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EDITED TRANSCRIPT

VZ - VERIZON AT CITI ENTERTAINMENT, MEDIA AND TELECOMMUNICATIONS CONFERENCE

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PRESENTATION

Mike Rollins - *Citigroup - Analyst*

Please note that disclosures are available at the registration desk. For those joining us via webcast, I am Mike Rollins, telecom analyst at Citi Investment Research and Analysis. And for our next fireside chat and keynote we would like to welcome Fran Shammo, Verizon's Executive Vice President and Chief Financial Officer, with an opportunity to really talk about how Verizon is positioned within a broader EMT arena. Fran, thank you for joining us today.

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

Thank you, Michael. Good afternoon everyone.

QUESTIONS AND ANSWERS

Mike Rollins - *Citigroup - Analyst*

Well, Fran, just to kick us off, can you talk about what your key operating and strategic priorities are for 2012?

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

Sure, so let's start with 2011, because I think it is important to set the stage for 2012. So we came out of the third quarter and we had a very strong year. Going into the fourth quarter some surprising things happened to us. We had on the Wireless side an extremely strong quarter from a volume perspective, probably more than I would say I expected, Michael, from a volume perspective.

So just to give you some numbers here, we sold more than 4.2 million iPhones in the quarter, which was by far our heaviest quarter to date, almost 2 times every previous quarter. In addition, we sold over 2.2 million 4G devices, so an extremely strong quarter from a volume perspective.

Now having said that the interesting part here is if you go back to January of 2011, we said that our goal was to move 11 million iPhones. So if you take what we moved in the fourth quarter -- plus the interesting thing about our iPhone was when we launched the 4S from day one we were in backlog. We still had 120,000 in backlog at December 31.

So if you look at that 120,000 plus the numbers that we moved, we came extremely close to that 11 million goal of iPhones. So it was an extremely good year for us and our partnership with Apple.

And then from an overall perspective on that, given the volume we are probably going to see a 500 to 600 basis point decrease in Wireless margin for the fourth quarter from where we exited the third quarter, which was an all-time high of almost 48%.

So that gives you a little perspective there. But I think the story here though is this gives us a great momentum going into 2012. I'll talk more about the specifics on the quarterly call on January 24, but I will tell you, as I said coming out of the third quarter, I thought that the revenue accretion and revenue growth was all going to go in the right direction and continue to escalate, and I think you will see that coming out of the fourth quarter. And that is going to set us up for a jump off point for 2012.

So strategy around Wireless really has not changed from 2011. It is going to be focused on our LTE penetration, our smartphone penetration, and our ARPU accretion from that smartphone penetration. So really nothing there changes.

Then if we go into Wireline, from a consumer standpoint it is all around FiOS penetration, and that really has not changed. The other strategy that we're going to undertake this year is to really start to convert our chronic copper customers over to the FiOS network. And the reason this is important is because we see that we can generate pretty significant expense savings on the Wireline side, and helps also to accrete the Wireline margins.

So from coming out of 2011, again, the strategy for Wireline in consumer has not changed. It is FiOS penetration and creating efficiencies within the cost structure. Then the enterprise side, with the economy stabilizing I think it will continue its stabilization, so really the same execution on enterprise. And of course you're probably going to ask me a question on the new enterprise so I will save that.

But the strategy around enterprise, it is cloud, it is security, it is all those strategic services that we executed in 2011 carrying into 2012 and really escalating ourselves off the Terremark acquisition.

So from a Wireline perspective strategy is around really strategic capital investment, return from that investment, increasing the Wireline margin as we did in 2011, continuing on the momentum of accreting that Wireline margin into 2012, and hopefully, start to grow the top line of Wireline as well. So that is really it in a nutshell.

Mike Rollins - *Citigroup - Analyst*

Great, well, thank you for that. Maybe just focus a little more on some of the comments that you made. You talk about the strength of smartphones and 4G devices. And it seems that the industry is going through an evolution. At first the smartphone was just viewed as a tool to get more ARPU. And now it seems to be, at least from what some carriers are suggesting, the anchor for the customer relationship, and it is becoming a little bit more of a land grab to get these customers.

