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VZ - Verizon at Citi Internet Media & Telecommunications Conference

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(audio in progress) easy thing to say it was a very busy year for you last year. And during the course of last year, you talked about the most important strategic priority for the Company was addressing the minority ownership of Verizon Wireless. You have made some real progress and about to work that through pending some approvals. Maybe you can give us a sense now looking into 2014 what your key priorities are and maybe predictions for the year?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Okay, good morning, everyone, those of you that braved the cold in the Midwest and the East to get here, thanks for coming and our IR folks would like me to reference the Safe Harbor. Last year, we issued an 8-K after our little fireside chat with Mike, so we'll avoid that this year.

So last year at this conference is when we talked about trying to get something done with Vodafone and we thought we could get it done and we, I think, crafted a real win-win for the Vodafone shareholders and the Verizon shareholders. Obviously, our number one priority this year is getting that done. We've already announced our shareholder meeting, which is later this month. Vodafone's will follow. They have their court process that they have to go through to get their approval, but we still feel that first quarter for sure we should be through the process. So we're excited about doing that.

Then 2014 is really about momentum for us. We can't talk about fourth-quarter results here, but through third quarter on wireless, very strong subscriber growth, but also top-line revenue growth. The Share Everything plans we put in place, the greater penetration of smartphones, we're seeing tablets take root now finally. So wireless is -- the core business is moving forward very strongly. We see lots of opportunities here in areas like machine to machine and video.

As I've said in other conferences, we're going to be broadcasting the Super Bowl this time. It will be the first time that happens, so we'll demonstrate the demand for sporting events, live sporting events over the mobile environment. So wireless is in an adding mode. It is continuing the core, but adding these sorts of new services on top of it.

We saw very good growth in our consumer and mass business side through third quarter. We're pleased with FiOS growth in particular. Fourth quarter, the cable companies did come back and where they were fairly aggressive on the promotional side, but overall I'm pleased with FiOS penetration and top line. We saw 2%, 2.5% revenue growth. And as Fran and I said, this year, our target was stabilizing the wireline margins. We did that and our goal in 2014, which we think is achievable, is beginning to expand those margins.

The enterprise side is still a tough business. I think anybody that you have up here is going to tell you that we're the number one provider to the federal government and with everything going on with sequester, etc. around the budgets, the federal government is tough. But we have used this time to retool our business. Just one example of that, we have redone all of our provisioning processes and through the end of the year, over a quarter of our orders now are flowing through this new process, which took what literally was weeks to provision a service down to minutes to provision a service. So we expect to see, when that market turns, the basic efficiency of the organization will be so much better that that will help us expand the wireline margins.
So if I put it in a nutshell, Mike, I'd say the 2014 priorities for us are about momentum in our core operation and then layering on the solutions that we see out there. And I am sure we'll talk more about that on strategic services and things like that.

Mike Rollins - Citi - Analyst

Just starting at a high level for the industry, one of the interesting observations is that bit growth, volume growth in the industry in 2013 was around 30% according to Cisco VNI. Revenue growth by our estimate in the industry was only around 2% and actually less if you take out some of the wireless equipment revenues. So first question on this is that, as a carrier that prides itself on delivering high-quality bandwidth, does this bother you that revenue growth is not closer to where volume is?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, I think that has been a phenomenon in the industry for a long time. If you go back to when we were just a voice business, we saw the volume take off on voice and the price per minute went down dramatically. And so I don't think, in our business, you've ever seen the volume and the revenue track in the same sorts of margins.

In the same timeframe though, we have been able to make the networks much more efficient. Look at the difference between analog and CDMA, CDMA and EV-DO, EV-DO and LTE now. And if you look across that same period of time when we launched Verizon Wireless, I think our margins were in the low 20s. Now there in the high 40s and we're confident we are going to deliver what we said we would deliver for the year. So if our profitability was going down as the volumes went up, I'd be worried, but the volumes are going up, our profitability is going up. So I think the phenomenon is just one of the technology lifecycle curve.

