OVERVIEW:
Management discussed 2Q12 results, reporting EPS of $0.64 on consolidated revenues of $28.6b.
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
Simon Flannery  Morgan Stanley - Analyst
Phil Cusick  JPMorgan - Analyst
Jonathan Chaplin  Credit Suisse - Analyst
Michael Rollins  Citigroup - Analyst
David Barden  BofA Merrill Lynch - Analyst
Mike McCormack  Nomura Securities - Analyst
Brett Feldman  Deutsche Bank - Analyst
Thomas Seitz  Jefferies - Analyst
Kevin Smithen  Macquarie - Analyst

Presentation

Operator

Good morning and welcome to the Verizon second-quarter 2012 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 second-quarter 2012 earnings conference call. Thanks for joining us this morning. I am John Doherty. With me this morning is our Chief Financial Officer, Fran Shammo.

Before we get started, let me remind you that our earnings release, financial and operating information, the 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 contains certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are also available on the website.
Before Fran takes you through the details of our results, I would like to cover a few items upfront. Second-quarter earnings per share were $0.64, up 12.3% from last year and $0.05 higher than the first quarter. Through the first half of the year, EPS of $1.23 was 15% higher than a year ago. There were no special items of a nonoperational nature included in our reported results for the second quarter or the first half of this year or the comparable periods in 2011.

In terms of activity below the operating income line, you will note that equity and earnings from unconsolidated businesses, which is primarily our minority interest in Vodafone Italy, declined about $50 million this quarter due to the continued economic pressures in Europe. This represents about $0.02 in earnings per share. Other than that, there was nothing unusual in terms of other income, interest or income taxes.

I’d also point out that the quarterly growth rates disclosed in our presentation slides and during our formal remarks are on a year-over-year basis unless otherwise noted as sequential. With that, I will turn the call over to Fran.

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

Thanks, John. Good morning, everyone. Before we get into the details, let me start with a few comments about our financial results. We continue to execute well across the entire business. Solid top-line performance combined with a strong focus on profitability and cost management has resulted in double-digit growth in operating income and earnings per share for the last two quarters.

This strong operating performance, together with our disciplined capital spending, is driving significant increases in free cash flow, resulting in capital efficiency gains and an improving return on investment profile for the entire business.

Through the first half of the year, we generated $7.8 billion of free cash flow, which is more than twice the amount we generated in the first half of 2011. The Wireless business is firing on all cylinders, and our strategic actions and results clearly demonstrate our position of leadership in the industry. We continue to post strong growth in retail service revenue, driven by increased smartphone penetration, Internet device adoption and new customer additions.

In the second quarter, this top-line growth, combined with effective cost management and excellent customer retention, resulted in our record-setting EBITDA service margin of 49%, which surpassed our previous high of 47.8% in the third quarter of last year.

In Wireline, consumer revenues were up 2.5%, which was the highest growth rate we’ve seen in several years. While we continue to face challenges in the enterprise and wholesale markets, we are confident that the decisions we are making and the actions we are taking are the right ones for the long-term.

We are intensely focused on profitability management, and key actions related to this include product portfolio rationalization, targeted pricing moves and cost management initiatives. I will go through these in more detail during our segment review. In time, these actions will result in improved Wireline profitability.

In spite of some revenue softness this quarter, we were able to increase the EBITDA margin by 50 basis points sequentially to 23.1%, and our objective is to have a stronger EBITDA margin in the second half of 2012. Overall, a strong second quarter and first half, putting us solidly on track to meet our financial objectives for the year.

Let’s begin our review with a look at consolidated results on slide four. We sustained solid consolidated growth trends in the quarter with contributions from all strategic areas. Consolidated revenue grew to $28.6 billion, up 3.7%. Our focus on expense controls helped drive double-digit operating income growth of 15.5%.

To put this in perspective, while consolidated revenue increased $310 million sequentially, operating income is up over $450 million. This clearly demonstrates that our product rationalization, cost management and process improvement efforts are starting to pay off. We continue to be very focused on improving profitability, moving more of every dollar we generate to the bottom line. Consolidated EBITDA grew to $9.8 billion, and our margin expanded to 34.2%, up 150 basis points on both a year-over-year and sequential basis.
The upshot is an improved earnings growth trajectory for this year. As John indicated in his introductory remarks, we posted better than 12% EPS growth in the second quarter, and we are up 15% year to date, which is at the upper end of the guidance we provided in January of last year.

Let’s turn now to cash flow and capital spending on slide five. Our free cash flow this quarter increased $3 billion sequentially to $5.4 billion, driven by a 56% increase in cash from operations and reduced levels of capital spending. Capital expenditures totaled $3.9 billion in the quarter, a decrease of about $690 million compared to last year. For the first half, capital spending of $7.4 billion was down more than 16% year-to-date. Our outlook for the full year is flat to down versus $16.2 billion in 2011. We continue to expect our annual CapEx-to-revenue ratio to decline, based on improving revenue trends and disciplined capital spending.

