

FINAL TRANSCRIPT

Thomson StreetEventsSM

VZ - Verizon Communications Inc at Barclays Capital Global Communications, Media, and Technology Conference

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PRESENTATION

James Ratcliffe - *Barclays Capital - Analyst*

So I think we will get started at this point. So if everybody could take their seats, please.

We are very pleased to have with us today Fran Shammo, CFO of Verizon Communications. Certainly, again, a name with fingers in many different pies across the whole communications infrastructure across the United States.

So I'm going to start out with a general strategic question. You certainly do have -- you play in a number of different markets. How are you starting to get synergies between the wireless and wireline business, particularly the FiOS business? Because to this point customers will be able to bundle their bills, which it takes even now a little effort to do. And how do you move beyond that to actually leverage the fact that you have both these infrastructures?

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

Thanks, James, and good afternoon everyone. Thank you for having me here. So just from a strategic nature of how we look at this, so what we start -- we started down actually a few roads here.

So one is when we launched our Flex View product, that was actually a joint product development and launch with Verizon Wireless. So back when we launch that, I guess, in late third quarter or early fourth quarter that was really a -- the first time we really launched something that was really co-mingled within the Company between wireless and wireline. So that was the first flavor of that.

As you said, we have the single bill. We still work on that today. But in addition to that the wireline business also has the quad-play, which they sell quite often, with the triple play of the TV, Internet and voice, along with the wireless voice. So there is a quad-play that we instituted.

Then as you go into -- so that is from a topline revenue standpoint on a product development type view. But as we continue down this road there will be more and more interaction between the wireline unit and the wireless unit from a topline.

But now let's go down to the cost side of the equation. So from a cost side of the equation, which is really where I think we can get -- gain some really internal synergies here -- and we have already started down this road -- is really to consolidate some of the operational back offices things behind the scene.

So, for instance, within finance we just consolidated the tax department, the internal audit department, the external reporting department across the business into more of a centralized unit to create some synergies from within.

So I think as we progress down this road we will continue to generate those types of synergies and make the wireline more profitable and create synergies within Verizon.



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James Ratcliffe - Barclays Capital - Analyst

Great. So we start talking about wireless for a bit. Clearly LTE has been a big push for Verizon since you launched it in, I guess, December of last year. Can you update us on where you are in that business? And I am particularly interested in how the wireless business as a whole is performing in markets where you have LTE versus markets where you don't. And does the supposed the AT&T/T-Mobile transaction and particularly the concessions AT&T has had to make in terms of coverage, does that change your build plan for LTE.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Okay, so first let's start with the build plan on LTE. So we launched in 2010. We said that we would cover 100 million POPs by the end of the year, which we did. By the end of 2012 we will be substantially through with our build. We will have some remaining markets through 2013, and probably by mid-2013 we will have the same amount of coverage at 4G that we have with 3G.

So the answer to your question on does the T-Mobile/AT&T do anything to that, no, it does not. The actual, as I said, we will be -- substantially complete our build by 2012, which will be all the major markets.

So now let's go into what do we see. Well, what we do see in the LTE markets is pretty fascinating. We added -- within a short period of time in the fourth quarter we added 563,000 devices onto that system. 35% of those devices were new to us and new to the category. Now what that means is they were either new customers into Verizon or they were 3G customers moving onto 4G, but still kept their 3G devices.

So what we do see, which is also interesting, is 29% of the devices that have been purchased on LTE are outside of the LTE markets. So these are either business travelers who travel into the areas of LTE coverage or are buying them, knowing that their markets are coming up very shortly.

So I think that with the speeds and the differentiation we have there, I think we have a very good start to the marketplace and a head start against our competitors.

As far as the market performance in the 3G markets, we have not seen any degradation at all. If anything, everything has been lifted up because now we have this extra device to offer the customer, so no degradation at all.

