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# EDITED TRANSCRIPT

VZ - Verizon Communications Inc at UBS Global Media and  
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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**John Hodulik** *UBS - Analyst*

## PRESENTATION

**John Hodulik** - *UBS - Analyst*

Okay, thank you all for attending. Again, I'm John Hodulik, I'm the telecom, cable and satellite analyst for North America here for UBS.

And I'm very pleased to announce our next speaker is Fran Shammo, the CFO of Verizon. Fran, thanks for being here.

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

Thanks, John. Good morning everyone.

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**John Hodulik** - *UBS - Analyst*

So another year on the books for Verizon. Why don't you if you could, Fran, start us off with just a review of what you see is the highlights for the Company for the year.

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

Sure. Well if we start off we made a small acquisition in February buying out Vodafone's 45% interest in Verizon Wireless for just a measly \$130 billion. So that was probably the largest milestone we had. And I know it seems like we did it five years ago already but it was just in February when we closed that out.

And then if you look at it we made some other small acquisitions this year in EdgeCast and upLynk and OnCue. And they were really add-ons to our Verizon Digital Media Services platform which also commercially launched for the first time midyear this year. We're starting to generate revenue on that and of course those assets that we added there puts us in a position to start to go into the next level of video which we look at as over-the-top mobile first.

And then if you look at Wireless we launched VoLTE nationwide; again, leadership position in LTE and the launch of VoLTE, so we did that. We also enabled the network to handle multicast and so we accomplished that this year.

On the Wireline side it was more around the continuous improvement of copper to fiber migration. We did almost another 200,000 homes this year but we also kicked off a strategy of 10 switches that we are now decommissioning over the next 24 months. So that was a new milestone for us this year as well.

So it's been a very busy year and we can talk more about the fourth quarter and the volumes and Wireless. But it's been a very busy year but it really sets us up for a very exciting 2015.

**John Hodulik** - UBS - Analyst

And Fran let's touch on that. You guys had an announcement yesterday and a press release. Could you talk about what you're seeing in Wireless and maybe go over some of the specifics of that number?

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

Yes, sure. So we just wanted to alert everyone that if you remember when I came out of the third quarter I said you can expect a very exciting fourth quarter, one that is full of promotions, full of activity and probably one of very high volume. And that's exactly what we're seeing.

So what we're seeing is a pretty exciting period here at Verizon Wireless in fact on a couple of fronts: number one, our activations are up because it's similar to the third quarter where we saw an increase in the activations but we're also seeing some increase in the churn as well. So again you have a consistent movement of the base if you will based on the promotional activity of the competition here.

But we also, as I said coming out of the third quarter we had about 3.2 million iPhones that were coming out of contract in the fourth quarter here along with just the normal cycle. And if you think back this kind of puts you back in the 2012 time frame, so if you go back to 2012, 2012 was a period of a very high volume quarter which we had pressure on the margins in that quarter but it elevated us to a good start to 2013.

With our upgrades what we're seeing is we're probably going to exceed for the first time 9.5% in upgrades and if you think about our base that's a fairly significant volume. But the good piece of this one is three out of four of those upgrades are what we consider strategic high value. And by strategic we mean either a customer going from a basic phone to a 4G smartphone or a 3G smartphone to the 4G smartphone.

And we know that when we do that we see an elevation of revenue from those customers. So it really puts us in a good position for 2015. But this is very high volume for us from an upgrade cycle perspective.

And although Edge is doubled, so we're seeing about 24% take rate which is what I guided to coming out of third quarter, the amount of upgrades is more than offsetting that EPS benefit if you will from the Edge program. So you will see some margin pressure from all this activity but we look at this as almost like a 2012 when we see this activity we see the bump.

The other thing to keep in mind is if you go back to 2013 you may say well why didn't we see this activity in 2013? And if you remember we made a lot of policy change around upgrades in 2013 and that in essence delayed the upgrade cycle for us. So we got a little bit of a benefit in 2013 and now you're seeing that go back to what was like a 2012 level but on a much higher base.

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**John Hodulik** - UBS - Analyst

If you could contrast 2014 versus 2012 you saw a fairly significant margin stepdown in 2012. How would you compare this stepdown to that and why the difference?