In Wireless, CapEx in the second quarter was $2 billion, which was 23% lower than last year. Through the first half, Wireless capital of $3.9 billion was down 27% year-over-year. You will recall that in the first half of last year, we were spending more for 3G capacity in connection with our initial launch of the iPhone. Going forward, we expect to see continued migration of traffic from 3G to our lower-cost 4G LTE platform, which will drive further improvements in operating and capital efficiency. We will also continue expanding our 4G LTE network coverage, which is already the largest in the nation by a wide margin.

In Wireline, we spent $1.6 billion in capital during the second quarter, 5.3% less than last year. Through the first half, Wireline capital was essentially flat with last year at $3.1 billion.

Our balance sheet and credit metrics remain very strong. Total debt of $52.4 billion is down $2.8 billion since the end of last year. Net debt was $42.4 billion at the end of June, and our net debt to adjusted EBITDA ratio was about 1.2 times.

Let’s now move into a review of the segments, starting with Wireless on slide six. Our Wireless business had another very impressive quarter, sustaining strong growth in retail service revenue, higher retail postpaid ARPU growth and excellent cost and churn management, resulting in our highest EBITDA service margin ever.

Total Wireless revenues of $18.6 billion grew 7.4% and now represent 65% of Verizon’s consolidated revenue year-to-date. Our revenue results were driven by 8.6% growth in retail service revenue. Postpaid revenue, which makes up most of retail service, grew 8.3%. Retail prepaid revenue was also very strong, up 27.2%, the highest growth we’ve seen in four years.

Total service revenue grew 7.3% this quarter and is up 7.5% year-to-date. Data, which represents almost 44% of service revenue, grew 18.5% to $6.9 billion in the quarter. Retail postpaid data revenue grew more than 20%.

Let’s take a closer look at connection growth on slide seven. We continue to gain share in the retail postpaid market, driven by sustained demand for our 3G and 4G LTE handsets, tablets and Internet devices, with the unmatched service quality of the nation’s largest and most reliable wireless network. We have an industry-leading 94.2 million retail connections, with nearly 89 million postpaid and more than 5.3 million prepaid. During the quarter, we added 1.2 million new retail net connections, 888,000 postpaid and 290,000 prepaid.

Before we discuss prepaid in more detail, I would highlight another strong quarter of retail prepaid performance, with a 24% sequential increase in net adds. Similar to last quarter, tablets represented a little more than half of the adds; however, this quarter, 95% of our prepaid tablet editions were 4G LTE, which is key from the standpoint of better operating and capital efficiency.

In postpaid, our 888,000 net adds represent a substantial sequential increase from 501,000 in the first quarter. Our porting ratios with the major carriers continue to be strong and our churn metrics remain excellent. Retail postpaid churn of 0.84% is the lowest we’ve seen in four years.

Postpaid gross additions in the quarter were just over 3.1 million, up about 3% sequentially. As expected, upgrades were lower sequentially, with about 7% of our postpaid base upgrading devices in the quarter. In addition to increasing smartphone penetration, we also continue to make good progress with Internet devices, which include postpaid tablets. In the second quarter, about 90% of the Internet devices sales were 4G LTE. We are far and away the market leader in this space, with more than 7.5 million Internet device connections in our retail postpaid base.
Next, let’s turn to slide eight and take a look at smartphone and retail postpaid ARPU metrics. We had another strong quarter of smartphones sales, increasing the penetration of our retail postpaid phone base to 50%. Once again, an increasing majority of retail postpaid phone sales were smartphones, 73% compared with 60% a year ago. During the second quarter, we activated 2.9 million Droid smartphones, 2.5 million of which were 4G LTE, and 2.7 million Apple iPhones, up from 2.3 million a year ago.

During the second quarter, 25% of iPhone sales were gross adds or new to Verizon, with 75% representing upgrades from existing customers. In terms of 4G phone sales, 20% were new to Verizon and 80% upgrades. Importantly, more than 40% of customers upgrading this quarter were buying a smart phone for the first time. Retail postpaid ARPU was $56.13 this quarter, up 3.7%, which was higher than the previous record growth of 3.6% last quarter.

In terms of the mix, retail postpaid phone ARPU of about $58 grew 4.9%, while Internet device ARPU of about $47 declined 6.6%. As expected, Internet device ARPU has become less dilutive to blended postpaid ARPU and growth. In addition, these devices continue to generate double-digit service revenue growth. Our 4G LTE deployment has expanded the market for these devices, all of which enable higher usage of our network.