Mike Rollins - Citi - Analyst

Now one of the other interesting things is your rate plans, especially in wireless, are now positioned to try to get paid as customers use more bandwidth. Are you seeing customers start to change their behavior and be willing to pay more for bandwidth?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, I think we are. I mean if you look at the Verizon Wireless, revenue growth was 8%, 8.5% over the year and we have had that tiered pricing in, and I know there is a lot of discussion about is the industry going to have to go to unlimited. I think the physics of spectrum and network management is that the industry will go to tiered data like Verizon and others are today.

So I am comfortable that people are stepping up and paying for it. That is one of the things we track very closely. And our price plans are set up now so that it is easy to attach more and more devices to your account and therefore people will see the value and will use those services. So I think we have already proved that, Mike.

Mike Rollins - Citi - Analyst

You talked -- you referenced earlier, but you talked in the past about trying to expand the total addressable market for Verizon by adding applications or layers of services. Can you talk about your vision about how far-reaching this is for Verizon? Where do you take this idea?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, there is a couple of areas. I think video and converged services is a huge opportunity for us. If you look at our assets, to have the FiOS service that we have with 5 million customers and another more than 5 million broadband customers and you look at LTE across the nation and you look at
our content relationships, we are a very logical person to be able to take that and make it seamless across the different technologies. And so I think that's a huge opportunity for us.

The other one, and you see it here on the show floor, I mean everything is about mobile and everything, whether you are talking about wearables or you are talking about healthcare or you are talking -- there was a big announcement on auto yesterday, all of those great innovations have mobile at the center of them. And if you peel back the top layer, you'll actually see that they will have cloud associated with them and in areas like healthcare and others, they will have security associated with them.

So I think we're in the position to be the core transport company where that makes sense, but also provide the platforms like our video platforms that others can tie their applications into where that makes sense and then there will be a few places where we will actually provide the solution ourselves. But we view ourselves as facilitators for many of those solutions providers.

Mike Rollins - Citi - Analyst

So one more on vision. So if you could design the Company from scratch, how would you want the mix of assets to look once you gain full ownership of Verizon Wireless and as you think about what that vision would be if you had that blank piece of paper, do you now have the financial flexibility to get closer to that vision?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, let me take those in reverse order. I think as Fran and I said when we did the Vodafone deal, we felt like we had the flexibility to do sort of tuck-in, that is sort of the generic term I guess for these small sorts of acquisitions. So two examples, we did upLynk and we did EdgeCast as part of our Verizon Digital Media service platform. That will allow us to accelerate video transport. We do a lot of Web support through EdgeCast. So those are the kinds of things that sort of round out the portfolio. And we think that we have got plenty of firepower to do those sorts of things. We don't feel like we need to do big acquisitions.

So now why do I feel like we don't need to do big acquisitions? If I -- I love to come to this show because you get a chance to see sort of the five-year vision. And as you walk the floor, it's all about mobile and it's all about video. And as I've mentioned earlier, you wrap that with a lot of cloud service with some big data analytics and the security -- security is probably the hottest thing we have going in our portfolio right now. So I really like those positions and I don't feel like, other than those smaller acquisitions to keep those robust, I don't feel like there are a lot of things I need to do.

There are some things, Mike, that I've said I call it sort of pruning the limbs of the tree. We're stopping a lot of products. We're increasing our focus on certain market segments within enterprise. I don't think we can serve every segment of enterprise as an example and we would consider shutting some other nonstrategic assets, especially on the wireline side, if the right mix came about.

