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PRESENTATION

Jennifer Fritzsche - *Wells Fargo - Analyst*

Welcome, everyone. For our second telecom keynote of the day, we're excited to have Fran Shammo, the CFO of Verizon. Welcome, Fran.

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

I just want to acknowledge that this is the first analyst who dresses and color coordinates with the company she is interviewing.

Jennifer Fritzsche - *Wells Fargo - Analyst*

As I told Fran, I wanted to show I love all my children equally. Yes, well welcome. Fran, I'll just start as I did with Randal. Obviously, kind of a curve ball on Monday with President Obama's commentary about Title II. Can you talk to how this will or will it affect your investment in broadband?

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

No. I think that -- I mean, our policy on broadband is on our website. But to put it real simply, I mean, Verizon has always operated under open Internet policy and we will continue to operate that way. And just a couple of points here that I think are important is the fact that if you look back and you take from the year 2006 to the year 2013, between ISPs and wireless carriers, we've invested $555 billion into the infrastructure for what's been created here in the United States. And I think regulation for the purpose of regulating is not a good thing to do. And if you think about Title II, I mean, Title II was created in 1934. So to think that a Title II regulation fits in with what the environment is today for the consumer is just kind of ridiculous. The FCC can do what they need to do under section 706. So if they're worried about paid prioritization and other things, they have the full right to do what they need to do under 706, and we don't need to bring Title II into this.

And following up with Randal, I agree with a lot of his comments around there's been decisions in this environment before. I think this is going to be a litigious-type environment if this goes through, but I also think the independent agency of the FCC will make the right decisions.

I also think it's important if you look at other countries who have highly regulated broadband and wireless, it disincents investment. And if you look at Europe right now, they're trying to figure out how to deregulate to become more like the United States. So I think if you look at the context of this, I guess I'm optimistic that the FCC and the agency will make the right decisions.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Let's just get right into wireless. You're coming off what I thought was a very strong third quarter. Some people, not me, beat you up a little bit about -- not you -- Verizon up about ARPA and the direction of the growth. But if you back out the equipment billing portion of ARPA, you actually showed some decent growth versus your peers. What are your thoughts on the direction of this going forward? Then would beg the question you made a recent price move on the November 1st. Are you limiting the upside to this metric by throwing more data into the bucket?

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

Well, if you look at the ARPA metric, I mean, obviously that metric will be impacted by the Edge program or EIP as others refer to it, because you're taking an installment sale, and that installment sale revenue now is being pointed to equipment revenue so it's not in service revenue. Whereas under the subsidy model, you had higher service revenue but you had a subsidy on the equipment side. So it's a shift of the revenue bucket.

But if you look at just pure ARPA today, there's a number of things that are growing that ARPA. So Jennifer, you said that for the third quarter we grew that metric by 3.5%. If you put the recurring equipment billing back in to make it apples-to-apples with service revenue, it would have grown in excess of 5%. So there's still a pretty healthy growth there and that's in the midst of price changes that we made in January. And the reason it's still growing is because you have a device attachment now that's still growing in excess of 3% year-over-year, you have tablets which are just at the beginning stages of a growth in my mind, and then of course you have all these wearables coming in that don't necessarily bring access with it, but it drives more data through the network.

And I continually say that you have to go back in time to see how this model is going to pan out, because if you look at what voice did, in the beginning stages you paid a very high price for a very small bucket of minutes. And as that ecosystem matured, what happened was you got a very large bucket of minutes and the price came down. The price per minute decreased. But what happened was usage continued to increase, and revenue over time increased. And the data world is going to be very similar. So the price per megabit will continue to come down, the buckets will grow, but you're going to drive a lot more usage through this LTE network. So if you think about video today, I mean YouTube alone is about 40% of the video usage. And if you go into the world of over the top and multi-cast, and you start looking at the VoLTE and all these other technologies that are coming, it's just going to continue to drive more usage through that network which is going to continue to drive the revenue growth.