Our Share Everything plans, which became available on June 28, represent a new and innovative pricing framework, providing a unique customer value proposition and at the same time creating an optimal way for us to monetize increasing data usage. The strategic thrust of these plans is to encourage device adoption and stimulate usage. Our plans are designed to make the decision to upgrade to a smartphone or add a tablet much easier. By allowing up to 10 devices to share data, these plans also provide for the creation and adoption of all kinds of new connected devices.

Early feedback has been great, and our customer adoption is tracking with our expectations. We are seeing a wide variety of customers and family share accounts opting into Share Everything, including existing smartphone customers with unlimited data plans.

Let’s turn to slide nine, as I’d like to spend a few more minutes talking about the strength of our 4G LTE leadership. We are by far the market leader in 4G LTE coverage, which is now available in 337 markets covering more than 230 million POPs, which is nearly 75% of the US population. In point of fact, we have more 4G LTE coverage than all of our competitors’ networks combined. Throughout the year, we will continue expanding our 4G LTE network, with a goal of having a nationwide footprint similar to our 3G network by mid-2013.

We continue to be very pleased with 4G LTE adoption. Customer awareness of our 4G LTE network superiority is increasing, and our new brand advertising further positions us as the network of choice for 4G LTE. Sales of 4G LTE devices have risen steadily each and every quarter since we launched service about a year and a half ago. During the second quarter, 4G LTE smartphone sales increased more than 16% sequentially to 2.5 million units.

Nearly 11 million, or 12%, of our 89 million retail postpaid connections are 4G LTE. Roughly 70% are smartphones and 30% are Internet devices. Stated another way, about 19% of our smartphone base has a 4G LTE handset, and more than 43% of our Internet device connections are 4G LTE.

While these statistics are impressive in their own right, they also show we have lots of room to grow, which is a very positive indicator for us looking forward. Let’s conclude our Wireless segment review with a discussion about profitability on slide 10.

We generated $7.7 billion of EBITDA in the quarter, which is an increase of 15.8%, and expanded our EBITDA service margin by 270 basis points sequentially to 49%, again, a record high for us.

Our margin performance is once again a testament to our sustained ability to execute well on our strategy of balancing growth and profitability. The combination of sustained service revenue and ARPU growth, an intense focus on cost management, lower upgrade eligibility and consistently excellent churn metrics are contributing to our industry-leading margin performance.

We will continue to look at all opportunities within our cost structure to drive process improvements and operating efficiencies. As I have previously indicated, we have identified $2 billion in cost savings opportunities in Wireless, and we remain right on track to successfully capture these savings.
On the transaction front, our purchase of the AWS licenses from SpectrumCo, Cox and Leap Wireless are at varying stages of review by the FCC and the Department of Justice. We continue to expect approval and to close these transactions this summer.

Our plans for an open-sale process for our 700 megahertz A and B spectrum licenses are proceeding as planned, but of course remain contingent upon the closing of the AWS purchases I just mentioned.

The agreement we announced in late June with T-Mobile to exchange specific spectrum in the AWS band is also contingent upon the closing of those transactions. These license transfers also require FCC approval, which is expected later this summer. These transactions are good for all parties and the industry as a whole, as we facilitate the best first use of this spectrum for all players. We appreciate the constructive role the FCC has played in this process and look forward to securing approval.

Let’s move to our Wireline segment next, on slide 11. Second-quarter Wireline revenues were flat sequentially, but declined 3.1% year over year. From a profitability perspective, Wireline EBITDA declined 6% year-over-year, but improved about 2% on a sequential basis, with EBITDA margin moving up 50 basis points sequentially to 23.1% despite lower quarterly revenue.

Wireline revenue is affected by a number of underlying factors. On the upside, revenue growth is accelerating in the consumer market, driven by FiOS, which again, at 2.5%, was the highest growth we’ve seen in several years. Enterprise and wholesale revenue continues to be impacted by secular and global economic challenges, particularly in Europe, as well as by related foreign exchange movements.

In addition, as we indicated last quarter, we are also making deliberate and specific moves to rationalize and simplify our enterprise solutions product portfolio, eliminating products where they no longer make sense, reducing product complexity, streamlining services and consolidating networks to improve efficiency and product profitability. We currently have more than 700 different products and thousands of variations that are defined by particular geography, network or system. This portfolio simplification effort will dramatically improve our go-to-market speed and operations quality.

In the near-term, these actions create revenue impacts. Over time, however, the actions will result in margin benefits and improved profitability. We estimate that about 65% of the overall Wireline revenue decline this quarter was a result of our own deliberate actions to improve profitability. Examples include the de-emphasis of drop-ship CPE, the continued exit from certain international wholesale routes and contracts, decommissioning end-of-life products, like ATM, frame relay and IP VPN, no longer offering dry-loop DSL or selling DSL in FiOS markets, and exiting nonstrategic product lines like calling cards and payphones.