James Ratcliffe - Barclays Capital - Analyst

We look at pricing in the LTE environment, and you just said on the last call that you're going to be talking about usage-based pricing and the like sometime this summer. But can you give us any color about how you think about tiering and how that differs at all in a world where you are offering LTE service versus one where you are offering just regular service?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I think that we probably -- I'm not going to go into exactly what we are going to launch in the summertime, but we actually will be going to tiered pricing. The unlimited pricing will be taken off the table. And I think that as the market matures, I think the pricing will mature.

So I think we are just on a progression of where we think we will go. I think at some point it is logical to say that as we progress through tiers -- you know, our customers are already stating -- look, I have a tablet, I have a dongle for my laptop, and I have a smartphone, is there anyway that I can pool my minutes together and just buy one plan and use that data plan for all my devices?

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I think logically we will get there at some point in time. But right now what we are centered around is our tiered pricing for the summer.

James Ratcliffe - Barclays Capital - Analyst

After a lengthy wait and many reports to the contrary, you are now on entirely device parity with your largest competitor in terms now that you both carry iPhones, so there is no sort of real necessary differential there.

What is driving carrier selection at this point now that people aren't just saying -- I want the iPhone, that is where I go? And what is driving, say, for example, people to choose a VZ iPhone versus an AT&T version?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

So I would say that, first, I don't think we are on parity. I think that we have established ourselves at Verizon to be a very multiple device type carrier. So we have many, many devices on 3G. We now have devices on a 4G network, which really, nobody else can carry from an LTE perspective. So I think we have a very vast, if you will, platform of devices for our customers.

So when you get down to it, we have built our brand on our network. I know there was a lot of skepticism out there about when we launched the iPhone where we were going to experience any network degradation. I think we have proven to the marketplace that even with selling 2.2 million phones in the first quarter, there has not been any blip in our network performance from a 3G perspective. So the 3G voice and EV-DO platforms are working very, very well.

We said at the beginning of the year that we were -- all through last year we were building to prepare for that launch. As I said at the live investor conference that we would have an acceleration in the first and second quarter of capital, and then you would see a decrease from that point. And that was still continued to build the capacity of 3G for the iPhone.

So we are well ahead of the curve and we have not had any degradation in that network. So I think people are selecting Verizon because of the network performance.

James Ratcliffe - Barclays Capital - Analyst

How do you think about the pluses and minuses for Verizon of the prospect of an AT&T/T-Mobile merger? And how do you run the business essentially on dual tracks on the assumption that it occurs or doesn't?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

To be honest with you, we are not differentiating at all right now. That was an announcement that was made, and we will let that play itself out. But as I said at the beginning of this year, this year for Verizon is all about execution. It was about execution on the iPhone launch, which I think we did a pretty flawless job on. It was execution around our LTE launch, which I think we have carried out.

Now it is execution on delivering the additional devices that will come on that LTE network. And we displayed at CES 10 devices; we think will have 9 by midyear this year.

So I think we are concentrating on our business model to execute on our business model. We are really not worried about the merger, if and when it happens.

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James Ratcliffe - Barclays Capital - Analyst

One part of that, certainly, a big part of the government agenda so far has been broadband, and particularly wireless broadband for rural areas in specific. How do you view now that you have a 4G product that on speeds at least you are certainly comparable or faster than many consumers' landline broadband products. How do you view it in terms of as a compliment or a replacement for consumer landline broadband?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

I think about this really in two pillars, if you will. So you have the rural pillar, where I do think that LTE could be a replacement for some legacy DSL that has 3 megabit speed, 1 megabit speed. So I think there is a play in the rural area for LTE. We have proven that with our trial up in Erie, Pennsylvania with DIRECTV, with a combination of the LTE and the DIRECTV dish. So that trial happened and we have proved that people are interested in that speed from an LTE in a rural area.

I don't think that LTE would be a replacement in the cities in the urban areas, because you can't -- there is no way that LTE can deliver the speed of say FiOS at 150, 200 megabits a second. It is just not going to happen. So I don't think there is much migration, if you will.

