CORPORATE PARTICIPANTS

Francis Shammo  Verizon Communications, Inc. - EVP and CFO

CONFERENCE CALL PARTICIPANTS

Tim Horan  Oppenheimer & Co. - Analyst

PRESENTATION

Tim Horan  Oppenheimer & Co. - Analyst

(audio in progress) – kind of four of the keynotes of wireless because we believe that wireless broadband is kind of the third major wave of new access technology that we are seeing. We are really just scratching the surface of what this new medium really means for the industry and for all sorts of new applications.

It is my pleasure to have Francis Shammo for the third year I think he has been up for the conference. I appreciate that.

Francis Shammo  Verizon Communications, Inc. - EVP and CFO

Good morning.

Tim Horan  Oppenheimer & Co. - Analyst

Last year was all about Vodafone. This year we have our new challenges this year. And I guess to start off, what do you think about the overall health of the industry and the industry has had, despite a lot of concerns out there, has had very strong relative growth the last few years. Do you think that level of growth that we have seen can continue?

Francis Shammo  Verizon Communications, Inc. - EVP and CFO

Yes, so Tim, I think here is how I would size this up. I think the industry is extremely healthy. There is a number of opportunities that I think everybody gets a little bit put aside because everybody is so focused on net phone adds and smart phones and of course, as I have said before, net smart phones are important for the industry but that is absolutely going to slow here over time. So what takes us forward? I mean you still have at least within the Verizon Wireless space, we still have 42 million customers who are still on 3G technology and basic phones. That in itself is an engine for ourselves and other carriers to upgrade those customers into a 4G environment to experience the video.

Then if you just look at the 4G environment and where video is going, the consumption of video continues to increase month over month over month as customers start to experience the consistency in the speeds of the LTE network. And again as you price for usage, you get that price uptake.

But then the other technologies that are coming that expand this industry, number one is tablets. If you look at the penetration of tablets, it is extremely small. So there is a long runway here of tablets and if you think about just how college students and business folks are now moving around the world, they are all starting to develop the tablet and most companies now have stopped investing in tabletops and have gone to more of the tablets because mostly everything can be done off of this tablet and those tablets now are all connected to the LTE network.

So when you see a tablet get connected to the network, that LTE tablet is generating more usage on the network than a 3G smart phone. So there again you are increasing that usage on the network, there again driving more usage, driving more revenue.
Then if you start to look at other things that are coming so you have the HD voice which is VoLTE, Voice over LTE, now that doesn’t create a lot of incremental benefit but what it does do is it opens up many new doors for many new technologies to be launched on that platform. So having it be an IP-based platform you now get into high definition telepresence. High definition telepresence now opens up the door for real quality telemedicine and other types of services that can be run over that network that are high definition.

If you look at then beyond that, if you start to look at multicast so the multicast chip is something that we have been talking about which is a very, very efficient way to deliver video to millions of customers without really detrimenting spectrum and network utilization.

Now this is a technology that will still be about a year out because we will start to embed the chips in the fourth quarter of this year but you have to go through an upgrade cycle to start to get the millions of customers that you need to have that type of technology in that handset to be able to use that multicast technology. But the multicast technology – and we can talk more about this if you want to go into it further -- that is really I think the pivotal point that starts to change the way content is delivered over a mobile handset which opens up content into the wireless world.

So if you just look at all of that and then we can get into machine-to-machine in itself, there are still a number of fronts that are coming that still have tremendous growth for this industry and that is why I am so optimistic of what the future of the wireless industry is.

**Tim Horan - Oppenheimer & Co. - Analyst**

I definitely want to get into all these services but maybe can you talk about Verizon’s strategy to compete in the industry, how well you are positioned. You having been growing a lot faster than the industry over a long time, do you think that kind of super growth can continue?

**Francis Shammo - Verizon Communications, Inc. - EVP and CFO**

If you look at everything that I have just said, this is where we really are strategically placing our investments. So obviously we were the first out of the gate on LTE. We have built out overall coverage. We are 98% covered in the US. We are now really concentrated on the densification and the capacity and we see that as more and more customers come on, more of those customers I think it is 55% now on the LTE network and they are generating almost 79% of the data usage. So the usage on that network continues to grow and we are building for that.

