CORPORATE PARTICIPANTS

John Doherty  Verizon Communications - SVP of IR
Fran Shammo  Verizon Communications - EVP, CFO

CONFERENCE CALL PARTICIPANTS

Jason Armstrong  Goldman Sachs - Analyst
John Hodulik  UBS - Analyst
Simon Flannery  Morgan Stanley - Analyst
Phil Cusick  JPMorgan - Analyst
Tom Seitz  Jefferies - Analyst
Michael Rollins  Citi Investment Research - Analyst
Jennifer Fritzche  Wells Fargo - Analyst
Mike McCormack  Nomura - Analyst
Kevin Smithen  Macquarie - Analyst
Brett Feldman  Deutsche Bank - Analyst
Tim Horan  Oppenheimer - Analyst
Jonathan Chaplin  Credit Suisse - Analyst

PRESENTATION

Operator

Good morning and welcome to the Verizon third-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, John Doherty, Senior Vice President, Investor Relations, for Verizon.

John Doherty  Verizon Communications - SVP of IR

Thanks, Brad. Good morning and welcome to our third-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. A 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 our website.

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.

Before Fran takes you through the details of our results, I’d like to cover a few items upfront. For the quarter, we reported earnings of $0.56 per share on a GAAP basis. These results include $232 million, or $0.08 per share, for nonoperational charges related to patent litigation settlements with TiVo and ActiveVideo.

On an adjusted basis, EPS was $0.64 in the third quarter, up 14.3% year-over-year. Through nine months, adjusted EPS is $1.87, an increase of 14.7% from last year.

Discussion of consolidated results and growth rates in this presentation exclude the effects of nonoperational items. As we have previously indicated, we are no longer reporting average revenue per unit, or ARPU, for wireless postpaid devices. Instead, we are disclosing average revenue per account, or ARPA, which we believe is a more meaningful metric going forward given our new shared data pricing plans.

Earlier this month, we filed a Form 8-K, which disclosed 10 quarters of historical information for the following retail postpaid metrics -- the number of accounts, the average connections per account, and the average revenue per account. This information can also be found on our investor website and is now part of the Wireless selected operating statistics included in our financial and operating information schedules.

With that, I will turn the call over to Fran.

Fran Shammo - Verizon Communications - 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 our plan well across the entire business. Consolidated revenue growth increased to 3.9%, and our strong focus on cost management and improving profitability resulted in solid double-digit growth in operating income and earnings per share for the third consecutive quarter.

The sustained operating performance, together with 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 overall business.

Through the first nine months, we generated $13.4 billion of free cash flow, which is 50% more than last year. The Wireless business is setting global benchmarks for performance, and we are building significant momentum heading into the fourth quarter and 2013.

Service revenue growth increased to 7.5%, driven by increasing smartphone penetration and greater device adoption, stimulated by the successful and well-received introduction of our Share Everything plans. This sustained revenue growth performance, together with our demonstrated ability to effectively manage costs and retain customers, resulted in a record-setting EBITDA service margin of 50%, even with our strongest subscriber growth in four years.

In Wireline, consumer revenue growth accelerated to 4.6%, a sharp increase from 2.5% in the second quarter, driven by increased FiOS revenue per customer. Enterprise and wholesale revenues continue to be impacted by secular and global economic challenges, particularly in Europe. We are confident that our focus on improving long-term profitability through product rationalization and simplification, along with process streamlining, will prove to be the right decisions as we build a fundamentally stronger business.

On September 19, we reached a tentative agreement with the CWA and IBEW for new three-year contracts covering about 43,000 associates. We believe that this is a fair and balanced agreement that is good for our employees, as well as a real positive for the future of the Wireline business. I will talk more about the tentative agreement during the Wireline segment review.
Overall, another strong quarter of performance, 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 our solid consolidated growth trends with positive contributions from all strategic areas. Consolidated revenue growth increased to 3.9%. Our operating leverage and strong focus on expense controls drove operating income up 17.9%, our third consecutive quarter of double-digit growth.

Consolidated EBITDA grew to $10 billion, and our margin expanded 40 basis points sequentially to 34.6%, its highest level in nearly four years.

Earnings growth also improved. As John indicated in his introductory remarks, adjusted EPS growth was more than 14% in the third quarter and is up nearly 15% year to date.

Let's turn now to cash flow and capital spending on slide five. Our free cash flow increased to $5.6 billion in the quarter, driven by higher cash from operations and continued discipline in our capital spending. Capital expenditures totaled $3.9 billion in the quarter, an increase of about $260 million compared to last year. Year-to-date, capital spending of $11.3 billion was down about 10%. My expectation is that capital spending for the full year will be lower than the $16.2 billion we incurred in 2011.

In addition, we expect our annual CapEx-to-revenue ratio to decline based on improved revenue trends and disciplined capital spending.

In Wireless, CapEx in the third quarter was $2.1 billion, which was about $350 million higher than last year. Year-to-date, Wireless capital of $6.1 billion was lower by nearly 16%. CapEx savings this year are due primarily to lower capacity spending on the 3G network. We continue to build and expand the nation's largest 4G LTE network. As more customers choose 4G LTE smartphones and devices, the migration of data traffic from 3G to our lower-cost 4G LTE network will drive further improvements in operating and capital efficiency. Currently, more than 35% of our data traffic is already on the 4G LTE network.

In Wireline, capital spending was $1.5 billion in the quarter, down $133 million from last year. Year-to-date, Wireline capital of $4.6 billion was about 3% lower. Our previously announced spectrum transactions all closed during the third quarter, representing a net cash outlay of $3.7 billion. In return, we received about 5.9 billion megahertz POPs of high-quality AWS spectrum.

