

FINAL TRANSCRIPT

Thomson StreetEventsSM

**VZ - Verizon Communications Inc at MORGAN STANLEY Technology
Media & Telecoms Conference**

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Simon Flannery

Morgan Stanley - Analyst

PRESENTATION

Simon Flannery - *Morgan Stanley - Analyst*

Good afternoon, everybody, it's my great pleasure to introduce Fran Shammo, the CFO of Verizon. Thanks for taking the time to come over to Barcelona, we appreciate it. Let's start, if we could, on the wireless side.

I think one of the things we've been hearing a lot about here is 4G and LTE. And I think Verizon has really blazed a trail with LTE. So why don't you just talk about where you are in LTE today, what you're seeing in terms of speeds and customer experience and ability to handle strong data loads and how that looks over the next couple years?

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

Okay. Well, thank you, Simon; good afternoon, everyone. Before I start I just want to make sure that this is covered by our forward-looking statement and if you want to see that, that's on our website. So get that out of the way. So now let's get down to LTE.

So we started on our LTE venture back in 2009, we are now exceeded 185 million POPs. Our plan this year was to get to 185 million, we've actually hit that. And now we'll probably end up somewhere between 185 million and 200 million as time goes here for the end of the year.

So 200 million POPs covered, we have a total of 15 devices for the holiday season coming to market, seven of them will be Smartphones. So the ecosystem behind LTE has rapidly grown. I know there was some skepticism out there as to how quickly the device manufacturers would get there and I think that shows now.

Our most recent device that we just launched is the DROID RAZR; the DROID RAZR has a 12-hour battery life. So as you've listened to me maybe in the past, one of the negatives to LTE and the consumer consent was the battery life was not as good as 3G. And I said that the ecosystem would eventually catch up on battery life and actually this new phone now has a 12-hour battery life which actually exceeds a lot of the 3G handsets.

So they've solved that problem. The speeds, right now we're averaging above what we say we're going to average because the network is not full. But on average once the network gets up and running you should expect anywhere from 8 to 12 megabits of speed.

So consensus wise it is very well received. From a marketing position on Internet devices, we are only offering Internet devices now on our 4G network, no longer on the 3G network. And obviously we are now trying to migrate as many customers over to 4G as possible. So right now very, very successful for us.

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Simon Flannery - Morgan Stanley - Analyst

So you recently launched a promotional offer where you were doubling the amount of data you get, maybe you can just elaborate on that?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

So, a couple of weeks ago for the holiday season only we launched a promotion which was double your data allowance on a Smartphone if you bought a 4G Smartphone. So we had a \$30, 2 gig price plan out there which was both 3G and 4G. So on 4G, if you come in during holiday you'll get a \$30, 4G capacity. And you may say well, why did you do that?

Well, the reason we did that was because the iPhone is selling very successfully and it's a 3G phone. So that's going onto my 3G network. But the task for us is to longer invest in that 3G network because it has diminishing returns at this point.

So what we're doing is we're trying to leverage our 4G network, move people over to the 4G network on the DROID devices to allow that capacity to grow for the iPhone usage. And that's important to us because we want our customers to experience what our brand was built on which was the Verizon wireless network.

So this is a good task for us and I think we've proved that we're very successful here, because from the second quarter to the third-quarter our CapEx actually decreased in wireless by \$900 million and the bulk of that was related to EVDO capacity. So we're actually being very successful in migrating customers so I can curtail the amount of investment I have in the EVDO capacity.

Simon Flannery - Morgan Stanley - Analyst

You mentioned the iPhone, obviously strong sales across the board. How have you been doing in terms of supplies of the device, has that been where it needs to be?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes. So, from a sales perspective, sales have been very strong since day one. We've been in backlog since day one. We continue to be in backlog with that phone and I think that backlog is going to go for a few more weeks.

Simon Flannery - Morgan Stanley - Analyst

One or two weeks, how long?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Maybe even into December at this point.

Simon Flannery - Morgan Stanley - Analyst

How long is the average backlog?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Right now it's averaging maybe two weeks.