So yes, you may get a little dulled here, but then it will eventually start to take back up. So ARPA is one of those metrics you focus on, but you have to look at the bigger piece of the pie, and the growth in the industry.

Jennifer Fritzsche - *Wells Fargo - Analyst*

How about EIP? Edge, you've guided to 75% of your ads will still come under traditional subsidized models. You've guided to a doubling of the take rate in Edge in the fourth quarter. Is this something you're embracing somewhat reluctantly because your largest peer is marketing it aggressively, or are you really bullish on this opportunity? Because you've at times you've expressed concerns about the after-market and the value of these handsets.

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

Yes, I've never expressed a concern about after-market. Other people put me in that box. So we can talk about that. Somehow I got this reputation that I don't like installment sales.

Jennifer Fritzsche - *Wells Fargo - Analyst*

So we'll clear that up.

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

Look, this is the way I look at it. From a pure financial perspective, the profitability of a customer is exactly the same under the subsidy model and an installment model over a two-year period of time. So there's no difference in the profitability of what that customer generates. The difference between the subsidy model and the installments model is all cash flow. So instead of getting paid up front for the telephone, for the mobile handset and taking a subsidy, I'm now not getting any cash up front, and I have to collect that cash over a period of 24, 30, or whatever that installment period is. So there's a cash flow impact. But we've always been a company that said we're going to give our customer a choice. So if you walk into our store, you're going to get a choice of whether you want to buy under the subsidy model, and you'll know what the service revenue is under that, and you're also going to get a choice of whether you want a handset model under an installment plan.

I think the problem we're having right now though is that people are -- what's happening in the industry is advertising of service revenue only. And so the focus is on the service revenue side. So for us, we have to shift our advertising a little bit to show that Verizon Wireless is not this way out of the market priced under a subsidy model because there is a difference in service pricing. So you've seen a shift a little bit there, you've seen us launch some new pricing in November, because we were a little bit out of market from where everybody else moved to. And the focus is around the service revenue, but the piece I will differentiate here is when you walk into our store to ask for that service revenue, you're going to fully understand how much the cost of the handset is going to be over two years versus what the subsidy model would be. So -- and we think that's important that the consumer understands what they're buying. Because the problem that I see could happen here is if you say bring your own device and all of a sudden then you want to upgrade, all of a sudden now you're going to get a tacked on $30 more per month because you want a new handset under an equipment installment sale. So we are just going to be very clear to the customer and it's totally up to them as to what they decide.

So for me financially, I'm not against installment sale. I'm not for installment sale. It's whatever is best for the customer. And as far as this notion that we're very concerned about the resale of these phones coming back in, we've been dealing with this under the subsidy model. So our handsets are all international-capable, so there's no less market for us than there is anyone else. So as far as the residual value to these handsets, what we're saying is under the installment sale model, we're just predicting that over time, that residual value will be less than some of what our competitors are saying, and we're just looking at the ecosystem of all these phones coming back into the system.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Got it. That leads into the competitive environment question. How -- I mean, since T-Mobile got the iPhone in April 2013, they've clearly had this rebirth. Sprint is setting themselves off and dusting themselves off. We'll hear from them later. But how do you -- I'm not asking you to comment on them -- but how do you respond to the naysayers who say Verizon has the most to lose because they've been on top for so long and their margins are vulnerable, et cetera, et cetera?

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

Well, I would say just look at the first three quarters of this year. And I think it's also important to look at -- because there's some naysayers out there that say, oh, there's no growth in this industry left. If you just look at the quarterly numbers that reported for the third quarter for the industry, I mean, we had a tremendous uplift in net post-paid adds, and even you had a growth in the net pre-paid ad. So the pie is getting bigger and why is that? Okay, yes. The net smartphone category is a more competitive category. It's highly penetrated. Okay. We get that. And from a Verizon perspective, we will continue to protect our base and go after new customers. And obviously, our brand is built around the network. And what anyone else claims, they can claim all they want, but at the end of the day, metrics continue to show that Verizon Wireless is by far the best network to run off of. And that's our brand, and we will continue to push for that.