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

Well again I think what you're going to see is it's all based on volume. And when you have this much upgrade volume and even at an Edge rate of 24%, 75% of them are still coming in on a subsidy model.

So you're taking that upfront hit. And again we like to say that we really are concentrating on customer choice as to what the customer really wants. 75% of the customers are still selecting that subsidy model.

**John Hodulik** - UBS - Analyst

So what's your view of the competitive environment today? Is what we're seeing in the market sustainable over the next few years?

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

Well, I think if you go back here this has always been a very competitive industry. And quite honestly I think social media and press has really built this up as a price war type thing. But when you step back and you look at what the industry has done we've shifted service revenue to equipment revenue.

So the service -- the actual price takedown really is not as significant as it may appear when you just look at the service pricing piece. And even with some of the promotions that are going on today if you look at our four lines under subsidy model you will pay about \$260, but you'll get a subsidized handset out the door.

On the Edge model you'll pay about \$140 for those four lines. So when you see these advertisements of 50% off of \$260 it's really not that different than just shifting people into a different bucket for different revenues.

So what's happening is people are focused in on the service pricing and the equipment pricing is sitting out here that everybody is just paying for. But when you add the two together the revenue of the industry yes has come down slightly but not as much as everybody is making it out to be. So it's not -- it's more of I would say there is competitive pressure on the top line but not as significant as maybe some of the public media makes it.

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**John Hodulik** - UBS - Analyst

So as you look at the churn that you guys laid out for 4Q you've got a couple of issues working there. You've got the 3.2 million iPhones that are coming due. You've also got the increasing competitive intensity.

As you look out to 2015 do you think it's a year where we see churn pick up because the 3.2 million will work its way through the system but the competitive intensity is likely to stay there? How do you see that shaking out?

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

Yes, to be honest with you I really think that if you look at this fourth quarter a lot of the promotional and pricing is all promotion so it ends. I would tend to say that I think that things will settle down in 2015. And the only reason I say that is what I said at the beginning of this year.

Some of the tactics that some of the competition is using is short-term tactics because of the end of the day, as Lowell likes to say, this is about physics. You need to generate cash to reinvest in your network.

And if you don't generate the cash to reinvest in the network at some point you're going to hit a wall. And we've already seen where some have toned down because they have to start generating that cash.

So I think that some of this is just temporary promotion type stuff to stimulate some growth and then I think things will level out. Because some of the promotional pricing that's out there today is losing money. So you can't do that long term.

You can do that for a quarter or two but then you have to get realistic. So I think that it will be more of what you see probably out of the third quarter going into next year more realistic as to what the future will hold.

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**John Hodulik** - UBS - Analyst

Got you. Now as you said you've doubled your installment take rate in fourth quarter, largely through some of the pricing promotion that you had starting November 1.

How should we look at that level of take rate as we look out to 2015? Are you going to be doing more of this?

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

Yes, so the reason we said that the take rate on the installment method was double for us, so third quarter we were around 12% and we said that we would probably double in the fourth quarter. And the reason for that is, if you look at how we shifted our advertising dollars, our advertising dollars now are being spent on advertising service pricing. Because what's happened is the industry moved to that service pricing and we were still advertising phone sales and subsidy pricing.

And quite honestly if you take subsidy pricing on a service model and EIP on a service model, there's a big difference in what you pay. And the public was focused in on the service pricing. So we had to shift our model to advertise that service pricing on the EIP to stimulate it.

Therefore we know when we shift dollars to advertising the take rate on that is going to go up. Where we are in 2015 if that continues I would say that the take rate of installment will probably continue to increase.

But not -- I don't see it going to where some others are at 50% and 60%. I don't see that --

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**John Hodulik** - UBS - Analyst

Don't see that?

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

I don't see that one, no.

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**John Hodulik** - UBS - Analyst

Got you. But obviously looking at ARPU it's a little bit apples and oranges given that you're pulling the equipment out of it. But given the higher take rate how do you expect the ARPUs to trend given this move and the higher take rates at 25%?

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

If you look at the ARPA of the account which is what we look at and you look at the third quarter, so coming out of the third quarter ARPA grew at 3.5%. So that was a slowdown from where we were historically. But then when you add back the recurring revenue to equipment that took you back to 5%.