How is Verizon approaching both the acquisition of these types of customers as well as the retention of these customers?

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

So I think it is important to split this between both the consumer and then the enterprise, because I think it is two different sets. But if we look at the consumer, obviously, the smartphone has become a very critical communication device for that consumer.

And what we are seeing is with that smartphone and then the uptake of where tablets are going, and you start to combine the smartphone with a tablet and then in-home television there are a lot of things that can get done, which hence leads us to why we did the strategic commercial agreement with the cable companies that we did.

We see this as that is a retention tool. That is also a marketshare gain tool for us as well on the consumer side of the house.

Then on the enterprise side as you watch mobility start to collide with cloud, and hence the new organization that we set up from a management of portfolio and account leads, we believe that the ecosystem is going to take us down a road where the cloud asset and the mobility asset really collide with machine-to-machine. And, again, that is another facet of that the smartphone is going to be critical for the productivity of enterprise customers, again, along with the tablet, and then of course with MiFi cards and so forth.

So I agree with you that the smartphone really is the anchor now that creates more optimism for other products that come out of the Wireless unit.

Mike Rollins - *Citigroup - Analyst*

Taking a step back, the management team as I have listened to you over the last, call it, 6 to 12 months has focused much more the discussion on selling applications to your key customer segments, whether it is FiOS, the Wireless, enterprise. How does Verizon view the importance of owning content or applications that you can uniquely sell to your customers?

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

Well, I think that we have been pretty clear to date that we don't think it is important to own the content. We believe -- we know that content is extremely important to the end consumer. But what we really looked at is what are the set of assets that we have and how could we contribute to the ecosystem that returns investment to our shareholders?

Really when we looked at that, if you go back to 2010, we launched a strategic initiative to develop the Verizon Digital Media Services. And the reason we did that is because we looked at the core asset base that we had with our IT network on a global basis and said -- we are probably one of the few companies in the world that can deliver content anywhere efficiently.

And by developing this VDMS platform that really gives us the capability to go to content providers -- which we launched in June of this year, and we actually got our first order in the fourth quarter of this year -- to start to really pick, pack and ship, if you will, content that comes in, redigitalize that content into a format, into different international languages and so forth, and ship it to the retail customers that that content provider wants. That is where we think we can create value.

And, actually, we implemented the VDMS platform within our FiOS platform and created a lot of synergy within the FiOS platform.

Now as far as applications go, we have kind of gone down a path that said if there is an application that services us to own then we will acquire that application. So for instance within the Terremark acquisition we added CloudSwitch to it, which was an application that we felt was critical for us to own and utilize for our enterprise customers.

The other side of that though is we have this asset in Terremark with the cloud and it makes more sense for us to partner with people to bring applications in and do more of a revenue share, and let them have the expertise in that application, put it on our platform and then do a revenue share with that applier.

It is not necessary for me to go out and acquire all types of applications and software to put into that cloud. It makes more sense to partner with people to do that.

Mike Rollins - *Citigroup - Analyst*

Can you give us an update on the restructuring that you have done internally around Terremark to move maybe some of the different data center assets into Terremark and how that is affecting your ability to garner revenue from your -- some of the real estate that you have had and some of the other facilities?

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

Sure. So when we acquired Terremark -- we acquired Terremark for two reasons. One was it had an excellent set of data centers on a global basis, which brought the cloud efficiency that we really needed within Verizon to deliver to our end customers.

But we also said that we wanted to keep Terremark somewhat independent of the Verizon family, if you will, so that it could operate the way it has operated as a single entrepreneurial company. And I think we have done very well with that. And actually what we have done is we have moved our security portfolio over into the Terremark portfolio. We have taken 37 premium data centers within the Verizon business portfolio and are slowly turning them over to be managed by the Terremark people.