Our balance sheet and credit metrics remain very strong. Total debt of $52.8 billion was down $2.4 billion from the end of last year. Net debt was $43.1 billion at the end of the quarter, and our net debt to adjusted EBITDA ratio was about 1.1 times.

I'd like to spend the next few minutes discussing pension liabilities and funding, starting on slide six. Yesterday, after the market closed, we announced that we will be transferring approximately $7.5 billion of management retiree pension benefit obligations to Prudential by purchasing a group annuity contract. Prudential will assume the responsibility of making monthly pension payments to approximately 41,000 management retirees. The transfer will not change the amount of the monthly pension benefit received by these retirees or their surviving beneficiaries. Pension obligations relating to active management and union-represented employees and retirees are not affected.

The transaction will remove about 25% of our outstanding pension liabilities upon closing, which we expect to occur in December.

Turning to slide seven, this transaction is part of an overall pension de-risking strategy, and reduces our exposure to funding and income statement volatility caused by changes in investment returns, discount rates and longevity risk. It also allows us to transfer this liability at reasonable economics and avoid certain administrative costs, while improving the longer-term financial profile of the business.

As a result of this transaction, some additional cash funding will be required in 2012 to fully fund the pension obligations being transferred to Prudential and to maintain the funded status of the pension liabilities that will remain with Verizon. In terms of timing, we already made an additional $930 million pension contribution in September. So on a year-to-date basis, we have made $1.8 billion in contributions. In the fourth quarter, we expect to make another $1.6 billion cash contribution.
Our revised outlook for pension funding in 2012 is estimated to be $3.4 billion as compared to the $1.3 billion we estimated at the beginning of the year. While this represents more funding this year, we will have no cash funding requirements for pensions in 2013. Based on our current plan assumptions, we also expect contribution requirements in future years to be lower as a result of this transaction.

Let's now move into the review of the segments, starting with Wireless on slide eight. Our Wireless business had another excellent quarter, with accelerating growth in retail postpaid connections, better-than-expected adoption and financial performance of our new Share Everything plans and strong growth in postpaid revenue per account or ARPA. Even more impressive is the fact that we achieved a 50% EBITDA service margin, while activating more smartphones than any other quarter in our history, with the exception of the fourth quarter last year.

Total Wireless revenues of $19 billion grew 7.3% and represent 65% of Verizon's consolidated revenue year-to-date. Retail service revenue grew 7.9% and total service revenue growth was 7.5% in both the third quarter and year-to-date.

As John mentioned, we are disclosing new retail postpaid metrics, replacing ARPU with ARPA, as well as providing the number of postpaid accounts and the average connections per account. The change in reporting aligns with the strategic intent of our shared data plans, which is to encourage device adoption and stimulate usage on our wireless network. Since driving service revenue growth is the key to our business model, the more relevant metric going forward is the amount of revenue that we generate per account.

During the quarter, ARPA grew to more than $145 per month, an increase of 6.5%. In only three months, 13% of the retail postpaid base adopted Share Everything plans. Adoption is ahead of our expectations and ARPA dilution has been lower, as we are seeing existing customers adding devices and increasing their data usage allowances.

The combination of incremental revenue from new customers, smartphone upgrades, increased devices connecting to our network and higher usage will more than make up for the effects of the customers initially optimizing their accounts. Device adoption and data usage will become the primary drivers of service revenue growth for years to come.

Let's take a closer look at connections growth on slide nine. As we mentioned coming out of the second quarter, our retail postpaid net adds have continued to accelerate. With our strong performance, I am very confident that we continued to gain postpaid market share in the quarter. In addition to our strong device portfolio, network reliability and 4G LTE advantage, the introduction of our Share Everything plans proved to be yet another compelling reason for customers to choose Verizon.

During the quarter, we added 1.8 million new retail net connections, with more than 1.5 million postpaid and 228,000 prepaid. We have an industry-leading 95.9 million retail connections, with approximately 90.4 million postpaid and 5.5 million prepaid. Our 90.4 million postpaid connections represent 34.8 million accounts, with an average of 2.6 connections per account.

Before discussing our postpaid results in more detail, let me highlight our retail prepaid performance, where we had another strong quarter. Net adds of 228,000 were significantly higher than a year ago, and prepaid revenue continued to positively impact retail service revenue growth. In retail postpaid, our 1.5 million net adds represent a substantial sequential increase from 888,000 in the second quarter and the highest total we’ve reported in four years. Roughly one third of these net adds were Internet devices, which include USB modems, Jetpacks and postpaid tablets.

Roughly 95% of our postpaid Internet device activations this quarter were 4G LTE, which is very positive from a data usage perspective and provides additional evidence that our Share Everything plans are stimulating device adoption. As you know, we are the market leader in this space, with 8 million Internet device connections in our retail postpaid base and, more importantly, over half of these are 4G LTE.

Our churn metrics continue to be market-leading. Retail postpaid churn of 0.91% improved by three basis points year over year, and was up only seven basis points sequentially in what is typically a seasonally higher quarter. Postpaid gross adds in the quarter were very strong at 4 million, up 27% sequentially and 20% year-over-year, also the highest gross add quarter in four years. The number of customers upgrading devices was slightly less than last quarter, representing 6.8% of our retail postpaid connection space.
Next, let's turn to slide 10 and take a look at smartphones and our progress in 4G LTE. Smartphone penetration increased from just below 50% last quarter to more than 53%, a strong quarter in terms of smartphone adoption. As expected, an increasing majority of postpaid phone sales were smartphones. In the third quarter, we activated 6.8 million smartphones, representing 79% of the total phone category. 3.4 million of these smartphones were Android, of which 3 million were 4G LTE. In terms of Apple iPhones, we activated 3.1 million in the quarter, 21% of which were 4G LTE.

