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EDITED TRANSCRIPT

VZ - Verizon at Barclays Global Technology, Media and Telecommunications Conference

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PRESENTATION

Amir Rozwadowski - *Barclays - Analyst*

Good morning, folks. My name is Amir Rozwadowski and as Jerry mentioned, I head up our telecom services research practice. And I'm certainly very excited to welcome you to the first day out our global TMT conference. Certainly over the next two days we've got a number of fantastic presentations lined up for you from across the TMT landscape. Of course, one of the key themes that we've been hearing about and expect to continue to hear about over the course of the next few days is a theme of rising connectivity and mobile threaded through major markets in the TMT arena.

One of the companies that clearly sits at the very heart of this trend is Verizon. Therefore, it's with great pleasure that we've got today Fran Shammo, the CFO of Verizon. Fred and I are going to spend a little bit of time talking about some of the key themes that we have been thinking about for the last couple of months impacting the Company, impacting the broader industry, and then we are going to open it up to the floor for a couple of questions.

First and foremost, Frank, thank you very much for being here.

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

Amir, thank you. Good morning, everyone.

Amir Rozwadowski - *Barclays - Analyst*

Fran, there's clearly always a lot of activity taking place in the telecom market, and a number of changes taking place over recent years, thinking about data services, high-speed broadband connectivity to the home, the portability of content, consumption. And a lot of these changes have accelerated in recent years. Clearly Verizon seems to be a nexus of many of these developments.

I was wondering, from a high level perspective, which broader industry trends do you find the most interesting and how do you think about the Company's ability to capitalize on these trends going forward?

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

Okay. So first, sometimes I have to put things in perspective. So before I answer the question, let me first say thank you to Verizon employees who have run to the crisis in the Oklahoma City. And our hearts and prayers are with all those victims as we -- and with the first responders who have to deal with the devastation that happened out there. So all of our prayers are with the first responders and the victims of that terrible tragedy.

So, Amir, as we look at this industry, I know a lot have questions about the growth of wireless over the last five years. And of course, we're still in that cycle of how much more can wireless grow. So if you look at the ecosystem of wireless and what we've done around the building out of our LTE network, the launching of our shared price plans, what we've really bet on the last five years is that with this LTE infrastructure and the speed

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that it can deliver, and with the technology that we see coming and the enhancements of those speeds, video is going to be really the prime driver of usage in the future.

Now, in addition to the video usage, and we see that trajectory and some of the equipment manufacturers have put out some of the trajectory of video usage over the wireless network, and we pretty much concur with those trajectories. So when you look at that, the way we've built this is the LTE network will be able to handle that, the price plan that we designed where you would have the freedom of attaching more of these devices.

So if you think about -- you have your smartphone, you have your tablet, you have MiFi cards, you'll have the car, you'll have cameras. All of this builds into how do you increase usage over the network, and more importantly is how do you monetize that usage over the network. So the shared plan was designed to do that.

Then if you take it a step further, as we looked at the footprint we said Verizon Wireless needs a partner, because we do see the full convergence of these services coming together between in the home and outside the home. And we believe that that has to be a seamless experience for the customer.

So content they have in their home today, they're going to want to take that content with them wherever they go. So if you think about driving down a highway, there's no reason why your kids in the back seat should not be able to tap into the DVR and download the program that was recorded the night before right into the car. So these are the types of solutions that we're looking at.

So when we looked at this, we said FiOS is only in 13 states, so we need to go more broadly with that with Verizon Wireless, and that's where we came into the cable venture. So we looked at this and said we need to partner with those cable companies because of this interaction between in and outside the home, as we grow and develop more solutions there, that partnership is going to be more important.

So we launched on that. We're in the beginning stages of that. We're cross-selling now. But the real jewel here is the joint innovation that will come out of that partnership. So when you combine all of this, we do think that we are in a very good position to continue to grow this marketplace. We're generating 8% revenue service growth now. So we do see a long-term plan for this growth to continue in the industry overall. So I think the pie gets bigger. So each carrier will gain more share, but the pie will get much bigger.

Amir Rozwadowski - *Barclays - Analyst*

And what do you think about Verizon's sustainable competitive advantage? Is it this type of -- sort of referenced it before -- quad play type services where we are migrating content through multiple devices to multiple parts of our lives and so forth? What is really that sustainable advantage?

