

FINAL TRANSCRIPT

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VZ - Verizon Communications Inc at Goldman Sachs Communacopia Conference

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CORPORATE PARTICIPANTS

Lowell McAdam

Verizon Communications Inc. - President, CEO

CONFERENCE CALL PARTICIPANTS

Jason Armstrong

Goldman Sachs - Analyst

PRESENTATION

Jason Armstrong - *Goldman Sachs - Analyst*

If everybody could take their seats, we will get started in about a minute.

Okay, let's go ahead and kick things off on the US domestic telco side today. We are really pleased to have Lowell McAdam join us. Lowell, this is your first time at Communacopia, and you've recently taken over the reins as Chief Executive Officer of Verizon.

First of all, welcome. And second, I thought I would turn it over to you for some maybe opening remarks, set the stage for us around objectives and priorities for you in the business.

Lowell McAdam - *Verizon Communications Inc. - President, CEO*

Okay. Thanks, Jason. Thank you all for being here. I think first I would like to just comment once again about what a terrific job Ivan has done assembling the pieces of the Company. If you look at where the business was as a regional wireline company 17 years ago when he took over and how he has transformed it into at least what I would argue is the best wireless company in the world, and we've added FiOS, and we've added an Internet backbone that touches 124 countries, I've really got a tremendous set of assets to work with as I take over the helm of the Company.

I think my challenge is to continue to add platforms that we can use across multiple applications to grow the top line, and I'm sure we'll get into that a little bit more, some of those possibilities. And the second charge I think for me is to rationalize -- or continue to rationalize some of those assets by streamlining and eliminating some of the product sets that we have and some of the antiquated platforms that we have so that we can improve our margins on the bottom line.

So I think those are the two major thrusts that I have as a take over from Ivan.

Jason Armstrong - *Goldman Sachs - Analyst*

Great. Well, we will get into certainly a range of things, including those. I wanted to first ask about just sort of the macro thread which has run through a number of conferences recently, and people sort of talking about high-end versus low-end and how we seem to be headed in different directions.

As you look at your business, maybe we could start with consumer-facing businesses, wireline and wireless. Are you seeing anything that would indicate sort of incremental pressure on the low end?

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Lowell McAdam - Verizon Communications Inc. - President, CEO

Well, I think the good news about the portfolio that we have is that we can fall back on different pieces of the portfolio, depending on what is going on on the macroeconomics side. FiOS has continued to do very well. We've done, as you know, about 200,000 on the data side and about 200,000 on the video side pretty consistently in an up and a down economy.

On the wireless side, we've obviously had a nice boost with the iPhone launch this year. We've -- through the first half of the year, about 2 million net adds. And midyear now, we've seen a significant pickup in LTE as we've launched more smartphones and more tablets and aircards. So I would say from our perspective, both the consumer and the business is continuing kind of flatlined out there. But because of our portfolio, we've been able to turn in some pretty reasonable results.

Jason Armstrong - Goldman Sachs - Analyst

As you look at -- you mentioned business, and people are focused on enterprise and the ability to inflect, you guys have had more positive comments about a return to growth. Is that still the path we should be thinking about?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Yes, and I think the platform there for us has been the cloud, the Terremark acquisition. Enterprise is certainly under a lot of pressure to reduce their costs. I think you've seen the needle move pretty significantly around the opinion of enterprises, where even some of the large ones that didn't want to put their services in "someone else's cloud" are now saying, boy, I can really save a lot of money and be a lot more efficient if I do leverage the assets that we have already built in our data centers. So we've seen some pickup there, even though other parts of the portfolio may be a little depressed. We've done fine.

Jason Armstrong - Goldman Sachs - Analyst

If I could shift gears to something that has obviously been topical in the last month or so, and that is the DOJ's perspective on the AT&T/T-Mobile deal. As you sort of look at this, as it sets the industry landscape, I'd love to sort of have your perspective. Because in some respects, it is limitations of consolidation on this deal in particular, but the way the complaint was written, it seems like there are broader impacts across the industry.

