FINAL TRANSCRIPT

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VZ - Verizon at Goldman Sachs Communacopia XIX Conference

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PRESENTATION

Jason Armstrong - *Goldman Sachs - Analyst*

Okay, let's go ahead and kick things off this morning. We have obviously had a great start to the last day of Communacopia. Joining us today to start the session is Ivan Seidenberg, the Chairman and Chief Executive Officer of Verizon. Welcome, Ivan.

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

Good morning, Jason. Glad to be here.

Jason Armstrong - *Goldman Sachs - Analyst*

Thanks for joining us today. Maybe start off with what is topical recently. We have obviously had some releases in the last couple of weeks around personnel changes. Love for you to sort of set the stage for us in terms of your perspective and sort of tie this all together.

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

Well, I think it is pretty easy. We have a wonderful selection as a Chief Operating Officer who someday will be CEO and Chairman of the Company, Lowell McAdam. He is an extraordinary guy. He has had a 10-year run at various jobs in wireless. I couldn't think of a better executive in the wireless industry that has produced better results and has a feel for the business and also wonderful character, good long-standing industry guy. So we are very fortunate.

We have a great choice as the CFO. A guy who has been Controller. He has had operating jobs in both the wireline and wireless business. He integrated MCI. So I couldn't think of a better choice for CFO.

As far as John Killian is concerned, I have worked with him for 26 years. He is a close colleague. He is a really good guy. He has done a great job. I have asked him to move four or five times including to the UK, took his whole family and moved to the UK for us. I think I asked him to move one too many times.

So I think I guess he told me the beginning of September, he is out of gas. He is not going to live in New Jersey and Massachusetts any longer. And what I appreciated a great deal is he told me early in the cycle as we were getting ready to sort of plan the final stages of transition. He said, let's make this easy, Ivan, I am ready to go. I sent him home, told him to think about it for two weeks. He came back in and said his mind is made up.

We announced it that afternoon and I thought that once John clarified his plans that we should move quickly to solidify the extraordinary bench we have because the last thing I needed was to put anybody in limbo when we had clarity about what we wanted to do.

So, Jason, I am delighted with the outcome here. I think one of my key jobs here is to make sure that we have a deep, energized, confident bench and I guess based on shareholders and the reaction of the Street to our investors, we have gotten a lot of calls from people who seem pleased with it.

And so the key thing is whether or not their final comment would be is everybody happy with Lowell coming or me going? I am not sure of that but either way, it works for our shareholders.

Jason Armstrong - *Goldman Sachs - Analyst*

This has to take some weight off your shoulders obviously with clarity on the path now. Does this change the way investors should think about the succession timeline?

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

No, actually there is no real change in my mind. I think our Board has been working on this issue for the last six years. We have built flexibility and depth in our team. It should come as no surprise that John leaves, we have a plan. If Lowell happened to have left, we would have had a plan but we end up with a great lineup, Lowell is a great choice. He is going to be a great CEO.

And so I think what we will do is my plan is to work for the next whatever it takes, probably no later than the end of next year and work with Lowell and the team and make sure that that the transition is complete and there shouldn't be any change. I think the best thing I can say is I don't think you're going to see much shift in approach or strategy from our Company.

Jason Armstrong - *Goldman Sachs - Analyst*

Great, thanks. Maybe we can shift gears and just talk about the macroeconomic climate. I think some of the things that we have heard over the course of this conference is just the polarization of what is going on in the high end of the market whether it is consumer or enterprise versus what is going on maybe in lower tiers of the market both in cable and to some extent telco. But more focused on cable actually in the video market. Can you help us think through segmentation in your base and how you think macro is playing in?

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

Yes. So what we would say if we look at the industry in general I think the industry is going into a new period of really exciting growth and for the past couple of years, we have been talking about, for example, penetration that will go well beyond 100%. Investors haven't been quite comfortable with that notion but I was pleased to see some of the comments Randall made when he talked about Smartphone penetration going up, we agree with that. He talked about tablets. We think tablets are an extraordinary new opportunity, data growth all going to be fueled by expansion of data.