Another important point is the improving mix of gross adds and upgrades within our smartphone activations. In the third quarter, the percent new to Verizon increased to 31% of total activations, a sharp improvement from the 20% to 23% range we have reported in past quarters. This higher gross add mix is recognition of our 4G LTE network advantage, since an increasing percentage of our smartphone activations are 4G LTE.

In addition, within the customer upgrades, 44% were buying a smartphone for the first time. In terms of 4G LTE coverage, we are by far the market leader. Our 4G LTE service is currently available in 419 markets covering more than 250 million POPs, roughly 80% of the US population. As our TV commercials say, we have more 4G LTE coverage than all of our competitors’ networks combined. We will continue expanding our 4G LTE network, with a goal of having a nationwide footprint similar to our 3G network next year.

Sales of 4G LTE devices have risen steadily each and every quarter since we launched service in late 2010. In the third quarter, this increase was more dramatic as 4G LTE smartphone activations increased to 3.7 million from 2.5 million in the second quarter. At the end of the quarter, we had 14.9 million 4G LTE phones and devices in our postpaid base, representing 16.5% of total retail postpaid connections. Said another way, 25% of our smartphones and 51% of our Internet devices are 4G LTE. Very impressive numbers in a relatively short period of time.

However, we expect these percentages to continue to ramp as all-new smartphones in our device roadmap will be 4G LTE.

Looking ahead, we see a great deal of new product development activity in M2M, particularly in health care and energy. We are also collaborating on an innovative video roadmap with the cable companies as part of our technology joint venture.

Let’s conclude our Wireless review with a discussion about profitability on slide 11. We generated $8.1 billion of EBITDA in the third quarter, an increase of 12.4%, and expanded our EBITDA service margin by 100 basis points sequentially to 50%. Again, we achieved this record profitability in a quarter in which we reported the highest number of gross and net adds in four years. Simply stated, our margin performance is a testament to our demonstrated and consistent ability to execute well on our strategy of achieving both growth and profitability. The combination of sustainable service revenue growth, an intense focus on cost management and consistently excellent churn metrics are all contributing factors to our industry-leading margin performance.

In terms of managing our cost, we will continue to look at any and all opportunities within the business to drive process improvements and operating efficiencies. As I’ve previously indicated, we identified $2 billion in cost-saving opportunities in Wireless this year and we have already surpassed that target.

Let’s move to our Wireline segment next, starting with mass markets on slide 12. Mass markets revenue grew 3.8%, due primarily to accelerating growth in the consumer business. Our 4.6% revenue growth was the highest we’ve seen in 10 years, and we are on track to achieve at least a 5% growth rate in the fourth quarter. This growth, of course, was driven by FiOS, where revenue grew 18% in the third quarter and now represents about two thirds of consumer revenue. The increasing scale of FiOS is driving growth in consumer revenue per month, which increased to nearly $104 in the quarter, up 10.3%. FiOS ARPU is now over $150 per month, and about two thirds of our FiOS consumer customers are triple play, with voice, Internet and video services.

In terms of broadband customer growth, we had 136,000 new FiOS Internet additions in the quarter, and now have nearly 5.3 million subscribers, representing penetration of 37%. In DSL, we had a net loss of 144,000, which is a bit higher than the last few quarters. Again, our decision to discontinue offering dry-loop DSL had a negative impact on gross adds, but was clearly the right decision from a profitability standpoint.

In spite of the lack of net subscriber growth, broadband revenues increased both sequentially and year over year, driven by our Quantum offer and copper-to-fiber migrations.
In FiOS Video, we added about 120,000 subscribers in the quarter, bringing our total to 4.6 million, and increasing our penetration to 33%. In terms of FiOS customer growth, we did experience some seasonality with respect to churn, due in part to an increase in customers moving and also some elasticity related to our price increases. Based on our current sales activity, we are expecting improvement in FiOS customer adds in the fourth quarter, along with our continuing revenue growth trajectory.

Within mass markets, we are focused on driving revenue growth, improving operating and capital efficiency and maximizing profitability. Key actions this year included targeted price increases, new, differentiated services like FiOS Quantum and our copper-to-fiber migration initiative, which is helping to reduce our dependence on copper technology.

Through nine months, we have migrated about 150,000 homes to fiber, and we are on track to exceed 200,000 by the end of the year. We have already experienced a greater than 10% improvement in our trouble report rate, which is saving on repair costs in these areas. We are also beginning to gain some traction in upselling new customers to additional FiOS services, which will result in additional monthly recurring revenue.

We will have more to say going forward with regard to this important initiative, including how many homes will we be targeting in 2013. Suffice it to say that we are pleased with our progress to date and view the copper-to-fiber migration as an important part of our strategy to reduce the Wireline cost structure.

Before moving on, I would also add that our residential connection trends continued to improve. During the third quarter, we lost 217,000 retail residential connections, representing a 6.3% decline year-over-year compared with a loss of 278,000 or 8% at this time last year.

Let’s move to our Enterprise markets next on slide 13. As I said in my overview, our challenge in the Enterprise markets is primarily one of secular pressures and global economic conditions, which include foreign exchange movements. In addition, as we previously noted, we are making deliberate moves to rationalize and simplify our Enterprise Solutions product portfolio, which is also putting near-term pressure on revenue comparisons.

In the third quarter, Global Enterprise revenue was down $39 million sequentially and declined $140 million or 3.6% compared with a year ago, a majority of which were due to intentional actions on our part. This includes the de-emphasis of drop-ship CPE and decommissioning end-of-life products like ATM, frame relay and IP VPN. Lower CPE sales represented $139 million of the year-over-year decline. Foreign currency translation also had an unfavorable impact on revenue, as the stronger dollar versus the euro and pound sterling caused a $40 million decline in the third quarter compared with a $37 million increase a year ago.