But as far as some of these other things, if you look at the growth of the industry around tablets, as I've said before, this is just something that started, and I said a year ago, that tablets are going to be a growth engine for this industry for the next two to three years. If you look at just our penetration rate on tablets, we have 6.5 million tablets in our base. Over our base, that's only a 6% penetration to our base. So we think that tablets is going to be a huge growth piece for the business. And albeit, yes, it doesn't come with a $40 access point; it comes with a $10 access point. But it drives more usage which is what I said at the first question.

Then you think about the wearable devices, the connected car, the machine-to-machine, and of course, this is the first quarter that we gave some view on what our revenue around machine-to-machine is at $400 million for the first nine months of this year. So this is a category that's starting to accelerate. And if you were to go to any consumer electronics show, every device that's coming out is going to be connected to a wireless network. So there's still a lot of growth in this industry that will drive future revenue, and the pie is big enough that everybody can grow with that. So some will go in certain segments, more from a price-sensitive standpoint, and companies like ourselves will drive for the network quality.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Do you view the pricing you're seeing around you as somewhat irrational, or is it, as Lowell said, I think, last week the laws of physics and cash flow will prevail?

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

Well, I think, I don't know if it's rational or irrational. I mean, competitors will do what they think they need to do. I think the key for us is to be disciplined and rational in how we respond to some of this. I think that at the end of the day, the Company needs to generate free cash flow in this industry in order to continue to plow that back into the network. And if you're negative free cash flow, you're only going to go for so many quarters, and then you're going to hit a wall. And we've seen this movie play before.

I mean, in the voice world, I mean, there was a lack of investment in some of the competitors, and all of a sudden, that caught up with them. And I've also heard this thing that says, well Fran, network quality in the voice world was important. If you're driving down the street and you drop a call, that was annoying, but in an Internet world it's not as important.

Well think about a video world. Think about you're watching the Superbowl and it's the last 30 seconds of the game, and there's a second and ten and then a winning touchdown, and all of a sudden your connection goes out. I think in the video world, you're probably not going to be as happy as you were in the call world.

So I think in the world that we're going with with LTE around voice over LTE, the video capability, we absolutely believe that network quality will be the ultimate winner here. And that's why you've seen us be a very consistent CapEx company. And I think as Lowell says, there's physics, you need cash in order to replow that into the LTE network. And I think that as you load these networks up and you saw what happened to us a year ago, as good as we are, the usage caught up with us. And so an LTE network can fill up really quick, and it takes a long time to make sure that your capacity and density is there because a lot of this is through small cells, and you have to get positions on buildings, and that could take a year to get the position before you can actually build that small cell. So there is a lead time here that if you're not continually investing, you're going to fall short.

Jennifer Fritzsche - *Wells Fargo - Analyst*

You mentioned M2M and I did want to explore that a little bit further. As you mentioned it's the first full time you've put a tangible number around it growing at, I think at a 40% clip. It seems like every year we're up here we're talking about that, this being the year M2Ms, and the needle moving, and it never really has materialized. This feels a little bit different. Can you talk about that runway and what other applications you see coming there? And would you agree that this being the needle-moving year?

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

Yes, I think that -- look, this has been a long time coming and obviously, as you said, we've been talking about this a long time. And I think that you're starting to see some runway here, especially around some of the connected car, but even more importantly around some of the other solutions that are coming. So for Verizon Wireless, I guess I put myself into a three pillar, if you will, which is the connectivity, the platform and the solution. And I think we're different from our competitors because with our Hughes Telematics acquisition, we are playing above the connectivity layer. So a lot of things that you have heard around the industry is more around the connectivity, and the problem with that is that it's good business, but you need millions and millions and millions of devices for it to actually start to generate a lot of revenue because it's cents on the dollar. Very good margin, but cents on the dollar. And what we're trying to do is with the Hughes Telematics acquisition, we're playing at the level above that, so if you look at the mbrace or the Mercedes product that we have with Mercedes, we are actually the people who stand behind Mercedes and actually answer the customer service and concierge calls. Now we are the connectivity piece of that, and we're also the service provider of that, so when you think about ARPU, that service provider piece is between $20 and $30 of ARPU versus the connectivity which could be $0.40 to $0.50 per connection.

