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PRESENTATION

Phil Cusick - *JPMorgan - Analyst*

All right, we might as well get started. My name is Phil Cusick; I cover telecom and cable here at JPMorgan. Joined today by Fran Shammo, the CFO of Verizon. Thank you again for coming.

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

Thanks, Phil. Good morning, everyone.

Phil Cusick - *JPMorgan - Analyst*

I thought we would get into the interesting topic of the day pretty quick. Yesterday, Verizon announced that Verizon Wireless put out \$7 billion in dividends. That is a decent amount of the cash flow from the business in the first six months of the year. Just how are you thinking about the dividend going forward, and what was the process here?

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

Yes, so -- well, good morning, everyone. Let's be clear. There's a couple key points here, because there has been a lot of misreporting and misrepresentation as to what I and Lowell have said.

So number one, I think we have been pretty consistent as to what we have said in the past, which is we will be good stewards of cash at Verizon Wireless. If we don't have a good use of cash, we will do a dividend; and that is what you saw.

There has been a lot of misquoting of Lowell from last week. The misquote was -- Lowell said that he would not pay a dividend in 2013. That was absolutely incorrect. What Lowell said was the dividend going forward, as this gentleman to my right got right -- which was, he said it would be more lean than in the past.

And the reason for that is a couple things. If you stick with what I said in the beginning, which was good stewards of cash, coming up at the end of this year and the first quarter of next year there is \$5 billion worth of debt that will come to maturity at Verizon Wireless. So about \$1.5 billion in the fourth quarter and \$3.5 billion in the first quarter.

And we will pay that debt off, which is what I have been saying from the beginning of time. Which is, as debt matures in Verizon Wireless we will pay that debt down. So that is \$5 billion.

In addition, we know that the FCC is trying to accomplish an auction in 2014, so we need to prepare Verizon Wireless's cash balance for that potential auction, because that is something that we would participate in. As I have said before, as auctions come up for spectrum they only come up opportunistically at times. And you have to take them when they come, because spectrum is not an unlimited resource; so you need to provide for that.



Then lastly there is another \$5 billion worth of debt on Wireless's books that is at this time callable at any time. I am not saying we will call it, but it is very high interest rate; it is at 8.5% coupon rate. It was drawn down during the Alltel acquisition, so that is something else that we potentially could look at into 2014.

So it is consistent with what Lowell said, which was dividends going forward could be more lean. But it is because we have cash requirements at Wireless that we need to provide for. So in essence, Phil, that is really, at the end of the day, the whole story.

Phil Cusick - JPMorgan - Analyst

Okay. You mentioned preparing the Wireless balance sheet for the auction in 2014. Do you anticipate having to pay a deposit into that auction? Is that what you are thinking about? And then when do you anticipate having some visibility into what that might be?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes, well, at this point I think it is too premature. There have been deposits made in previous auctions, so that is something that we will have to watch.

I think at this point, though, we're still watching to see how the auction plays out. I know that there has been a lot of commenting on the Department of Justice letter that was sent to the FCC.

And again, we believe that there is no history of someone buying spectrum to hoard it here. I think history speaks for itself, that the spectrum that is bought is deployed.

And as we have said, there is a way to cure that. Which is, if you are afraid that somebody is going to buy spectrum and hoard it so others can't get it, then make the build requirement a lot shorter and then that means that people who invest in it will build it. And we are fine with that.

So I think we have to work through this process. Obviously, Dan Mead and Randy Milch and his team will be working with the FCC to make sure that the auction is done in an equal way for all carriers to participate.

So we will watch this as we go. But according to the calendar, they are going to try to accomplish something in 2014, and we need to prepare for that.

Phil Cusick - JPMorgan - Analyst

I think, as other people have talked about, 2014 seems possible but fairly optimistic at this point. What do you think? If we were to see that auction in '14, when is the earliest you could actually have that spectrum in the marketplace?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

I, quite honestly, couldn't answer that question right now because it is a different spectrum. We have a plan for the spectrum that we have. There is -- the spectrum that will be coming available with the broadcast spectrum, I mean obviously we have to go through how the broadcasters release that spectrum; how that gets cleared; how that gets provisioned in the network. So this is really for future spectrum needs, not currently right now.