Lowell McAdam - Verizon Communications Inc. - President, CEO

Yes. I know you have Randall here tomorrow to talk and he's got a big court date today, so I'm certainly not going to speculate there.

But our view has been to stay on the sideline here and see what the DOJ -- how they ruled, and as the negotiations go on between AT&T and DOJ to then take a position. Because while we are all for free market activities, and mergers are certainly part of that, we need to be very thoughtful on what the impacts would be to the overall industry if this is a way to regulate the industry without actually passing regulations. So we're going to watch that pretty closely.

As you know, I had breakfast with Chairman Genachowski this morning. And I have taken a position that the AT&T merger with T-Mobile was kind of like gravity. It had to occur because you had a company with T-Mobile that had the spectrum, but didn't have the capital to build it out. AT&T needed the spectrum -- they didn't have it -- in order to take care of their customers. And so that match had to occur.

So in my discussions with the FCC and folks on the Hill, if we want to stop -- or if the government wants to stop a merger like that, they need to then step up and say, this is how we are going to get spectrum in the hands of people that can use it to serve our customers and to create jobs in the country.



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So there is a number of ways that we can do that -- through secondary auctions, through the incentive auctions, through freeing up additional spectrum. But if you look at the path that wireless is on, clearly, we need to have more spectrum in the marketplace. And I think the FCC has got to be very focused on delivering that.

Jason Armstrong - Goldman Sachs - Analyst

You guys have said -- you've had a very consistent message around, we will not get involved unless we see something that is centering around conditions, et cetera, that might impact our business.

Lowell McAdam - Verizon Communications Inc. - President, CEO

Right.

Jason Armstrong - Goldman Sachs - Analyst

As we look at what has happened in the last few weeks, I think the risk that people would perceive is that AT&T in terms of what they have to give up around this deal to still get it done is going to start to encroach on your territory. It is no longer just divestitures and spectrum; it might be conditions that impact (technical difficulty) Verizon. Why not be a little bit more engaged at this point?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Well, it's just too early. I think you have to see -- Randall is very aware of the health of the industry, and he is going to balance that, and I need to see where they come out before we jump. At this point, you read -- you alluded to the overall ruling. That is very broad at this point. And it's only when you get down to the specific tactics that you really understand what the impact might be. So I think it's important for us to be thoughtful about this and see what happens.

Jason Armstrong - Goldman Sachs - Analyst

If I can shift gears to LTE; you guys have taken a leadership position, which means all eyes in the industry are on you. As we are several months into this and a decent amount of sort of client penetration, customer penetration, how do you view the opportunity shaping up? Maybe first we can talk about cost structure versus revenue opportunity. What is sort of the bigger driver of the NPV here?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Well, I don't look at it as either/or. It is a both kind of equation for us. So I've been around the industry quite a while, and LTE is the first product in a long time that made me go wow. I mean this is a real, significant change.

If you look at the number of companies that cycle through our LTE innovation center up in Waltham, Massachusetts, it is in the thousands. So people have tremendous ideas about how you can use that platform to expand the top line.

The expense side, I mean, we've talked about it being 20%, the cost to handle a megabyte as a 3G service. So if you look at those two possibilities, the margin implications of LTE is significant.

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So we have continued to build out. We just announced yesterday another group of cities. We are well on the way to hitting our objective of 175 million POPs by the end of this year, and we will have virtually full coverage by the end of 2013. So we are going to keep pushing this very hard.

There were lots of folks that said, oh, it is way too early, you won't have devices. We have had a tremendous response. This is if you build it, they will come classic execution. And by the holidays, I think we will have a very robust -- probably five or six different high-end smartphones, tablets that are available, virtually every product.

And the even more exciting part to me is the applications that are coming to us because we've built this platform. And they are ones that we've heard about for years, but as I look at them, they are actually on our doorstep. The home security, the energy management, not only in the home but commercial energy, the education example. So there is so many possibilities out there that I think LTE is going to really transform the way we do business in the US.