We are confident that our product rationalization and streamlining initiatives will fundamentally strengthen the business and improve our operating efficiency. We are also taking actions to enhance our network, facilities and overall end-to-end service provisioning in order to put the business in a stronger position to benefit when the global economy picks up. These strategic and operational activities are creating some margin pressure in the near term, but will result in improved profitability in 2013.

Strategic Services, which comprise 53% of Global Enterprise revenue, totaled $2 billion, up 4.4%. While we continue to perform relatively well in these services, international and FX continue to have an adverse effect on growth. Domestically, we are seeing new contracts and investment decisions being delayed as enterprise CIOs continue to be cautious with regard to uncertainties involving the election outcome, the pending fiscal cliff, potential tax reform and other policy changes that may take place. Collectively, these uncertainties have created a wait-and-see approach that is impacting new business.

We believe that a better understanding of these impacts will help companies make decisions about their capital commitments, and we are hopeful that enterprises renew their investing activities in 2013.

During this period, Verizon Enterprise Solutions continues to strengthen its competitive position in higher-growth markets like cloud computing, machine-to-machine and advanced communications. In late July, we completed the acquisition of Hughes Telematics, which will expand and accelerate our capabilities in advanced automotive, fleet telematics and many other machine-to-machine services.
Moving next to Global Wholesale, revenues in the third quarter declined $45 million sequentially and $181 million or 9.2% year-over-year, due primarily to continued declines in Transport Services. We are taking 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 on to slide 14 next, to summarize Wireline. From a top-line perspective, the overall picture is mixed, with some very encouraging signs in the consumer market, while we continue to manage through secular and cyclical challenges in Enterprise and Wholesale. Our product rationalization initiatives, while putting some near-term pressure on revenue, will ultimately serve to strengthen the business.

At the beginning of the year, we were optimistic that EBITDA margin in the second half of 2012 would show improvement compared to the first half. As I have stated at a few investor conferences in September, we no longer see this being the case, due primarily to growth challenges on the Enterprise side and the length of time it took to reach an agreement with our unions.

In addition, some of the activities to reduce our reliance on older technologies and systems, along with the many process reengineering efforts we have going, have created margin pressure in the near term. Collectively, all these initiatives are designed to improve the Wireline cost structure. We fully expect that these and other cost management actions will result in improved profitability in 2013 and over the longer term.

To that end, for the past 15 months, we have talked about the importance of concluding our union contract negotiations and coming up with a contract that is fair and balanced for our employees, but at the same time addresses some key issues related to our ability to achieve improvements in our cost structure. Let’s talk a bit more about the contract on slide 15.

On September 19, we reached a tentative agreement with the CWA and IBEW for new three-year contracts covering about 43,000 associates. The contracts are currently in the ratification process, which typically takes 30 days, so we hope to be able to announce a definitive agreement very soon.

Under the tentative agreement, there are changes to medical and prescription drug plans for active and retired associates, including contributions toward health care premiums for active employees. In addition, current retirees will make contributions toward health care premiums for some medical plans, while associates who retire after January 1, 2013 will make premium contributions regardless of the medical plan which they enroll in. New associates hired from this point forward will be eligible to participate in a 401(k) savings plan instead of a traditional pension plan.

The agreement also makes changes to old legacy policies, including tighter absence controls and better quality control and training practices. There are new provisions that will result in better work rule flexibility, such as national call sharing, which will improve the customer experience and allow our associates to work more efficiently and cost-effectively.

Since the contract has not yet been ratified, I am not going to quantify the annual cost savings at this time. We will have an opportunity to communicate this information at an investor conference in early November, so stay tuned for more information on this subject.

Let’s move now to our summary slide. Overall, a very good third quarter, keeping us solidly on track to meet our financial objectives for the year. We are executing our plans and investing for the future. Consolidated revenue growth is increasing, and we have had four successive quarters of EBITDA margin expansion, with the third quarter being the highest margin since 2008.

We have built strong earnings momentum with three successive quarters of double-digit growth, and have generated 50% more free cash flow than last year at this time. Our disciplined capital spending and revenue growth is driving improved capital efficiency.

In Wireless, we further solidified our excellent spectrum position by closing all our pending transactions. And with our 4G LTE network advantage, our unmatched product portfolio and our well-received Share Everything plans, we feel confident about our ability to sustain our industry-leading profitability in 2013 and beyond.

In Wireline, although we have work to do, we are putting the right plans in place to strengthen the business and improve profitability in 2013 and over the longer term. Our strategic investments and actions position us very well for sustainable growth. We continue to build for the future, and...
while we may have some near-term challenges, we are successfully executing a well-conceived plan that will drive profitability and create shareholder value in 2013 and into the future.

With that, I will now turn the call back to John so we can address your questions.

John Doherty - Verizon Communications - SVP of IR

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jason Armstrong, Goldman Sachs.

Jason Armstrong - Goldman Sachs - Analyst

Good morning. First on FiOS, just a question on video. Fran, you talked about churn impact in the quarter and you talked about the potential for this to rebound next quarter. I think what you talked about on the 2Q call was sort of a normal run rate of more like 150 to 170. Is that still the target range we should think about for 4Q?

And second question, just on a pension structure in terms of this deal and the $7.5 billion. Can you help us think through how that impacts the P&L, what that does to the expense stream in Wireline? Thanks.