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

Well, the sustainable advantage is, first of all, we have built our reputation around the best, most reliable network. In order to deliver services, you have to have that network, it has to be reliable, and it has to give a consistent performance to that consumer.

So yes, okay, you can be really fast today but if tomorrow you're not, it's that inconsistency that drives churn. So we've built the reputation around a consistent performing most reliable network. I think we've proven in events like Oklahoma City and Sandy, our network stands against these events and stays up and running.

It hinges around the portfolio of devices that you offer to your consumers. It hinges around the customer service that you provide your customers. So when they call your customer service, they get answered, it's a friendly communication and you solve their problem the first time.

And then it's also around what are the choice of price plans. Granted, Verizon is a premium to the marketplace, but our service is a premium to the marketplace. So what we see is people are willing to pay for that premium if it's a value that they perceive that they can get. And we believe that the shared price plan gives plenty of flexibility to pick where you want to sit and allows you to manage your usage if that's what you want to do.

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So when you combine all this, it really goes to that's how you sustain the growth of the Company. Regardless of whether it's a quad play or if it's not a quad play, the foundation has to be there and then we can add onto that the services that the consumers require.

Amir Rozwadowski - *Barclays - Analyst*

In thinking about this world where content is consumed on multiple platforms, it's certainly not a new topic. It's something that's been kicked around the industry for many years, but certainly technology has perhaps impeded it over the last couple of years.

Today where you sit with your LTE network, with FiOS, do you feel comfortable that is something -- a ubiquitous user experience that you can deliver in the market today?

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

I think we still have some work here to do. Obviously, the biggest barrier to this seamless experience is the content rights. So most of the content rights are in the home; you can't take them outside of the home. Or if you do take it outside the home, it's on a registration basis back to do you have a home subscription in your home.

Now, I think that ecosystem will change. Eventually, that's going to break up. You're going to be able to take the content out, and we see some of the content providers being more in the forefront of that versus some others where their content can be taken outside the home.

But now you're starting to get into discussions where some content providers are saying, well, maybe in essence we will pay you for the content; don't charge the consumer to view my content. And I put this in the box of this is nothing more than 800 service. So I'm a customer, I want to call your customer service. I don't want to pay for that call because I'm your customer, so they sign up for an 800 number. The company paid for the call, not the consumer.

This is the same model now that we're going to with these content providers. So what they're looking at is the value that they get is, well, if I pay for it and you don't charge the consumer, then they will be more apt to view my content over their mobile handset. And look, I mean Verizon Wireless has 100 million eyeballs, so that's value to them.

So I think you're going to see this ecosystem change. You're going to see some content providers say I'm willing to pay for the content, don't charge the consumer. And when we developed LTE, we developed LTE and our billing system with the capability to segregate that traffic if someone else wants to pay for it.

Now don't confuse this with net neutrality. Net neutrality is around prioritizing the delivery of content. That's not what we're talking about. Content will be delivered equally across the network. This is just a matter of who pays for the delivery of that content. And I think you're going to see that change, and that's going to open up what can be done on a more seamless basis.

Amir Rozwadowski - *Barclays - Analyst*

And I guess with some of the discussion, if I think about sort of two or three, five years down the line, it seems like you mentioned Verizon has 100 million eyeballs within its reach. Are you now having different types of conversations with respect to content rights, given that mobile and given that FiOS are increasingly a stronger presence in the marketplace?

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

Sure, I mean we're -- I mean from a content perspective, when we walk in to content providers we put everything that we have to offer on the table, not only wireless but we have the FiOS brand, and now we also have Redbox. So through our discussions, we're negotiating those content rights to make sure that we can seamlessly take them across our entire platforms, not just FiOS or not just Redbox.

But we're looking at that seamlessly and we're making progress there. But these are difficult negotiations to have because you're breaking up the model that worked for the content providers for years. And they're struggling a little bit to the point of, well, we'll give it to wireless if you pay us 50% a sub, and that doesn't work in the wireless world.

So we have to break down the barriers, but we're making progress. But the real key for us strategically is to get that content to go seamlessly across all of our platforms, not just one.

Amir Rozwadowski - *Barclays - Analyst*

Great. And then you had mentioned, Fran, discussions around pricing and sort of Verizon's pricing in the marketplace. Clearly there are a number of competitors, largely in the wireless space right now, that are taking a differentiated approach to their pricing plan. What is your view on that? Is that something that you view as increased competition, or is there sort of this moat that you believe you have from a network perspective that allows you to continue to drive premium pricing in the marketplace?