And we think that that is really beneficial for us, because they bring something to the table that quite honestly we do not have internally, which was more expertise around data center utilization, data center greenness and efficiency.

And what we are seeing is that with the two portfolios together Verizon gained access into the Latin America market, which we did not have, with the Terremark and the Sao Paulo data center. We just opened up a NAP, which is a Network Access Point, in Amsterdam via the Terremark asset.

So we are expanding the portfolio of Terremark. And coming out of the third quarter, as I said, it had one of the best sales quarters in the month of September, and we see that continuing into 2012.

Mike Rollins - *Citigroup - Analyst*

You referenced the business unit, and I think it was in the second half of December Verizon announced the creation of a new unit called the Verizon Enterprise Solutions, headed up by John Stratton. How is this different than the way you used to run the business organization and what do you see as the tangible benefits?

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

Well, this actually started back probably in early 2011 when we went through the strategic partnership with Vodafone and started looking at the enterprise customers and how we could service our enterprise customers better. And what we determined was the critical piece really was to have one point of contact for that enterprise customer to dial into.

And even though within Verizon we work together between Verizon Wireless and Verizon Wireline we still always had two people approaching the customer, one with a Wireless solution, one with a Wireline solution. And at times we would work together to present a Wireless/Wireline combined solution.

And I think what Lowell has seen is that we really need to manage this as one portfolio. So that the portfolio is a solution portfolio and the account team is one account team facing the customer. And walking into that customer and presenting one solution on the table rather than two, which is a Wireless/Wireline solution.

I think that with this organization that John has now, I think we will really strive to, one, create some synergies within the Verizon family, but two, really address the enterprise market in a very different sense from what we have presented before.

Mike Rollins - *Citigroup - Analyst*

One of the -- some of the CLECs, which say historically is the reason why the incumbent companies had trouble doing this was billing and provisioning that you couldn't -- it is much harder for a company with -- you know, a phone company with different segments, Wireline/Wireless, to paste this altogether.

Has Verizon been able to develop the technology to be able to provide not only the single solution from a point of sale, but from a servicing perspective and billing and so forth?

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

Well, that is part of this what I will call an integration plan, if you will. So one of John's main focuses right now is setting up that integration plan to get down to that customer service consolidation of systems, point of sales, provisioning systems -- that is a big piece of this.

But you need to have one person running an organization in order to make those decisions. Because you have to have one key decision-maker, and notoriously when you have two independent key decision-makers you never agree on anything. So by having John now over the whole umbrella the decisions will be made and we will march in that order.

So I would say it will probably take us 24 months to really start to feel that integration. But the first step is really to face our customers as one and manage the umbrella as one portfolio.

Mike Rollins - *Citigroup - Analyst*

I just think back conceptually to what you announced with the cable companies with Spectrum, the announcement with Vodafone to partner for enterprise services. Is this a new part of the strategy for Verizon to be more of a partner, whereas it feels like before you might have been more so going at it a little bit alone? Is this something that we could see continuing efforts with new relationships sort of budding off of this strategy?

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

Yes, I think that if you look back, I think people would say that Verizon was very hard to play with. I think that over the last, I would say, 2 to 3 years with the acquisition of MCI, and also within the Wireless portfolio and working with things like an nPhase and an Isis, I think it is important now that we can create more value by partnering than trying to build everything on our own.

So I think you are seeing a very different perspective of how we think we can create value for Verizon, but also offering our customers a much more wide breadth of options within the Verizon family.

Mike Rollins - *Citigroup - Analyst*

You talked about the stabilization of the economy with respect to the business market. You have actually shown some revenue growth in business. How do you look at the ability to grow business revenue over the next 12 to 18 months? Is the environment good for that, improving, the same?

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

Well, I think that obviously 2011 was what I would call stable. Stable -- there was really not much growth within the economy there. The unemployment rate is growing but at a very slow pace. The way I look at it is that will probably continue into 2012.