I think the basic thing comes back to, Tim, is our brand has been built on the last 20 years around our network quality and that is something that we will continue to represent as our brand which will be – we will be by far the best network, the most consistent network and the most reliable network. And that is really the pivotal stone of where we built everything on top of that.

So if you look at our tablet growth, our machine-to-machine growth, we will be launching VoLTE very soon here toward the tail end of this year, multicast will be available in the phone starting in the fourth quarter, the Galaxy 5 already has that chipset so that will set us up for a year from now to be able to start to launch those new technologies. So for Verizon Wireless, it really comes around building out that network, getting the quality of the network so we can deliver services to our customers.

**Tim Horan - Oppenheimer & Co. - Analyst**

What is the best way to measure the quality of the network in your opinion?

**Francis Shammo - Verizon Communications, Inc. - EVP and CFO**

There’s a number of different facets that you have to go through but obviously the one that everybody really keys in on is the third-party drive test and those results and obviously those results speak for themselves. But within our own environment, we do extensive drive testing not only on our network but on all of our competitors to see where we size up, where we potentially have holes and we do that every single week we are doing drive tests through our footprint.
But there's also things that are behind the scenes as to the quality and the reliability. So if you look back in history unfortunately we have natural disasters and through every single natural disaster, Verizon Wireless has been the one network that has performed the best, even above wireline companies.

So we build that network for fortification generators; more than 80% plus of our cell sites have backup generators. We think that is a star in the industry. Fiber to the node, fiber to the backbone, we have built out a ton of backbone on fiber which is more resilient than DS1s to our cell sites. So there is a number of exercises that we have taken and we really pride ourselves on the reliability of our network in those situations where the network becomes even more important.

Tim Horan  -  Oppenheimer & Co. - Analyst
I think the data growth probably even surpassed your expectations a year or so ago and the network quality had deteriorated a little bit in a few markets which is obviously unusual for Verizon. But can you talk where the network is now, have you resolved those issues and where are you with capacity on the network?

Francis Shammo  -  Verizon Communications, Inc. - EVP and CFO
We are well ahead of that issue now. We launched AWS, we now have AWS in the majority of the large cities and we continue to deploy that out. We will be done with our AWS spectrum overlay here by the end of this year.

So if you think about how we built LTE, we built it out on the 700 MHz spectrum and now we have overlaid the AWS. So if you think about capacity-wise, the 700 MHz was built on 10 MHz, 10 x 10 and now you are overlaying 20 to 30 MHz in addition over the AWS so you are more or less doubling, quadrupling the capacity of our AWS spectrum in each of the cell sites.

That brings a lot of capacity but then we are going into really what we have been concentrating on this year is really investing in the small cell technology, diversified antenna systems and in building coverage because you need that densification in the LTE network. So that is really where most of our investment is going this year is in the densification and that is what is keeping us above the demand at this point.

So really when we look at it, we are really building out almost 18 to 24 months ahead of where we think the curve of demand will be so that we constantly stay ahead of this demand curve.

Tim Horan  -  Oppenheimer & Co. - Analyst
And I think you will be done with AWS by the end of the year, that build out?

Francis Shammo  -  Verizon Communications, Inc. - EVP and CFO
Yes, yes.

Tim Horan  -  Oppenheimer & Co. - Analyst
And then the PCS spectrum, when will you start to build that out?
Francis Shammo - Verizon Communications, Inc. - EVP and CFO

The PCS spectrum is already deployed in the CDMA network and as we need additional spectrum capacity depending upon where that is, we will start to take slivers of that and move that over the next two to three years. And then beyond that obviously, we have the AWS auction coming up here at the latter part of this year which we will participate in and that is going to be important for us for that next three- to five-, seven-year tail out.

So I’ve gotten asked the question a number of times, how quickly will you have to deploy that spectrum? It will be about a three- to four-year period of time.

Tim Horan - Oppenheimer & Co. - Analyst

So the PCS you will start converting over as you need to do, you can start now if it is possible and I think you can even convert over 6 MHz chunks or 10 MHz chunks I guess if you need to?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

Yes, small slivers, the way it was deployed in the CDMA network.

