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PRESENTATION

Mike McCormack - *Jefferies - Analyst*

We are very excited this morning to have John Stratton, EVP and President of Operations with us. Lots of exciting things happening at Verizon, including news this morning, which we can talk about, among other exciting developments in the industry. So I'm going to kick it off and let John talk to us a little bit about AOL.

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Great. Perfect, okay, we're going to be a little relaxed this morning as we get started, so thanks, Mike, for the introduction and for inviting us to open up the conference here. As you may have heard, we did make an announcement this morning about our plans to acquire AOL, so the details of the acquisition are now out on the wire. It's a $4.4 billion acquisition. Just maybe a little bit of framing and context for the deal, if that is helpful, Mike. The expectation here is that this is a very beautiful complement to the foundation that we've been building for several years in digital media services.

So we started this with a pretty significant organic investment in some capabilities as we anticipated the move to over-the-top delivery of curated video services. And we've augmented those organic efforts with a series of acquisitions over the last few years, Intel Media, the OnCue asset from Intel Media. The EdgeCast acquisition that we did, which is in the CDN space and here as we look at AOL, there is some very important pieces of that overall asset, certainly the subscription business and the content businesses are very noteworthy. For us, the principal interest was around the ad tech platform that Tim Armstrong and his team have done a really terrific job building. We really like the technology a lot and we think of it as a key enabler for us as we begin to generate revenue and value above the network layer. So we've talked a lot about our over-the-top video ambitions and this is for us a very important cornerstone enabler as part of that broader strategy.

Mike McCormack - *Jefferies - Analyst*

So I guess, John, thinking about the over-the-top strategy, we've got two angles on that. One would be something through the FiOS platform and something like a Sling from DISH. You guys have talked about going mobile first and I think this sort of furthers that effort. Do you see that as sort of different paths or do you have one sort of set path on where you want to go with over the top or new technology on video?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Yes, listen, as you would expect, we think there is some overlap. Obviously, from a technology platforms perspective, there are capabilities that we will look to leverage across both the linear business in FiOS, as well as the new business, which will be over the top and an example of that would be IPTV delivery, so some common infrastructure that we could leverage to gain early scale economics there.

But when you think about the service proposition itself, the actual content that will be delivered, the nature of how it will be consumed, they are very different and so we don't really look at those as a single development effort either from a content perspective or any of the other elements that describe the user experience. And we were very purposeful and continue to be in describing a mobile first video experience. And when you think about mobile first, it is not only about how it is delivered or how it is conveyed, but also the audience is very different. And so this is a service that if you think about over-the-top service, the primary target for us is the millennial generation that has very different ideas about what they want to consume -- how, where, when. So that's a bit of a different platform than the linear stuff we do on FiOS.

Mike McCormack - *Jefferies - Analyst*

And as we think about those products and platforms developing and using more and more capacity in the wireless network, do you anticipate it's going to be more sort of a Wi-Fi offload strategy as you develop more and more video content or should we see those buckets driving deeper and deeper for the consumer?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Video is the big driver of consumption of our LTE networks. That continues to be the case and we have seen very significant growth in utilization of our networks in the last year and that has been going on, as you would expect, for a while. And one of the things that we see in the wireline networks, as well as wireless is, when you provide greater capability, there is higher consumption. It's an almost immutable law. So that has been going on for some time.

Now, listen, we think that Wi-Fi offload is an important part of the overall delivery method for customers. Different carriers have different thought processes about how aggressively they pursue it. What I would say is this. Our job is to drive the growth of our business broadly. One of the critical levers, of course, is data consumption by our customers as they are increasingly hungry to do more and more in the mobile environments. The key for us is to make sure that we create value in the process of delivering that. So focus on raising the top line while we reduce the cost of delivery is obviously the most important piece.

Mike McCormack - *Jefferies - Analyst*

And I guess the economics of the deal are well known, but within Verizon as far as financials, impact of any kind on net debt, cash?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Yes, no, so we have no expectation of a change in terms of the guidance that we've provided. Our debt position and how we project it forward is unchanged by this acquisition.