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Simon Flannery - Morgan Stanley - Analyst

Okay. All right, we've talked -- you obviously were instrumental in bringing the Android DROID franchise to where it is today, you've got the iPhone. How do you see those two OS's duking it out over the next few years? And I think you've been open about talking about room for a third ecosystem here and we had Nokia here talking about the Windows phones, just talk a little bit about where you see the opportunities there.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so I think we're very pleased with the two operating systems. And obviously if you look back, we helped develop that Android operating system and was the first to market with that operating system and it's then extremely successful. Apple is very successful. But we would like to see a third provider come to market to give consumers a choice and also to create some more competition within the space.

So Microsoft is one of those ones where we think could get there. And when they get there we'll be more than happy to sell those devices and take them to market. There may be some other players that come back. So we're very interested in the third ecosystem and support that.

Simon Flannery - Morgan Stanley - Analyst

Good. You've done a couple of changes in your go-to-market strategy. You recently moved back into RadioShack, you've rolled out a nationwide prepaid offer. Can you just talk about how some of those are going?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so our prepaid offer is called Unleashed. It's a \$50 plan that gives you unlimited voice and text. There really isn't any data in that plan -- very, very minimal data. There's only three handsets that are available, there featurephone handsets, we do not have a Smartphone handset on that.

And quite honestly for us, Simon, it's all about making sure that whatever we do we do not migrate postpaid customers to prepaid. Postpaid is our bread and butter. But as we know, Verizon has not been very aggressive in the prepaid market place. But we think we have found a niche now with this product where we can actually gain market share back.

And if you look at our trends, in the last probably four to six quarters we have actually lost historical prepaid voice customers. And now I think this product has found a niche, it's not migrating our postpaid base. People -- even though it's a premium priced product to the competition, people are willing to pay it because they get a fantastic network with it. So I think we're seeing some positive signs here and I'll be optimistic to say I think we'll gain some share back here in the fourth quarter.

Simon Flannery - Morgan Stanley - Analyst

And on RadioShack?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

We thought it was important to have a prepaid product that was competitive when RadioShack came on board, because RadioShack is a very big distributor of both postpaid and prepaid. But they are a prepaid distributor. And they sell a lot of prepaid and we thought that was important with that new agreement.



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Simon Flannery - Morgan Stanley - Analyst

Okay. You've talked about rising Smartphone penetration being a positive for your ARPU, but obviously there's a mix issue going on with the broadband devices. But can you just talk about where we are on Smartphone penetration, what you expect to see, where you see ARPU going?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

So as a broad-base -- baseline where 39% of our handset base is now Smartphone, up from 23% a year ago. We had set out a target of 50% for the year. That target was delayed because we had anticipated a refresh of an iPhone in June, so that didn't happen until October. So I think we're back maybe a quarter, maybe a quarter and a month from hitting that 50%, but we're optimistic that we're going to get there fairly quickly.

But going from 39% up to the 50% -- and what you're seeing is we went from 23% to 39% -- our ARPU now is starting to accelerate. So 2.4% year-over-year growth and I think that will continue to accelerate.

Simon Flannery - Morgan Stanley - Analyst

On handset ARPU?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

On handset ARPU. Well, our handset ARPU is actually 3.7% and we think that will continue to accelerate. Overall ARPU is at 2.4% and the phenomenon that we're dealing with is -- on the Internet piece that you brought up, on that side of it, we are expanding the marketplace on our Internet.

So back in October of 2010 we actually reset our price on Internet devices which did cause a little bit of pressure against the ARPU growth. But if you look at our net adds and the expansion of the market, our net adds are up over 50% year-over-year in the last three quarters.

So we're expanding that market with the price. So tablets, dongles, MiFis, all that is included in that. So we think we've expanded the market and we'll continue to grow from there.

Simon Flannery - Morgan Stanley - Analyst

And how much of the ARPU lift is coming from existing users paying say \$20, \$30 more versus you getting some of the people who are on Smartphones at other carriers who are -- they were paying \$70 there and you're getting them to pay \$70-\$80 with you?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so on average about 53% of our upgrades are featurephone to Smartphone. So that kind of gives you a basis of the mix there.

