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PRESENTATION

Phil Cusick - *JPMorgan Chase - Analyst*

Hi, my name is Phil Cusick. I cover telecom and cable at JPMorgan. Today, I want to welcome Fran Shammo, the CFO of Verizon. For those of you who haven't met Fran, he has been the CFO since November 2010 and been with Verizon and the predecessor companies since 1989 in a variety of roles, most recently as President of Verizon Business and before that, he ran the western region of Verizon Wireless. Thanks for joining us, Fran.

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

Yes, thank you, Phil. Good morning, everyone.

Phil Cusick - *JPMorgan Chase - Analyst*

I thought we'd kick it off with a little bit of a macro start. On the first-quarter call, you talked about some issues in Europe. Can you just give us an idea of what you are seeing sort of US, Europe, consumer enterprise, government spend?

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

Yes, so I think that just overall just from an economic standpoint, I think the economy is still just kind of moseying along; it is not going down. I don't see it increasing and we have predicted that it will just be stable through this year.

Coming out of the first quarter though, we were a little bit surprised and did not expect the pullback in Europe that we experienced. We were growing our European market about 13% to 15% year-over-year on a consistent basis and that dropped to flat. So we saw -- we did see a pullback in the European market. I don't anticipate that that will be a long pullback for us. We are already starting to see sales pick up in the enterprise space. But obviously as everybody knows in enterprise, what you sell today you really won't implement and book for six months out. So I think we will probably see another two quarters of this and then we will probably get back to where we are. So I think it was a short-term pullback. I don't see it being a long-term pullback.

Back here in the States, where we see the enterprise space going is more to the cloud and security-type services. Really don't see a slowdown there. The acquisition that we made of Terremark continues to grow 20% to 30% year-over-year. So not much of a slowdown from a cloud perspective. We see a lot of people talking about moving technology to the more efficient technology, which is a good thing for us as we go through our product rationalization strategy and we can talk more about that if you would like. But I see it as stable and the consumer market really not seeing any pressure from the economic condition at all. It is more focused around enterprise.

As far as government goes, we are really not seeing a slowdown in government space. And again, if we can walk into a government or even a large enterprise company and put something on the table that we can show them how we can reduce their expense, they are very open to the solution. So I think that is where our niche is right now.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay. Let's shift gears over to wireless. The industry seems to be slowing down from a subscriber basis. And in fact, in the first quarter, we saw essentially no industry growth. How do you think about the potential for the wireless business to grow just first on a subscriber basis over the next few years in that context?

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

I think there is a couple of points here to make. First quarter is always normally the slowest quarter of the year for the wireless industry as you come out of the holiday season and you enter into the first quarter. So I see the -- if we're talking about postpaid net adds, I see that continuing to accelerate through the year. So I may have a little bit of a different view coming out of the first quarter.

I also think that, with all the new technologies that are coming around, and as I look at our LTE technology and we are talking about data share plans in the mid-summer, I see this as being all upside for the industry. So if you look at the industry alone, if you just look at Apple iPad sales, for example, I think they have sold 40 million. Now that is worldwide, but a large percentage of that has happened in the United States. If you look at who has connected those to a wireless network, that percentage is fairly small.

So as I think as we go into data share plans and get folks to be able to share that data across all of their devices, I think you're going to see the industry start to pick up a lot of that activation that hasn't been there before. So I kind of view the industry as I think we still have a growth plan here from additional connections if you will and moving away from this postpaid net add nomenclature. It is really going to be around the connections and then obviously the generation of revenue going forward. And I see that as a positive moving forward.

Phil Cusick - *JPMorgan Chase - Analyst*

Let's stick with the tablet sort of theme for a minute. We met with a European carrier a couple of days ago and they described a subsidized iPad that they have that ties to a data plan. It seems like you are selling these at a decent level or connecting these at a decent level with no subsidy. Do you see any shift toward a subsidized model over time?

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

Right now, I do not see that. We are holding pretty strong with the model of no subsidy on these devices. And I think that as we get into more 4G LTE, you will see that, even with our Internet-connected devices, the dongles if you will, the subsidy -- we have really compressed that subsidy down.