Again, we firmly believe that these are the right actions to be taking at this time. We are on the right track and I am confident that these product rationalization and process simplification initiatives, along with additional cost management actions, will improve the long-term profitability of the Wireline business.

Let’s take a closer look at revenue results, starting with mass markets on slide 12. Within mass markets, consumer revenue growth of 2.5% improved from 1.7% and 1.3% in each of the last two quarters. As a result of pricing actions related to set-top box rentals, triple-play bundles and higher data speeds available through our new FiOS Quantum offer, the outlook for accelerating consumer revenue growth in the next several quarters looks very encouraging.

Our residential connections trends also continue to improve. We lost 199,000 retail residential connections in the quarter, representing a 6.6% decline year-over-year, compared with a loss of 240,000 or 8.2% at this time last year. FiOS revenue grew 17.4% in the quarter and now represents 65% of consumer revenue. As a result of the increasing scale of FiOS, total consumer ARPU is now over $100, up 8.5% from a year ago. FiOS ARPU now stands at more than $149 per month, and 70% of our FiOS consumer customers are triple-play, with voice, Internet and video services.

In terms of broadband, we added 134,000 new FiOS Internet additions and now have more than 5.1 million subscribers, representing a penetration of 36.6%. We had a net loss of 132,000 DSL subscribers, which is higher than the last few quarters, primarily due to seasonality. We believe that the discontinuance of dry-loop DSL also negatively impacted net adds, but was clearly the right decision from a profitability standpoint.
In FiOS Video, we added 120,000 subscribers in the quarter, bringing our total to 4.5 million and increasing our penetration to 32.6%.

We continue to seek ways to drive the FiOS revenue growth, improve operating and capital efficiencies and maximize profitability. Key parts of this strategy include targeted pricing actions, further differentiating our services with the offers like FiOS Quantum, our copper-to-fiber migration in areas with chronic repair issues within FiOS markets, and a number of other cost management initiatives.

In light of these actions, we feel a more natural range for FiOS quarterly net adds going forward should be about 20,000 to 30,000 less than our previous range of 180,000 to 200,000. We are confident that at these levels we can still maintain an increasing revenue growth trajectory and expand profitability.

Let’s move next to our business markets, starting with Global Enterprise. Global Enterprise revenue was down $32 million sequentially, or less than 1%, but declined $136 million, or 3.4%, year-over-year. In addition to a $70 million impact from lower CPE sales in the quarter, foreign currency translation had an $84 million adverse impact on growth, as the stronger dollar versus the euro and pound sterling caused a decline in the current quarter compared with a benefit a year ago. Absent these effects, we would have had positive revenue growth, in spite of the continued secular and global economic challenges.

Strategic Services, which comprises 52% of Global Enterprise revenue, totaled $2 billion, up 4.4%. While we continue to perform well in these services, international and FX are having an adverse effect on growth at this time.

Looking ahead, we do expect our Enterprise business to contribute more to the overall Wireline revenue growth and profitability, particularly as we work through our product streamlining and process efficiency initiatives. Our strategic realignment of Verizon Enterprise Solutions will better position us to unlock value in the core business while better aligning our strength in high-growth markets like cloud computing, machine-to-machine and advanced communications. We remain confident in the strength of the Enterprise asset portfolio and the value it will generate over the long-term.

On the acquisition front, of our purchase of Hughes Telematics has passed the Hart-Scott-Rodino stage and we expect to complete the transaction in the third quarter. We look forward to combining Hughes Telematics robust service delivery platform and suite of applications with our global IP network, cloud, mobility and security solutions. We believe that this platform has the potential to reach beyond automotive and transportation and create new M2M opportunities in mobile health, asset tracking and home automation, to name a few.

Moving next to Global Wholesale, revenues in the second quarter declined $34 million or 2% sequentially and $203 million or 10% year-over-year, due primarily to declines in transport services. We continue to take all the necessary actions to exit unprofitable routes and contracts and to better position the business in the fiber-based ethernet data services space as customers with special access transition from DS1s and DS3s.

Let’s move now to our summary slide. Overall, a strong second quarter and first half, putting us solidly on track to meet our financial objectives for the year. We continue to execute very well. Our solid top-line performance in the first half of the year has been fueled by strong retail service revenues in Wireless and increasing growth in Consumer Wireline. Our record high Wireless margins in the second quarter, combined with our strong focus on improving profitability through product rationalization and cost management in the Wireline, has driven double-digit growth in consolidated operating income and earnings per share for the last two quarters.

This strong operating performance, together with our disciplined capital spending, drove significant increases in free cash flow and an improving return on investment profile for the entire business. We expect to continue to build on this momentum and look forward to a strong second half of the year.