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Simon Flannery - Morgan Stanley - Analyst

Okay, good. Sprint unveiled or gave more details on Network Vision early October. One of the centerpieces of their cost savings was on roaming expense. You're a big roaming partner of theirs. Can you just talk through as you see the roaming revenues evolving over time and what your exposure is there?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes. So I think roaming has always been a dynamic play. If you look at acquisitions in the past like the acquisition of us from Alltel and the divestiture of the Alltel properties over to AT&T. We knew that when we divested that eventually AT&T would move that traffic to their network. And of course that happened this past quarter and that was about \$60 million of revenue.

So with the Sprint announcement, and we can debate on what the actual number is, we think it's significantly less impact. But this is a long-term strategy for them, so this will happen over time. I don't think this is a short-term issue. And even it was to happen overnight, this is not a material revenue stream for us. So I think we'll just leave it at that.

Simon Flannery - Morgan Stanley - Analyst

Okay. One of the themes of the conference here in the wireless area, whether it's Africa or Asia or Europe, has been the importance of scale in wireless whether that's equipment procurement or spectrum purchases or so forth. The US continues to be quite fragmented underneath some of the major carriers.

How do you see consolidation sort of going through? You've got obviously a strong market position, but a lot of carriers are either losing subscribers, have cash flow concerns, don't have an easy path to 4G. Do you think we get significant restructuring consolidation over the next year? Obviously a couple of deals out there.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes. Well, I think that we've been pretty open and said we think the industry needs some consolidation. But I also think that it's important to note that we want the consolidation without regulation. So if the consolidation means that it gives the FCC an ability to come in and start to try to regulate the wireless industry, then obviously that's not something that we're going to stand idly by and accept.

So that goes for any type of a merger that would happen in the industry. If it comes at the benefit of the consumer and to the benefit of the industry, then we're all for that.

Simon Flannery - Morgan Stanley - Analyst

Okay. I'm sure there's a lot of Vodafone shareholders in the audience today. Perhaps you could --.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

That would be surprising.

Simon Flannery - Morgan Stanley - Analyst

Perhaps you could talk, one, about the relationship with Vodafone. It seems like with the move to LTE there's a lot more that you can cooperate on. And then the philosophy behind the dividend and what we should expect beyond 2012.

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Fran Shammo - Verizon Communications Inc. - EVP & CFO

Okay. So let's talk about the relationship here and I think that this is going absolutely in the right direction. So the way we've always said is it was always a financial relationship and now Lowell and Vittorio are moving this into a strategic relationship.

And I think that we've said before that we are working jointly on a number of joint committees, if you will. One is network and looking at each other's network and deciding could we use each other better from a backbone perspective with Verizon Business here in the international markets and Vodafone carrying traffic over the Verizon Business backbone network? And could we benefit by lifting both companies up from a cost structure perspective?

Second is looking at productline, aligning the products to be more in sync with one another. Purchasing is a big one, especially when you talk about LTE, jointly purchasing, getting better prices overall between both of us. So I think we've made a lot of progress in the purchasing arena.

And then finally the overall enterprise space. So here in the international market, both of our customers are coming to us saying why aren't you two working together to bring the overall wireless wireline solutions. So what we have set out is we've set aside 50 accounts where we're jointly now working on those accounts.

And preliminarily we're seeing some good things there where Vodafone may have had a great relationship with one customer, they're bringing us in behind that and we're gaining business. And likewise, we may have a relationship that we're bringing Vodafone in to gain some wireless business. So I think there's an ability there to lift both entities. So I think the strategic relationship is important for both of us.

Now one other thing before I get to the dividend is LTE. Both companies are working very, very closely on the LTE standard and technology because we do believe that there is a strategic advantage for both of us by making sure that as this expands globally that when our customers travel between each of the Vodafone network and the Verizon wireless network our customers really won't realize that they left their home network.