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

Well, look, I think this has been an extremely competitive industry for years. We've had low-end providers,, reduced pricing come, and I think what we do -- our philosophy behind this is we watch our competitors very closely. We watch what they do, but the golden rule we have is don't overreact to anything that happens in the marketplace. Just continue to execute on what you have.

I mean, price is always a big factor and we watch it closely. We were the first ones to launch shared pricing. We think that we set the market now to go forward on more shared data. We took voice and text off the table, so really what you're looking at now is now you have folks bringing installment plans to the table.

I mean, we did installment plans back in December on tablets. And there are certain customers who want to pay for that device over a period of time, and we will dabble in that area. But the key for us is, and having the lowest churn in the industry, the real key for us is you have to execute on everything. You can be the cheapest and you may get a quick win here, but if your network can't support that, it's not a good product, people are just going to turn back off.

So for us it's that consistency, what I talked about in the beginning. We will always be very competitive, but there are certain niches that I'm just not going to play in because it doesn't make sense for me to bring my brand to those areas and the quality of my network to those areas.

So prepaid is an area where we dabble in, but there are certain prepaid markets that I'm probably just not going to play in. So you have to balance this equation, but we watch it, and I think you're going to see some innovative pricing schemes come to the marketplace, but that's competition.

Amir Rozwadowski - *Barclays - Analyst*

And if we think about that sort of from a network perspective, clearly in the fourth quarter of last year and the first quarter of this year, we look at your net add rates, it seems as though things are continuing to work in your favor in terms of bringing more folks onto your network. Do you believe that largely that is because as we penetrate sort of -- or as LTE penetrates, people are realizing the value of that network?

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

I think so. Look, we have a pretty significant lead on our LTE deployment with the most coverage. We'll be done -- our coverage here -- by June of this year for the majority. So the coverage of our LTE network will match our 3G network.

Now we will go back and start to really concentrate on the capacity side of that, because when you look at net adds of this industry, the net adds mix of this industry is going to change. So it's not going to just be a net add of a smartphone; we know that. But the key is you have to have that portfolio, you have to have the phones, the tablets, the MiFi cards, and all these other connected devices. Because that's what's going to carry the growth into the future.

Yes, we will still be net phone positive here, but look, the penetration of smartphones is getting higher and higher every year. So that growth is going to significantly slow, and we understand that. But it's all of the other things that you bring.

And what we think about is in the old days, Family Share, when you think about Family Share, Family Share was a very sticky product. So if you've got the main user and then they added family members, it was difficult for them to leave that network provider. We believe that we bring even more now with the shared plan and our LTE network.

So as people come and they start to add more devices, we think that's a much more stickiness going forward. So we do believe that our churn will continue to improve here over the longer-term, and this will really start to really proliferate as to how this growth of net adds continues in the future. But the market has to get away from this net add of a smartphone because the dynamics of net adds are going to change.

Amir Rozwadowski - *Barclays - Analyst*

Well, in thinking about sort of this new environment in which mobile and connectivity permeates all walks of life. And Fran, I also know that you're the guy who makes sure that Verizon is not spending too much money and ensures that sort of cash flow continues to flow out of the business. How should I think about the investment cycle required to deliver this type of environment?

Clearly you've done a lot of investment in LTE, you've done a lot of investment in FiOS. Is there another set of investments coming down the pipeline in order to meet this strategic goal?

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

Well, look, I mean we've been pretty consistent with our capital spending around that $16 billion mark, and I've said that we pretty much will probably be flat this year with last year. But as we go, we shift between our product lines, and I would anticipate wireless spending more capital from an LTE support perspective. And if our growth continues on the trajectory it is, then that may have to accelerate a little bit. This is not large amounts of dollars, though.

But look, we've built our brand on staying ahead of our usage curve and we're not going to let that go. But what I would say is that I'm pretty comfortable that our ratio of CapEx to revenue will continue to improve year after year.

Amir Rozwadowski - *Barclays - Analyst*

And if I think about network technology, I mean we look at what it required to build your EVDO network many years ago and what it requires to build the LTE today, perhaps thinking about it's more software focused versus equipment focused.

Is there a point where we can see incremental improvements in the network but requiring less capital dollars out of your pocket?