Now still a little bit of a slowdown from where we were in 2013 but that's because of some of the price compression that we've seen. So as you look at this as your take rate of that installment continues to go up your ARPA is going to continue to decrease. But we will continue to give you the numbers to add back the recurring equipment so that you can compare this on an apples-to-apples basis.



And therefore we think that the increase that you saw coming out of the third quarter will continue to where we are. Because you can't lose focus of the fact that, I know where everybody is talking about the net phone adds at this point, but the industry is really maturing to much more than just phones.

If you look at tablets, tablets is still a tremendous growth area for the industry. And if you look at it we started this back in 2012 and still on Verizon Wireless only 6.5% of our devices are tablets. So there is still a long runway for tablet growth.

Then you talk about the Internet of Things or machine to machine and connected car and I know John previously spoke about the same thing. That is increasing the pie for all competitors. So I think we can't lose focus of the fact, yes, there is this competitive thing around net phone adds but there's a lot more to the industry than just net phone adds.

So I think that will contribute to the ARPA growth because we know that when we add a tablet to the account it's more sticky and that tablet uses more than a 3G smartphone. So as usage increases the model says that revenue will increase.

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**John Hodulik** - UBS - Analyst

In terms of those alternate revenue sources, wireless video is expected to be another source for the Company and Verizon has already built out a multicast network. When can we expect Verizon to have a subscription which you referred to as over-the-top mobile first product? Could you just describe that product a little bit?

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

Well I think if you look at this I'll talk a little bit about it but I won't get into too much detail. As Lowell said we will launch something here midyear of 2015. The way you think about this this is what we consider over-the-top mobile first so it is not -- don't think of it as linear TV programming.

It is very different content. And if you look at what we've done with the NFL and we look at the usage patterns of our NFL agreement and just refresh, we have the rights from NFL to give our Verizon Wireless customers the ability to view any NFL game on a regional basis on Sunday, on a national basis Monday, Thursday and Sunday nights. And you don't need a linear TV subscription to do that.

That's the kind of content deal that we're looking at, something that you can take over mobile but has nothing to do with a linear TV or satellite subscription to TV. And that's the difference. So this is a very different way to think about content.

The other thing I would say is multicast will play a very important role here because multicast is an extremely efficient way for us to deliver video to millions of customers. But it's around live real-time events and that's what we saw with the World Cup, that's what we see with the NFL.

People want to watch when they are traveling on something that's real-time live that they don't want to miss. You're not going to replay an episode, a TV episode on a mobile handset.

That's not what the user wants. So it's a very different usage case and you'll hear more about that as we come out in 2015.

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**John Hodulik** - UBS - Analyst

So I guess the plan is to put together a bundle or a package of video that is essentially additive to what the programmers are seeing from the traditional bundle. How are the programmers -- what is the receptivity of them to working with you on this project?



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

Well it has to be a win-win, right? And if you think about it we know that at some point as data is consumed through the wireless handset we know that at some point the mobile user is going to say okay, I've had enough, I can't consume anymore because I can't pay more.

So the model has to change and the way we look at this is this is an advertising model where people will consume more content on the mobile handset if they know that it's free content but we can monetize that via an advertising model and can we partner with the content providers to do that? So this ecosystem still has to come about.

The other component that was missing up to this point was there was no third-party independent reviewer of content to tell the content provider so that they can monetize who's watching their content on a mobile handset. Now a third-party provider said that they will have that ability in the fourth quarter this year and I think that will start to mature this ecosystem. So again we'll have to wait to see how this ecosystem plays out but I think that's critical to how we map it out.

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**John Hodulik** - UBS - Analyst

Got you. Now with all these inputs the new revenue opportunities, the installment plans, the competition, 49% to 50% margins have been the hallmark of the Wireless business for some time now. With all these inputs is that still a sustainable level?

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

Yes, so you used to ask this question at 42% margin, at 45% margin, at 48% margin. So look, I think here's how I would answer it, John. If you go back 10 years ago and look at Verizon Wireless and if you look at it on a linear basis, yes, there were ups and downs based on what happened because back in voice world when more minutes were included revenue kind of slowed a little bit and then of course it started to take off again with data.

You're going to see the same patterns. But I think the theory here is if you look at how Verizon Wireless has executed over time the margins continue to accrete and that's the way that we look at this business. So to answer your question, yes, over time we believe that we can continue to increase margins.

