Corporate Participants

John Doherty
Verizon Communications Inc. - SVP of IR

Fran Shammo
Verizon Communications Inc. - EVP & CFO

Conference Call Participants

Jason Armstrong
Goldman Sachs - Analyst

John Hodulik
UBS - Analyst

Phil Cusick
JPMorgan - Analyst

Simon Flannery
Morgan Stanley - Analyst

Jennifer Fritzsche
Wells Fargo - Analyst

Michael Rollins
Citigroup - Analyst

David Barden
BofA Merrill Lynch - Analyst

Brett Feldman
Deutsche Bank - Analyst

Mike McCormack
Nomura Securities - Analyst

Chris Larsen
Piper Jaffray - Analyst

Jonathan Chaplin
Credit Suisse - Analyst

James Ratcliffe
Barclays Capital - Analyst

Peter Rhamey
BMO Capital Markets - Analyst

Presentation

Operator

Good morning and welcome to the Verizon third-quarter 2011 earnings conference call. At this time all participants have been placed in a listen-only mode and the floor will be open for questions following the presentation. (Operator Instructions). Today’s conference is being recorded. If you have any objections you may disconnect at this time. It is now my pleasure to turn the call over to your host, Mr. John Doherty, Senior Vice President Investor Relations for Verizon.
John Doherty - Verizon Communications Inc. - SVP of IR

Thanks, Brad; good morning and welcome to our third-quarter 2011 earnings conference call. Thanks for joining us this morning, I'm John Doherty. With me this morning is Fran Shammo. Before we get started let me remind you that our earnings release, financial and operating information, investor quarterly and the presentation slides are available on our Investor Relations website.

This call is being webcast. If you would like to listen to a replay you can do so from our website.

I would also like to draw your attention to our Safe Harbor statement. Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Discussion of factors that may affect future results is contained in Verizon's filings with the SEC which are also available on our website.

This presentation also contains certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to most directly comparable GAAP measures are also on our website.

For the third quarter of 2011 we reported earnings of $0.49 per share on a GAAP basis. These results include $201 million, or $0.07 per share, for a non-operational charge for pension-related items primarily comprised of actuarial re-measurement losses related to employees who received lump sum distributions in connection with previously announced separation plans. On an adjusted basis EPS was $0.56 bringing our year-to-date total to $1.63. With that I'll now turn the call over to Fran.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Thanks, John, and good morning, everyone. Before we get into the details let me start with some brief comments. We had another quarter of solid execution and earnings performance. Adjusted earnings were higher than the same quarter last year and would have been higher sequentially were it not for some extraordinary and hopefully nonrecurring challenges this quarter.

In spite of this additional pressure from the storms and the strike, which had about a $0.05 impact on EPS in the quarter, we remain on track to achieve our full-year earnings guidance of 5% to 8% growth in adjusted earnings per share off a base of $2.08 in 2010.

In terms of cash generation, we had a strong quarter with disciplined capital spending resulting in solid increase in free cash flow. I'd also highlight that our Board of Directors approved a 2.6% dividend increase in September, which on an annual basis is an increase from $1.95 to $2.00 per share. This marked the fifth consecutive year of dividend increases, a testament to our Board's confidence in the sustainability of our cash flows.

We are very pleased with our progress in the key strategic areas which are the platforms for sustainable growth. In Wireless we continue to perform extremely well and we are further enhancing our leadership in 4G LTE. In addition to making great progress in extending our network capabilities to more markets we are seeing increasing customer demand for Smartphones, tablets and Internet devices that take advantage of the superior speeds of our LTE network.

In FiOS we continue to steadily increase penetration in all our markets. By further penetrating existing markets we will enhance our capital and operating efficiency and improve overall investment returns.

In the enterprise space we are getting some traction in spite of the macroeconomic challenges. We are having productive dialogue with many large customers and secured new agreements for strategic services during the quarter with RWE of Germany, Smile Brands and the University of North Carolina to name a few.
Our competitive position in the cloud space has been bolstered by the acquisition of Terremark earlier this year and more recently with the addition of CloudSwitch, a well-known software as a service provider. A number of multinational companies, including ARINC, adopted our cloud services during the quarter.

Some segment specific highlights are on slide 4. In Wireless we had another excellent quarter with strong growth in retail customers, revenue and ARPU accretion. Our performance with respect to margin, churn and free cash flow was extremely strong in the third quarter. In fact, our Wireless service EBITDA margin of 47.8% is the highest we have ever reported since the formation of Verizon Wireless in the year 2000.

In Wireline an unprecedented series of storms caused power outages and severe flooding in nearly every part of our landline footprint, causing a significant increase in repair and maintenance costs. In addition, the two-week strike in August delayed new FiOS installations and, together with the storms, created a sharp increase in our FiOS sales order backlog. The storms also created delays in some order provisioning with enterprise customers.

The impact of these factors caused a 250 basis point decline in the Wireline EBITDA margin this quarter. In spite of these challenges we did increase penetration in both FiOS Internet and TV. In addition, we continued to improve our overall Wireline revenue mix with FiOS representing nearly 60% of consumer revenue and strategic services nearly 50% of enterprise revenue. All things considered we had a solid performance under some tough circumstances.

Let’s now move to our more detailed review of the quarter starting with slide 5. Our top-line growth trends continue to be very positive with solid growth in all strategic areas – Wireless, FiOS and enterprise strategic services.

