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EDITED TRANSCRIPT

VZ - Verizon at UBS Global Media and Communications Conference

EVENT DATE/TIME: DECEMBER 04, 2012 / 1:00PM GMT



CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

John Hodulik *UBS - Analyst*

PRESENTATION

John Hodulik - *UBS - Analyst*

Okay, if everybody could please take their seats we will get started here in a few seconds.

Good morning. My name is John Hodulik. I am the telecom and cable analyst here at UBS and I want to welcome you all to the second day of our 40th annual media and telecom conference. I am very pleased to have Lowell McAdam, the Chairman and CEO of Verizon as our keynote speaker this morning. Lowell, thanks for taking the time to be here.

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

Thank you, John. Good morning, everyone.

John Hodulik - *UBS - Analyst*

Well, why don't we just dig right in. 2012 has been an eventful year for Verizon. The LTE rollout, new wireless plans, a number of small acquisitions. As you look back on the year, one, has it played out the way you expected it? And number two, what would you say are the biggest milestones or achievements that the Company has seen?

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

Well, I think the fun thing about being in this industry is that it is not all that predictable anymore. It used to be. And I think as I look at how it has played out I feel good about the progress we have made on establishing the kind of long-term platforms for growth.

So if I look at each business, starting with wireless, we really wanted to make sure that we had the amount of spectrum that we needed to support the growth we wanted. And we wanted to be the first on the leading edge with the best network with 4G LTE. And I think we have accomplished that.

If you look at where we are just through third quarter, so sorry no fourth-quarter guidance here, but we have seen significant share shifting; very strong reviews from customers; our churn level is very low; endorsements from applications providers; the ability to really deliver video over mobile. So I think we are in a very good position and I see currently a very nice broad portfolio of applications and devices and see that improving.

So when I look to wireless, I think about sort of what is next? And we have talked about our cable venture. We will probably talk more about some of the other video opportunities in front of us but I see a good path forward there. So that is evolving I think by any measure pretty well.

On the wireline side, let's look at the consumer and mass business piece there. They are really strengthening our FiOS performance. We have done a lot of improvements in the architecture and the provisioning and maintenance. So I see margins improving by getting costs out of the business. We have done some price ups.



If I step back and look at when I came in a year ago, I really felt like we were sort of undervaluing FiOS, that it was a superior product in the market but we were positioning it as an insurgent, as a commodity product. And I think with the FiOS Quantum and the speeds that we have been able to deliver I think that platform is in a very good position and now our focus is to roll as many services as we can off of copper and onto the FiOS platform so that we can improve the scale advantages there.

So I think in what we call CMB consumer and mass business, I see green shoots out there. I think we have seen the plateauing and I fully -- Fran and I fully expect to see the margin expand there.

On the Enterprise Solutions Group, it is I think it is a step back from where we are in the other two business units. We are in the retooling mode there. So as I have said before, lots of cleaning out the basement if you will and we have got a lot of products left. I was even a little surprised to see the other day we are still billing on MCI letterhead in a couple of locations. So we need to clean out the basement here.

And so we will get rid of - I mean literally thousands of products will be gotten rid of here in order to improve the profitability of that organization.

Now platforms going forward, Terremark has turned out to be as good or better than we had hoped. We have added a little bit of zip to it with CloudSwitch and marrying in some of our security services. I like the Hughes platform a lot. It is very good in telematics and we can go adjacent with that into things like fleet management. But it also gives you the platform to expand into more machine to machine; so healthcare, energy management, education, so I think the platform and the projections that I see for VES are very strong as well.

So as I said in the beginning, there is always insurgence in all of those businesses and changes but I think the platform and the momentum we have going into 2013 I feel pretty good about.