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

Well, look, this is an engineering feat, right, because as you get more and more devices in the marketplace, people are going to want more in-building coverage. Folks are going to want to make sure they're connected at all times. There's still a lot of white space in the network out there.

So as you do this, you're going to hear more about small-cell technology rather than microcell technology. But small-cell technology is cheaper from a per-unit basis, but you need a lot more of them to fill in that space. And then it also comes down to the efficiency of the spectrum that you have to overlay to that network.

So every carrier has a different portfolio spectrum. We happen to think we have a very efficient portfolio spectrum with our 700 megahertz and our AWS, and how we're going to be able to reallocate our CDMA spectrum over to our 4G. But each time you layer in more spectrum, it complicates the network more, it complicates the handset more.

So all of these things go into factor, and I think what you're going to see is with the usage curve that we see, I'm not sure that you're going to see a huge decrease in CapEx spending in the wireless network, at least not in the short term.

Amir Rozwadowski - *Barclays - Analyst*

Okay, that's very helpful. And then the other side of the equation if we think about not -- or I should say if we don't think about smartphone attachment rates being sort of the be-all and end-all of connectivity, one of the expenses that you guys certainly face is a question of subsidy. And certain vendors have a certain amount of subsidies and other vendors have another amount of subsidies.

How do you think about the subsidy equation when it comes to overall capital allocation from your perspective?

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

It's an interesting ecosystem, right? So if you go back to the beginning of time even with the basic phone, basic phones started out at huge dollars. I remember the day where you had an installment sale for three years because the handset was $3200. But if you looked at this ecosystem, it naturally comes down with competition.

So smartphones now. As you see, we had two operating systems; now you have Windows and Blackberry coming back into the marketplace. This is all good for the industry because what happens is the more competition you get in the space, the more technology is advanced and the more competitive the prices become.

So I think what you're going to see is over time, the smartphone cost is going to come down, just by the nature of how the curve works. And you can pretty much track it based on history.

The other thing, though, is as technology changes and we move more towards that LTE technology and we convert more to voiceover LTE, at some point you will just have an LTE handset. Okay, so now you can take cost out because you don't have to have these multiple chips in the handset. So over time, that subsidy is going to decrease.

But the way we look at it within our portfolio is subsidy is just one line item of the profit and loss statement. You have to manage all the other line items. And the reason we believe that Verizon Wireless has been so successful is because we have paid attention to the rest of the P&L, we have challenged them to take out cost over the last three years. They've taken out $3 billion. We've challenged them again this year between $2 billion and $2.5 billion. So there is a lot of infrastructure efficiency that we can still create within the wireless portfolio, subsidy just being one of those items.

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Amir Rozwadowski - *Barclays - Analyst*

And you bring up an interesting point when it comes to cost management. Clearly you've set very strong targets with respect to pulling out costs, and you've been successful historically in pulling out those costs, both on the wireless side and on the wireline side.

How should we think about your ability to pull out further costs going forward? Is there low-hanging fruit that you can continue to target? Is the incremental dollars saved more difficult to obtain than it has been in the past?

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

No, I think that -- look, I mean as technology changes, as our backroom systems get more efficient, we do believe that there are more costs that came out. So just a couple examples here, I'll start at Verizon Wireless. So if you look at Verizon Wireless, we added 5 million customers last year and we closed three call centers.

So as you look at some of the things we're doing, even with shared pricing, when you take the voice and text out of the mix your call volume decreases because customers aren't calling to say, well, I went five minutes over my allowance, I'm now paying overcharges, so I need a credit.

So you take a lot of this really dissatisfaction from a customer out of the mix, but you also really significantly reduce your call volumes into your call centers. Call centers are a huge infrastructure cost for wireless. So that's just one example.

If you go to wireline, one of the biggest costs we have in wireline is maintaining the copper infrastructure, which is an old, dying technology. So what we're after is migrating as many of those copper-based customers onto our FiOS network. And we've done that over the last year and we continue to accelerate that through this year. That's going to have a significant cost efficiency for us because we know that the repair rate is 50% less on FiOS than it is for copper. So there are still a lot of things that we can do in the cost structure.

On the enterprise space, we're dealing with hundreds of backoffice systems still, just from the days of the MCI acquisition and many other things that we've done; we're still consolidating that. For each system we turn down, there's a cost reduction that can be achieved. So there's still a lot of costs within our infrastructure that we can take out.