Consolidated revenue in the third quarter increased to $27.9 billion or 5.4% year over year. Through nine months adjusted revenue growth was 5.6%. Consolidated EBITDA for the third quarter totaled $9.2 billion, up 4.1% year over year. Obviously this growth was adversely affected by Wireline this quarter.

Earnings for the quarter were $0.49 per share with $0.07 of non-operational charges related to pensions and benefits. So our $0.56 adjusted result compares favorably with our first two quarters of this year, especially when you consider that it includes about $0.05 of storm and strike impact.

Through nine months our $1.63 per share represents a 5.8% increase in adjusted EPS on a comparable basis with last year. Again, our year-to-date performance confirms the strength of the business and the path that we are on to create long-term shareholder value.

Let’s turn next to cash flow and capital spending on slide 6. Our free cash flow this quarter increased by $1.9 billion or 59% sequentially driven by a double-digit increase in cash from operations and reduced levels of capital spending. So far we’ve invested $12.5 billion in capital through nine months and we are on track to meet our full-year guidance of $16.5 billion which is equal to the amount we spent last year.

Our CapEx to revenue ratio in the third quarter was 13%, a 350 basis point improvement sequentially and 260 basis points better year over year. In Wireless capital spending in the third quarter totaled $1.8 billion which was significantly less than the $2.7 billion spent in each of the first two quarters of this year. As we’ve said, second-half spending will be lower than the first half particularly with regard to 3G capacity.

Our 4G LTE deployment is going very well and we are now providing service in 165 markets covering more than 186 million POPs. With additional markets planned in November and December we are actually ahead of schedule and have already exceeded our year-end target of 185 million POPs.

In Wireline capital expenditures in the third quarter totaled $1.6 billion. Year-to-date Wireline capital spending of $4.8 billion was 6.5% lower than last year. We’ve generated $9 billion in free cash flow for the first nine months and our outlook for the
balance of the year remains very strong, especially in light of the lower capital requirements. The sustainability of this cash flow underpins our commitment to returning cash to shareholders.

You will recall that in late July the Verizon Wireless Board of Representatives declared a distribution of $10 billion to its owners payable on January 31, 2012. In addition, as I highlighted earlier, our Board recently approved a dividend increase for the fifth consecutive year.

Our financial position is strong from a balance sheet perspective, net debt at the end of September was $44.6 billion and our net debt to adjusted EBITDA ratio is about 1.3 times.

Let's now move into a review of the segments starting with Wireless on slide 7. Our Wireless business had another impressive quarter with solid growth in postpaid connections, the highest retail service revenue growth we've seen since the second quarter of 2009 and faster growth in retail postpaid ARPU. In addition, our industry leading EBITDA service margin improved to a record high 47.8%.

Total revenue grew to $17.7 billion in the quarter, up 9.1% year over year. Retail service revenue, which includes both postpaid and prepaid, grew 6.9% year over year, 140 basis points higher than the 5.5% growth we reported in the second quarter. Postpaid service revenue, which represents 98% of retail service, grew 7.2% year over year.

Total service revenue grew 6.1% year over year; this rate of growth was impacted by a $61 million year-over-year decline in other service which is primarily roaming and wholesale revenue. Total data revenue grew to $6.1 billion in the quarter, up 20.5% year over year. Data now represents 40.6% of our total service revenue.

Growth continues to be driven by Web and e-mail services which increased to $3.7 billion this quarter, up more than 36% from a year ago. Messaging, which makes up just under one-third of data revenue, grew at just over 5% on the year-over-year basis.

Let's take a closer look at connections growth on slide 8. We continue to gain share in the retail postpaid market and lead in 4G LTE. Retail customer growth continues to be driven by steady demand for our unmatched portfolio of 3G and 4G LTE handsets and Internet data devices and, of course, on the reliability of our premier network.

During the third quarter we added over 1.3 million total connections, 882,000 were retail postpaid net adds; 86,000 were retail prepaid; and roughly 367,000 were wholesale and other connections. Importantly, 52% of the retail postpaid net adds in the quarter were 4G LTE Smartphones and Internet data devices, up from 30% in the second quarter.

Our $50 monthly unlimited prepaid phone offer was only available nationwide since September 15, which was not long enough to affect the quarter. We are optimistic that this will help our retail prepaid performance in the fourth quarter.

Total device sales, both gross adds and upgrades, while relatively strong were down about 5% sequentially this quarter, due primarily to customer anticipation of the next version of the Apple iPhone. Retail postpaid gross adds totaled 3.3 million, up about 3% year over year but lower sequentially. The percentage of customers upgrading was also lower than the prior two quarters.

The continued demand for our Wireless products is not only driving growth in connections and revenue but also strengthening our industry-leading customer loyalty. Our churn metrics this quarter were once again excellent with retail postpaid churn of only 0.94%, a 13 basis point improvement over the same quarter last year.