John Hodulik - UBS - Analyst

Can we delve a little bit deeper into -- and maybe we will start with the wireline side first. Hurricane Sandy obviously was devastating to a lot of people in the region and had a big impact on many companies in the area. You haven't specifically laid out the numbers yet but can you give us a sense for or characterize the impact on Verizon more broadly. And then also maybe what we can expect to see in terms of impact in the quarter?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, so obviously a huge impact. Let me say up front that I am really proud of the way our employees handled all this. If you look around and you go to these devastated areas and I have been out there a lot myself. Our teams were there supporting the community. We have got even things like warming trailers for people to come in and just get warm when we had that Nor'easter come through. We have got charging stations for phones and we have got what we call these sort of Internet cafe trailers where we have got a bunch of PCs and people can come in and work with FEMA and their insurance companies and just communicate with the world. So we started out with a \$1 million grant from our foundation to the Red Cross and our employees have really stepped up with contributions. So I am very proud of the organization in general.

Now as far as impact to the operations, we got a lot of press coverage over the two central offices that feed Wall Street and it was a little like the Titanic there. You saw the water rising on the windows and the glass doors and about 11 o'clock they all gave way and it ended up flooding basements and sub basements. 140 West Street, our headquarters building, had a million gallons of water in the basements of it. And diesel fuel has to be at the lowest level in New York and so you end up with a mixture of fuel and you have a real problem.

But I think within 48 hours, we had West Street back up and it took us about a week to get Broad Street up. That had some more severe damage to some of the electrical switch gear and that sort of thing.

Now our strategy here going forward which I think is important for investors is that where we have damaged copper cable, we are not replacing it. We are going in with fiber. In Broad Street, that is literally the entire feeder cable will be converted over to fiber. And I think that will help us in

a number of ways. We have got that platform then that we can build on but the businesses will be able to add services, higher-speed services, change their services much more easily than we could in a copper environment. It will reduce our maintenance costs dramatically.

Now similarly in the areas of New Jersey, I was down on the Barrier Islands this last week and we very frequently have parallel networks of copper and fiber running down the same street. So the edict from Bobby Mudge, our President of CMB and our Chief Technical Officer, Tony Melone, is you will not replace copper unless God gives you a pass and God is busy right now. So there aren't any passes.

So that will allow us to migrate people off of -- even on voice service and we have got the technology to do it easily even voice service. But more often than not when we move a customer off of voice onto FiOS, they take either a double play or a triple play right after that because I think they have seen the resiliency of those networks. FiOS, the minute power came back, FiOS was back up in the majority of the cases. And the same thing with wireless. I mean, when we have an event like this, we have a tendency to see a shift in share because of the resilience of our networks.

So our plan is to take advantage of this disruption if you will in our operations to accelerate these platform expansions and I think it will serve us very well.

And by the way those of you that are trying to fill out your models, we will do that within the capital budget that we have set forward. We are not making any announcements about increased capital.

But back to your question of do we have the numbers for it? Not at this point because we are still working with our insurance companies. We are still working with the local authorities. We were down in Lavallette and Brick the other day and they decided to underground some sections that they hadn't before so now we are putting in manholes and that sort of things where we had aerial.

So until all of that kind of shakes, we won't be able to give you a firm number. But I expect that that will be shortly after the first of the year we will be able to be more clear on that.

John Hodulik - UBS - Analyst

I would imagine it is affecting the fourth quarter FiOS numbers as well though in terms of installations.

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, I mean mostly October was a pretty much normal month for us. November interestingly because of all those migrations that we are doing it is not as bad. I frankly thought it would be a zero month for us. It is not. But it definitely has impacted us. So we probably if I am thinking about it, we probably lost a couple of weeks worth of installations in the New Jersey, New York area.

But again if you look, DC and Florida and Texas and California and frankly most of the Boston area, within a week it was back to normal operations in those areas. It has only been the kind of core area here in New York and New Jersey that we got hit.

John Hodulik - UBS - Analyst

Got you. And in terms of the copper to fiber, I think you had laid out that 200,000 was a good number that you were doing. I mean first of all, talk a little bit about the returns on that and is there a chance to potentially accelerate that which might lead to better margins in that wireline business going forward?



Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, I hope so. So the 200,000 was our goal for this year because we were really just putting our toes in the water in first quarter and then we hit it harder the middle two. And now we have obviously got some disruptions here in the fourth quarter.

I still believe we will get to the 200,000 number for this year and that is such a good story for us, much better than frankly we thought going in because we knew we would save the maintenance cost on the copper and that is how we proved it in was just based on highest dispatches. But now if you start to look at the tax implications, if you look at recycling the cable and we are seeing a significant pickup when we convert someone over, they almost always take the double play right off the bat and then we are able to migrate them up to the triple play.

