

FINAL TRANSCRIPT

Thomson StreetEventsSM

VZ - Verizon at Citi Global Entertainment, Media, and Telecommunications Conference

Event Date/Time: Jan. 06. 2010 / 5:00PM GMT



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CORPORATE PARTICIPANTS

Ivan Seidenberg

Verizon Communications Inc. - Chairman, CEO

CONFERENCE CALL PARTICIPANTS

Mike Rollins

Citigroup - Analyst

PRESENTATION

Mike Rollins - *Citigroup - Analyst*

(Audio in progress). Please note that disclosures are available at the registration desk. For those joining us via webcast, I am Mike Rollins, telecom analyst for Citi Investment Research.

For our next fireside chat, let's welcome back Ivan Seidenberg, Verizon's Chairman and Chief Executive Officer, with an opportunity to discuss how Verizon is positioning its assets and its strategy within the broader EMT landscape. Thanks very much for joining us today.

Ivan Seidenberg - *Verizon Communications Inc. - Chairman, CEO*

Good morning, Michael. Good morning, everyone.

Mike Rollins - *Citigroup - Analyst*

I guess to get us started, how would you rate 2009 as a year for Verizon and what are your key goals and priorities for 2010?

Ivan Seidenberg - *Verizon Communications Inc. - Chairman, CEO*

2009 for us, I would characterize as a good, solid year for us. Had good revenue growth, solid revenue growth, modest where we had revenue growth. I think we had good volume growth across our business.

We were down a little bit. EPS, I think most of you will know that reported numbers in 2008 were \$2.54. When you look at the end of the day in 2009, we're probably going to be down maybe roughly \$0.13 to \$0.15. Most of that will be pension headwinds.

So, if you look underneath the numbers, we had reasonably good growth for the year. We strategically completed Alltel. Got a good head start on integration. We announced the transaction with Frontier. We are well on the way to closing that.

We're four-fifths of the way through our FiOS build, so, Michael, I would say that 2009 was a really solid year in light of the overall economy that we operated in.

When we look at 2010, for us 2010 looks like a year in which we can really build a strong base for the next three years. We're very excited about the pending rollout of 4G. We complete our FiOS build at the end of 2010.

So we have a real opportunity to concentrate on good business fundamentals -- revenue growth, churn reduction, and profitability and generation of cash. I think when we look at that, we're really good. We have no strategic necessity that would cause us to have to go off and do something different.



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Opportunistically, we always keep our eyes open, but for the most part, I think we are in a very stable position to have a productive year in 2010.

Mike Rollins - Citigroup - Analyst

So, you know, when I think back to our conversation last year that we had, at that point in 2009 you were hoping to maintain or grow the earnings level at Verizon, in spite of some of the economic headwinds that you recognized at the time. Can you talk a little bit about maybe the impacts in terms of what might have affected the earnings outlook then to what you're describing today, and how investors should think about those incremental investments that were made in the business?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

I think, well, if you just dig a little deeper, all of you know this, if you look at the pension headwinds and the discount rates, so you have all those sort of financial, almost non-cash items that are affected, so we ran up against all of that in 2009.

But setting that aside, if you looked at the organic growth of the Company, we had puts and takes, but we did okay. And I think that if you looked at -- for example, we'll end up the year very well in wireless growth.

Just as an example, if you look at the fourth quarter, we indicated that we were hoping for a postpaid growth of -- retail postpaid of over 1 million net adds. That's what our CFO talked about, I think, a couple of conferences ago in October, November. I think when the numbers come in, it's pretty safe to say we'll have beaten the 1 million net adds for the quarter, so we feel good about that.

So in light of a very difficult economy, we saw good sustained growth there.

We also will see a surprise in the fourth quarter in that our reseller numbers will be much bigger than they have ever been, and to us, that's a good indication that we've done a better job at penetrating the different segments of the space, keeping our focus on our bread and butter, which is our post-pay, but also gaining some traction in the prepaid -- not the prepaid -- but the reseller market. So that's a good issue.