Next, let's turn to slide 9 and take a closer look at Smartphones and retail postpaid ARPU. We continue to make progress in terms of Smartphone sales, increasing the Smartphone penetration of our retail postpaid phone base to 39% from 36% last quarter. A year ago that penetration was 24%.
We sold 5.6 million Smartphones in the quarter representing 60% of all postpaid phone sales compared with 43% a year ago. More than half of the total Smartphones sold this quarter were Android phones either 3G or 4G; another 35% or 2 million were iPhones, bringing our year-to-date total to 6.5 million. We anticipate that the strong demand we’re seeing for the new iPhone 4S will bring even more new customers to the nation’s most reliable Wireless network. We sold a total of 1.4 million 4G LTE devices in the quarter, just over half of these were Smartphones and the rest were Internet data devices.

Shifting now to ARPU, retail postpaid ARPU was $54.89, up 2.4% year over year which is a 50 basis point improvement in growth from last quarter. Keep in mind that that is a blended metric. Retail postpaid phone ARPU is about $56 and grew 3.7% year over year, showing good accretion from 3.2% growth last quarter.

Internet data devices have an ARPU of about $49. While the growth of these devices is diluting our postpaid ARPU growth at this time, expanding this category remains a key strategic focus for us. We continue to see strong demand for our 4G LTE mobile Hotspot devices and PC cards as well as tablets. This category of devices represents nearly 8% of all our retail postpaid subscriber base.

I would also note that these data-only devices typically carry a much lower subsidy than phones. They have a very short payback period and contribute to profitability fairly quickly. In addition, the migration of data traffic from our 3G to our 4G network will enhance our capital and operating efficiency and will help us drive improved returns going forward.

Let’s conclude our Wireless segment review with a discussion about profitability on slide 10. In the third quarter we generated $7.2 billion of EBITDA, an increase of 7.5% year over year, and expanded our service EBITDA margin by 240 basis points sequentially to 47.8%. This is an extraordinarily strong result.

Our margin improvement goes beyond the fact that device sales were lower this quarter. Higher retail service revenue and our intense focus on cost efficiency are clearly helping to mitigate the cost of higher equipment subsidies. In addition, we continue to lead the industry in customer loyalty, which we believe is a testament to the quality and reliability of our network and to the overall customer experience. We continue to execute very well on our strategy of increasing growth and profitability.

Let’s move to our Wireline segment next on slide 11. As I said earlier, the third quarter posted challenges to the Wireline business and as a result some of our key financial performance metrics were adversely affected. Setting aside these impacts, total Wireline revenue in the quarter remained steady.

Consumer revenue grew 1.1% year over year with FiOS revenue up 18.5%. In global enterprise revenue growth was 2.1% year over year driven by strategic services growth of 15.6%. Strategic services are becoming a much larger portion of our revenue mix now representing nearly 50% of total enterprise.

From a profitability perspective, segment EBITDA in the quarter decreased $160 million or 6.9% year over year. We’ve estimated that the storms and the strike cost us $250 million in the quarter, causing the Wireline EBITDA margin to decline sequentially to 21.4%.

Let’s take a closer look at our revenue performance starting with mass markets on slide 12. Consumer revenues were $3.4 billion, up 1.1% versus last year. Consumer ARPU continued to increase and is now over $94. Residential access line loss this quarter was 8% compared with 9.6% a year ago.

FiOS now represents nearly 60% of consumer revenue. The increasing scale of the FiOS platform is significant enough to more than offset the secular and competitive pressures in the consumer landline business. The storms and the strike caused customer growth in FiOS to be lower than prior quarters. In FiOS TV we added 131,000 subscribers in the quarter bringing our total to 4 million and increasing our penetration to 31%.
On the broadband side we added 138,000 new FiOS Internet subscribers in the quarter, increasing our FiOS Internet customer base to 4.6 million representing 35% penetration of homes open for sale. By adding in our 4 million high-speed Internet or DSL customers we ended the quarter with a total of 8.6 million broadband connections adding a net positive 20,000 broadband connections this quarter.

While we always have a healthy FiOS pipeline, our installation backlog spiked to roughly 1.8 times at its peak in early September. We ended the quarter at about 1.2 times our typical pipeline and have been actively working through these orders in October. In the fourth quarter we expect to add more than 200,000 FiOS Internet and TV subscribers.

Let’s move next to our business markets on slide 13. In global enterprise increases in strategic services continue to drive year-over-year revenue improvement led by a very strong growth in advanced services such as managed network, call center, IP communications and our cloud offerings.

The inclusion of Terremark added about $100 million to revenue this quarter. As a result of our improving sales mix the absolute dollar growth in strategic services once again outpaced the decline in core enterprise services.

International revenue, which makes up approximately 15% of global enterprise, grew 9.8% year over year. In global wholesale, while revenues declined 9% year over year the rate of decline is moderating on a sequential basis.

As we’ve discussed, our route rationalization strategy resulted in a substantial decline in international voice revenue which has impacted year-over-year comparisons. We made these price changes in 2010 and have one more quarter to work through before the comparative impact of these actions moderates.

In the third quarter this accounted for a revenue decline of about $90 million year over year. Absent these effects second-quarter global wholesale revenues declined 5.8% year over year. This decline is primarily in domestic voice where we continue to experience secular pressures and lower usage volumes.

I will wrap up now on slide 14. Back in January when we talked about our 2011 priorities I said this year would be all about execution. Now that we are three quarters through the year our results demonstrate solid execution on our strategy. We are on track to meet our guidance for revenue and earnings growth as well as capital spending in spite of the challenges that impacted us in the third quarter.