Mike Rollins - Citi - Analyst

Are there more opportunities for that today to maybe shed some of the non-core wireline assets?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, I think there are. I mean you saw recently the AT&T sale of Connecticut to Frontier. There's others -- there's other opportunities out there for things that aren't -- I don't think you are going to sell New York, but there are opportunities for the others. And we are not going to rush into anything. If something makes sense, we will do it, if something -- if it doesn't, we will continue to operate those.
Mike Rollins - Citi - Analyst

You're approaching your shareholder vote for the Verizon Wireless transaction. How should your shareholders assess the success of this transaction if we're one year from now or three years from now?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, well, so far, I think the shareholders have been very positive about it. As we said when we announced, we'll see 10% EPS accretion on day one and we are not forecasting out, but lots of folks like you are, that say that may be conservative and it will grow over time. So I think that our job is to make sure it grows over time. So our view is we're not just about what the business we are about today.

So the success of this, in my view, is continue the financial performance that we've delivered, but also be able to deliver those incremental solutions that I talked about previously. Five years from now, if we're just a wireless company that we are today then that hasn't been as successful, even though financially it will be successful. What really makes this the home run is the ability to leverage every asset Verizon has and provide new services to the customer that they aren't looking for today. To me, that is the home run.

Mike Rollins - Citi - Analyst

So a couple observations if we shift to spectrum. The industry, including Verizon, talks about the need for more spectrum and then when we look at Verizon's spectrum, because of your success on the subscriber side, you actually have the lowest amount of spectrum per subscriber if you make a ratio out of that metric and if you focused on the postpaid customer side of the equation. And so given your aspirations to continue network leadership, can you just help reconcile your interest in spectrum, the density of customers you have relative to spectrum and then some of the decisions that you have made of late to actually sell lower frequency spectrum to your competitors?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, I'm glad you point out because there was this discussion for a while that Verizon should be kept out of auctions and that sort of thing because we had so much spectrum. On an absolute basis, we are 3 out of 4. In any measure of efficiency you look at, we're way ahead of the rest of the competition.

Now the way we have gotten there is we've been very careful that the network and the handset through the spectrum is harmonized. And the way I think about this is it's like building a birthday cake. You want to have a big foundation that covers the whole US and we have that with the 700C. Then the next layer up where you need capacity, you go to the 850, you go to PCS and then ultimately you go to AWS. And that is the way we have constructed our holdings and that is why we can be the most efficient and have the best network experience for our customers.

So when you look at spectrum like the A block and the B that we sold previously to AT&T, it wasn't contiguous enough, it didn't cover enough of the US to go into that sort of tiered structure and have it be efficient. In this case of the announcement that we made the other day with T-Mobile, we were able to get AWS from them, which fit perfectly into that tiered structure. We were able to give them the As in this case, which worked well for them.

So one of the things I have advocated with Julius Genachowski and will be advocating with Tom Wheeler is to let the secondary market work efficiently. And you are seeing spectrum move around now and get into the hands at least of the main operators that are putting it to good use. So they should facilitate that and then get additional spectrum through the auction process as quickly as we can.

So we will participate in the next AWS auction. I mean we will participate in any auction that comes along, but we are always going to make sure that that spectrum harmonizes with what we have in our base.
Mike Rollins - Citi - Analyst

Should investors be surprised that you didn't participate in the upcoming PCS auction?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

And again, it is all about how all this fits together and we didn't feel that that fit the way we'd like it to and we see some of the AWS coming up as a little bit better fit. So I think, Mike, what you have seen from Verizon over the years is we don't put ourselves in a position where we get behind the eight ball from a spectrum perspective. We are well-positioned through 2017 and 2018. We see these other auctions come. We will do what we need to do to make sure we have got a good inventory of spectrum, but we are going to be disciplined about it.

Mike Rollins - Citi - Analyst

And then just one more on this. If you look at the growth of traffic down to the user with video and the variety of applications that they are using, is this affecting the way in which you look or value downlink spectrum or how you are trying to shape your portfolio over time?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, well, I think shaping it is the right way to think about it because you've got the whole portfolio of applications. Some need more uplink, some need the balance, some are going to need more downlink. And I think it will shape video and the growth of data will shape the way the spectrum looks over time, but it is not the kind of thing I feel like you have got to run to one side of the ship really quick and start overloading on downlink spectrum.