Is it complementary? Yes, it will be complementary, especially when you think about video. So you will take your video from your home out into the marketplace and people are going to want that LTE speed for video purposes. But I don't think it will be replacement in the urban area.

James Ratcliffe - Barclays Capital - Analyst

One topic that comes up with great frequency, and it has caught the whole space and wireless spectrum and availability of it. Can you talk about both your views about Verizon's future path toward additional spectrum and also in particular your thoughts around the 700 megahertz speed blocks?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

So from a spectrum perspective, as we said, we think we are in a very, very good position for the next three years, four years. So we are not really in the marketplace at this point to expand our spectrum holding. Now I will say that on the D-Block we will have to wait and see what that happens, whether that goes to public safety; whether it doesn't.

But I think that the one thing that the AT&T/T-Mobile merger will bring to light is what do we do with spectrum in the overall industry of wireless. I think that there has to be some spectrum reform here. I think that there has to be -- the availability of carriers like a Verizon, who want to invest to be able to have the spectrum to be able to bring innovative products and innovation to the marketplace, and not be held constrained to some type of an artificial cap on that spectrum.

Also, give that to companies who want to buy that spectrum and hold it for an investment purpose but have no intent of building it out. So I think that -- I do think that the T-Mobile/AT&T merger will bring some light onto, hopefully, some spectrum free up for carriers.

James Ratcliffe - Barclays Capital - Analyst

Thus far, if you look at segments, Verizon has played in a very limited way in the unlimited prepaid segment, which has clearly been a substantial grower. You have been a network services provider to a couple of the MVNOs in that space. But recently we have seen, at least in a couple of markets, there were a lot of unleashed product that has been squarely targeted at that.

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Is this a change of strategy? Is this now looking more interesting to you? And how do you manage the potential brand conflict associated with your postpay versus having a lower price prepaid offering?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

So I mean, first, I think it is very important that Verizon has always been a postpay carrier, and we continue to be a postpay carrier. But as I say that, the other channels are still very extremely important to us.

So first, let's take our reseller channel, which our reseller channel really has been our prepaid outlet, if you will. So that is an extremely important channel to us. And we continue to work with our reseller base to make sure the model works for them, the model works for us, and they can continue to grow and help us grow that channel.

From an unleashed product and a branded prepaid product, we have always had our own prepaid brand out there. Now it may not have been the most competitive brand, but that is because we believe we have a superior network and the people who choose our prepaid want it on the best network that is out there.

Now, having said that, we do think that there is a marketplace out there. So we have done two trials, one in California, one in Florida. If you look at the demographics of those two areas we think that this product could have some potential for us in those areas.

So it is too preliminary to tell right now what we will do with that. That doesn't mean that this is going to be a nationwide launch. We do trials all the time. We did two trials in the fourth quarter. One on a \$15 150 meg plan, and one on a family share plan that was talk free. Those promos went away and you didn't see them anymore.

We do trials to gather intelligence and data to see how we are going to move the market from a pricing standpoint. So the unleashed product is a trial. We will see how these trials go, and then we will see where we take the marketplace. But prepaid is an important market. It is a growing market, and we want to make sure that we are focused where we need to be focused on.

James Ratcliffe - Barclays Capital - Analyst

Let's switch over to wireline for a little bit. Over the last couple of years you have clearly divested a very sizable portion of the landline footprint in areas that you weren't looking at that is FiOS attractive it seems. Is there more to come potentially on that? Are you getting to the point now where the non-FiOS areas are so intermixed with the FiOS areas that that ceases to be really viable?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

I think that we are very, very satisfied with the portfolio at this point. I can't say that we are actively trying to divest of anything at this point in time. I would say that from a homes passed perspective as we continue with FiOS, we will continue to pass the 18 million homes. We will have about 6 million to 7 million we won't pass at this point. It doesn't mean that we will never pass them. But I think we owe it to our investors at this point to return the investment on where we have put into the ground from a FiOS perspective.