Probably the biggest negative for us in the year was that we didn't make as much progress on the wireline side. I think, without question, we continued to see a combination of the economy impacting enterprise and access line losses impacting that business.

What we did, about midyear, was we got real aggressive on cost, so we put a bunch of programs in place to go much more aggressively at the cost issue to offset some of that impact, and so we are looking for a better mix, a better inflection point in 2010 where the cost-reduction programs we've put in place will have great payoffs and to actually put in, Michael, a more continuous focus on cost reduction in 2010.

So, I think when I look at the puts and takes of it, really good strong wireless growth and much more focus on costs to offset some of the secular issues in the wireline.

Mike Rollins - Citigroup - Analyst

You know, one of the -- just to round out this part of the discussion, one of the things I just noticed -- the occasional time I got to watch TV during the fourth quarter -- it seemed like there was just a pick-up in advertising, particularly around your fourth-quarter promotions and the emphasis on the network, and you highlighted the better postpaid growth that you got.

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But should investors start to expect a higher level of investment in marketing now, as we push into this 3G and eventual 4G world and as companies try to differentiate themselves?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

It's an interesting question. I heard that Dan got the same question.

Here's what I would say. I think that our level of marketing expense is pretty aggressive and it's pretty consistent. It deviates a little bit from quarter to quarter, so you know, third quarter was a little bit lower than second. Fourth quarter won't be much different than our normal run rate.

But the real important issue going forward is whether we have done better at fixing the value proposition. So, instead of having to compete on handset pricing or compete on all-you-can-eat plans, I think the issue is you have to compete to some extent, but you have to improve the value proposition.

So in our case, a big focus on tiered data plans. Improving the mix of iconic devices on the wireless side. More vertical services in our FiOS. So I think I wouldn't put for us -- I think we need to think of Verizon differently than you might think of some of the other carriers. We need to strengthen the value proposition so we don't chase price as much as investors would think we would have to.

And I think the fourth-quarter numbers will show you that. I think that the messages that we have, about the quality of our network, about the value proposition, they are reasonably strong in the marketplace.

Mike Rollins - Citigroup - Analyst

Taking a step back, how would you say the economy is affecting your business today? Are you seeing any movement in the trends if you look at the wireless business or the wireline enterprise business?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

This is a hard question. All of you make a living monitoring this. As some of you may know, I participate in The Business Roundtable so we discuss this amongst all the CEOs.

Here's the dilemma that we all see. Broad economic indicators should suggest the economy is getting stronger. Unemployment is not tracking that. So almost every sector, because of the economic downturn, almost everyone in all the sectors put in productivity programs that have created much more efficiencies, so I think there's a lot of capacity that has to be increased in the system before you will start to see hiring.

So the problem that we're facing is we're not seeing this economy respond by having new jobs. So I still think most people would say there is a lagging indicator on employment. I'm concerned that that indicator will last a little longer than most people think. So we're not looking at, for the better part of 2010, any significant improvement in hiring.

Now, you know in some service industries, you will see more part-time work and you will see some more entry-level work. That's not really the places that's going to drive economic growth.

The other unspoken issue around the economy is the evolution of the administration and the Congress's handling of a lot of issues. So what we're finding is that, unspoken, almost every sector has a series of issues that people are concerned about -- higher regulatory costs, higher taxes, high transaction costs, and so, no one wants to come out and complain about, so to speak,



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what's going on in Washington. But every sector represented at the business roundtable has a series of issues where companies are keeping their powder dry, anticipating higher government costs coming out in 2010.

So I think the two issues in 2010 -- real employment growth and a lowering of the government's costs -- that are lurking beneath the surface that everybody is waiting for that to come to bear.

