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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

James Ratcliffe *Barclays Capital - Analyst*

PRESENTATION

James Ratcliffe - *Barclays Capital - Analyst*

I think we will get started. Thank you all for coming. And if you don't know me, I'm James Ratcliffe; I am the telecom, cable, and satellite analyst here at Barclays. We are very pleased to have up here for our lunchtime keynote Fran Shammo, CFO, Verizon Communications. Fran -- and welcome.

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

Thank you, James. Good afternoon, everyone.

James Ratcliffe - *Barclays Capital - Analyst*

You'll be shocked; I think we will start off on the Wireless side. You have a lot going on, on that front.

Can you update us on where you are on the SpectrumCo acquisition process and also your thought process behind looking to divest some of your 700 megahertz spectrum, and how you think about whether to sell and at what sort of price?

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

Sure. So, we are where we thought we would be. As you probably all know, the FCC extended the period of time to -- the 180-day clock by three weeks. And the reason they did that is because we had to turn over so many documents they couldn't possibly get through them, so they needed the three-week extension.

But there has been no indication from them that anything has changed at least from our confidence that the spectrum deal will close. We still think that with the three-week delay probably late July, early August time frame we should have a decision on that.

Then if you go on to the next piece, which is the commercial agreements and the Joint Venture Innovation, that is sitting with the Department of Justice. We continue to cooperate with them, and we will see where that ends up on the other type of agreement.

So I think SpectrumCo, the spectrum is right on track where we thought it would be, and we are still very confident that that will close.

As far as the sale of the A and B, that was something that we proactively did. I know some thought that FCC told us to do that. We did that proactively. The FCC didn't tell us to do that.

You probably saw very recently we hired a third party to handle the auction on that. Look, I think at the end of the day this is not a fire sale. This is a fair-market value sale.

We know what the fair market value of these licenses should bring, and it will be our discretion. If we don't believe we are getting the value then we won't go through with the sale.

So we think that there are plenty of people who want that spectrum, so I think we will get a fair price for it. I think it will be good for the industry, and it is good for us because we are giving that spectrum to people who can utilize it better, given that we are getting the AWS spectrum from SpectrumCo, which fits much neater, neat with what we have.

James Ratcliffe - *Barclays Capital - Analyst*

What is the time frame if you were to sell that 700 megahertz spectrum? Is that in the roadmap to actually be used at some point?

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

Well, we would have to use that A and B if we weren't getting the AWS. But since we are getting the AWS the frequency of that A and B does not really fit with the frequencies that we have.

So when you think about the 700 contiguous networks that we have for LTE, and then the overlay of AWS for capacity, and then the way that we can reappropriate our 3G network by slivers over to 4G, that A and B is not real fitting with the rest of our spectrum. It causes complications in our handsets because of the number of frequencies we'd have to put in there.

So if we rated spectrum, that spectrum would be low on our chart, where AWS is very high on our chart. Now for others, that spectrum fits very neatly into what they have and they can use that much more efficiently than we can. And we think it is probably right for the industry to give that spectrum up.

James Ratcliffe - *Barclays Capital - Analyst*

You tend to think of spectrum in the context of offset for CapEx and OpEx. Broad terms, the more spectrum you have, all else being equal, the fewer cell sites you need to deliver a given amount of data to a given amount of customers. In the absence of this or with this transaction, how long a runway do you have before the spectrum, before you would either need to be investing more heavily in cell-site density or finding some other solution?

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

Well, I think it is important, first of all -- all spectrum is not created equal for all carriers. So from our holding perspective, with the 700 contiguous megahertz that we have, that spectrum is extremely efficient. The propagation of that spectrum into buildings is very high, so you don't need as much, quote, cell splitting or buildout that you would need with some other types of spectrum. So from a 700 megahertz it's extremely efficient spectrum.

Then if you have the AWS overlay for capacity, that again is very, very efficient for us. Before we did the SpectrumCo deal I think I was publicly stating that we were good for spectrum through 2015. With this deal closing, that takes us beyond the 2015 date.

Then also with the way, as I said, we can reappropriate our 3G spectrum into 4G, because of the way that we deployed 3G, we are in pretty good shape for the longer term.

From a cell-splitting perspective, I think it is hard to determine carrier by carrier as to who needs to do that, who doesn't. I guess what I would say it is with our 700 megahertz and the efficiency use of that, we will have to do that eventually, but that is not where we are at right now.