Now, having said that, I think that with the wireless, with LTE, I think it brings a lot more opportunity of how we bundle these products to offer the outside of the FiOS footprint and some innovative things that we can do around LTE, along with the wireline products to create some very specialized bundles for these customers. So at this point we are not looking to divest anymore.

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James Ratcliffe - Barclays Capital - Analyst

Just as you are getting, I guess, a year or so away from both the planned end of the FiOS rollout, have you seen anything in terms of the economics, cost to deploy and the like, that would make you say that there would be potentially more homes that would be viable and economically attractive in FiOS?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

I think at this point our concentration is to fulfill the LFA agreements that we have out there and pass the 18 million homes. Then I think it is also very important for us to continue to penetrate what we have open for sale. So we are, as I said, we are on a path to generate 180,000 to 200,000 net adds a quarter from a net TV perspective.

And we think that's a very good number for us. It does two things. It increases our penetration, but it also delivers the profitability that we need from the wireline business, and continues to improve on that profitability.

As FiOS goes, FiOS continues to improve in profitability. It continues to improve on the ROIC metrics that we're looking at. But we still have a lot of return on invested capital that we need to bring back to the coffers of wireline from the initial \$23 billion investment.

So I think we are very satisfied and very pleased with the products of FiOS, but at this point we will fulfill the obligation. Once we fulfill that then we will see where that takes us into the future.

James Ratcliffe - Barclays Capital - Analyst

You talked for a little about, certainly, the landline voice business has historically been the (inaudible) portion of revenue that is clearly declining quarter after quarter after quarter due to mild migration. Obviously, you pick up a significant portion of that on the upside with people switching over to wireless.

What do you see in terms of customers' actual willingness to pay for landline versus beyond what we see in terms of the actual lines? Are the people eventually saying my transition is between what I am paying now or zero, or are there customers that potentially can be kept with more limited landline offerings?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I think we are proving that there is a customer base out there with the FiOS offer and the triple play and the VoIP product that we have on the FiOS side, but there is a base out there that wants a voice telephone in their home. So I think the triple play has been very successful.

Now having said that, I am not naive to think that the access line isn't continuing to decrease. However, the good news here is that if you looked at two years ago we were declining at 11%. First quarter we finally broke through the 9%. We churned out at 8.9%, and I think that will continue to go down as time goes.

I think at some point the industry will hit a flatness. And I think what is contributing to that, the decline that we are seeing, it is the cable operators have now completed their build. So we are now competing for the same customers. It is not like a new entrant into the market, and people leave for the new entrant. We are now competing on the same level of service.

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So I think it is going to level out. But we are -- what we are saying is we are converting people from the copper into the FiOS, and people are very happy with the triple play. So our churn is extremely low. So that piece of the business we don't see declining like the legacy copper business from a voice perspective.

James Ratcliffe - Barclays Capital - Analyst

So another part, which is the new and incremental revenue growth in the wireline business in the video side, as you're clearly taking share in that space. How long down the line does it take for you to start to get enough scale there that actually your program economics start to reflect where you are today as compared to where you are a couple of years ago with that business?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

So right now FiOS accounts for 54% of the consumer revenue stream. So FiOS now is actually a bigger portion than the legacy copper piece. So as we continue to shift that mix, as I said, the profitability of wireline, I think, will continue to improve as we continue to improve the FiOS performance.

So as I look out, I think that from a -- and I'm sure your question is around the content and the cost of content. So as a new entrant into the marketplace from providing video, obviously you had very little leverage against all the content providers. But now that FiOS is as large as some of your major cable operators out there like Cablevision and Bright House, we have more leverage in negotiation.

The other thing that we can bring to the table is obviously wireless. So there is another 108 million -- or 104 million connections out there from a content perspective that can be flowed through wireless.