So when we see the industry, we look at the US 30% data growth or thereabouts, should go to 55% to 60% by 2015, Smartphone penetration should go to 70% of the market by 2015. Tablets not really quite sure what the penetration of tablets would be but certainly tablets plus machine to machine, we are sure everybody in this room certainly will have two devices on them going forward.

So then you get down to the high-end, low-end. I think even at the lower end you are watching the cost of devices will come down sufficiently that the data phenomenon will affect the mid market and the low market. So I think the segmentation you are talking about now is occurring because of the technological state of the industry, this is where we are. But I think as data and video penetrate all segments of the market, I think you will see [strata] that we'll do that.

So we are very excited that in a macro sense, the wireless industry will have enormous opportunity for step function growth here in the next two to three years both in revenues and in volumes. And so I think that is a good spot.

I think, if I look at the macro picture, I said this just a minute ago, I think that again, if you look at what T has done, even a little bit what Sprint has done and to some extent T-Mobile, I think the US carriers have made investments and improvements in the operations so that the industry has the capacity to grow a lot better.

I think if you look at Europe, they are struggling. They will grow but they are strapped into lack of spectrum, a lot of capital in front of them. So we feel that to answer your question, I am very bullish about the state of the industry.

Now if you take it down to our Company, we obviously believe that we are well positioned within that community to do well on that regard and if you like we can chat more about that.

Jason Armstrong - *Goldman Sachs - Analyst*

Lots of topics for discussion. If I could just ask one about higher-level strategy. You have obviously spent several years repositioning the Company more towards growth segments and segments that probably carry a heck of a lot less secular risk than some of the legacy segments you were exposed to. Should investors in a baseball analogy think of this as the ninth inning of the strategy? You acquired Alltel, you spun off of Frontier and FairPoint properties and now the business is kind of set or is there more to go, more repositioning?

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

Well, I don't think -- the game is ever over so I don't think there is a ninth inning here. My view is what I have been trying to do is to reduce the exposure of the Company to the secular shifts on the landline side. I have been clear about needing to do that, increase the Company's exposure to growth markets which -- and on the landline side by the way would include enterprise and the very high bandwidth services like FiOS.

So I think we are at a point where we have done as much as we can do with the existing asset base we have. We have I think the least exposure of probably any global carrier to its landline business. 60% of our footprint is covered by FiOS. Based on all of the end term franchise agreements we have, we will probably bring that number closer to 70%. So we are feeling good about that so we have less exposure there and so we are feeling good.

I think there is no other asset sale that comes to mind that would be a high priority. But I do think when you look at the broader landscape, you look at telecommunications wireless, you look at content, you look at cable, you look at all of that very interesting phenomenon you are beginning to see multiples starting to settle in the same space which means to me that you have too many companies, you have got multiples starting to contract and to consolidate. And so I think that probably in the next three to five years, Jason, I think you will see another wave of consolidation occur.

Our view is to get our Company in a position where we are dealing from a position of strength so our multiple is better than others and we have -- actually it is kind of an anomaly but we have done fairly well on that basis. So a dollar of our earnings is pretty competitive with what other companies (inaudible).

So we are not in the ninth inning but we are starting a new game and that new game will probably will play out over at the next three or four years.

Jason Armstrong - *Goldman Sachs - Analyst*

To ask the sort of the obligatory Vodafone question. We had Vodafone's CEO here yesterday. He sort of laid out options around the Verizon wireless stake and really pegged it around dividends or a split and really seemed to rule out a merger talking about valuation levels being different. But is your view the same? Is it that the order of priority would probably be dividends or split and mergers a distant likelihood?

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

So I want to help Vittorio because I don't know how you go from dividends to split and I don't know what the logic of that is. But I think what our investors should expect is this, that as our business generates cash and as we reach a point where net debt gets closer to that of balance, then a distribution of cash to the owners is probably the right thing to do. I don't have any problem with that.

The issue of the dividend to me in the past has always been asymmetrical benefit that a distribution of the dividend would have created for the two sets of shareholders. In many of the Vodafone properties, debt to EBITDA levels were 2, 2.5 times so we were not going to take a capital structure, stick it inside of Verizon wireless that was different than the capital structure we want to put in our company.