Mike McCormack - *Jefferies - Analyst*

Okay. We generally don't start these things with over-the-top discussions with Verizon. That would have been in my third or fourth question, but I guess thinking about what is front and center for a lot of folks is the wireless competitive landscape. You've got some competitors out there that are super aggressive taking share, one taking significant share of the handset marketplace. What are your thoughts -- and we had a venue with you guys a couple of weeks ago where I think the discussion was sort of changing the message, changing the way you are going to go -- go-to-market strategy from an advertising standpoint, a marketing standpoint. What should we think about Verizon as we progress over the next year competitively positioning against all this change in the industry?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

The first quarter of 2015 in some regards looked like 2014. There was still a good level of competitive activity in the marketplace. We don't think of this as an entirely negative thing. There's such interest in the category right now; that continues to be the case. This is a very strong industry. There's a very strong ecosystem that surrounds it that we talked about consumption of wireless data. That just doesn't happen. It happens because there's a very robust ecosystem of applications and content that are delivered over it.

So we love the industry and as I look at the situation in terms of competition right now, as we said, it has been a pretty competitive period. It's been a little different the last year or two versus what we saw previously. So you've got to work to continue to manage the balance between profitability and growth. And I think it's interesting to me because we recently launched a set of spring promotions, you referenced a minute ago, Mike, that is our standard fare. Every summer, we see May and June time period as a strong promotional period. Those are two of our better months for wireless amongst the year and yet, when you look at our actions in the context of competition, you might draw a different conclusion.

We compete; this is what we do. We will look to grow the business, but we want to do it in a smart fashion. So again, back to the balancing act. Retaining our customers, being thoughtful about how we go to market, measuring our investments, making sure that we're getting significant return and value for what we put into the market remains, as it has always been, the standard by which we operate the business.

Mike McCormack - *Jefferies - Analyst*

So I guess thinking about the share loss in the industry, I think AT&T says similar things, that we are losing the lower end customers and for you guys, the feature phone customers. I guess I sort of view those as the up and coming smartphone users, so losing them might have a negative impact longer term. But I've also heard the other side of the story, which is they are high churn, they don't use a lot of data, they are not high-value, high ARPU customers. How do you sort of balance that?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Yes, listen, the goal is zero churn and so obviously that's our ambition. As I look at this, one of the things that we keep a very close eye on is the relative value of the disconnecting customer and making sure that we are particularly focused on retaining and preserving the most valuable customer in the base, but they are all important, of course, right? And so if I look at our performance in the first quarter, from a churn perspective, a pretty significant improvement from the prior year. We are feeling like we've got a good rhythm going there in terms of holding onto and maintaining the customers we have.

We also have a very significant shift to move customers from basic phones and 3G smartphones into 4G LTE devices. It was millions of customers in our base that did that just in the first 90 days of the year alone. So while we regret every piece of churn that happens, we do recognize that there will be some. You want to minimize that loss where you can and we will do what we need to do to improve the proposition for our basic customers. But, again, I think it's a balance here around applying our resources to ensure that we retain the customers that have the greatest value.

Mike McCormack - *Jefferies - Analyst*

So thinking about handset additions, I think, as an industry, the leaders in the industry have said maybe we will maintain margins, be more disciplined, don't worry about if we lose a few handsets in any given quarter. Is that the sort of go-forward strategy that it is okay, we are not going to get into this? You've seen it in the Triple Play in wireline with FiOS where you go back and forth on promos and they switch back and forth between cable and you guys. Is there sort of a line in the sand where we are going to say, all right, we are going to lose a little bit of share, but it is okay and we're going to stop this promotional activity or --?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Yes, so these are questions that need a little bit of detail. There's not a yes or a no to that. Here's how I would describe it. First, I don't want to lose any customers, but, at the same time, we're not going to be irrational in terms of how we compete. Ideally we will be smart about where we invest, how we promote, etc. Now look, if I look at the first quarter, we were 560,000 some odd postpaid net adds, about 139,000 net negative on phones, which was almost identical to the result we had the year prior. And so obviously for us, building and growing the phone net add number is important.

And so if you look at the very basic elementary strategy of the business regarding growth, the first thing we seek to do is to grow accounts and the cornerstone of those accounts is smartphones. The second thing we look to do is just add devices to those accounts. And then the third logical thing is to inspire usage amongst those customers, drive that usage forward and then obviously the key is to create value in that usage, drive the monetization of that usage as we go. So those fundamentals haven't changed. We'll look to grow the base. We'll look to grow it in that fashion.