The features will be seamless, LTE will be seamless and that's currently what we're working on. Both of us each have each other's spectrum and LTE technology in each other's labs and we're actually doing test [volty] calls and other things between the states and Europe. So there's some really good progress here.

As far as the dividend, unfortunately for me, I thought by declaring the dividend on January 31 everybody would stop asking me. But obviously that hasn't happened. So look, we've declared the dividend for January 31 of \$10 billion. I think that's really all there is to say about the dividend at this point in time and we'll leave it at that.

Simon Flannery - Morgan Stanley - Analyst

So it's something you would evaluate every year depending on the conditions?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

That's what the joint venture agreement calls for is that there's an evaluation at the end of every year.

Simon Flannery - Morgan Stanley - Analyst

Okay, great. You also have a stake in Vodafone Italy, I mean that's something that's been there for a long time. How do you think about that? It's probably not strategic for you, but it is a valuable investment.

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Fran Shammo - Verizon Communications Inc. - EVP & CFO

It's a valuable investment and, quite honestly, it's valuable from an information perspective. So it gives us the ability to really sit across the table from the Italy operators and really understand the dynamics of the Europe market from a wireless perspective. And I think we've learned a lot from that relationship and cross expertise between the two. Hopefully we've helped them a little bit. But it's an important relationship.

Simon Flannery - Morgan Stanley - Analyst

You talked at your 4G labs about this product you're developing, the LTE Cantenna, to maybe bring LTE broadband as a wireline displacement and DSL displacement. Can you talk about where those plans stand?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so just so the audience knows, the Cantenna that we're talking about is -- it's an LTE fixed antenna that would attach to your house and be able to bring broadband into your house via wireless and LTE technology. So we've been developing this, we actually ran a test with DIRECTV in a place called Erie, Pennsylvania. We found it to be extremely acceptable by the consumer.

This is a device, though, that is a niche market device. It's really meant for the rural areas. It is not going to compete against a broadband connection like a FiOS or a cable because, again, the speeds -- you could get much higher speed through a cable company in the states or a FiOS than you could through this.

But this is a viable alternative to the older copper technology of HSI and DSL, which only deliver 1 to 3 megabits of speed. This will give you 10 to 12 megabits of speed. And the way it's designed is extremely efficient, the way it utilizes spectrum. So we think that this is a very good approach for a double play on wireless and it will be launched here within the next few weeks.

Simon Flannery - Morgan Stanley - Analyst

On a national basis or in select markets or --?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

On a national basis.

Simon Flannery - Morgan Stanley - Analyst

Any indications of price points and sort of usage caps?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Not ready to disclose what pricing will be.



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Simon Flannery - Morgan Stanley - Analyst

Okay. You got a lot of 700 megahertz auction in the last -- spectrum in the last auction, but I think we had AT&T up here yesterday talking about spectrum exhaust as you put more and more data on the network. How do you think about your spectrum resources and your needs down the road?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, the 700 megahertz contiguous spectrum that we have across the United States that we won in the auction is extremely efficient, it's in its beginning stages. We don't see an exhaust of that spectrum for at least until 2015. So I've been pretty open and said by 2015 we're going to need some additional spectrum for our 4G network.

Now a lot of things can happen between now and then and even if it doesn't happen there are things that we can do. So, for instance, the technology is going to expand. We're talking about the next generation of LTE coming at the end of 2012, which will improve the spectrum efficiency of LTE.

The other thing that we have is as our voice continues to decline on the 1X network, that spectrum can be re-appropriated over to our LTE spectrum. So there are other things that we can do to extend that. But I would say 2015 is when we would start to really look the beat of the market to look for spectrum. But obviously we're looking now and if opportunity comes we'll acquire spectrum.

Simon Flannery - Morgan Stanley - Analyst

Okay, good. Maybe we can turn to the Wireline business then. I think another theme here has been a lot of IPTV and triple-play and with FiOS you're one of the leaders in terms of pushing a full TV fiber product to the consumer.