Jason Armstrong - Goldman Sachs - Analyst

As we think about the next layer, the device ecosystem, particularly related to LTE, I think there's sort of a constant struggle from investors figuring out who actually captures the economics here. And we've seen subsidies obviously move up pretty substantially.

As you look to 4G, you guys and others in the industry have really expressed a desire to have three platforms compete in the business. Right now, we are solidified around two platforms in Apple and Google's Android. It is a question mark as to who number three is going to be. Are you confident that you think you will have three?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Yes, I do. The carriers are beginning to coalesce around the need for a third ecosystem. I just saw in today's paper, as an example, Samsung has now announced they are going to open up the operating system that they developed, so they are a possibility. Microsoft is a possibility. RIM is a possibility. And I think that over the next 12 months, I think it will coalesce and you will start to see one emerge as a legitimate third ecosystem.

Jason Armstrong - Goldman Sachs - Analyst

As we think about the capabilities of 4G, I guess one of the questions -- and this gets into the wireline side of the business, in particular in rural areas -- is just how extensive of a footprint you will build, and ultimately how much of a competitor could this be to wired services.

And it really sort of -- in my mind, there are two approaches you could take here. There is the let's put a very dense network out there and really go after share, or let's put the sort of non-dense network out there, if you will, and go for the customers that are willing to pay us \$100 a month for service in the novelty service, but not have this as something that is really going to be a big penetration game. How do you think about the business?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Well, we laid out a three-year plan. And it's pretty typical for what you've seen from us with other technologies, as we went to 2G from analog, and as we went to 3G, and as we're rolling out 4G with LTE; we are going to go into the big markets. And you saw us go for those early on and we will continue to work our way down the chain.



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I think the difference that we've done on this rollout is we have gone out proactively to the rural carriers and said, look, rather than us come in in three years and build out over you, why don't you sublease our spectrum -- that's not the right technical term -- but use our spectrum, and you build out LTE on C block. You'll get it out there that much faster and then we'll do a roaming arrangement so that you get nationwide access.

We've got 11 carriers signed up for that already. We've got at least double that amount in the pipeline. It is a significant amount of geography that will be covered, and we think that is the way to get that service out there. We win without having to put our capital in those markets, at least initially.

Jason Armstrong - Goldman Sachs - Analyst

If we think about the outlook for revenue growth in the wireless business, you guys have captured share, you've inflected on ARPU. You been early to the market with LTE, you've closed a lot of the device limitations you had before.

I guess what has been a little bit confused in the metrics is the range of different products you are offering, when we start to get into devices that could carry very high margins that may carry \$2 or so in ARPU. And you guys have fought that via incremental disclosure, really helping us understand.

If we get back to the sort of postpaid smartphone or postpaid phone base -- and I think that is one thing people are very focused on, making sure ARPU continues to move up to the right -- is that something that we should be forecasting?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Yes. We feel good about that. We are very close to the end of the quarter here, so I'm not going to do anything too directional. But clearly, the move on post -- what we think of as traditional postpaid smartphones is absolutely moving in the direction that we want. The percentage of the base is moving in the right direction. A little bit slower than we had predicted in January, because we expected an iPhone launch in midyear. But that is a matter of a quarter or two. It is very, very understandable.

I think what people were a little bit -- had to get their heads around was as you do a lot more of these Internet devices -- we had a relatively high base, the highest of any carrier on those data services. And when we want to expand that pie, you are going to see some dilution in those revenues per subscriber.

Very similar to what we did with family share. Those of you that have covered the industry for a while, we used to have \$20 secondary lines on family share. We dropped it to \$9.99, and you saw some dilution, but the pie grew so much bigger. And there is no one, I think, that would argue that was the wrong move.

So I think expanding the pie on the Internet device side is crucial for us. We just need to be a bit more transparent, as you indicated, on what those numbers look like.

Now, I will predict the future here, because as we see more and more machine-to-machine, it won't be unusual to see a \$2 ARPU or a \$0.50 ARPU. But if it is a 50%, 60% margin, it is one of those products that you will take every connection you can get. And so we are going to continue to drive expansion of connections around the world, frankly.