Mike McCormack - *Jefferies - Analyst*

Thinking about -- this will bleed into another conversation that I want to have, but the industry -- we wrote a report back in November, I believe, looking at the adds coming into the industry as a whole and just splitting it prepaid, postpaid, number of adds coming in. And if you look back to third quarter of 2013, and this was again a third quarter study we did, third quarter 2013, it was about 80/20 prepaid versus postpaid. So it makes a lot of sense. BYOD is sort of picking up, so corporations disconnecting BlackBerrys, if you will. And you fast-forward to third quarter 2014 and it was the exact inverse. So are prepaid customers that much better a year later, or is this industry taking on -- and you guys are less exposed to this -- but taking on more risk than we probably have seen in a very long time, if ever?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

What is interesting about that, Mike, is that one year period looks like and feels like some of the broader cycles that have played out in the wireless business over the last 20 years where, in the moment, in the third quarter of 2013 when you wrote that piece, it was very clear this is where it is going and who would have guessed that 12 months later, it is very different. And the question is what changed underneath it. Different carriers will have different strategies in this area, but speaking for Verizon, one of the things that we really value is the quality of our base and so we are exceptionally consistent in terms of how we manage the credit screening process for customers as they come into the business. We want to make sure that we safeguard again the quality of the base.

Now, the point you raise though is an important one and what we see is the distinction between prepaid and postpaid value propositions is becoming less distinct. There's less separation I think than there was maybe, for sure, in 2013 and that begins to converge to a certain extent. I am talking about the service proposition. But what doesn't change for Verizon is again the credit screens that we put into the business. So if I look at the effect of EIP installment pricing for the device, and when you take the subsidy out of the equation, it begins to create that service convergence I mentioned earlier. But as I look across our credit criteria for postpaid subsidy traditional model versus postpay under EIP, they are the same. And so if you are at a strong credit history, then you would have a certain flow-through at point-of-sale. If you have a slightly weaker one, you might have a deposit that you'd pay at the point of sale and that wouldn't be different on one side of the ledger versus the other. So I think there may be a continuing blurring of the lines here, not only at the industry level, but in terms of each individual carrier's strategy at this point. And I think over time, that will shake itself out.

Mike McCormack - *Jefferies - Analyst*

Just following along those lines on credit risk, the industry as a whole has effectively created consumer finance companies inside their companies, including Verizon and those balances continue to go higher. Is there a risk at some point in time, if we have an economic downturn, a credit cycle, some issue where all of a sudden this big risk in the balance sheet really comes back to haunt us? I know a lot of your competitors have been out there factoring receivables and it's recourse back to the carriers. So in the end, it's them on the hook. So how do you think about the credit cycle hitting the carriers at some point?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Yes, just a couple comments on this. The first would be to acknowledge your question and the point, the broader point, that the shift to EIP to what we call Edge certainly puts increased demand on the business from a working capital perspective. Cash flow management is something that is obviously very important to Verizon and every company, but this is yet another point to be managed, to be cared about.

What I would say is this though, if you look at -- what's interesting to me is that as we think about this inside Verizon, one of the best sort of reference points and most interesting is when you look back to the financial crisis in 2008 -- 2007, 2008, 2009, during that period -- what was demonstrated was I think, very clearly, was the nondiscretionary nature of the wireless service to our customers. It has become effectively an essential service. There was very little change at all in the bad debt performance of our business during that time. Now I think it was also a reflection of the quality of our base, but we saw very little change, even under very difficult economic conditions and so that's just a data point, but I think it illustrates the resilience to a degree and the quality of the customer base we have.

Now as it relates to how do we secure financing, what are the limits of the market, how would we deal with risk, I have a very, very capable CFO in Fran Shammo who I trust to guide us in that regard. So I'll leave that to him.

Mike McCormack - *Jefferies - Analyst*

I wouldn't ask you to pontificate on that one.

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

No.

Mike McCormack - *Jefferies - Analyst*

So thinking about -- and by your comments on nondiscretionary, it sounds like wireline from the mid-1990s. Maybe that is a good thing. Thinking about EIP, you guys had a jump in this quarter I think that was unexpected, certainly above our expectations on the uptake in EIP and the product that you call Edge. How do the customers, when they go into the store, what is the consumer reaction? How are you guys positioning yourselves from a marketing standpoint to go one direction or the other?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Yes, we didn't feel that there was a need to force this issue in terms of declaring specifically subsidy versus installment for our customers as the industry began this turn in the direction of EIP. And so the position that we took with the market was around customer choice and that continues to today. So as we have moved forward through that period, we kept a relatively neutral proposition between the two choices for the customer and allowed them to kind of make their way through a decision tree and what we have seen now in the last three or four months has been a pretty significant move on the part of consumers to an expectation and an adoption of the EIP structure.