So I think as we work with the content providers, I think that we're finding medium ground. And although content is still the biggest cost component of providing FiOS, I think over time as our revenue increases, content will become a lesser and lesser percentage of that cost.

James Ratcliffe - Barclays Capital - Analyst

Got it. [Let's look] at the enterprise side for a second, which is certainly expected -- I mean, investors were in the more opaque parts of the business. Historically it has been reasonably well correlated to the employment picture. And do you think that is correct going forward? Is that the business that can turn when employment does or is there more going on there?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I think there is two main things with the enterprise business. So if you look back, the enterprise business does follow the non-farm unemployment pretty, pretty significantly. When it dips, enterprise dips. When it goes up, enterprise goes up.

But I also think that as we enter into like what I would call the new phase of enterprise, which everybody is calling the cloud, the enterprise companies are now really looking for ways to cut their costs. And, obviously, cloud is a really a great example of how companies can have less capital investment and cut their costs by more sharing the resources.

So I think that from an economic standpoint we have seen stabilization. I am optimistic that we will see some continued improvement through this year. Our enterprise business showed a 1% growth in the first quarter. Hopefully, we can maintain that through the year with a little bit of stimulus from the economy.

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But it is slowly returning to where some of the levels were say three years ago before we got hit with the bad economy. But I think there is now new evidence avenues for Verizon to take, other than just the plain old basic voice and LD products that we had three or four years ago.

We have now shifted that portfolio more to the strategic side, which would include hosting and cloud, professional services. Security is a huge business for us. We are number one in the world. So as we continue to sell those services and we sold in the first quarter -- we accelerated our growth to 12.8%. So I think that will continue to accelerate.

As we change the mix, I think you will see our enterprise business continue to show growth here out into the future.

James Ratcliffe - Barclays Capital - Analyst

Then one part, other than macro on the -- has been a drag on a business across the industry has been migration from ATM and the like toward IP architectures, which has been bringing down cost per bit -- cost per minute and the like. How far through that transition of the basic business are you at this point? When does price essentially cease -- or become less of a drag on that?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

I think that if you look at the legacy voice LD, I think at this point it is pretty much commoditized in the industry. I don't think there is much more lower that it could go at this point.

That is why we really had a shift of business into a solutions business, because as you look at voice and LD, if you don't move the business into more of a services type business with these other solutions, there was no way you are going to continue the profitability of that segment.

So by shifting the business -- I look at voice and LD as table stakes at this point. When you walk into an enterprise customer everybody -- there is a number of people that can do voice and LD. But it is what else -- what value can you bring into that enterprise from all the other solutions that you have that really is what they're interested in. So that is how I view the enterprise voice and LD market.

James Ratcliffe - Barclays Capital - Analyst

Moving onto some strategic sort of Verizon overall other issues, like the conversation wouldn't be complete without mentioning Vodafone. So you have made clear dividends will be coming from VZW sometime in 2012 and the like. But thinking about that business more generally, do you think Verizon Wireless is run any differently as a 55/45 JV than it would be if Verizon owned 100% of it? Are there any reasons, other than purely owning 100% of the cash flow versus 55%, to go to 100% ownership?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes, from our perspective Verizon Wireless is not run any differently because of the ownership structure. Vodafone has been a great financial partner. I can honestly say they really never stood in our way of anything to improve the wireless business, which is quite evident by having the number one wireless business in the world.

So Vodafone has been a very good partner. I think now though that we are moving into a new perspective of our partnership with Vodafone. So it is not only -- we are not trying not to only make it a financial partnership now. We are trying to make it more of a strategic partnership with them.

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Look, they have some great assets outside the United States. We have a great enterprise business outside the United States. So what we are doing now is we are saying -- let's join together and approach enterprise customers as one instead of two separate companies. We think we can gain marketshare by doing that and win for both companies.

If you look at procurement and you look at a product development roadmap, why not take a look at those things together and get more purchasing power and joint develop things that will work unified across the world?