So it is a very, very positive for us. So I expect we will be in excess of 200,000. We haven't finished all of our targets for 2013 yet but it will be substantially more than 200,000 next year.

John Hodulik - UBS - Analyst

Okay, so you see an immediate step up in revenue when you convert someone?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Absolutely, yes. Absolutely.

John Hodulik - UBS - Analyst

Maybe segue into FiOS. Obviously the build is slowing down as we are getting closer towards the end of the buildout plans. How much growth is left within the FiOS footprint in your mind and where is the growth coming from?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Well, I think for this year I would not say -- we certainly are getting toward the end of our projected build but this year we will still do a substantial amount of build frankly similar to what we did in 2012. So we want to get it done and then shut it down not taper it down over a longer period of time.

And I think as we see things like the applications coming on and pushing our speed advantage like Quantum, we have seen a little bit of a tick up in take on this and I think as you add in Redbox and some other applications, our intelligent home solutions, I expect to see that penetration improve.

So with the team, it is not -- to me it is not all about opening up new markets to get greater share. I think we can go deeper within the markets that we are in and take advantage of things like Sandy to show the resilience of the network. So I expect to see our penetration levels go up.

We have got in Texas, we are about 45% share and we keep using that as a benchmark within the rest of the business. Now competition varies around the country for sure but I use that as a benchmark in the business of why can't we get to those levels of penetration. So there is plenty of room to grow here.

John Hodulik - UBS - Analyst

Can you give us an update on where are you with the Redbox JV? We heard a lot about it a number of months ago and I think you were talking about a launch around year-end here.

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, we are in the process of internal employee beta testing right now and we are very pleased with the progress. I think later this month into the first part of January, we will open it up to customers but in a beta sort of format so that we can shake out any kinks that are left in the process. But so far we are feeling very good about it and I think it opens up a whole new market especially when you team it with LTE even outside the FiOS footprint.

So we are cautiously optimistic. Until you are out there commercial for six months or so you don't really know how to judge that. But I think again it gives us the kind of platform that we can build on going forward if over-the-top plays become far more relevant across the country.

John Hodulik - UBS - Analyst

Maybe shifting gears to the enterprise side. Can you give us a sense in terms of the -- maybe what you're seeing from an economic backdrop and do you think all the talk about the fiscal cliff is affecting the buying habits of your customers?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Well I would be surprised if anybody in the audience saw this differently or anybody that you have had on the stage so far. I mean everybody is just waiting to see what happens. And whether it is your personal finances or your corporate finances, until we understand what the tax structure is and how dividends are treated and capital gains and that sort of thing, people are waiting.

So we are taking this time as I said to make sure we get our internal house in order and really pushing on the strategic services side of things. We will be making some announcements around the healthcare vertical as an example at the healthcare conference that is coming up in the next week or so. And I think as we bring -- that is our focus now is to have these applications in place so that when things get resolved in Washington and the market begins to move, we will be right there ready to move with them.

John Hodulik - UBS - Analyst

Right. And in that vein, you guys have done the Hughes deal, the CloudSwitch deal, Terremark; before that you had Cybertrust. It seems like you are building the capabilities. One, are there more deals out there or more capabilities that you still need? And two, is this the sort of deal size we should think about when we think about M&A from a wireline standpoint?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Well, those, the ones you mentioned vary in size pretty significantly. So I would say what we see in front of us now is more at the low end of that. A lot of this -- that is why building these platforms and getting them in place was so important to us. We will do some tweaks around Terremark. We opened up a big data center just outside of Amsterdam earlier this year and we will do a little bit of that. But our view is that most of this is software and applications now. So it is in the tens of millions kind of range versus in the hundreds of millions kinds of range. And that is where our focus is now.

I don't see one -- it doesn't mean we would turn it down. We are certainly in a position to do it if we needed to but right now I don't see the value add of a big acquisition. It is mostly these small pieces.

John Hodulik - UBS - Analyst

And I think Hughes is the most recent. When can we expect to see products brought to market? You mentioned fleet management and potentially some healthcare related apps.

