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PRESENTATION

Simon Flannery - *Morgan Stanley - Analyst*

All right, good morning, everybody. If we can get started here, welcome to Day 2 of the conference. Please note that all important disclosures including personal holding disclosures and Morgan Stanley disclosures appear on the Morgan Stanley public website at www.MorganStanley.com/researchdisclosures, or at the registration desk.

It is my great pleasure to welcome Lowell McAdam, Chairman and CEO of Verizon Communications. There is a lot going on in the industry. You have just completed your major buy-in of Verizon Wireless, which removes one big question about the direction of the Company. But it sets you up for a very important year.

So perhaps, Lowell, you can kick us off with some thoughts on your priorities for 2014.

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

Okay. Thanks, Simon, for having us, and thank you all for being here this morning and your interest in the Company. As I think about what we call the new Verizon -- and that is post the Vodafone era -- I think we have a couple of priorities. The first is really to consolidate our position as the leader in the wireless industry and extend that into the wireline as well.

So I think about things like reinforcing our network lead, making sure our distribution is strong, our customer service is strong. In the area of the wireline, continued penetration of FiOS; it is a terrific product with very high adoption rates, and there's a lot more we can do to leverage that platform. In VES, it's completing the work that we began a couple years ago on reengineering our processes, taking costs out of that business, so that we can expand overall Wireline margins.

Then once you look at that foundation being solidified, it's moving up the stack. So I am sure we will talk more about it, but we have invested in a lot of different platforms. The key ones are security; obviously our cloud with Terremark; our machine-to-machine through Hughes Telematics; and we have invested quite a bit in video through our Verizon Digital Media Service and recently our purchase of OnCue from Intel. So bringing those sorts of platforms to life.

And then there will be a few solutions that we will really drive to establish in the marketplace. Our mbrace solution is a good example for telematics; a lot of our Cybertrust solutions that are in play now heavily because of all of the cyber terrorism that is going on in places like Target and others.

So that is how we think about the business: connectivity, platforms, and solutions. And we're going to make sure that we strengthen those in 2014 and use those to launch into 2015 and beyond.

Simon Flannery - *Morgan Stanley - Analyst*

Great. In your guidance you talked about the 10% earnings accretion immediately from the Vodafone purchase and you put an outlook of some strong growth both in revenues and margins for the year. What changes operationally from the transaction?



You've talked about a new product development unit. So perhaps you can provide more details on that.

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Yes. As I say and I will continue to say this, Vodafone was a great partner. But when you have a partnership, you have a tendency to move more slowly.

The thing that we see coming from the customer requirements is far more integration of services as we go forward. So video that moves seamlessly between landline and mobile; security assets that not only work in the enterprise but work in the mobile space. So the big change for us, I think, operationally is integrating those assets into one set of solutions that works for customers.

The first thing that we have done -- and there is more that is going to follow here in the next 60 or 90 days. But the first thing is to establish a product development and emerging businesses organization of taking the product teams from the individual business units, put them centrally located under the woman that was the Chief Operating Officer of Verizon Wireless, so she has a very strong and successful career. She is going to report directly to me, and she will leverage all of those assets, no matter where they sit within our business units, to create those integrated products.

Simon Flannery - Morgan Stanley - Analyst

Great. We have heard a lot about mobile at the conference so far, but there is also a lot of concern about maturity in terms of phone penetration, about competition as others turn on LTE networks, as pricing gets aggressive. Verizon continues to put out very good add numbers, very good churn numbers.

How do you see the competitive landscape and Verizon's position within it, and your ability to continue to post these kind of numbers?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Yes. Well, first of all, we take this competition very seriously. And by the way, I think it is probably good for the industry to see four competitors innovating and bringing new things to market. I think it is great.

But there is a long way between where we sit with our coverage, with our network performance, with our store distribution, with our churn rates, from where we are versus where the other carriers are. I think there is going to be another RootMetrics study out sometime this week; I think that will be very enlightening for investors, to take a look at how the carriers stack up.

But I think, Simon, the key for us is if you're sitting still you're a lot easier for the competition to catch up. Even when you look at the maps that we show in our advertising today and you see the huge differences between the carriers, if we stand still within a couple years that gap can be closed.

We're not going to be standing still. And we are going to see things like these integrated services that I talked about that will continue to put us in a leadership position.

Simon Flannery - Morgan Stanley - Analyst

Right. Can you talk about what you are doing on the network side and your spectrum position and your needs there?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Yes. We, just in the fall, started rolling out AWS, and that was probably about 6 months earlier than we had expected. We got a lot more demand through the summer months for the product, as you saw.