Jason Armstrong - Goldman Sachs - Analyst

As you guys look to -- the incremental detail has been great; it has really helped us in terms of forecasting the business. But as you look to take the conversation back up to the revenue and EBITDA level, which is ultimately what this is all about, revenue

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growth, you've been trending high singles; it seems like a lot of these products actually contribute to sort of continuing in that range. Maybe we can talk through that first and then I'll follow up on the margin side.

Lowell McAdam - Verizon Communications Inc. - President, CEO

So just look at a couple of examples. One of the energy companies has come to us with a 10,000-connection trial that will be \$0.50 a month, in order for them to have better control of all their transmission facilities. That will do -- that's a perfect example of what we talked about -- will expand the top line significantly. It is a very streamlined product, so very little overhead associated with it, and very strong margins. I think that -- that is just one.

You can look across cloud. You can look across FiOS. We plan on expanding significantly, because of LTE, the bridge between the FiOS video product offering and the video product offering on LTE. All of those expand the top line, and there are no additional platforms that we need to put in place. So it is a very efficient revenue dollar.

Jason Armstrong - Goldman Sachs - Analyst

And are any of the things that you are seeing evolving -- I guess the fear is at some point, whether it is macro or just penetration on the core sort of consumer voice customer, we get into more of a deflationary environment, and that puts the revenue trajectory at risk. Is there anything you are seeing near-term that might cause you to think that way?

Lowell McAdam - Verizon Communications Inc. - President, CEO

I think a lot of these products that we are talking about help enterprise customers and consumers control their costs. So they are going to want to adopt those sorts of products. So, cloud was an example. The energy thing is another example. Home energy management is another example.

So I think it is our job -- I won't say we are immune to these ups and downs by any means in the overall economy, but the portfolio that we have, I think, allows us to weather those storms better than we could have a few years ago.

Jason Armstrong - Goldman Sachs - Analyst

How should people think about the margin trajectory in the context of all this? The business is changing. It's taking on different characteristics from just sort of the pure postpaid phone base. Now we're getting into connected devices. Do margins move up based on this and what is the potential?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Well, wireless margins are very well known to people, and we see opportunities to either maintain or even perhaps expand those.

On the wireline side, I mentioned we need to do some rationalization. We have four different IP networks that we are converging into one; that will streamline operations for us. For example, on the Verizon business side, we have 4000 different products, literally, that we have to maintain and bill for. We're going to streamline those down to a few hundred. A few hundred even sounds like a lot to me. But that gives you an opportunity to really streamline the business and improve the margins.

So it is certainly our goal to continue the trend that we've had over the last several quarters, and we've already disclosed we think we will have a little hiccup here due to the storms in third quarter. But it is our goal to expand the margins here on the wireline side, which has a lot of leverage for the overall corporation.



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Jason Armstrong - Goldman Sachs - Analyst

I want to talk about wireline in a minute. But just on the wireless side, you talked about the ability to sustain or improve. I guess what an investor would wonder is, is this off of where we had been trending before the iPhone? Or we've obviously had (inaudible) the iPhone depress margins a little bit. Does this expand off of that depressed level, or is it off of the peak?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Well, first, you have to get back to the peak before you can expand from there. But if you look at the products that are headed our way, as I said, they leverage platforms that we have in place.

I think your point about the third ecosystem is important, too. There are a lot of different handset manufacturers that, with the right licensing arrangement and the right relationship with a carrier, they think they can bring in devices that will be significantly lower.

Michel was on the stage here just before me from Vodafone, and we are doing a lot of procurement activities with Vodafone and are purchasing basic feature phones for under \$100. Now, that's the first time we've done that, and by leveraging our scale, we think we can continue to see that curve come down, and frankly take it up to the smartphone and begin to take the smartphone down. So I think there are opportunities to improve the margins across the business.

Jason Armstrong - Goldman Sachs - Analyst

If I could switch gears to prepaid for a second. It is a segment where a lot of your activity has been through wholesale channels. Tracfone is sort of a good example. More recently, you had the trials with Unleashed, and now there is sort of this concept of moving that into more of a national product.