Mike Rollins - Citigroup - Analyst

Shifting back to the wireless side of the business, you talk about not wanting to chase price, and alluding to your strategy on the pricing side. Do you see the opportunity to grow data revenue being substantially greater than some of the pressures that we continue to see in the voice side of this industry?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Well, that's been our experience. As many of you know, we have data plans at the low end, \$9, at \$20, at \$40. We even have a prepaid data plan.

So we've really tried to experiment segmenting the market to see where it is. Frankly, we have to address this issue long term because in the final analysis, voice dilution will continue, and we either sell bundles of data or we don't make up that difference.

So I think if you look at the drivers of it, data, 35%, should go to 50% to 60% of revenues over a reasonable period of time.

I think the unmeasured aspect of data will be video. The experts would suggest that maybe in five years, 50% to 60% of mobile traffic could be video. Even if that's off by a little bit, it's still a big number, so I think the drivers of more data and more bundles are there.

The key for us is to get out in front of the architecture issues, the distribution issues, and to make sure that the market -- the customer is conditioned correctly to pay for the value of that. That's been the biggest difficulty there. But I think that's happening.

Mike Rollins - Citigroup - Analyst

One focal point as a Company in the second half 2009 was bringing new handsets to market to catalyze the improvements in data revenue and data contribution with new handsets like the Droid. Are you seeing that progress where you wanted it to be?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Absolutely. I think we've had two or three handset introductions in the fourth quarter, the Eris, the Storm, and the Droid.

I guess yesterday was the Google with the Nexus and the Palm Pre, so the answer is yes, there are more devices coming out that are more complete, have more capabilities, are not quite the same as the iPhone but are close enough that the market is very interested in it.

So I think what you will find as we move into the first, second quarter of this year, more manufacturers will put their best product out there and you will see the smartphone revolution continue to expand. So I think that's a good thing.

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Mike Rollins - Citigroup - Analyst

If you look at the evolution of the FiOS franchise, what surpassed your expectation and where do you see that you have more work to do?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

In FiOS, the two things that pleasantly surprised us was the strength of ARPUs and the consistently improved performance on churn.

So, just to comment on that, we have good product, we have good content, we keep adding vertical features, we keep expanding the capability of the system, and there has been a corresponding response by the market and we are constantly seeing steady improvements in those two categories.

The two places that I'm a little frustrated with, because we've got more work to do, is there still is an operational complexity associated with getting FiOS into the market, finishing the build, homes that have two and three ONTs.

The whole provisioning process, there still is a series of issues with that, which are all solvable. It's better today, Michael, than it was two years ago, but it's not exactly where it should be. It should be seamless, it should be done in two days -- people should be able to provision their stuff over the Net and we still have work to do on that.

I think, by the way, the operational complexity, to some extent, has been gating the significant opportunity growth in net adds. So I think that that's an issue.

The other issue is that we've been a little slower on the trigger on the multiple-dwelling unit issue, which is the high rises and apartment buildings and all that kind of thing. We're finding that the gravity of getting into a 30-story building, dealing with the landlords and the cable companies and all the customers in those buildings, we are doing it but it's taking a little bit longer.

So as we look at the future, those are two fixable issues, but they do affect the timing and how quickly we can grow the business model. So I think as we look at 2010, the lessons we've learned with FiOS is people are confident about the fact that we can constantly retain and lower churn, increase ARPUs, and focus more on steady penetration than a big promotion that drives a lot of net adds in one quarter and you find out you have a lot of operating issues that go with that. So I think you're going to find us try to time the growth of this a little bit better.

Just the last point on this, in markets in which -- if you look at FiOS introduction and the way we do this, you look at offices open for sale, so if you have an office that's video capable and you look at these numbers, open for sale for six months, 12, 24, 36, there is a really steep improvement in penetration. So where we have offices open for sale for more than 36 months, our penetration rates are at 35% to 40%. In some markets, we are close to the 45% to 50%.