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, well they actually have a number of products. When I am down visiting with Jeff Leddy, the team, it is one of those things you love to go in and you start opening up closets and you find really cool things that they just didn't have the money to develop. So they have got a great platform. They have got deals with Mercedes and other well-known brands out there. But they had already completely developed a fleet, telematics application that they just had not been able to bring to market. So number one priority for us will be to bring that to market and I think we can do that relatively quickly.

They have some health monitoring just more of the fall -- you know I have fallen and I can't get up types of applications but those can be moved very quickly into things like chronic disease management. And so if you look at glucose monitoring or medication monitoring or heart rate monitoring or those sorts of things which there is a significant market for, they are there very quickly. And when you combine that, that was why we thought so highly of Hughes. If you combine that with our cloud and our security, we now have the first HIPAA-compliant cloud in the marketplace.

So if you can take those assets, bring those together and bring those kinds of applications to market which that is exactly what we are going to do, you end up with a pretty substantial and robust portfolio in healthcare.

We have also -- we can also take those applications and apply them into the energy monitoring and control and into education and we call that within the Company our shared success, our corporate responsibility initiative. And those are the three that we are going to drive very quickly and we will talk more about those at our booth at CES this year if people are out there.

John Hodulik - UBS - Analyst

Maybe switching over to margins, can you talk a little bit about -- you said this whole idea of cleaning out the basement at VES. And first of all, is that the biggest driver of margin upside as you look at the different components and how should we measure it in terms of how far you are in terms of progress in getting that business to where it should be?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Okay, so I think the way I think about VES and margins is you have to work on what you can work on. So while the economy is sort of waiting for things to get resolved in Washington, I need to be focused on what I can control inside the business. And so that is why completely redesigning our activation process, our maintenance process and getting rid of these products that are marginal sort of single-digit margins, we don't want them. We aren't going to be in that business anymore.

And in the meantime doing things like I just talked about with Hughes so that when the market takes off here in a much better position.

But I will tell you if I had to put a number on it I would say we are maybe a quarter of the way through what we need to do within VES. And if you look back at wireless as an example, we came together as a company in '99 and it wasn't really until late 2002 that we started to hit our stride.

And so my expectation is that it is a similar thing with VES, that by the time you do the systems improvements and the other we have -- just a little bit of an aside -- we launched a Lean Six Sigma approach within our business because we could see a lot of areas to improve but the team didn't have the real tools to do that in a rigorous way. And so that has been launched now for about 18 months and is becoming ingrained in the culture of the business.

So as you apply those tools and you continue to work the portfolio within VES, I think we have probably got another couple of years of work to do before we get that business in the shape that we want it.

John Hodulik - UBS - Analyst

Do you expect to see some improvement in margin along the way?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Sure.

John Hodulik - UBS - Analyst

Or is it more of a lump sum?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

No, no, no. I am sure the team would like that but Fran and I expect that every quarter to see improvement.

So I think that the consumer and mass business you will see some upticks in that in 2013 for sure. I expect in VES by the second half of the year you begin to see that and then you will see much more of a payoff in 2014. But it will be incremental as we go along.

John Hodulik - UBS - Analyst

Could you characterize the new union contract? That was a big milestone for the Company.

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

It was -- I'm sorry.

John Hodulik - UBS - Analyst

I was just saying -- just as a quick follow-up, I guess you laid out what some of the immediate savings are but I would imagine there is also some savings given the new sort of work rules that could drive some savings too.

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, that was at least for me, John, as big a thing as the pension and those sorts of things. So I think the first thing I would say is I appreciated the partnership with the senior folks and the union working this through. This was really a sea change for them and it took a while for them to -- we had to educate them on our business. They don't live it every day and so we had to educate them on the different changes in the ecosystem and what the financials really look like within the represented business units.

So it was a very tough negotiation I think 441 days without a contract. So the obvious headlines are things like the pension and the wage rates and those sorts of things and the contribution to medical benefits is really very important for us. And we were one of the few companies left in the world frankly that you didn't have to contribute to medical and now we are I think in a more balanced position.