As I have said before, our spectrum position right now is very good, with the AWS transaction that we completed with the cable carriers last year, with the sale of the spectrum that we are doing with AT&T later this year, obviously giving that spectrum to someone who can utilize it better than we can at this point in time.



So I think our holdings are exactly where we need to be. And I have said before we really don't need spectrum for the next four to five years, with the way that we deployed CDMA and how we will utilize that spectrum from our CDMA deployment over to the 4G network as we need it.

So this is really again -- if the auction comes up and it is spectrum that we can utilize -- and we believe we can; it is a fitting spectrum -- we have to be opportunistic and take that opportunity. So if it happens in '14, we need to be prepared. If it doesn't happen in '14 and goes to '15, we will be prepared.

Phil Cusick - *JPMorgan - Analyst*

Okay. Let's stick with Wireless, but switch to the fundamentals of the business. The revenue growth in the first quarter, up in the high 8% range, how long can this business grow at that rate, given a fairly saturated postpaid environment and maybe a little more competition coming as well?

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

Well, again, I think that we have built our growth engine on a number of different perspectives. First is obviously we built our brand around our network, so the 4G LTE network is the foundation of where we think the growth will come from.

We launched last year our Share Everything Plan, which really opened up and took off the table that people were worried about their voice and their text. So now really all they have to do is bundle their data and they can share that data among many devices.

So the way we view the industry and our business specifically is the growth will come from really two main things. One is the number of devices that you attach to that Share Plan.

And that could be smartphones, that could be tablets, that could be MiFi cards. We launched a camera in the fourth quarter of last year. Everybody is talking about the car, the automobile.

So there is more things to attach to that data plan. So that is one perspective of growth.

Then, obviously, the other perspective is, as you attach more devices into the Share Plan, that then contributes to usage, which then makes the consumer buy up in the bundle. So quite honestly, right now we are very pleased with the way Shared is working.

We have about a third of our base on that plan at this point in time. So there is still plenty of growth here, and really what we are focused in on is the strategy to convert those folks from that 3G network over to that 4G LTE network and into the Share pricing.

So from a revenue growth perspective, we are pretty good with where we are right now, and we see that over the short term. I am not going to sit here and tell you for the next five years we are going to be at an 8% growth, especially on the base of what Verizon is. I think that is kind of unrealistic.

But I do see that the growth of this industry is very long term. So we will hold at that 8%. I am very comfortable with that 8%. And then we will probably see that tack down over the next three to five years.

Phil Cusick - *JPMorgan - Analyst*

There's been a couple of studies out there that usage has started to slow a little bit on broadband networks and wireless in particular. Does that make any sense to you? And do you worry at all about the incremental paying up of data that people have started to do?



Fran Shammo - Verizon Communications Inc. - EVP, CFO

No, actually I am not quite sure. I think it depends what network you look at, depending upon what the usage is. Obviously the data usage on a 3G network is a lot less than it is on a 4G LTE network.

But what we see is consistently the users, when they go to 4G their usage goes way up; and then as they continue to attach devices their usage continues to accelerate. So what I explained in the previous comment is exactly what we are seeing with our customer base.

Even with a new customer who comes into Verizon Wireless for the first time, what we are seeing is, even if they come in as a single line, within that eight- to 12-month range they are starting to attach that second device. So their usage is going up.

So I am not seeing the usage pattern of the consumer, at least on the 4G LTE network, going down.

Phil Cusick - JPMorgan - Analyst

Okay, okay. As you think about that attach rate, Lowell said recently something like 800% or 900% long term. Do you see a continued new devices coming? You mentioned the camera. As we look out a year, what are the couple of things that you think could be really interesting?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I mean if you look at our Powerful Answers campaign, some of that new technology -- what we call Golden-i, where the fireman walks around and can see through walls and understand the layout of the building in real-time through the 4G network. So you see some of these technologies coming.

Some will be specific to the enterprise space. If you look at healthcare, there is all kinds of devices being developed. Up in our Innovation Lab in Waltham, Massachusetts, and the one we have out in San Francisco we have hundreds of developers developing concepts for the 4G LTE network.