So our confidence level about the winability and scalability of the issue is there. If we have a challenge, it's to get all these transaction costs crushed out of this thing so we can get the growth going a little quicker. So that's kind of the thumbnail sketch of where we are on that.

Mike Rollins - Citigroup - Analyst

I'm thinking about two goals, as you've, I think, put out there over time, going back four or five years ago, I think your original goal for FiOS was to be net income positive somewhere around this timeframe. How are you doing towards that?



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And then the second part of it, as you think about the issues that you described, the pluses and challenges, I think the goal was to do roughly 1 million adds for FiOS a year.

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Right.

Mike Rollins - Citigroup - Analyst

Is that still an achievable goal?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

The -- without giving guidance but looking at the broader picture, we turned EBITDA positive in 2008.

Our goal was to be operating income positive in 2009, which we are close to but not quite there, and then, net income positive the year after that. So I think clearly the goal this year is going to be operating income positive and get to net income positive out into the future.

In terms of the net add number of 1 million a year, the way I would think about it is we're going to think about it more in terms of penetration, so I believe that will produce a net add number, but the important thing is to show steady penetration gains every month. And whatever the net adds turn out to be, they turn out to be, as a way to look at it.

So where are we now? We are averaging just under 30% for the whole property. Our goal is we think -- my people think they can get to 35%. They are not going to get paid very much if they don't get it to 40%.

So, the issue is there's a gap to get from 28% to 40%. The question is how quickly can we get there. And the reason I want to de-emphasize the quarterly net add numbers, we need to sort of figure out over the next year or so, how do you get to that 40% penetration?

Mike Rollins - Citigroup - Analyst

If you look back to the last five years, you've made very substantial changes in the asset mix. In thinking about that, is there room to go, and do you believe the wireless and wireline assets still belong under the same roof?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Michael, here is the way we would think about that question. I'd think, if I understand the question, we're not going to change the asset mix by subtracting lines anymore. I think we're kind of finished with that.

We are very excited about the Frontier transaction that's on -- it's on plan, it's on schedule. It had a lot of progress, so we should close that first part of the year at some point.

The -- we'll always be willing to add more wireless to the mix, or maybe more vertical software applications to our product mix. So I don't think our asset mix will significantly shift because of some more sales of lines.

Now, your question about wireless and wireline. We don't think of it that way anymore. When we finish the build on FiOS at the end of 2010, a little over 70% of our wireline access footprint will be covered by FiOS. And then when we roll out 4G at the end

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of this year, we think of our business as how many broadband-capable connections do we have to our customers? And then we look at a global IP network that we have that spans the entire planet.

And so, our view is that the mix of assets should produce a different growth profile. And if we do that well, it should produce a different valuation model for the way the Company is looked at.

So what I wouldn't want anybody to think is that because we had fewer access lines, somebody will always value a fiber-enabled line the same way they value the copper-enabled line. So what we need to do is we need to prove that the changes we've made in our structure and our mix will produce a different growth profile, and we're pretty sure that's the case.

Obviously, we are a little frustrated with all these things like discount rates being so low and pension headwinds, which are not investor issues. They are our issues. But once we sort of get through that, the underlying organic performance of the Company is going to be much different because of the asset mix.

Last point on this is when you look at our wireline business, and look at the percentage of asset that is global IP versus local access, you will find that one-third to 40% of the asset mix is probably from the former MCI.

So we're not looking at the issue of wireline the way you asked the question. So do they belong in the same house? Absolutely, because I think they become an integrated whole looking at broadband and giving us the scalability to keep costs down.

Mike Rollins - Citigroup - Analyst

So these collection of assets together, how would you rate your conviction in the ability to return back to meaningfully positive earnings growth with the asset mix that you've put together now?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Well, you know, this is my -- this is our mantra. So I think that when you get finished with all the dog ate your homework excuses and you look at all of the issues, I think investors, other than 2009, have looked at the fact that, given beneath the numbers, we have shown some growth.