Tim Horan - Oppenheimer & Co. - Analyst

Great. So your overall CapEx budget, some of your peers think this year might be peak and they can start to decline or they are kind of implying that. Do you think this is a peak year for your CapEx or will it continue to grow?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

I think it depends how you slice out the CapEx. There has been a lot of discussion around software development networks and because there is a software development network that this is a software-based network, therefore CapEx can come down. And that is true because just in that segment because you are going from a central office with switches into a datacenter with servers. But I think from where we stand and where I stand is I have consistently said that our CapEx will not decline. And the reason our CapEx will not decline is because in wireless you have to build out these small cells, these antennae systems and in-building coverage if you want to stay ahead of the capacity and give the customer the experience that they want.

In addition, if you think about Voice over LTE, that densification has to be pretty strong if you want to hold that high quality call throughout your network. And then of course multicast.

So we are looking at two years beyond this and we are saying I don't see us slowing down wireless CapEx, I actually see wireless CapEx going up, the rest of our business more or less flat to down and therefore you should see a consistent CapEx from us. So I don't anticipate us going down.

Tim Horan - Oppenheimer & Co. - Analyst

Can you maybe talk about how much you have increased capacity per year the last few years and do you think that kind of pace will continue?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

I'm not the engineer here, you are so I will rely on you to figure that one out. But look, I think if you just look at the spectrum like I said, we have more or less already doubled, tripled our spectrum capacity in each of the cell sites just by deploying AWS. It is hard to talk about capacity because
there are pockets in New York City where you need a lot more capacity than certain other areas. So it just depends what area you are in and how much usage you are going to have over that cell site and that is really the key for us is because there is a lot of claims about speed and so forth and really what we are engineering the network for a consistent reliable experience and we engineer for a consistent 8 Mb to 12 Mb experience.

Now when we overlayed AWS, we saw speeds of 80 Mb, 66 Mb per second and articles were being written about that we have always said that is just because maybe nobody else was on that cell site at that point in time but when you have a fully loaded network what is going to be critical is that consistent experience on a data feed. So we think that the quality of the network in a data environment is actually going to be even more important than it was in the voice environment.

Tim Horan - Oppenheimer & Co. - Analyst
Just maybe shifting gears back to some of the products that you were talking about, Voice over LTE, how much further ahead of your competitors do you think you are on it?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO
I think that everybody is probably in about the same place based on just what I hear from them as to when they are going to launch. I think that for us though obviously when we launch a new technology, we have to make sure that especially for our Voice over LTE because our CDMA network was so strong and so reliable for our customers from a voice perspective. We have to make sure that when we launch, that Voice over LTE experience is going to match up with that CDMA experience. And that is why we are doing all of these drive tests and investing in small cells and densification because the handoff of VoLTE is a little different than the handoff that CDMA was and it has to be a much more densified network in order for that to work appropriately.

So for us the important thing will be is we won’t go before we know that it is going to be a quality product.

Tim Horan - Oppenheimer & Co. - Analyst
So a year from now, will I be able to buy a Voice over LTE-only phone?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO
Voice over LTE and that is when we take the CDMA chip out, I would say you’re probably talking more of the first half of 2016.

Tim Horan - Oppenheimer & Co. - Analyst
And is the voice quality akin to a wireline voice quality, is it better than wireline, how would you characterize it?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO
The engineers tell me it is high definition voice so I think it is a high-definition voice that you would experience over a wireline call. The issue though with this is since it is a software-based technology, the features that come with this, so you will be able to do as I said video chat and video chat, you could say well, I can do video chat today. But it is not high definition voice and it is usually handset centric so the other person on the other side needs to have the same handset that you do whereas within the network, you could video chat with anybody as long as they were holding a VoLTE call. That is what brings all those machine-to-machine things to the forefront.
But the quality of the voice is one thing but the features that come along with this set, so video address book, video voicemail, so there is a lot more video and of course if you think about video, it is more usage on the network. So all of this creates more usage, more revenue opportunity.

Tim Horan - Oppenheimer & Co. - Analyst

So my video address book, is that going to be in the cloud that I have to access it over the network every time or it will be stored on the phone?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

It actually will be in the software based -- it will be in the cloud. If you wanted to call me, you could see my shiny face and I could talk to you.