So it may not be always where it is the consumer that pays for that device. It may be an insurance company to monitor your diabetes who pays for that device, not necessarily you.

But it all goes into the attachment of devices into the network. And from what we see and based on the usage pattern that we are projecting, this will be an 800% to 900% adoption rate.

Phil Cusick - JPMorgan - Analyst

As you think about that, those Innovation Labs and the potential to continue to grow revenue, is Verizon going to move from a pipe company in wireless to more of services on top of that in healthcare and things like that?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Absolutely, and I think you saw that when we acquired Hughes Telematics. So if you think about the car, so we started our relationship out on a wholesale basis with OnStar, and we were just strictly a transportation unit within that ecosystem. That is a good volume, but it's at a very low ARPU because you are just doing really a very slim amount of data at a very small cost.

If you go into what Hughes Telematics does with Mercedes and mbrace, now you're talking about it is not just the communication between the car and the consumer; it is also all of the other services that are provided on top of that. So you have the concierge service; you have directions; you have a bunch of other things that the Hughes Telematics platform provides for.



Now you are talking very different ARPUs by customer when you look at those two different program. So the answer is yes, we are looking into getting into more of the services piece. So Wireless will still be the engine, but the platform that Hughes brought really does expand what we can deliver in a service.

If you take that into the other relationship they have with a major insurance company, they are embedding a chip in the car to understand your driving pattern. And based on your driving pattern, that is how your insurance rate will be set.

So we are accumulating that data for the insurance company and delivering that to an insurance company. So the service that we are providing there is a much higher ARPU than just the service of communicating between the car and the insurance company.

Phil Cusick - *JPMorgan - Analyst*

How much of this can be done organically? Or do you think there are some small bolt-ons that might make a lot of sense?

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

Well, it is really from a software development standpoint of what can go on that platform. There could be some real niche products out there that we may want to acquire to put on that platform, and that I won't rule out. I have said that before, that there could be niches that we would go after.

But these are relatively small-type acquisitions, probably less than \$100 million. So these are not very large acquisitions.

But if you look at what we have done with CloudSwitch, in implementing that into the Terremark asset, that was less than a \$100 million acquisition but it brought a lot of IP and innovation into the cloud. So we are progressing with that technology, and you will hear more from us later in the year around that.

But some of these things we will implement. But the key was, when we acquired Terremark and Hughes we really acquired the platform. Now we just have to add to those platforms to generate the revenue.

Phil Cusick - *JPMorgan - Analyst*

Okay. On the other side, the margins of the Company have benefited not only from revenue growth, but from what I found to be a surprising ability to control costs both on the network and on the SG&A of the Company. What is the -- just update us on the cost-cutting efforts here. You have talked about \$2.5 billion this year.

Does that seem feasible? Could you beat that? And then can that be repeated going forward?

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

Yes. I mean, what Lowell started out a year or so ago was we implemented Lean Six Sigma at Verizon for the first time ever. Really what it did was it really gave us a discipline around really looking at the process and eliminating, as we say, waste.

Wireless has been really good at that for like the last two years, where they have taken out \$3 billion, and we have given them another target of \$2.5 billion this year. But the Wireline business now is also integrated into the cost-cutting measure. We have never disclosed a dollar amount, but we have a pretty large target on the rest of the business between Corporate and Wireline.

We are going through the same process there to eliminate these costs and redo processes. So it really is a program, and it is not something that you can achieve overnight.

It takes a while to train people. We have been training people for the last year on how to work with these tools.

But we are starting to see some of that come out now with some of this process reengineering that we have gone through. So we think that if we can continue on this path we really can improve the cost structure of the business.

Phil Cusick - *JPMorgan - Analyst*

Again, what is the repeatability of that in Wireless, where you have been doing it for a couple years? Can you pull \$2 billion of cost out of this business for another few years? Or is this -- is there an endpoint?

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

Yes, I mean it is an internal joke we have, with myself and the Wireless folks. As I say, it is a great company, but you are still inefficient. So we push them, and there's plenty of things that we can do here.

Obviously if you look at the call center structure of Wireless, as more and more people do more and more service online and through their mobile technology we have to rationalize those call centers. If you think about just the logistics system within Wireless, and the number of handsets that come back into the system and move, we call it forward logistics and reverse logistics.