James Ratcliffe - *Barclays Capital - Analyst*

Looking at the LTE market, are you seeing differing subscriber performance in areas where you have rolled out LTE versus areas where it is not yet deployed?

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

Well, the only difference we see is the excitement from our customers of the speed that they enjoy on an LTE network versus the 3G network that we have. But, look, I think I would answer it this. Our churn is at an all-time low; our growth is the highest in the industry. So as we continue to deploy LTE we believe more and more people will go to the LTE network.

James Ratcliffe - *Barclays Capital - Analyst*

And are you seeing any difference in customer satisfaction rates as well? Do people tell you that they actually recognize and value LTE as a service?

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

Well, from a speed perspective, yes. What I would say is if you look at our churn metrics as to what has happened since we deployed LTE versus when we didn't deploy LTE, I think that churn metric speaks for itself.

James Ratcliffe - *Barclays Capital - Analyst*

You have also now, it's officially I guess a month, month and a half ago, rolled out your home broadband service running on LTE. How do you see that fitting into the overall home broadband market? Also, how do you think about the resources that you could use for that versus, say, mobile applications?

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

Yes, so from a -- this was in development since we started to first launch LTE and we deployed that -- I guess May 3 was when we went commercial with the Fusion product. So this is a niche product. It is meant for very rural areas where either somebody can't get DSL service or minimal broadband service, or they get minimal broadband service.

What I can tell you is we launched on May 3. It is too early to tell. But I will share with you one anecdotal that I just read the other day, which was somebody who was living in a very rural area. All they could get was 1-meg speed.

They bought Fusion; they are experiencing 12 megs and sometimes up to 22. They are a photographer and move a lot of pictures through the Internet. And the anecdotal was -- you have changed my life; this is an unbelievable product.

So it is meant for that area where people can't get it or the speeds are slow. And we think this is a very viable product.

The market size of if right now is about 10 million homes. But as we continue to build out LTE, that will continue to expand.

This product is not a replacement for broadband in the urban areas. This is really meant for somebody who really has very low speed or can't get broadband.

James Ratcliffe - *Barclays Capital - Analyst*

Does it make sense to start bundling that up with your just general Wireless service and marketing the two together in those areas?

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

Well, we are already doing that with that product.

James Ratcliffe - *Barclays Capital - Analyst*

I noticed as part of the LTE push you have had a promotion that has been in place I guess since a little before Christmas, where you were offering a 4-gig data package for the price of 2. And it seems like it might be becoming kind of one of those kind of permanent promotions.

Long term, is this something where we should expect to see -- as (inaudible) maybe in the PC market -- that the price points stay reasonably stable but the amount of data, for example, that you get for that keeps rising? How do we think about the long-term price per gig dynamic in this space?

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

Well, I guess I would answer that is promotions are promotions, and promotions normally aren't here for long term. So I wouldn't speculate that because that promotion has been running that is going to be the track going forward.

So, look. Verizon Wireless responds to the marketplace and does promotions regularly, so I am not going to talk about the promotions side of it. What I will say is that we have been talking about our data share plan, and that is really where our focus is right now.

James Ratcliffe - *Barclays Capital - Analyst*

When we look at data share, clearly on the voice side you have seen that family plans and the like have definitely been a benefit to churn it sounds like. But presumably also, all else being equal, you are getting a little bit lower ARPU than you would for each standalone line.

How do you think about that kind of trade-off on the data side and what the upside is of offering a share plan versus potentially downside of not?

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

Yes, I think -- well, we will wait until the plan comes out to really get into the details of the plan. But I think that as progression happens here around SMS and so forth, what you are going to probably see is more bundling of services in the future.

But I think without trying to jumpstart and give details around data share, I think we will just wait till it is launched. I think it is very different and innovative for the marketplace to see what this is.

The other thing I would say is that a customer -- our customers will have plenty of choice. I know that last week there was -- I said that we would force them to data share; that was misspoken. What I meant to say was they will have a choice to go to data share.

But at the end of the day, with an unlimited plan if you go to data share then you can't intuitively have an unlimited plan on a data share plan. So you will have to give up your unlimited plan if you want to go to data share.

Through our research and studies over the last year with our customers, customers want data share plans. So we will wait and see what this is about, but I think it is going to be different and innovative for the industry.