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**John Hodulik** - UBS - Analyst

And a big part of that has been the cost cutting that you guys have done over the years. Is there more to go on that side of the house?

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

Yes, absolutely. I joke with the Verizon Wireless people I tell them they run a very inefficient company all the time and of course they get offended by that. But look I think the way you can put this in perspective is if you look at some of the infrastructure of costs of Verizon Wireless over the last two to three years a lot of it has been around logistics because you can just imagine the volume of phones that are coming in and out on a daily basis, so you need to run logistics very efficiently.

Over the last three years we've taken \$5 billion out of that cost structure. Now if you go to the next point which is a lot of our infrastructure is around call centers and why? Because people call us all the time for information, for price plan changes.

So as we saw starting in 2012 we have a project that is really moving customers to self-service. If you just think about it last year we added 5 million devices to our network and we had the capability to close three call centers.



And the reason for that is as we get more simple in pricing because we moved away from minutes of use and texting and just are now data and we give alerts regularly to our customers to let them know where they are in their bundle they can manage it better and therefore they call us less. So that's a big infrastructure cost that Dan and his team is really focused on making it easier for the customer to answer their questions by themselves without calling us. So yes, there is still a lot of cost that we can take out of this business.

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**John Hodulik** - UBS - Analyst

You mentioned VoLTE in your opening remarks there. Could you talk about how quickly you expect that to make its way through the enterprise and what the benefits are to both Verizon and to the consumer?

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

I view voice over LTE, right now voice over LTE is what we call advanced calling; if you look at some of the phones you can activate that advanced calling. And it is important for us when we launched to have a network that was able to handle that on a voice call because it is not backwards compatible to CDMA.

So if you leave the LTE network you will have a hard drop. So we launched it, it's available to go in at your option to opt in. It doesn't cost you any more money to opt in but it is a digital call which is a much clearer call.

But as we start to advance the voice over LTE you're going to start to get into video calling. That is not handset agnostic. It can go across any handset because it's in the network so I don't need to have the same handset as you to do a FaceTime as some brands have.

So video calling, video address book, video voicemail, so you're going to see many more features come over the LTE voice network that were never there on the CDMA. Now as you look at that and the way I look at this is that is going to stimulate more usage in the network which will potentially drive more revenue, still working through with marketing on how those models will work. But voice over LTE will generate more data in the network and it's more efficient for us to do it.

The other benefit that we get as people move to VoLTE is we start to clear off CDMA. And you saw some of the press picked up that we were starting to reallocate some of the PCS spectrum here in New York City. That's been always part of the plan for us is to reallocate that spectrum to the LTE network to be extremely spectral efficient.

So there's a number of things that we want to do to make ourselves much more cost-effective and the LTE network is extremely efficient and 4 times less costly than the CDMA network. So the faster we move the more benefit we get.

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**John Hodulik** - UBS - Analyst

Yes, how quickly can you reform that spectrum and get it into LTE?

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

Well we can do it gradually because we obviously don't need the spectrum right now with the AWS and XLTE that we have followed. But we will start to apportion that where we need it.

And the good thing about it is we only have to take it in five by five slices because of the way we deployed it. So it doesn't have to be big chunks, it can be very gradual which makes us be able to manage the CDMA network along with the LTE network.





**John Hodulik** - UBS - Analyst

And do the handsets -- do we need a new cycle of handsets before you have 1.9 in LTE -- that 1.9 or is that in the existing handsets?

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

My understanding is the handset does not call for that spectrum today but it's not going to be like you need a new handset to call. It will be a software download. Because the 1.9 is already working on CDMA.

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**John Hodulik** - UBS - Analyst

Okay. All right, I think we've hit wireless pretty well. We can come back later.

Maybe switching over to Wireline. How do you view Wireline revenue trends going forward and what are you seeing from the economy and sort of the overall business environment?

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

I would say pretty much steady as she goes. So if you take the two pieces you have the consumer piece which is FiOS-centric and we said that we are targeting a 4%-plus growth this year and we're still on target to deliver that. And that has been pretty consistent now over the last two years with our overall consumer base.

So you have the FiOS growing at an excess of 12% with an offset to the copper small business and access line which is a decline so it is still growing at 4%. If you look at the enterprise space obviously this year around a 4% decline year over year.