Mike Rollins - Citi - Analyst

So under your leadership, you have created some innovative collaborations, some of which have moved on, some of which are ongoing. How do you look at this going forward in terms of the ways of building more revenue opportunities for Verizon?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, the thing that, Mike, I think we came to terms with in 2008 when the C block was on the market and it was the, quote, open spectrum was that the business was going to get so complicated and have so many applications that you really couldn't have the walled garden. It didn't make any sense for our investors, let alone subscribers. And so seeing what all these application stores can bring to market has really been a tremendous opportunity for us. That is what has helped us expand our margins.

So we've invested in these innovation centers, one in Waltham, Massachusetts, one in San Francisco that just opened. We've got a group in Palo Alto now that is working with the VCs and this afternoon, as an example, we're going to be hosting the winners of our Powerful Answers Award, which we did last year. It is $10 million of awards for innovative applications that are in the areas of healthcare, energy and education. And those awards are amazing. Tomorrow, we are going to actually give the $1 million awards out.

And so I think what is best for us as a company and best for our shareholders is if we are the place that people go to to innovate, that we make it easier for them to get those applications on our devices, on our network and as we say all boats will rise together. So as you said, they all don't work. I wish we had a greater track record than we do, but I think it is important for us to be out trying to innovate and it takes a lot of partners to innovate in this ecosystem we're in.
Moving over to the wireless industry structure, the management team at recent conference appearances seems to have recently embraced the construct of four national competitors and within this context, I'm wondering if you think it's sustainable to be able to charge for data consumption in an environment where two of your competitors are offering unlimited service to some smartphones?

Lowell McAdam  - Verizon Communications Inc. - Chairman & CEO

Yes, okay, well, there's a couple of different questions there. Let's deal with the unlimited first. Just in a world where there is a finite amount of spectrum and in a world where you see video exploding and you talked about the volumes of bits on the network, how can I keep servicing incremental bits and not get any incremental revenue. I don't know any spreadsheet that works. Maybe somebody in the audience can help me with that, but eventually unlimited has got to go away. It's just sort of a fact of life.

So now onto the industry structure. I think Ivan was always very clear about healthy competitors make for a healthy industry. And I think we've -- that is infinitely logical to me. So if you have competitors that are on the verge of bankruptcy, they are going to have to do crazy things to stay afloat.

So I think having four or even three -- I mean I'm not afraid of three if you want to talk about that, but having healthy competitors gives some healthy innovation. And even if you look at the price -- the installment plans for handsets, that has actually been great for customers and great for the industry and T-Mobile decided to take that plunge and AT&T and others followed very quickly and it's a good financial thing for our shareholders and it's good for customers.

So I think that sort of healthy competition is a good thing as opposed to what you see in Europe, which has a very heavy regulated hand and everyone has gone -- no one is investing and everyone has gone down. The price is the only competitive tool. So I think that is an example of an unhealthy ecosystem and the US could be and should continue to be a healthy example.

Mike Rollins  - Citi - Analyst

Two follow-ons to that. First, since you brought it up, on the idea of the industry getting to three national carriers, do you think that is something that the regulators would allow where there is a path for the industry to get there, whether it's with conditions or some sort of remedies?

Lowell McAdam  - Verizon Communications Inc. - Chairman & CEO

Yes, well, I don't claim to be in Tom Wheeler's head on this stuff and we'll have to see. I do think past regimes were trying to set it up as four and I think they are beginning to see some of the things that they were hoping to see out of four. And my guess is they are going to want to play that hand out. Since we're here in Vegas, we can talk that way. They are going to see if -- they are going to want to play that hand out for a couple of years and see what happens. But if it happens, that is fine. I will look forward to all the spectrum that will be divested from that group because they'll have so much extra.

Mike Rollins  - Citi - Analyst

The second question, and we've gotten this question ourselves, so I'll ask it back to you is if you think about the purchase price for Verizon Wireless, is there part of that which is an implicit premium to not be in Europe, to not have bought all of Vodafone as part of that process?