And then if you go into the solutions where now you have this platform, you can start looking at other solutions like an insurance company who embeds a chipset into your car to see what your driving habits are to set your premium which we have an agreement with one of the insurance companies to do that. So it's starting to expand the marketplace beyond just the connectivity.

And the other thing we think is important here, I mean, Verizon Wireless will still drive that connectivity, but with this platform, we can go outside the US and not necessarily be the network provider. So if you look at mbrace, we've actually gown a system in China where we're supporting Mercedes in China with the services and the concierge piece, but not necessarily the connectivity piece because obviously we don't have a wireless network in China. So we want to expand outside the US, and we believe that the platform and the solutions is the piece to do that.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Over-the-top, you've talked about wireless subs, the 100 million-plus you have, being a great platform to leverage over-the-top. You've taken, I would say, a fundamentally different view than AT&T in this regard. You don't feel you need to own a linear TV asset. You've been very clear on that. But it continues to feel like there's more going on behind the curtains than we know on the over-the-top. I know you can't disclose anything today. But how -- will '15 be a big year where we'll hear more on that front and multi-casting? It seems like Marni's very busy.

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

Yes, I think that, look, I mean, there's a lot of discussion around content, and again, I kind of put this in a couple of different pillars. So the first is linear, TV, satellite, cable, content that you deliver through a broadband connection for linear TV. And then you have this what we call mobile rights which is a box that says, oh, I have mobile rights, but all those rights go back to a linear TV or satellite subscription. So when you put that box together, all the cable companies, all the satellite providers, Verizon, everybody else plays in that. We're all getting mobile rights based on linear TV subscription.

There's this other box down here though that says you want the rights to deliver content over a wireless network that has nothing to do with this ecosystem. And that's what we refer to as over-the-top mobile first. And of course, we are, I think, the only company right now that has the rights for content that actually fits into that box which is with the NFL. So with our agreement with the NFL, we can take Sunday games, Monday, Thursday, and Sunday night games over the wireless network, and it doesn't go back to any TV subscription. And of course, we have Indy car as well. So we talked about levers around content.

I also think we're the only company where we have a Verizon Digital Media Services platform that the content providers are actually our customers. And they're putting their content into our platforms to deliver out. So everything is relationship and we believe we have very good relationships with the content providers. And I think the box over here with mobile, getting those rights to deliver content over wireless that has nothing to do with the former TV model is really where it's going to be critical for us in the future. And that's what Marni is working on. And of course we have the NFL that does that.

If you think about then the technology that is coming, we really talk about multi-cast. So multi-cast is that technology where we're be able to deliver a live event, extremely efficiently through the LTE network. So if you start to think about some of the over-the-top technology and getting rights to things, think about a concert that's taking place live that you can get that concert and then multi-cast that out to every single wireless customer to be able to watch that content live during that concert. That's something that's unique but has nothing to do with the TV world. So when you think about over-the-top with mobile, it's really different types of content because the mobile subscriber is looking for more live-type events. The average subscriber does view video for about 30 minutes. So when you take all that into context, it's more short clips for the mobile world than it is for the linear TV world. So that's kind of how we think about this, but multi-cast will play a role in that.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Shifting to wireline, first starting with consumer, FiOS, you continue to see very good traction there. The Quantum product has really been embraced, frankly, more than I would have thought. What do you think is driving this? What are you hearing from your customers? Maybe say what Quantum is, I guess.