Fran Shammo - Verizon Communications - EVP, CFO

First, on the FiOS growth, yes, I think that I gave a range of 150 to 170. Where we came out of September, I am very confident that we will get to that 150 plus for net adds in the fourth quarter, so I think that is a good target.

And then on the pension side, I think that from a P&L perspective, it is very hard for me to distinguish at this point in time. There are so many fluctuations here. But I think the key to this whole thing -- a couple of points I want to make here.

So from just an overall cash perspective, which is the real -- the key here, because this is really the cash impact of the business, as you know, we made a first-half contribution of $600 million in the third quarter. We added another $1.2 billion to the plan, so $1.8 billion from a cash impact perspective to date. And in the fourth quarter, we determined that we will put another $1.6 billion into the plan.

All these contributions are tax-deductible. We will not have any 2013 contributions. And that based on our planning and the assumptions that we have in this transaction, the future cash contributions to the pension plan will be less post this transaction close, which we anticipate to be early December. So from that perspective, that to me is the important part. I think everything else is pretty minimal at this point in time.

Jason Armstrong - Goldman Sachs - Analyst

Thanks, Fran. And you talked about this being applicable to current retirees. Is there any prospects for taking this into sort of the active employee base?
Fran Shammo - Verizon Communications - EVP, CFO

I think at this time, we have no more definitive agreements at this time to extend this transaction. This transaction is specifically related to management retirees who retired before January 1 of 2010. It does not impact current, active management employees. It does not impact current, active union-represented employees, nor does it impact retiree union-represented employees.

Jason Armstrong - Goldman Sachs - Analyst

Great. Thank you.

Operator

John Hodulik, UBS.

John Hodulik - UBS - Analyst

Good morning, guys. If we could just talk about the margins a little bit here, first on the Wireless side. Last year, you guys saw a little over 500 -- between 500 and 600 sequential decline in the fourth quarter, most of it related to the fourth-quarter launch of the iPhone.

Does the earlier launch of the iPhone sort of lower that decline, along with some of the other initiatives you've been doing? If you could just talk about what do you expect from a trending standpoint there.

And then over on the Wireline side, I know you guys don't want to give the details on the union contract. But can we start to see some of the benefits as early as the fourth quarter, or what kind of trend are you looking for there? Thanks.

Fran Shammo - Verizon Communications - EVP, CFO

Okay. Thanks, John. On the Wireless margin, this has a lot to do with volume. The iPhone 5 came out in very late September. There really wasn't all that much volume on the iPhone 5. If you look at our total iPhone adds, we added 3.1 million, 1.1 million more than we did a year ago. And about 651,000 of them were iPhone 5s; the rest were 4 and 4S.

And what we are seeing here is we are seeing that the iPhone 5, we had a supply constraints. We're not sure where we are going to stand in the fourth quarter with those constraints. But what we are seeing on the 4 and the 4S is that we are attracting customers who probably previously did not come to Verizon because of the cost point of that iPhone. So I think you saw that in our net add growth for the quarter. So again, from a trending perspective and all the work that we've done around costs and the $2 billion -- and if you look at the three years, we've taken out $5 billion of cost structure on Wireless -- again, I think that given the volume, there could be some dilution in that margin if the volumes exceed what they were in the third quarter, which I anticipate they will.

If you recall back to the first quarter, I said we would accelerate our growth throughout the quarters for the year. As we come out of the third quarter, you saw we posted our highest growth in the last four years, and I think that we will accelerate that growth into the fourth quarter.

So yes, I think we will have some deterioration in the margins in the fourth quarter for Wireless, but at this point I can't tell you what that will be because I don't know what the volume will be. But obviously, I don't anticipate it to be as much as it was a year ago.

John Hodulik - UBS - Analyst

Great.
Fran Shammo - Verizon Communications - EVP, CFO

And then on the Wireline side, I think this story is a much more complex story. But in the short -- just for the union piece of this, I think we will wait until the fourth quarter, but you're not going to see any benefit this year. But I don't want to really get into the details until this contract is ratified. A number of unions have ratified it, but it will not be ratified by all until the next couple of days are over. So once that happens, I will give some more clarity around this during the fourth quarter and into the first quarter.

John Hodulik - UBS - Analyst

Thanks, Fran.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - Morgan Stanley - Analyst

Thanks very much. Good morning. Fran, could you talk to us about the 700 megahertz spectrum process, where you stand in that, how it is looking so far, when do you think you might be able to give us some more news on that? And then what are the implications of that, and what is the likely timing of another decision on a Verizon Wireless dividend to the parent Verizon and to Vodafone? Thanks.

Fran Shammo - Verizon Communications - EVP, CFO

Thanks, Simon. So on the 700 megahertz, we started this process late in the third quarter. The process is ongoing. We have a lot of interested parties, a lot of complexity to the bidding process here from the individual respective parties. So there is a lot of work to be done here, and we are not ready to talk about exactly where we are with these.

I think the important point, though, is we are going to analyze each and every bid. We are also developing our own internal plans to launch this spectrum, because as I said before, this is not a fire sale on spectrum. So if we do not get fair value or what we believe to be fair value, then we will use this spectrum internally. But at this point I think it is too early to communicate exactly how this will proceed.

So I think it will happen late in the fourth quarter, possibly not until the first quarter. And if we do come to terms with some of these, then it has to go through the normal FCC approval. We probably wouldn't close on that probably until late third quarter, fourth quarter of 2013.

As far as Vodafone dividend, this is a very interesting question, because I think we all forget that on January of 2012, we actually did do a dividend of $10 billion, and throughout the year during our normal course, we did about another $4.5 billion of tax distributions. So year-to-date, we've done $14.5 billion of dividend distributions out of Wireless.