But to me the more important things were the work rules because it was impossible really for us to share calls -- do all the things that technology would allow you to do, we really weren't allowed to do and the technicians and the customer care reps would say I really want to do these jobs from end to end. You know they are proud of their capabilities and their knowledge and they knew it would be better for the customer but the work rules were such that you had to dispatch five times instead of dispatching once.

So I think that was a win-win and it will allow us to become much more efficient and provide the customers a much better experience and without so many fingers in the activation process I think it will be far more reliable. So those were very important for us and so the economics are very positive but I think it is a good platform again for going forward.

John Hodulik - UBS - Analyst

So just to wrap it up in terms of wireline margins, you have got the new union contract, pension settlement, the copper to fiber transition, all the work at VES. Do you feel that you have got sort of a pathway here to see sort of multiyear wireline margin improvements in profitability?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, I do. I mean I don't kid myself and the management team doesn't kid itself, it is all about execution. So we have got to go out and deliver on this but we grind it out every day and I think the team I think we will get there. I have absolute confidence we will get there.

John Hodulik - UBS - Analyst

Great. Now switching to wireless, as you said, Verizon has been taking meaningful share in the postpaid market for the last few quarters. Is this something that we can expect to continue into '13 especially as we look into later '13 and potentially the coverage issues some of the other carriers have in terms of LTE might get solved?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Well, I do think this is sustainable because of the robustness of the platform. Now I have built networks my whole career and you don't make up the kind of lead that we have got in a couple of quarters. I think a lot of people didn't believe that LTE was really ready for prime time and so they sat back and there is a lot of catch-up going on out there now. And if you go back and you look at our history over the last 12 years, whether you are on the same technology, whether it is a mature technology or not, Verizon has always prided itself on having the best network.

So even if someone catches up quote from a coverage perspective, you have got to catch up from a user experience perspective. And so we are going to hang on to that and we are going to defend that ground. And in the meantime, we are going to try to figure out what 5G and 6G looks like. So there is -- it is not like -- I know when you do your model you always like to think about okay this is the last evolution. Well, I hope I never see the last evolution in wireless technology. So I believe that we will.

Now to me though it is shifting more so we had sort of the kind of the network when the handset was really kind of blah. Now you have got network and handset and you have got some great competition, the new Microsoft device that came out and the Apple and the Google devices, you are starting to see some pretty cool things happening there. And as now the game consoles come on and you start to see more electronics, so the devices will add a lot of robustness.

Now I think you are beginning to move into the applications part as well and that is why our work with the cable companies and Comcast in particular is going to bring applications that will really make those networks and those devices sing. So I always think about what is next, what is next? And to me, that will be the thing that keeps the momentum going in the wireless business here over the next four or five years.



John Hodulik - UBS - Analyst

Maybe more short-term, could you characterize what you're seeing in terms of sales and maybe the competitive environment during the holiday season here?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Without giving you too much in the way of guidance, I mean I think we are seeing the momentum from the third quarter carry over into the fourth quarter. We saw what -- after Black Friday everybody talked about sales being up 30% on Cyber Monday and 60% over the holiday. We saw that kind of improvement. We have good volumes, good availability of devices. We're doing a lot of backlog on the iPhone. So that has been a positive for us.

And we have got good supplies on the Microsoft device which is beginning to get some traction and all the Android devices out there now, Motorola just launched some new ones. We have got the Galaxy series from Samsung so I think we have got good availability and good momentum and right now because we have got such a big advantage on LTE, we are seeing this kind of momentum carry over from third quarter into fourth.

John Hodulik - UBS - Analyst

Can you give us an update on what you are seeing in terms of adoption and maybe purchasing rates on the shared data plan?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, actually the shared data plan, that's one of those things you love because the vision for that probably was three years ago. As we -- when we announced we were going to be more of an open network and we talked about machine to machine, you could tell we were already getting customer feedback that says yi, yi, yi, I can't stand all these different accounts and trying to manage each device with a price plan.

And when you knew you were going to be adding thermostats and tablets and those sorts of things to it, you knew that the old pricing structure just wasn't going to work. But it took us a while to get our systems and our activation processes really thought through.

So when we launched this we expected to see some nice pickup and we have actually seen less dilution and more acceptance from the customer than we had modeled. So that is very positive.