James Ratcliffe - *Barclays Capital - Analyst*

We have seen the wireless data side evolve from unlimited plans toward a certain, a given number of gigabyte plans, and also on to share plans. You listen too on the voice side, one thing that we have seen go away effectively, at least on the landline side, has been off-peak pricing. But certainly, wireless networks are the same sort of dynamic, where you've got spare times in networking, times of full and times of wide open and empty.

Are you thinking about ways to start to maybe monetize some, either from a customer appeal perspective or actually selling data plans for off-hours that are capacity-sensitive, shall we say?

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

I think the way I will answer this is -- not to get into what our marketing promotions will be in the future, but LTE technology brings a lots of different things with it. LTE technology gives you the ability to price data many, many different ways.

It gives you the ability to even if -- an instance would be, as a content provider came to us and said, you know what? I am willing to pay you for my content; take it out of the data bucket from the customer. LTE technology gives you the ability to know what that traffic is, take it out of the customer's allowance, and charge the content provider.

So not that that is where we would go, but there is a lot of innovation that LTE brings that will give us the capability to potentially price data very, very differently.

James Ratcliffe - *Barclays Capital - Analyst*

You've talked to us quite a bit of late of conversations around subsidies and handset devices and the like. We tend to think of them on a sort of hours per sub per month basis. Does this affect your subsidy numbers for the amount you subsidize or (inaudible) refresh and the like.

Can you talk about what sort of levers you have to pull on both sides of that, both in terms of refresh frequency and in terms of the asset dollar subsidy you're looking at?

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

Yes, well I think if you look back here, we started back in 2010 really revamping the whole upgrade policy. So if you go back to 2010, we had a new-every-two policy that gave you $100 credit off in two years or $50 off in one year. Those programs went away in 2010.

We have made a lot of other changes in when you're allowed to upgrade, and most recently we implemented the $30 upgrade fee. So there has been a lot of history here on preparing for these more, I guess, complex, more sophisticated, higher-price devices, preparing us for that.

But the other thing that I think I would like to share is I know everybody is focused on that one line item in the P&L, but there is a lot more in the business than just subsidy. And I think that we showed that you have to manage the entire business along with subsidy. And I think we show we have a very good track record of managing subsidy but also manage the entire business by generating the margins that we have, even with new iconic devices.

James Ratcliffe - *Barclays Capital - Analyst*

Our numbers look like ex-subsidy changes, underlying margins in Wireless were up something like 200 basis points last year, '10 versus '11. What can you do to move those higher at this point?

Clearly subsidies are going to vary based on iconic devices, as you said. But what is still to be done on the underlying basis for the rest of the business?

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

I think there's a couple things. Number one, from a top-line perspective, we came out of a very, very good quarter from a revenue growth, a service revenue growth and ARPU growth. A phone ARPU growth of 4%.

So I think we are on track to grow the top-line revenue, and I think there is still a lot of runway there. We are only 47% converted on smartphones in our base. So we still have a very long runway of basic phones to smartphone.

So from a revenue perspective, we still can drive that top line. But as I said, I think it is also around running the entire business as efficiently as possible.

If you look at Verizon Wireless, over the last two years they have taken $3 billion of cost out, and we have another $2 billion this year that we are going after. So we manage the entire business. And as I said, if you go back in history with Verizon Wireless, I think on a linear projection, margins continue to improve year-over-year.

James Ratcliffe - *Barclays Capital - Analyst*

Talk about industry structure for a second. Clearly a lot of discussion around consolidation and the like. What is your view on whether this industry still needs to consolidate in the US, or if other players are viable as they are? And generally where does Verizon fit into that kind of equation?

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

Well, I think from an industry perspective, we do need some consolidation still. As far as where I sit, there is nothing I think at this point that I would go out and buy another carrier. I think more importantly for us it is more of a SpectrumCo deal to get the spectrum that we need.

I don't think that there is anything that I would consolidate nor would probably even get approval to consolidate at this point. But I do think that there are some things that have to be consolidated in this industry to make it a stronger industry.

James Ratcliffe - *Barclays Capital - Analyst*

Talk about any -- I know it is still early, but any takeaways thus far with the joint marketing agreement with the cable companies and the rollouts you've seen (inaudible)?

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

I think as we continue to accelerate our rollout, we have now rolled out -- I actually don't even know what the number of markets. But we have rolled out with Time Warner Cable, Cox, and Comcast. We continue to do that.