Maybe you can update us on where we are in terms of penetration levels in some of your more mature markets, what's that done to churn, to customer ARPU? We've seen it on line loss and things like that. And then just comment on -- Q3 was a little bit soft with some of the weather impacts, how you see that rebounding.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so I think from a FiOS perspective we're doing very well. We said that our target was between 180,000 to 200,000 net adds a quarter. We were on target for that up until the third quarter when we had the storms and we generated 135,000. We will make some of that up in the fourth quarter.

So right now I think the projection would be closer to the 200,000, maybe even slightly over the 200,000 mark. But from a penetration standpoint we're starting to really make some milestones here. We just surpassed 40% in Potomac around the District of Columbia, Washington DC area.

Simon Flannery - Morgan Stanley - Analyst

That probably gives you a dominant market share in video, does it now?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

So the penetration rate is really starting to accelerate. The other thing is New York City, which is our lowest penetrated market, is actually now our fastest growing market from a penetration rate. So FiOS is really starting to pick up steam.

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From an ARPU perspective, we don't really disclose what it is, but I will tell you it's north of \$146. Our overall ARPU for consumers is in excess of 9% growth year over year. So you can see how the FiOS is picking that ARPU growth up.

So there's a lot of good things that are coming from FiOS and every day we learn to be more efficient with the connection side to reduce our cost. So profitability on FiOS, pleasingly, is increasing quarter to quarter. So we're extremely happy with FiOS at this point.

Simon Flannery - Morgan Stanley - Analyst

Good. We talked about the storm and Irene I guess in Q3, then we had Snowtober a couple of weeks ago. Does that have any -- is that of the same scale in terms of cost impact as Irene?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

No, hurricane Irene was an extremely unique storm that actually hit our entire footprint from beginning to end. The storm for October was a centralized storm really around New Jersey, New York, a little bit of Massachusetts. And we kind of account that like any other storm.

Surprisingly enough though, that storm actually caused more property damage and loss than all of hurricane Irene. So it was a pretty intense storm. But it actually hit the power companies more than it -- because it tore down a lot of telephone poles. So once the poles got put back up the service was reestablished.

So will there be an impact? Yes. But it's not going to be material enough for me to say it's going to be a material impact to the quarter.

Simon Flannery - Morgan Stanley - Analyst

Okay. Let's turn to the enterprise side. We've spent a lot of time talking about macro at this conference obviously. How are you seeing enterprise demand, the competitive environment at the moment?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, the enterprise business is always a very competitive business. And from an economic standpoint I think we're in the same place where we've been, which is if you can go into an enterprise customer and put a solution on the table that you can cut their operating cost, they're willing to listen. And it doesn't cost them a lot of capital to implement.

And I think the solution that we have is with the Terremark acquisition which is cloud services. Now thinking about cloud services, the two biggest constraints from an enterprise moving to cloud was security and the flexibility of getting that application moved without incurring a lot of consulting costs for re-application and reprogramming to get it over there.

So I think from a security perspective we're rated number one from Gartner in security globally. So I think that our enterprise customers now are comfortable with our security products to know that it will be secure.

And then second, we just acquired a company a month and a half ago called CloudSwitch. And CloudSwitch actually sits in the middle between the company's data center and our cloud. And what this software enables it to do is to move that application without any capital or intervention by the enterprise customer and actually can have it move back as well.

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So we think we have solved the barriers and at this point if you talk to CIOs and you were a year ago, CIOs were I don't know what this cloud is, I don't think I want to go there, to, okay, how quickly can you start to move my application so I can start testing this technology to help reduce my overall cost. So I think that's where the growth potential for us is.

Simon Flannery - Morgan Stanley - Analyst

And where are we in getting the legacy Voice, Frame, ATM revenues to a small enough point where those declines are outpaced by the growth in these IP and other areas of cloud?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, for the last three quarters our strategic services in gross dollars have actually outpaced the gross dollar decline of the core. But now I think we're at an inflection point, Simon, where we are now at a point where we say, okay, we still have some major customers on ATM and Frame and I think we're now going to put a stake in the ground that says, we're going to decommission that network and help these customers move to the new technology and eliminate that cost from our line.