But what I do see in enterprise right now is as I said before federal government seems to be coming a little bit alive here. But we're also starting to see a little bit of a trend difference in the enterprise space. But it's going to take us about 8 to 12 months before you start to see that in real dollars in the revenue stream because we're always on a lag from this.

But we are starting to see more conversation, more sale activity in some of the larger enterprises but I said probably not until later 2015 when we'll start to realize some of those benefits. So I guess I'll say I see a light at the end of the tunnel that is starting to improve but again I think 2015 will be somewhat similar to 2013 there.

So from a Wireline top-line perspective I would say we're kind of flattish. I would think that that will continue. From a margin perspective, though, we came into this year Lowell and I said we will improve the Wireline margin, we will deliver on that promise and we believe that we can continue on that trend.

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**John Hodulik** - UBS - Analyst

All right. Maybe we will take a look at each of those segments.

First of all I don't think you mentioned SME, any improvement there from the economy? And is the improvement you're seeing in the enterprise or you are starting to see maybe from an RFP standpoint, is that the economy finally kicking in after and conversely what are you seeing on the SME side?

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

Yes, so on SME these small business the way I would put this is we put it in two buckets: one within FiOS, one outside of FiOS. In FiOS we compete very well. You can see by our FiOS numbers we continue to take share in FiOS.

Outside of FiOS where I only have copper to compete against cable I'm not going to win that battle. I can't compete on speed. We have made the strategic decision not to invest in that copper plant anymore, so now it's just try to maintain that and keep customers as long as we can.

As far as medium business and enterprise business, that's where we're starting to see a little bit of opening. And look, this is a point of time where you can only not invest for so long based on government policy and at some point you have to start to turn the corner and I think we're at that point. Now I think we have some promising news out of Washington around maybe bonus depreciation extension for a year.

So there's things that are starting to make enterprises a little bit more optimistic on things that are happening. So I think that's starting to open up the door a little bit but I wouldn't get too far ahead of ourselves.

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**John Hodulik** - UBS - Analyst

FiOS has been a bright spot from a growth standpoint. You said the FiOS business is growing 12%, you're reaching some pretty high penetration. As you look out how long can you keep up that type of growth rate with this set of assets?

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

So if you look at our current portfolio today we're about 35% penetrated on TV. We're about 40% penetrated on broadband and if you take some of our top markets like a Dallas we're at 50%-plus in broadband and close to 50% in TV. So if you look at that is the benchmark, there's no reason why we can't continue to penetrate.

And obviously as I've always said New York is our least penetrated market but our fastest-growing market as we continue to pass and light up some of these MDUs that are here and that will continue for the next few years. So I don't see -- I see a slowdown in our net adds only because we're not opening as much for sale but I do see us continuing to take share and penetration will continue to increase.

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**John Hodulik** - UBS - Analyst

As you look at the mix of your Wireline footprint obviously you've got a lot up here in the Northeast, some assets in some old GTE states I'd call them but in a lot of those states you've got a fair amount of FiOS. Any thoughts as sort of rationalizing that portfolio? We just talked about to AT&T about them selling the SNET business. Is that something that Verizon could look at?

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

Well, I think that you go back to what Lowell and I have been saying is the fact that we're open to anything. There has been a lot of press around our towers and I continue to say look, right price, right terms and conditions, we'll sell our towers.

If we look at our portfolio of assets and we've sold some small stuff this year we sold a piece of our federal network services business that was part of the GTE portfolio before we merged with them. So there are businesses that we're looking at that are not totally strategic for us.

And if it's the right price and the right terms and conditions Lowell and I will sell that asset. So we're open to everything and it's a matter of can we get the right deal for our shareholder and if it makes sense strategically then we'll execute on that transaction.

**John Hodulik** - UBS - Analyst

Got you. And you mentioned another bright spot the Wireline margin had bottomed, we're moving up.

Can you talk a little bit about how much visibility you have into continued improvement and maybe what are some of the drivers? You mentioned the copper to fiber but maybe talk a little bit about the switch decommissioning as well.

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

Yes, so if you look at the last three years now we've been on this copper to fiber migration mainly in a residential piece. So where we've had FiOS we've taken copper customers and moved them to the FiOS network. We're now starting to go into more small business and starting to attack switches.