But the opportunity that it creates for the enterprise segment, which we saw once we acquired the Terremark asset, is if you can walk into an enterprise customer and put something on the table that is a solution for them that would create a cost efficiency for them, and cloud is the perfect example, that is something for they are going to be very, very interested in.

So if you look back 18 months ago when we started talking about cloud to enterprise customers, most CIOs out there would put up their red flag and say -- I am never turning an application over to somebody else to manage. I think now if you have that same conversation, CEOs and CIOs are saying -- okay, we need to test this. If it really does bring us an expense benefit, which we believe it does -- and we have proven that it can be anywhere from 10% to 30% expense synergy for an enterprise customer -- that they are now starting to dip their toe in the water.

And, obviously, with the asset base that we bring with both our network, the data center and also security, we are one of the few companies that can manage all three of them within the same family. So I think we bring something very unique to a customer -- an enterprise customer. And I think now we are starting to see those doors open. And obviously that is true because in September, again, Terremark had the best sales month ever.

So I think you're going to start to see this ramp, but I think it is going to be a slow ramp, because enterprise customers are going to be cautious. We are going to have to prove ourselves in this industry. And I think once we do that then we will start to see that escalate.

Mike Rollins - *Citigroup - Analyst*

Is there an update on the ongoing negotiations with the unions and where that stands in terms of reaching an agreement?

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

Well, we continue to negotiate. Obviously, with the holidays things slowed down during the Christmas holidays. So we are back at the table and our -- from where we sit the cost structure at Wireline has to change. It is not an environment any longer where 100% of the pension and 100% of health care can be paid for by the Company.

So I think that this is not new ground for them. Frontier and AT&T have had concessions in this area. So I think we just need to make that progress, and I think we will end at a good point when it is all said and done.

Mike Rollins - *Citigroup - Analyst*

Speaking of pensions, with the door now closed on 2011, is there an update on what the implications are for the discount rate changing and the mediocre return year for the market?

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

Yes, so as most of you know, back in 2010 we changed our accounting method for our pension plans, which was going to a mark-to-market type accounting. So every fourth quarter we go through a true-up on discount rates and rate of return on our asset base.

So, obviously, this year with the discount rate decreasing, we think it will come in around -- somewhere around 5%. But we are still doing that calculation because it is a driven formula based on AA corporate rated bonds rates. So we're looking at that but we think it will be around 5%; that is down from 5.75%.

Return on assets, we are probably going to come around a 5% return on our asset base within the pension plan. The assumption at the beginning of the year was 8%, so there is an adjustment there. And then we also have a mortality actuarial adjustment that has to be made within the actuarial tables.

So when you combine all this up, the mark-to-market adjustment that will be made, which is all non-cash and an out of period adjustment, will be somewhere in the range of $5 billion to $6 billion.

Now the ironic thing of this is if interest rates go back up, the market turns around, next year this could all reverse itself. So it is one of these things where each year you make this adjustment and then you will relook at it again at the next year.

Now the more important point around this though is what is the actual operational cash contribution that has to be made to the pension plan? And our cash contribution for 2012 will be $1.2 billion. Now that is up from $400 million in 2011. And that $1.2 billion will be funded throughout the year, where it doesn't need to be funded in the beginning of the year as we did last year. That will be funded throughout 2011, and that will be funded out of the cash flow of the Wireline unit, which is a critical point. So we won't have to go out and borrow to make that contribution.

Mike Rollins - *Citigroup - Analyst*

And the $5 billion to $6 billion just from a modeling perspective, is that a pretax number, the $5 billion to $6 billion?

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

That is a pretax number, yes.

Mike Rollins - *Citigroup - Analyst*

So if you look at -- just thinking through costs, including pensions, for the Wireline business, what is Verizon's conviction to continue to reduce the cost structure over the next few years to further improve the margin profile for the business?

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

Well, I think that within the Wireline unit, when I first became CFO one of the tasks that Lowell and I set out was we were going to increase the Wireline margin. I think that we showed that we have made progress there in 2011. I think we'll continue to make progress in 2012.