So I think that we are having some great discussions with them. And we'll see how that progresses, but right now Vodafone is a very good partner of ours.

Now from a distribution perspective, I have been very clear, we are going to do a distribution in 2012.

James Ratcliffe - Barclays Capital - Analyst

Fair enough. Looking at the Verizon Wireless business in particular, in the absence of regulatory restrictions -- I know that is sort of grossly unfair -- in the absence of -- but if you are purely for market rationale, are there assets that you think would make sense as part of Verizon Wireless? And is it strategically complete essentially, to steal the term?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I think where we sit right now, we are extremely satisfied with the portfolio. At this point, as I said, 2011 is a year of execution for us, and to capitalize on what is in front of us. There is a lot of distraction in the marketplace right now. I think we need to capitalize that and we showed we did capitalize that on the first quarter, and I think that will continue.

James Ratcliffe - Barclays Capital - Analyst

One more. I've got a financial structure question. How do you think about the relative appeal of borrowing at VZW versus Communications at this point? Historically you borrowed at Communications to fund VZW, despite of lower cost, now you're looking at VZW as a huge free cash flow engine. Does it make sense potentially to start thinking about it the other way around? And what -- going forward how do we think about the right capital structure for Wireless?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

There is a lot of complication in the capital structure of a company like Verizon Communications, but I think I've been pretty clear in saying it doesn't make sense for us to build cash on the balance sheet of Wireless, and we will do distributions. So that should be your answer that says I'm probably not going to borrow at Verizon Wireless.

James Ratcliffe - Barclays Capital - Analyst

Fair enough, fair enough. I think we will open to questions from the audience at this point, if there are any (inaudible).

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QUESTIONS AND ANSWERS

Unidentified Audience Member

When we think about distributions in 2012 from VZW, should we be thinking about this as a one-time event and then we start speculating again about what the next one-time event is, or will it be more of a regular sort of cash distribution, you know, life gets more normal?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Maybe I should say what do you think? I think right now we have been pretty clear and said we will do a distribution in 2012, and that is probably all we are going to say.

Unidentified Audience Member

Just to follow up on that question, would you consider leveraging up Verizon Wireless to -- regarding the distribution, so you would maybe distribute more than the cash flow?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

No, I think I just said that we would probably not leverage up Verizon Wireless to do any type of a distribution.

Unidentified Audience Member

If we look at CapEx as a whole in the business, you have basically -- we have seen the wireless CapEx rising as you are funding the LTE rollout in particular, offset by a decline in CapEx on the wireline side as FiOS builds slow. Broadly for Verizon as a whole, do you think CapEx roughly stays at this level or do you think there is still upside to the -- particularly on the wireless side? How do you think through that process effectively of what the right amount to be spending is?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

So we said for this year what we said is our CapEx would be about flat with what it was last year. And, again, you'll continue to see that shift between wireline and wireless. And, obviously, wireless is spending their cash on the LTE buildout and the EV-DO expansion capacity for the iPhone. So I'm not going to speculate what we think that is going to be going forward, but for this year it is going to be flat with 2010.

Unidentified Audience Member

Two different questions that may come together. The first one is that you are unique in that you've got a separate voice and data network. So I'm assuming that is going to make it a -- give you a unique competitive advantage in delivering video to the mobile device.

And the second one that kind of leads off of that is that -- and plays on video is that as we move into these new technologies we are seeing battery life in the device just roll off a cliff. I am actually changing batteries in the phone during the middle of the day. How much do you see that limiting your current business in moving from 3G to 4G, and when do you see a sea change in that?



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Fran Shammo - Verizon Communications Inc. - EVP, CFO

So I think from a video standpoint on 3G, you're right, it is two separate networks. On 4G it is actually the same network.

And you're right, from a battery life the manufacturers are continuing to develop the new batteries and new technology to make these batteries last longer. We see the same thing from a video usage, especially when you get to LTE, with the speeds, as you start having kids and everything download all these videos, you're going to eat through that battery pretty quick. So I think the technology will come, and the manufacturers are working on that pretty heavily.