So if you look at European carriers, some of them have actually moved away from even a total subsidy model on a smartphone. They are going to more of an installment sale, leasing-type transaction. I think the industry is going to look hard at these types of models going forward and I think that is all a benefit for us. But I do not see us moving away from the no subsidy model on the iPad and the other pads that we sell. I think we will stick with what we have.

Phil Cusick - *JPMorgan Chase - Analyst*

And you have talked about a sort of group pricing model going forward. How does that help drive that tablet adoption?

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

Well, again, I think if you look at what we are going to come out with in mid-summer from a data share perspective, at least our view on it is that we have kind of constrained the marketplace now around connecting more devices because everybody thinks, well, if I connect that device, I now have to buy an additional data plan with that that has its own tiered pricing with it.

I think if you looked more holistically and look at just the data share overall, if I can add as many devices as I want and share that data plan, that is a lot more efficient from a family share perspective, from a small-business perspective. And I think at least where I sit and I look at that, I say to myself, okay, there is a large ramp of devices out there that, especially when you think about families, they are not connecting those devices because of the incremental cost in the model we have today.

And I think going forward, we are going to make it easier for folks to connect devices and also the trick shot that we have spent a year on developing this price plan is it is a win-win. It is a win for the consumer, but it is also a win for us that we are not going to take a huge revenue dilution here when we launch this plan.

So we think we have something that is very different, very innovative, something that really hasn't been tried before in the industry and you will see that this mid-summer.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay. And as you think about the enterprise segment, we have got a podium outside that sort of highlights the JPMorgan iPad technology app, but we also are seeing a lot of BlackBerrys coming out of the business. How do you think about managing that transition and what are your enterprise customers focused on right now?

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

Well, I think as we talk to enterprise customers, most enterprises are moving away from -- back two to three years ago, an enterprise, any enterprise would say, okay, these are the certified devices that we will let employees carry. And now what we have seen is we are moving into a new generation, which is you can bring your device because the younger population doesn't want to be dictated as to what device they carry.

So now you're seeing enterprise companies, okay, you bring whatever device you want and we will make sure that that device is secure around our firewalls. So it could be a tablet, it could be a smartphone. So that nomenclature that it has to be the one device I think is what they're moving away from and that is why you are seeing a proliferation of varying different devices in the enterprise space.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay, okay. Shifting over to ARPU a little bit, the other side of the top-line growth here. Number one, you have talked about -- I think last quarter, you reported high 3s year-over-year postpaid ARPU growth. What is the level of sustainability for that over the next year or two as smartphone penetration sort of starts to slow down a little bit?

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

Well, we think we still have, I would say, many, many quarters, at least into '13 with our basic phone to smartphone upgrade because we have a fairly low base of smartphones still compared to the rest of the industry. We are coming out of the first quarter at 47%. So I think we still have a long road ahead of us there. So I think that from an ARPU accretion perspective, I certainly see this trend continuing at least through this year into next year.

But then as we come out with the data share plan, quite honestly, when we do that, we are going to have to change the metric in the industry. And we are going to have to go to an account, if you will, a revenue per account. It really won't be a revenue per customer anymore because if you think about the number of devices that will be added to these accounts, it really won't be important anymore what the revenue per customer is; it is going to be revenue per account.

So as we come out and launch this, we will have to enter a new metric into the industry called revenue per account and as our customers start to migrate, which will take a fairly decent long time to migrate because of the difference of this plan, we will start to probably go away from revenue per customer over time and really concentrate on that revenue per account.

And the important part of that is we want the connections to come in and the way we have designed our plan, this plan is built on tiers and as we look at the future growth of LTE consumption because of the speeds and video consumption and consumption of other M2M-type devices, it is going to be more important that people will start to upgrade in their tiers as they start to really realize the benefits of the LTE network.

So two things here. One is I think revenue ARPU will continue to grow as we get into data share plans and people start to connect more devices as my pad example. And then over the future time, as they add more devices, they are going to have to buy up into tiers. So again, you will see the revenue increase there.