To talk about a further dividend I think is premature. We have an agreement with Vodafone that we will discuss this before the end of the year, and once we have that discussion, then we will report out what the decision will be.

Simon Flannery - Morgan Stanley - Analyst

Great. Thanks, Fran.
Phil Cusick - JPMorgan - Analyst
Two things. One, I wonder if you can tell us whether a substantially higher portion of phones came in with no subsidy this quarter, people paying full price in order to stay on their previous plan, than happened in the past.

Fran Shammo - Verizon Communications - EVP, CFO
Sure, Phil. So we -- I mean, obviously, if you look at our growth and you look at the number of phones we moved, the majority of the phone sales incurred a subsidy on them. But we did have a number of customers who actually paid full price for phones to remain on the unlimited plan. So we did have some customers who made that choice and stayed with Verizon Wireless. But for the majority, most of the smartphones that we sold included a subsidy.

But we also had a large volume in our post-paid tablet category, and we also had a large volume in our Internet category, and they carry, for the post-paid tablets, really no subsidy. And on the Internet devices, we almost doubled the amount of net adds we had from second quarter to third quarter, which was a contribution to our Share Everything Plan, and they have a reduced subsidy compared to what a smartphone would be. But the majority of the devices did have a subsidy.

Phil Cusick - JPMorgan - Analyst
Good. And then you mentioned that given the September results, you expect FiOS to be over 150. Is that more a seasonal shift, or are you putting a little more effort into promotion and marketing here?

Fran Shammo - Verizon Communications - EVP, CFO
I think it's a combination of a couple things. Number one, I think, as I said, coming out of the second quarter, we probably moved away a little bit too much of promotional activity. So we picked that up in September.

But we -- also in the third quarter is a very high seasonality of moves for us. And this is always a third-quarter issue with FiOS, because people move out of the area, and we can't retain them because they move to an area that does not have FiOS availability to them.

We are doing a lot of effort in reconnecting existing homes that already have an ONT on the side of the house, for people who have moved in, so you are going to see a lot more activity around that. And I also think that we did see some pressure in the current base from the price ups that we had. And I think those price ups are all done now. So I think we are going to stabilize here, and I'm very comfortable that we'll get back to that 150,000 plus for a net add projection.

Phil Cusick - JPMorgan - Analyst
Good. Thanks, Fran.
Tom Seitz - Jefferies - Analyst

Thanks for taking the question. Fran, I'd like to discuss the copper shutdown a little bit. AT&T has publicly stated that for them to invest in the 20 million access lines that they've got under strategic review, they are going to need relief from copper circuit-switched TDM regulations. If they were to get that, would you consider applying for the same relief and accelerating the copper shutdown?

I ask because at current course and speed, in the neighborhood of 200,000 conversions per year, that is 50-plus years to shut down the redundant copper plant, and it is probably the largest structural impediment to improving Wireline margins.

Fran Shammo - Verizon Communications - EVP, CFO

Sure. Thanks, Tom. From a copper shutdown perspective, I think it is highly unlikely that you will ever see Verizon have no copper in their network because of the vastness of this network. But I think strategically, the way we have approached this from a copper-to-fiber migration is all copper is not created equal. We have areas where the copper has really deteriorated because it is 60-years plus, and we are strategically going after what we call chronic troubles. And that is 2 truck rolls that happen in the period of six months' time, and that costs us about $900 in cash from a perspective of that.

So when you look at the overall investment that we have to make to migrate that customer from copper to FiOS, it is more cost-effective to go after those chronic problems first. But not all of the network that leads into one switch is having these chronic problems. So to think about decommissioning every switch in our network would be a huge cost undertaking. So we believe that the strategy we've outlaid with our copper-to-fiber migration is financially viable. It is better for the customer. We see that from the customers we have migrated in the short term, they are actually buying up into FiOS Quantum and generating $10 plus more ARPU.

So we are strategically going after this. We have also received a lot of regulatory relief already in the states that we deal with, from being a carrier of last resort, replacing in Pennsylvania, fulfilling our obligation of bringing broadband to customers via a PA-30 ruling, which would be with wireless instead of wireline, which is a much more financial beneficial to Verizon. So we have already explored a lot of this regulatory highway, and we will continue with our copper-to-fiber migration under the plan that we are executing.

Tom Seitz - Jefferies - Analyst

Great. Thanks a lot.

Operator

Michael Rollins, Citi Investment Research.

Michael Rollins - Citi Investment Research - Analyst

Thanks for taking the questions. First, if I could ask what's, I guess, become my quarterly question, for an update on the net debt at Verizon Wireless.

And then secondly, just leaning over to the Wireline side, can you give us an update on the VDMS segment, and just the strategy that you are continuing to pursue there, the progress, including the relationship that you have with Redbox? Thanks.
Fran Shammo - Verizon Communications - EVP, CFO

Thanks, Mike. Your general normal quarterly question, I have it right here. It is gross debt of $10 billion, cash of $8.1 billion, so net debt of about $1.9 billion.

And then on the Wireline side of the house with VDMS, we are making significant progress. We have been dealing with what we call a number of chartered customers, which includes many content providers and movie houses, in helping us to customize this package and get this thing to market.

We anticipate that it will come to market in 2013. I won't be specific on that date at this point in time. But we believe we have a very viable product to come to marketplace that will significantly change the way content is, if you will, packaged and picked and shipped. So we will have more to say on that within 2013, but I think that will start to contribute through some of the Wireline top growth and help to improve the margin overall.

Michael Rollins - Citi Investment Research - Analyst

Thanks very much.

Fran Shammo - Verizon Communications - EVP, CFO

I'm sorry -- I mentioned -- Redbox, we are very close to launching here in the fourth quarter of Redbox. VDMS plays a very critical role in the content delivery with that joint venture with Redbox.