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

Yes. Well, it's all about speed. So Quantum for us is just a marketing name for increasing speed through broadband. This past year we also launched what we call Symmetry which is through our Quantum product or FiOS or fiber, if you will. You can get the same speed up and down which we believe is a differentiator to our competitors because they can't match that offer because you can only do that with fiber all the perim which we are the only ones that do that. So it's a differentiator for us. And what we're learning here, Jennifer, is the fact that if you look at millennials in New York City, we did this trial where they could pick whether they wanted more TV stations or they wanted more speed. And obviously they chose -- they want the highest speed that they can get because they're viewing their content through the broadband connection. They don't have linear TV connections.

So when you think about the speed that fiber can bring, we're now offering 500 megabits of service. We could take that to a gig, even though there's no application today that would ever need a gig in the home. So if you look at this, it's extremely efficient for us to do this. So I think that's really what has appeared in the market place for us. It's a superior product, it's fiber to the prem, we can do things that others can't.

The other thing that we're doing that we launched this year is the video media server in the home which really helps us with CapEx because now I have to just put one piece of equipment in your home, and that will become wireless in 2015. So now I don't even need to deal with the inside wiring of your house. So it becomes very efficient for us to deliver that to the customer. And from a customer standpoint, there's going to be other features that come with that video media server that are not available on a set-top box today.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Content costs. You mentioned that you were certainly weren't alone, not being a headwind or continued high pressure. You are raising prices in the fourth quarter ahead of the content costs that are expected to come in the first quarter. I guess where do you see -- what has history shown how these customers react to price increases?

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

Well, it's a little unique. So we've kind of got in this mode from the 20 years of cable doing this every year where they raise your cable bill, and it's really to offset that content cost increase. So you almost have to have that increase in order to offset that content increase. But as you know, the way we market to our base today is we sign up for two-year contracts. So if you're in a contract, you're price-protected for a period of two years. So from a base perspective, the only people that will get that slight increase from us are people who are out of contract or on month-to-month. The reaction to it is the consumer is not as upset with that increase as they are when they roll off a promo. So the key is not to have them roll off a promo, get that price increase, plus a 4% or 5% increase on top of that for the content. So it's a matter of planning. But look, any time you increase price, you're going to get a little pick-up in churn, and you have to work your way through that. So we've done this for the last two years. We've been pretty successful with it so we'll be successful this quarter.

Jennifer Fritzsche - *Wells Fargo - Analyst*

On that same -- the content cost discussion, Fran, you talked about not needing or any desire to buy a satellite company. But with the changing environment around you, Direct TV, AT&T, ComCast, Time Warner, a case could be made they're going to have a bigger seat at the table with their content player partners' customers than you would. How do you think about that?

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

I think about that the same way I think about Comcast today. Obviously, Comcast is the largest linear TV provider and they absolutely get a better price for linear TV. But as FiOS goes, as we've been growing our FiOS base, if you look at our content cost, our content costs are going up 2% to 3% a year. Cables' are going up 9% to 10% a year.

So okay, we can talk about leverage and negotiation, but the numbers speak for themselves. And then there's this perception of well, if we have this great relationship in linear, then I'm going to have a much better relationship over here in wireless. And we view that as two very different ecosystems. And at least with our conversations with content providers, they couldn't care less what you have over here in this box. They want to address what's over here in this one and what the opportunity is. And I think you've seen some of that with -- at CBS and HBO have launched their own over-the-top-type products. That model is starting to get a little bit afraid at this point. So we think that is all optimistic from an over-the-top perspective and looking at new models of how we can create value in a win-win situation for both the content provider and ourselves.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Bigger picture on wireline, there's a lot of things in play with wireline right now. You have the fiber over copper initiations, focus on strategic services, Hughes, as you mentioned, cloud. How should we think about wireline margins and revenue trends going forward?

