

FINAL TRANSCRIPT

Thomson StreetEventsSM

VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

Event Date/Time: Aug. 11. 2010 / 2:30PM GMT



Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

CORPORATE PARTICIPANTS

John Killian

Verizon Communications Inc. - EVP and CFO

CONFERENCE CALL PARTICIPANTS

Tim Horan

Oppenheimer - Analyst

PRESENTATION

Tim Horan - Oppenheimer - Analyst

(audio in progress) analyst here at Oppenheimer. It is my pleasure to have John Killian, who --

John Killian - Verizon Communications Inc. - EVP and CFO

Good morning.

Tim Horan - Oppenheimer - Analyst

-- is the CFO of Verizon. And we have two members from investor relations here. They are a little overstaffed currently, but (laughter) Ron Lataille is here, and the new Head of Investor Relations, John Doherty. Welcome.

We are just going to have a fireside chat, unless you want to have some opening remarks.

John Killian - Verizon Communications Inc. - EVP and CFO

No, a fireside chat is fine.

Just a comment on what Tim said -- we did announce that Ron Lataille, who has run IR for us, is moving off actually to run our investment management organization -- so the pension fund, and I'm sure some of you will want to talk to him in that role.

And John Doherty, who has been the CFO of our services organization, is coming into the IR job. So -- in case everyone didn't understand that, Tim (multiple speakers) [I figured] I would clarify it.

Tim Horan - Oppenheimer - Analyst

Well, John, the -- I think the main focus for investors has been the wireless side of the industry. We'll talk about the wireless, too. But one of the primary questions in wireless has been, we've seen such strong growth for the industry and decent profitability. I think there's some concern that maybe profitability would -- has the potential to decline here as we get the newer smartphones out there that maybe have higher handset subsidies.

How do you feel about profitability on the wireless side over the next couple of years?



Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

John Killian - Verizon Communications Inc. - EVP and CFO

You know, we feel very good about our wireless business in general and the opportunity that is ahead of us in terms of continuing to grow. I think since I came into this job 18 months ago or so, everyone has been asking the question in terms of, "Can you continue to grow and drive profitability at the same time?" And we have kind of said, "That's what we've been doing for the last several years." And it's certainly the intention of the business to continue to do that.

When I was listening to Ralph speak earlier, which I thought he did a very nice job -- not that I should be grading Ralph, but I thought he did a very nice job -- but when you asked him the question about the goal that AT&T has to become the most profitable wireless carrier, I kind of thought a little bit -- the name that flashed in my mind was Tiger Woods. And you know, Tiger Woods has been on top of the world for I think 270-some weeks, and they keep trying to chip away at him.

And I think our run on top of the world on wireless profitability in the US extends a lot longer back than 270 weeks. And people keep trying to chip away at us, and for the most part we keep widening, in many ways, the lead.

So we feel very good about the prospects for the business. If you look at the last quarter, we actually accelerated growth in the second quarter from the first quarter.

The other issue, Tim, that you've asked me about and a lot of people have had is, are you going to still be able to grow postpaid subscribers? We had said in the first quarter we thought we could accelerate that in the second quarter, and we did. I think we added 423,000 in the first quarter. We accelerated that to about 665,000 in the second quarter. So we still think we have the ability to do that.

You know, the other issue there I would say to you is, we feel very good that for several years we've differentiated ourselves and our business based on network quality. We still hold that differentiation. We intend to continue to hold that differentiation.

We are in the middle of our initial rollout of 4G, which will become commercial in the fourth quarter. We think that's going to provide a lot of advantages to us from continuing the network quality advantage we have, some cost advantages there, and then a whole new set of revenue opportunities.

So I think when you balance everything together, we believe that wireless business can continue to grow in a very strong manner for quite a while.

Tim Horan - Oppenheimer - Analyst

And I guess I asked Ralph -- not specifically to you -- do you think the wireless industry can continue to see 5%, 6%, 7% overall services revenue growth over the next three, four years -- all the new devices and things?

John Killian - Verizon Communications Inc. - EVP and CFO

I do, Tim. I mean, if you look at our last quarter, and if you look at service revenue for us, excluding the trust properties that we basically sold a lot share of to AT&T in the second quarter and a smaller share to ATNI -- so if you look at the service revenue growth year-over-year, we were up 6.2% in the business that we are keeping.