You probably saw the announcement yesterday at The Cable session of Viewdini that we are launching with them, and Verizon FiOS will also be part of that in the future as we strategically go down the road here. So we will continue to launch these markets, and we will continue to do that outside the FiOS footprint until we get a final ruling from the Department of Justice. So we continue to roll out markets.

James Ratcliffe - *Barclays Capital - Analyst*

Just on to prepaid for a second maybe. It has been I guess several months now since you rolled out the Unleashed product. What sort of customer response have you gotten to that?

And how does prepaid fit into your plans both on the opportunities and also any risks you see associated with it?

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

Yes. I mean obviously when we launched Unleashed back in the fourth quarter of last year, we as a carrier are always focused in on our postpaid base. And no matter what we do, we always take a focus of -- if we do something, we want to make sure that we don't arbitrage our postpaid base.

So we came out with our Unleashed product last year which was a $50 price point. That included unlimited text, unlimited voice, and just a shade of data in that.

We saw that for the first time in years we actually saw a net positive growth in our prepaid base, and we saw that again in the first quarter. So I think we found a niche with customers who want the best, most reliable network in the world and they are willing to pay a little bit of a premium for that on the prepaid side of the house.

Now, recently we just launched our first smartphone at $80 with unlimited text, unlimited voice, and 1 gigabit of data. It is too early to tell yet where that stands, but I will probably have more information on that at the end of the first quarter.

But again it is finding that niche that works for a customer, but also benefits us and doesn't migrate the postpaid base. So I think in combination, prepaid is important to us; but we want to make sure that we do it in the right way, and I think Unleashed is the right way to do it.

James Ratcliffe - *Barclays Capital - Analyst*

You mentioned the desire not to migrate the postpaid base and the like. How does LTE and prepaid fit in with that?

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

Well, right now the prepaid product of Unleashed is on the 3G network. We do have a Jetpack prepaid that is on our LTE network. So at this point we will see where the maturity of the marketplace goes.

But you have to think that with our 3G network, as we migrate more and more customers to 4G, we're going to have capacity in our 3G network to come out with different products to continue to have that network as full as possible from a cost-efficiency standpoint. So right now, 3G works for us on the 3G network, and we will see where we go with it.

James Ratcliffe - *Barclays Capital - Analyst*

Any thoughts also about making the availability of your 3G and 4G networks, particularly LTE, to other resellers in the MVNO world?

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

Well, we already today -- I think the number is 17 where we license to rural carriers our LTE spectrum for them to build out in the areas that we will not build out. In conjunction with that license of that spectrum, we have entered into roaming agreements with those rural carriers as well.

So we are already in the forefront of that with our LTE network. So that is what we have done from an LTE perspective.

James Ratcliffe - *Barclays Capital - Analyst*

On the MVNO side?

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

We do not have any wholesale agreements on our LTE network at this point in time.

James Ratcliffe - *Barclays Capital - Analyst*

Let's shift over to Wireline a little bit and talk on the consumer side. Certainly on FiOS it looks like in early 2011 you got meaningfully more aggressive in terms of promotion of FiOS through the course of this last year. Then it's kind of stabilized out here, and certainly discussion on the 1Q call potentially taking a price increase through.

How do you think about the benefits of growing the subscriber base more versus potentially a higher ROI on a per-subscriber basis?

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

Well, I think as I have always said there is a balance here. We want to grow, but we want to make sure that the Wireline margin of FiOS continues to improve; and I think we have accomplished both of that.

We say that our sweet spot was between 180,000 to 200,000. Depending upon the market, it just depends what market you look at. Sometimes we are more aggressive in other markets to respond to the competitiveness of that market; and sometimes we don't have to be as strong because the competitor has pulled back. So it is a market-by-market analysis.

But I think we do have a balance here. What I will say is I am not going to be aggressive to just chase growth. I need a balanced equation.

So we have relaxed that a little bit. We are going to do some price-ups here. We have already started in April, and you will see more of that in the second and third quarter.

But the cable industry -- which we now are in the cable industry, more or less -- has a very disciplined approach to price upticks, because you have to keep pace with the content increase. We have to become more disciplined in that fashion, similar to our cable competitors.

James Ratcliffe - *Barclays Capital - Analyst*

You mentioned programming costs, and clearly an issue for everyone in the cable industry, and definitely has been rising faster than ARPU for a number of years now. Do you get any benefit on that side, that as you roll through your programming cost negotiations you have more scale, so you get a better deal?