With that, I will now turn the call back to John so we can get to your questions.
John Doherty - Verizon Communications Inc. - SVP of IR

Thanks, Fran. Before we jump into questions, I know that we are having some link issues with the IR website this morning. We are working on it and all of the typical documents will be available shortly, if they are not already. With that, Brad, let's take our first question please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jason Armstrong, Goldman Sachs.

Jason Armstrong - Goldman Sachs - Analyst

Couple questions. First, on the FiOS metrics, you just talked about sort of a new range for additions that I guess implies more like 160,000 to 180,000 adds per quarter going forward. You slipped a little bit lower than that this quarter. Can you help us think through that? You obviously talked about some price hikes. Are we also at a point where the base is large enough that 2Q seasonality in video, i.e. where it is negative and then rebounds in 3Q, is starting to catch up with the business as well?

And second question just on the Wireless distribution. It was roughly this time last year you announced intentions for a $10 billion upstream payment to the JV partners. Can you help us think through maybe a timeline for announcing the distribution for next year? And then given the stronger free cash flow you've seen in the business, would that point sort of conceptually to a bigger distribution? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Thanks for the questions. First, on the FiOS piece, just a couple things here. So, yes, there was -- we actually did have slower growth in this quarter than we anticipated, so a couple factors here. One was there was a seasonable -- unusually high move season in the month of June compared to prior second quarter. So we experienced some additional moves out. And normally in this business, it takes us a quarter to recapture the move in. So I think that partially was set off from a timing difference.

But more importantly, I think that we have we refocused more on a profit on the FiOS side. So first, we went through these price-ups. You saw some of the benefits there in the second quarter, where we drove our consumer revenue growth to 2.5%. And this was the price-ups of our set-top boxes, and you're going to see more price-ups coming in the third quarter around the bundles and into the fourth quarter.

In addition, we launched our Quantum product, and the price-ups that we have on people choosing additional speeds. I am extremely confident with both of these actions we can double our revenue growth by the end of this year, from 2.5%to around 5%, and I am very confident in that we can accomplish that. So one is we are really concentrating on revenue growth.

Second is, as you know, we've really concentrated around copper-to-FiOS migrations. We nearly doubled the amount of migrations we did in the second quarter versus the first quarter. And also what we are seeing is the first-quarter migrations that we accomplished, these customers are generating more ARPU post-migration than pre, because they are also selecting higher speeds under our Quantum offers.

So I think the range, as we said, is probably in the neighborhood of 150,000 to 170,000. I know you said 160,000 to 180,000 but it is around 150,000 to 170,000. But we are on a steady growth pattern, and I believe that we are really focusing in on better margins and acceleration of the top line.

On the Verizon Wireless dividend, I know there has been a lot of press lately out there, and I'm not sure where this idea is coming from. But I can tell you right now -- the only thing I will say is that there is no distribution on the agenda for the upcoming Verizon Wireless Board, and that is probably all I am going to say at this point in time.
Jason Armstrong - Goldman Sachs - Analyst
Okay, thanks.

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

Operator
John Hodulik, UBS.

John Hodulik - UBS - Analyst
Two quick ones for you on the Wireline side. First, Fran, thanks for all the info on the product rationalization on the wholesale side. But if you could give us some idea of when you think you should start to see some improvement. I think the 10% was a little bit worse than we thought. When do you think that could start to get better?

And second of all, if you could update us on the union contract and where you are in negotiations, that would be great.

Fran Shammo - Verizon Communications Inc. - EVP, CFO
On the wholesale side, 10% decline. This was accelerated from 8.9% in the first quarter. And to be honest, I think that we are fighting an uphill battle here on the core voice and LD product, and that will continue to decline. The focus right now is to reposition ourselves for ethernet and fiber-to-the-cell, and those products are picking up. And I think that, quite honestly, the range that you see here is probably the range that will continue, is somewhere between an 8% to 10% decline going forward. But again, this is a diminishing revenue stream, and we will continue to manage that stream.

On the union side of the house, as I mentioned before, when we entered into these negotiations, we knew that this was going to be extremely difficult and very hard negotiations, and it was going to be a long haul, not a short haul. And given our peers, it took them 500 days to get the contributions and some pension resets, and we are now almost a year into this, or 365 days.

So when you look at the profitability of this business over the last five years, it has decreased and this cost structure is not sustainable going forward. We really need as a business to address this cost structure in relation to the benefits, particularly healthcare contributions and pensions, and we need increased flexibility around our work rules, which some of these work rules date back to 1960.

So we aren’t asking for things that have not already been given to other companies. These are not new issues for the union. Many of our peer companies are already there. So we are standing strong on our position of cost restructure in this business. The negotiations are continuing, albeit slow, and the process will take as long as it takes for us. So at this point, that is what I will report on the union negotiation.