Phil Cusick - *JPMorgan Chase - Analyst*

How do you drive customers over to this new model? Is there a willingness to take a little bit of near-term pain on revenue in exchange for the higher device number that is going to drive growth long term?

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

Well, the way we have designed this and of course, it is paper, not actual and we will see how this comes out, but the way we have designed this is we really shouldn't see a short-term decline. And really the theory behind this is LTE is our anchor point for data share. So as you come through an upgrade cycle and you upgrade in the future, you will have to go onto the data share plan. And moving away from, if you will, the unlimited world and moving everybody into a tiered structure data share-type plan.

So when you think about our 3G base, a lot of our 3G base is unlimited. As they start to migrate into 4G, they will have to come off of unlimited and go into the data share plan. And that is beneficial for us for many reasons, obviously. So as you pick what tier you want to be and we think that there will be some price up in those tiers.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay. Let's talk about -- aside from sort of rack rate pricing, fees seem to have gone up quite a bit in the last year. I spoke to another carrier recently who said they think they have sort of taken all the fee increases they possibly can. Is there room to start raising rack rate pricing? Do you need to or is it really just people over time will drive themselves up through tiers to continue to drive revenue?

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

Yes, I think we were the last ones to launch the upgrade fee, which is what you are alluding to. So we implemented the $30 upgrade fee. We followed the rest of the industry there and launched that as the last one and we think the $30 price point and we are really not seeing any impact from a customer base from that fee. So that was the right thing to do.

But I think you are right. I think implementing these additional fees is probably where we are at. But again, if I go back to what I have talked about, with the construct that we have dealt with around data share and where we see consumption of LTE going, when you put the combination of them together, we are fairly confident that we will see people start to uptake in the tiers, which is really where we will get the revenue accretion in the future.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay, okay. And we talked about -- let's talk about spectrum for a minute. I promise I won't take too much time on it, but I would be remiss if I didn't ask you about the deal you have pending in front of the FCC right now. What are you hearing from the FCC so far? What was the driver for volunteering to sell 700 spectrum on the other side of that?

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

Yes, so I think we are where we exactly thought we were going to be. The FCC extended the 180 day clock by 3 weeks and that was more around the amount of documents that they requested from us and we gave -- the group needs time to review all those documents. But I think we are still extremely confident that this deal will get approved. I know there is some speculation out there that the T-Mobile/AT&T didn't get approved, why do you think yours will. This is a very different deal. This is the purchase of spectrum, not the purchase of a company and customers. So we are very, very confident.

I know there is also some speculation that the FCC forced us to put the A and B spectrum up for sale. The FCC had no idea we were going to do that. We think it was the right thing to do. Look, I think if you look at spectrum overall, we are very happy with where the FCC has come out fairly aggressively to start to provision more spectrum for mobile services. Congress this past year passed the incentive auction for the broadcasting spectrum and the FCC looks like they are moving fairly aggressively to bring that into the wireless industry, which we are fully supportive of.

But the other thing that we think the industry needs is a secondary market. And the reason we put the A and B up is because if I can get the AWS approved, which we think we will, the A and B that we have can be utilized by other carriers much more efficiently than it can be used by me. And quite honestly, I think we have been very good stewards of our spectrum. I think we have shown a history there and we don't want to be looked at as hoarding spectrum for the industry. So it is the right thing to do for us and for the rest of the industry.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay, okay. And as you look further down the pipe toward more spectrum and capacity needs, does this get you to a point where you can now say, okay, whether it is 2016, '18, '20 where we don't need to spend abnormal amounts of capital to keep our capacity moving.

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

Well, I think prior to the deal that we announced with the cable companies and the acquisition of spectrum, we were saying that we were going to need a spectrum -- we were going to need more spectrum by 2015. With the approval of this deal now, with the AWS, we think we are in very good shape here beyond 2015.

In addition, the way our 3G spectrum is in individual slices, it is going to be very efficient for us to take slices out and reappropriate that to the 4G technology. So I think that through that spectrum efficiency, also I think that there will be some help from the manufacturers in getting more equipment out there that utilizes spectrum more efficiently, although I don't think that solves the problem, the industry is going to need more spectrum in the future because of the way that we see the guide path of consumption. But I think right now, we are in pretty good shape for at least the next several, several years.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay, okay. Let's switch over to wireline for a few minutes. Maybe just start with any update on your negotiations with your union. You have had no contract with one of them for quite some time.