2009, we ran against the market, but so did the whole sector. So I think the issue is for 2010, I think when you update your models, you normalize for things like the Alltel trust properties and you do your pension assessments and all your tax numbers, and you'll get all that on the earnings call, I think you will see that there is a reasonably good prospect to see some growth in 2010.

Mike Rollins - Citigroup - Analyst

In late December, I noticed an 8-K filing that hit the Web, and it was discussing some of the ongoing succession planning and some special performance-based grants that you gave two of your executives -- two members of the executive team. And so, it just raises a question for me, first, give us a little more color, if you can, on what it was referring to in terms of the succession planning, and how do you want investors to think about your future tenure at the helm of Verizon?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

So, is everybody familiar with the 8-K, do you think?

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Mike Rollins - Citigroup - Analyst

You can probably give them a little (multiple speakers)

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

No, I don't feel like I want to get into this, but it's okay. We made an 8-K filing at the end of the month in December that basically gave Lowell McAdam and John Killian, the Board did, a retention agreement to remain with the Company for three more years based on some performance metrics -- and by the way, they were absolute performance metrics against performance of the Company.

I think the way to think about it is that our Board and myself, we've come to a sort of an understanding that we have very strong management. We are very convinced that we have a very deep bench up and down the line. I think that it's important that the Board sends a signal to both Lowell and John that they are important for the long term, and so they offered them a special retention deal, which I am fully supportive of.

And my role in this is to help the Board and the management team move through a succession that should be completed within the term of the retention agreement, which is three years. That's kind of the way I think about it.

Mike Rollins - Citigroup - Analyst

Moving over to the Verizon Wireless partnership, the operations of Verizon Wireless have clearly been very successful for a number of years now. But structurally, when investors pontificate about it for both Verizon and Vodafone, the structures seems suboptimal. And so, what I'm wondering about is as you think about all the work that you've already done to restructure the Verizon asset portfolio, where does this sit now as an issue or priority for the Company?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Yes, this is obviously the subject of never-ending discussion on this. So here's the way we think about this.

Let's just start, just one quick bit of history. Vodafone deserves a lot of credit for understanding that by combining our asset base in 2000 and their asset base in 2000, it gave us the national footprint to create a special asset, okay? We insisted at the time that we have operating control, so we can win or lose on our own ideas and our own ability to execute. So we have without question operating control, including the use of cash in the business. Okay.

In return for that, Vodafone said that they would have the option to decide to exit and that any cash that gets built up in the business would be divided out to the two partners. We thought that was a perfectly good deal.

So here we are 10 years later, arguably one of the better wireless franchises, not just in the U.S. but probably globally. So we don't think about this as an issue -- as a problem. Okay? We could continue to run this business the way it is forever. I don't personally think I would do that if I were them, but that's their call.

So I think, generally, partnerships after some period of time, they dissolve. This is a special case because it's so big and it's such a big part of our Company that it becomes a financial challenge.

From our perspective, from our shareholders' perspective, it's a straightforward financial transaction that we were offered the opportunity to buy ourselves. We would do it if the price were reasonable. We don't need to do it, Michael, if the price is out of the ordinary because we don't need to destroy our Company to make that happen.

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So this is not a high priority on our radar screen. If it turns out that a year or two or three or four, whatever it is, that Verizon Wireless builds up cash and there is no other use of the cash that would make sense for growth, then there will be the decision of the Verizon Wireless Board to dividend out the cash to the two owners. So we're good with that.

So I think the suboptimal structure is not as much our issue on that, but I would be clear that if the opportunity presented itself we would buy it, but we won't do anything destructive on it. It's not really one of my top priorities right now.