So I think as we get our capital structure where we think it needs to be which is for the total Company should be in the 1.2, 1.3 range that kind of a thing, which is what we've said we think that makes sense for us. And you drive your wireless debt down, a distribution of cash would probably be okay. So that will occur.

We don't think there is a clock to make that occur. Along the way something like Alltel came along and we bought it. But our current course of speed, the business is so successful that it is generating cash faster than you could find uses for that cash so therefore, distribution is probably going to be something that will occur in the future.

Jason Armstrong - *Goldman Sachs - Analyst*

If I could just shift to sort of the policy environment. In the last couple of months, Verizon and Google obviously took a leadership position in proposing a constructive step for the industry as it relates to net neutrality. This audience and the investor base has sort of debated the threat around Title II and what that means around net neutrality but other extensions of that and we have had a lot of back and forth. Is this something investors should still be focused on or is this off the near-term agenda in your mind?

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

I don't think it is ever off our agenda. I think we have to view it but I think Randall said this well, if Glenn was here, he would probably say the same thing. We didn't think Title II was a particularly good idea. Obviously everybody understood that because it was an extension of prescriptive powers for the FCC that was unneeded in this environment.

Google who had led the charge on net neutrality I think has done a really wonderful job at studying and learning it and it is pretty simple. I think just to remind everybody, we all agree that an open Internet in which you have access to any content, you can attach any device to it and you can reach any website, any application could run on it is something we all agree with, the public Internet should be that way.

The other two things are, we wanted a separate treatment for wireless and we wanted to make sure there was an innovation opportunity around managed services. So we didn't get stuck with making big investments and then not having the ability to drive specialty or one-off type of events.

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Because think about it, even in the Internet space, we are moving into -- you could argue that Facebook is a managed service that people might pay something different for that experience than they would over the public Internet. So I think Google has come to the conclusion that their interest is served by us pumping a lot of iron into the Internet but having separate market based solutions to it.

So now getting back to this, it always takes the government a little extra time to sort of work through their issue on it. To me this business about restoring the FCC's powers to where it was prior to the BitTorrent case is a little bit of a red herring. But I think we will end up with helping the FCC figure out what it should enforce, what it has prescriptive powers over and what should be left to the market. And I think there are a lot of discussions going on.

I don't think Title II sits in the middle of those discussions at this point. I don't think investors should feel that that is a particular threat to any of the industries, cable or us. But I would suggest that the industries do need to come to a conclusion of these discussions so that we can settle the need to have firm rules and a fair set of responsibilities cut across these agencies in a way that doesn't have this bubble up every year.

I think the FCC is in a better place than it was. I think Congress is in a slightly better place than it was and so I think the industry frankly has moved a little bit to make sure that we help out. So I hope this helps. I don't want to think the issue goes away but I don't think Title II the way we have thought about it is a particularly big threat because it is not a well thought out idea anyway.

Jason Armstrong - *Goldman Sachs - Analyst*

Shifting gears to the wireless segment, maybe a couple of questions related to iPhone. Obviously a lot of people like to speculate when Verizon is getting the iPhone for investing and probably for personal reasons. You have had obviously significant improvements in your device line if you think about devices you have launched over the course of the summer. It seems to us that the gap is actually narrowing pretty quickly. SO I am wondering how this plays into the desire/the need to get the iPhone on your network?

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

This is like the Knicks getting Carmelo Anthony, you know. Like it would be really good if the Knicks got Carmelo Anthony but they have to play the game to get him. Right? So here is kind of like the way I would look at that. We have worked hard to make our network a destination for all the suppliers to develop devices and equipment. Because we think we have the best value proposition to attract customers. So that is our view.

So the iPhone, AT&T has done a wonderful job with it, Apple obviously has done a wonderful job with it. We were not in the game because it was GSM-based, it was global standard, really not there. We have worked hard at building a franchise out of Droid which proves that if there is an alternative, an acceptable alternative to the iPhone, and a great network and a great distribution channel, the market will go that direction.