Lowell McAdam  - Verizon Communications Inc. - Chairman & CEO

I don't know. I mean you could do a spreadsheet analysis and come up with it every way you want to, and my view is when you can say I'm going to take $130 billion, I'm going to buy out 45% and I am going to be 10% EPS accretive on day one, I don't think you paid a premium for not being in Europe.
And I get asked the question a lot and Vittorio and I talked a lot about merging the companies together and I think the good -- Vittorio and I have a great relationship and we looked at core competencies of the organization and our ability to go in and operate with the same model that we have been successful with in the US and the highly regulated model that they have in the European environment, we didn't think the core competencies matched up.

And I continue to talk regularly with Vittorio. I think he has got some great ideas on how to take some of the proceeds and strengthen his company and I certainly know that we are going to be strengthening our Company. So I think it is going to be a win-win for both of us.

Mike Rollins - Citi - Analyst

Coming back to the competition side in wireless, there is a contrast in the wireline model where you charge for data speeds and in the wireless, you charge for consumption of megabits or data bits. As you look forward, do you think wireless looks more like wireline and you start charging for different levels of speed or does it go the other way and wireline is looking more like wireless and you charge for consumption?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, Mike, that's an interesting topic. The technologies are fundamentally different though. If I look at it from a FiOS perspective, the fiber can -- I mean it's almost an unlimited pipe. You can just change the electronics on the end and it works pretty well. LTE is really designed, and I don't want to act like I'm an R&D engineer, but I've talked to the folks about it a lot, it's really designed for that 8 -- 5 to 8, maybe to 10 megabits of throughput. That is where it is optimal and when you try to push it so much harder on the speed front just to make that claim, you are inefficient in how you manage your spectrum.

So if you start doing tiers, you could do below 5 to 8. I mean I am not saying it wouldn't happen, but I think because they are fundamentally different technologies, I don't expect the paths to merge for any particular reason unless something in the market really drives it that way. And so far, I think customers are pretty happy with their speeds. It's a commonly thrown around term that once you get over 300 kilobits on a mobile device, customers can't really see the difference and the refresh. So something would have to change in my view to see those two paths converge.

Mike Rollins - Citi - Analyst

The industry made some progress on what I'll call service unbundling last year, unbundling the service from the device sales and Verizon introduced its Edge plan last year. Can you talk about the early results from that and whether the recent changes from AT&T, the continued push for T-Mobile for unbundling, if that affects your view of where unbundling for the industry is going to go over time?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, the movement toward those plans of unbundling the handset has been actually a little bit better than I had expected. We thought it would be in the 10% range. It's actually not quite double that, but it's -- the customers are adopting it. As I said earlier, that is a win-win because it's better financially for us than it is and the customers like it as well. So that is a positive. I don't see us doing a lot more unbundling at this point, but that doesn't mean it couldn't evolve over time.

Mike Rollins - Citi - Analyst

And does the shift for bounties to try to get customers -- well, maybe the nice way of saying incentive-based switching -- is this a cause of concern in terms of where the cost of acquisition might be going for this industry?
Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

We have seen that in the past, Mike, when people have done switcher credits and that sort of thing. Those are the things that typically come in and out of the market fairly quickly. You don't really buy loyalty that well in my view and those customers will switch back. So my prediction on that is it is similar to a lot of the little skirmishes you see going on now. Those things sort of come and go. I think what is going to make this industry strong is if we can continue the formula of investing in the networks, if all four carriers have robust LTE networks and then we start to differentiate based on the solutions that we provide customers and the service level you provide customers. Price competition going after each other's customers like that I think is typically short-lived.