Just over the holidays as an example, we saw a big tick up in tablet attachments. In the past people were buying them and saying I don't want another account for this. I don't want to have to pay for the unlimited data. I don't know how much I am going to use it. I am just going to stick with Wi-Fi. And we saw a significant shift over Thanksgiving where people were saying just for the \$10 access a month, I will go ahead and use that -- use the share everything plan.

So the other thing I think we are seeing, John, is that people are moving accounts to us instead of phones. When you had a separate plan for each device, each device sort of moved individually. Now we are seeing typical orders will have more than one device associated with them so people are bringing the entire account over.

So I would just predict in a couple of years you will see very little on the by way of individual price plans. I think it will be buying a bucket of minutes or gigabytes for the household and they will use it any way they see fit. And as we bring all these other applications that I talked about, our healthcare and education and those sorts of things, I think it all fits very well.



John Hodulik - UBS - Analyst

Yes, in that vein, have you seen any -- you talked a little bit about new applications where a third party pays for the bandwidth. Have you had substantive conversations with other entities that could head down that path?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, that has been something that has probably been out there in discussions for two years or three years and I don't think we have seen any meaningful application move in a big way. But I think it is possible and especially as we build out this platform for converged services with video and wireless across the country, I think as people want to download larger files like that, some sort of a support structure would make sense.

So I would say it is ratcheting up the discussion but it hasn't gone yet to sort of a hockey stick where you are absolutely sure by the next quarter you're going to have some big offering out there like that. But I wouldn't be surprised if by the end of 2013 we see some applications like that that are supported.

John Hodulik - UBS - Analyst

Could that be an advantage for you with the -- this is another topic we are going to get to but the whole SpectrumCo JV where if you are a cable subscriber and wireless subscriber you are able to access that content without it applying to your bandwidth needs especially if you can offload some of that traffic on the Wi-Fi?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, I do think that is -- the heavier -- and video is the obvious place but the heavier files that would need to be sent out if I have to look and see well it is going to eat up 10% of my pool of megabytes I might not want to do that but if it was supported in some way I think it is possible. So I do think -- we will see how it evolves. To me it is still a little nebulous but I think it will come.

John Hodulik - UBS - Analyst

And in terms of the SpectrumCo JV, when should we expect to see some concrete either applications and products or better sort of cooperation aside from just selling each other's product?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

I think we always try to do the infrastructure work first to make sure that when the customer comes in they have a good experience. And so the simple bundles and selling each other's services were an easy way to get out the door. We are about done with the activation system now we have got it up in some stores and we are moving it into the Comcast locations as well.

So I think that is the foundational element. And I mentioned this to you the other day, we had a conference out in silicon valley where we brought a bunch of the larger VCs in and talked about what was on our roadmap and what the capabilities were of the networks together. And the common theme was do you guys really know what you have out there because you have something that could really be a breakthrough.

So to answer your question, we will come out with things that we think are okay or cool in the first half of '13 but I think the power -- Brian was there at this session as well and Neil and Dan Mead from our side and I think we walked out of that session saying if we can bring the enthusiasm and the innovation that you see in Silicon Valley to this venture as well, we will really see some breakthroughs. And those are going to take a little bit more time but I think 2013 in my mind is sort of the ramp year for this venture and the applications that go along with it.

John Hodulik - UBS - Analyst

And do you see this I guess ecosystem starting with from a network standpoint and building up to these applications, do you see this as a way that Verizon can use to take share in the wireless market after maybe the LTE coverage gap is closed? Is that how we should think of it?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Sure, well yes, that is how we have thought about it from the beginning. That is why this made sense to partner because A, they had the spectrum which helped us reinforce our platform and then you could see that these converged services -- I mean people don't like to think about well I am on this technology or I am on that technology -- I am on Wi-Fi or I'm on LTE or I am in my home or I am mobile. So you see the power to be able to take those applications anywhere anytime.

So first source for us is there is a lot of Comcast and Time Warner Cable customers that aren't Verizon Wireless. We are going to fix that first. And then we are going to go out and bring these applications to market where you can control your home and you can do it from your car or your tablet or whatever your PC and if you can take some of this content with you wherever you want, I think that will be attractive to people.