And so as a result of that, we've seen it rise quite a bit and we had talked originally in 2015 about a 35% share of new sales being on Edge and we have now traded that to like a 50% expectation. And we have seen that already at the point-of-sale, so that has continued to rise. I will tell you that one of my concerns, in looking at the business, is I would like to streamline and simplify everything that we can and to reduce the level of time and friction that is introduced in the purchase path for our customers. So we are taking a pretty hard look at this more broadly. As we get to a tipping point with customers, if there is an obvious push that says, hey, we should go Edge only, we would do that. There is not a reason not to do that, but we are going to let the market determine that over the next couple of months see how we look.

Mike McCormack - *Jefferies - Analyst*

Yes, I would imagine the consumer is drawn to a zero down walk out of the store with a phone type plan, although they might be shocked to pay whatever it's going to be, $75 in taxes if they walk out with their phone. So I guess in thinking about consumer behaviors and as you anniversary off of the Edge plan or customers anniversary off of their EIP payments, what is your expectation? Clearly, this was set up so that the next phone cycle, the next iPhone refresh will have less of a damaging impact on margins. Do you expect the consumers to go right to the store and pick up their next phone, or did you think that drop in price from the equipment piece going away will let them carry on at a lower price point?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

We are neutral on the point only because what we see here is the subsidy implication is nominal in the Edge agreement, in the Edge structure. It's a non-event for us from a financial perspective, vis-a-vis subsidy. I suspect that customers will continue to be motivated to upgrade their devices because of the continuous cycle of hardware and software improvements. And so if we look at the iPhone cycle, you mentioned that, every couple of years, there's a pretty meaningful change to the hardware platform, which inspires just a tremendous uptake.

We see similar things in the Android side of the business as well and then there's other things. We have a technology, broadcast LTE, that we are beginning to embed pretty meaningfully in devices and as we create more and more compelling content to drive across that, it's another reason for customers to upgrade their device. So that's a cycle we will watch. We are into a place right now where we are going to have to wait and see how the market responds over time, but my guess is that the same incentives that have driven the upgrade cycles historically will probably continue.

Mike McCormack - *Jefferies - Analyst*

We used to write a lot about iPain and smartpain; it was the annual rise of margin compression. I guess also thinking about EIP and prepaid and postpaid, is EIP driving that dynamic do you think in any way? Would there be a correlation?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

I think it contributes to it, but there are some natural and unnatural things that always sort of flow between those lines. What I mean by that is just different carriers at different points in time with different objectives may drive very aggressively on one side, prepay or the other, to get at their near-term growth targets and the like. We are less focused on that interplay and more focused on just presenting a clean value proposition in the marketplace. And then our orientation, as you know, has very much been centered on a postpay buyer; continues to be that. We do prepay both through our retail and our wholesale businesses, which is good business, but our main focus remains with the postpay business.

Mike McCormack - *Jefferies - Analyst*

Okay. Moving on to ARPA, which is I think across all the carriers they have made our lives tremendously more difficult and added probably 1000 lines to everybody's models out there. But with respect to ARPA specifically, how do you view -- and I know Fran has talked about maintaining the base, not pricing down -- how do you maintain the price points in the base? Are you going after certain subscribers that you feel you might be at risk of losing to introduce them to these new plans? Just thinking about ARPA trends generally over the next year or two and how you bifurcate equipment and service.

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Yes, look, this is a source of a lot of confusion I'm sure for analysts and for everybody who covers the sector because of the change in the commercial model and the effect it has on the different reporting lines and also the timing. Every carrier is in a bit of a different place in terms of phases of transition, so it's a tricky one to manage. When I look at this, we look at a couple of different sub-pending drivers here. We look at ARPA. We look at what we call IARPA, which is when you tack on the installment billing that is on the customer's bill.

Mike McCormack - *Jefferies - Analyst*

(multiple speakers).

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Sure, why not. What we needed was a 19th measure of ARPA. And then we also look at total service revenue. Of course, we look at total equipment revenue and in the end, for me, again, in the spirit of simplicity and streamlining our views here, it comes back to driving profitable revenue growth. And so in this point of transition, what I am razor-focused on is the total revenues of the business and then the total margin performance of the business because it cares for some of those things.