I personally believe that can accelerate as we go into the third and fourth quarter and out for the next couple of years. Just a couple thoughts for you here is -- 20% of our base has a smartphone today; okay? I don't have the crystal ball to say where that is going, but it's going a lot higher; right? -- over the next several years. You even see the youth of the country wanting the latest device, the latest smartphone, and is it 50%? Is at 70%? Is 80%? I don't know.

Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

I know there are some people have a theory there's a cap there at 40% to 50%. I totally disagree with that myself.

So I see a huge opportunity ahead of us to get more and more penetration of smartphones, more and more applications. You know, we grew data revenue in the last quarter 24%. We think we can accelerate that. Our data -- our ARPU overall is -- lags AT&T. Part of that is because of the benefit they've had with the iPhone, so there's a gap there that we think we can close that gap over time, and that's going to drive to better revenue growth, better profitability for Verizon.

Tim Horan - *Oppenheimer - Analyst*

What -- I'm not sure if you disclose this -- what percentage of your postpaid subs are on a data plan now? And what's the average ARPU of that data plan?

John Killian - *Verizon Communications Inc. - EVP and CFO*

Yes. We do not put that out, Tim. I think the couple of things I'd say here is, we are seeing very good growth in data ARPU. Just under 20%, in that range -- 24% growth in total data revenue. That's going to continue to grow quite nicely.

Data revenue as a percent of total revenue is in the mid-30% range. We think that's going to go up pretty nicely also.

Tim Horan - *Oppenheimer - Analyst*

And with your premium network out there and with LTE coming out, do you think you have the ability to charge premium prices for the higher speed?

John Killian - *Verizon Communications Inc. - EVP and CFO*

We do. I mean, we have historically at different times been in that position. I wholeheartedly agree with what Ralph said earlier, that customers will pay for quality and premium service and premium speed.

As we roll out LTE, the speed of our data network will be somewhere in the range of 8X to 10X what it is today in terms of that. There are people out there who think it can be even higher. We will be a little conservative and put probably in the 8 to 10 range of an improvement in speed with LTE.

So we will reach 100 million of the population by the end of this year, and then in 2011 and 2012 -- by the end of 2012 we will substantially cover the entire country. We think that's going to put us in a great position. We're going to build very high-quality LTE networks.

We are adding more and more DROID customers, more and more BlackBerry customers all the time. We've got more and more data traffic going over the network. The network has held up well.

So we often get the question of, do you think you're going to run into network problems? And our answer is, no, because we are always planning ahead, engineering ahead, building ahead. And that's the position we really want to keep ourselves in.

Tim Horan - *Oppenheimer - Analyst*

Yes. Absolutely. And have you announced what cities the 100 million PoPs are going to be in?

Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

John Killian - Verizon Communications Inc. - EVP and CFO

We haven't publicly, no, we have not publicly announced that yet.

Tim Horan - Oppenheimer - Analyst

Will it include New York, by any chance?

John Killian - Verizon Communications Inc. - EVP and CFO

Just -- you'll have to stand by and wait and see. But you can kind of guess what -- you know, what the 30 prime spots will be.

Tim Horan - Oppenheimer - Analyst

I can imagine.

John Killian - Verizon Communications Inc. - EVP and CFO

We might be in one right now, by the way. I mean, the best city in the world; right? -- Boston? So --

The Red Sox have won two in a row; right? (laughter)

Tim Horan - Oppenheimer - Analyst

Debatable. The -- (laughter)

But if you say so, John. (laughter)

And on the device front, will we see some smartphone devices with LTE, for Christmas?

John Killian - Verizon Communications Inc. - EVP and CFO

You will not see smartphone devices with LTE before Christmas. but, you will see them in the first half of next year.

What we will have in the fourth quarter is dongles and aircards for broadband access, basically, but the (inaudible) -- we are very confident that smartphones will be available in the first half of next year.

Tim Horan - Oppenheimer - Analyst

How about the tablet type device?

John Killian - Verizon Communications Inc. - EVP and CFO

Look, we are working on -- we haven't announced anything from a tablet perspective. We're working hard with a couple of different manufacturers on tablet devices. We will have some news there in the not-too-distant future.

Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

Tim Horan - Oppenheimer - Analyst

Will that be LTE-capable out of the (multiple speakers)

John Killian - Verizon Communications Inc. - EVP and CFO

It will -- I don't know if we will have fourth quarter, Tim, on LTE-capable. I think that's probably going to be early next year also. But we will have some tablet devices in the second half of this year.

Tim Horan - Oppenheimer - Analyst

I know even Ralph commented quite a bit on the applications for wireless with some of the new tablets coming out and new smartphones coming out. Clearly it's been a focus of yours also. Are you having much success with that and the whole integration with cloud computing? How much of a focus is (multiple speakers)

John Killian - Verizon Communications Inc. - EVP and CFO

Yes, I mean, look, cloud computing is a focus for the entire business, not only in terms of what we do with enterprises and businesses externally, but also how do we more leverage that for our own uses and productivity and efficiency and improvement? And there are definitely cost advantages there. So there's no question, cloud computing is top of mind in a lot of different areas of the business.

From an application perspective, we have rolled out some of our own applications. We've worked in partnership with Google and with RIM in other areas.

We believe we are in the very early days of what the power and possibility is there in terms of the ability to generate some incremental revenue. I agree with what Ralph said in terms of, a lot of enterprises are looking more and more at how do they leverage the wireless network for both business advantage and cost advantage.

So if you take the utility space, a lot of work with different utilities on smart grid applications, on meter reading, a lot of work in the healthcare fields in terms of monitoring, remote diagnostics, all of those kinds of things from a wireless perspective.

So the ability to participate more and more in that will get enhanced as LTE gets rolled out and you have even higher speeds and higher quality of data.

Tim Horan - Oppenheimer - Analyst

I think on the BlackBerry's and the Android's -- correct me if I'm wrong -- but I think you do share in the application revenues? I don't know if you disclose (multiple speakers)

John Killian - Verizon Communications Inc. - EVP and CFO

I don't think we have publicly said, but yes, we do have some share. We haven't said -- Ron, I don't believe? -- what level of share we have there, but yes, we do.

Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

Tim Horan - Oppenheimer - Analyst

But is that a focus going forward for the wireless business, that you want to ensure that you do get some share of application revenues.

John Killian - Verizon Communications Inc. - EVP and CFO

It is absolutely a focus of the wireless business going forward.

We see -- you know, if you think about what Verizon has done over the last couple of years -- if you really go back two years -- I think we would admit we were at a disadvantage from a smartphone perspective, so Lowell McAdam and the wireless team put tremendous energy in working with companies like Google, like Motorola, like HTC, like RIM to make sure we had competitive devices, competitive experiences for our customers from an applications perspective.

And we've made tremendous progress. If you think about the last quarter, we added more postpaid customers than anyone else in the industry. And I guess some people would argue we don't have the industry-leading device. We think we've got some pretty strong devices that keep getting better and better.

You know, Lowell likes to talk about it as the "DROID franchise," so the DROID is our name. It really belongs to us. It's an Android operating system, but we are the ones who've really promoted and built that.

And you're going to see a series of DROID phones come out from different manufacturers. And we announced the DROID, rolled out the DROID Incredible in -- I guess it was May, Ron? April/May? Big success there. We rolled out the DROID X July 15 -- doing very well.

So you will continue to see an evolution and a steady stream of enhancements, new devices.

Tim Horan - Oppenheimer - Analyst

And do you think others are going to be able to roll out high-end DROID devices this year like the X and Incredible? Or do you think you'll be somewhat unique in that handset lineup?

John Killian - Verizon Communications Inc. - EVP and CFO

I think definitely in terms of the DROID franchise, we are going to be unique; okay? So are there other devices coming out that are based on the Android operating system? There are, as we know that, but the DROID branding and arrangement is a Verizon. So I think we've got the lead there in that position. We will continue with that.

Tim Horan - Oppenheimer - Analyst

Absolutely. But the Incredible and the X seem to be heads and shoulders above the other (multiple speakers)

John Killian - Verizon Communications Inc. - EVP and CFO

Yes, I don't know what the exact arrangement is in terms of how long and --

Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

Tim Horan - Oppenheimer - Analyst

Yes. Well, it kind of begs the question, given how well you guys have been doing, do you really need the iPhone? I mean, I know it would be nice to have and clearly you don't need it, but it really hurt AT&T's margins substantially when they took on the 3GS and the subsidies went through the roof versus what we've seen historically.