You think about that whole ecosystem, it is an extremely massive system. So there are opportunities to take cost out of that system.

So it is a huge engine, but the engine continually needs to be fine-tuned, as we say. So there is more efficiency that can be generated out of that business.

Then, of course, on the Wireline side, as we said we are re-totaling, rationalizing, and continuing to progress with our efforts on that side of the business as well.

Phil Cusick - *JPMorgan - Analyst*

Let's follow up on -- just moving over to Wireline. You've talked about some pretty big numbers in terms of cost savings on Wireline. Is this really the first year that that is ramping up? Is there a sustained cost-cutting path for that business for the next few years?

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

I would say that when Lowell became the Chairman and CEO he really put in a real focus in on the process of the business. Really that is when it started to say -- okay, we need to get off the copper and we need to move over to fiber. So we started the copper-to-fiber migration.

And these are not short-term programs. These are programs that take a few years to accomplish.

So last year we started it. In the first quarter we did another 83,000 homes by converting them off copper into fiber. Obviously with Superstorm Sandy we had an opportunity to really replace, as Lowell would say, 140 tons of copper in Lower Manhattan to fiber, so that accelerated that.

But these are issues where, when you really get down to it and do that copper-to-fiber migration, you are really taking a lot of cost out of the business. Because that copper plant is highly expensive to continue to maintain, whereas the fiber plant is not.

So each time we do a conversion, that expense of that maintenance and repair continues to decline. And again, you're not going to see that overnight; but over a two- to three-year period of time you're going to start to see that cost trend decline.



Phil Cusick - JPMorgan - Analyst

What about on the systems side?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, we are investing quite a bit on the systems side. With the -- on the consumer side of the house, the system is pretty good; I mean, FiOS is on one system. But on the enterprise side of the house we still have hundreds of different systems, and we continue to consolidate them.

So as Lowell and I have said and John Stratton have said, during this time of economic turmoil in the enterprise space, which seems to be continuing, we are taking this opportunity to continue to reduce systems. I think Roger would tell you, our CIO, over last year we reduced over 300 systems in just the enterprise space alone. And we still have hundreds to do.

So each year we have a program to cut these systems and get rid of them. And that will make the process even more efficient.

But the real thing, the real benefit here is it makes the customer experience better on the outside, because when you call in for a problem we don't have to look at multiple systems to identify where the issue is. We will be able to go to one or two systems instead of hundreds. So there is a lot of back-office efficiencies that are gained by reducing these systems.

Phil Cusick - JPMorgan - Analyst

Is there a point at which you have enough confidence in your ability to cut costs on that side to give us a number, like the \$2.5 billion at Wireless?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I don't want to -- I am not going to disclose what we targeted for the Wireline business. Again, it is hard to target, to say this is what we will deliver this year, since it really was a program that we just started this year.

But I think through my confidence of what I have said in the past, which was -- this year, Wireline margin will probably be about flat, but then we start to see that accreting in 2014. And it is a number of things that I am looking at that get me comfortable to say that.

So I think that should tell you we will start to gain some of these benefits beginning in 2014.

Phil Cusick - JPMorgan - Analyst

Do you see any help from the macro environment to do that? Or is that regardless of what is happening in macro?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes, this is -- I would give you this projection under steady-state, that I would say that I think enterprise continues to be flat right now through 2014.

Phil Cusick - JPMorgan - Analyst

Is that what you are seeing today?



Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes, we are. I mean, if you take out CPE, which we said we are going to deemphasize, and you look at just the core of enterprise, our enterprise business and the recurring revenue with enterprise is pretty flat, even if you look at the first quarter. Really where the problem is found is really on the wholesale side of the business. The wholesale side of the business will continue to decline, as I said, coming out of the first quarter between 8% and 9% on a year-over-year basis.

And I don't see that changing, and that is just strictly volumes. Between voice and data, volumes will continue to decrease because we are not seeing that consistent uptick in employment, and that is a direct relationship to employment here. So I think at least for the next few quarters, several quarters, we're going to have that 8% to 9% decrease.