Tim Horan - Oppenheimer & Co. - Analyst

Beautiful. Now will Voice over LTE be interoperable, you think the other carriers or will it just work on Verizon to Verizon or Verizon Wireline?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

I actually don’t know the answer to that. I think this is still in its infancy stage as we did with the 3G and then the carriers got together and started to do roaming agreements and so forth. So I think that has to mature. Right now everybody is concentrated on their own footprint and of course even with Vodafone when we had 45% of them in Verizon Wireless, we were working with them for international and we still continue to do that with them because we think that is going to be important to have that seamless if you will if you are a Verizon Wireless customer and go to Europe, that you would actually get all the same functions and featurality that you would if you were sitting at home and we think that is going to be important.

Tim Horan - Oppenheimer & Co. - Analyst

Maybe switching gears to the multicast video, can you talk about approximately how many channels you can get and how you might charge for it per month?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

This ecosystem still has to develop and as you know one of the things that is missing in the ecosystem for wireless is the third-party independent person who says who watches what and rates the shows. So advertisers and network content providers can’t get their hands around how many eyeballs are actually watching that individual content. Now our understanding is that we will maybe have that from a third party by the end of this year and I think that will be the first step to it.

But if you think about multicast and if you think about a wireless customer who consumes video, they are normally in 30 minute segments and they are normally on live real-time events and that is where we think multicast will really be important.

So if you saw the World Cup and the amounts of usage that happened because of the World Cup, people are willing to watch those live events at that point in time in places where they can’t be sitting at home to do that and that is where we think sporting events, things like the Emmys or concerts, things that are real live time will be the ecosystem for that. And that I think is going to be important for the content providers because they can get their hands around it. And then from an ecosystem perspective, will this be an advertising model, a revenue share model, a pay-per-view model? That is yet to be worked out but the point of this is, it is absolutely a revenue generator and something for the content providers to be able to deliver content very easily through the wireless network.
Tim Horan - Oppenheimer & Co. - Analyst
You see this as being able to add at least a couple of dollars in ARPU per month per subscriber?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO
I think it is too premature for that one yet so we will see how the ecosystem comes out.

Tim Horan - Oppenheimer & Co. - Analyst
And then on the machine-to-machine side, is there anything surprising you with the usage in LTE or where are we maybe in the whole ecosystem development on machine-to-machine?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO
Well, machine-to-machine takes a lot of different flavors to it. I mean everybody -- most people are focused on just the connectivity of the machine-to-machine and that is mostly where the activity is taking today. But if you look at our Hughes Telematics asset, I kind of break it down into three pillars. One is the transport mechanism. One is what I call the concierge service which is what Hughes Telematics does for mbrace. So they are taking the calls, they are responding to the customers’ questions and those ARPs are around $25 to $30 per month. Whereas at transport, you’re pennies on the dollar, $0.50 a month because they are just transporting data and that is all you do.

The third pillar of that is all the intelligence you get out of that machine-to-machine which then converts into big data. And then the big data depending upon who owns that, it could be that the third-party owns it but having you buy the mechanism. But the cloud of Verizon is the one who is capturing all that data and at times even with Hughes now, they are actually doing the analytics behind that and providing the data to other third parties for usage, then generating revenue on that.

So I look at machine-to-machine as really three different pillars that can generate incremental revenue for us.

Tim Horan - Oppenheimer & Co. - Analyst
Maybe can you go into a little bit more -- I know you have some unique content with the NFL package that you have over the next four years for handsets. Are there other applications that you are developing or trying to monetize and other forms of content right now that we should think about and could it be material?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO
Well look, I think that again with content we believe that we don’t need to own the content to be successful in this ecosystem. So as long as we can buy the rights to be able to deliver that to our customers in a wireless world, we think that that is what we need and obviously we did that with the NFL. We have it with IndyCar, we are working with other types of events. And if you have to keep in mind again what is going to be important on content, it is not going to be -- you are going to sit down and watch a three-hour movie. This is more or less 30-minute type things so it has to be appealing to what you want to deliver, the NFL fits that mold, IndyCar fits that mold. So sporting events. So as we get those rights, we will deliver that to our customers.

Now what we did this past year, we just announced it is for this year if you are a More Everything customer, you will actually get the NFL mobile app for free and then you will be able to utilize that app at your leisure. That is just something that we are doing to increase the value of Verizon to our customers.
Tim Horan - Oppenheimer & Co. - Analyst

What is the cutoff on More Everything, data package?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

More Everything is our new plan. It came from the Shared Everything into the More Everything so it starts at the lowest end as I think now it is $45 for 50 megs or whatever that is, I don't remember what the low end is but it is low end all the way up to you can go up to 100 Gb.