Mike Rollins - Citigroup - Analyst

Going back to the wireless side, we talked a little bit about pricing. One of the real changes in the last few years in this industry is that prepaid and these hybrid pricing has become significantly cheaper than postpaid pricing, which historically was not the case. Are you seeing impact in the way you run or price the business from this new emergence, this new form of competition in the sector?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Yes. We've made the case that prepaid and the reseller have not cannibalized our postpaid base. Most investors agree, and then they don't believe that. And then they look at the numbers and they say, okay, they sort of beat the game for another quarter.

So I think where we are in this is it's inevitable that there will be structural shifts in products and pricing plans, but here is what I would say to that. The postpaid market will be driven by smartphones, by current devices. 4G will come along and offer a new value proposition. Video.

So I don't think that the prepay or the reseller market will attack the value proposition as strongly. They may try to win over some customers by lowering price and offering some features. You know, TracFone, some of these others that are offering some simple data.

But I think that as long as we continue to offer the exciting big data, video, iconic devices, we could sustain a level of growth there for a while to come. Okay?

On the same token, Verizon itself has never been all that successful in the prepaid. It's not been sort of our bread and butter, but we have gotten a little more traction in reseller, which you'll now see in the fourth quarter. You'll see some pretty significant numbers for us in terms of reseller numbers out of that area. So the answer is we'll keep being smart, keep focused on it.

Both issues, by the way, require us to be very diligent on costs. So the other thing you'll see is continue to use our scale to drive the underlying costs of our business to make sure that we have the capacity to deal with pricing as it comes up. And we traditionally have been the lowest cash cost carrier, and we're going to continue to focus on that.

Mike Rollins - Citigroup - Analyst

Building off from the comments that you talked about in mobile data revenue, one of my surprises in the last couple of years is that mobile data revenue, including messaging, is now bigger than the consumer broadband revenue if you total up all households -- cable as well as the telcos. And so, I guess the question becomes is mobile broadband getting to the point where it starts to substitute for DSL in some of the wireline broadband applications? How do you think about that as both an out-of-region and in-region provider of the service?



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Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

It's a fair question. I think the short answer to that would be in the early years, it's really not substitutable; it's sort of additive. Five, six years out, there's going to be some substitutability.

So as 4G is fully deployed, or as WiMAX is deployed, or as people do a better job of WiFi, you could get some substitutability. I think right now DSL is much more subject to competition from cable modems than it is from wireless. But in the longer term, that will happen.

But look, the gating factor -- there's another way to look at this. You know, those of you who study this industry will recognize this phenomenon that voice has become so inexpensive that it's -- a lot of people would say it's -- the marginal cost of offering voice over landline network is so low, it's almost perceived to be free.

But when you look at mobile, if we can solve the spectrum issue, and we can -- if all the carriers can solve their network issues and we can figure out efficient ways of deploying more capacity, there's a chance of actually having the customer pay for some of the broadband and wireless that they don't pay for in the landline business.

It's very interesting. All of you know this. You can walk around Hong Kong and you could make a free call walking into any store, but people still make calls on their mobile device and pay whatever they pay. So what I'm getting at is I think they have a chance, if the industry uses good adult supervision on this, as to condition the market a lot better than we did by allowing the landline business to become almost marginally free for voice.

Mike Rollins - Citigroup - Analyst

Moving over to the LTE strategy, can you talk about how much of a priority that it is to not only hit the goals that you've laid out, which I think are 100 million covered PoPs for 2010, but the potential to even accelerate that, given the strength in mobile broadband demand that these smartphones and data devices are now generating?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Look, 4G to us is very important. I think as a strategy, it's got economies of scale. You get 4X worth of the efficiency. I mean, Dan mentioned it in his comments and he is right on in that.

Our view of the 700 MHz spectrum is that you get a single frequency across the country, you don't have to blend radio frequencies. It should make the electronics more efficient, so we are thinking this is a leading-edge expansion of the pie.

Now when you talk about accelerating 4G, Michael, here's maybe a different way of looking at this. So we're doing all the work on this. We'll go to market later this year, so let's just say it's fourth quarter, okay?