We have great momentum in Wireless and we expect to build on that strength. We are geared up for an exciting fourth quarter with a host of new Smartphones, tablets and data devices coming to the market. Earlier this week we announced the Droid RAZR by Motorola, the world’s thinnest 4G LTE Smartphone.

In FiOS we expect to get back on track quickly, driving higher penetration in existing markets and effectively capturing pent-up demand in new markets. In the enterprise space we are also gaining momentum as a leading global provider in the information technology solutions space.

The integration of Terremark and the recent acquisition of CloudSwitch have significantly improved our competitive position. We now have a unique set of capabilities to combine solutions around the network, data center, security and cloud infrastructure that allowed Terremark to achieve record new sales bookings in the third quarter.

More and more CIOs are recognizing the value of our enterprise solutions, which is helping us to effectively manage through some pockets of economic pressure in the small and mid-size business markets. Our financial objective is to continue to increase free cash flow through improved operating performance, disciplined capital spending and the efficient use of working capital. Our balance sheet is strong and we have a very competitive dividend. With that I will turn it back to John so we can get to your questions.
John Doherty - Verizon Communications Inc. - SVP of IR

Thanks, Fran. Brad, let’s open it up for questions, please.

QUESTIONS AND ANSWERS

Operator


Jason Armstrong - Goldman Sachs - Analyst

Fran, a couple questions, first on Wireless. If we look at retail service growth, I think as you mentioned, up 6.9% -- that’s a big step up sequentially. But when we look at the total service growth line up 6.1%, I think that’s been weighed down a bit, as you mentioned, by roaming. Can you just help us think through that and when some of that pressure might abate?

And then second question, just on Wireline margins, sort of excluding the storm and the strike costs, were up 10 basis points sequentially. That’s the fourth straight quarter we’ve seen sequential improvement. As we look forward can margins expand further from here? What’s the outlook? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

So first, let’s talk about the Wireless segment on the service revenue. So overall 6.1%, that was down from 6.6% in the second quarter. Before I get to that explanation, just a couple things to highlight here. As you mentioned, the retail service revenue from 5.6% to 6.9% and then retail postpaid from 6.2% to 7.2%.

And as you recall back in the second quarter I reiterated that we were on a glide path to accelerate our ARPU growth and our revenue growth into the third quarter and I continue to see that ramp going into the fourth quarter.

Now as far as service revenue goes, we did have a $61 million decline in wholesale and other and the majority of this was all related to the Alltel properties and that traffic moving off of our network. So as far as going forward, that traffic is gone. But just keep in mind, that revenue stream is less than 4% of our total revenue, so it really has no impact on the bottom line per se and that’s why we’re focused in on the entire postpaid base area.

Now as far as Wireline goes, what I would say is that when you consider the storms and all of that and then from a perspective of the backlog that we have, both on the FiOS side and also the enterprise side, this leads into what will continue into the fourth quarter. And I think we’ve been very clear that both Lowell’s and my objective is to improve the overall profitability and cash flow of the Wireline unit.

And what I would say is that we will increase the margin in the fourth quarter. I think there will be some echo effect here from the backlog on a top-line basis in booking that revenue. Now having said that, Terremark did have an outstanding September and that revenue will flow in the fourth quarter.

So at this point I think it’s too early to tell exactly where we’ll end up. We started to recover from the storms on the installation side the last three weeks of the third quarter. FiOS adds actually came in better than we thought. Originally we thought we’d be about a 50% run rate, we came in higher than that. So we’re starting to eat into that backlog and it’s a fact of how quickly we can get there.
**Jason Armstrong** - Goldman Sachs - Analyst

Great, thanks.

**John Doherty** - Verizon Communications Inc. - SVP of IR

Thanks, Jason. Brad, next question please.

**Operator**

John Hodulik, UBS.

**John Hodulik** - UBS - Analyst

This may be a follow up to Jason's last question there. Could you give us more detail on the $0.05 of storm-related costs and maybe break that out a bit? And I guess similar to his question -- I guess you're suggesting that we're going to see some more expenses in 4Q given the backlog. I'm just trying to get a sense if the margins in 4Q snap back to 2Q levels or what the delta will be?

And then I guess while we're still talking about margins, you benefited from somewhat fewer upgrades, fewer Smartphone sales. As we look at the margins on the Wireless side on the 4Q should we expect that to reverse given the people waiting for the iPhone and then the typical seasonality we see in 4Q? If you could just give us a sense of how you expect that to fall out in the fourth quarter that would be great. Thanks.

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

Thanks for the question on the storms. As you know, this was an experience unprecedented from Hurricane Irene and the tropical storm Lee over a very short period of time. In speaking with our operating people, these storms were a really big deal for us. They produced really strong winds, about 20 inches of rain across our entire footprint, damage to our outside network facilities, fallen lines.

Just to give you an idea of how severe this storm was, we had over 4,000 poles down which damaged countless cables, 820,000 more dispatches in our core which was two times our normal, we had about 254 central offices running off of generator because of power outages. So this stormy was a extremely significant impact to our normal operating results.

Having said that, I think the team has done an unbelievable job in getting the repair and maintenance queue back into a relatively normal position. There's probably a couple more weeks here and then we'll be back running very clean there. And as I said, we recovered late in the third quarter from an installation perspective, but there will be some trickle affect here into the fourth quarter.