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

Yes, so I think that, look, coming into this, we said that this was going to be a long negotiation. I think when AT&T attempted to get healthcare contributions and pension revision, it took them over 500 days to get a final agreement. So we knew that we were in for a long battle. But, look, I think we make progress. It is slow, but we are making progress. At the end of the day, we, the Company, know what we need from a cost structure restructure in order to get the wireline business to be more profitable and sustain themselves from a free cash flow perspective.

So look, I think we are holding our ground and that is what is taking the time. But I am confident that we will reach an agreement and we will get what we need and also be fair to our employee population.

Phil Cusick - *JPMorgan Chase - Analyst*

Does your sort of activity level or capital intensity, is it impacted at all today because you don't have that contract?

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

No, not at all. The workforce is back working like they were prior to that. We really have no difference in what we would have spent if we had a contract versus if we didn't. The only difference would be is what we are asking for is we are asking for healthcare contributions, we are asking for some revisions in the pension plan. And obviously that is going to be critical for us from just a cash perspective and an operating perspective going forward. And once we get a union contract, then we will share with what we think those benefits will be over the longer term.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay. So let's talk about the wireline sort of business units almost in opposite order of where people usually go. Let's start with pay-TV. The FiOS TV business has been growing pretty steadily for a few years now. Where do you think that goes over time and at what point does it become a significant profit contributor to the Company?

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

Well, look, I mean I think it is already about 60% of the consumer revenue in that portfolio. So it is already a significant piece of it. Each and every quarter, we continue to increase the profitability of FiOS. I have said before that our sweet spot is between 180,000 and 200,000 net adds a quarter, which is it allows us to grow, but it also maintains our expense level where we want it. So we are not spending a lot of overtime and additional capital to connect up to new customers.

Look, we believe that it is a superior product in the marketplace. We were happy to see that Consumer Reports claimed us the best overall against all cable and satellite providers in the newest release for the third year in a row. We just won again the Consumer Satisfaction Index -- American Consumer Satisfaction Index for the third year in a row.

So, look, I think we are getting the support of the consumers that this is a superior product. I think we have shown that we can penetrate markets. We have some markets that are in excess of 50% penetrated from the first early days of when we started this. So I still think there is a very long runway for FiOS. We have to do a better job in discipline of price increases and I think that you'll see us do some price increases here over the next two quarters to offset the content increase and that will also contribute more profitability to the bottom line.

So I think -- I think we have the plans in place again to continue to improve the profitability of FiOS and it will become a bigger component of our profitability of wireline.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay. So sort of two things there. One, in terms of the growth, the Company has been slowing down in terms of the incremental number of homes that are available for sale. Is the 180,000 to 200,000 net adds a quarter directly related to the incremental homes for sale or is it sort of two different calculations?

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

It is really two separate calculations. I mean we have about almost 17 million homes passed at this point, including MDUs and small business. We have said that we would build to the LFA requirement, which is 18 million under the old, but as the six and seven years have passed, it is actually going to be closer to 19 to 19.5 because of new developments that have come into those areas, so we will stop there.

But keep in mind, I mean we have now -- we have surpassed 4 million subs on TV. We are going to have 18 million open. So there is still plenty of penetration to be had within those open for sales. And look, I think Lowell and I have been open. If we can penetrate the market and really turn the wireline profitability, could we potentially build out to other areas? Yes, but that is a decision that will be made in years out, not right now. So from a capital perspective, we are being very disciplined with where we are going to put that capital.

Phil Cusick - *JPMorgan Chase - Analyst*

And as I think about the overall pricing, it seems like in the first quarter, sort of late fourth, early first quarter, we saw a very high level of promotion intensity both from you and from some of your cable competitors. That seems to have fallen away. Is that fair to say?

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

Well, I think the industry itself is extremely competitive. I think what you are seeing is that with the content increases that everybody is seeing, you are going to have to concentrate more on reducing the amount of promotions, reducing the amount of retention that you put on the table to retain a customer and then also you are seeing that the industry is pricing up.