And there is a number of things that will help us get there. One is, first, topline growth. So when you think about FiOS -- penetration of FiOS -- that is becoming a much bigger part of the portfolio. That leads us to growth; that leads us to higher margins than the Wireline margin is today. So the more FiOS we sell, the more accretive the margin is there on the Wireline side.

But in addition to that, Terremark and the strategic services on the enterprise side contribute more profitability to the bottom line because you don't have the access cost related to that. But overall what we are looking at is there is a major initiative that is going to take place in 2012, which is a consolidation of our back-office operations between Wireless, Wireline and Corporate. And I will tell you that even within the finance organization we are going to have a two-year consolidation plan underway. This will help the entire corporation to reduce its overall costs.

And that is going to help the Wireline unit; it will also help the Wireless unit. But we have to synergize within ourselves. And I like to talk to folks internally that says -- we need to think of this as a merger within Verizon, to merge the two companies and synergize what we can. So there is a lot of initiatives to say that the Wireline margin will continue to improve in 2012.

Mike Rollins - *Citigroup - Analyst*

Is this another step forward that you believe that these businesses, Wired and Wireless, belong together or even after this move do you retain the option of reviewing that structure over time?

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

Well, I think that the pieces that we think go together and work together I think are ready there. So enterprise was a big one, now that is under one umbrella. FiOS working with Wireless and now with the deal that we did on the commercial agreements with cable, the innovation that comes out of that will get put into FiOS. But FiOS doesn't need to be within the Wireless and synergize within Wireless.

The Wireline consumer assets will never be -- there is no reason to consolidate those two assets, because there is a drastic footprint difference. They are very different in how they operate.

So I think that back-office-wise there is a lot of opportunity to synergize, but frontline-wise I think we will probably just maintain the two units where they are, because I think it better serves the customer.

Mike Rollins - *Citigroup - Analyst*

One of the -- going back to the Wireless side of the business and thinking about revenue growth, one of the key bullet points this year was ARPU growth. And as you keep seeing further penetration of smartphones, do you still see the further ability of improving that ARPU from your customers?

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

Yes, so I will talk more about this on the 24th call, but what I will say is that coming out of the third quarter I was very positive and said the trend that we saw in the third quarter will continue in the fourth quarter, and we are going to see that trend continue.

So all the data points around service revenue and ARPU are right where we expect them to be. And there is really no reason for that to slow down going into 2012, because when you think about it, coming out of the third quarter I was at 39% penetration on smartphones. So I still have a very long runway of smartphone penetration, which is driving this ARPU accretion.

In addition, with the LTE 4G network we are seeing a lot of products come to market. I think you're going to see a very robust road map coming into 2012 around a lot more smartphones and tablets, additional MiFi cards. So I think the product set around LTE is also one that will generate more revenue.

But it also will help with the cost efficiency within Wireless, because every time we add a customer to LTE it is a much more efficient and cost effective network than the 3G network. So that there is still considerable growth for us to be had and there is no reason that is going to slow down as well.

Mike Rollins - *Citigroup - Analyst*

How are you viewing price tiering for your customers, both in the FiOS side and in the Wireless side? Some people -- that is quite a divide. Some people think that tiering is going to be more suppressive to usage. So people are going to get to their tiers and that is going to be it.

Then there is the other half that believe with these tiers customers will keep growing their usage and then over time graduate into higher spending levels. And this is going to be very good for the industry in both sectors. Now how are you looking at price tiering?

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

I am probably in the latter group, which is the reason we set the tiers up the way we did is because when we saw LTE and the usage on LTE, and as video becomes more and more popular, and now with the -- with our innovation with the cable companies and with the FiOS and delivering those unique products to the marketplace, to really incrementally have usage on those smartphones and those tablets outside the home, I think what you're going to see is the usage pattern is going to continue to increase.