As you mentioned, we had very good uptake rates and, even more importantly, very high usage. The usage rates are moving up, as we had hoped when we launched things like our Share Everything Plans.

So we have gone in and we have deployed AWS in all of our major markets. San Francisco is one, New York is one.

We really showcased, I think, what we could do at the Super Bowl with New York, because it was a lot more than MetLife Stadium; it was the entire five boroughs. So we were seeing unloaded speeds of 60 megabits. Obviously that will come down; we expect to be in that 5 to 8 range that we advertise.

But just during the Super Bowl this year we carried 1.9 terabits of data. It was 800 times more than what we carried during the New Orleans Super Bowl the year before, and we were 3X our nearest competitor.

So I think it shows that the network is strong. And when you have a strong network, people use the network.

And we have been able to monetize it. And seeing what we have seen through fourth quarter, 8% revenue growth on the Wireless side. And as we have talked about guidance this year, we expect to see expanding revenue and expanding margins.

Simon Flannery - Morgan Stanley - Analyst

Great. How do you see your spectrum position? You have done a number of transactions here. There are some auctions coming up.

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Yes. Well, we spend a lot of time on spectrum. I think we have got some of the best people in the world looking at that.

And while we don't have the largest holdings, we have a very good, what I will call harmonized spectrum. So having 700 C that touches every square inch of the US, having AWS that does nearly that: those are our cornerstones to build on. We've got good positions on 850 in the PCS as well.

The deals that you see us do in the secondary market, whether it was with AT&T on the B's or T-Mobile on the A's, it is to continue to harmonize those and get the same frequencies. Part of the reason our network is so reliable is that we don't have to spend a lot of time looking for what spectrum might be available to do a handoff or move a session over.

We know that we always have 700 C, and most of the time we have AWS. So that helps us.

So we think we're in pretty good position, obviously depending on the market, through 2017, 2018. And we will participate in either additional secondary transactions or the spectrum auctions when they come up.

So we don't feel like we have got a gun to our head by any means. But it is something that we are always rolling a five-year plan around.

Simon Flannery - Morgan Stanley - Analyst

How do you see the role of VoLTE in helping you refarm some of your CDMA spectrum?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Yes. Well, that is the plan, and I think we all -- all the carriers -- expect to see that begin to roll out later this year. We have some handsets -- I carry one now -- that is in trial mode, and we are getting the kinks out of it.

I think as we get into 2015 and beyond, we should be able to begin to take the 2G spectrum out of service and repurpose that for 4G. So that will all be part of the plan.

Simon Flannery - Morgan Stanley - Analyst

Right. One of the big developments in the industry in the last year or so has been the growth of installment plans. You have the Verizon Edge program. But I think you have been more judicious perhaps than some others in terms of your deployment of that program.

How do you see installment programs impacting the industry? What is your philosophy in terms of how you offer that to consumers?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Yes. Well, installment plans have gotten a lot of press here in the last six months or so. We rolled out installment plans on tablets probably 18 months ago.

I think they are a great option for customers. If a customer wants to do that, wonderful; we will provide that to them.

But I think we have got to be a little bit careful before we claim that this is a big panacea for financials. Because you are really moving the receivable onto your balance sheet; and depending on the payments that you receive from the customer, you could have a liability, especially if you're a high churn rate company.

So we are offering it. The customers are adopting it. I think before we declare victory we have to see what the upgrade rates are; we have to see what the bad debt rates are on it.

But like anything, we can react pretty quickly if a competitor brings out a program like this. And we will just see how it works. So judicious is a good term, but I would say we are cautiously optimistic at this point.

Simon Flannery - Morgan Stanley - Analyst

Okay, good. You talked about the Super Bowl and you recently inked a deal with the NFL for use of some of the NFL content. Can you give us a little bit of an insight into your work with the League and with other sports, in terms of broadcast LTE and timing around that and the sort of services that will be enabled by that?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Yes, the League is really a lot of fun to work with. I enjoy Roger and a number of the owners. We work very closely with the Maras and the Giants and the Jets, obviously, in New York; but also with even the 49ers here. And the New England Patriots are probably the most progressive when it comes to using technology.

As we put together Gillette Stadium, as an example, many more cameras available, moving toward giving the people in the stadium the ability to watch the game from a specific angle. We would love to have a Tom Brady cam; we haven't quite worked that out yet. Technically we can do it; there's a few other issues we have to deal with there.