John Hodulik - UBS - Analyst
Great. Thanks, Fran.
Simon Flannery - Morgan Stanley - Analyst

Following up on the pension situation, have you had a chance to run the numbers on the new highway bill and the new discount rates and any impact they may have on your near-term pension contributions?

And related to that, you have talked about strong cash flow generation this quarter. Your leverage is in the low ones. How are you thinking about target leverage here, about dividend increases for Verizon Corporation and potential buybacks down the road? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

On the pension plan, we have looked at the bill preliminarily, but this is a very complex thing. I will tell you that at the beginning of this year, we said we would have to contribute $1.3 billion into the plan. We have $400 million left to contribute for the remaining piece of this year.

But I think there is other things that have to go into consideration here, other than just the timing benefit of this bill. First, you have to look at the borrowing rates. Second, you have to look at tax restructures and what the current rate is versus what future rates may be. And then you have to look at the overall pension strategy that we have related to our pension plan.

So at this point, I am not prepared to speak to whether we will adopt the funding plan or not adopt it. What I will tell you is it is not material to the cash flow, either this year or into the next three years. And again, it is just a timing issue. So I will have more to report on that as we complete our analysis and come into 2013.

As far as cash flow goes, we had an unbelievable quarter in cash flow from operation generation. Our continued focus in on investment and making the right investments to return additional investment on that and get greater returns, both in the Wireline and Wireless business, we’ve -- as I said, we really have curtailed the spending on our EVDO networks, which is generating more cash flow in the Wireless business.

But again, without really going into a lot of detail here, the dividend policy is extremely important. It is a Board decision, but it is very, very important to Lowell and I, and we will continue to recommend to the Board what we think is appropriate.

And from a share buyback, as I said before, I don’t think we are in a position to start buying back shares. It is always a timing issue for companies to when the best time to do that is, and at this point, we probably won’t be in a position to do anything like that until late ’13 or early ’14.

Simon Flannery - Morgan Stanley - Analyst

Great. Thank you.

Simon Flannery, Morgan Stanley.
Phil Cusick - JPMorgan - Analyst

You mentioned that some customers have been moving over to the new price plans. I wonder if you can give us an idea whether we should be looking for some ARPU headwind in the third quarter versus the rapid rate you have been growing before it starts to sort of be accretive maybe in next year. Thanks.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

It is very preliminary. We just launched this on June 28, so we just started in on this. I think some of the positive factors that we are seeing is that obviously your early adopters are always your optimizers. But to be honest, based on where we are at right now, we are actually tracking ahead of where we thought we would be, and we don't see any ARPU impact in the third quarter or fourth quarter. I think our trend will continue that we have established here in the first and second quarter.

And the benefit, though, that we do see is that we are seeing some 3G Unlimited customers move into our 4G shared data plan product, and that is excellent for us from a cash flow position on capital efficiency and cost reduction metrics. So there is some interesting things there.

And then again, the other thing on ARPU here is as Internet device ARPU continues to improve, that gives us better opportunity to accelerate our overall ARPU growth.

Phil Cusick - JPMorgan - Analyst

Thanks, Fran.

Operator

Jonathan Chaplin, Credit Suisse.

Jonathan Chaplin - Credit Suisse - Analyst

I'm wondering if you can give us some context of where you think sort of longer term over the next three or four years CapEx to revenues trends in Wireless.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I think that without giving a lot of guidance here beyond this year, which we said our overall capital plan will be flat to down from where we were last year, obviously, you can see that Wireless is utilizing capital extremely efficiently; down, I think now, almost for the year about $1.3 billion year-over-year. Our overall CapEx to revenue ratio in the first half of 2011 was 16.4%, and that is down to 13.1%. And as I said before, we are committed to continue to improve on that metric this year and continuing to '13 and '14, and I think we will leave it at that.

Jonathan Chaplin - Credit Suisse - Analyst

Thanks, Fran.

Operator

Michael Rollins, Citigroup.
Michael Rollins - Citigroup - Analyst

Just a quick side note. If you could just give us an update on the Wireless net debt at the end of the quarter. And then secondly, if you can go into a little bit more depth on what is happening in the enterprise business. Maybe you could help us size Europe or International for you versus US, and give us a sense of what Strategic Services would be growing at if you didn't have the European issues, if CPE influenced that, and so forth. Thanks.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

For the end of this quarter, gross debt on Wireless’s books is at $10.9 billion. On July 1, we actually paid down another piece of that debt of $800 million. The cash right now is $8.4 billion, so net debt at the end of this quarter was $2.4 billion.

On the Enterprise business, just to kind of set some of this up, as I said last quarter, our International revenue is about $400 million a quarter. We were growing close to 15% to 17% on a year-over-year basis, both within EMEA and in Asia. Last quarter, we said that we saw the first time that it actually went flat on a year-over-year basis, and this quarter we actually saw a decline on a year-over-year basis.