John Killian - Verizon Communications Inc. - EVP and CFO

Well, sure. All of our assumptions, Tim, about our businesses, we're going to have devices that are going to be -- act and perform just like the iPhone does. So if you think about the work that we've done with the DROID X, the new DROID that's coming out -- there's another DROID coming out, the Incredible -- they are going to perform in the marketplace very much like an iPhone performs. They're going to have the same usage characteristics with the customer base. Applications are going to be very similar.

So from that perspective -- now, in the past we've said if the iPhone became available to us under the right terms, we would be interested in that, and the reason for that is, our customers have interest in it. So we want to meet the needs of our customers from that perspective.

Tim Horan - Oppenheimer - Analyst

And are AT&T's terms -- would they be acceptable to you, a \$400 subsidy and (multiple speakers)

John Killian - Verizon Communications Inc. - EVP and CFO

I have no clue what AT&T's terms are, so in terms of

Tim Horan - Oppenheimer - Analyst

Got you. Can you talk about your subsidies for high-end devices and what kind of range they're in? Or, maybe if you can't comment specifically on high-end devices, where you see overall handset subsidies going the next couple of years?

John Killian - Verizon Communications Inc. - EVP and CFO

Look, I think we are in a much better position from a subsidy perspective than we had been in the past. As you have a wider diversity of smartphone suppliers, devices, it puts you in a different position in terms of what kind of costs you have as volume has picked up. So we feel pretty comfortable, Tim, with our ability to continue as we go through the next several years, substantially increase the percent of our customers that have smartphones, substantially increase our ARPU level related to that, and still drive -- maintain the Tiger Woods position as top of the world in terms of profitability.

Tim Horan - Oppenheimer - Analyst

Well, we are all absolutely rooting for you.

On the -- well, if there're -- well, I'm kind of monopolizing things here. And if anyone has any questions, feel free.

You must have one. Anybody else? Don't be bashful.

Here.



Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

Unidentified Audience Member

I was just wondering if you could provide an update on FiOS and kind of the growth you expect on that.

John Killian - Verizon Communications Inc. - EVP and CFO

Sure. You know, FiOS -- we're very satisfied with FiOS. We've built past pre the Frontier spin-out of about 15.9 million homes we had passed. Our end objective is to build to about 18 million. We will probably get to the 18 million in 2012, somewhere in that range.

We continue to have good results in terms of improving penetration, so quarter after quarter we are adding new subscribers, we are increasing the penetration curve. Our ARPU from FiOS customers, FiOS ARPU, is north of \$145, so we've seen pretty good growth in the FiOS ARPU.

We've done a couple of things recently from a -- how we approach the marketplace in terms of -- one of the issues that cable was making a lot of noise about was the fact that when you bought FiOS you had to buy a two-year -- sign up to a two-year contract. So what we're doing now is doing two-year contracts but also giving flexibility if someone doesn't want a contract.

So it's interesting because a lot of customers are still opting for the two-year contract because it gives them more price certainty.

We've changed some of our approach in MDUs. A lot of the homes that we passed, particularly in the New York area, the big cities, our multiple dwelling units, and originally we were still using the two-year contract there in the multiple dwelling units. We've moved away from that because, as you know, people in MDUs often move quite frequently, so we don't require a contract in the MDU space. That's helping us a lot.

We actually saw accelerating results as we went through the second quarter, and some of the changes we made was working quite well for us. Business is profitable in terms of adopt income profitable. It's continued to grow quarter after quarter. So we are very satisfied with that.

The power of having fiber into -- directly into a location or a premise we think is still a big advantage for us over time, and the best salespeople we have for FiOS is existing customers, because the experiences are very strong.

So the FiOS program is going quite well.

Tim Horan - Oppenheimer - Analyst

Another back here?

Unidentified Audience Member

Kind of maybe staying a little bit on that topic, maybe you could discuss the pros and cons of owning satellite TV plays, and do you need that in your footprint?