James Ratcliffe - Barclays Capital - Analyst

When you think about -- particularly there has been a lot of discussion at the moment, I understand you guys are involved with this. But the roaming on data, it is certainly an issue that I think is going to become more and more significant as we go on.

How do you think about working those contracts, assuming you're in the absence of a regulatory regime that potentially forces you to -- how do you think that those trade-off to the benefit of footprint versus the revenues that roaming can generate?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, it is kind of interesting, because in today's environment I think we have somewhere in the neighborhood of 40 data roaming agreements with folks. So it is not like we haven't done it; we have done it.

The thing that we will object to is the fact that a regulatory body believes that they can regulate the price that we charge, and that is where we get our backs up and say, we are not going to allow that to happen.

So from a data roaming perspective, if we can strike a business deal with someone they can roam on our network. The other thing is I think we have shown that we are pretty willing to work with folks. As you know, James, we have also leased out our spectrum in some of these rural areas to other carriers from an LTE perspective, where we knew we would not build LTE, they are going to build LTE and use our spectrum to do that.

So we are open to a fair business agreement, but we are not open to a regulatory environment, and tell us -- after we have spent all this money to invest in a network to tell us what we can charge for that network.

James Ratcliffe - Barclays Capital - Analyst

On the enterprise side within wireless, how much by now is being made in terms of purchasing decisions by enterprise customers, unified with a wireless and wireline infrastructures vision versus still to the purchasing them as two separate products?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, in time as we have seen the convergence of wireline and wireless, even within our own entities, the enterprise business is becoming more and more joined together. We actually have a number of joint account teams with one account lead to go into a customer. Because what the customer -- the customer doesn't want to listen to any more of, okay, what wireline products do you have, what wireless products you have? They're all about what solutions do you have?

When you think about smart energy and health care, those solutions cross the different networks at different periods of time. They may start on wireless, go through wireline and end up on wireless. So when you approach the enterprise customer now it has to be a unified discussion. It can't be one or the other anywhere. We have realized that and we have changed our organizational structure within Verizon to deal with that.

May. 24. 2011 / 4:15PM, VZ - Verizon Communications Inc at Barclays Capital Global Communications, Media, and Technology Conference

James Ratcliffe - Barclays Capital - Analyst

It helps these enterprise customers as well. Clearly, you have made significant investments in cloud, Terremark and the like. Do you think you have the full portfolio of what you need there or does it make sense to continue to look at partnerships and potential M&A and the like?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Terremark was a great asset. Manny built a terrific business there. And we are happy so far with the progress that we've made and the executive team there and the synergies that we're getting with that executive team down there.

As we have said very publicly, we are going to keep this fairly as an independent organization to run. So we think that the assets that we have around data centers and cloud are absolutely square.

What I will say is, are there going to be Software-as-a-Service type companies, niche companies that we may be interested in to fill in the Software-as-a-Service side, which we don't really play in today, but I think it is a strategic nature of where we want to play.

So when you think about smart buildings and smart energy and health care, there may be some Software-as-a-Service products that we add to our portfolio down the road.

Unidentified Audience Member

So today you've got 2G plus and 3G, and now you are going to put 4G into the network. Is there a day where you get rid of the 2G plus? And when we do, does it have a meaningful impact on the operating statement -- on the operating expenses or are we just going to keep the same number of towers and [same number] of backhaul and all that [bit]?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

So I think the way you have to look at this is almost go back in time with what happened to analog. And quite honestly the analog network is still there and there are still certain devices that run off of that analog network.

But it doesn't -- the actual technology of 3G, 4G, it doesn't create incremental towers. It is just different cards in the cell site. So there is -- from a cost perspective there is no write-off or investment issue here.

What is the benefit of 4G though is it runs much more efficiently and generates actually more margin for us than the old 3G network. So it actually behooves us to try to move 3G customers to the 4G network from an actual opportunity standpoint for us.