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

Yes, well, content, obviously since we were the third or fourth carrier to the marketplace from a cable perspective when we launched FiOS, obviously our content costs were much higher than our competitors'. So now what you are seeing is that gap is starting to close, because as my increases are around 2% to 3% a year -- now this year we had a reset on one of our content providers that will bump that up to 6%; but if you look at cable, they are in the 7% to 9% range.

And as we have always paid a retransmission rate in our content, which is now new to the cable side, so I think over time it will equalize.

The other thing is that as we negotiate our new content deals we are also bringing in the Redbox joint venture into that discussion. So as we build our subscribers on the Redbox joint venture, that will also lower my overall content costs for my entire FiOS footprint.

So there's a number of things that we are doing to manage our content costs to make sure that I am generating more ARPU margin per customer with my price increase versus the content increase.

James Ratcliffe - *Barclays Capital - Analyst*

Can you talk a little about the quad-play opportunity? Clearly you control robust networks on both the Wireline and Wireless side. Quad-play has been at least a mixed success globally, some markets been -- gotten traction, some not.

What can you deliver to the table that a competitor either just says, well, here is our app, run it on whatever smartphone you have and whatever carrier you happen to have?

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

Well, I think from a quad-play, we have been at the quad-play for two to three years now. Some customers want the quad-play, other customers don't want the quad-play. And even if they buy all their services from Verizon, they still want their individual services.

So it is a customer preference. I think with the SpectrumCo deal and the commercial agreements that we joined in with SpectrumCo, there is more to be done in that arena from a nationwide perspective. Obviously within FiOS we have been offering that quad-play. It gives us now the ability to offer that quad-play around the nation with the cable deal as well.

So I think as time goes I think you will see the quad-play pick up steam here. But it's been very slow from a consumer adoption standpoint.

James Ratcliffe - *Barclays Capital - Analyst*

Are the fundamental economics as attractive as they are on the triple-play side for a quad-play?

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

Well, intuitively when a customer -- if I have a Wireless customer and a triple-play customer, when you say, oh, you can go to a quad-play, the immediate response is -- well, how much of a discount am I going to get for that? And of course we really don't want to give any more discounts for going for that.

So it comes down -- well, you will get one bill instead of two bills and some other things. There are some promotions that you can do around quad-play. But it can't just be -- put all your services together and we take a discount for the consumer, and therefore there is no win for the provider.

I think that is why the quad-play hasn't really been adopted as rapidly as some would have expected in the market. Because you haven't seen those big discounts for putting all those services together.

James Ratcliffe - *Barclays Capital - Analyst*

You mentioned the Redbox JV just now. How do you think about the rationale of getting into the streaming video business (technical difficulty) content in general and particularly outside of your Wireline footprint?

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

Well, we think it's important for us. Obviously, FiOS is only in 13 states, so we have a lot more territory that we can cover.

We think that the joint venture with Redbox made perfect sense. They have a centric DVD business, but they have 30 million customers who are very loyal to Redbox. This gives them the ability and us the ability to market this to them with a streaming product in combination with a DVD.

So we think it is a very targeted market for us. We think it benefits us.

Now from a cost-structure standpoint of streaming that video to a Redbox customer, for the past two years we have been developing this Verizon Digital Media Services platform, which is a content delivery platform and I will say Plus. Because it is not just content delivery; it is also ingestion of content, reformatting that content, and moving it out so that it is formatted for any device anywhere.

So I think we strategically have taken a position that we can operate successfully outside of our FiOS footprint, but hinging on all the things that we learned from FiOS, some of the content that we have within FiOS, extrapolating that out to other markets to get a better cost structure for our FiOS footprint, plus out of the over-the-top market. So strategically I would say it was an offensive play, but it was also a defense is play against other providers.

James Ratcliffe - *Barclays Capital - Analyst*

When you look at your programming deals, how many of those are incorporating opportunities for out-of-market plays other than on the FiOS footprint?

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

I won't get into specific deals, but as we continue to talk to content providers of their willingness to include their content in our streaming, then we are getting a better deal across the footprint.

James Ratcliffe - *Barclays Capital - Analyst*

How do you think about going outside your footprint with perhaps more full-fledged service than your streaming service? Something like the much bandied about virtual MSO.

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

I think right now we are satisfied with where we sit with what we have in-footprint, and we will get through the joint venture for Redbox, and then we will see where we go from there. The Redbox joint venture we will not commercially launch until later this year, so let's get that step under us first and then we will see where we go with that.