John Killian - Verizon Communications Inc. - EVP and CFO

The pros and cons of a owning satellite?

Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

Unidentified Audience Member

Yes.

John Killian - Verizon Communications Inc. - EVP and CFO

Yes, okay. Sure. No new news there, in terms of it's the same answer we've had in the past. What we think that is important for us is having a go-to-market relationship with one of the satellite operators -- and we happen to have one with DIRECTV -- for our non-FiOS areas.

Now, by the way, the non-FiOS footprint for us has become a lot smaller with the spin-out of the 14 states we just spun out to Frontier.

So our view is we absolutely don't need to own satellite. We would like to have a relationship to market to -- and I think, by the way, they like us having that relationship because I think it's been good for them. So it gives us the ability to have a video offering in the areas where we haven't build FiOS out.

Unidentified Audience Member

Let's put the Verizon-Google thing on the table --

John Killian - Verizon Communications Inc. - EVP and CFO

Sure.

Unidentified Audience Member

--and hear what you have to say about that.

It looks to a lot of people that lobbying has been going pretty well, and now all -- we have this thing coming out, and there's a hornets' nest that seems to be stirring. What was the point?

John Killian - Verizon Communications Inc. - EVP and CFO

What was the point of us reaching --?

Look, I think what it says is, our belief is -- and I think Ralph shares this belief, too -- is, one is, the Internet is working very well -- thank you very much. The wireless business has been built up over the last 25 years in this country in great fashion, and we believe the best way to move forward here is to reach agreement with some of the industry participants on what's the future rules of the world. And that's basically what we're trying to do here in terms of --

So we think it makes sense. We think what we've done will build some momentum over time. And the most important thing here is to continue an environment where companies like us, companies like AT&T, companies like Google continue to invest, continue to innovate, that we have frameworks that allow us to do that. So that's our focus.

Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

Unidentified Audience Member

So I guess on that point, could you share any details, what that entails on both FiOS and wireless broadband and --

John Killian - Verizon Communications Inc. - EVP and CFO

Say that again? Because I (multiple speakers)

Unidentified Audience Member

On the Google deal, could you --?

John Killian - Verizon Communications Inc. - EVP and CFO

Look, the Google was really a framework, a public policy framework. So there is no specific details in terms of FiOS specifically or -- the belief was -- so it really was a public policy framework, so there's not a detail for me to go into here in terms of FiOS.

Unidentified Audience Member

And then I guess to the extent the FCC seems to have withdrawn from that effort, what are your thoughts?

John Killian - Verizon Communications Inc. - EVP and CFO

Look, I think -- I don't really have a thought on the FCC themselves. I think what we believe is, in the end we will come out with a -- there will be a set of rules that will continue to incent companies like us to invest. That's our focus here. We want to continue to invest. We want to build out our LTE network.

We want to know what the rules are in terms of that. So that's what we're driving for. So I can't really comment on what's in the FCC's head at this point.

Tim Horan - Oppenheimer - Analyst

Have you heard from the FCC since you've put this proposal out?

John Killian - Verizon Communications Inc. - EVP and CFO

I don't know, Tim. I don't know.

Tim Horan - Oppenheimer - Analyst

Do we actually need rules? I mean, the industry seems -- to your point -- to be working fairly well.

John Killian - Verizon Communications Inc. - EVP and CFO

We don't think you do. We think that current rules that are in place have worked very well, and -- but -- so our belief is, you don't.

Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

Tim Horan - Oppenheimer - Analyst

Could you put these proposals in with your customer contracts so that if you were to violate them, the FTC could come down on you with fines or other penalties?

John Killian - Verizon Communications Inc. - EVP and CFO

Tim, I've not looked at (multiple speakers) customer contract issue. I think we are a long way from that at this point. So --

Tim Horan - Oppenheimer - Analyst

Very good. Anybody else?

Unidentified Audience Member

Let's switch for a second. I was wondering what your long-term ownership plans for Verizon Wireless are.

John Killian - Verizon Communications Inc. - EVP and CFO

What's our long-term ownership (multiple speakers)

Unidentified Audience Member

Like the -- currently they are split 50/50, Vodafone and they're (multiple speakers)

John Killian - Verizon Communications Inc. - EVP and CFO

Well, no, here's -- let me just give you the facts here.