As you know we first did some trials in both Dallas and Florida to decommission a switch just to test how hard they would be. We learned a lot from that and now this year we kicked off with 10 switches outside of the New York Metropolitan area. Now these are more difficult, they will take about 24 months to decommission because you have to work with small businesses and medium business and wholesale CLECs and you have to move them off the copper plant.

But we will do that and get them decommissioned. And so you can start to see here a pattern of taking cost out each time we do that.

The other thing you can't lose sight of the fact is 2.5 years ago, we sat here and we entered into a new contract with our representative employee force. And I said that at that time we would start to realize a \$500 million benefit towards the end of that contract. Well that contract ends in August of 2015.

So you're starting to see some of those benefits come through from both benefit contribution and some pension changes. So we're coming up on that. So you're starting to see some of those benefits that is helping to improve the Wireline business overall.

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**John Hodulik** - UBS - Analyst

And how much more to go is there in terms of the overall changes in the cost structure on the Wireline side? So 10 switches now I mean how big could that number get? And then similarly with the copper to fiber is there -- is this an issue that's just getting going or are we sort of midway through?

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

Yes, this is an initiative that's just getting going and you have to balance out obviously with all the other work that you have because we're not going to hire additional people to do this work. So it's a matter of working it into the plan that you have and managing CapEx on the Wireline side which as you know we have been declining CapEx in the Wireline side.

So it's management of the whole portfolio. But look, I forget what the last count was but it could be like 2,600 switches across the US that the Wireline has.

So 10 doesn't sound like that much but again each one you take out you get a cost benefit. So this is just the beginning of where we're going and you may see some acceleration to this program but probably not a lot because it is capital intensive.

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**John Hodulik** - UBS - Analyst

Got you. That's a good segue into your overall spending levels.



John Stephens was up here from AT&T, walked us through the move from 21 to 18 in 2015. Talk about the appropriate level of capital spending on maybe Wireline and Wireless for Verizon?

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

Well, I'm not going to get into what we're going to spend in 2015. I'll come back to that in January when we do our call. What we said was we would end this year around \$17 billion which is at the higher end of our guidance from the beginning of the year.

If you look at the breakdown between Wireline and Wireless as I've said before you should anticipate that Wireless CapEx will continue to trend up, Wireline will continue to trend down. Now I know, John, there's been a lot of conversation about Wireless and why isn't Wireless declining.

Well the reason Wireless isn't declining is because with an LTE network and in order to operate that network and continue to win the best network overall, and RootMetrics has again solidified that regardless of what others say the third-party solidified that Verizon Wireless won across the nation again as the top network, in order to do that you have to continue to invest in that network, densify it. That means a lot of small cells, a lot of antenna diversification.

Here in the city we have done a lot of work to keep up with the volume that's coming. So you have to stay ahead of that. So I don't anticipate that Wireless will come down.

And quite honestly that's a good thing because as we continue to invest in Wireless that means usage is going up and revenue will continue to accrete. And I think Lowell said it best, the day that we start to cut Wireless CapEx that's the day that we should start to wonder where the future of the business is going. So I don't believe that Wireless CapEx will decline.

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**John Hodulik** - UBS - Analyst

Got you. Another thing AT&T obviously is starting to branch out internationally south of the border, Mexico, Latin America with the DIRECTV deal.

You're solely focused on the US. Do you expect that to change anytime soon?

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

Well I guess the way I would put this is that yes we made our bet on North America by acquiring Vodafone's 45% interest in Verizon Wireless. But if you look at what we're doing, if you look at the Verizon Digital Media Services platform, if you look at our Hughes Telematics asset, those platforms are expanded outside the US. So if you look at Verizon Digital Media Services, that platform is in Europe.

We're actually servicing a European content provider to put content through that on our platform. If you look at Hughes we're actually delivering services to both Volkswagen and Mercedes in China. So we look at it as it's the platforms that can go internationally.

I don't necessarily need to own the networks internationally to be successful. So we're looking at it as what is less capital intensive but yet generates more value for the Company by going international.

So at this point no, I'm not going to buy anything substantial internationally. We think we can do that using our platforms that we have.