But even into the ordering food and having it delivered, that has been proven to be a positive for the leagues. We are working with a parking lot striping company to embed sensors in the striping for the parking lot, so that you can direct people to an empty parking space when they come in, so they're not roaming around. As you talk to Bob Kraft, he would love to use season-ticket holders and give them perks like that, and maybe they are the only ones that get to watch the middle linebacker cam, or that sort of thing.

So it's an interesting way not only for us to get a lot of visibility as the NFL sponsor, but for us to test our technology. And they've been terrific partners.

Now where does it go from there? Well, you mentioned that we demonstrated the broadcast technology during the Super Bowl. So what that really does -- I won't go into too much of it here -- but gives you infinite capacity for these large events. You put up one signal, and you tell every handset in the room to turn to that one signal; so you can begin to handle these large news events, these large sporting events. And we successfully broadcast the Super Bowl in New York using that technology.

Well, virtually every college league, every pro league came in to see that. Working with large venue managers, so whether there is a rock concert or a symphony or whatever in one state, we could actually broadcast that across the US. So if people wanted to see the latest band, they could see it over Verizon.

So those are the sorts of things that when you work with a league like the NFL, it has ripple effects over the broader industry.

Simon Flannery - *Morgan Stanley - Analyst*

Got you. Another area of growth you just referred to in your opening comments was machine-to-machine. I think we have heard a lot about Internet of Things at the conference.

So we have got a big phone base, we have got a tablet base, you've got Hughes Telematics. Where do you see the most exciting areas for those products going forward?

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

Well, it's funny, Simon; you reminded me last night in 2008 when we rolled out the open network. We talked about penetration rates of 400% and 500%. I have to admit we were wrong; it probably ought to be 1,000% or 1,200% when you look at the Internet of Things.

Our first venture into that has been around telematics. As you know we bought Hughes Telematics, and Jeff Leddy and the team have done a terrific job. We just launched in China with Mercedes, and we have got many other of the car companies on our platform.

That platform gives us the ability to go into all of these other areas. I think healthcare, energy management, traffic -- I was just at a conference at Harvard this last week on intelligent transportation systems -- clearly it's going to be important. Whether you're talking about shipping or rail or automotive or trucking, you see mobile technology is really the heartbeat of driving that.

I am also co-chair along with Muhtar Kent from Coke and Patrick Soon-Shiong of a CEO Council on health care. We just had a session last week at our Waltham Innovation Center where we demonstrated some of the technologies.

So everything from sports medicine to managing your blood chemistry levels to heart and respiration to medication to -- that gets its hand into the intelligent home, to make sure that people are eating right and moving around. So there are literally thousands of healthcare applications that are out there being developed. We see a lot of those move through our Innovation Center either here in San Francisco or in Waltham.

So we are excited about it, and I am not being facetious when I say it won't be unusual, I think, three or four years from now for people to have 5 and 10 different devices in their lives between their cars and their home and their personal electronics.

Simon Flannery - Morgan Stanley - Analyst

Great. If we can pivot to the Wireline side of things, I think one of the goals you mentioned was driving FiOS penetration. You've obviously got some pretty impressive penetration numbers already. Can you just talk about the opportunities there as well as the copper migration plans?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Yes. Let's talk about FiOS and then we will go to copper. FiOS penetration is doing quite well. I always expect more from the team, and they can deliver.

We have typically in the 30%, 35%; but in some markets that we have been in longer, we're at the 45%. On broadband in Dallas, for example, we are at near 50% penetration because the service is so strong. The Quantum service that we launched about a year ago now has had a tremendous uptake.

So we have got a little bit of buildout in the normal LFAs I would call them -- the Floridas and the Texas. Where we see real opportunity still are in the major metropolitan areas.

In New York City, as an example, the fiber is running right down the street, the avenues, and a relatively small tail into some of these high-rise buildings will give you access to several hundred or 1,000 more customers. And we are moving in very rapidly, so New York is our fastest growing market at this point.

I think the next phase for FiOS is the integration of the mobile applications. Right now we have 20 channels that we can take mobile; by the end of the year we think it will be around 110.

The OnCue asset that we bought from Intel gives us an IPTV platform which allows us to make that seamless across the tablet and the smartphone and the PC and the TV set. The set-top box in an OnCue environment is a little bit bigger than the end of my thumb, so it's very easy to tie into the LTE as well as the Wi-Fi network.

So we are hopeful there. At the same time, I need to, what I call, pinch down the copper or modernize the copper.