And it's more of a top-line issue I think in getting this revenue installed and booked and recorded than it is more of an expense issue, although I think there still will be some trickle of overtime into the fourth quarter in getting this back to speed. But the projectory -- I guess the way I would say it is we've been on a very good momentum in improving the overall Wireline margin, we've had a bit of a setback here due to the storm, we'll get back on track.

As far as the Wireless margin goes, what I would say there is this goes beyond just less devices sold. This is -- we had a $1.8 billion program at the beginning of the year for Wireless to reduce cost, we're $1.6 billion into that program of savings recorded...
from logistics and real estate and customer service centers and other things that Wireless has worked on. So it's more just around less devices, it's more around operating the most efficient business in the industry from a Wireless perspective.

John Hodulik - UBS - Analyst
Great. Thanks, Fran.

John Doherty - Verizon Communications Inc. - SVP of IR
Thanks, John. Brad, can we take the next question please?

Operator
Phil Cusick, JPMorgan.

Phil Cusick - JPMorgan - Analyst
Quickly just to follow up on John's comment and then a bigger question. With Wireline margins maybe dragged a little bit in terms of rebound in the fourth quarter and Wireless probably down in 4Q, first you reiterated EPS guidance, but should we be think about sort of low end there? And is there any risk to the low end of that?

And then second, in terms of a bigger question, can you talk about what you're seeing from customers and the economy? We have seen -- enterprise decelerated a little bit here; wholesale, you talked about it improving sequentially. But what are you seeing out there in terms of what your customers are telling you both for this year and then their planning process for next year? Thanks, guys.

Fran Shammo - Verizon Communications Inc. - EVP & CFO
So let me hit the economy first. I think that overall from an economic impact we are still seeing some real severe impact in the small-business arena, some in the mid-tier. And again, it's not that we're losing more business competitors, that's pretty consistent. What it is is that the start-ups have not been created from an economic standpoint. So I think that's where the biggest issue is that we have from an economic standpoint.

Now having said that, the enterprise -- if you recall the first and second quarter we showed positive growth even when you take out Terremark. This quarter we showed growth with Terremark, about a 0.5% decrease without Terremark. And that was really more around the backlog of installing the new circuits and the new business because we were really focused on the repairs and maintenance side.

So that's going to -- I think we're going to improve here in the fourth quarter, we'll get quickly back on track. But from an overall enterprise perspective it is all around cloud services. So the Terremark asset, our security portfolio, those types of things are going to drive the enterprise business to where we need it to go. And then overall on EPS what I'll say is even given this extraordinary event in the third quarter we will hit our guidance that we gave in the beginning of the year.

John Doherty - Verizon Communications Inc. - SVP of IR
Thanks, Phil. Brad, can we take the next question please?
Operator
Simon Flannery, Morgan Stanley.

Simon Flannery - Morgan Stanley - Analyst
I wonder if you could update us on the labor negotiations, where we stand on that. And in particular, as we come to the end of the year, sort of the benefits outlook. Perhaps you can expand on the $0.07 charge and just talk us through what you think the impacts in the fourth quarter might be given the asset returns and given potential benefit changes as part of the union contract renegotiation? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP & CFO
As far as the union negotiations go, we continue to speak to the union. It's going like any negotiation goes. So as we said, this was going to be a marathon, not a quick negotiation and we continue with those negotiations. And at this point it's too early to tell where we'll come out.

We know what we need from a business, we need cost structural change in the Wireline business, it is not sustainable with 100% benefits being paid and 100% pension benefits. So these those things have to change.

And then there's a lot of work rules and other things that we need to change in order to run our business efficiently and be competitive with the cable companies and our other competitors. So from that perspective that's about it for the union negotiations.

On the fourth-quarter charge, it's really too early to tell because the discount rate won't be set until December 31. The return on assets, it really depends on your portfolio compared to what your assumptions were and at this point we don't know where we'll end up with that yet.

So I think it's premature to tell, but obviously there will be a mark to market adjustment in the fourth quarter. So beyond that there's really nothing else to disclose until we get to the end of the year and we get to the January call and we'll make sure that we explain everything that happened during that quarter.

Simon Flannery - Morgan Stanley - Analyst
And the $0.07, Fran?

Fran Shammo - Verizon Communications Inc. - EVP & CFO
Well, on the $0.07, this was an impact we had to take a charge in the management plan and it's really around the GAAP settlement accounting charges. So it is what it is from a GAAP perspective and it's because the lump sum payments exceeded the periodic expense and in GAAP you have to take a settlement charge when that happens and that happened this year -- for the quarter, I'm sorry.

John Doherty - Verizon Communications Inc. - SVP of IR
Thanks, Simon. Brad, can we move on to the next question please?
Operator
Jennifer Fritzsche, Wells Fargo.

Jennifer Fritzsche - Wells Fargo - Analyst
Fran, we’ve all seen the big numbers that AT&T has put out with the iPhone 4S and I know the iPhone is clearly, as you indicated, an important part of your portfolio. But as we look at this kind of next generation of the device, how do you see it? Because with just over a third of your base having Smartphones, in my view you have a clear opportunity for upgrades.

So with this device as other iPhone users come off contract it also gives you a huge opportunity to maybe win back some new gross adds that maybe you lost when AT&T first had it. And can you just comment, as you look at this mix of this device how do you balance those two opportunities?