Tim Horan - Oppenheimer & Co. - Analyst

Very good. Maybe just switching gears to the pricing front, I think one of your competitors owners kind of said that he thinks the network is good enough now to lower prices and start to pick customers back up. Do you think that is the case that Sprint's network is in good enough shape that they can load the network up without really seeing the quality deteriorate and what is your best guess on what they do on the pricing front?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

Look, the way I would size this is, this has always been a really competitive industry and the key here is that you need to generate cash flow in order to reinvest in this network and you saw where we were with our customer base back last year where we fumbled a little bit on that densification. And you need that money. So if you look at the industry by itself, the industry last year invested $34 billion into the wireless network. Verizon was one-third of that number.

So we are really intensifying into this network evolution. So if you look at it, I think as we've said before, it is a competitive industry. There will be pricing moves in this industry and I think we demonstrated coming out of the first quarter we were very rational in how we approached it and you saw what our results were in the second quarter.

So we watch our competitors very carefully and there are pricing changes that happen all the time and we do promos, everybody does promos. But two things that we just recently did. Obviously one was we now are including NFL mobile for free so we have increased the value. And we also just recently launched the Whole Rewards program for our customers so they will now accumulate reward points and through those points they will be able to do different things with those points to get discounts.

So we think it is more around the value of what we deliver. Price is one thing but at the end of the day, the last 18 years in customer survey, the number one reason a customer churns to you is because of network quality, not because of price.

Tim Horan - Oppenheimer & Co. - Analyst

Well put. Is there much elasticity in the industry? Obviously there is two levers you can reduce price but the usage kind of goes up quite a bit and that is kind of frankly that is a little bit how we think about the world. The industry has been growing 1.5 times GDP and I think if you reduced price a certain way you could get the elasticity up and continue that type of revenue growth. But how do you think about elasticity?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

Again, if you look at this, I mean if you go back to the voice world, what happened in the voice world? So at the voice world, what happened was the price per minute of use continued to decline over time but minutes continued to increase over time and what happened? The industry continued to grow revenue.
The data world is going to be the same thing. So the price per megabit is going to come down but data will continue to increase and the overall industry will continue to increase revenue. So the trend will be about the same. So when we talk about pricing and this and that, it is really around you will get more data for a lower price but data is going to continue to increase. And the key here to remember too is that the 4G world is extremely efficient in delivering that data so it is five times more efficient than the 3G world was.

So even with that, the cost structure of that also comes down. Not the CapEx side but the actual OpEx side does have some favorability in it each time you add a customer to 4G.

**Tim Horan**  *Oppenheimer & Co.*  *Analyst*

Great. I was going to switch over to wireline and consolidated. But before I do, any questions on wireless from the audience? We have one over here.

### QUESTIONS AND ANSWERS

**Unidentified Audience Member**

You seem to be saying that you're focusing this year on densification and small cells and diversified antenna systems. Do you feel that after your focus this year you'll be in a good place for the following years or will that be an ongoing investment?

**Francis Shammo**  *Verizon Communications, Inc.*  *EVP and CFO*

That will be a continuous investment for us. So coverage, we are really not doing much in coverage and we haven't done much in coverage since midyear last year. It is all around focusing on the densification and capacity build and that will continue for the next several years.

**Unidentified Audience Member**

Do you think you could increase your investment on that next year?

**Francis Shammo**  *Verizon Communications, Inc.*  *EVP and CFO*

As I said, if you look at Verizon Wireless on a standalone basis, you will see that Verizon Wireless CapEx if you look through the first half of this year, their CapEx has gone up year-over-year. Wireline has come down. Total Company is about the same. That will continue into the future.

**Tim Horan**  *Oppenheimer & Co.*  *Analyst*

I think when you were adding capacity in some markets, you could actually see the usage go up and the fact that you are getting paid for that usage, do you track that fairly closely? You can see the return on investment on the CapEx?

**Francis Shammo**  *Verizon Communications, Inc.*  *EVP and CFO*

Yes, the great thing about the way the pricing structure is is I know that each dollar I invest I am getting an immediate return for that dollar unlike the 3G in the unlimited world, you can keep investing in your network and nobody is paying you for it because usage continues to go up. You have
to build for capacity and if you are unlimited, then you have no revenue coming in whereas with the pricing structure of the 4G world, you are getting paid for that usage so the return on invested capital is quicker and higher.

