn't increased as much as we anticipated. I mean we are getting some of that, but really what we are getting is we are getting additional net adds on MiFi devices.

So if you think about the way the shared plan works, if you buy a MiFi card that MiFi card is attached to the Share Everything for $20 incremental access cost. But then you can run up to five tablets off that one MiFi card.

So the way we look at this is the plan is working the way we thought, maybe in a different device, but people are adding more devices, which is a net add. So if you think about that MiFi card or a dongle, or you think about the camera that we launched in the fourth quarter which was an LTE-enabled camera, that yet is another attachment to that Share Everything plan.

So the net add piece of it hasn't -- I would say we believe that net adds will continue to fuel growth. They won't all be smart net adds, smartphone net adds, but there is going to be additional devices that come through a net add perspective. So that is one.

As you attach more of these devices, what then happens is people have to consume more data to use these devices on the network. Then that is where the tiered pricing comes into effect.

So we look to add growth really coming from device attachment/net adds and people will have to increase their usage pattern, because of the LTE network, the speed, attaching more devices. Their profile of usage is going to increase. So we believe growth comes from really those two perspectives in the wireless industry.

Brett Feldman - Deutsche Bank - Analyst

And when you think about the source of growth even more specifically, you are now reporting the number of accounts that you have. Is it a general belief that you are principally going to be generating growth in data usage from people you already have billing relationships with? In other words, you want to grow revenue off the accounts and that is going to be much more important than, say, taking share away from other competitors?
Fran Shammo - Verizon Communications - CFO

Well, I guess in two phases. One is that we see that our current base of customers, when they converted over to the shared price plan they actually attached more devices. I can also tell you, though, that a new customer that is coming into Verizon is coming in much less than the average of what our normal accounts would have as devices. So on our overall base we have about 2.65 devices per account.

New customers that came in in the fourth quarter came in less than that average, but what we have seen as we watch those customers over the three- to six-month period they start to get up to the average of what our average base is. So they are attaching more devices. So I think the growth profile, again, for us is we will continue to take our share of the net adds, but we will also grow because of the devise attachments.

Brett Feldman - Deutsche Bank - Analyst

One of the reasons I ask is we are looking at some of the consolidation that is positioned to happen in wireless. And a common question has been do you believe that this industry is going to become more competitive?

Sprint is looking to accumulate a lot of spectrum and they will have a much stronger balance sheet. T-Mobile is hoping to improve their spectrum position and they will be launching the iPhone soon. Do you think there are incremental steps you need to take to ensure that Verizon can continue to grow in what may be a more competitive environment?

Fran Shammo - Verizon Communications - CFO

I think, first off, the wireless industry has been very, very competitive from day one. It has always been a very competitive industry.

Number two, is I think it is good for the industry that Sprint is getting additional investment. I think it is good for the industry that T-Mobile wants to merge with Metro PCS. I think that strengthens the overall industry.

As far as we are concerned, though, as we said back in 2011 when I first took this job is the most important thing for us to do is just to continue to execute on our strategy. Continue to build out LTE; make sure that we continue to lead the industry with the way we launched our shared price plan. That is really what is critical to us.

Now that doesn’t mean that we don’t watch our competitors every single day, because we do. But if you think about Verizon Wireless and how we compete, I mean there are certain areas that we just are not going to compete in.

So if you look at that very low-end base of all-you-can-eat on all this, our network was built not to support something like that. We are going after a customer who wants the best quality network that you can get and they are willing to pay that little bit of premium for that network. And I think that strategy has held pretty strong for us.

Now, as you do this transformation between 3G and 4G and you look at our 3G platform, have we become a little bit more aggressive in that platform? We have become a little bit more aggressive in the reseller space. We just launched new prepaid pricing here in February, which is a little bit more aggressive. As we saw others price down in the fourth quarter we kind of adjusted our pricing here in February.