Strategic Services is about 75% of our sales in International, which is very different than it is here in the United States. So with the FX impact and the impact that Europe is having on that Strategic revenue stream, that is having an overall impact on the overall Strategic revenue growth.

I think the important thing here is the way we move forward is that we are really building our business around platforms. And if you look at what we've done, we are rated number one in the world on security. We have built our data center platform around our Terremark acquisition. And now we are going to build our machine-to-machine and applications platform around the Hughes Telematics. And I think that brings a different paradigm to us going forward.

So I am very optimistic on the Enterprise business. We are showing still some growth in Strategic Services, and I think if we didn't have the headwinds and some of these other economic pressures, I believe we are a double-digit strategic growth company. There should be no reason why we can't get back to those numbers that we showed in the past two years.

So I think this is a temporary thing, but given where we are with Europe, this could be another two to three quarters out, mid-‘13, before we start to turn the corner here. But we are positioning ourselves and I think we are making all the right decisions that when we do turn the corner and get some economic relief, that we will show a very good portfolio here.

Michael Rollins - Citigroup - Analyst

Thank you.

Operator

David Barden, Merrill Lynch.

David Barden - BofA Merrill Lynch - Analyst

Fran, just a quick housekeeping item. I think this quarter you said that Wireline margins in the second half would be higher than the first half. Is that the same thing as what you said last quarter, that Wireline margins would be up year-over-year -- just to clarify?

And then the upgrade rate fell from 8% in 1Q to 7% in 2Q, and obviously, that is a big swing factor for margins, almost 200 basis points. As you think for the rest of the year and maybe as a run rate as a function of the actions you've taken for upgrades, how do you think about that 7% upgrade rate as a baseline as a driver of margins through the rest of the year and maybe just generally going forward? Thanks.
Fran Shammo - Verizon Communications Inc. - EVP, CFO

On the Wireline margins, look, we are very, very solid on improving our Wireline margin here in the second half versus the first half. I think given some of the cost structure issues that we have, especially around the contract, we think that we can still improve our margins. If we can get to a better end here with the contract, then I think that we can actually improve our margins on a year-over-year basis. But that will come down to a timing issue.

I do think, though, that when we focus in on the consumer side of the house, as I said, I am very confident that we can double our revenue growth here. We are very focused in on the profitability of FiOS. The profitability increase in Wireline this quarter was really, really centered around the FiOS, really, progress that we made on a quarter-to-quarter basis.

So I think we have a lot of good things here, and we'll just have to play this out. But very, very confident that we will improve our Wireline margins here.

On the upgrade side of the house, obviously, this is timing. A lot of things go into play here. We've made a lot of moves in the last year and a half around restructuring our upgrade policies. As you know, we launched our $30 upgrade fee. Obviously, this all has an impact on the level of upgrades. And then of course, there is always that rumor mill out there with a new phone coming out in the fourth quarter, and so people may be waiting.

But, look, we manage this on a quarter-to-quarter basis. I think the way I look at this, though, going into the back half of this year on the upgrades is that we will manage this business on a profit and on a growth trajectory. And if you think about what Wireless has done when we get to the fourth quarter, we will have taken $5 billion out of our cost structure in the last three years, which is why we can generate margins of 49%, which beat our all-time high from last year. So I think that Wireless has a very good track record and history to deliver both on profitability and growth.

David Barden - BofA Merrill Lynch - Analyst

Thanks, Fran.

Operator

Mike McCormack, Nomura Securities.

Mike McCormack - Nomura Securities - Analyst

Fran, maybe just a little bit deeper dive on that thought process. Obviously, with the new policies in place and relatively lower upgrades, we might not see the same pattern we saw last year. And last year, we all remember that people were waiting for the iPhone in Q4, so Q3 margins were super high. Should we not expect that same dynamic given the changes in policies?

Secondly, on the FiOS side, when you talk about profitability, is this on a per-subscriber basis, or just slowing down overall gross adds? And should we not be making a margin sacrifice to take share here? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

So just a couple things on the margin side of the house. I think, again, I will just repeat what I said, is we will manage this business both on a growth and profitability perspective for Wireless, and I think we have proven that. Obviously, the fourth quarter is always a seasonable volume quarter for the industry. And I expect that to happen again with the holiday season that is coming up. So it will really factor in on the volumes, what new devices, and I'm sure we are going to have plenty of new devices that come out between now and the holiday season. And if you look at -- on the
device side of the house, we just launched the Samsung Galaxy III on our 4G LTE network. And it proves the point that when we launch a very technical phone that’s great in appearance and viability that people accept that phone, and that phone is selling extremely well.