Mike Rollins - Citi - Analyst

Previously, I think last quarter you referenced some congestion issues in a couple of the key cities. Where are you in solving those issues?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, we had two cities that we were uncomfortable with the performance. In New York, it was roughly 44 sites, plus or minus. Every one of those was changed out as AWS was put in place on those. By the end of the year, if you watch any of the blogs now, you see rave reviews about the speeds. We are not claiming any of this, but the blogs are saying 50, 60 megabits of throughput on AWS there. So it was a matter of we grew a little faster than we thought we would and we fixed it. So I think it is a short-term play for us. In San Francisco, we had 14 cell sites that were a problem. 13 of them are fixed now. Now we will have some ongoing investment in building systems and distributed antenna systems, but that is business as usual as far as I am concerned. So in my view, that was a transient and it is behind us.

Mike Rollins - Citi - Analyst

You referenced growing a little faster than you expected. You have been growing faster than the industry over the last few years. What is your confidence level looking out over the next call it one to three years in your ability to continue that and are there any changes in the competitive landscape that has kind of affected your aspiration?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, the expectation -- Dan Mead is in the audience here today -- is that we continue to do what we have done. We believe we can continue to differentiate on the network. There is a lot of noise about that. There is a lot of claims in the press, but you look at porting ratios, you look at churn rates, you look at growth rates. Customers see reality from what is going on in advertising.

So the key for us is to maintain that sort of investment in the network, but we've made some changes in our organization structure where we have a centralized product development group now that is leveraging all the tools that we have in our toolbox. That is what is going to keep us ahead of the competition. If we stay still, we're a lot easier to catch. We don't plan on staying still.

Mike Rollins - Citi - Analyst

On the wireline side, shifting to that for a couple moments, where is the -- I guess when do you hit that point where Verizon is confident that wireline revenue in aggregate grows? Something that you have been working towards for some time. Are we getting closer?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, well, in CMB, we are there. We're seeing some margin -- that is consumer and mass business for those in the audience. We're seeing the margin begin to expand there. Our FiOS penetration is very good. We've seen top-line revenue per subscriber grow. So the anchor on that business right now
is the enterprise side. So when the enterprise begins to turn, and I think we're all seeing the green shoots on the economy, as we get into 2014 even with a flat enterprise, we expect to see the wireline margin expand. And if enterprise even gets back to even 1%, 2%, 3% growth, then I think we're at the point that you referenced.

Mike Rollins - Citi - Analyst

Are there any longer-term expectations investors should be thinking about in terms of where margins can get to if you reflect on the copper to fiber migration that you are doing, some of the process improvements that you have been working on I think for a couple years now on enterprise?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, well, and we've -- so just as you referenced the process improvement this year, we took out -- in 2013, we took out $5.6 billion of cost through that process improvement and our target next year is for more than that, a significant amount more than that. So we've accomplished as much or more than I had hoped through our lean Six Sigma approach here. As far as how much, Fran is very careful about guiding here, but we fully expect a point or so of increased margin on the wireline side here in the not-too-distant future.

Mike Rollins - Citi - Analyst

That sounds like a big dollar number in terms of what you are taking out in cost. So some of that must be getting reinvested into other places. How do you think about where that money is going?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, it is all going to go into the areas that we've talked about. Obviously, a significant investment in wireless. We're expanding not the footprint of FiOS, but the penetration of the buildings within FiOS. For example, New York is our biggest growth market for us right now from a FiOS perspective and it's all the little tails that go out of the main fiber feeds into the multitenant buildings and then we get 30%, 35% penetration there. So that is where that goes.

We do have -- we have invested in Hughes. Hughes has done very well for us so far. They just launched in China with Mercedes and expect a lot of growth there. We have the Redbox venture and you mentioned several other collaborations that we have. So we are investing that in products of the future, but making sure that our core stays strong.