Help us think through that decision, because I guess the fear factor in the investor base is does this say you've changed how you think about postpaid versus prepaid? Is it a different view of cannibalization risk?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Yes, so we've always -- those of you that have followed Verizon Wireless for years know that we've always tried different things around prepay and we hadn't quite found what we thought was the ideal product for us.

So Unleashed was something that we tried in a couple of test markets. We did not see cannibalization of the postpay side. That is still the mainstream for Verizon. That is why we put the money into LTE and other networks that we do.

And we -- as you may have seen, we launched the relationship again with RadioShack a week ago. And they bring a dimension -- while they do a lot of postpay, they do a lot of prepay as well, and especially in markets that we don't typically touch with our own distribution. So it was a great opportunity for us to take a product that we feel very good about, take it national, very focused on the RadioShack channel and see where it goes.

And right now, the economics are very good. It's another example of margin expansion. And we think that it will be viable. But if it turns out that it cannibalizes postpay, we'll pull back.



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Jason Armstrong - Goldman Sachs - Analyst

And thinking about historically, wholesale has been how you've filled that particular niche. Now that you're becoming more engaged on a retail basis, is there still room for wholesale?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Yes. Oh, sure. I think so. There is no reason that one should squeeze out the other. We have a good relationship with Tracfone and several other large wholesalers, and we will continue to do that.

And I think as you go into these things like machine-to-machine, you will see even more opportunities for wholesale relationships with different type of carriers than have been focused on the voice side.

Jason Armstrong - Goldman Sachs - Analyst

If we can just talk quickly about the investing cycle on wireless, and then I would like to move to wireline. Obviously, one of the big chunks of where capital gets deployed is spectrum. You've talked about sort of being fine until 2015. I'm wondering if that means probably deployment in 2015, when do we have to start preparing for them in terms of purchasing clearing, et cetera?

Lowell McAdam - Verizon Communications Inc. - President, CEO

We do it a lot of what I will call secondary market deals, as we go along, as spectrum frees up. In 2015, you have to make some assumptions about video adoption. So we monitor it constantly. And then even if you do see the high levels of adoption that we, frankly, forecast -- we are robust in our views there -- it is only in certain cities.

So it is the kind of thing that you can go out with a rifle shot versus a shotgun blast. And so that's what we do, is we look for the opportunities to pick things up as we go along. And then when there are large auctions or we do these incentive auctions with the broadcasters, we will certainly participate in that.

Jason Armstrong - Goldman Sachs - Analyst

As we think about 4G sort of taking a greater and greater portion of the traffic mix, how do we think about 2G and 3G spectrum? Does that sort of move towards low-end voice offerings and you look to sort of monetize it differently? Would you reform that spectrum and sort of reallocate to 4G? How do you think through it?

Lowell McAdam - Verizon Communications Inc. - President, CEO

I think you have to, again, look at it on a market-by-market basis. Our general strategy will be to reform it. So while 2G actually does voice very efficiently, you can do voice over LTE and then take that 2G spectrum and make it capacity for 4G. And so that's the way we will -- that is the direction we will lean.

Jason Armstrong - Goldman Sachs - Analyst

So switching gears to wireline, obviously, something that's been a focus in recent months has been union negotiations. You sort of had a two-week strike that you have endured; they're back on the job at this point. Can you give us an update on sort of what you are seeing in negotiations, timing for resolutions or what the key issues are?

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Lowell McAdam - Verizon Communications Inc. - President, CEO

So regarding issues, we've been pretty clear that we need some relief in two areas. One is the overall benefit construct. And the second, which is just as important, is around work rules. A lot of the rules that we deal with were made in the '60s and '70s, and the market has changed dramatically since then. So we need to just modernize those so that we can take care of the customers.

The big issue for the union, I think, is jobs. And we have outsourced a large number of jobs just because the cost structure is different and we need to do that for our shareholders. So I think we can take those three variables and work them together and come up with a reasonable solution.