And then, you mentioned we'll hit 100 million PoPs by the end of the year. So, let's not think of it that way. The day we go live, whatever day that is in the fourth quarter of this year, in less than 24 months we will be almost 80% covered in the country. So, when you think about this not on a calendar-year basis, but think about it from the day we start for the next 24 months, we are deploying to close to 85%, almost 90% of the country.

So the issue is, could we accelerate that? Okay, we'll think about it. But the fact is that is an extraordinarily aggressive schedule. So our view is we are really excited about 4G. We've got the infrastructure in place.



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The trials are going well. Peak throughputs in Seattle and Boston, where we are doing the trials, are 15 Mb to 17 Mb. We generally don't advertise peak throughputs. We talk average throughputs. Average throughputs are in the seven to nine range, and there's opportunities to make that even stronger.

So we are super excited about the pie-enhancing capabilities of 4G. And to your question are we going to be aggressive, the day we go live, we are on a 24-month march to really bring 4G across the country.

Mike Rollins - Citigroup - Analyst

We're going to pass the mics around the room, take some questions from the audience. While we get those mics out there, a question that comes up a lot in the industry these days is, with the success of smartphones, how do you stay in front of the demands of the traffic on the network to keep the network at a good quality level?

And the other question that comes up a lot is how do you think about the possibilities of what an iPhone could do for Verizon's product pipeline?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

You know, I guess being in the business as long as I have, my answer is not going to be all that satisfactory, but basic traffic engineering and dollars, so I think, you know, we've looked at 2G, 3G. We have expectations about 4G. We know what all of you average in terms of your megabit usage. We know it. And if we know it, so does T, and so does Sprint, so does everybody else.

So the issue is, can we get out in front of the usage and the hotspots, and do that in an effective way? Sometimes you get it right. Sometimes you don't. We've spent a lot of time on this, so I think we can get it right.

This business about 3% or 4% of the customers hogging a lot of the bandwidth, well, in three years, 20% of those customers will be using that same average. So I think we have to solve this issue. This is an issue that the industry should solve, and it should do it willingly and quickly because it's a growth issue for us.

Now, what are the answers to it? Genachowski is going to be here? You should be asking him when he's going to get more spectrum for everybody. There's no question about that.

I think the other things that could be done -- certainly we could be sharing information among the carriers better. There could be better infrastructure sharing. And frankly, a little bit more capital by some of the carriers put into this issue. And I think you will see this.

So Michael, I think the way you get ahead of it is just good execution. I don't think this is a secret magic science. It just needs to happen, and it's a good issue. It's a good issue.

Unidentified Audience Member

Verizon Wireless has obviously become a huge part of Verizon and, as you mentioned, a huge part of Vodaphone. Does it hit a point where it becomes such a big part of both companies that actually a merger might make more logic than any other transaction?



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Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Yes, well, maybe, maybe not. I think the way I would look at that is -- let me go back to my own history. When you put two companies together, and obviously we've done that a few times, and when you look at mergers, I assume you are thinking of a merger of equals.

Unidentified Audience Member

Right.

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Well, in any merger there has to be a controlling view of how to execute and operate a business, and there has to be a pattern that would suggest somebody has to be accountable for executing on the idea up front.

Most investors care about what happens on day one. People get their money, they run and they leave, and then the work starts.

The way I look at it, when you look at Vodafone and us, we have different operating philosophies. So it's not that simple in my mind to say that while the assets might look attractive, how the company would actually evolve is not a simple question. So, I think I don't have a lot of faith that a merger of equals would be the answer.

So then the other two solutions would be one buys one or one buys the other. I think that's also extremely complicated and difficult. I don't see that as a simple solution.

I think in the long term, as I said earlier, we would prefer making the financial decision about when it would be appropriate to buy back our 45%.