So the 3G platform is where I can be a little bit more aggressive at times, but at the end of the day there are going to be areas and niches which I am not going to play in. But that is what our brand is built around.
Brett Feldman - Deutsche Bank - Analyst

Got it. Going to get a little more specific here and go back and talk about some of the guidance you provided on the conference call around the Wireless business. You've came out and you said what I think what a lot of people thought was a pretty interesting objective of getting margin somewhere in the 49% to 50% over the course of the whole year.

What gives you so much confidence that you can get 300 basis points of margin expansion this year?

Fran Shammo - Verizon Communications - CFO

Well, if you look back to last year, we increased -- we had 180 basis points increase, and that was with an unbelievable fourth quarter, a record quarter in growth. So I think you have to look at we grew 180 basis points last year even with that huge fourth-quarter growth.

But then you have to look at all the components I have talked about. You look at our growth profile and what we added last year. Those customers, all 5 million of them, will be on our network for a full year bringing contribution margin to us.

We continue to have the best churn in the industry. Our upgrade rate, we believe, will be a flat in 2013 than it was in 2012 so a lot of folks think that our upgrades are going to jump up away this year. We don't believe that is going to happen with all the policy changes we have made.

If you look at our cost structure, we have taken $5 billion worth of costs out over the last three years. We have another $2 billion bogey this year for Verizon Wireless if you look at shared pricing. So if you look at all of these things and you look back to the second and third quarter of last year, the second and third quarter of last year we delivered those margins. So I am very confident that we will be with 49% to 50% margins.

Brett Feldman - Deutsche Bank - Analyst

So when you talk about the upgrade rate, just to make sure that we have got the right data point here, you are talking about rate as like a percentage? In other words, the percentage of the base that upgraded will probably be similar to what it was in 2012. So you may have more upgrades, but that rate relative to the base is what you think is going to be a stable?

Fran Shammo - Verizon Communications - CFO

That is correct.

Brett Feldman - Deutsche Bank - Analyst

And you said you have some confidence there based on the policies you have put in place. You put an upgrade fee in; I believe that was over a year ago. You have had a 20-month upgrade period for a long time.

Is there anything incremental you have already done or are you considering making any additional changes that give you increased confidence or visibility around where upgrades are going to be this year?

Fran Shammo - Verizon Communications - CFO

We look at our policies pretty much every quarter, to be honest, but there is a fine balance here between a policy and what consumers expect from you. And that is a balance that we walk. It is a fine line we walk all the time, because you can't goes so far over and then have your churn go up, because then you have defeated the change of the policy.
So I think, Brett, I guess the way I would look at that is we look at our policies all the time. I am not going to sit here and tell you that we can’t make further tweaks, but at this point we are pretty comfortable with where we are and we will see where the future takes us. But where we are today we are very confident, again, that the upgrade rate will be flat. The percentage; obviously, the whole numbers will be up slightly.

**Brett Feldman - Deutsche Bank - Analyst**

We have kind of noticed, and this happened last year and you sort of alluded to it, that the seasonality became a little bit more acute. We have always had a seasonal wireless business, but what we saw last year with your business and we have seen for a few years with a couple of other operators is that 4Q becomes an increasingly big period for device sales. It has a corresponding impact on margins and then that kind of changes over again when you go into the start of the year.

Is it your expectation that we are going to continue to see this sort of amplified level of seasonality, and you think about that as you put together your guidance for the full year?

**Fran Shammo - Verizon Communications - CFO**

Well, I think, look, the trend won’t change. First quarter is always the lowest quarter of the year and then we ramp from there. The fourth quarter is always the highest quarter of the year because of the holiday season.

But this past fourth quarter you had a couple -- you had really one thing happen that never happened before, especially with Verizon Wireless, and that was for the first time ever, because of the iPhone 5 launch, we had the 4 at free. So it was the first time ever you could get a free iPhone on the Verizon Wireless network.