I am encouraged over recent dialogue, because the union now, by the first of October, is committed to giving us a comprehensive proposal in those three areas. And in the past, it wasn't a constructive dialogue. It was much more of just take this issue off the table. And it wasn't something we could do because we had to see some of these changes or we'd end up going the way of General Motors or US Steel, and nobody wants to do that, including the union.

So I think right now we're having a good, constructive dialogue and I'm hopeful that by the end of the year, we will have this behind us and be able to move forward in expanding the companies, and having a very healthy company over the next several decades so that their jobs are secure, which is what they are looking for.

Jason Armstrong - Goldman Sachs - Analyst

When you think about the health of the wireline business, Ivan -- and you've sort of continued this -- moving the business to sort of a FiOS platform, a platform that has the ability really to grow, to differentiate you in sort of wireline telecom. You're approaching the target for the original sort of homes passed target of FiOS. You have a bunch of other lines out there. How do you think about expanding on what you've done today? What are the things that will drive that decision?

Lowell McAdam - Verizon Communications Inc. - President, CEO

The opportunity to expand right now is very small. I'll just say that. Now, there is two ways you attack this. One is to change the financial model from a labor perspective, and we just talked about what our plan is there. The other is to change it from a technology perspective.

And this is an example where we are leveraging the resources across the Company. So we've brought some wireless suppliers that we've got great relationships in developing product with into the home, to say, if I get fiber to the ONT in the basement, what are my options inside the house. So that I don't have to do all of this coax wiring, which just takes a huge amount of time, and is frankly a big opportunity for maintenance issues as you go forward.

And we see some possibilities, some very good possibilities, to be able to handle all of the TV sets, even in a big house, wirelessly and be able to do all the HD and the 3D capability that we have today over that coax or CAT 5 in the house. So we are going to push the envelope there. We'll have some trials in early 2012, and I think it could end up being the standard for us late in '12 and on to '13.

You make those two changes, then the model changes, and then you might consider expansion. But again, the way things are today, I don't think that the financial model is such that I'm ready to expand over what we've committed to.

Jason Armstrong - Goldman Sachs - Analyst

The WiFi in-house, in terms of distribution, that is sort of a good example of what has been a limitation on FiOS, is the installed capacity you actually have. And as we think through even what the storm has meant and how that set you back, it does sort of

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speaking to a ton of demand and a big backlog of product, which I guess sort of brings up another question. Do you think you've found equilibrium pricing on this product? It seems like you actually got room on the pricing side.

Lowell McAdam - Verizon Communications Inc. - President, CEO

Yes, I think we do. And if you change the two factors that I talked about, you can push the envelope even further. I think the question for us is how much market share and how much price changes do you want to make? And we will find the right equilibrium. But I've got to get those first two things fixed before we push it out. Because right now, we are a bit constrained on our ability to install and expand it.

And I also need to, frankly, get a little bit more reuse of the ONTs. We've got a significant number that were in service that are now not in service. Where I can go back and penetrate those, that is a very low-cost way to increase penetration and increase revenue. So I've got a number of levers that I'm working at this point.

Jason Armstrong - Goldman Sachs - Analyst

And reuse probably becomes a bigger and bigger issue as time goes on.

Lowell McAdam - Verizon Communications Inc. - President, CEO

Exactly.

Jason Armstrong - Goldman Sachs - Analyst

How does the install sort of timing rate compare on reuse versus new FiOS install?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Well, that's an area that we are putting a lot of focus in. It takes typically about a day to do an install in a home with multiple TV sets. And we need to drive the reuse down to be able to do three or four of those a day, and we're not in that position at this point. So that is part of the process improvement work that we are doing now.

Jason Armstrong - Goldman Sachs - Analyst

I'll ask one more and then open it up to audience questions. But process improvement, I know you are a big process improvement guy, and this has particular ramifications on the wireline side of the business as we think about margins. This has been a very good story over the last few quarters in terms of the margin trajectory on wireline. Obviously, we've got a little bit of a hiccup in 3Q around storms; you guys have talked about that already.

But as we think about the ability to further move the needle on wireline margins, help us think through what opportunities you see in the business in process improvements. Obviously, that covers a lot of different angles, but help us think through that and the trajectory.