The reason that we set the tiers up the way we had is because over a three-year view we see the increase of LTE usage really escalate. And people will start to drop in the upper tier bucket. So we do view it as this will be an ARPU accretion over the longer term if the tiers stretch.

Mike Rollins - *Citigroup - Analyst*

So you sold a lot of LTE devices in the quarter. What kind of usage are you seeing on the LTE versus the traditional 3G network?

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

Well, we really never -- we never did a comparison on 3G versus 4G, but really the difference between the two is that obviously a MiFi card or a dongle has a lot more usage than a smartphone. Smartphone usage on LTE is a little bit more than the smartphone usage on 3G, but the efficiency of that network, it really is -- there is no real major difference in the usage. But the utilization of that and what we see coming in the future from a usage perspective will help us accrete ARPU.

Mike Rollins - *Citigroup - Analyst*

When you launched the RadioShack channel, I think it was earlier in the fourth quarter, you created a new prepaid plan. And I was wondering if you can give us an update on the prepaid strategy more broadly for Verizon, especially in the context of postpaid growth on industry level slowing?

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

So we released the Unleashed product exactly the same date that we entered into an agreement with RadioShack. And we thought that was important because RadioShack is a big distributor of prepaid, and we felt that we really needed a product for them to be able to offer to the consumer. And so far it has been very, very good.

Now the critical piece for us, which always is, is that anything we do in prepaid can not proliferate the postpaid. We cannot have any migration from postpaid to that prepaid product.

I think we have found a very good niche here with the Unleashed product, where the product I know it is premium priced for the marketplace. It is $50 for unlimited texting and voice. But there is a niche out there that says they're willing to pay that extra $10 above market because they are getting the Verizon Wireless network.

And I think what you're going to see when we release fourth quarter -- I said coming out of the third quarter, I think we would be positive in prepaid voice for the first time in a long time. And I think that is what you're going to see in the fourth quarter. So it is doing everything that we said we were going to do, and we will talk more about that on the 24th.

Mike Rollins - *Citigroup - Analyst*

The other thing that you just mentioned was texting as part of prepaid. And from a postpaid context how are you managing the risk of some of the texting going over more the broadband channel versus the traditional channel?

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

Well, I think there is -- the first point here is that it is very important to understand that the US market is very different than the Asia and European market, where they have really seem this problem happen. And it is because we already have bundled markets. Most of our bundles have a bundled text messaging package within it.

And what we saw in the fourth quarter is that there was no consumer behavior change. The majority of our customers took a text messaging bundle along with their voice plan.

Now it is something that we will watch. And I think what will happen is over time you're going to see the bundle come together, and you will have one price point that will include voice and text, instead of two individual bundles. But we are not seeing right now any difference in consumer behavior.

Mike Rollins - *Citigroup - Analyst*

Taking a step back, the other issue that comes up with smartphones over time is that when you have to then go replace these customers that you have to bear this ongoing higher subsidy cost, and it has the potential to dilute margins. Are you seeing any of those pressures from customers that already have a smartphone and are now upgrading, and what are you doing to try to counterbalance if you are seeing pressure?

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

I think that the way I would answer this is I think Verizon Wireless has an unbelievable track record to deliver both. So they will deliver the profitability along with revenue growth. And I think we showed that in the third quarter even with a -- I think it was somewhere in the neighborhood of over 2 million iPhones sold with 80% of them being upgrades, we reported at the highest EBITDA margin in history.

So it is a management issue. I think there are other things that we need to work through, which we set out at the beginning of 2011 to show a $1.8 billion expense reduction target for Wireless, and they hit that target. They will have something similar in 2012.

So there are other things that we need to do to continue on with that profitability track and increase margins back to where they were prior to 2011 and the initial launch of the iPhone. So I think that Wireless has a very good track record to manage both.

Mike Rollins - *Citigroup - Analyst*

So as you think back to selling roughly 11 million iPhones in 2011, are you satisfied with getting the iPhone and the economics that it is bringing to the Company?