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

Well, as we came out of the third quarter, when we came into this year, Lowell and I said that we were committed to expanding the wireline margin. And through the first three quarters of this year, we are now up 60 basis points year-over-year. And if you recall, Jennifer, I said look, this will be a slow growth. We will improve the margin but it's going to be a slow growth increase. Because you have -- obviously, you have content costs going up. But John and his team -- John Stratton and his team have done a really good job in correcting the cost structure of the wireline business. And if you think about the topline growth, you have our consumer base growing at 4% within the FiOS realm, and that's generating additional net income. And then of course you have the offset of that where you have the enterprise piece going down. But if you look at the whole package, we obviously are taking more cost out than revenue because our margin is going up. And that's really the key for us is to get wireline to be more cash flow contributory, and to improve the margin of the business. And I think we've proven that we can do that this year, even given the dynamics of the wireline business.

Now you also brought up some of the -- like the Hughes Telematics and Verizon Digital Media Services and some of the other incubation companies, and these are starting to provide some benefit. I mean, obviously Hughes, it's expanding. It's actually a drain, but as I said, as Hughes starts to build on itself, it's going to be contributing to the wireline margin in the future. So this just continues on the path that we're on.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Now, the CFO-type questions. I have to ask you about CapEx, especially in light of what -- somewhat of a surprise announcement from AT&T last Friday. How do you foresee CapEx trending through the end of this year? And just -- you're not giving guidance, I realize, the bigger picture guidance or color on '15 trends. Because based on my discussions with a lot of my contacts, you guys are incredibly consistent. There's very little stop-start-type behavior, especially on the wireless side.

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

Yes. Well, it goes back to my previous comment. And what you'll see is you'll see consistency continue. And the reason for that is as I described before, if you're not consistent in a wireless world with your spend and you don't get the right leases and you don't get the positioning to actually build the densification and capacity, you're going to run into a problem. Because you can't stop and start that because it puts you pretty far behind. If you stop looking for real estate and then start it up again, then you're that much further behind. So when you talk about an LTE network, you have to stay on top of it. And as you see what we've done, Jennifer, as we got done our build-out or coverage, we took that capital and put it to density and capacity. So we didn't trim the wireless capital. So you will continually see us, and as I've said before, don't be surprised if you see wireless CapEx go up, wireline go down, entire company stay relatively consistent. And I think that's what you'll see from us. As is said on the third quarter call this year, you'll see around a $17 billion number.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Got it. On the wireless side, the towers I think are relevant. You talked about -- publicly talking about considering divesting those. How important is it who buys those for you?

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

Well, I mean, that's a piece of it, right. Because strategically, these are your lifeblood of a wireless network, so you can't have Joey off the street coming and buy your towers. So I mean, you have to protect yourself. So there are some really well run tower companies out there that would probably be at the top of the list, right. But at the end of the day, this comes down to -- as I continue to say, it comes down to price, terms and conditions. If I get the price, and I get the terms and conditions, we'll sell our towers.

Jennifer Fritzsche - *Wells Fargo - Analyst*

And is there something -- I mean, you certainly, if this happens, would be the last carrier deal of size left out there. AT&T sold their towers, T-Mobile sold their towers, et cetera. Does that give you -- I mean, I would think that would give you better negotiation -- strength in a negotiation. Am I thinking about it the right way.

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

Well, I have a price. I have the term and conditions. If I get both of those met, we'll sell our towers.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Got you. Your free cash flow generation, I tend to think it's kind of under-appreciated by The Street. Your wireless asset alone is basically a cash machine. But you've said in the past, as you mentioned, you don't see this going down any time -- wireless CapEx -- going down any time soon. Can you comment on the trajectory of that free cash flow then in general terms, and where do you see it going? And obviously the next question is uses.

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

Yes. So I'm not going to give guidance on cash flow here today. But here's, I think, what's some of the confusion around our cash flow. So when we did the Vodafone transaction, obviously we had a mapping issue with cash flow. So you just look at pure numbers year-over-year, you would get the impression that Verizon's cash flow has taken a significant decline. But the fact of the matter is that what's not there was the distributions that we used to do to Vodafone. So if you just look at free cash flow metric year-over-year, you would think it was declining, but we used to, from that free cash flow, take and distribute 45% of the proceeds out to Vodafone on the wireless cash flow which was the bulk of our cash flow.