And I think that's really what the focus is right now is to really get out of those products that we really can't sell anymore and decommission them and save the cost structure and capital structure of maintaining them.

Simon Flannery - Morgan Stanley - Analyst

And I think this brings us on to -- another question around Wireline is the whole cost-cutting opportunity. It sounds like Lowell has made this a priority as he comes around and looks at the number of product sets you have, looks at the delivery times to customers and so forth. Do you see a lot of opportunity there?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, I think as Lowell would say, there's lots of pots of gold here. And he has come in with a very disciplined approach of we're going to start to reengineer the processes of the Wireline company. And as you know, he appointed Holly Hess who was the former treasurer to take over this role, reports directly to him. And Holly will now start to dig into the reengineering process of the Wireline company.

And I think that is going to deliver some very large cost savings over time. In addition to that, we also have the union contract and we've been very open with the union that says, look, we need to have cost restructure within this agreement, we can't not continue to have a 100% pension, 100% benefit plan.

So I think we're certainly in the middle of those negotiations, but we're optimistic that we'll come to terms with the union on those negotiations. So I think there's a lot that can still be done in the Wireline business to reduce cost.

Simon Flannery - Morgan Stanley - Analyst

Okay, which we get a lot of questions on pension and OPEB for the industry as a whole with the asset returns and the interest rate environment. But it sounds like from what you're saying there may be some opportunities and restructuring benefits packages and so forth to offset anything that might happen from the rate structure.

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Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so, I guess there's two perspectives here. There's the accounting for the pension and OPEB which will happen at the end of this year from a mark to market standpoint. And given the rate of return and the discount rates there definitely will be a mark to market adjustment.

So that's more of an actuarial type adjustment for GAAP reporting purposes. And this is a very long tail type thing from a restructuring cost standpoint. So we'll have to wait to see where we end the negotiation to determine how much benefit that could mean to us going forward. And once we hit that point I'll be happy to share what they are.

But from a -- the point I what to make is the mark to market adjustment that will occur in the fourth quarter for pension and accounting has no impact on what the cash contribution to the pension plan is. They're two very independent calculations, one is determined by the Internal Revenue Service and another is GAAP actuarial accounting. So two very distinctive formulas.

Simon Flannery - Morgan Stanley - Analyst

So when will we get guidance on the cash contribution requirements?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

I'll give that in January on the earnings call.

Simon Flannery - Morgan Stanley - Analyst

Okay, good. Another item on the cash side is bonus depreciation and cash taxes. I guess we've got the super committee looking at all these issues coming out next week, there's some hope that we may get another year of 100% depreciation. Any sense from your end of how you're thinking about cash taxes over the next couple of years?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Well, yes, that's just one component of the tax law. And obviously Verizon Corporation has a very complex corporate tax structure and we look at a lot of different things. But on this particular issue I think that there's some very positive things coming out of Washington, there's a lot of discussion around corporate tax restructure in total which obviously we're in favor of because we are the highest taxing authority now in the world.

And I think that the government has seen that and the legislative bodies are very open to reducing that percentage, if you will, especially around service companies. But I think the administration also has been open that says if we don't get corporate tax restructure we're going to have to do something to extend some of these benefits until we get there.

So I think this has a longer tail to it. I'm not overly concerned, this does not happen, the impact is not until 2013. So it's something that we work on strategically and we'll wait to see what the administration comes out.

Simon Flannery - Morgan Stanley - Analyst

Okay, great. Well, with that let's open up to the audience for questions. We have some questions over here.

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QUESTIONS AND ANSWERS

Unidentified Audience Member

I have three quick questions, see if you can answer them all. The first one is about CapEx and specifically software CapEx. Do you see any room for efficiencies here moving from buying the license to maybe using software as a service for telecom companies as well?

And the second question is what is the threat to you coming from Sprint in case it gets its act together and starts competing more aggressively?

And the third question is about LTE. Presumably the speed -- the theoretical speed it could reach is I think is 160 megabytes I read somewhere. If that's the case can mobile operators compete in the high-end content with FiOS or with cable companies? Thanks.