So I'm hoping that the success we have had with the Droid will lead us to the place where Apple, Samsung, Motorola, Huawei even, will want to build 4G devices and accelerate the ecosystem development so that the number of devices that will be available on 4G will be extraordinary. And our view would be we would want to carry them all.

I can't speak for Apple but my view is there is a lot of momentum in the industry for people to move on the 4G issues quicker. Now there was a fear that we build a network and that the devices wouldn't be there. Well, we are going to have a tablet. We have already announced one. There will be other tablets coming out. We have got a device lineup that would include some 4G capability starting in the first quarter.

So we are feeling very good that the answer to your question is we don't feel like we have an iPhone deficit. We would love to carry it when we get there but we have to earn it. And I think what we need to do is show all the suppliers that we have equal treatment and we have the best network for people to put all their equipment on.

So the answer to your question is I am believing that 4G will accelerate the process and any other decisions that Apple makes would be fine with us and I think we are running our business to make ourselves the destination for all of the key tablets and devices and hopefully at some point, Apple will get with the program.

Jason Armstrong - *Goldman Sachs - Analyst*

And assuming they do get with the program, I think one of the things that your investors debate as it relates to Verizon's earnings power, there is just so much pent up demand but obviously pent up demand in AT&T's base potentially shift over. As we think about tolerance for dilution around [AT&T] device and how you would think of that, I guess the fear from people is we go into a year where we take $0.30 in dilution and do a device and then a year after that, it looks great but there is a lot of variability in earnings because of this. How would you think about that?

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

Well, I can't help you with this one because I think that it depends how you think about it. If you want to pay for growth, you pay for growth. If you don't want to pay for growth, you don't pay for growth. I think a lot of times I think we have made it pretty clear over the years that we have run a business in wireless that has got mid 40s margins and with high growth and the growth slows down a little bit, margins pick up a little bit. If it turns out we had to make some investments to accelerate growth, I think you should assume we would do that. Okay? But it doesn't change our view that our base case is to run a business that is producing mid 40 margins and producing a high-growth business.

I think it is really important to make sure we focus on the fact that our scale gives us a different entry point to seek growth than it would have been five or six years ago because we are so much bigger. So I think the recovery period is going to be quicker, whatever it might be. I think the level of dilution might be less if you go through it.

But it all depends on volumes and we don't know what those volumes might look like but certainly in our case, we look at what is in front of us, we have 20% Smartphones. We think the market is going to 70%. When we get to 4G, we are on the same footing as everybody. And that is a huge opportunity for that. I think tablets are going to explode. I mean they are terrific devices.

So we are feeling very bullish about it. So the answer to your question is is Lowell going to be scared of a little dilution for growth? Lowell is going to manage that very well. I don't think he is going to be nervous about suggesting that we go to our Board and we say, if we can double our growth rate, would we accept some minimal dilution to do that? I think the answer is that we would.

Jason Armstrong - *Goldman Sachs - Analyst*

A lot of your comments have tied into the 4G launch which a lot of us are excited about. You talked about it opening up opportunities on the handset side. I am wondering about on the pricing side, Verizon, we have seen AT&T move into tiered data earlier this year. And a lot of people expected others to potentially replicate that fairly quickly. We haven't seen it yet.

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

Our view on that is we didn't need to be first. I think what we have watched others do is good. We are not sure that we agree yet with how they have valued the data. So the tiers they have created is not necessarily the way we think about it. Our view is that perhaps the data experience we are going to offer is going to be better. That would be our view. So therefore the tiers and the bundles might be different.

Just to give you a sense of that point, T for example, they have done great with the iPhone. They have a lot more Smartphones then we have. Coincidentally the amount of data traffic we both carry is not that far off from each other. You get third party companies that measure the stuff and they find that the volume of data that we both carry is not that different. Remember, we have kind of owned the air card market for a long time so we have the a lot more of that.