Now obviously you have to look down under the details to understand what's moving and why, but as I look at our first quarter, we had roughly 7% top-line revenue growth and roughly 45% total margin. To me, those are pretty clean numbers and we will continue to drive through as we go.

As it relates to the base itself and conversation about how we grow, we talked before about building new accounts, gaining new accounts. That's sort of new share, but then also growing the accounts and that remains a very, very important factor for us and so I think Fran said something very, very thoughtful at the end of his remarks at the call we had at the first-quarter results, which was talking about a phenomenon that we've seen several times over the last 20 years in the wireless business around access revenue and this was a pretty important point. And I think the analogy he drew was to minutes of use in the old voice model and where you would set your minutes at a certain price point and it would be almost overproviding for what was the rearview mirror view of customers' requirements and then customers' needs would grow as you went and then it would fuel access revenue growth as a principal driver of value inside the base of the business.

The most critical piece of that is making sure that, as you sell more bits to the customer at what could be a slightly lower price per bit, your cost per bit is coming down significantly as well and therefore your yields are good. I think there's a good analogy between that and what we see forward here. So some of the pricing actions that we take, and remember, the stuff we are doing now is promotional, but I think the same principle holds, which is the middle and upper tier user who has a demand, has a need for more, wants to put it on our networks, that's a customer we value very, very highly. And so the ability for us to deliver value for those guys, to retain them at a higher rate, which we do and to acquire them at a higher rate, which we do, is very, very important to us.

Mike McCormack - *Jefferies - Analyst*

So in thinking about promotional activities, I know you guys have run in front of Mother's Day and now I am assuming in front of Father's Day, you will do some more stuff. It seems like you are tact is more tactical in nature as opposed to going out with the bazooka and changing things for yearlong or lifelong changes. How should we think about how you guys attack the marketplace from a promotional standpoint?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Again, I think this is interesting because the same actions three years ago would've been just the same actions, but when they are seen in the filter of, wow, there's a crazy market and there's all kinds of chaos, you can sometimes see the same thing and draw very different conclusions. But in fact, if you look back at the last 15, 18 years -- well, 15 I guess for Verizon -- every May and June, we have done the same thing, which is we drive promotional activity because, remember, we are a retailer. We have 1700 retail stores. We have 30,000 doors of distribution broadly across the United States and we like to sell stuff. And so in heavy promotional periods, you'll see us presenting some pretty compelling value propositions out to the marketplace and we will do this from time to time during the course of the year.

But to your point about being focused and targeted, this is very important. There was a time early on in the industry where it was -- when the markets were growing medium to high double digits year after year. The whole thing was just about building the road fast enough to keep up with the speed of it. The ability now to be much more precise with regards to what you present to which customer in what timeframe in their lifecycle is pretty sophisticated and we are I think particularly good in this area.

So we will be surgical in some cases with regards to how we drive what we do, but the broader propositions that we put on on TV advertising, online advertising that reaches the broader market remains a core driver of growth for the business. So again, you'll see us do things from time to time during promotional periods that are designed to do just that, drive store traffic, drive Web visits, drive sales and drive retention.

Mike McCormack - *Jefferies - Analyst*

So thinking about maybe the cost side of the equation instead, Verizon put up fantastic margins in Q1. You have always been the industry leader in wireless margins. How should we think about that as you progress over the next couple of years? I know Fran has talked about pulling a tremendous amount of costs out of the business. We have seen that over the past several years. What are the opportunities going forward to streamline the costs and maybe outweigh the impact of ARPA degradation as people move into these different plans?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Yes, I think for me this is one of the great things about coming back to the wireless business. I had been in wireless, Mike, as you know, for I guess about 15 years before going over to run the wireline business. And then coming back to wireless after a three-year hiatus was great for me to be able to really dig in deeply to the work that the team had done in this specific area. And as I think you know, we have a Lean Six Sigma program that we launched under Lowell's direction back in 2011, which went companywide and really looking at how we reengineer fundamental processes in the business to improve the efficiency of the Company. And Dan Mead and his team I think did a very good job over the last several years to be incredibly focused on this area and to find ways to more efficiently deliver and support our customer base.