And again, I think moving into 2013, the business case that we have with us with Redbox will improve our top line and contribute to the profitability of the overall Wireline segment.

Michael Rollins - Citi Investment Research - Analyst

Thanks, Fran.

Operator

Jennifer Fritzsch, Wells Fargo.

Jennifer Fritzsch - Wells Fargo - Analyst

Great. Thank you, Fran. If I could, could you provide a little color on your CapEx trend? I understand you're saving on the 3G spend, but given these impressive postpaid net add results and growth in Internet devices, I would think you would need to continue to spend on capacity. I guess I'm just trying to understand if this is all a benefit of slowing 3G or also a result of your spectrum position.

Fran Shammo - Verizon Communications - EVP, CFO

Thanks, Jennifer, for the question. I think that from a CapEx perspective, as I said all along, I believe that 2012 would be flat. I'm saying now it will definitely be down from our 2011 spend. I think the trajectory into 2013 will be very similar to the 2012.

I think what you will see is what you saw in the third quarter, that we continue to very closely manage the CapEx on the Wireline side of the business. Meanwhile, Wireless will continue with their plan to build out the 4G LTE by mid-year next year to compare to our 3G footprint. I don't see a
substantial change in the CapEx trajectory here. But obviously, this does depend on growth, and we hang our hat on being the best network, most reliable network in the industry, and we are not going to lose that position.

So Wireless has been A-plus in this area, and I don’t believe that will change. But I don’t think there is a significant change in the capital projecory here.

Jennifer Fritzsche - Wells Fargo - Analyst

Great. Thank you.

Operator

Mike McCormack, Nomura.

Mike McCormack - Nomura - Analyst

Thanks, guys. Fran, maybe just a quick comment. You talked a little bit about the copper migration process and there is obviously some legs to that, and the longer-term benefits, I think, are pretty clear. But just give us a sense, if you can, as to maybe the magnitude of margin pressure as you do that migration process over the next year or so.

And secondly, on the Wireless side, we've had a sort of honeymoon with the change in policy with respect to upgrade window, that I think should be coming to a close right about now. So as we look into the fourth quarter, and we've got this pool of people that are now upgrade eligible that have not been for the last six months, how should we be thinking about upgrade percentages as we go through maybe both 4Q, as well as 1Q? Thanks.

Fran Shammo - Verizon Communications - EVP, CFO

Thanks, Mike. So migration and Wireline pressure, I guess there are a couple things here. And it is not just the migration. But obviously, doing some of this work does increase some CapEx to us and does increase some of the operating expense to us. But I would say that is in combination with a lot of other things that we are doing. But this positions us for the future.

I would say, though, that beyond this, from a pressure standpoint on Wireline, obviously the third quarter to us is always a seasonal pressure point from a weather condition, a construction issue, fiber cuts and so forth. So that is not unusual, for the third quarter to be a bigger margin pressure for us.

But the delay of the union contract had an impact on our margins. The Hughes results—obviously, if you go back and look at Hughes on a stand-alone basis, they contribute to dilution in the Wireline segment, because that is now included in the Wireline. As we said, we are in the process of retooling the Enterprise, which is putting a little bit of pressure in the expense category, with system consolidation and product rationalization.

And then we also deliberately have gone out during the third quarter, and we will probably do a little bit of this in the fourth quarter, and accelerated some of the repairs and maintenance within our facilities. We are also doing some additional work in our networks to increase our diversity and reliability within the Wireline network.

So there is a lot of things that is putting a little bit of pressure on the Wireline. But again, I think we are taking this opportunity during the lull of the economic condition, preparing for this economic turn that hopefully will come in 2013. And I think we will be in a better position to ride that wave when it comes. So I think it is a combination of all that.
And then on the Wireless side with the upgrade window, I guess the way I would put it this way is our upgrade percentage will be more in the fourth quarter than it was in the third quarter, but I will tell you I think it will be less than the fourth quarter of a year ago.

Mike McCormack - Nomura - Analyst
Okay. And just -- I'm sorry -- to circle back on the Wireline side, should we be thinking about the third quarter as not the right starting point as we go into fourth quarter, if it is -- the seasonality impact, we would be looking at 2Q as the run rate?

Fran Shammo - Verizon Communications - EVP, CFO
I think what I would say is for the third and the fourth quarter, I think you will see similar performance here while we reposition ourselves, but this will position us for improved profitability in 2013.

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

Operator
Kevin Smithen, Macquarie.

Kevin Smithen - Macquarie - Analyst
Thank you. There have been a lot of questions this week on what the impact will be for the Softbank’s entry into the US. Does this at all change the way you run your business over the next couple years while Sprint and T-Mobile are going through the regulatory approval, integration and network buildout processes? And what, if anything, will be the long-term impact on Verizon’s Wireless business?

Fran Shammo - Verizon Communications - EVP, CFO
Thank you so much for the questions. So let me just start out with a couple things here, because I think it is important. First, as I said in a few of the investor conferences, I anticipated and we suspected some consolidation. And I think what the market should walk away with here is that there are two very large companies willing to invest in the US wireless market. I believe this is a sign that it is very good for the industry, and I think this shows the strength of the US market and the growth potential that is still available within this market.

I think what this means from us is a couple things. First, if you go back to January in 2011, the biggest point that Lowell and I made was we are all about executing on our plan. We have invested and built and remained on our brand to be the best and most reliable network. We have pioneered, launched and now are the largest 4G LTE network, with more coverage than all of our competitors combined. I think if you look at our spectrum holding, we have a superior spectrum holding and quality of spectrum, with our 700 megahertz contiguous across the United States, which we've launched our 4G LTE network on, and with the closing of our AWS spectrum with the cable companies. So I think we are in a very strong position from a spectrum holding perspective.