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**John Hodulik** - UBS - Analyst

Got you. With the Vodafone deal you saw a tick-up in the leverage of the Company. What's the max leverage that you'd feel comfortable with on a temporary basis and beyond that how do you prioritize your excess cash flow?

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

Yes, so that's a good question. I'm probably not going to answer that question. But what I will tell you is that we made four commitments coming out of February when we closed on the Vodafone transaction.

And those four commitments were that Verizon will continue to invest in its networks and its platforms at a consistent level that we have been. We will invest in spectrum. We will deleverage the balance sheet to get back to an A- within four to five years and I'll come back to why we think that's important.

And then we also said that we know from a common shareholder perspective that the dividend policy is very important and I think our directors of our Board solidified that when they gave one of the larger increases that we can remember with a 3.8% dividend increase. So we're living up to the commitments we made when we did the Vodafone transaction.

Coming back to why an A- rating important? An A- rating is important because it gives the Company flexibility to execute on future strategic items whatever they may be. And there's not that we have something on the table but it could be.

And of course my job is to make sure that whatever we need the most flexible balance sheet that we possibly can have to execute on that transaction. If in fact we were a BBB+ Company back in February to close the Vodafone transaction we may not have been able to execute on that acquisition. Because if you think about it I would probably not have been able to raise the amount of debt that I raised in the marketplace.

The reason we were able to raise that amount of debt is because of Lowell and I's commitment to the bondholders that we were going to BBB+ but we would work back to get to an A-. And we need to live up to that commitment.

Now if you look, S&P just came out with a very positive report on us that they see us as potentially being upgraded in the next two years. So that's a positive report. I'll stay to the four to five-year metric and if it happens sooner then that just gives us much more leeway.

The other thing, John, is I've also said to the common shareholder is during this period of time as I always get the question about share buyback. And I said look, during this period of time at the end of February you should not expect a share buyback for at least two to three years until I can delever the balance sheet and be in a position to do that.

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**John Hodulik** - UBS - Analyst

Obviously there's a lot of commentary coming out of Washington about this move to Title II. Obviously Verizon has been one of the more vociferous opponents of any sort of increased regulation, especially on the Wireless side.

What's your view of that potential occurrence down in Washington? Does it affect your view on the attractiveness of investing further in the United States?

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

Yes, to be real clear this does not influence the way we invest. We're going to continue to invest in our networks and our platforms both in Wireless and Wireline FiOS and where we need to.

So nothing will influence that. If you think about it we were born out of a highly regulated company so we know how this operates. But related to this discussion around Net Neutrality, the FCC has the right to regulate under 706.

They do not need to go to Title II. And why would you go to a 1930 piece of literature to try to regulate something that is a 21st-century technology? And I also think that if you look at other countries who have done this it kind of leads you down a path of total failure because it really, really slows down investment and slows down innovation.

So I guess the last comment is it's working, why do we need regulation around something that's working? And again they can do this under the realms of their legal ability. And I think if they go all the way to the extreme of Title II I'll quote what Randall said on stage about a month ago which is I think it's going to be a very litigious environment.

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**John Hodulik** - UBS - Analyst

Makes sense. Okay, I think we have some microphones in the back of the room if there are any questions from the audience.

While we're waiting I'll just start off by Fran you referenced a couple of smaller deals you've done the EdgeCast deal, the OnCue deal. Is that from an M&A perspective what we could expect, just little fill-ins going forward? And then as it relates to OnCue, how does that fit into your over-the-top mobile first strategy from a video standpoint?

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

Well all those assets were critical to execute on that strategy. Because Verizon Digital Media Services is really just a platform to digest content in, redigitalize that with ad insertion. And then EdgeCast and upLynk were bought really for a CDN network if you will to be able to deliver that to the end consumer based on who the content provider wanted it delivered on.

And then if you put OnCue over that, OnCue came in with a very, very good interface tool that can work both even over-the-top broadband or over-the-top mobile first. Obviously our focus is over-the-top mobile first. So you put all that together we have the assets to be able to execute on whatever the environment is that comes to be.

So strategically that was -- to go to your question about is that what we should expect we're more focused on fill-ins to enhance what we already have. I don't think you should anticipate us doing anything major at this point.

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**John Hodulik** - UBS - Analyst

Okay, any questions from the audience? All right, looks like we've covered it all. Fran, thank you very much for coming.

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

Thanks everyone.

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