James Ratcliffe - *Barclays Capital - Analyst*

How important is it to own the user experience and the user interface from a television and video consumption perspective? You have the deal with Microsoft that puts the Verizon FiOS app onto the Xbox. Is that something you would look at for other platforms like Apple or other hardware providers?

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

I guess I would say that we are open to a lot of different opportunities, and if it makes sense for us we will do it. I think that from our perspective we have been developing our interface for six, seven years. We think we have a superior product in FiOS, so wouldn't be so easily to give that up.

But look, we are open to anything. If it makes sense for the customer and it makes sense for Verizon, then we will do it.

James Ratcliffe - *Barclays Capital - Analyst*

Move over to enterprise on the Wireline side. It looked like a little weakness in 1Q particularly on the wholesale segment. Is that one time, or are we seeing another inflection point on that business?

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

I think from just an overall enterprise perspective, whether you take wholesale or enterprise -- let's talk wholesale first. Wholesale is a very difficult animal at this point.

Last year we repriced our international routes, which decreased our revenue stream significantly. But it was the right thing to do because a lot of those international routes were either breakeven or losing money.

So our strategy right now is to focus in on the higher-margin revenue streams. And if we can't focus in on that, then we probably don't want to be in that business, if it is not giving us the margin that we think we should get.

So what you are seeing in the wholesale side is we are pricing up certain routes and those customers are moving off. But we are okay with that because our overall margin is improving.

Then from an enterprise perspective, coming out of the first quarter I would say that we saw significant softness in Europe, which was the first time we saw that. If you look at our Europe market, we were seeing a consistent 13% to 15% growth quarter-over-quarter, year-over-year. That went to flat in the first quarter.

I did not expect that to happen. But it was the first time that we saw a retranche in the enterprise market out of Europe. I think this could go two, three quarters.

We are seeing some more lift in our sales. But as you know in this industry, James, when an enterprise customer buys, it is a good six to nine months before you actually implement and book the revenue. So two to three quarters I think we are going to see some softness coming out of Europe, which will hurt our overall growth here.

As far as the States go, it's steady. At this point I don't see a lot of enterprise opening up wallets to buy new things. I think it's steady-state.

It's how can we trim their costs? How can we reprice to reduce their costs? It is an extremely competitive industry right now, and I think we will see that probably through the end of this year before maybe we start to see economic uptick and start to go in the right direction again.

James Ratcliffe - *Barclays Capital - Analyst*

Historically, that business has been pretty closely linked to employment levels. We seem to be seeing some maybe improvement on that front. You think that linkage holds, or has something changed this time around?

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

No, I think if you look back in history, the nonfarm unemployment rate ties very, very closely to enterprise. What happens here is if you saw -- when you saw the '08 decline, it took about 10 to 12 months before enterprise revenue started to be impacted by that decline.

So what you are seeing is, yes, okay, unemployment is steady as she goes; but it is taking a while for the enterprise customers to catch up with that increasing employment. It is not -- we are not talking the large numbers that we had as the decline in '08; it is going to take us several years to get back to that level of employment.

So this is going to be a very slow, increasing slope. But having said that, if the economy can turn I still believe that this enterprise business should grow at GDP-plus for Verizon.

James Ratcliffe - *Barclays Capital - Analyst*

One competitive change that we've seen maybe this cycle versus previous is cable has become a much more significant player particularly on the small end of the market. What sort of share impact do you think that has on your footprint? And how do you go about getting some of those customers back without necessarily cannibalizing revenue for customers who haven't moved?

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

Well, for us it's very important. I think we have to split the market.

So let's talk about where I have FiOS. Where I have FiOS, I am actually gaining market share. So we are very competitive in the small-business arena in FiOS.

What you are going to see as we continue to pass more, if you will, homes -- but it really is not homes; what you seeing us now pass is more MDUs and small businesses. As we pass small businesses with FiOS, we are seeing that the adoption rate is very high.

If you go outside the FiOS footprint, is where I'm at a competitive disadvantage with speed. My DSL product which has speeds of 3 megabits on average, some up to 15, but that is where cable is taking some of that share. And quite honestly, right now there is really not much I can do other than try to preserve that base as long as possible. Because a competitive disadvantage from copper to cable, I am not going to be able to compete in that arena.