So that produced a lot of volume for us. We had a lot of new customers come into Verizon who took that free phone, and that was great for us because again if you think about -- we sold a lot of LTE product in the fourth quarter. We sold a lot of 3G product from the iPhone products in the fourth quarter.

But that is key for us, because if you think about our two networks it is important for me as I migrate people into the 4G network I still have this very large 3G network that operates very efficiently. We are not investing any more capital in that network other than to keep it up and running, so no more coverage capital, no more capacity capital. If I can keep that network up and running that just generates more contribution margins for us.

So it is critical for us to balance that. But, again, I think you had one point in time where you had a free phone, a free Apple phone that never happened before with us and that generated a lot of volume.

**Brett Feldman - Deutsche Bank - Analyst**

Got it. Just sticking with some of the seasonality, I mean it would seem then that as we go into the early part of the year we would seem a normal deceleration in net adds and a level of EBITDA margin generation that should give us a lot of comfort that the target for the full year is within sight. Is there anything else early in the year that would disrupt that?

**Fran Shammo - Verizon Communications - CFO**

No.
Brett Feldman - Deutsche Bank - Analyst

Good. Thinking about subsidies a little bit; that is the whole reason we spend so much time talking about upgrades. What is the big view that you guys have on where subsidies are headed? And what kind of analysis can you do to give yourself comfort that they may be going up or down or staying stable?

Fran Shammo - Verizon Communications - CFO

I think that the -- for 12 years we have been in the subsidy model here. I look at it as it is just one line of my P&L. It is a big line and we have to manage that line. But I look at it this way, from an ecosystem perspective we really have had two operating systems.

You now have brought in a third operating system with the Windows phone launch in the fourth quarter of this year. So now you have three operating systems. You have Blackberry coming back into the market this year, so now you will have four operating systems.

And I have said for the last 18 months that it was important for the industry to get more competition within the operating systems. So I think as you watch this ecosystem -- and there is others that are looking at maybe creating their own operating systems now. So if you look at this ecosystem the more operating systems you have in the ecosystem inherently the more competitive that system becomes.

I am a true believer as these operating systems start to really take hold, and I think the Windows one will, I think Blackberry will come back into the market, then you are going to start to see more competition which leads to lower prices. So I think it is going to follow the same way that I watched the basic phones come over time. I think smartphones will do the same thing.

So I am a believer that over the next two to three years subsidies will start to decrease just because of the ecosystem. Then, for us, I think -- for Verizon Wireless one other important ingredient for us is obviously we are investing in all this LTE technology. We will ultimately get to voice over LTE, probably end of this year, beginning of next year.

Then if you look out into late 2014 then you start to think of things like, okay, so now I can start to take the CDMA chip out of the phone and just have a pure LTE handset. That also starts to reduce subsidies. So over the next two to three years I think we will start to see subsidies come down.

Brett Feldman - Deutsche Bank - Analyst

If we look at what the mix has been of your devices, in 2012 53% of the smartphones that you sold where iPhones. It was 44% the previous year. Obviously, it is a newer device so it makes sense it would be ramping in the base.

We look at the iPhone as being the most subsidy intensive device, and so the mix kind of says that the average subsidy is getting a little heavier for you. Are there things you can do with your salesforce where you would proactively incentivize them to maybe sell different devices in order to manage that?

Fran Shammo - Verizon Communications - CFO

The answer is, no, we don't and it is critical that we don't do that. The reason for that is because what is more important for us is when a customer walks into a store that customer walks out with a phone that they will be happy with and not return under our 30-day guarantee.

Because the worst thing that can happen for us is for me to incent a salesperson to get you into a phone that you walk out the door with thinking you are going to like and in three days you come back because you don't like it. Therefore, now I've just subsidized two smartphones because that phone you used I can't resell as a new phone.
So what we incent our salesforce is to make sure that they are educated on the phones in the front line, make sure that they can talk about the
differences between the phone, but, ultimately, get that customer in a phone that they are going to want and enjoy and not bring back. So we
actually incent them on price plans, not on handsets so every handset is treated equally within our lineup. And that is important to us.