Now the cable industry has been very, very disciplined on their price-ups to maintain the content. Being last in the marketplace, obviously our content costs have been significantly higher than our competitors and over time that gap will close. So I think we have opportunity as we increase price to really expand our profitability because our content costs aren't going up as nearly as some of our competitors at this point, especially when you think about retransmission and everything else.

So I think we are in a different place, but, yes, I think you're seeing a little bit of pullback on those promotional-type items and the aggressiveness that we have in the marketplace. And look, I mean given the Consumer Reports article and the Consumer Index article, I think we can be less aggressive. Word-of-mouth is the best advertising we can get.

Phil Cusick - *JPMorgan Chase - Analyst*

Right. And the cable industry has a 50-year history of raising prices on a pretty regular basis. Do you anticipate raising prices essentially across the entire footprint or is this going to be more -- you said a couple of things, maybe it is more targeted market by market?

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

No, this will be an across-the-board increase around our rental fees. So we were actually below-market compared to our competitors on the amount of fee that we charge on the rental of a set-top box or a digital converter box. So you will see that happen across the footprint. We are switching around our bundles and the customers that are coming out of the current bundles will be priced up to the newer bundles. So you are going to see really a shift over the next two to three quarters in price-ups coming out of FiOS.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay, so not just sort of DVR boxes and things like that, but also on rack rate pricing, we should expect an increase?

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

That is correct.

Phil Cusick - *JPMorgan Chase - Analyst*

That's great. That's great. Can you talk about TV Everywhere? You have a deal with -- a JV with Coinstar. What's the timing on that and how do you anticipate it sort of affecting both the wireline and wireless businesses?

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

Yes, so I think that -- a couple things here. About I guess now two years ago, we started the development of our Verizon Digital Media Services, which was really the platform that we needed to build in order to deliver content across the world quite honestly and using the backbone that we had from the wireline business to be able to deliver content through that backbone at a much cheaper rate than people out there today. And we have spent a lot of time developing this platform and this platform is not -- I would not classify it as a CDN platform. This is far beyond that because we will take content in, reformat that content to fit on any screen anywhere and deliver it anywhere in the world.

So that was the first basis of where we think we can differentiate ourselves from others. And if you look at that business, there is going to be a retail business and a wholesale business. The wholesale business is just taking content from those content providers, enticing them to put that content through our platform and delivering that to their end user and we think we can do that more efficiently today on our platform than others can do on their platform.

The second piece really enters into Redbox. So what we said was we needed to expand our capability outside of just the FiOS footprint, utilizing the content that FiOS has and bringing that into the rest of the United States through a delivery mechanism using VDMS as the basis, but we also needed a partner who was recognized in the outside of the FiOS footprint as a very, very good, if you will, DVD distributor, but then wants to get into the streaming business. And Redbox fits that naturally for us. They have a great brand out there, 35,000 kiosks across the United States. They have 30 million customers. They have a great website. So we are going to integrate all that together and bring packages for both streaming and DVD and that will happen sometime late summer.

Phil Cusick - *JPMorgan Chase - Analyst*

Should we think of that as sort of for Verizon customers only? Is it for a wider customer base?

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

This is really going after both some FiOS customers, but this is really meant for the launch across the United States to the Redbox population and their 30 million customers.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay, so it is really a wide-angle piece. And for Verizon Wireless, do you anticipate a tie-in there?

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

From a -- what on Verizon Wireless?

Phil Cusick - *JPMorgan Chase - Analyst*

Sort of tying it into the wireless service business as well.

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

Well, this is strictly a Verizon wireline joint venture. This is not -- has nothing to do with wireless, just like the cable deals, the Verizon Wireless deal has nothing to do with wireline. So they are really -- they are really very two separate things. So two separate strategies is what I would say.

Phil Cusick - *JPMorgan Chase - Analyst*

Good, good. I want to open it up to the audience. If anybody has a question, there is a couple of mics up here. Does anybody want to --?