And so I think that when we layer in 4G, the experience is going to be very good. When you think about 4G, if I may make a comment about it, we think about it this way. So we have actually had the 4G network in the 30 markets or so we are going to introduce. It has been up and running since around the middle of June. So some of you may be running around on your devices actually have been experiencing the 4G speed and you will probably say what happened? But it is probably not that noticeable because you don't think about it.

So we have been tweaking, tuning, trying to get everything all lined up. So when we cut over on our network, we will have cut over about 30 markets and about 50 airports and all the airports are in the same market as the 30. So the issue is you will get a pretty good nationwide experience right from the get-go.

But think of it this way. So the day we cut this over at sometime between now and the end of the year and we are now up and running at 100 million pops. Starting that day, 24 months later every month there will be markets cut over so we will be at 90% two years later. So the way I think about it is from the day we start, 24 months later we've got an enormously powerful market. Nobody is going to be even close to us in that.

So the issue is I think and coupled with the idea that that 700 MHz spectrum at the low band is great for the suppliers and manufacturers. They all want to design to a nationwide standard. We are kind of thinking like, okay, the other guy had their time with the iPhone. I think our time is now so I think we have all of this in front of us with a chance to really penetrate devices, smart phones, data.

So getting back to your question on pricing, I think we are going to feather in our pricing over the next couple of months as we introduce new services, new products and try to get that value proposition to fit the added excitement and added capabilities that we are going to offer into the marketplace. So I don't think we want to match our pricing to what we think is going on today because we think we are not sure it is the right experience nor is it the right value proposition.

But we do agree with tier pricing and we do think we have to monetize the investments we make and you will see us do that over the next four to six months.

Jason Armstrong - *Goldman Sachs - Analyst*

Maybe switching gears to wireline, one of the things that has been topical at the conference is just what the video opportunity, actually what the sort of end market looks like. You guys are sort of more of in a nascent stage, you have plenty of room to grow into with obviously, it is a top-tier product out there.

But as you sort of step back and see what the cable companies are talking about now, the low end of the video base sort of disappearing a little bit more quickly than they expected and tagging it to cyclical, what is your perspective on this and what is going on?

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

Let's start from our side. When we look at video and broadband, we think we are doing okay with video. I think John Killian last week was at another conference in which he indicated that we should be exceeding or tracking anyway, we are exceeding our second-quarter number on video net adds on FiOS. I think we had 170,000 something last quarter. Is that right? So we are tracking better than that and we are feeling good so we think we are fine.

Then when you look at the net broadband which is what we are getting out of FiOS plus what we are losing out of DSL, we are kind of net, we are kind of positive. So to us, that is a good accomplishment. So in this market for our net broadband to be positive, we are feeling good.

So what is going on I think is pretty clear. DSL is losing out to cable. I think cable is probably starting to experience what we experienced five, six years ago which is the low end is disappearing into other alternatives. And the first thing when that happens is you deny it. I know the drill, I have been there.

So the issue is you just need to increase the value proposition which they are doing a good job at. So when you think about cable they increase the speeds, they increase HD, they are doing a lot of things with their product but they are still finding that there is lots of substitution going on. Some of it is the economy I wouldn't doubt that, housing starts and I get that. But housing starts will never pick up enough to offset what we now see is the drop.

So I think that the video experience is going to go the direction that we kind of feel we are prepared for which is very high speed, high experience of video. So 3-D is an example. Very high data loads that we use on FiOS. So I think in our case, we think we have a smaller footprint, we are positioned to do that. I do think the economy has a big impact but I also think the secular shifts that are occurring will hit video the way they hit Voice. And I think we are feeling like with our 4G rollout, with our FiOS position, we will be okay.

Jason Armstrong - *Goldman Sachs - Analyst*

Different statement then what we heard yesterday, an interesting perspective. Thank you.

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

Yesterday from?

Jason Armstrong - *Goldman Sachs - Analyst*

Cable companies and a lot of media companies.

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

Listen, they are doing well and they have to play their cards. My only comment is they don't know what they don't know. And I think I have all of the bruises of sort of playing out the same strength. We never thought anybody would cut the cord on telco, right? We have got 30% of our customers cutting the cord.