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

Yes, absolutely. It was critical for us to add the iPhone to our portfolio. It is a very dynamic handset. It is very popular with our customer base. It is attracting new customers back to Verizon, which we had lost when we didn't have an iPhone. So it is an important part of our portfolio, but I think it is also -- it is just one piece of our portfolio.

We have -- if you look at through the third quarter we sold more Droid phones than we did Apple phones on a holistic product set point. So it is a very critical piece to our portfolio. It is a profitable piece of our portfolio, and we like the relationship that we have.

Mike Rollins - *Citigroup - Analyst*

Thinking just more broadly about the Wireline business, back to that for a moment, it seems like the Company has gotten very close a couple of times to being flat in total Wireline revenue and almost being in that position to grow. We are taking a couple of steps away from that. I think we are getting close again. Are we finally at that point where Verizon can break through that sort of glass ceiling and grow Wireline revenue?

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

I think it is important to separate the segments. So consumer with FiOS has been growing. The enterprise piece, I would say, if you take Terremark out, was pretty flat year-over-year, which Terremark obviously grew. I think that will continue into 2012 when you get to an apples-to-apples comparison in the second quarter.

It is really the wholesale piece that has been dragging the Wireline segment down. And a lot of that in 2011 was because we purposely priced up our international route to eliminate a lot of traffic that was unprofitable traffic. So we lost quarter-to-quarter somewhere between $150 million to $200 million of revenue year-over-year.

That now has gone away. So I think going into 2012 wholesale topline will still be a decline, because you're moving from a voice centric business over to a data center business and that will take time to transform. But I think it will be less of a drag in 2012. So if the economy holds where it is and continues to just stay stable where it is, I think we are on a good path to possibly see some Wireline top margin growth.

Mike Rollins - *Citigroup - Analyst*

And so wrapping up the last, call it, 5 to 7 years, they were big investment years for Verizon, both in terms of wireless going to 4G, in terms of Wireline getting the FiOS footprint built. How do you think the next five years are going to define Verizon?

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

Well, I think if you look at what we did in 2011, 2011 was a year where we said we needed to execute on what we had. Now I know we bought the Terremark asset, and I know that Wireless just went out and bought the spectrum from SpectrumCo, but we were going to need to buy spectrum at some point in time because we only had enough spectrum for 2015.

But I think this really sets the plate now going into the future that I think your high investment years are behind us. We are not going to do any type of another FiOS deployment at $23 billion. So I think that now, and as Lowell says, it is important for us to take the assets that were built over those last 7 to 8 years.

And we have to keep in mind that during that period of time this was a transformational period for Verizon to transform itself from a telco into a technology company, if you will. And we divested of a lot of properties; we acquired properties. MCI was in there to make us a global company.

Ivan put together a company and transformed that company to what we have today. It is our job now to take those assets that we think are really second to none in the marketplace and turn them into an investment return for our shareholders.

Mike Rollins - *Citigroup - Analyst*

Does that imply that capital intensity should get better as part of the -- driving that better return?

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

I think what I will say is, is I think what you will see from us is our CapEx to revenue ratio will continue to improve.

Mike Rollins - *Citigroup - Analyst*

What are you seeing in terms of the effects of over-the-top video, whether it is like a Netflix or some of the services that you actually help your subscribers with, like HBO GO? What are you seeing in terms of broadband demand? Is that causing some additional spending or congestion in the network as video starts to take off?

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

First, let me say there has been a lot of rumors in the marketplace about what I'm buying and what I am not buying. I'm not buying anything. We are looking at a lot of different opportunities that I would say they are opportunities more from a partnership or a revenue share type opportunity. This is not me going out and buying something.

So if I look at this there is -- you know, this is still a search and seek type effort as to what do we want to do, what model works for us. So it is a lot of investigation at this point and time from an over-the-top perspective, and that may be something that we want to do down the road here.