Amir Rozwadowski - *Barclays - Analyst*

And I guess that brings us to the question on margin. Clearly if I look at both wireless margin and I think about your targets to improve your wireline margin, what are the major levers there, if I focus first on the wireless side, that you can continue to either sustain or is there room for further improvement when it comes to your margins?

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

Well, look, I think that -- I'm not going to talk about where our future margins will be in wireless. I mean, I gave guidance this year that said we're pretty comfortable we will be with that 49% to 50% for the year. But if you look at our history on a linear basis, you can pretty much see that we consistently perform incremental improvement in Verizon Wireless.

On the Verizon wireline side of the house, what I have said this year is obviously we will be flat with last year, and then we start to see some incremental growth in 2014. That is part of all this cost infrastructure that we're taking out. But it's also because we have some headwind from some of the startup things that we're doing this year that we think will reverse next year and start to pay off. So with the combination of that, we're pretty confident that we can continue to expand our margins.

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Amir Rozwadowski - *Barclays - Analyst*

If I may on the wireless side, clearly you folks have discussed opportunities to improve margins by moving folks to the LTE side of the house. Is that something that you're now consistently seeing, that that -- so the incremental LTE customer is a much better margin profile than the legacy 3G customer?

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

Well, you have to be careful a little bit here because when you think about the 3G network now, we've stopped investing capital in that network in June of last year. So really we're only very minimal capital to keep it up and running. So from a contribution margin perspective, you want to try to keep that as full as you can without going over so you don't have to invest more capital. That has a lot of profitability dropping down now because we're not really investing in it anymore.

On the LTE side of the house, though, as you said, Amir, it is five times more efficient to put a customer on LTE than it was on 3G. So the more users I can move to that network, I get a cost benefit. But then the big bang, though, here is not necessarily the cost but the speed and the usage pattern and the revenue increase that that customer will generate. So that's really the mix that we deal with to say, if we can move on those parts consistently, then we feel that we have good margins.

Amir Rozwadowski - *Barclays - Analyst*

And then perhaps you folks have -- I know that you talked there is only specific areas of prepaid that you're looking to target, but in recent months we've seen you improve your service portfolio with respect to prepaid on the 3G side.

Is that another lever that you folks can use in order to drive incremental margin improvements on the wireless side?

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

Yes. So going back, as I said, that 3G is trying to keep it as full as you can. So where you will see us play is prepaid. So our prepaid product is only available on 3G; we don't do any prepaid on 4G. So in that 3G prepaid market, you've seen us get a little bit more aggressive over the last two years, and you will probably see us continue to be a little bit more competitive in that area. Because now I can afford to do that because I'm not worried about adding prepaid customers and investing capital for prepaid customers. So again, it's trying to keep that network as full as possible.

The other thing that we're doing and you saw it coming out of the first quarter is on the reseller side. So a lot of our resellers play in the prepaid market. So we're attacking the prepaid market probably at the lower end, not using our brand but using it on the wholesale basis. And coming out of the first quarter, we had one million net adds on the reseller side and that was mainly in that prepaid market.

Again, that's only offered on our 3G network, not our 4G network. So it goes to the strategy of keeping that network full to really contribute the contribution margin that that network can contribute.

Amir Rozwadowski - *Barclays - Analyst*

So if I think about those missing pieces, even in an environment where there is potential slowing of topline service revenue growth, it seems like you have a number of levers to improve margin. Is that a fair assumption?

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

Well, I'll speak on a consolidated basis. I think that on a -- so from what we see is, obviously Verizon Wireless is generating 8% service revenue growth right now. Our consumer side of the house on FiOS is at 4%, first time in a couple quarters now. In the last 10 years, we've seen some consumer revenue growth.

Enterprise is the drag at this point, and I think that will continue to be a drag on the overall portfolio. But we are very confident that we can continue to have sustainable revenue growth here that we've had in the past, and that's going to increase -- that's going to drop to the bottom line with our cost structure improvements that we have. So we are looking at that we can improve margins here.

Amir Rozwadowski - *Barclays - Analyst*

And you spoke about the enterprise side of the house for a bit there. How should we think about what can drive a turnaround in that business? Clearly the broader economic environment hasn't necessarily been too favorable from impacting the business. You folks have taken a diligent effort to drive costs out of the business. But what are we looking for in order to drive sustainable sort of improvement in that business?