Fran Shammo - Verizon Communications Inc. - EVP & CFO
As far as the iPhone 4S goes, we’re extremely pleased with our sales. We ran out the first day, we are on allocation from Apple, we continue to be an allocation and we continue to be in backlog from the first 24 hours. So we’re extremely pleased with that.

What I will tell you, I’m not going to get into volumes, it’s too early in the quarter as to how many phones I’ll potentially sell. But what I will say is that the ratio of upgrade and new on the Apple phone has not changed pre- and post-launch. So we continue to generate that 20% new with around 80% upgrade. So we feel that third-quarter performance will continue into our fourth-quarter performance.

And then from an overall device perspective, the lead that we have around LTE 4G and the 15 devices including notebooks that we have in that ecosystem is unsurpassed by any competitor. And I think we have a strategic advantage here and we sold more 4G devices this quarter than we did last quarter.

I will tell you that if you look at our Internet devices, about 95% are all now 4G LTE and that’s a big deal for us because that means we are now moving high-end users on MiFi and dongles off a 3G network onto 4G which obviously frees up spectrum and reduces our capital expense which you saw here in the third quarter. So we’re executing on the strategy that we laid out and I think we’ll have a very successful fourth quarter with our portfolio layout of devices.

Jennifer Fritzsche - Wells Fargo - Analyst
Great, thank you.

John Doherty - Verizon Communications Inc. - SVP of IR
Thanks, Jennifer. Brad, can we move on to the next question please?

Operator
Michael Rollins, Citigroup.
Michael Rollins - Citigroup - Analyst

Real quick, can we just get an update as to where the Wireless net debt is at the end of the third quarter? And then secondly, going back to the Wireline side, can you give us a bit of an update on where the non-FIOS territory stands in terms of performance, your need or interest to invest further in that footprint to improve broadband capabilities? And where that piece of the portfolio sits strategically for you? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

So from a net debt on Wireless, they have gross debt of $12.5 billion, cash on hand of $9 billion, net debt is $3.5 billion. On the Wireline side in the non-FIOS areas, obviously our strategy is to complete the 18 million build for FIOS and transition that. And as you know, we've really concentrated on investing in FIOS and curtailing the investment in the copper network and moving people from copper to FIOS. And that is a big strategic initiative that Lowell has set out for the business to accomplish.

Now those lines that are outside that FIOS and outside of any potential of passing over with FiOS we will continue to be competitive in this area but I think it's going to be around LTE. We're not going to invest a lot of capital in the copper core network in those outlying areas. But I think we have a strategic bundle that we can go into those households with, give them a better experience than their currently having on their DSL line from a bundling of the Wireless portfolio that we have. So that's the strategy that we're going to deploy.

Michael Rollins - Citigroup - Analyst

And Fran, just to follow up on that. Is there any thought of taking that non-FIOS bundle of presumably LTE broadband LTE voice, what about taking that more nationally and making that more of a national product for you versus just maybe an out of FiOS region but in territory Verizon product?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, we are. And you're going to see that come in the fourth quarter with the -- what we now call the Cantenna which is not a commercial name obviously, but it's the antenna that we actually trialed with DIRECTV, which was extremely successful. And again, the benefit of this antenna is it operates the spectrum extremely efficiently.

So if you look at a MiFi card or a dongle, this is very, very efficient, way above those two devices which is why it's critical to have that bundle with that Cantenna. So when we launch that you're going to see us go nationally with that type of an offer.

Michael Rollins - Citigroup - Analyst

Thanks very much.

John Doherty - Verizon Communications Inc. - SVP of IR

Thanks, Mike. Brad, let's move onto the next question.

Operator

David Barden, Bank of America-Merrill Lynch.
David Barden - BofA Merrill Lynch - Analyst

Fran, if I could just do two quick ones. Number one, are you able at this stage of the game to maybe size the upside opportunity that you guys have from this potential inter-carrier comp refresh that we're expecting to come potentially at the end of the month and get implemented next year?

And then second, you called out the Alltel roaming impact in the quarter. Obviously Sprint has a game plan where over the next two years they're saying that they want to get rid of about $1 billion in roaming expense from refreshing their network. Could you kind of tell us what your exposure to Sprint is and how you think about the roaming impact on 2012 and beyond? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

So first, on the inter-carrier comp and I guess I'll lump in the USF here as well. We are fully supportive of the regulatory change the FCC is heading up, not exactly what the industry is looking at but really in the right direction of cutting the access charges immediately and then phasing them out over time. Complete overhaul of the USF cost subsidy, promoting broadband and getting away from the voice subsidy and moving that to broadband -- so we are all in favor of that.

As far as the inter-carrier comp goes, we have been a leader in this industry forcing this issue really from twofold -- one, to get a more systematic approach to the entire industry; and then also to really relieve the industry of the fraud and the traffic pumping schemes that are happening throughout.

So from a benefit overall perspective we are a net payer so obviously there will be some benefit, but there will also be some puts and takes within our own portfolio. So if you think about it Wireline probably won't have a benefit, but Wireless and VZB will.

So with each of the individual units, once we determine what the impact of the regulation is and the sizing of that, then we'll have a better understanding of what those benefits are and we'll share them at that time.