QUESTIONS AND ANSWERS

Unidentified Audience Member

Fran, could you talk about -- it sounds, the way you discuss all the different segments of your business, that there's a possibility that the capital intensity of your business may actually start to decline as you get beyond the LTE buildout here. And could you talk about, over the next one to two years, what your expectations are?

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

Yes, I won't go beyond this year, but if you look at what we did in the first quarter, and it is a little bit deceiving because if you look year-over-year, we obviously spent a lot of money in the first three quarters of 2011 to build out the 3G capacity related to the iPhone launch that we had.

And now what you're seeing is, if you will, a discontinued investment in 3G. Now we will have to continue to invest in that 3G from a maintenance and reliability perspective because we still have 90 million customers on that, but no more capacity or expansion of the 3G network. Our effort is going into 4G now and what I would say to you is look at Verizon on a total capital basis and I would say flat to slightly down. If you look at the components, what you will see is wireless decreased $850 million in the first quarter and that was because of the 3G buildout last year and not this year. But I think on a year-over-year basis, you could look to flat to down and that trend should continue.

Unidentified Audience Member

And that's on a dollar basis, not a percentage?

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

That is on a dollar basis and if you look at it on a rev to CapEx ratio, our ratios should continue to improve over time because if you think about a flat capital program, and the growth of my revenue, that ratio will improve.

Unidentified Audience Member

Yes, I am curious about the HomeFusion rollout, sort of what the long-term coverage potential is there and if you are incrementally more or less bullish about that than when you were doing the Cantenna pilot last year. Thanks.

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

Yes, thank you. So from -- we launched this, it is kind of too early to tell. Right now, it rides off of the 4G LTE network. So it is only right now where the 4G LTE network is and as we expand that network, obviously we will attack more homes in there. It is really a rural solution for those customers who either don't have DSL or high-speed Internet today or have a DSL product that is only running at 1 to 3 megs and we can give them a much higher speed.

Our preliminary rate now, it is going well. Customers are receptive to it. They love the product. But it is too early to tell yet what the adoption rate of that will be and I will probably have more information as quarters go here. But right now, it is a great product and the speeds are great and the customers who have it love it.

Phil Cusick - *JPMorgan Chase - Analyst*

Other questions? So let's talk about CapEx a little bit since that came up. You talked about shifting over to 4G. As you build out the LTE network, you have got a huge footprint now, but what seems like a fairly low number of sites relative to your total. How do you sort of prep up capacity for -- or for example a high-profile LTE device to launch later this year? How do you make sure you have capacity ready for that if the LTE sort of shift really, really accelerates?

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

Well, I mean I think it is a couple things. It is not really related to a cell site more than it is to a spectrum utilization. So from a spectrum utilization perspective, I think the 700 megahertz continuous that we have is extremely efficient. We don't see any capacity issues in '12 going into '13 at this point.

The AWS spectrum that we have on the East Coast, and will get with the approval of the FCC on the West, that will be where we utilize the spectrum for capacity. And then as I said, as we start to bring down 3G usage, we will start to reappropriate that over to 4G.

So from a spectrum perspective, I think we are absolutely fine. From a coverage perspective, you will see us continue to build out coverage. And our goal right now is to have our substantial footprint completed by the end of '12 and by mid-'13, our 4G footprint will be equal to our 3G footprint, maybe even a little more than our 3G footprint.

So it is really we have the cell sites. We are not constructing a lot around 4G. We are doing a little bit around some coverage areas that we previously didn't cover with 3G. But I think we are, based on where our usage pattern goes, even if you have an iconic device come out sometime this year, we are ready for that and we will be fine.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay. And can we talk about sort of cash generation and usage? You have got fairly healthy margins already and heading higher. Revenue is growing. You have got a decent dividend and capital intensity, you talked about, is coming down. So as cash sort of starts to come out of this business more, where do you anticipate putting it?

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

Well, I think a couple things here. So obviously, our goal is to increase cash flow. We came out of the first quarter with a $1.7 billion increase in our cash flow year-over-year, managing that CapEx. Our dividend policy is extremely important to us. Lowell and I continue to support the dividend policy that we've had and that's important to us, but I think it gives us much more flexibility. Flexibility from a perspective of pay down debt, possibly buy back shares in the future. So it just gives us much more flexibility in the future.