Phil Cusick - JPMorgan - Analyst

Okay. Sticking with Wireline, last year you were here and you started talking about raising prices on the FiOS side. You followed and did that, and consumer revenue started to grow pretty nicely by the end of the year. Do you anticipate prices just continuing up on a -- similar to what cable does year-over-year, prices increase?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, you almost have to follow a disciplined prospect here on price increases, because each year your content costs go up. So you have to keep pace with content costs, or else you're going to lose it to the bottom line. So I think what -- as I said before, coming into this from last year, we were not very disciplined on our price-ups, and we have become disciplined on those price-ups.

But the other reason why our consumer revenue is increasing is because we have really focused now in on FiOS Quantum. With the tools that we have with FiOS and delivering messages to our consumers on the TV or on their broadband connection, that they have the ability to just click and upgrade to 50 megabits for an extra \$10, we are seeing a huge take rate on that click.

Now, we do it like 3 times to confirm -- is this really what you want to do? So we're in compliance, so no one can accuse that they didn't mean to click it; they really clicked it. But what we are seeing is we are seeing a fairly significant uptake into that 50-megabit bucket, which gives us that ability to collect that extra \$10 or \$20, depending on what price plan they are on.

The other thing that we are seeing is, as we migrate individuals off of that copper plant to the FiOS plant, we do that and give them the same price, because regulatory-wise when we convert them they have to pay the same price. But we put them on a low-end FiOS 25-megabit level service for broadband now.

Coming off of our DSL product, the best they would have gotten would have been 15. Most of them are getting between 3 and 10.

So as soon as you move them to FiOS and they are getting 25, then we give them offer to click in for 50. The uptake in there that they are choosing is pretty substantial.

So that extra \$10 is also driving that 4% year-over-year consumer revenue growth. So it is really a two-pronged approach that we are attacking that.

Phil Cusick - JPMorgan - Analyst

Remind us when you started the Quantum click to upgrade.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, that was just really at the tail end of last year, but really started to pick up momentum in the first quarter.

Phil Cusick - JPMorgan - Analyst

Is that momentum continuing to accelerate here?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes.

Phil Cusick - JPMorgan - Analyst

That's great. Okay. In terms of pay-TV ads overall, you've talked about a fairly steady increase from this level. Where do you expect penetration to get long-term, in pay-TV?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, look. I take the best marker we have, which is the first market that we entered, which is down in Dallas; and that is over 50% penetration. So what I tell Bobby and his team is -- okay, when do we hit the 50% penetration across the board?

Is that unlikely? I don't think it is. I don't think we will get there in a year or two, but I think what we are seeing is steady progress in all of our markets by taking share and increasing our penetration.

So I think that the penetration and our growth is balanced. We are targeting 600,000 net adds for the year, so we might have a bumpiness during the quarter between that 150,000, 170,000. We may fall below that 150,000 a quarter here or there.

But we had a good first quarter, but during the summer months we do have higher churn because of moves. And since we are not everywhere I can't replace some of those moves when they leave the territory. So churn normally is a little higher in the seasonal period of time, but we are pretty confident we will deliver those 600,000 nets for the year.

Phil Cusick - JPMorgan - Analyst

Okay. As you look at 50% penetration in Texas, I think that is higher than your base case was when we started talking about FiOS -- was it six, seven years ago? Does that increase your willingness to start to edge out FiOS over time and push out that fiber plan?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Right now we are focused on completing the LFAs that we still have to complete. We are almost at the 18 million, and we said 18 million was the target.

But over the last seven years due to construction and home building the actual pass will be closer to 19 million when we are totally completed. So we still have about 1 million more homes to do in compliance with the LFAs. So at this point I think we are focused in on penetrating what we have and selling what we have.

Now, the one little tweak to that is we are actually looking at some additional maybe build beyond the LFA where it really attacks small business. So we have certain pockets where, if we just extend the fiber a little bit -- and when I say a little bit, a quarter of a mile to a mile down the street -- we can really collect a lot of small businesses.

And what we find is that within the FiOS territory we compete extremely well within the small/medium business for broadband and voice. Obviously, outside of FiOS we can't, because the cable companies' speed on broadband outpaces our DSL.