That said, I think there is an opportunity to continue to build on that work and we look at it in a couple of different places and for me, as I think about maybe three of them, one is just as we bring this operations group together, which combines the wireline and wireless businesses, there's some opportunity for some synergies in the back end. So we think about IT and network and some of the staff functions of the SG&A side of the business, some opportunities there to streamline things.

The second, of course, is just continuing to leverage the technology, so leveraging LTE and other advances to reduce my cost to serve is important. But then there's a whole host of opportunities that remain in the fundamental operations side of the business, so in distribution, in customer support and service and how we can affect change in -- and again, back to reducing the complexity of the environment, simplifying everything that we do, allowing commerce to flow very easily, reducing the need for customers to call, etc., gives us another set of significant cost base that we can address and drive down as we move forward.

Mike McCormack - *Jefferies - Analyst*

I guess one of the topics that we are asked a lot about specific to Verizon, and it's usually around why aren't you buying DISH, but we won't talk about that today, your spectrum position. How do you feel? How strong is it? As you look forward, does the broadcast auction in your opinion take place in 2016? If it doesn't, how well is Verizon positioned over the next three to five?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Yes, we really like our position here and this is something that we have had some pretty brilliant leaders in the business driving the spectrum strategy for Verizon and we continue to have some, I think, of the industry's best and brightest in this space. So if we just think about it fundamentally, post the initial 800 megahertz and PCS bands, but if we think about this in the context of the modern data networks, going back to 2007 when we did the C block auction, the 700 megahertz auction, we think of that as sort of the base layer. And we knew when we got involved in that auction, we had a pretty good sense for where the industry was going and we had at that point pretty definitively declared internal to the business that we were going to be a first mover in deploying LTE networks.

And we knew that there was going to be a heavy lift because of the state of the standards, if you will, which was basically nonexistent at that timeframe, but we also recognized that we had enough scale that we could drive the markets, we could drive the industry that would give us a first mover advantage and that has been unbelievably important to us. So we deployed the 700 megahertz C-band for coverage, literally 100% coverage of the US from a spectrum standpoint and built that out. As we got into it and as consumption really rose, we were able to use AWS-1 that we had acquired through spectrum auctions and the SpectrumCo consortium to augment for capacity. And now as we look forward and ask, okay, so how do we care for capacity as we move, AWS-3, which we recently acquired, obviously is not yet in service, we look at re-farming PCS as we move, which is another great source for additional capacity. LTEU is another great opportunity to augment the downlink and then over time, as we think about moving circuit-switched customers for voice onto VoLTE, even the 850 stuff is then open for a move to augment capacity on LTE.

So we feel that for the foreseeable future we have a very, very clear path and the immediate move right now is augmentation through densifying the network and that is an area that we have been investing in and it provides a variety of advantages, but as we develop that topology, it allows us to then pretty efficiently deliver and effectively deliver the capacity and the latency and the bandwidth requirement that our customers need.

Mike McCormack - *Jefferies - Analyst*

So moving on to the wireline side of the world, I want to talk to you a little bit about FiOS, a lot going on there and we can talk about content disputes for a minute or two, but also wanted to get your broad thoughts on where we are going here because it does seem like over the top is picking up dramatically, particularly among the younger generation. Is there going to be this future state of FiOS where you have no truck rolls, no CPE, the customer merely gets a wireless gateway delivered to their home where they self-install and then they use their apps or their smart TV to watch the Verizon FiOS app saving you presumably a lot of money in capital and truck rolls, or is that just a pipe dream?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

No, I think if you look at the data points as you go, you can draw a pretty clear conclusion that some version of that future could be out there. As I think about this, this is an industry that is definitely in the early stages of a pretty substantial bit of interruption. And so for the content guys, when I look at our business, without looking more broadly, but just for the moment, thinking about FiOS, we have seen a divergence in the net add number, and you can just look back, between FiOS Internet adds and FiOS TV net adds and that has continued to expand and to me, it's an indicator, if you will, it kind of describes a broader phenomenon, which is a lesser dependency from newly established households and switchers to go full tilt Triple Play and we are principally a broadband company. That's what we do and so for me, this is not a disturbing phenomenon; this is just what is.

We are in the TV business; it is still a good draw. Triple Play still matters a lot, but we see a very, very significant shift in the desires of our customers in terms of how they consume video. So obviously in recognizing this, we have begun to make investments in enabling the next generation of video delivery, which we call the OTT stuff, so all the AOL, EdgeCast, OnCue, etc. and our own VDMS leads to that delivery later.