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so the first one on software. Software as a service is a critical component to the cloud services. So that is an area that we're slowly starting to get into. We've struck up some partnerships with other software providers to run in our cloud. But that is something that we continue to look at. But from a capital standpoint -- not sure what you were referring to on a capital side, we don't split out capital between software and hardware.

On the Sprint side of the house -- look, I mean, I think it would be healthy for the industry for Sprint to get back on their feet and be progressive here. But I think what I need to do is we need to run our business. I don't particularly watch price plans. If you look at my growth, you look at my margins, I run my business and as I watch the competition I don't exactly compete against every area that they change in and I don't chase them. I'm the leader, they can chase me.

And then finally, what was your last one? LTE. LTE, this Cantenna that I talked about, again it's not going to be a competitive in the cities, you're not going to compete there. What it is is it's areas where there is a very low end DSL and HSI. So if you just look at Verizon in itself where I have not built FiOS, I have old copper HSI DSL service, the speeds are 1 to 3 megabits, LTE is a better product than that product currently there.

So what we're looking at is can we attack our current customer base, transform them into a double play of voice and broadband on an LTE solution and we think there is some viability in the market for that.

Unidentified Audience Member

Thanks, it's quite a simple question. In wireless you've had a 70% increase in the penetration of Smartphones from what you say from 23% to 39% I think you said. So it seems like we're in the steepest part of the S-curve right now and it will flatten thereafter. So should we expect progressively from here wireless growth slows because the rate of growth in the Smartphone base is slowing?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Yes, so a couple things here. So first of all, I've got 39% penetration, we think that that can go way beyond 50%, 60% maybe even to 70% over time. So we still have a very long ramp of Smartphone penetration. But a couple other things to think about here.

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So number one is with LTE and the data plans that we have set up we look at a consumption curve for video. And the way we have set up our data allowance plans, we believe over time, as more and more consumers consume more video, they will buy up in the plan. So we see accretion there over time.

Next is if you look at just the technology change that the tablet is going to bring, and we're already starting to see some signs of that in the enterprise space where I have CEOs telling their CIOs when are you going to stop buying and incurring capital structure to buy a desktop? Why don't we just go to a tablet? And every one of those tablets will come up with an embedded chip in it, so that is good for the entire industry.

Lastly is if you look at machine to machine and the capability of machine to machine, if you look at LTE in our lab in Waltham, Massachusetts we now have over 200 devices certified on our network for machine to machine and these are healthcare providers, energy, transportation, smart homes.

So you think about all the devices out there that will eventually communicate through our network on an end-to-end basis, there are hundreds of millions that we see coming onto the network. Now albeit low ARPU numbers, but extremely high margin numbers.

So there is -- in my view there are certain segments for the industry to grow machine to machine and tablets and then for Verizon specifically 39% Smartphone increasing over a longer period of time. And even now that we just talked about which is Unleashed. So with Unleashed, it's an area that we really haven't played real hard in, so we think that we can gain market share there. So I take a very different view on the wireless industry than some.

Unidentified Audience Member

And could I just ask on the specific point on the video. What are you seeing people doing today? What are the existing Smartphone users from a year ago, how much more data they're consuming today?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

We don't disclose what individual consumers have or average. But what I will tell you is if you compare LTE to 3G and if you were to watch a live TV program, in 3G what you get is you get a segment and then stops and it buffers and then you get a segment. On 4G it is live TV, there is no buffering. So the experience is very, very different.

And what I will say is what we see is we see users who go to 4G use more, but it's also important to understand that from a capital investment perspective the 4G network is five times more efficient than the 3G network. So if you want to think about that, that means the cost per megabit is five times less than the cost per megabyte on 3G.

Unidentified Audience Member

On the third -- your welcome -- or you would welcome the third operating system within the Smartphones. Could you comment on the attractiveness of this new operating system regarding the slice of obligation the operator gets?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

I think that's better off being left to the people who are developing it. But I think from a competitive standpoint, as we said, we think a third player in the marketplace would be a good thing.