Verizon Wireless is a 10-year-old partnership. It's 55% owned and controlled by Verizon and 45% owned by Vodafone. We've had a partnership that has worked very well over the last 10 years.

You know, we have publicly said in the past -- so no new news here -- we have publicly said in the past that if Vodafone wanted to sell, under the right conditions we would be interested in that. But you know, there is no new news, so --

Unidentified Audience Member

Sadly, that was my first question. But the second was, what about the dividend for Vodafone? I mean, will you start that up again? And then I have one more question (inaudible)

John Killian - Verizon Communications Inc. - EVP and CFO

Okay. The question is on dividend to Vodafone.

Well, we pay one today; okay? So we pay a dividend out of the partnership to both parties, which is labeled kind of a tax distribution.



Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

And so the focus we've had on Verizon Wireless, which continues to be our focus, is to use the cash flow that the business is generating, which is growing very nicely -- it's about \$1.5 billion, roughly per month for free cash flow -- to de-lever the business.

So over the last -- since January 1 a year ago, we've de-levered Verizon to the tune of \$16 billion.

We still have at the end of the second quarter \$16 billion to \$17 billion of debt within Verizon Wireless, so our intermediate focus there is to pay down as much of that debt as we can over the next 12 to 18 months.

What we've said with Vodafone is, we will annually have a discussion about timing on payment of a dividend. We will do that again in December of next year.

The decision in terms of any distribution is a Verizon decision, because we control the Board, and so that is a Verizon decision. So we are not at the point yet where we are seriously thinking yet of paying out any dividends in that way.

Unidentified Audience Member

Okay. The second question is, if you don't mind, is -- going back a few years, you got a hell of a deal, I thought, on WorldCom assets. How are you doing with those assets, especially the international assets?

John Killian - Verizon Communications Inc. - EVP and CFO

I mean, we are doing well in the enterprise business. We've improved the margins in that business from where they had been. This most recent quarter we resumed growth in the enterprise business, where the economy, global recession, the global economic -- whatever you want to call it -- we just went through -- tsunami, or what -- clearly had a negative impact on that business in '08 and '09.

We think we are starting to see some light there, although we are cautious because of what -- the most recent jobs report and those kinds of things.

So we feel very good about the assets. Our global network, we believe, is the best in the world. It connects more cities. So I think for the future it positions us very well.

Tim Horan - Oppenheimer - Analyst

Can you maybe talk about your relationship with the -- Microsoft on the handset side?

And the same thing with BlackBerry. I guess BlackBerry has got a new operating -- well, they do have a new operating system now. When do you think you can have a device on that new operating system?

And Microsoft is also working on a new operating system. When do you think you'd have (multiple speakers)

John Killian - Verizon Communications Inc. - EVP and CFO

Look, you know, there's nothing to announce there, Tim, in terms of dates for anything.

You know, we continue to have good working relations. We sell a lot of BlackBerry product today, and I expect well into the future we will continue to sell a lot of BlackBerry devices.

Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

As you know, the Microsoft -- pulled back on the Kin. The Kin did not do as well. But we have business relationships with them in a number of different areas and very good communication with them. So that will continue to evolve.

Tim Horan - *Oppenheimer - Analyst*

Do you think you could have devices out from both companies on the new OS by Christmas? Or it would be more for next year?

John Killian - *Verizon Communications Inc. - EVP and CFO*

I don't know. No comment there.

Unidentified Audience Member

2012 and '13 are interesting years. I mean, your FiOS will be at the point you talked about and LTE will reach the initial state of being available widely.

When you think about establishing capital [reinvestment, but -- something] you mentioned a couple of minutes ago -- about this wireline and wireless, I understand you can't give us exact numbers. Can you walk us through the framework of how you establish what [the] right level of capital reinvestment is for each of your two main businesses in that time frame? By that point a lot of things that are out there happening today (multiple speakers)

John Killian - *Verizon Communications Inc. - EVP and CFO*

Sure, sure. I mean, the process is very much a business case, business planning process. Now, 2012 and 2013, there might be different technologies emerging at that time. So what's happening on the technology landscape is a big factor.