The copper is an older technology. It can't deliver the kind of services that we see in the future, so modernizing the plant is critical.

This last year we moved 330,000 customers off of copper onto FiOS, where we had FiOS available. See immediate improvement in the maintenance, the reliability of the network; and it gives us a platform to sell up. And we are seeing those customers, while they migrate over to voice, very soon buy broadband or buy the full TV package. So that has been positive for us.

In areas such as, for example, rural Pennsylvania, we have got agreement with regulators there that we're going to offer our service over wireless and not over copper. So if you look at a typical DSL, especially long loop lengths, you are much better off on LTE than you are on copper.

So moving off of a copper in that way is an important move for us. Again, lowers our overall cost of maintenance and really will improve service for customers. So that is how we're going to make ourselves more FiOS driven and less copper driven.

Simon Flannery - Morgan Stanley - Analyst

Talking of broadband brings a topic we've got a lot of questions on: net neutrality. There've obviously been some developments. You won a court case against the FCC rules. We had Netflix and Comcast reach agreement.

Perhaps you could update us on your perspective on net neutrality and on these sort of deals.



Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Yes. We were happy with the outcome of the court case. We don't like going to court against the government. We really would rather work through these things in a Proposed Rulemaking sort of environment; but I think it helped provide some clarity.

I think in the meantime everyone has lowered the temperature a little bit. There are still some groups out there that are trying to whip this up as a major issue.

But it is pretty clear. The carriers make money by transporting a lot of data.

And spending a lot of time manipulating this, that accusation is by people that don't really know how you manage a network like this. You don't want to get into that sort of, quote, gameplaying.

I think the other thing, since we talked about machine-to-machine, people are realizing: if you have got an intelligent transportation system, or you have got an intelligent healthcare system, you are going to need to prioritize traffic. You want to make sure that if somebody is going to have a heart attack, that gets to the head of the line, ahead of a grade schooler that is coming home to do their homework in the afternoon or watch TV. So I think that is coming to realization.

The big companies, we have a good understanding with Google; you saw the Netflix-Comcast deal this week which I think -- or a couple weeks ago -- which is smart because it positions them farther out into the network, so they are not congesting the core of the Internet. And there is some compensation going back and forth, so they recognize those that use a lot of bandwidth should contribute to that.

I have spoken live and via email with Reed Hastings, and I believe that we will get some sort of an arrangement with them as well.

I think that the final point here is in my discussions with Tom Wheeler, the Chairman, he has made it very clear that he will take decisive action if he sees bad behavior. I think that is great; great for everybody to see that.

And I think that is what we would like to see him do, is have a general set of rules that covers all the players: the Netfixes, the Microsofts, the Apples, the Googles, and certainly the Comcasts and the Verizons. But the only thing to do is not -- you can't just regulate the carriers. They're not the only players in making sure the net is healthy. And I think we all want to make sure that investment continues in the Internet and that customers get great service.

Simon Flannery - Morgan Stanley - Analyst

Good. Within FiOS, you've obviously got a traditional pay-TV model, but you have already talked about some of the assets that you have accumulated over the last little while, and we are seeing more over-the-top. You mentioned Netflix.

How do you see the cord-cutting in your business? And how do you plan to take advantage of what the customer is looking for?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Well, I think you do see a significant move. If you look at our results in the past, way back, we would sell roughly one broadband and one TV together; and then we began to see a little divergence; and now we are seeing some significant divergence.

So people are buying much more broadband than they are the TV packages. You also see evidence of that in the growth of Netflix. So I think that over-the-top is coming.



From a pure Verizon perspective, the broadband service is equal or even a little bit more profitable than the TV service because of the content cost. I think, though, our goal is to work with the content providers. I have personally had discussions with the CEOs of the large content companies, and we would love to partner with them to see how we can take FiOS content mobile across the country.

And then maybe even either with a bring-your-own-broadband or with a pure over-the-top play on LTE, because of all the technology advances we talked about earlier, we think you could probably do a wireless over-the-top play as well. But that is -- the long pole in the tent is: what do the content producers want to do?

So we are going to partner with them and see if we can find a model. I think that all the large ones that I talk to realize that the pie grows now if they do over-the-top. For a while there it was: no, broadcast is king; we have to preserve that at all costs. I think you can actually get a virtuous cycle where broadcast viewing goes up and over-the-top viewing goes up, if you time this properly.