Now what you have is you have cash flow from ops, but you have an increase in interest, an increase in taxes. Because of the deal, you come down to free cash flow. But now all that free cash flow is 100% to Verizon. So when you look at net cash after dividends to Verizon, net cash actually increased from the Vodafone transaction. And that's really what we're focused on because as we look at that net cash flow, that's really what gives you the ability above just reinvesting in the Company above the interest and dividends that we have to pay to our bondholders and our shareholders.

What's left to do other things to grow this business? And that's really what's our focal point. And of course, when we get to January, I'll give you more clarity of where we think we'll be for '15.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Got it. You mentioned Vodafone. We're ten months into the close -- I mean, when you closed that deal. Any surprises? It seemed pretty seamless so it's not a lot of synergies.

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

Yes. It's probably the only acquisition you could ever say you knew exactly what you were buying and knew where all the warts were and there were no surprises because we actually ran the company before. So I would say that the biggest change that we made, and Lowell did this which really put the Company in a very different box if you will, was he took all of the product and innovation and incubation companies, and pulled it all together under Marni Walden who used to be the COO of wireless. She now runs all that from a companywide perspective. And it's really the first time in Verizon we've ever had that because with the Vodafone ownership, we had a fiduciary responsibility to keep a silo of wireless by itself, and over here sat the rest of the company, to the point where we actually would create the same product two different ways because we weren't allowed to share the product with one another. So now that has come together and look, we're getting some synergies there because, as you pull everything together, what you found was you may have 100 people working on the same thing in different places, you pull it all together, you can get a lot of synergy there. So that's really where the efficiency has come from.

Jennifer Fritzsche - *Wells Fargo - Analyst*

If you look -- I mean, we've seen now Matco come into the picture with AT&T. As you said, are there any -- now that Vodafone's done behind you, I know Canada was once mentioned, is there anything or is it just kind of US-centric right now?

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

Well, I mean look, it's like Lowell and I always say. We look at our portfolio today, and we look at is there something that's not strategic that we should be divesting of. And then we look outside our portfolio and we look at a very wide range of things that say is there anything strategic that we need to build on what we have? And you saw us do that this year. I mean, we acquired upLynk, we acquired EdgeCast, we bought OnCue. I mean, these were small acquisitions, but they're things that strategically we're putting together to do something very different than we've done before. I think that's the way you'll see us continue.

There's nothing -- at least where we sit today, there's nothing major that we need to be successful. And as far as Mexico, Canada, I think we've kind of talked about those things before, and at this point we have no interest.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Okay. Okay. Great. I'm going to end it by asking you obviously have a big seat at the table of tax reform discussions with DC in that regard with your CFO peers. What is your thoughts on where we are?

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

I think it's a long pole in the tent. I think that tax reform is going to take some time to do. It's a very complicated issue. There's a lot of political things around us which is if you do corporate tax reform, how do you address the individuals, how do you address the LLCs and the partnerships? So there's a lot of issues on the table right now. I think what everybody is talking about is just the extension of bonus depreciation. And at this point, I'd still put that at 50-50. I don't think there's much going on there, and of course in this lame duck session, I'm not sure there's much optimism at this point.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Got it. If you spend $17 billion, we know you're spending it this year, so just talk about this year, I mean, it's right behind AT&T and you two are the biggest. Does that put you at a more prominent seat in the discussions with Washington, or not necessarily?

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

Well, look. I mean, we have a great regulatory team. I've been down in Washington. And I mean, everybody's willing to listen. I think there's a camp that says we need to address the bonus depreciation issue. But there's a lot of other really big issues on the table like the Internet Freedom Act and extending that. That has huge ramifications to a consumer if that's not passed. So there's a lot of issues that have to be addressed. So look, I mean, we have an important table. We know how to work those tables, and we continue to press that things need to get done in order to continue this economy in the right direction.

Jennifer Fritzsche - *Wells Fargo - Analyst*

Right. Fran, thank you. We'll end it there. I really appreciate it. Thank you, everyone.

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

Thanks, everybody.

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