So all these factors come into play, but I think that we are very, very confident that what we laid out in January of 2011, regardless of what phones come, what phones don’t come and what kind of season it will be, we will hit our financial objectives.

On the FiOS side of the house, as I said, we did have some seasonality pressure here. But, look, we have to balance the perspective almost -- if you look at our Wireless portfolio, we have to balance the Consumer Wireline portfolio in the same fashion. We have to balance growth with revenue acceleration and improving profitability. And that is what we are set out to do and we will make the decisions and the right ones in order to achieve all three of those metrics.

Mike McCormack - Nomura Securities - Analyst
Great. Thanks, Fran.

Operator
Brett Feldman, Deutsche Bank.

Brett Feldman - Deutsche Bank - Analyst
Just for our own understanding, you mentioned that the distribution would not be on the agenda at the next Verizon Wireless Board meeting. It occurred to me I have no idea how often the Board meets. Is it quarterly or semiannual?

And then just to the business, you talked about the prep work you are doing on the 700-megahertz license sale. Assuming you get a favorable resolution with the regulators on the contingent transactions, how quickly do you think you can move ahead with it? Do you have a sense of urgency or is it just one of those things that can take a while?

Fran Shammo - Verizon Communications Inc. - EVP, CFO
On the Vodafone dividend, the Board meets on a quarterly basis. And at each -- the partnership agreement specifically states that on an annual basis, the dividend will be reviewed at the end of the year. So that is really all there is to say on that.

On the 700 A and B megahertz sale, as you know, we’ve already hired a third party. We are ready to go as soon as we get approval on the SpectrumCo deal. So this is going to be an immediate thing, not something that is going to take a while. So we are really set up to go, and it will be as fast as we can get the auction done, and make sure that we get a price that we believe is fair, and then we will sell the spectrum. So that is the timeline.

Brett Feldman - Deutsche Bank - Analyst
Great. Thanks for that.

John Doherty - Verizon Communications Inc. - SVP of IR
I continue to get updates on the IR website-related issue. We continue to work it. We should have all documents available very shortly for those that couldn’t get them. Brad, right now, it looks like we have time for two more questions. Thanks.
Operator
Tom Seitz, Jefferies.

Thomas Seitz - Jefferies - Analyst
Fran, you mentioned that you were accelerating a bit the copper shutdown. In the past, you have mentioned that a gating factor was regulatory approval to shutting down the copper plant for those that wanted circuit-switched lines. I’m wondering if there has been any sort of change in the local regulatory environment that allows you to accelerate that.

And then secondly, I think in the past you have mentioned the shutdowns would be in the hundreds of thousands. Is that materially going up? And is that a thing where you would sacrifice a bit of margin and maybe spend a bit more CapEx to accelerate this process?

Fran Shammo - Verizon Communications Inc. - EVP, CFO
On the copper shutdown piece, over the past few years, we have gotten a lot of regulatory relief in a lot of states on copper being the provider of last resort and those types of things. As we go here and through our product rationalization, we are moving as quickly as we possibly can in shutting down that copper plant. And obviously, we did that in Dallas a year ago and we currently have one running in Florida that we are shutting down the switch. So we continue down that path and we are doing that as quickly as possible.

And as I said, from a FiOS-to-copper migration -- or copper-to-FiOS migration, we nearly doubled the amount of migrations that we did. And so we are being as aggressive as we possibly can in these areas. So from that perspective, I think we are right on track.

Thomas Seitz - Jefferies - Analyst
Okay, thank you.

Operator
Kevin Smithen, Macquarie.

Kevin Smithen - Macquarie - Analyst
Your investment in Italy was, I think you said, a $0.02 drag on EPS this quarter. How should we think about the impact over the next few quarters? And could you talk about the strategic importance of your Italian asset and if it is going to be a drag, why not try to dispose it?

Fran Shammo - Verizon Communications Inc. - EVP, CFO
I think that given the pressures that we are seeing in Europe, it is not unforeseen that there would be a pressure there in the OMNITEL market of Italy. All we are saying is that created a $0.02 pressure on a year-over-year basis.

Strategically, I’m not going to discuss whether we are going to stay a partner or not a partner. But right now, it is a strategic asset for us to be a partner in.
Kevin Smithen - Macquarie - Analyst
Do you think that $0.02 drag will continue over the next few quarters, will it get worse? How should we model it?

Fran Shammo - Verizon Communications Inc. - EVP, CFO
I think it will be pretty consistent.

Kevin Smithen - Macquarie - Analyst
Okay.

John Doherty - Verizon Communications Inc. - SVP of IR
Thanks, Kevin. Brad, that concludes our call. Thanks, everybody. We appreciate you dialing in this morning and, once again, we are doing everything we can to work on the IR website-related issue we had this morning.

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.