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Lowell McAdam - Verizon Communications Inc. - President, CEO

Well, it's funny, Ivan said to me early on, he said, it's amazing what a fresh set of eyes, when they are cast on the business, what they see that the old set didn't see. And we've kind of run with that to find what we call pots of gold around the business, things that we've just done in some case for decades because that's part of the culture of the business.

If you think about where we came from, we were a capital-intensive business and a monopoly environment, where whatever capital you spent went into the rate base. When you are in a competitive environment, every dollar counts. And so a fresh set of eyes sees those dollars very differently than some of the existing team has.

So what we've done is we've created a position that reports directly to me that is the head of process reengineering. And during the strike was actually a great opportunity for us. We got over 1000 submissions to our website of places that we could take cost out of the business and think about the business differently, because the managers were out there actually doing the jobs from a hands-on basis.

So we've gathered all those. We're adopting a quality improvement -- process improvement methodology. We've spent some time with Xerox and GE and FedEx, and we're going to put that kind of a plan in place and use that to drive the business forward. So I think there is a lot of opportunity to remove inefficiencies.

Jason Armstrong - Goldman Sachs - Analyst

Let's open up to audience Q&A. If you have a question, raise your hand. There are mics in front of you. You will need to turn the mic on. Any questions?

QUESTIONS AND ANSWERS

Unidentified Audience Member

Lowell, if you can ameliorate the following concerns for me, I would really appreciate it. With respect to 2011, I see two issues that come up -- one in wireless and one in the basic business, in terms of financing.

With respect to wireless, the whole premise behind Network Vision that Sprint is going to roll out is to increase their margins. And presumably, the way to increase margins is by taking the roaming business away from Verizon. And there are estimates out there that that is as much as \$1 billion of income. How do you actually adjust for the fact that you guys have this tremendous income coming from Sprint that's not going to be there, potentially as soon as, say, second half of next year? And with respect to bonus depreciation, I think a lot of us would love to understand how exactly we fill that gap too.

And then with respect to fourth quarter coming up, which is the big selling season, can you walk us through the implications of Sprint potentially getting the iPhone, and are you concerned about just gross add distribution and there not being a genuine understanding about what separates Sprint, other than unlimited, to you guys, which is high-quality, to AT&T, which is I don't know what anymore?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Well, you've asked a lot of questions there. So let me try to deal with it. A lot of that, frankly, is speculation, so we've got to see how things play out. But -- so let's deal with the iPhone.

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I have always been very pleased with the performance of our Company when we've have a level playing field. And adding another carrier to the mix, I mean, our porting ratios have always been very strong via all the other carriers, especially when we had -- as I say, had the same product lineup. So I don't frankly worry about it.

I would also tell you that I think it was probably two years before we had the iPhone that we were -- everybody thought we were getting it before we actually got it. So we have to wait and see what happens. But if it does happen, I'm not worried about it. Let's be clear there.

On bonus depreciation, I spent last Wednesday on the Hill. There are so many moving parts around the tax plan at this point. It could be extended at 100%. It could be extended at 50%. The corporate tax rate could come down from 39% to 25%. Looking at one of those variables and trying to tell you exactly what we would do, we have to see what the whole package is.

And then Sprint's Vision, their Network Vision, I read their transcript from the BofA conference that they had last week. I think we just have to see what's on there. I mean, there was a lot of ebb and flow on roaming over the years. I will probably do better, frankly, using that capacity for retail operation than I would a roaming operation. So if they reduce it, that's fine, but we'll cross that bridge when we get to it.

Unidentified Audience Member

So you think you can keep your margins intact if in fact it does go?

Lowell McAdam - Verizon Communications Inc. - President, CEO

There is no one line item like that that is going to sink margins for us. That is -- we've got -- with LTE and all the other arrangements we just talked about -- prepay; we've got the machine-to-machine stuff coming on. So one line item does not tank your margins.

Unidentified Audience Member

Thank you.