So what we are looking at is, is there an opportunity to really get a huge return on that investment by just incrementally spending that down the street? And I am talking about -- this is maybe \$100 million to \$150 million. This is not huge amounts of money. But that would only be -- that is really the only spec that we are looking at maybe building beyond what we have to.

Phil Cusick - JPMorgan - Analyst

And beyond that, it is just not a competitive business?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Beyond that right now we have no plans to do anything.

Phil Cusick - JPMorgan - Analyst

Okay. Okay. You talked about SMB in general. What is the potential for that business to start to improve both in and out of FiOS -- well, I suppose in and out of FiOS territories, but primarily in territory?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, with small business we have seen improvement from last year to this year. Now albeit it is still declining, so I wouldn't say it is a victory yet.

But last year we were running about 4% to 5% decline quarter-over-quarter. This year we have cut that in half and to our way to where we see a flat. So we are making progress with small business, but we still have more work to do there.

Phil Cusick - JPMorgan - Analyst

Okay. I want to open it up for the audience. If anybody wants to ask a question, can you please move up to the microphone? While we are waiting I might as well ask it so somebody doesn't have to.

The potential to buy Vodafone's stake in Verizon Wireless, can you just give us an update on how you are thinking about that?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

There is nothing to talk about.

Phil Cusick - JPMorgan - Analyst

There is nothing to talk about?



Fran Shammo - Verizon Communications Inc. - EVP, CFO

I think the last time I said this -- I am tired of answering that question. And of course everybody who quoted me said that Verizon's CFO is tired of answering that question.

So I guess I will say it again. I am tired of answering that question

Phil Cusick - JPMorgan - Analyst

That's fair. Are there any questions? Please, Doug?

QUESTIONS AND ANSWERS

Unidentified Audience Member

DISH in their offer for Sprint has said that there is a lot of benefits, of synergies, of putting together satellite TV and mobile. That is not a choice you made. Why did you choose something different?

So their idea is satellite TV plus mobile Internet to the home; and you are going with cable instead. Why did you guys choose something different?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Okay. All right. So thanks for the question. So the question, if everybody didn't hear it was -- with DISH going after Sprint, why didn't we choose that rather than looking at a cable partnership?

So there's a couple things here. If you recall, way back I guess about two years ago we did a trial with DIRECTV in Erie, Pennsylvania, where we did broadband on the side of a house and offered a triple-play, if you will, which consisted of broadband, voice, and linear TV provided by DIRECTV. What we found was people were adoptive to the broadband; but because of the consumption of broadband through that LTE network, it was really detrimental to the spectrum and to the network performance. Because they used so much data, it soaked up so much of the spectrum.

So what we felt was LTE for broadband works in certain rural areas, but you can't compete LTE broadband in those dense populated areas because you can't -- first of all, you can't match the speed with a 50-megabit or a 100-megabit delivery between cable and FiOS and U-verse. And you literally don't have enough spectrum to be able to use that much consumption.

So what we felt was by partnering with the cable companies, and delivering our LTE network with voice and data, and having that hardwired connection into the home was a better financial way to do it than trying to go LTE broadband. Because we just didn't see where the spectrum could hold up to the volume that would be demanded.

Phil Cusick - JPMorgan - Analyst

Can I expand there? I have been watching the wireless space for a really long time, and there has always been the bundled versus unbundled argument. It seems like the consumer for the most part hasn't cared about wireless buying with wired. Do you think that the video expansion to mobile that you are doing with FiOS, that cable is starting to offer, starts to pull those things together, where there is an advantage of offering one service rather than an agnostic combination?



Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes, I think it is important. Because as we mature and you think about what happens in the home and outside the home -- and this really hinges around content rights, right? Because right now today under the ecosystem you can enjoy your content on any device inside your home; but when you leave the content rights don't follow you on mobile. Now some do, but most don't.

Until that barrier is broken you're going to continue to have this one face the other. But as we believe what is going to happen and everybody else does, is sooner or later that is going to converge and you're going to be able to take your content wherever you want to go.

And when you do that, then you have this wireless/wireline convergence in the home. And you're going to want the consumer to have a seamless experience between inside the home to outside the home.

That is why we felt it was important to really partner up with the cable companies and innovate these types of seamless products that will come in the future, whether it is with your car or wherever you want to be, that you will be able to take your content to wherever you're going to go.