If you look at our capital -- and in the past, we've taken a little heat from the market for the amount of capital that we have spent on our networks -- but if you look at, on average, we spend about $10 billion per year investing in our Wireless and our Wireline IP backbone support for that Wireless network. And I think at the end of the day, I think you would all agree that execution equals results here. I think the third-quarter results speak for themselves.
So we will continue to execute, and we will continue to lead the industry.

Kevin Smithen - Macquarie - Analyst
Thanks a lot. Just a quick question. Media reports indicate Isis is finally launching on Monday. Can you confirm this, and what is the strategy going to be there to compete against Square, Google Wallet and others?

Fran Shammo - Verizon Communications - EVP, CFO
I think at this point, I think we let Isis answer those questions. They are going to launch, and we will see how the trial markets do and then we will go from there.

Kevin Smithen - Macquarie - Analyst
Great.

Operator
Brett Feldman, Deutsche Bank.

Brett Feldman - Deutsche Bank - Analyst
Thanks for taking the question. Now that we are getting some visibility here on the number of postpaid accounts that you have, I was wondering if you can give us a little more color here on the portion of them that are business accounts. And then just sticking with Shared Everything, it sounds like the initial benefit you got out of the gate was that households are starting to attach Internet devices like tablets and other and MiFis. Was that the principal benefit, or did you actually see an increase in the attachment rate of smartphones on existing households, meaning that maybe homes were taking advantage of the plan to consolidate people who maybe had been on different carriers all on to Verizon?

Fran Shammo - Verizon Communications - EVP, CFO
Thanks, Brad. So on the accounts, we are not going to split the accounts here between business and consumer. So we will just leave it as we will give the accounts, we will give the devices per account and the ARPA on that.

As far as the Shared Everything plans, I think the best answer is we are seeing a little bit of everything. We are seeing our customers move from their old legacy plans. We are seeing customers who were on unlimited plans move to Share Everything plan. Now, you would think that these initial customers that moved are optimizing from that, but what we are seeing is that they are attaching more devices. That includes more smartphones. And especially with the price points now on some of the lower-end iPhones that we have, we are seeing more attachment rates there.

We are seeing a lot of attachment on Internet WiFi devices. And I think what we are seeing is they are attaching the MiFi device at a $20 price point, rather than each individually attaching a tablet. So I think we are seeing very good success in MiFi attachment rates. And from tablets, we are seeing some of that, but probably not as much as we had expected. But the MiFi attach rate is running extremely higher than we expected.

So I think overall, again, what we are seeing in Shared Everything is better than what we had expected in our business case.
Great. Thanks for taking the question.

Brad, we are going to take two more questions. I know folks have had a busy night with our pension release, as well as -- that's why we got our earnings out a little bit early. So we will take two more. I know you also have another -- a busy day ahead of you with some other meetings. So let's move on for two more questions.

Operator
Tim Horan, Oppenheimer.

Thanks. Fran, two questions. One related to the data side of things. It looks like Sprint and T-Mobile are really going to be focused on unlimited data. As they get their networks up to speed in a few years, how do you convey to your customers that your shared data is still economical and makes sense for customers? Like really, how do you position against that, and do you think they can continue to afford to do it?

And then secondly, as these companies really restructure their networks the next two years, historically, have you been able to capture share too those periods? And do you think you will be able to kind of do that again? I know it is early stages with what PCS and T-Mobile are doing, what Sprint is doing. But maybe your expectations for the next few years in share gains.

Fran Shammo - Verizon Communications - EVP, CFO

Thanks for the question. I guess I tried to answer your question in my speech on industry consolidation, but maybe I didn't do a good enough job.

But on the data side of the house, I think our network and our competitive advantage speaks for itself. And I think the superiority of our network, I think, what you're seeing is that we are competing in that arena today against the unlimited plans.

As far as the network goes, we've invested $10 billion probably the last 10 years in our network. It is going to be difficult for others to make that within two years, as you say, so I think it is a longer-term plan.

But, look, I think it is all good for the industry. I think the industry is focused on the growth. There is a lot of opportunity out there. And I think we have proven that we can be a leader in the industry and we will continue to do that.

Tim Horan - Oppenheimer - Analyst

Thanks.

Operator
Jonathan Chaplin, Credit Suisse.
Jonathan Chaplin - Credit Suisse - Analyst

Thanks. Looking at the upgrade rate, it looks like you’re on a trend to have an upgrade rate this year that is below your historical rate of about 32% a year. Can that continue to go down in 2013? And if it does, with 50% EBITDA margins in Wireless this quarter, where can Wireless EBITDA margins go next year and longer-term? Thanks.

Fran Shammo - Verizon Communications - EVP, CFO

Thanks, Jonathan. So on the upgrade rate, yes, I do think it will decline. There is a lot of things that we took in place from 2010 all the way through that I think that will continue to happen, as I said, in the fourth quarter. I think will be more than the third quarter, obviously, but I think will be less than a year ago, and I see that trend continuing.

As far as wireless margins, I’ll leave it at this. I think if you trend out on a graph over the last 10 years what Wireless has done, given we grow and we are profitable, I think you will see that we will continue to manage that balance and continue to increase our overall portfolio and our profitability.

Jonathan Chaplin - Credit Suisse - Analyst

Thank you.

John Doherty - Verizon Communications - SVP of IR

Thanks, Jonathan. Brad, that concludes our call.

Operator

Ladies and gentlemen, that does conclude today’s conference call. Thank you for your participation, and thank you for using Verizon Conference Services. You may now disconnect.