John Hodulik - UBS - Analyst

That makes sense. Talk a little bit about the prepaid market. It seems like you have been sticking your toe in a little bit more in the prepaid market. You have done about one million net adds in the last 12 months. What is the -- is that something that you see as an area of profitable growth going forward?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, I think in the past we didn't and I think everybody in the audience knows we are a postpaid company and that is where our focus was and we were always concerned about if we got too aggressive in prepaid, it would hurt the postpaid side. So we have been cautious.

But about a year ago we began with a separate brand bringing these products to market more with the simple handsets and then we this year brought in the smartphones and the tablets and we have seen some nice growth. And as you pointed out, we haven't lost share; we have actually been able to increase share on the postpaid side.

So it is not going to be the main focus for us going forward but it is a nice sort of adjacency to take advantage of the network and we expect to see that continue but again it is a 10%-er kind of thing. It is not the main focus of the business.

John Hodulik - UBS - Analyst

Can you give us an update on where you are in terms of the A and B block spectrum sale?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, so we have had a lot of interest in those assets. Our view is as we got AWS from the cable companies and we had a fair amount of our own AWS and we had the 700C, and from our past holdings we have got a lot of very good 850 and then the 1900 PCS. You start looking at the efficiency of the network and the efficiency of the device and you want to land -- we at least want to land in those spectrum areas that we already hold. And the B and the A are great spectrum but it would be an additional thing to put into the device. So we thought if there is a way to monetize that that would be the right thing to do.

So we have had a lot of interest in the spectrum. We don't feel like we have got a gun to our head to sell this by the way but we have had a lot of interest in it. We sold off a few smaller licenses at this point. There is still some ongoing discussion. We will see where it plays out. If it makes sense from an economic perspective we will move it along. If it doesn't, we will figure out a way to incorporate it into one of our applications.

So more to come I would say probably in the early January timeframe we will make kind of a final decision whether we move forward or whether we -- and sell it or whether we just keep it in the portfolio.

John Hodulik - UBS - Analyst

Just a final question on wireless. You have got -- the other three major carriers in the US, AT&T, Sprint, T-Mobile all spending a lot of money right now whether it is Network Vision or their Network Modernization plan at T-Mobile or the new plans at AT&T, to basically as you said, compete now based on the network. Do you expect as we look through 2013 the competitive pressures to change at all? Do you expect these companies to get -- we wrote a note last week that said T-Mobile probably will announce the iPhone on Friday. It would seem to me or I think to a lot of people that you might be in a situation right now where you are not seeing the market as competitive as it might have been in the past or maybe in the future. Do you think things are going to evolve in that vein?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Well, as I kind of started out the reason you love getting up and going to work every day is that there is something always changing and that keeps people on their toes. So I think at this point the various carriers where their network initiatives are as I said playing catch-up. We are fairly boring and I love being boring in that way is that every year we spend about \$16 billion on the network and that is how we stay ahead. I don't like a lot of -- oh we are going to cut back and we are going to brag about capital being low or we are going to -- Oh my God, we've got to do this big expensive program. So we are all about consistency and executing on it.

Now I do expect and I am glad that there will be new forces in the marketplace. I know Masa Son quite well. He is a delightful guy if you ever get a chance to go to dinner with him, you should do it. It is a lot of fun. I expect he is going to bring some things in like content that will be different. He has relatives in the gaming industry in Japan and we had talked about doing some gaming things. I think that would be cool.

So my view is bring that stuff on. I mean we have got a great network and I think it will be good for consumers and so it is good for the industry. So having SoftBank play in the market to me just shows what a strong market it is and how healthy it is and having AT&T invest more in their network is great and how ever things work out with T-Mobile, they will be stronger and to me it is better to have four healthy competitors in the market overall and I think that is the direction we are headed and we are ready.

John Hodulik - UBS - Analyst

Okay, and with that I think we have some time to take some questions from the audience and there are some microphones -- there should be some microphones -- okay in the back of the room. But if anybody has a question, please raise your hand and we will get to you. There is one up here in the front. It might take a couple of seconds for you to get there but right up here.