But back to FiOS and linear TV, the TV content providers are in a very, very important phase right now and coming along with the enterprise business, I think about the software companies as quite a good analogy there. If you think about the model change that's happening there, the disruption that is happening there, as they move from a very predictable revenue stream that is licensed-based to a utility-based or service-based, cloud-based model, that's a very hard turn and the companies that figure that out have a chance to make their way through deep transition and get out the other side, but there's a lot of casualties along the way.

I think the content guys are in a similar place right now and it is just for us -- one of the things that we are trying to do with this custom TV, people call skinny bundle, is we're trying to work with our content providers, trying to help them sort of figure out how to move through this period of transition and still meet a customer's objectives and get to a place where there is still a pretty vital model at the end.

Now, look, you get into some bumps along the way. We're pretty thoughtful about honoring the obligations and commitments we have contractually with our providers. From time to time, there may be a dustup or two as we go, but these transitions, these fundamental traditions in any industry are never easy. But, for us, I think what is most important is just being super focused on the needs of the customer as we go and trying to find a way to move through these phases to get to where the outcome (multiple speakers).

Mike McCormack - *Jefferies - Analyst*

I'll give you my funny anecdote, my son came to me the other day and he said, I only need Netflix and HBO Now and my life is complete. I said, well, what do you do for your college basketball that you like to watch. He was like, he thought about it for a period of time and was like, well, I login on the FiOS app using your username and password. I said exactly, very hard to cobble together all these things that we need. And then thinking about the content, are you guys in the early stages of continuing to push down these skinny bundles? And you are obviously fighting a current battle. Do you think that is the start of many of these skirmishes you are going to have, or do see this as sort of a test in the marketplace?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Listen, I think that we will continuously look to sculpt the right propositions to meet customer needs and obviously the requirements of our business. We have certain obligations that we are going to carry forward with the content guys, but those have to change as well. And there's a need for additional flexibility in this model and my worry for the content players is, to the degree they are incredibly rigid with their approach, you almost become brittle and then it breaks as opposed to the ability to flex and move with the market and find your way to a soft landing sort of on the other side of this.

So your son is not different than a lot of our customers who will say the same thing, which is here's what I need and what customers consume regardless of how many channels are made available to them is the same 17, 18 channels it has been for a couple of years, but it is different. This customer, that guy and the other will have different needs, but the ability for us to flex and respond to those requirements I think is pretty important. As an industry, we've got to be thoughtful about that because they will find a way to get what they need and the question is how easy, how can we facilitate that on behalf of the customer as opposed to forcing them to go around what is otherwise an inflexible bundle.

Mike McCormack - *Jefferies - Analyst*

So I think we will finish up here with just a thought that you might not answer, but I'm going to throw it out there anyway, with respect to Verizon's capabilities currently, which are enormous. As you look out at the landscape, are there opportunities for you to continue things like the AOL transaction this morning? There's a tremendous amount of cable consolidation occurring. Would there be any interest on your part to own a broadband company outside of the FiOS footprint to cross-sell wireless and get involved in some of the stuff that is happening out there?

John Stratton - *Verizon Communications Inc. - EVP and President of Operations*

Yes, so this will be a non-provocative answer to your very provocative question. So we always will preserve that position that we always look at everything. So that doesn't help you much at all. But I think what's important for our business is we have a very, very good business today. We are very, very fortunate. We are very pleased to be in the position we are in. We have a -- obviously the foundation of our Company is built on the network services we provide, the wireline and the wireless spaces. And yet we do recognize the opportunity for us to seek new value streams in the business. How can we build on those strong network platforms and create other services?

I think when we talk about two particular areas of investment and high interest, you'll hear us talk about over-the-top video and you see the things we're doing and the other area that is very important to us is IoT. We think there's -- it's very, very early stages in what we think will be a very meaningful market. We have, we believe, a brand right to play in that space and so you will see us do things in IoT that may feel and seem a little bit like our early-stage investments in OTT. I will tell you that's really where our focus is right now and just growing and building the core businesses continues, for me at least, to be job one.

Mike McCormack - *Jefferies - Analyst*

Great, thank you, John. Appreciate everybody coming to the conference and enjoy it. Thanks for coming.

Editor

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