But from where we sit we are not seeing a lot of competition from over-the-top. FiOS is still doing very well for us. The penetration will be well. I will report out more on the numbers from FiOS, but a good quarter for FiOS as well.

Mike Rollins - *Citigroup - Analyst*

From a quadruple play perspective, what is your evaluation so far on the ability to put all this stuff together? You have got the relationship now potentially with Verizon Wireless, not only putting FiOS in your own region but cable out of region. What has been your experience so far and how do you see that changing?

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

Well, we have been offering the Quad-Play within FiOS for, oh geez, almost 1.5 years now. And interesting piece here is that it is a quad-play from a billing perspective. So it really isn't a quad-play that a consumer can talk to one person and get a quad-play. That is really what is going to change with all the innovation we will bring.

Today the quad-play that we offer is -- you talk to the Wireline piece to get triple-play, and then we shift to the Wireless to get the Wireless play. And then we put it together and put it on a bill and that a quad-play.

But that is really not friendly -- that is not consumer friendly. What the consumer wants is they want to be able to talk to one person if they have a billing problem. They want to be able to talk to one person if they have a technical problem. And that is part of the innovation from a systems perspective to be able to handle that so that the consumer believes that they are talking to one person.

So I think that will come with now the joint innovation opportunity that we have with Comcast and Cox and the others and really bring all that technology together.

Mike Rollins - *Citigroup - Analyst*

We have some time with mics roaming around. If anyone has a question, please raise your hand. While those mics start getting around to the audience, from an LTE perspective, what do you see as some of the next cutting-edge devices for 2012? Is there anything that we should be keeping our eye on as Verizon as a company (inaudible) innovate there.

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

I think from a LTE perspective, obviously, we have the Innovation Center in Waltham, Massachusetts and the Applications Innovation Center right here in the center of San Francisco. And we have a number of application providers and device providers working with our Company to certify their devices on the network. We now have over 350 devices certified on our network from a machine-to-machine perspective.

So I think that as I sit here, I think the two things that I look at that LTE is going to change the marketplace, number one, is tablets. And as we create more LTE tablets and the speed that that brings, I think that is going to change the environment that we live in, especially around the enterprise space.

Then as I look at machine-to-machine and the devices that are being developed around the health care industry and the energy industry, this dynamically is going to change the marketplace and provides growth for the entire wireless industry going forward. So I think they are the two dynamic cutting-edge things that I see coming with the LTE technology.

Mike Rollins - *Citigroup - Analyst*

You talked about buying some assets during 2011. Anything that is non-core in the portfolio that you can look at to further optimize what you have, either to sell or put something else into a partnership?

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

Well, you never say never, right. Look, I think that we are very satisfied with what we have now. If an opportunity comes up we will take a look at it, but right now I think we are satisfied with the portfolio we have. We are doing very well with the Wireline footprint where we have it. So there is really no urgency at this point to divest anything else. But, look, I mean, if an opportunity comes up and it makes sense, it is something we would look at.

Mike Rollins - *Citigroup - Analyst*

And do you foresee as you're looking at investments and expansion anything more on the international front? If that a strategic area of focus for the Company, especially with some of the cloud aspects that your are building in so far?

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

Well, I think that the investment that you will see us make is around the Terremark asset, so more data centers around the international marketplace. And we could talk more about that in 2012. But like I said, we expanded Sao Paulo at the end of 2011. We opened up the NAP Center in Amsterdam. So from an international perspective it is really around cloud and security, which is where we will strategically make an investment on the international marketplace.

Mike Rollins - *Citigroup - Analyst*

So if we are sitting here in a year from now, what are the three things that you think Verizon would be most proud about in 2012?

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

I think that we will be most proud about it if we can execute on what we said we would need to execute on. Just by coming out of 2011 when we entered it, I think we have done a very good job on execution on what we said, and I think that sets us up for a great 2012.

Mike Rollins - *Citigroup - Analyst*

Great. Well, thank you for joining us today.

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

Michael, thank you so much. Thank you everyone.