Young people are pretty smart. They're not going to pay for something they don't have to pay for. So you've got to watch the market, over the top there is going to be a pretty big issue for cable.

Jason Armstrong - *Goldman Sachs - Analyst*

On the wireline business, the margins seem to have leveled out. Cost-cutting is just sort of ahead of the revenue trajectory at this point. Positive surprise in 2Q. Should we extrapolate that for a point where margins are stable and potentially move up?

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

It is another one. I think we caught the bus last quarter and so I think we have created a little operating momentum and so the goal is to do better this quarter than we did last quarter and continue to do that going forward. So I am pretty confident that we are at a good spot with that and I'm not going to predict where margins need to go to but I think the issue for us is to make sure incrementally we beat or at least match what we have done in the last quarter.

So I think certainly we have the benefit this quarter of significant force reductions because most of the force reductions that were announced hadn't hit the Company's books and they won't even be 100% hit in the third quarter. There will be a good piece of it. By the time we get to the fourth quarter though, we will see a lot of [that].

We have done a lot of other things on cost so the issue on margins is we have every incentive to reduce the leakage out of the wireline business to make sure we book as much of the game we think we are going to get out of wireless. So to me, we are on fire to make sure that we minimize the leakage on wireline and actually for the first time in several years, I feel better about long-term with the wireline. Because we have been in sort of a fire drill mode here. But when I think of FiOS keeps getting stronger and it is doing well and the contribution from that is extremely good.

We are seeing some stabilization in enterprise. It is not great yet but that is clearly cyclically impacted and I think we are doing that. And while this is going on, is we have built a really good portfolio of better products, better services and we have a lot of interest in customers and I think we have accelerated our cost activity.

So I think when I look at the wireline business we still have this problem of access line loss and all of that kind of thing and voice revenues shrinking. But we have more tools in motion today than we did a year or so ago to offset that. Remember, the most important thing to me at this point is to minimize that leakage so that as the wireless team sort of ramps it up here with 4G and tablets and all of these other things we are going to do, we see more of that earnings power go to the bottom line.

Jason Armstrong - *Goldman Sachs - Analyst*

Maybe one more from me and then we will open it up for some audience questions. Think about returning cash to shareholders, your Board made the decision to hike the dividend again recently. And it is interesting because the Frontier spin sort of was a dividend hike in itself and that gave you plenty of room to not have to hike the dividend this year but still have plenty to say listen, to shareholders, we gave you an effective hike over the summer. So in my mind, sort of a positive signal it showed strength. Can you step us through the decision?

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

It is a math issue. It is both a policy and a math issue. I think if you took the financial people in the Company, they were banging on me to say that we are paying out too much in earnings and if you are only earning $2 and change, and we are paying out $1.95 in dividend that is kind of not the thing to do. So I got that speech from Killian and everybody else in the Company.

On the other side of the coin is Doherty is laughing because he was part of that speech. The other side of the coin is we feel we have really positive prospects of growth going forward. And if I look back on my own career, one of the mistakes I made on this point was every time I thought I was chasing growth and we ratcheted down the growth and the dividend, some investors thought that was okay, most of them didn't.

So we thought through this cycle, we would make sure we kept that dividend at a place where people would be attracted to the stock. And so by the way for those of you who feel like you want to buy, I think if you drove our yield down to 5%, our stock would be 38 or 39. I am not sure what the number -- it would be 38 or 39. So I think the issue for us is to be really clear about maintaining the sanctity of some level of dividend growth. We are too big for people to look at us as a pure growth play.

So if we could get growth back into that 5% to 7% range and have a yield that is the above 5%, I think we become a pretty attractive looking stock. So that is kind of where I am at.

My own view is you pay down debt and you fix your balance sheet. We have great cash so no one should worry that our dividend is at risk. Then you get to the issue of share buybacks which I will deal with since you raised it. It is kind of like the last issue on my hierarchy of good things to do. Reinvest in the business, you want to do that. You want to make sure you protect your dividend, you want to pay down your debt and if you have anything left over, you buy your shares back.