As far as the Alltel roaming and then into Sprint, I know there's been a lot of numbers cast out there, but the impact to us is nowhere near the numbers that are being reported. So all I will tell you is this, is that there has to be a lot of execution in order for that to happen. Our revenue is not material at all from Sprint.

So I think that there's a lot of numbers being thrown out, but not a lot of justification behind the number that is being thrown out, especially from where I sit on my side of the house. So I think we'll just have to wait to see what the execution of that plan is, but I don't think this is a near-term issue.

Operator

Brett Feldman, Deutsche Bank.

Brett Feldman - Deutsche Bank - Analyst

You talked earlier about how some of the margin strength you saw in wireless during the quarter was not just a function of a slowdown in gross adds ahead of the iPhone, but also some of the cost measures you put in place. If we think ahead, though, you will probably see a pretty meaningful improvement in your gross adds in the fourth quarter.
Just by thinking about this order of magnitude, if you were to end up in the fourth quarter with a high water mark for postpaid net adds, does that mean you would be at a low water mark for EBITDA margins? Or have you actually put in place enough operational cost savings that you could come in a little bit better than that?

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

I think I'll reiterate what I said at the beginning of the year, is we're going to have peaks and valleys here as phones come and phones go. Obviously, the fourth quarter every year due to holiday season, we tend to sell more phones. When we sell more phones, our margins will go down. But I think we've proven that even with the initial launch and now into where we are, we have managed both sides of the balance here. We've gone for growth. We are very concentrated on profitability and free cash flow.

So I'll think we'll wait and see how the fourth quarter comes out, but look, I mean, obviously, we are extremely focused on the profitability and the free cash flow of this business. So we will continue to be disciplined around capital and so forth and deliver what we need to deliver.

**Brett Feldman - Deutsche Bank - Analyst**

And just one quick point there since you mentioned cash flow. Maybe I missed it, but I don't think you talked about your CapEx outlook for the rest of the year. I think you said previously it will be flat year over year. Are you still looking for that or maybe a little lighter based on where you are with Wireless?

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

The guidance was $16.5 billion and I said that we would decelerate in the back half of the year and we are still right on track to deliver at that $16.5 billion. So if you do the math for the fourth quarter you'll see that Wireless will be about -- maybe slightly higher than what was in the third quarter but not much. And Wireline will be right on track. So $16.5 billion is where we'll end up.

**Brett Feldman - Deutsche Bank - Analyst**

Thank you.

**John Doherty - Verizon Communications Inc. - SVP of IR**

Brad, let's move on, please.

**Operator**

Mike McCormack, Nomura Securities.

**Mike McCormack - Nomura Securities - Analyst**

Fran, can you just make a comment -- AT&T is out there with -- I guess they ran out of inventory, but they're probably getting more in 4Q on the 3GS for free and also the lower price point on the iPhone 4. Do you guys have any thoughts on the competitive landscape going into or -- we're already in 4Q, but on trying to meet some of those offerings that AT&T is out there with?
And then secondarily, maybe just some commentary around your customers that signed up and have contracts on the iPhone 4, what is the behavior there? Are they coming back to you looking for an upgrade of the 4S and how are you reacting to that? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

So two things, Mike. I mean obviously, as we have said and continued to say in the past, when we compete on a [parable] basis we outperform and have outperformed the entire industry and we don’t think that will change. So we will compete extremely heavily even with another provider getting the Apple iPhone, it doesn’t really concern us. We will compete and when we compete head-to-head we generally win in that competition. So we’ll continue to out execute where we can and continue to deliver both profits and cash flow.

The other thing is that if you look at the net adds, I mean obviously that speaks for itself and we believe that will continue into the fourth quarter. Now as far as customers on the Apple 4 and the 4S, no, what we’re seeing is that, as you know, the Apple 4 can be upgraded with software to almost get to almost 95% of what the S has in it. Now it’s a long process to get that software upgrade in the phone, but for customers have come in and asked for the upgrade and that’s how we’re handling that.

Mike McCormack - Nomura Securities - Analyst

Just one more if I can. On the digital voice connection -- it’s kind of a random question -- but digital voice connections were 265,000 in the quarter, which is much higher than FiOS Internet and TV. Is there some sort of promotion you’re running there or how should we think about that?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

No, again, Mike, this goes to our strategy of moving people to the new technology. And there’s really a two phased approach here. As we move people to FiOS obviously our operating cost structure gets benefited by almost two times because the amount of truck rolls that I have on copper versus FiOS is about two times.

So by moving those customers off copper onto digital FiOS I eliminate the copper truck roll into that home. So it is all around a strategy of eliminating the amount of folks I have on copper and the reduction of our operating expenses in the Wireline business.

Mike McCormack - Nomura Securities - Analyst

Makes sense. Thanks, Fran.

John Doherty - Verizon Communications Inc. - SVP of IR

Thanks, Mike. Brad, can we take the next question please.

Operator

Chris Larsen, Piper Jaffray.
Chris Larsen - Piper Jaffray - Analyst

A couple questions on Wireless as well. One of the things I think that you guys have looked at doing to help margins is extend the upgrade rates. And I know we've had questions on the iPhone, but can you talk a little bit about some of the things that you've done including eliminating the new every two program and where your upgrade month to upgrade has been moving?