Brett Feldman - Deutsche Bank - Analyst

Got it. I am going to shift gears a little bit and switch over to the Wireline side of the business and talk a little bit about some of the guidance that
you have offered there. You have most recently been talking about margins in that business coming in stable this year.

Can you talk about some of the puts and the takes; what is creating some operating leverage in the business and maybe where you are seeing a
few of the headwinds this year?

Fran Shammo - Verizon Communications - CFO

Yes, so I think first we start with the consumer side of the house. Obviously, number one we entered into a new union contract that we've settled
in August of last year. I said that that would bring about $250 million of benefit this year and ramp up to $500 million over the next three years.

But offsetting that is that because of the low discount rate there is some impact of pension expense going into this year, so there is a little bit of
headwind there. But, overall, from a consumer Wireline perspective, and really around FiOS -- FiOS now will be almost about 70% of the revenues
for the consumer side -- our access line loss continues to decrease.

As I said, we are starting to monetize the FiOS network more through speed of the Internet. Our content costs are growing less than the rest of the
industry. We are growing content around 3% to 4%. Our competitors are around that 10% range, so there is a lot of things working in the FiOS
favor. FiOS this year on the consumer side will actually increase margin, increase profit.

Offsetting that, though, is we have made a lot of, if I will, strategic investments starting in 2012 that will actually be a drag on us in 2013. So number
one is the Redbox joint venture. That is a start up. We have been carrying a lot of startup expenses on that so that puts pressure on the bottom
line.

That will commercially launch, that will start to generate revenue in 2013, but it is best breakeven this year. Next year we believe that that will start
to turn profitable for us.

If you look at our Verizon Digital Media Services, which is really our content delivery platform that we have been building for the last three years,
that is continuing in its startup phase. It is coming to the end. We will commercially launch that midyear.

That will start to generate some revenue this year, but still not be a profitable segment. We believe that that will turn profitable in 2014 as well.

If you look at the Hughes Telematics platform, which is the machine-to-machine platform we bought, Hughes Telematics was a public company. They
were losing money when we bought them. They will continue to lose money through 2013.

Now part of that is because we are actually adding resources in that portfolio, because they have signed some major contracts that will be announced
here over the next several months and we need to build the force to be able to support those types of contracts. But what we do see is that they
are accelerating and they will also turn profitable in 2014.

So you have a little bit of headwind on things that we are making quick investments in that will turn in a period of 12 to 18 months and start to
contribute to that margin in 2014. And that is where I see the margin expansion.
Then just the general over economic flow of enterprise. I know some folks have been talking about they seem to think that things are getting a little better. I don’t think things are getting better. I think at best we will be flat.

I think there is still way too much uncertainty around Washington. Now we have got sequestering; we can’t come to an agreement. We have got the debt. We have got tax reform. There is too many things still floating around that cause uncertainty in that enterprise environment.

So until jobs start to really pick up and people start to feel confident that things are settled in Washington, I think we will be flat at best. So when you put that all together I think this year we are looking at a flat Wireline margin.

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Brett Feldman - Deutsche Bank - Analyst

All right, so you gave us a lot of good color there, so let me see if I can summarize a couple of these points. With regards to margins in particular, you talked about the union contract that is a benefit and it is one that should actually get better for you as time goes on. So that is a recurring and growing benefit to margins.

You talked about the continued scaling of FiOS in consumer revenues. The mix there continues to become more favorable. It seems that the revenue trajectory should become more favorable; that would be a recurring and growing benefit to margins.

Pension I guess is a one-time reset. You kind of take a knock down this year, but it’s at a new level. Maybe it could stay there, depending on what happens with interest rates; that doesn’t change.

Then the three real headwinds that you outlined, Redbox, I think you said Digital Media Services as well as Hughes Telematics, these are essentially choices you made to invest in growth areas which compressed this year, but your visibility is that they become accretive next year. So adding that up this is sort of why you feel confident that after this year you are back on a path to margin expansion in the Wireline business?