We have so many shares outstanding. We have to have some massive share buyback program which is probably not in the cards right now so therefore, the dividend becomes more of a central factor how we think about it. I hope that helps a little bit.

Our Board is very good. Our Board worries about the math to make sure that we can afford to pay it and that we are not taking our metrics totally out of line. On the other side of the coin is our Board is excited about the fact we have restructured our Company, we have reduced exposure to the slower growth assets and we are thinking that over the next several years organically, we have a lot in front of us to achieve.

Jason Armstrong - *Goldman Sachs - Analyst*

We will take some audience questions. (Operator Instructions).

Unidentified Audience Member

Ivan, your opinion on what is going on in cable is the same that I have reached, but I get it just looking at the attrition of subscribers. It reminds me so much of the consumer wireline. You have a better look at it than I do. Do you have information sort of in a more granular form that leads you to your opinion?

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

Well, I think what I am going to say is obvious, yes, we have a lot of information, a lot more granular information of which I'm not going to share. But I think the point I am making is we take the over the top issue with video very seriously so we have a smaller 3.5 million video customers. We think we are not going to keep them all the way the old cable model kept them.

So we are looking at lots of different alternatives to make sure that we have, we participate in how to monetize over the top across a range of platforms which we are working on. But we also feel that -- we do agree with cable that you can keep a lot of the customers if you have very high rich experiences like either HD or maybe 3-D.

The only point I would make about this part of the business which is a little bit of a rub to us but we agree with cable, we all face the problem of 5% and 10% content cost increases every year. And so as long as you are stuck in the sort of bundled model and you have bandwidth limited capabilities, you are going to find that the over the top is going to be somewhat limited. So just put that in perspective, you want to drive all of your channels onto the Internet, the Internet doesn't have the capability to offer 20, 30 channels. Maybe it could offer six or seven.

And so I think the issue is I think cable has some life left in its model because with all of the proliferation of content, the bundle offering of 300, 400 channels is probably the only way a customer is going to be able to buy that. But that is going to get this intermediated over the next several years. It is going to take a little time.

We don't know what tablets will do. We don't know what 4G will do. We don't know what 3-D will do. So in my judgment, all of that is going to further segment the business and what we are going to do in our Company is make sure that our FiOS-based offering and our 4G-based offering trying to take advantage of multiple platforms. And we don't find ourselves building ourselves a cable-like business and getting ourselves stuck in the problem of cord cutters and all these kinds of things (inaudible).

So I hope that helps a little bit. They have a good business. I don't want anybody to think I am suggesting they don't. But I have seen the movie. And I think if you remain static too long, the technology is going to nibble at you at the edges and you need to be prepared for it.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

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

I think I understand the question. My preliminary thoughts, it is a GSM-based -- I mean they wanted to put that on GSM-based devices. So I think we were taken out of the game. I don't think there is any strategic issue there other than they went to Blackberry. They put it on a GSM device and that is what they did. So the answer is it will come around the corner soon I think.

Jason Armstrong - *Goldman Sachs - Analyst*

We have time for one more. Back here.

Unidentified Audience Member

Regarding the introduction of the 4G product looking out both a year from now and two years from now, what percent of your phone sales and what percent of your network usage do you expect to be 4G?

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

Well, as I said by the end of 2012 and as we head into 2013, we will have 90% -- 93%, 94% coverage of 4G across the country so that is what we view with that. You want specific model questions so I won't do that but I will give you some broader issues.

I think we will get our 20% of Smartphones way up in the next three years to 40%, 50% heading to 70%. I think everybody will have -- I think penetration of products and services on 4G will be 200% to 300% as opposed to right now at 95%. So I think that there is lots of opportunity.

Revenues, ARPUs should increase because I think we started to see that already as we go up the smartphone ramp, we are watching our postpaid ARPUs be accretive. So I think all of this is heading in the right direction. I think we need a few quarters under our belt so you can model some trends but we are feeling that the volumes are being very strong.

Jason Armstrong - *Goldman Sachs - Analyst*

Great, we will have to leave it there. Ivan, thanks so much for joining us.

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

Thank you.