That is where you are seeing that flow out. But that is becoming less and less of our footprint as I continue to build out FiOS.

James Ratcliffe - *Barclays Capital - Analyst*

(inaudible) on the FiOS footprint, one thing we have seen pretty consistently over the course of the last I guess five or six quarters, is that the portion of customers who are, I won't say passed with FiOS, but that aren't yet marketed to. It's been holding pretty consistent.

At what point do we start to see that compress? And what is keeping that gap open?

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

Well, the gap is really the MDU and the small business. You will see in '12 and '13 the effort will be to close that gap and attack more of the MDU and small business.

Now some of that gap will never go away. Because just because we pass something doesn't mean that we will necessarily connect to it. From an LFA perspective we were required to pass; it doesn't mean that we will actually expend going to an MDU and build out that MDU.

But there are significant MDUs and small businesses where we will start to proactively go out and connect to. Especially as you look at our strategy of getting folks moved off of the copper plant on to the FiOS plant, especially where we have copper chronic problems. A lot of that is in the MDU space, especially here in New York City, and in small business. So as we start to migrate that, that gap will start to close.

James Ratcliffe - *Barclays Capital - Analyst*

Talk a little about the pricing environment. You mentioned taking prices down on some of your international business, and business step-downs are going on through the industry as they migrate toward IP platforms which overall lower cost per byte.

Are we through that yet? Or is there still more to go in sort of a structural dollars per volume basis?

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

Well, in wholesale we actually raised price. We didn't reduce the price. We raised price, which is why carriers moved traffic to other providers who were lower cost.

In the enterprise space, the pricing is very, very competitive. If you look at legacy, I would say legacy networks on the TDM and ATM are commoditized. I mean, they were commoditized 10 years ago.

From a PIP perspective it is very competitive pricing. I think there is stabilization in the marketplace. I don't see prices going down, but I don't see a lot of price-up opportunity in the IT arena.

So really where we are focused with is once you get that IP network in that enterprise space, then you have to go in and start talking about cloud, security. And those are the types of things, when we go in to sell them, we can show the enterprise space of how we can cut their costs.

And that is really where we are making inroads, especially with the Terremark acquisition and being named the number-one global leader in security. There are things we can bring to the table to benefit an enterprise where we can get pricing power and we can price up in those types of services.

James Ratcliffe - *Barclays Capital - Analyst*

Switching over a little bit you are still effectively operating under the previous union contract that expired I guess last August or July or thereabouts. As we think through eventually a new contract, what are the pluses and minuses from cost structure or flexibility basis?

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

Well, I think we have been pretty open and said -- look, this contract is a contract where we need cost restructure in our business. And obviously what we are asking for is not out of the world, because the union has already conceded these types of things, which is healthcare contribution, pension revision, work rules; they have already conceded some of this to other companies -- AT&T and Frontier.

So what we are asking for is not outlandish. I think what we are asking for is that we can preserve the profitability of our Wireline business, that we can grow it to benefit our employees and benefit our shareholders. And I think what we are asking for is fair to the employees, but also builds upon growing this business back to where we think it can go with FiOS.

So we definitely need that cost restructure. I am not going to get into what the puts and takes are. I have been open that it says once we come to an agreement I will share what I think the benefits of that contract are.

James Ratcliffe - *Barclays Capital - Analyst*

Is there anything you can do to potentially move the process along? If the unions are beginning to think that there is no way their deal gets better, how long can they essentially run on the current dynamic?

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

Well, coming into this we said that this was a marathon, not a sprint. If you look at history, it took AT&T over 500-plus days to get to where they were three years ago.

So we knew this was going to be a long, drawn-out negotiation. There is a lot of things that are on the table that are being talked about, because some work rules date back to 1960. So these things have been there for a long time, and we have to work through all that.

We are making progress, but we knew it was going to be a long task. What I will say is I think we will ultimately come to a decision factor here.

But there are certain hurdles that we have to go through under the National Labor Relations Board and we are making sure that we do that, and consistent with the law. We will see where that takes us, but there are certain hurdles. And then there will become a time, if we can't come to an agreement, if we have abided by all those hurdles, then certain triggers can get pulled and we will see where we go from there.

But I think that we will make progress and hopefully we will get a deal here soon.

James Ratcliffe - *Barclays Capital - Analyst*

Conversation wouldn't be complete without bringing up the Verizon Wireless structure. What are the synergies of having Verizon Wireless and the Verizon Wireline business contained in the same business?