Unidentified Audience Member

You've spent some time talking about the change in mix and assets and how that would change the growth profile of your business, and if we look back a few years ago when you embarked on changing the assets, you talked about a 10% total return for the Company when you look at the target of earnings growth plus your dividend yield. Is that still the target? And how far out are we from achieving this, if this is still the strategy?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Well, 2009 didn't help. But I think that in 2007 and 2008, we had reasonably good -- the answer to your question is we are still focused on those goals.

If we can get our dividend growth to be about one-third or so of our EPS growth, or 50% of it, so we can grow EPS 6% to 8%, dividend 4%, 5%, that's a good measure, and that's how we think about getting where we need to be. We are not there, but that's certainly the company we are trying to build and create that kind of momentum.

Mike Rollins - Citigroup - Analyst

Just another question, again just thinking about the asset mix. We've talked before about DirecTV and satellite. You've talked enthusiastically about how -- great bundle. You've talked about the opportunities with LTE in trying to create to some new products around the bundle with satellite. And you've also talked about some of the scalable content that they have.

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Recently in a Reuters report, I guess you responded to a report about the idea of buying DirecTV, that -- the quote was there's nothing to that. We don't have any strategic need. I'm curious if you could talk a little bit more about where the products you think can go over time on an operating or a partnership type of relationship, and why an acquisition doesn't make sense for Verizon?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Right. So when I was asked that question, the focus was on an acquisition. And I think when you look at an acquisition, it's a very different discussion than when you look at a relationship with a company.

So, let me repeat. So when you look at do we need to own satellite assets? We have not come to the conclusion that that is a strategic imperative for us. I'm not suggesting it can't change, but every time we think about it, when you look at the breadth of what DTV does, and they do a very good job, it is not our core business all the things they do.

Now, having said that, having a great relationship with DTV is a priority. And we have worked really hard at making sure that we have a good relationship so that as they evolve their business, their TV-centric product, their distribution, that we work with them in ways that would make some sense, and we're doing that.

So I think, Michael, we don't feel owning them is a strategic necessity and -- but I do think a strategic relationship is something we're going to keep focusing on.

You know, if you look at this question from other views, we have self-sustained capability in our strategies in wireless and in FiOS. So, DTV doesn't fix something in our business, but the additive nature of their relationship is important.

Just like yesterday, Cisco announces a telepresence product that works with FiOS. That's symbiotic. You know, the Google Nexus is another symbiotic issue. But, generally, investors, when one company is much bigger than the other or somebody perceives a strategic need, they talk about M&A. Nobody talks about M&A with us and Google or with us and Cisco.

So I think we should think of -- we should give DTV the respect that it's an independent asset with a terrific product and we need to find better ways of working with them.

Mike Rollins - Citigroup - Analyst

In the final minutes that we have, you mentioned some things that were higher and not higher on your list of priorities for 2010. So, as we exit this chat, what are the three key priorities you would like to leave your investors with that you are focused on for this year?

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Well, I think three -- I will do them in three, but I will give you a couple of subsets.

I think the -- from an operating standpoint, we are going to focus on improving our revenue profile, improving our churn, and improving our margin and cash position. Not that that isn't a goal every year, but we don't have any other strategic distractions from that, and we are very excited about completing the FiOS build by the end of 2010, starting our deployment of LTE toward the end of 2010, so we think the opportunities out into 2011 and 2012 are just absolutely off the charts, but we don't have to sacrifice 2010 to do that.



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There's a couple of other things we're going to get done, but we'll finish the trust sales of Alltel. We'll complete the Frontier transaction and make sure the execution and operational transition is perfect. We'll do that. We have all these issues in Washington. We'll keep working on those issues.

We really view 2010 as an extension of the last couple of years, a chance to get ourselves back on a track of steady growth, and really position ourselves for extraordinary opportunities in 2011 and 2012.

Mike Rollins - Citigroup - Analyst

Thanks very much.

Ivan Seidenberg - Verizon Communications Inc. - Chairman, CEO

Okay, thank you.

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