Mike Rollins - Citi - Analyst

Do you ever think about, given the FiOS footprint and the video footprint that you have, and of course, you have Redbox, actually going more over the top with video and becoming more of a national provider of not just kind of a video-on-demand service, but more of a (multiple speakers)?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, I think you have to take that in a couple of steps, Mike. Clearly taking your FiOS content and mobilizing it, no matter where you are as a Verizon Wireless customer around the country, that I think is comfortable for the content providers and it's certainly something our technology can do. What I expect 2014 to be about is partnering with a few of the content providers to test a couple of different models of a pure over-the-top wireless play and then see where that would take us. But aspirationally, when you have got a network like the wireless LTE network that is capable of a video performance that we are, you have to take a look at being a national provider, but again with some partners to make it all work.
Mike Rollins - Citi - Analyst

We have got a microphone roaming around. If there is any questions, just raise your hand and we will get the microphone to you. Just keying off a comment on partnering, you have talked about the interest to get more layers of spectrum. Do you ever think of partnering with companies that have spectrum that don't have a network today like a Dish to get access to that spectrum and create more leverage for your customers to do things like video?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

I think Charlie has probably talked to everyone of the carriers at this point and I think over time a model may emerge there, Mike, but so far a model hasn't emerged that makes sense for us. And I think at some point, Charlie is going to want to make sure that he gets some monetization of that spectrum. So I think time will tell whether there is something there that makes sense for both parties.

Mike Rollins - Citi - Analyst

And then if you can actually go into just a little bit more thought on -- if you look at FiOS and some of the success you had, where can you get in aggregate over time based on some of your older markets, where can you get penetration rates too for that business?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, Texas is a good example. I mean, we're just over 50% penetration on broadband and just under 50% penetration on the TV side. That is the market that we hold up to our organization. We're not allowing them to stand still either. So it is such a terrific product. I'll tell you, Mike, when I go into New York City to various events, the complaint I get now is why isn't FiOS in my building because it does perform so well and that is good for us. I don't plan on going out and expanding into a lot of greenfield areas, but I think that we -- our target internally is to have 50% of the market.

Mike Rollins - Citi - Analyst

One of the interesting observations at an industry level is that cable has been ramping their share of business revenue and presumably within that small business segment. What are you seeing in your market and what are you doing with FiOS to try to compete?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Yes, that's another example why New York is the best growing market for us at this point because we can do the shorter fiber extensions and get into these small businesses. So we were 100% market share of small businesses back in the day, right, in the monopoly days and we have lost a lot of share there. But I think FiOS does give us the tool.

The second thing that gives us the tool is the security and the cloud services because even these small businesses, they don't get the sort of press that a Target gets, but they're under attack as well and being able to offer them some of these cloud and security services along with the network has allowed us to fight back on the small business side and that is our plan.

Mike Rollins - Citi - Analyst

So as we just think about the next 12 months and coming back to the higher levels, you look at wireless. For growth in wireless, the smartphone penetration continues to approach that maturation. What are the sort of three critical things that you are looking at for that wireless business to deliver?
Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, we think we have still got a ways to go on the smartphone penetration. About a third of our base is still basic phones, hasn't even moved on to smartphones. So the two-thirds that are smartphones we have still got roughly half of those that are 3G. So as you migrate a basic phone to a smartphone and you migrate a 3G smartphone to a 4G smartphone, you have got some nice kickup in revenue potential there. And so we think we have still got unfinished business to do there and that will take us to the next couple of two, three years to do.

And then you layer on all these other -- I mean if you just walk the floor and you look at some of the healthcare applications and the smart home applications and you think some of that will be on WiFi for sure, but a lot of it will be on the smartphone. And more and more -- we have the CEO of Walgreens is on our Board, Greg Wasson, one of their visions is to have a kiosk in every store so that someone, if they want to have a videoconference with a pharmacist, they can. Those sorts of applications will drive tremendous volume onto the mobile network and obviously, the revenue that comes along with it.

Mike Rollins - Citi - Analyst

And if you had to sort of rank maybe the verticals that are the closest to having that real impact on revenue, would it be the healthcare, would it be the telematics, mobile wallet, what would you put sort of as top of that list as the vertical that investors should be watching over?