Fran Shammo - Verizon Communications - CFO

That is correct.

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Brett Feldman - Deutsche Bank - Analyst

And to my point, the real pressures are choices, right? You have talked earlier in the presentation that you don’t think there are a lot of assets you really need to bring into the Company in size. It would sound that, even if you make more investment choices next year, some of these recurring benefits should be big enough that you really think your confidence in improving margins over time that your visibility there is getting better. Is that a fair conclusion?

Fran Shammo - Verizon Communications - CFO

That is a fair conclusion. I am very confident that we will start to expand Wireline margin in 2014.

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Brett Feldman - Deutsche Bank - Analyst

What about on the CapEx side of things? You are near the tail end of the FiOS build. Are there any other projects where you would want to make an investment? As an example, AT&T has talked about connecting 1 million business customers to FiOS. That is something we haven’t thought about a lot.

Do you have a big Wireline initiative that you would have two make in the enterprise space from a CapEx standpoint?
Fran Shammo - Verizon Communications - CFO

No, we don't believe so, Brett. I think that the path we have taken is -- and I have said that our 2013 CapEx plan right now is flat with 2012. I said that in 2012 flat with 2011. So we are on a progression that we want to be flat investments.

Now, that doesn't mean that we are not doing strategically the right thing. So if you -- let's just start with the consumer side in enterprise. So we bought Terremark, we bought Hughes Telematics, we bought CloudSwitch, so we are investing in those strategic assets. Which means we are taking away from some of the legacy products, like TDM and frame and some of these other things that we are no longer investing in.

If you look at Wireless, last year we were really still building two separate networks. We were investing in 3G, we were investing in LTE. Now 3G is done, so all those dollars we were investing in 3G a year ago have been reallocated into the LTE platform. So strategically we are actually investing more in our strategic platforms than we were a year ago, but managing that capital plan is critical to us. So flat capital and our whole goal is to improve our CapEx to revenue ratios.

Brett Feldman - Deutsche Bank - Analyst

Got it. The whole reason that we ask these questions about margins is we are trying to get to earnings per share forecast. And so it sounds like flat margins, flat Wireline EBITDA margins is what you are operating the business around this year, but really we are looking for profit contribution that it goes all the way down to operating income.

How do you think about profit contribution? Do you think that it should be flat versus 2012, or do you have some visibility that when you take into account revenue trends and depreciation and amortization and the other inputs that maybe it would be accretive to your earnings per share this year?

Fran Shammo - Verizon Communications - CFO

Well, I think that -- on the fourth quarter I didn't give specific earnings per share guidance. I'm not going to do that today. What I alluded to was last year in the first three quarters we grew by 15%.

I think if you look at everything, though, you have to look at all the components of what goes into earnings per share. The one headwind we have below the line is our Omnitel equity pickup. Last year that costs us $0.04 to $0.05. That actually could be more this year, given where the Italian environment is and the headwinds that that partnership has and the very competitive environment it is operating in.

So when you look at all that you have to draw your own conclusions. But I would go back to and say the first three quarters of last year we grew at 15%.

Brett Feldman - Deutsche Bank - Analyst

So the real key components here of earnings drivers are your objective of getting 49% to 50% in Wireless, stable margins in Wireline, and maybe a small incremental headwind coming out of Omnitel. And we can do our math that those are the inputs in our formula.

Fran Shammo - Verizon Communications - CFO

If anybody needs help with their models, let me know.
Brett Feldman - Deutsche Bank - Analyst

Okay. We need some help with our models, but --.

I am going to move on to an even more painful topic which is cash taxes.

Fran Shammo - Verizon Communications - CFO

Oh, gosh.