Unidentified Audience Member

You talked earlier about spectrum needs in 2015. Can you remind us what options the FCC has as far as what spectrum it could take and get into the wireless carrier industry from where we all sit today?

Lowell McAdam - Verizon Communications Inc. - President, CEO

I think there's really three. The first one is there is an awful lot of spectrum out there in the hands of people that can't afford to build it out. If you look at AWS in particular, because it had such a long cycle before it had to be built, a lot of people bought it and they've been sitting on it. So I've encouraged Chairman Genachowski to facilitate a secondary marketplace.

If you look back at when the wireless industry was formed, they used to bring groups together and they would exchange spectrum and try to cut deals around the table, because it's almost like baseball trading or fantasy football. So if they did something like that, I think that would take some pressure off.

Second is to get the broadcast community together on the incentive auctions, get that taken care of. We have been advocates of getting the D Block out there in the market, and that will take some pressure off. And then the 500 Megahertz of spectrum



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that the Administration has identified. That is probably an eight or a nine-year cycle. That is why you need those other steps before that. But I think if you do that, you can get the spectrum out there that the carriers need.

Unidentified Audience Member

Quick follow-up. How much spectrum -- if you could remind us of the details of how much spectrum and at what frequency range they are at.

Lowell McAdam - Verizon Communications Inc. - President, CEO

For --?

Unidentified Audience Member

Well, AWS (multiple speakers).

Lowell McAdam - Verizon Communications Inc. - President, CEO

AWS is 17. I mean there is -- the sweet spot -- anywhere -- there is a lot of 700, lower; there is a narrow band out there at 700. But to me, I think the best spectrum is in that 700 to 2.5 range.

Unidentified Audience Member

Can you comment if your models anticipate cannibalization from LTE as you crank it up?

Lowell McAdam - Verizon Communications Inc. - President, CEO

Cannibalization of --?

Unidentified Audience Member

Cannibalization of, let's say, voice, air, wireless Internet at home.

Lowell McAdam - Verizon Communications Inc. - President, CEO

So on the wireline, meaning taking -- so the question is does LTE supplant DSL in particular markets? So here's my view there. I've been on both sides of this equation a couple of times in my career.

Wireless for the lighter user, the sporadic user, is always going to be a great alternative. Somebody that sits in their house at night and powers through the web, downloading video after video is not a place that we think we want to go. Now, some rural markets, where you've got spectrum capacity. But if you tried to do that in New York City, you would get killed. So I don't view it ever as a complete substitute for the wireline product.

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Unidentified Audience Member

One year ago at this conference, Ivan said that as a matter of math and policy, his finance people hated him paying a \$1.96 dividend. You guys marginally increased it this year, very small. But I'm just wondering, does that mean they hate it even more this year or have they changed their views?

And as you look forward with the Vodafone relationship, understanding you don't want to pre-commit to an annual dividend, we can all look and see that you kind of need to access the Verizon Wireless cash to pay your dividend. How do you sort of think about the roadmap over the next couple years there?

Lowell McAdam - Verizon Communications Inc. - President, CEO

So let me be clear on a couple of things. We've got a number of ways that we can support the Verizon dividend to our shareholders. And they depend on that. We take it very seriously. It's something that the Board talks about every quarter. So I don't see significant changes there.

As far as Verizon Wireless dividend is concerned, there is so much hype and emotion around that. Frankly, I don't get it. We're going to be good stewards of cash. And if wireless needs the cash to buy a platform, to buy spectrum, then we'll use it there. That is the first and best use of cash.

I don't think our shareholders would think it would be smart of us to accumulate a whole lot of cash on the Verizon Wireless books if there is no use for it. So we'll distribute it if that's the case. But the key is for us that Verizon gets to make that decision. So when it makes sense, we will have a dividend. When there is a better first use for those dollars, we'll do that with it. And the dividend will either be on a hiatus or less. So that is our philosophy.

Jason Armstrong - Goldman Sachs - Analyst

We're going to have to leave it there. Lowell, thanks so much for joining us this morning.

Lowell McAdam - Verizon Communications Inc. - President, CEO

Okay, thank you all.

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