James Ratcliffe - Barclays Capital - Analyst

When you look at the cloud as a whole, and you talked about Software-as-a-Service as another aspect of that, and you think about the international footprint as well, and as your US-based enterprise customers are looking more internationally, does that change the sort of assets you feel you need to own or control internationally, or do you think the current portfolio largely gets you where you need to go?

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Fran Shammo - Verizon Communications Inc. - EVP, CFO

I think at this point we are fairly comfortable, especially with the Terremark acquisition and the data centers that they brought to the table, where they're located internationally. They actually brought Latin America to us. Where we were not strong from a data center perspective in Latin America, they brought that to the table for us. We are currently in construction -- and Terremark was currently in a construction of a data center over in Europe.

So I think that from an international standpoint we have what we need to be successful, now it is all about execution.

As we bring Terremark and, of course, the vast nature of our 5,000 salespeople, the Terremark executives are extremely excited because now they are going to be able to hit markets that they have never been able to hit before, such as Hong Kong, where they didn't have a data center but we do. So I think between the synergies of the two companies, I think that we have what we need. It is all about execution.

James Ratcliffe - Barclays Capital - Analyst

You had mentioned usage-based pricing and the like on the wireless side. But you are truly unlimited on the landline side with the FiOS product and with DSL products as well. Do you think we get to the point where it becomes economically worthwhile to think about usage-based pricing on those products on the Internet side?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I can say that we have looked at this internally. We are not -- I don't think we are ready to make any change at this point, but I think it would be a logical progression to at some point possibly get there. But at this point we are satisfied with the pricing structure we have.

James Ratcliffe - Barclays Capital - Analyst

One thing on the wireless side I would note that your most recent batch of contracts for the -- you're talking about for customers who are the very top users, but in times of congestion they would be -- somebody would have to be constrained and your heaviest users would be.

How do you think about that sort of strategy of potentially telling people where they fall in a tier priority versus more hard caps or specific gigabyte levels in terms of how they are both -- potentially manage the impact on the network and manage your CapEx side.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

So I think the way we are going to, quite honestly, combat that whole thing is go to tiered pricing. So the user who wants to use a lot will pay for it. That is what tiered pricing brings to the table. So from an unlimited perspective you won't have somebody using a ton of network capacity but still only paying \$30 a month.

So I think that will alleviate itself, because people who are going to be using a lot are going to be paying an awful lot as well.

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Unidentified Audience Member

So just pretty quickly, on the Vodafone partnership, you have owned MCI now for a while. Now that is already the [fourth] joint marketing partnership in Europe. You have owned MCI now for a while, why is now the right time to get closer in bed with Vodafone, to go out and joint-market clients?

And then how do we in the room track if this is successful? Should we look for a big contract win, press releases? Should we look for some kind of cash flow increase? How do your investors know if the partnership -- a possible partnership with Vodafone is more successful or not?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I would say it is -- so first let's be clear, when we bought MCI it was a new venture for us, because we quite honestly never really operated outside the United States from an operational standpoint. So we had some maturing to do on our own, which I think we have done pretty successful with. And I just read an article the other day that there was a survey taken, and I think the Verizon brand came in 13 on the international list of brand recognition. So I think we have done a very good job in getting the Verizon brand known internationally, which it wasn't back in 2006 when we bought MCI.

And I think now that Vodafone also sees the benefit that our enterprise business brings to them, because they really weren't really totally within -- they were more of a consumer company than they were an enterprise company. So I think it benefits both of us at this point to actually join together.

It is too early in the game right now to give you a sense of what success will be. But I think success for me will be is to expand the enterprise space and generate more revenue outside the United States, and generate more profits for the wireline business. That is what my success would be.

James Ratcliffe - Barclays Capital - Analyst

All right. I think with that we will wrap up. Fran, thanks very much.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

James, thank you very much. Thank you everyone.

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