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

Well, this one is more of the macroeconomic issue. And as I've said before, I still think that companies themselves are still on the sidelines, if you will, just because of the deficit issue, the tax reform issue and some of these other things. I think consumer confidence is much better than corporate confidence at this point. I think the consumer market, and we've seen this with wireless and FiOS, the consumer is confident. They're moving forward.

But when you get to the corporations, they're not so sure as to what bets should they make because they're not sure if do I get bonus depreciation -- what's my tax rate going to be; are we going to get a territorial tax. It's pretty evident right now that you can't be number one in the world for the highest corporate tax rate, and you can't be the only one in the world that doesn't have a territorial tax system.

So some of these things I think people are just waiting to say, okay, things change and then I can start moving forward. So I think until that settles itself, and hopefully that settles itself here in 2013, you're still going to get some resistance from that corporate area. Therefore, employment is not going to have the steady increase that corporations like to see. It's going to be kind of this lumpiness.

So until we get some consistency here, I think you're going to still see corporations sit on the sidelines, and that really impacts enterprise. Because it's all based on investment, upgrading of technologies and moving, and at this point we're not seeing that.

Amir Rozwadowski - *Barclays - Analyst*

Okay. If I may shift gears here a bit, Fran, we've talked a lot about sort of your capital allocation plans with respect to investing in the business and the network. How should we think about bigger picture in terms of sort of your usage for cash at this point? Clearly focus on the dividend, but anything outside of the scope of general usage that we've seen in the past that you guys are thinking about these days?

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

That's a pretty crafty question. So no, look, I think that just from a core perspective, obviously our dividend policy is extremely important to us. From a rating agency perspective, we've committed to them, we will continue to pay down debt. So that's a strategy of ours and we have shown that consistently.

And I think that we've shown that we are not afraid to continue to reinvest in our network, because that is really what we're around. So I think that what you have seen in the last two years is consistently what you're going to see from us going forward.

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So that's kind of -- there's nothing -- if you're asking me, Lowell and I are very satisfied with the assets we have. As I said back in -- when I first took this job two and a half years ago now, really the basis of what we have is we have to execute on what we have. There's really nothing else out there that I need to be able to growth this portfolio. So that's where we're at.

Amir Rozwadowski - *Barclays - Analyst*

And so with that, I am going to open up the floor to some questions.

QUESTIONS AND ANSWERS

Unidentified Participant

Thanks, good morning. If we can go back to this topic of content, please, you mentioned it earlier in your remarks. And you said it quickly, but I actually caught that you said that you thought that technology out of the home was in fact enabling the traditional model for the media and entertainment companies to be broken up. And for me, it seems like it's actually the opposite. It's actually technology is enabling the content companies to deliver more value and improve the price value of the relationship as part of the multichannel video bundle.

And so I wonder if strategically, if you could just talk a little bit more about that. I mean, if content is giving you an advantage and driving video usage across your network, isn't it a strategic imperative for you to actually perpetuate the existing multichannel bundle to the customer?

And along those lines, one thing that's interesting is if you look at technology companies and you look at cable satellite telco distribution companies such as Verizon, we really haven't seen them acquire or license content or acquire a content company the way Comcast has. I just wonder if you look at content as being strategically valuable enough in order to try to incorporate content more so as part of the Verizon portfolio.

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

Thanks.

Amir Rozwadowski - *Barclays - Analyst*

Fran, just full disclosure, Anthony is our content and internet analyst.

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

Well, I figured that. I knew where he was coming from. No, look, I think this is important. It's not -- going back to your comment, it's not what Verizon Wireless wants, it's what our consumers want. And I think it's pretty evident that consumers want the ability to just buy the content that they want to view, and that is where the world is moving to.

If you look at demographics, look, linear TV over the next 10 years based on what I've seen will continue to grow very slightly. So linear TV model is not going to change. But if you look at demographics 30 and below, they only want what they want. And they have the ability to go get what they want and not pay anybody for that content.

But if somebody just wants sports, then they want to just be able to pay for sports and get sports. They don't want 300 channels that they never watch. So I just think that if you look at it from a consumer perspective, and everybody has talked about this, at some point you're going to have disintermediation of content. I don't do when that will be; at some point, you will get there.