**Tim Horan - Oppenheimer & Co. - Analyst**

Anyone else? Great. Maybe just switching over to the wireline, can you talk about what has been kind of intriguing to me, just the migration from fiber to copper and shutting down a lot of the legacy copper networks. How much longer is that process going to take and what do the financials look like when you do those shutdowns?

**Francis Shammo - Verizon Communications, Inc. - EVP and CFO**

Well, we have been at this now two years running. We started it two years ago so we are 2.5 years into it. We have done about 300,000 conversions a year and this is mostly around consumer and centered around FiOS. So we have been moving consumers from copper to FiOS where we have the FiOS build out. We have within our FiOS footprint about 1 million homes left to convert off of that copper, plan, and we will continue to do that through this year and into next year.

What the benefit here is that at the point in time I can stop investing in that copper plant. This year we have 10 switches on our portfolio that we will actually take out of service. Now there is a challenge there because you have consumers but then you also have business on some of those switches so we have to deal with the business environment to convert them over to the IP environment. That takes a little longer and each one of these takes about 18 to 24 months to actually shut down.

So it is quite a long process but the benefit that we get in the legacy footprint around FiOS is by taking those consumer customers off of that copper, I reduce the number of truck rolls, I reduce the number of outages so there is a customer satisfaction benefit by doing that.

Then indirectly also what happens is as you move these customers who are mainly voice or DSL customers over into the FiOS world, they are now getting the incremental speed of FiOS and what we see is they are voluntarily buying up in speed buckets so they are generating between $13 and $15 more per month in revenue to us. So it is a quick payback when we do each one of these conversions.

**Tim Horan - Oppenheimer & Co. - Analyst**

And on the expense front, is there a material decline in expenses?

**Francis Shammo - Verizon Communications, Inc. - EVP and CFO**

It is just a combination of the overall expense reduction so you have a rainstorm, we don't have as much overtime because we don't have as many outages and during the winter, you saw that we had probably one of the worst winters ever and we were still able to increase the margin of our wireline business because we have more customers on FiOS and FiOS doesn't really care if it snows or rains. So fiber is much more resilient than the copper plant is.

**Tim Horan - Oppenheimer & Co. - Analyst**

I know AT&T has a big push to move to all IP within six or seven years or so. Do you have a similar push internally?
Francis Shammo - Verizon Communications, Inc. - EVP and CFO

We have not put a timeline on it only because the long pole in the tent here is your enterprise customers and your business customers and each one of them has a different path because it requires them to make investments, it requires them to make changes within their infrastructure and of course in this current environment, they are not real appealed to do that.

So we are working with individually each of them. So when I said these 10 switches that we are going to decommission this year, there are enterprise customers in there and we are working with them specific to this switch or to that branch or whatever they may have to convert that one thing over. So that just has to go on a gradual basis, you can't do a flash cut because unfortunately there are features in the legacy centric systems that you can't get on the IP system but then there are so many more features you can get in IP that you can't get in centric. So you have to just educate that enterprise customer.

So as I said we have been at this for three years. I can't tell you, Tim, how much longer it will take us to say I am 100% out of copper. I think if you look at cities like New York and Washington, I think that is a real long time.

Tim Horan - Oppenheimer & Co. - Analyst

And maybe just on the volume growth side of things, it seems like the industry this quarter did see better overall Ethernet growth and a little bit better enterprise spending. Do you think that is sort of a trend or maybe what you think is causing that?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

The Ethernet obviously from an IP perspective and the capacity that everybody is requiring you have to go to Ethernet so we do see the pickup in the Ethernet side but a lot of it is quite honestly on the wholesale side of the business. So that is the piece of it. But then also where we saw this quarter, we are seeing a lot of fiber build especially to wireless cell sites so that is another piece of the business that is growing.

But that is still not enough to offset the legacy voice and data. So that business is picking up but it is almost like FiOS and access lines, you have to wait until they point and cross and then you can say okay, this is good but we are not there yet.