Simon Flannery - Morgan Stanley - Analyst

If we continue on to the enterprise side of the business, you continue to suffer still some legacy erosion. But how close do you think we are to that tipping point where the growth businesses start to become large enough to move those revenues in the right direction?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Well, enterprise is still sluggish for us. We have always said enterprise is probably two years behind our consumer markets. And our consumer markets saw revenue growth and some satisfactory, I guess, margins, although we expect it to get better this year.

Enterprise, we have put a lot of effort into retooling our processes and our systems over the last two years in particular. Those are beginning to show life.

But I would say the overall business economy needs to improve a little bit. If you look at, whether it is the BRT study or whatever study you want to look at of the US economy, enterprise is still a little bit in that plateau where we are waiting for it to move up.

That will be critical for us. We are such a large provider to the federal government I think that we need to get things -- is sequester off the table or on the table? We need to get a little bit of that resolved here.

But having said that, the cloud and the security and, as I already mentioned, machine-to-machine, those are expanding nicely. The question is: when will they get big enough to offset the decline in the normal core Wireline services? And I think we are probably still a year or so away.

Now the caveat to that is, because of all of the attacks that are going on to the retailers and to the banking system, we have a tremendous amount of business in our Cybertrust asset. We frankly can't meet the demand out there at this point. So depending on how that takes off, I think that could accelerate the goal.

Simon Flannery - Morgan Stanley - Analyst

Okay, great. Before we open it up for questions, one of the implications of the Vodafone transaction was you took on some additional leverage; you moved up beyond your traditional leverage range. How do you and the Board think about balancing your leverage, your investment in the business, returns to shareholders? What is the thought process there?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Yes. We have said right from the beginning, when the Vodafone deal was announced, that the number 1 priority for us is going to continue to be the network and reinforcing that. That is why when you asked me at the beginning, what are the priorities, we always start with shoring up and expanding capacity and making sure that -- whether it is FiOS or whether it is LTE or whether it is our IP backbone -- that that reliability maintains, remains the hallmark of Verizon.

After that, we know that we will have to buy things like spectrum as we go forward. That is amply covered in our business plan.

We know that our shareholders depend on the dividend, and so we are going to continue that. Obviously -- I guess I should say we will continue the performance to allow our Board to make that decision. But obviously, that has been an important thing for our Board as we go forward.

And then we have plenty of cash left over, we believe, to meet all of our covenants and all of our debt obligations. And as Fran has said many times, we think in a four- or five-year time frame we should be able to regain that single-A rating that we took the 1-notch downgrade as a result of the leverage. At this point I don't see any issues in carrying out that plan.

Simon Flannery - Morgan Stanley - Analyst

Great, okay. Well, we've got some microphones going around if people have questions in the audience.

QUESTIONS AND ANSWERS

Unidentified Audience Member

What impacts do you expect from the upcoming entry of DISH Networks into your multiple markets?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

I couldn't hear. What sort of impacts do I see from what?

Unidentified Audience Member

From the entry of DISH Networks into many of your markets.

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Oh, DISH? So you are assuming they are going to take their spectrum and become a wireless provider? Is that what you are --

Unidentified Audience Member

Yes. They have got relationships already well established with content providers.

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Yes. Well, I think it is a long way between holding spectrum and coming to market with a wireless product. So I -- we certainly look at that from an overall strategic assessment perspective. But that, in my view, would be at least more than a year out.

So it would be pure speculation at this point. I think I will keep those thoughts to ourselves within Verizon.

Unidentified Audience Member

Can you talk about your decision not to pursue the Canadian opportunity? What would cause you to reevaluate?

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

Yes, so the question is our decision not to pursue Canada. Well, I think it is just a matter of what your priorities are as a business, similar thinking to why we haven't expanded into Europe aggressively.

I think there is a good economic environment there. There is a good regulatory environment there. But you have got two very strong -- you could argue three -- strong players already.

Our logic of why we think we can maintain our position within the US in the face of additional competition, you turn that on Canada, for us we would have to pour an awful lot of money to be a viable competitor in Canada. And, frankly, we have better places to put our investments at this point.

We are doing it by investing in, as I mentioned, machine-to-machine, video distribution, etc. So it was just a matter of where it fell on the priority order for us, not whether it was a good or a bad investment.

Unidentified Audience Member

Hi, good morning. When you think about machine-to-machine over the next three to five years, what industries do you think you have the biggest opportunity in? How can you frame for us the incremental revenue opportunity for Verizon?

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

Yes, the question about what areas of machine-to-machine do you think will be the best and how do you assess the incremental earnings to us, I think we have to understand right up front that these are \$0.25 a month sort of connections. They are not \$50.