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But the ecosystem, as I said, I think the content providers are opening up saying, okay, well, maybe I should pay for the delivery and not the consumer. I think that drastically helps the ecosystem. I think that helps change the consumer's mind as to where do I want to get that content or where don't I want to get that content.

So I think, look, I think it's still out there to be solved. I'm not saying we have the answers. We're developing the technologies to be able to adapt the environment that is there. I think the environment is going to significantly change. So we're looking out to the future as if this happens, we have to be ready to take advantage of that situation.

So I think everybody has a different viewpoint on this, but my viewpoint is over the next couple of years or maybe 18 months or five years, you're going to see content rights significantly change.

Amir Rozwadowski - *Barclays - Analyst*

Before we go to the next question, there is obviously one question that I wanted to make sure to ask before we ran out of time, Fran, is of course one of your partners reported results yesterday and has been discussing sort of their thematic views on continuing to partner with you in the US with respect to Verizon Wireless.

I know that this is a question that you have dealt with consistently over the conference circuit over the last month, but I'd be remiss in not asking you, any updates there?

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

No updates. I'm still tired and weary of that question.

Amir Rozwadowski - *Barclays - Analyst*

Okay, good.

Unidentified Participant

Yes, I just wanted to follow up on your comments with regards to content providers potentially paying wireless as almost like a toll-free analogy that you used. On the other hand, on the wireline side, you are paying the content provider. So it's kind of a dichotomy that from a consumer perspective, whether I watch it on wireless or wireline, it is the same to me. But from your perspective in one perspective, you're getting paid; in the other, you're paying.

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

Yes. Well, I think there is one very significant difference here. So when you watch content in your home, there is no usage charge on that content. So you can consume as much as you want in the home via your FiOS network. You pay a subscription fee and you can consume as much as you want.

When you go outside the home and you get into wireless, though, with LTE and shared pricing, you now start to pay for the consumption that you have. And that's where the ecosystem is moving for data usage on the wireless networks. I mean, everybody is moving to a usage -- I mean, we have some carriers still on limited, but most are going to have to pay for consumption because there's not unlimited spectrum, there's not unlimited network. You have to get to a model that says you have to pay for what you consume.

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So when you get to -- when you move there, which is where we are, what the content providers are looking at is how can I stimulate more usage on that mobile handset without really having the consumer pay for all of that; and being able to monetize what's important to them which is eyeballs and advertising and those sorts of things.

So when you get to that model, you kind of step back and say if I pay for that, do I get more eyeballs to watch my content; therefore, it's more valuable to an advertiser to advertise (inaudible). So it's just the difference of the ecosystem, and we'll see where we go.

Unidentified Participant

So I guess just as a follow-up, does that mean there is potential for data caps on broadband side? I mean, it could be kind of the same structure.

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

Well, I think you're already seen some cable providers put in a data cap. I mean FiOS, we have not. But a data cap is set at an extremely high level. Really what would change that model is if all of the linear TV providers went to, you pay for the amount of gigabits you put through your home. So it's a very different model right now.

Unidentified Participant

Excuse me if this is something that's in your normal disclosure and I've just managed to miss it. But what is absolute bit traffic doing on your wireless network, in absolute terms, absolute bit year over year?

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

You haven't missed anything; we don't disclose it.

Unidentified Participant

Why not?

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

We just choose not to disclose it. It's a competitive issue, quite honestly.

Unidentified Participant

I see. Is it growing?

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

Absolutely. You can see that -- I mean, what we have disclosed is on our LTE network with 30% of our base now converted to that network, over 54% of our data traffic is on the LTE network. That's what we disclose.

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Unidentified Participant

Thank you.

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

And that's growing.

Unidentified Participant

A quick question on enterprise growth. There's a lot of activity in cloud, and obviously Verizon has great capabilities there. Do you think that a lot of enterprises, given the proliferation of choices to go to Azure, AWS, etc., Rackspace, does that have an impact and do you see that facet of your business growing?

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

Yes. Well, I think in the cloud space right now, there is a ton of choice and there is a ton of price ranges within that choice. And I think that quite honestly, we have more work to do to be able to really compete across that footprint, if you will. And look, it's pretty obvious that Amazon is the gold star of how to provide a cloud service at a very affordable rate for small business.

And then you go up the stack, you have medium business and then you have enterprise grade. And actually where we play today is we play more in that high-tier medium and business and enterprise grade. The trick is can we create something that really gets us across the map as to you choose what service you want. Do you want security, don't you want security? Do you want flexibility to add servers at any time, or don't you?