And then secondly, I saw that – it looks like prepaid, nice or decent growth here this quarter. Can you talk a little bit about the competitive environment around prepaid and what’s going on there? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

So on the upgrade rate, we were actually at 8.6% this quarter, so that was slightly down from the past two quarters of 9%. So the upgrade rate is pretty much steady as a course and of course the decline in the upgrade rate this quarter was due to the people anticipating the new iPhone.

But from a change of policy, we changed that mid-year last year where we eliminated the new every two credit and some other things that we did and we really haven’t found any impact to the upgrade. What we have found is that not much financial benefit this year but there will be more financial benefit in 2012 by the change of that policy. So we think that was beneficial for us from a longer-term perspective.

On the prepaid side of the house we are starting to see some momentum here. As you know, we launched the Unleashed product on 9/15 which was the same time that we entered into our new distribution agreement with RadioShack. And really too preliminary to tell, but I believe that based on the preliminary effects of what happened since we did launch that product we will see some improvement in prepaid.

And I think I’m hopeful that if you eliminate the tablets from prepaid we will actually show some net add positive growth for the first time in a while in our prepaid voice category. So this month -- this quarter, just to clarify, our prepaid voice was down about 52,000, now that was an improvement from the second quarter which was 179,000.

So the Unleashed product and bringing the distribution of RadioShack has already started to show that improvement in the last 15 days of the quarter. So I think we’re going to compete extremely well in the fourth quarter on our Unleashed product.

Michael Rollins - Citigroup - Analyst

Thanks a lot.

John Doherty - Verizon Communications Inc. - SVP of IR

Thanks, Chris. Brad, can we move on and take the next question, please?

Operator

Jonathan Chaplin, Credit Suisse.

Jonathan Chaplin - Credit Suisse - Analyst

Just a clarification -- a couple of clarifications actually, first on CapEx. Fran, are we looking for $9.6 billion-ish in Wireless CapEx for this year if 4Q is going to be a little bit above 3Q? And then where does that go for next year just -- for Wireless specifically?
And then in terms of the impacts to wholesale ARPU, was the $60 million all AT&T -- stuff that you divested to AT&T that have now moved off of your network? Or was it moving revenues from the wholesale category to the retail category within the Alltel subs that you kept? Thank you.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

On the CapEx side the plan that's for Wireless is the $8.9 billion number and they'll come in on that number. And as far as next year goes, we're not going to talk about 2012 at this point. From a wholesale perspective not all $61 million of that was roaming, I said the majority of it was, there was some decline in our reseller base as well. But that was really just the properties of Alltel that they roamed on us and now they've converted it to their network.

So keep in mind, we sold those properties to AT&T, so they're their properties and they moved the traffic to their network which we planned for, we knew they were going to do it so it's not a surprise.

Operator

Thanks, Jonathan. Brad, let's move on to the next question.

Operator

James Ratcliffe, Barclays Capital.

James Ratcliffe - Barclays Capital - Analyst

If you could talk a little bit about the ARPU impact on voice you're actually seeing directly connected to operating the Smartphones, if customers actually are looking at that as an opportunity to tune their voice. And should we expect eventually Smartphones move toward the flatter part of the S-curve that the pressure on voice could abate? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Actually from a voice perspective, we've actually seen a little bit of an improvement on the dilution of the voice revenue. So we're not seeing any more change right now with people going to Smartphones and talking less on the phone. The dilution of that has been pretty consistent, but obviously the data and the ARPU on the overall customer is increasing. So we had a very nice ARPU increase this quarter and I expect that to continue into the fourth quarter.

John Doherty - Verizon Communications Inc. - SVP of IR

Thanks, James. Brad, we have time for one last question please.

Operator

Peter Rhomey, BMO Capital Markets.
Peter Rhamey - BMO Capital Markets - Analyst
Fran, you talked about scaling efficiencies in Uverse as you’ve curtailed your network deployment. And of course you’re only marketing to just 13 million, 14 million homes right now. I was wondering if you could take us through whether that’s going to be a material margin improvement on a go-forward basis in Uverse and whether we’d see it in consolidated results. Or is it just directionally a positive for your Company on Wireline? Thank you.

Fran Shammo - Verizon Communications Inc. - EVP & CFO
So, Peter, I’m assuming you’re talking about FiOS, right?

Peter Rhamey - BMO Capital Markets - Analyst
FiOS, excuse me, my apologies.

Fran Shammo - Verizon Communications Inc. - EVP & CFO
Just from an overall perspective, the biggest cost content of FiOS is obviously content. But the profitability of FiOS continues to increase quarter over quarter as we monitor it. The operating income is continuing to improve, so the operating efficiency of FiOS is there. The issue that Lowell has set out for the business, which is the absolute right strategic decision, is move folks off of copper onto FiOS because the operating efficiency of FiOS is far better than the operating cost of the legacy copper network. So I think as we do that we will continue to show the momentum of Wireline overall margin improvement going forward.

Peter Rhamey - BMO Capital Markets - Analyst
Great, thanks for the answer.

John Doherty - Verizon Communications Inc. - SVP of IR
Thanks, Peter. And thanks, everybody, for joining us this morning. Brad, that concludes our call.

Operator
Ladies and gentlemen, that does conclude the conference call for today. Thank you for your participation and for using Verizon conference services. You may now disconnect.
DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies’ most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY’S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY’S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY’S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2011 Thomson Reuters. All Rights Reserved.