Now obviously, if you are doing a car, that is at the very high end of that. If you are doing a blood glucose monitoring, it is the low end of that.

The size of the markets -- if you go out and you read analyst reports on this, you can see any number you want, to be honest. Depends how do you define healthcare, as an example. How far does it go into the home? What's home security look like? What is the transportation system? Whether you are talking about shipping or trucking or consumer is hugely different.

So I really -- I can't help you in that area. But what I can help you with is: these can be very nice margin products. So even at \$0.25 if you are doing 10 million of them and it's 50% or better margins, those are attractive businesses for us to get into.

The areas and, depending on how you feel about the Affordable Care Act, I will tell you that it is a very disruptive opportunity -- and I use that term wisely -- for us. Because whether you talk to the Aetnas or the Blue Cross Blue Shields or the Mayo Clinics, they see a huge opportunity to reduce the overall cost of healthcare and improve the outcome significantly.

The technology exists. It is not at all a leap for us to provide the kind of services that they are going to require. In fact, if you visit one of our Innovation Centers, at any one time we have 400 different vendors coming through. The majority of those are around machine-to-machine applications.

So the technology is here. I do think it is going to be a real opportunity to drive growth for us. Not as much network usage, but a lot of growth in connections.

Simon Flannery - Morgan Stanley - Analyst

Leading on from that, can you talk about home monitoring automation? There has been a lot of product evolution there. You have had a product before; you've made some changes there. Perhaps you can give us your thoughts on the opportunity there.

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

I think what we see in a lot of these, Simon, is the opportunity to partner with people that are in these areas, to make their services work better. There is a lot of network information that we can provide to someone who makes these services, to make them work better.

What we found with our home service, we learned a lot from it; but that is probably not a strength for us. So we have stopped selling that product as we move forward.

But we still see that as a real opportunity. But as I mentioned, in the connections and the platforms and the solutions area, we don't think that is one of those areas that we could be a market-maker in.

We think we can facilitate the market. And so we still see opportunity, but not as the market-maker.

Simon Flannery - Morgan Stanley - Analyst

One of the goals for the year I think in your guidance was to raise margins in both Wireless and in Wireline. I think part of that is Lean Six Sigma. Can you just remind people a little bit about the program there and what you (multiple speakers) see the opportunities?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Sure. About three years ago, we started a more formal process improvement program. I would say that was really in the DNA of the Wireless entity from the very beginning. As we looked at improving network performance, improving our churn rate, we used a lot of those principles without a formal program. That wasn't as evident in the Wireline side of the business.

So as we begin that, we went out and met with companies like IBM, General Electric, Xerox, Honeywell, some of the big companies that have made very strong contributions in that area, and we created our own program. We have now got, I think, over 400 Black Belts trained and a couple of thousand Green Belts trained.

Last year, through these projects we took out about \$5.7 billion out of the business. This year we think we will take over \$6 billion out.

So it is really becoming ingrained in the fabric of the Company. And we will use this Lean Six Sigma process in the way that we bring new products to market. We have a program called Product Design for Lean Six Sigma, so we will use that continually as we go forward, not only in improving our current processes but in bringing out new products.

Simon Flannery - Morgan Stanley - Analyst

Okay. You referenced some discussions with Chairman Wheeler at the FCC. Beyond net neutrality, what do you see as the key issues and the key priorities for Verizon in a regulatory environment?

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Certainly, the spectrum is the biggest thing, Simon. I think Tom is very aware that in order to have a vibrant industry and to continue to make these huge capital investments that we are all making, you've got to have the spectrum available. So I am hopeful that we will see an auction early in 2015, and I know the Chairman is working very hard on that.

Obviously, we are for a light touch on the regulation side. I think the worst thing we could do, and I think the FCC understands that as well, is go the way that Europe has gone. If you get too deeply ingrained and try to regulate, especially just through the carriers, to regulate a broader ecosystem, I think that will shut down investment.

And I think the Chairman understands that. So he will obviously have a few things, mergers to deal with, which will shape the industry.

Spectrum rules I think will be important, and what set-asides are there and what bandwidths are there, and what geographies are there. So those will be important as well.

But I am encouraged that the philosophy seems to be we will deal with bad behavior, versus try to regulate everything to go exactly the way we want it.

Simon Flannery - Morgan Stanley - Analyst

Great, okay. Well, I think that is all we've got time for, unfortunately. Lowell, thank you for your time today.

Lowell McAdam - Verizon Communications Inc. - Chairman, CEO

Simon, thank you. Thank you all for your attention today.

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