Brett Feldman - Deutsche Bank - Analyst

It only gets worse. The reason we bring it up, though, is that we have seen that the benefits of bonus depreciation are kind of hitting the tail end. This is the last year where you are going to be able to shield a meaningful amount of your CapEx from a tax standpoint.

Some other operators in the space have already started adjusting dividend policies based on an understanding that cash taxes go higher. Your cash taxes, as a percentage of your net income, has been like one-third over the last couple years. How do we think about modeling cash taxes for your business over the next couple years?

Fran Shammo - Verizon Communications - CFO

So I think this is an important conversation. I get this question a lot around cash taxes.

First off, bonus depreciation is just one component of an extremely complex tax structure within Verizon. But I will tell you than bonus depreciation was actually a drag on us in 2012, so we actually had a large reversal of bonus depreciation and actually did not get as much benefit. So we actually did have a cash drag in 2012 from bonus depreciation, so it is already reverting itself.

Now they did extend it another year and I said last year I think it will be extended a year. I think that something will happen this year, I can’t tell you what, but either we are going to get some type of tax reform that benefits service-type companies or we are just going to kick the can down the road again and get bonus depreciation. I think it is too soon to tell.

I would tell you that, given the complexity of our structure, we think about this two, three, four years out. We have strategies that we deploy, so at this point I don’t see a huge issue around income tax. We currently today, with all taxes, pay around $4 billion a year.

So I don’t see that number changing in 2013. We will have to see what happens in 2013 going into 2014, but right now I am not real concerned over cash taxes.

Brett Feldman - Deutsche Bank - Analyst

As you guys think about cash distributions, particularly coverage ratios on dividends, one of the questions a lot of investors have been asking related to the dividend changes in the sector is how does the Board think about it? In other words, do they say we are looking at a payout of this year’s cash flow and if this year’s cash flow benefits from low taxes then so be it?

Or do you have a three-, five-year horizon where you say, listen, the full cash tax rate is 35%; we want to make sure the dividend is sustainable under that type of scenario as well?
Fran Shammo - Verizon Communications - CFO

Obviously we do a lot of modeling, but at least for Verizon, the dividend policy is extremely important to us. A consistent policy is extremely important to us and our Board. I mean obviously and ultimately a Board decision.

But, look, coming out of 2012 I was very confident in our cash flow. I actually said that we could start buying back shares now; we didn’t have to wait till the end of 2013 so that gave a signal that I am very confident in our cash flow. If you are asking me that -- is our dividend under any type of pressure, the answer is absolutely not.

Brett Feldman - Deutsche Bank - Analyst

Got it. Well, I want to make sure we have time to let people out in the audience ask questions. Raise your hand; they will bring a microphone over.

We have got a couple of minutes left, so please take advantage of it. Otherwise, I will keep asking questions about cash taxes. We have one in the back over there.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Thank you. Could you comment on what you think the dividend policy will be regarding Verizon Wireless?

Fran Shammo - Verizon Communications - CFO

There is no dividend policy at Verizon Wireless. The only understanding of the agreement is that once a year the dividend will be addressed in December. So if you go back to 2012, we dispersed $10 billion in January of 2012, which was really declared back in July of 2011 and paid in January. Then this past December we actually did another $8.5 billion of distribution.

So the way it works is within the joint venture each quarter there is a income tax distribution made to both partners to pay their income taxes. Then, of course, I think you are alluding to the special distribution which is only addressed once a year in the month of December.

Brett Feldman - Deutsche Bank - Analyst

And just to clarify on that, the agreement is you have to talk about it at least once a year. I guess you could presumably choose to talk about it more often, but that is the agreement; you have to talk about it once a year?

Fran Shammo - Verizon Communications - CFO

That is correct.

Brett Feldman - Deutsche Bank - Analyst

Do we have any more questions out in the audience? We have one over there in the middle.
Unidentified Audience Member

I just had a quick question about content costs. You talked about inflation for you all running roughly 3% to 4% versus some competitors closer to double digits. Just curious if you could touch on a couple elements you all are using to keep that rate so low and how you see that possibly trending over the next few years, whether you are going to get closer to where your competitors currently are. Thanks.