So, Phil, I do believe that whether it is a year or two years, as those content rights change and that ecosystem changes, then the convergence will happen; and then you'll start to really see this proliferate.

Phil Cusick - JPMorgan - Analyst

Okay. Go ahead.

Unidentified Audience Member

Can you talk through the logic of paying down the debt at Verizon Wireless as opposed to just rolling it, given how profitable and cash flow generative it is? And you and Lowell are both on the record recently that you don't need the cash from Verizon Wireless to pay Verizon Parent's dividend.

Can you just walk through for -- from the outside that looks like a challenge just given the insufficient cash flows at Wireline. Can you just walk through how you guys would go about doing that?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes. I mean as far as debt on Verizon Wireless's books it doesn't really benefit me to have that. And actually in some respects, because the debt was public at one time it actually compounded things and it created more cost structure than I needed.

So I don't need to borrow on Verizon Wireless's books. There is no change in the rate. I actually get a better rate if I do it on a consolidated basis.

So from that perspective we have made a decision that we are not going to carry debt on Verizon Wireless's books, beyond what it has. And as that debt comes to maturity, we will pay it off.

As far as cash to pay my dividend, I would be remiss if I was sitting up here and said we didn't have the cash to pay our external dividend. When we do our financial planning and our cash planning, we are extremely comfortable that we have many sources of cash that the dividend externally is not a problem for us.

Phil Cusick - JPMorgan - Analyst

Can you -- just to expand there, I think what everybody questions is not is Verizon able to pay its dividend from a number of sources of cash; but can that be done on an operating basis without tapping either the Wireless cash flow or the debt market?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

You guys are trying to box me in today. Let's put it this way. It is a \$110 billion corporation that generates a lot of cash. We have a lot of sources of cash.

You have to consider there is cash tax. There is pensions; we already said that we didn't have to make a pension contribution this year. We did a pension annuitization last year.

So all this goes into our planning, and right now I would say that if I needed the cash from Wireless to pay a dividend I would take the cash. But right now we don't see us needing the cash.

And from a cash perspective, utilizing that cash with what I talked about at the first point here is more important for our balance sheet than other things. So we are very comfortable with where we sit, and I will have cash to pay the external dividend.

Phil Cusick - JPMorgan - Analyst

Good. I guess one last question on handsets. As you look out, we have seen the upgrade cycle slowdown, both from you and some other people in the first quarter. As you look out it seems like the hardware cycle has been slowing.

Does that continue? Or do you see something changing in the next year or two years that really makes people come in and say -- oh, you know what? I don't want to upgrade to 24 months. I need to be at 18 months or 12 again to have something new and fancy.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Yes, well, I think it really goes down to demographics of age, to be honest with you. There are certain people who are very comfortable holding their phones for three and four years. You get a smartphone, you get very comfortable with it. Some folks will sit there for four or five years and stay on that same smartphone.

Others will know the day and time and down to the minute of when they are eligible for an upgrade, and will walk in and upgrade at that moment. So it is all a matter of personal choice.

We have extended this to a two-year time frame because these phones are extremely expensive and they have a very high subsidy. So it works for us, it works for our consumer.

We will manage this. If there is a situation, I will let Verizon Wireless handle that. But for the most part our upgrade cycle will be a two-year upgrade cycle.

Phil Cusick - JPMorgan - Analyst

Okay. There has been a lot of press lately about T-Mobile doing something that highlights to the consumer how much these phones cost and making them choose to pay for them or not. Is there an effort within Verizon to go down the same path?

Fran Shammo - Verizon Communications Inc. - EVP, CFO

Well, I mean look, we did an installment sale on tablets back in the fourth quarter, so it is not something new. We have looked at this a number of times, but I will assure you of one thing.

Our service pricing on shared pricing won't change. We may give our consumers more options to buy a phone, but it is not going to affect the service pricing.

Phil Cusick - JPMorgan - Analyst

That helps. Thanks, Fran.

Fran Shammo - Verizon Communications Inc. - EVP, CFO

All right. Thank you, everyone.

Phil Cusick - JPMorgan - Analyst

Thank you all for coming.

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