Phil Cusick - *JPMorgan Chase - Analyst*

And are you happy with where your leverage level is today?

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

I think that I would say that I would like my leverage level to be decreased a little bit over time. I think the rating is important to us, but I am comfortable with the current rating at this point.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay, okay. Vodafone always comes up when people talk about sort of strategy, but how do you leverage the Vodafone relationship today as you go to enterprises? What is the benefit of having them today as a partner?

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

Well, I mean obviously the benefit that we have outside the United States is they have a wireless product and we have a major enterprise portfolio and if we can put them together, I think we raise both boats. And we have seen some success there. I would tell you that it is hard because you are working with two separate companies and two separate cultures, but given what country you are in, some are being more successful than others. And again, I think we have had some very good wins here related to both parties and the teaming arrangement that we have, but we continue to work that and we will see where that goes.

Phil Cusick - *JPMorgan Chase - Analyst*

Okay. You have talked about cutting costs out of both wireless and wireline over the last few years. How much of that is essentially combining the back ends of those businesses and optimizing synergies and what are you limited from not doing by the structure of the arrangement?

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

Yes, I mean, well, being limited is a very technical term because we are allowed to consolidate back-office corporate services-type functions, so there is no limit there. So really there is a wide range of functions that we can consolidate from a back-office perspective and we have already started to do that, real estate, some logistics, finance. So we are really taking a hard look at that.

But when you think about the cost-reduction perspective, that is a piece of it, but it is more being driven out of the individual business units. So if you look at wireless over the last two years, they have cut $3 billion worth of expense and we have a target of $2 billion this year. If you look at wireline, they have continued to cut the cost of wireline. Obviously, the contract has a big impact to that and the pension plan and healthcare increases. Content is offsetting some of those increases, so you may not see the flow-through in wireline as much as you do in wireless. But I think as we go here, we are going to make continued progress in wireline and as I said before, these cost-cutting measures will contribute to the growth of the wireline margin.

Phil Cusick - *JPMorgan Chase - Analyst*

Good. And sort of last, we are sort of running out of time, but on that wireless cost-cutting, any update you can give us in terms of progress there? I think you have talked about a pretty healthy margin increase through the year.

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

Yes, so we are actually right on track. This is a huge program this year. You will probably ask me, well, what makes up the $2 billion, Fran. Some of that is reduction of subsidy and we have done that through some of the fee that we implemented, some of the actions we have taken on upgrade policies. Another piece of it is logistics. You can imagine the outflow of product and then the reverse logistics of people returning their phones. There is a lot of efficiency that wireless sees that they can build into that. You probably saw the announcement that we were doing some call center rationalization. We are closing three call centers. So as we get better and better treating customers online, we need less infrastructure from a call center perspective. So there is a number of actions that are being taken to deliver those savings.

Phil Cusick - *JPMorgan Chase - Analyst*

We have got one question real quick.

Unidentified Audience Member

(Inaudible - microphone inaccessible)

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

So the question was around the voice component of LTE. So you are talking about VoLTE and the critical piece of VoLTE is this. As we continue to build out the coverage, obviously the Verizon brand has been built around reliability of our network and coverage and the least dropped calls and ineffective attempts in the industry. And that is something that is very, very important to us. And the fact of VoLTE is VoLTE only works on LTE technology. So it is not backwards-compatible. So you need to have the coverage map that a customer would experience the same as 4G versus 3G because if we don't, we are going to have a lot of dropped calls and ineffective attempts and our customers will not understand why our network is not as reliable as the 3G network. So I think we are going to launch VoLTE at the end of this year, but you probably won't see us really push it until mid-'13 when we have that footprint.

Unidentified Audience Member

(Inaudible - microphone inaccessible)

Phil Cusick - *JPMorgan Chase - Analyst*

We've got to cut it off.

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

We will cut it off, but VoLTE already works on LTE.

Phil Cusick - *JPMorgan Chase - Analyst*

Thanks, Fran.

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

Thank you.