And I think what you will have to see the ecosystem here at least for us is we have to get to more of a flexible model, if you will, to be able to deal with the wide range of customers that we have, and we're just not there yet. I mean, we play really well in the enterprise grade and the government grade cloud space, but we haven't tapped into that small to medium business yet. And I think that's our opportunity for growth.

Unidentified Participant

Thank you. Could you talk about the opportunity that you guys see, maybe the margin profile, perhaps the pitfalls of sort of sharing your customer data with other marketing firms, etc.? There was an article in the paper this morning about that. Could you talk about the opportunity?

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

Yes. So we have approached this extremely carefully, because the key for us is our customers' privacy. Now when you deal with customers' privacy, you don't release individual data to anyone to market to. So what we're looking at is -- and we've actually -- we call it precision marketing; looking at the data and camouflaging all the data and giving some general specifics around some usage patterns of consumers, but no one specifically.

And we think most advertising agencies and so forth want this data, and they're willing to pay for that type of data. They understand they're not going to get individual customer usage patterns because that's not something where we will go. So I think there is a model that works to protect the privacy of the consumer, but also gives data to marketers and other companies, data that can be utilized to service what they need without giving that privacy issue. Because the privacy issue is something our customers come to Verizon Wireless for, because they know their data is secure.

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Amir Rozwadowski - *Barclays - Analyst*

Fran, if I may, one other question from my end. You had talked about sort of a finite resource which is spectrum. Clearly if I think about broader growth when it comes to connectivity, and I think about multiple devices and sort of where penetration rates could go, what are your plans in terms of spectrum and allocating capital to improve that position?

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

Well, we have -- from where we sit today, we have a very good spectrum portfolio which is why we went after the AWS spectrum, which is really going to be used for our capacity of LTE. The 700 megahertz that we have contiguous across the United States is used for the coverage piece. So we're in pretty good shape for the next four to five years, even with reallocating our 3G spectrum over to our 4G network.

But obviously, as I've said, this year we just announced a $7 billion dividend out of Verizon Wireless. Now for the rest of the year, we will accumulate cash to pay debt down and prepare for the 2014 auction that hopefully will come, and we will be prepared to exercise in that auction. Because I've always said as spectrum comes available, you have to be opportunistic because it only comes down the road every once in a while. So you have to acquire that spectrum for the future.

And we think, look, we think that there will be enough spectrum there. We think that technology change -- I mean, people are already talking about LTE advanced. Well, LTE advanced is nothing more than creating a little bit more speed on the network. But really LTE advances around being able to utilize the spectrum much more efficiently within the network.

And that's really where the carriers are pushing the equipment manufacturers, is to bring technologies that can utilize the spectrum we have more inefficiently because spectrum, as I said, is not an unlimited resource. It's a limited resource that you have to use very efficiently. So I think from our perspective, we're in very good shape, but we will be opportunistic to take spectrum when it becomes available.

Amir Rozwadowski - *Barclays - Analyst*

And you feel very comfortable in terms of your cash position when and if those spectrum auctions come to fruition.

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

Absolutely.

Unidentified Participant

Can you tell us a little bit about how you expect the structure of the US wireless market to evolve, given some of the potential changes in ownership? And maybe a little bit about consolidation that could occur, maybe not this year but just looking into the future? Obviously, it's dependent on politics too, but you've had quite a golden period, certainly Verizon Wireless and AT&T Wireless. Will that change? Thanks.

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

Well, look, I think that, as I've said before, from a consolidation perspective I think that's good for the industry. Whether it is SoftBank or a Dish, I think what that says is people like us think that there's a lot of growth left in wireless or else they would not be willing to invest the amount of money that they're looking to invest in a wireless network in the United States. So from a growth standpoint, I think they are confirming the fact that there is still a lot of growth left in the US wireless market.

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Just from a consolidation standpoint, regardless of who invests in Sprint, I think it's all good. I think that stronger carriers make stronger competition and grow the marketplace overall. So I think structurally, I think it's all going in the right place. We compete very vigorously, and we will continue to compete vigorously.

Amir Rozwadowski - *Barclays - Analyst*

I think with that, we actually have hit our time. I want to thank Fran for taking this morning to speak with us, and we appreciate all of you attending. Thank you very much.

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

Thanks, everybody.

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