But let me make just a couple of comments here. What we have said is -- and this year we brought total CapEx spending down. So our total CapEx is in the range of \$16.8 million up to \$17.2 million -- is the guidance we've given.

Within that, this is the first time in a number of years where we're investing more in wireless than in the wireline business; okay? So wireless is capturing a larger share of the spend. I would expect that to continue the next couple of years at about the rate we are spending today. So I don't see -- as we go into 2011, I don't see a blip-up in wireless CapEx spending. I see it at about the same level.

The area where we will probably be spending less is on the wireline side. So I would expect we'd have the ability next year to bring our wireline CapEx spending down a bit, as we did this year, and part of that is, we are nearing the end of FiOS, we've got some other issues there on the wireline business in terms of efficiency improvements that we have been able to drive. So I would expect that to be able to come down.

I think cash flow will be strong and continue to be strong.

Tim Horan - *Oppenheimer - Analyst*

And on the -- while we're on the subject, on the wireline margins, where would you like to see them be a couple of years out? And how do you get there?

Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

John Killian - Verizon Communications Inc. - EVP and CFO

That's the same comment, Tim, I've used in the past -- is that we are very focused on improving the wireline margin. You know, three major strategies behind that.

One is, pull lot of costs out, which we are doing. We had better results there in the second quarter. You didn't see any of the benefit of the incentive offer we had on the associates in the second quarter. By year end that's going to produce probably a reduction in force of about 12,000 people. Around 7,000 went off late second quarter/early third quarter, but we've got more coming as we go through the rest of the year.

So I think you'll see a lot of cost focus there.

Second area is just continuing to drive FiOS, improve penetration, improve ARPUs, get more and more improvement there.

Then thirdly, a big focus on the enterprise business. So much more of the focus there is driving higher-margin strategic services, so security services, data center, the private IP network, moving much more in that direction with customers that were having success there.

Tim Horan - Oppenheimer - Analyst

Just on all three of them, if you don't mind, some of your peers may have to kind of reduce wireline headcount 5% to 10% per year, a fairly consistent basis. Do you think you can -- you have that potential over the next few years?

John Killian - Verizon Communications Inc. - EVP and CFO

If you went back and looked, Tim, we've been doing that. That's -- we've been doing about 13,000 per year. This year we're going to do more.

You know, total wireline headcount is probably going to come down -- when you look at the associate offer, you look at management -- some of which we've already done -- you know, you're probably -- you're north of the 13,000 that we've done the last couple of years. So (multiple speakers)

Tim Horan - Oppenheimer - Analyst

And not that you're announcing anything, but do you feel good about the productivity improvements over the next five years?

John Killian - Verizon Communications Inc. - EVP and CFO

Yes, yes, yes, yes -- very good, very good.

Tim Horan - Oppenheimer - Analyst

And on FiOS, what's your penetration of your most mature markets at this point?

John Killian - Verizon Communications Inc. - EVP and CFO

Oh, well north of 40%.

Aug. 11. 2010 / 2:30PM, VZ - Verizon at Oppenheimer & Co. Telecommunication, Media & Technology Conference

Tim Horan - Oppenheimer - Analyst

Anybody else?

Then just the last question, on the free cash flow you are generating, I know you're -- been focusing on de-leveraging, but it seems like your cost of debt after tax can be in a 3%, 4% range, and your dividend is up at 6.5%. Why not maybe focus on buying back stock a little bit more to keep the leverage where it's at?

John Killian - Verizon Communications Inc. - EVP and CFO

We are still focused in the short term on de-leveraging. So when we get to an appropriate debt to EBITDA level, we will re-look at that issue. But we ended the second quarter at 1.5 times. We've publicly said our goal is 1.3. That's in our sights. When we get there, we will think more about that.

Someone before asked me the same question, and I understand the economics here of -- and I think, by the way, our dividend yield yesterday I think was 6.4%. I hope a lot of you bought when it was 7.5%, but it has come down as the stock price has come up.

Given what's happening with yield, we believe it is still very attractive.

Tim Horan - Oppenheimer - Analyst

Anybody else?

Thanks a lot, John.

John Killian - Verizon Communications Inc. - EVP and CFO

Okay. Thanks.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2010, Thomson Reuters. All Rights Reserved.