Tim Horan - Oppenheimer & Co. - Analyst

And then, Windstream obviously looks like they are moving to REIT structure. I know you are in a very different position for a whole lot of reasons but is that something you would consider longer-term or is there even the ability maybe to sell some of your more rural copper lines to a different firm or structure like that?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

We continue to look at our asset portfolio and look for those nonstrategic things or structures that will create shareholder value and Windstream, it was a really nice transaction for them. We actually have looked at that in detail. We continue to look at that. It is more complex for us. But the other thing though is this past quarter we did in fact sell off one of our nonstrategic businesses which was a piece of our federal business that we just -- was not strategic to us, not core so we did sell that off. It generated about $600 million of revenue in 2013.

So we will continue to look at this portfolio to rationalize it, look at nonstrategic assets that we can spin. We continue to look at access lines so I guess the way to put this is everything is on the table right now that we continue to look at.
Tim Horan - Oppenheimer & Co. - Analyst

The good thing it looks like the price you get for the access lines might be increasing if they are successful. I'm sure others will be adopting similar structure.

Then just on a consolidated basis, I know you have had this six Sigma program in place for three years now and did you start that when you became CFO?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

Actually Lowell was the one who started Verizon Lean Six Sigma and it was three years ago so we are into our third year and you can actually start to see the benefits especially in wireline. Wireless is a little harder but if you look at wireless over the last three years, they have taken $5 billion worth of cost structure out of their environment. In wireline, it is just starting to get some legs for us and you are starting to see some of the margin increase although FiOS is a driver of it. Some of the wireline increases because of some of the benefits that we are getting through process improvement and process reengineering on the wireline side.

So this is a program that we will continue. We have targets every year in neighborhood of $5 billion to $6 billion so this program will continue for us into the future.

Tim Horan - Oppenheimer & Co. - Analyst

So are we like halfway through this program do you think?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

I don’t know if we are halfway through the program. I think that others who have done this it has been a six- to seven-year program but then they also say they are never done. So I think we are three years into it. I think we have a long way to go.

Tim Horan - Oppenheimer & Co. - Analyst

I think a lot of the benefits come after year three and then even at year six or seven. Is that -- when you studied other companies?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

I think that is exactly what happens because the first two years you do the easy stuff and then the last three years it is more difficult things. But yes, I think you are right, I think it is that three and that six-year and seven-year horizon.

Tim Horan - Oppenheimer & Co. - Analyst

Was there any real low hanging fruit you could point to that you did in that program?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

There was some low hanging fruit that we picked off especially in the wireline business and even within the headquarter business, even within finance itself. We are going through a whole Verizon Lean Six Sigma and as you know, we have opened up two centers of excellence so even within finance, we have really transformed ourselves and have brought a considerable amount of savings to the bottom line just through our own transformation.
Tim Horan - Oppenheimer & Co. - Analyst

And what would you like to do with a lot of those savings in terms of the free cash flow? What is the priority the next three to four years?

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

The number one priority was buying Vodafone’s 45% minority interest in Verizon Wireless, which we did. And now the priority is really around as we say, we have certain things that we need to do. Number one top of mind is we need to continue to invest in our networks and our platforms so that is number one.

Number two is that we need to delever the balance sheet and pay some of the debt off from the Vodafone acquisition. And number three is that we know the dividend policy is extremely important to our shareholders. Our Board of Directors have proven that over the last seven years with increases. They proved it again when we closed the transaction, they increased the dividend so really they are the three main things right now.

Tim Horan - Oppenheimer & Co. - Analyst

I guess potentially in the next two years you have $30 billion to $60 billion of spectrum coming due at some point or another and your fair share would probably be to get about one-third of that or one-quarter of it anyway. So it could be a fairly large use of cash.

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

Right now if you look at our balance sheet since we have closed the transaction with Vodafone, we have been building cash on our balance sheet to prepare for the AWS-3 auction. So right now we are focused on the AWS-3 auction to participate in that auction and to be able to financially prepare the balance sheet to perform where we need to perform. And then of course in the broadcast auctions coming up, can’t speak to that yet, the rules aren’t solidified, don’t actually know what is going on there so we will have to wait to see what happens there. But spectrum is part of that networks and platforms that I talked about.

Tim Horan - Oppenheimer & Co. - Analyst

We have time for one last question from the audience if we have any. No? Have a great conference everybody. Thank you, Fran.

Francis Shammo - Verizon Communications, Inc. - EVP and CFO

Thank you, everyone. Have a good morning.