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Well, the telematics is up the curve in my view and it is ramping nicely. So I think that is on a strong path. The one that I find of interest is the home management and the energy management. That is -- as you walk the floor, you see a lot with that and there is an awful lot with transportation out there, managing the grids, even managing parking places. One of the things we are working with the NFL is making reservations for tailgating and finding parking spots. I mean it is amazing, embedding chips into the coating that is used to stripe the parking lots. That is how deep mobile is into that next generation of technology.

And then, obviously, healthcare is a tremendous volume producer. I think everybody is being held back by all of the changes in the healthcare laws and the reimbursements. So I am hopeful that the main path to revenue growth for us will actually be through the insurance companies who will buy the services and give them to the healthcare recipients to help lower their costs. So I think it will come from different places, but those are all a little bit different spot on the lifecycle curve.

Mike Rollins - Citi - Analyst

Great. Well, thank you for joining us today.

Lowell McAdam - Verizon Communications Inc. - Chairman & CEO

Mike, thank you and I hope you all enjoy the conference and the show.

Mike Rollins - Citi - Analyst

Thank you very much.
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In this communication we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. The following important factors, along with those discussed in our filings with the Securities and Exchange Commission (the "SEC"), could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements: the ability to realize the expected benefits of our proposed transaction with Vodafone in the timeframe expected or at all; the ability to complete the Vodafone transaction in the timeframe expected or at all and the costs that could be required to do so; failure to obtain applicable regulatory or shareholder approvals in connection with the Vodafone transaction in a timely manner or at all; failure to satisfy other closing conditions to the Vodafone transaction or events giving rise to termination of the transaction agreement; an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets affecting the cost, including interest rates, and/or availability of further financing; significantly increased levels of indebtedness as a result of the Vodafone transaction; changes in tax laws or treaties, or in their interpretation; adverse conditions in the U.S. and international economies; material adverse changes in labor matters, including labor negotiations, and any resulting financial and/or operational impact; material changes in technology or technology substitution; disruption of our key suppliers' provisioning of products or services; changes in the regulatory environment in which we operate, including any increase in restrictions on our ability to operate our networks; breaches of network or information technology security, natural disasters, terrorist attacks or acts of war or significant litigation and any resulting financial impact not covered by insurance; the effects of competition in the markets in which we operate; changes in accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings; significant increases in benefit plan costs or lower investment returns on plan assets; and the inability to implement our business strategies.

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ADDITIONAL INFORMATION AND WHERE TO FIND IT
Verizon Communications Inc. has filed with the SEC a registration statement on Form S-4 containing a prospectus with respect to the Verizon securities to be offered in the proposed transaction with Vodafone (the "prospectus"). Verizon also filed with the SEC a proxy statement with respect to the special meeting of the Verizon shareholders to be held in connection with the proposed transaction (the "proxy statement"). The registration statement on Form S-4 was declared effective by the SEC on December 10, 2013. Verizon mailed the prospectus to certain Vodafone shareholders and the proxy statement to Verizon shareholders on or about December 11, 2013. VODAFONE SHAREHOLDERS ARE URGED TO READ CAREFULLY THE PROSPECTUS AND VERIZON SHAREHOLDERS ARE URGED TO READ CAREFULLY THE PROXY STATEMENT, EACH TOGETHER WITH OTHER RELEVANT DOCUMENTS FILED OR TO BE FILED WITH THE SEC, IN THEIR ENTIRETY BECAUSE THEY CONTAIN OR WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTION AND RELATED MATTERS. Investors and shareholders can obtain free copies of the prospectus, the proxy statement and other documents filed with the SEC by the parties through the website maintained by the SEC at www.sec.gov. In addition, investors and shareholders can obtain free copies of the prospectus, the proxy statement and other documents filed with the SEC by Verizon by contacting Verizon's Assistant Corporate Secretary, Verizon Communications Inc., 140 West Street, 29th Floor, New York, New York 10007. These materials are also available on Verizon's website at www.verizon.com/investor.