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

I don't think I can answer that question. What I will say is, as I have said before, I think there are synergies that we can create within Verizon by just consolidating the back office. There is no reason for us to have multiple logistic systems; there is no reason for us to have multiple accounting functions and multiple accounting systems.

So what you are seeing is you are seeing us move to more to what we are allowed to move through to the middle from a back-office perspective. That creates synergies for both entities, Verizon Wireless as well as Verizon Wireline, and that makes sense.

And we haven't done that. These were operated as very individual silos.

So we started this in 2011. We are starting to make a lot of progress here, and we will continue on that. And that is going to bring some costs benefits to us overall, so we continue on that path.

James Ratcliffe - *Barclays Capital - Analyst*

Do those synergies increase in an environment where Verizon Wireless is a wholly-owned entity?

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

Well, that is a huge assumption, right? So I don't think I can talk to that one right now. We have a partner that is a great partner, so we will continue with the structure that we have.

James Ratcliffe - *Barclays Capital - Analyst*

One other point on that. It would seem that at this point hypothetically Verizon Wireless should, all things being equal, be able to borrow at somewhat lower cost than Communications. Less levered, closer to the abundant free cash flow coming out of that business. Does there come to be a point where it makes sense to start borrowing there and upstreaming the cash, rather than maintaining as much debt at the corporate level?'

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

Yes, so this one is an interesting one, because actually there is no cost benefit by borrowing of Wireless versus the Corporate. So we have made a decision that we will borrow at Corporate and eventually pay all the debt off at Wireless.

The reason for that is because if I borrow at Wireless, it actually increases my cost structure, because then bondholders want separate audited financials out of the Wireless unit, which means I have to do a lot more work around that, have external reporting. So we did away with that than I when I became CFO. We terminated all external reporting for Verizon Wireless.

We didn't need to do it, and it makes sense, because from a cost structure it is cheaper for me to borrow at Corporate. So as I said, I will be a good steward of cash. We will pay down the debt at Wireless; and when the time is right we will do distribution.

James Ratcliffe - *Barclays Capital - Analyst*

We just pull back to very big picture and thematically, Verizon has long been a piped company at the core. There have been efforts to move up the value chain, capture more on a services basis or front, if you look at maybe the applications running on the Wireless business, Navigator, that sort of thing.

If you are going to move up the value chain in an IP world, being more than a conveyor of content, how do you go about doing that?

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

Well, when you have the leading margins in the Wireless business and we generated 46%, where we sit is not a bad place. But, look, I think that as we get into more products like Viewdini, as we get into more M2M from an enterprise perspective, as we get into cloud and putting applications in that cloud, there is a lot of things that we can do to increase our revenue streams other than being a pipe.

But look, I am a pipe and being a pipe is not necessarily a bad thing. So we will utilize those assets that we invested in. They get great returns. But we need to build other things on top of that to bring more value to Verizon, and that is the strategy that we have.

James Ratcliffe - *Barclays Capital - Analyst*

Going to have time for one from the audience.

QUESTIONS AND ANSWERS

Unidentified Audience Member

I didn't hear much talk about the WiFi strategy. I was wondering if you could expand upon that a little bit. The cable companies got together and realized that they can't all build out a nationwide WiFi network.

Do you expect to partner, joint partnership with some of your WiFi assets as a more holistic coverage? And how would that play out?

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

Yes, so our strategy around WiFi is we think it is a viable solution in certain circumstances. So for instance, around a stadium where there is a high concentration of people, we think WiFi is a benefit to that type of thing.

You know, WiFi has very limited usage. It is a hot spot. Running an LTE network or a 3G network that is extremely secure, authenticates our users, has a very secure position on privacy, very secure position on the content that you put through that. WiFi does not.

It does inside the house, where you have the WEP key that you can put in. But outside the home it is a hot spot. It is a public hot spot and it is not secure.

So we are very sensitive to our customers who have an alert now around privacy, because of all of the things that are happening in the world. So privacy to our customers, their confidence, is extremely important to them. And of course, our networks are very secure.

So that is where we're at; but I do think there are certain areas where a WiFi network makes sense. But at this point, we will see where we go with that, but I have nothing to share today.

James Ratcliffe - *Barclays Capital - Analyst*

Okay. I think we will wrap it up there. Fran, thanks very much.

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

Thank you, everyone. Have a great afternoon.

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