Fran Shammo - Verizon Communications - CFO

Sure. It is a great question, but you have to remember back when we launched FiOS seven years ago and came into market for content providers we had no leverage in the content market. So what happened was when they gave us our price per subscriber we were on average 30% to 35% higher than any other player in the marketplace.

Now what has happened is as FiOS has become I think now the fifth largest cable provider in the US, we now have leverage. So what we are saying to the content providers is we are bigger than some of your other players and they have less cost and content than we do, so that doesn't make any sense.

So what has happened is, obviously, they are not going to say we will give Verizon a price break. What they have done is they have said, okay, we are going to only take your content cost by x percent. Meanwhile the competitors are going, as you see, double digits. At some point that gap will close and we will eventually be paying the same amount.

So it is just a fact that I have been paying much higher rates in the past and now that gap is closing. And that is really what it is.

The other factor too is since day one I have been paying retransmission fees. Many of the cable providers have not, and that just started back in, I think, 2012 so that also has equalized as well.

Brett Feldman - Deutsche Bank - Analyst

Still bringing microphones around if you would like to ask another. We have just a few minutes here left. I am going to ask a question on spectrum.

I think you guys have been on the record as saying you feel reasonably comfortable with your spectrum position for the next four to five years. Could you help us understand what gives you that confidence? And I am just curious, can you clarify does that factor in an assumption you will refarm any spectrum in that four- to five-year period of time?

Fran Shammo - Verizon Communications - CFO

Yes, Brett. Well, first off, we think we have an extremely efficient portfolio of spectrum as we launched our LTE network over our 700 megahertz contiguous footprint. And then we are overlaying AWS.

You have seen us in the marketplace; we have done some swaps with other players. We just recently entered into an agreement with AT&T to sell them the B in exchange for a couple of the AWS licenses they had. So our sweet spot is the 700 megahertz contiguous, AWS, and as you said, we also have the ability to refarm our 3G spectrum into 4G spectrum.

So when I say four to five years that does include some of the refarming activity that we will do.

Brett Feldman - Deutsche Bank - Analyst

Then I guess the anticipation would be within five years, hopefully, the government is able to conduct an auction that you might be willing to participate in?
Fran Shammo - Verizon Communications - CFO

Yes, absolutely. We are hoping that it’s sooner than that, but any auction obviously -- as I said, spectrum is not an unlimited resource and that when it comes up you have to be opportunistic to take it, because it normally only comes up once. So that is important for us to be able to participate in that auction.

Brett Feldman - Deutsche Bank - Analyst

There is someone out there with spectrum right now which is Dish. You said that they are looking for a network partner. They have been open about that. What are your thoughts on entering into a spectrum-sharing relationship with Dish?

Fran Shammo - Verizon Communications - CFO

Right now, and I just speak really just for Verizon Wireless, with the frequency that that spectrum is at it doesn't fit well within the frequencies of our portfolio. Now that is not true for others, but for us it is not real utilization of spectrum for us because of the frequencies it is at.

Brett Feldman - Deutsche Bank - Analyst

Is that because, based on the amount of excess AWS you have today that you can advantage of, it is not worth incurring the costs and chipsets and network to add that incremental band into your network?

Fran Shammo - Verizon Communications - CFO

Yes, because as you think about -- and I am certainly not an engineer, but the way I understand it the more frequencies you get in your network the more complicated the phone becomes, the more expensive the network is to maintain because of all the different frequencies you have to get to work together. So the frequency of that spectrum just does not fit within our portfolio.

Brett Feldman - Deutsche Bank - Analyst

Okay. I'm going to give everyone a last chance here to ask a question before we thank Fran for his time, because we've just about run out.

All right, Fran. Appreciate it.

Fran Shammo - Verizon Communications - CFO

Well, enjoy the facilities everybody. Thank you.