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

If you want to yell out, we can --



John Hodulik - UBS - Analyst

But while we are waiting for the microphone to get here, we will real quickly -- you obviously -- the parent company has just received another large dividend from the wireless business and you have been increasing the dividend recently. But you are also deleveraging especially I would imagine with this capital.

Can you talk a little bit about maybe what is the right leverage ratio for the Verizon Parent Company and when can we think about taking some of that cash and returning it to shareholders through things other than dividends like maybe a buyback?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, so Fran is certainly better to talk about all the intricacies of leverage etc., but I think we are relatively comfortable where we are right now, John. I don't see major changes at the parent level. I think the possibility of share buybacks could be on the table a year from now to 18 months from now. A little bit depends as you say -- you asked about what sort of acquisitions do we want to make, if we see an opportunity to press the advantage on the FiOS side to wrap up the build, not to expand it but to wrap it up quicker, we might do that. So there is some possible uses for the funds.

But one of the things we are considering is a buyback that would be as I say, 12 to 18 months from now. Yes sir.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Can you comment a little on your outlook for government -- change in government regulations or changes in tariffs or changes in net neutrality rules?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Well, there is a lot of questions within that question. So I think the first focus that could impact us from the government is obviously what they do around the tax rates and taxing dividends and those sorts of things. So we will see where that shakes out. There are clearly always the concerns about regulation and our belief is especially in these competitive markets now and I think there is -- whether it is wireline or wireless, we are a very, very competitive market. I think any regulation will only keep people from making investments and so I think they have got to be very careful about that.

You mentioned net neutrality. We have the lawsuits pending and we are going to push those through to completion. We think that the FCC has overstepped its bounds there and so we are going to push those through and some of the other smaller lawsuits.

So I think that regulation will always be something that we are very concerned about and we try to make sure we conduct ourselves in a way so that we don't look like we need a lot of regulation. So if you focus on taking care of customers you avoid that and that is what we are trying to do. But we will be very active in Washington and in the states to try to keep as many of those regulations from hurting our business and hurting our customers as we can.

Unidentified Audience Member

Now that SoftBank is in the mix competitively, would you expect pricing to change at all? And long-term over time, could you discuss a little bit of your view on trends in ARPU given that it is already pretty high relative to other places in the world?

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, so SoftBank on pricing first, you know Sprint has been very aggressive in the marketplace on pricing as it is. T-Mobile has been very aggressive and if you don't agree with that, then you can look at how some of the prepaid carriers or Virgin or TracFone or whatever as they come in the market, if you listen to the advertisements right now, you know you believe you can get pretty much free service out there.

So do I think the intensity will ebb and flow? Yes. And I expect that Sprint will make some moves in the marketplace. But you have to look at their overall financial position and when you are building out networks and making other significant investments, your degrees of freedom are a little bit different than they were for SoftBank in Japan.

So we have seen low-price providers come and go over the years. And so we are not going to be adjusting our game. We are going to play our game which is much more the reliability and the applications that you can provide on these various platforms. So those are the keys for our strategy.

Then you asked about ARPU. Well a lot depends on the applications. So if we can bring some video applications and some intelligent home and some healthcare applications, the revenue per account we see trending upwards. If you look at it on a per device basis, I mean somebody might pay \$0.25 or \$0.50 a month for a thermostat so it is not a revenue per user but per account. I think we can trend again if we bring these sorts of applications to bear.

John Hodulik - UBS - Analyst

I think I have time for one more question.

Unidentified Audience Member

In terms of Vodafone, you have had device enterprise coordination with them. How do you see the Vodafone relationship developing or any thoughts about that would be helpful.

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Yes, so Vodafone has been a very good partner for us. We have great relationships at many levels of the business. So I enjoy learning from them about the global trends and we partner where it makes sense but we don't force the issue.

Right now I would say Vittorio has his hands full with Europe and India and other places. So I don't see it ratcheting up in the short run here but continuing to share and to partner where it makes sense I think is the right approach for us right now.

John Hodulik - UBS - Analyst

Okay, great. That is all we have time for. Lowell, I really appreciate you being here.

Lowell McAdam - Verizon Communications Inc. - Chairman, President and CEO

Thank you all.

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