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Unidentified Audience Member

Just a question on your equipment procurement. Just interested in -- you've obviously been restricted in your choice of vendors. And just wondering is there any sign that that's going to change? Is it a big deal for you one way or the other? And are you considering new nationalities of vendors be they Chinese or Korean or people like that?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

We went out to bid for the LTE technology and we selected who we thought the best vendors were for that technology. And as I said, we're teaming up with Vodafone to get better pricing from those vendors as Vodafone starts to build out their LTE spectrum. So look, we did an RFP, we picked who we thought the best vendors for that technology were.

Unidentified Audience Member

Could you talk a little bit about your incremental gross margins as you continue to sign up FiOS video and FiOS broadband subscribers? Number one. And number two, could you talk a little bit about maybe the potential market size for this new Cantenna product, like how many homes this could address potentially in the US?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

From a margin perspective we don't disclose what our FiOS margins are. But if you look at the Wireline margin overall, the Wireline margin has, certainly over the last four to five quarters, shown some progress. And I'm comfortable that that will continue. It may not happen sequentially quarter to quarter, but I think as we reengineer the process FiOS is now nearly 60% of the consumer revenue stream. So access line becomes less and less significant.

As that changes I think you'll continue to see us improve the Wireline margin. So from that perspective I won't get into specific FiOS because there's enterprise in there, there's Wireline, there's FiOS, there's access lines, there's small business so there's a lot of components to that.

As far as what the market opportunity is, we think the market opportunity is there. I'm not going to give you specifics because I don't think I know that answer. But from a rural perspective in the US, we think there's significant opportunity for us.

Unidentified Audience Member

If you look at 2011, I mean cost cutting I think in wireless is a surprise in the upside and your margins have been very strong. As we move forward where do you see wireless margins going? You talk about the 50s here, how much more there is to go?

Fran Shammo - Verizon Communications Inc. - EVP & CFO

Look, I'm not going to talk about specific margin forecast for wireless. I think if you look at our history we have shown that we are extremely consistent in our performance and have continued to improve that margin. Now from a cost perspective we set out a goal of \$1.8 billion this year for wireless, they've achieved \$1.6 billion. What I will tell you is I think both Lowell and I would agree that there still is a lot of opportunity for cost cutting within the Verizon family, that includes wireless, Wireline and corporate.

Unidentified Audience Member

Just very quickly, Sprint's been really vocal about the AT&T-Mobile deal and how that will reduce competition. Is that a viewpoint that you share as well?

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

I think that we've been very silent on this one. And again, the reason we've been silent is we said that there needs to be consolidation. And as long as there's consolidation without regulation we don't have an objection to it. So as long as there's no contingencies or something that would come through that a regulator thinks that they can regulate that we don't think they can, then we'll be okay with it.

Simon Flannery - *Morgan Stanley - Analyst*

One last question down here.

Unidentified Audience Member

I thought maybe I'd try my luck and press you on the Verizon Wireless dividend numbers I've seen that you -- could need the cash to maintain the group dividend and I wonder why you wouldn't provide some clarity on the cash payout going forward for the benefit of your shareholders?

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

I declared the dividend, it's \$10 billion. Look, I think there's other things that have to be considered here. Verizon Wireless still has \$12 billion of gross debt on their books and I think I've been very open that says they need to pay that debt down.

I don't want debt on Verizon Wireless' books. It doesn't -- it's not a good cost structure for us, it increases my cost overall. If I were to go out and raise debt on wireless and become a public registrant, that means I now have to pay two accounts to do double work.

So there's a cost structure here that doesn't need to be incurred. So they have to pay down their \$12 billion of debt. I've said that we're going to need more spectrum in 2015 and if an opportunity comes up we'll certainly acquire that spectrum.

So there's a lot of dynamics here and I think at this time it's too premature to set anything. So I've declared the dividend on January 31 and I think that's all there is to say about it.

Simon Flannery - *Morgan Stanley - Analyst*

Great. I think that's a great place to end. Fran, thank you very much, we appreciate your time.

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

Simon, thank you. Thank you, everyone.

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