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PRESENTATION

Jason Armstrong - *Goldman Sachs - Analyst*

Okay, we'll go ahead and get started this morning. Thanks, everybody, for joining us for the second day of the Communacopia. We've got another great lineup here this morning. We do have Verizon Communications joining us to sort of lead off the day.

We have a late substitution. Fran, thanks -- Fran Shammo, the CFO of Verizon filling in for Lowell this morning. Fran, thanks for joining us for last minute. Appreciate it.

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

Yes, Jason. Thanks so much. Lowell sends his regrets and absolutely apologizes but he got called away last night. So I know I can't fill his shoes but I will try to answer your questions and give as much information as I can this morning.

Jason Armstrong - *Goldman Sachs - Analyst*

Maybe I'll start with what's topical, which is the union deal you guys have at least just -- the union put out a press release last night, you are at least making progress to getting this to the final stages. I know there is a ratification process at this point, but maybe you can help us think through the process from here in the final stages?

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

Yes, well it is a process. This has been a long, hard negotiation, over 15 months, and obviously we had certain things going into this that we require from a cost free structure for Wireline around pension and benefits and work rules. And I think that this is where we ended up after many, many months and the last four weeks with a mediator, I think we ended up in a very fair place for both sides; for our employees to make sure that we give them competitive benefits, competitive wages, that they have a long-term future with the Wireline business by us being able to restructure some of our costs here.

So there is a process. This is a tentative agreement. They have to go through their processes, they have to get it ratified so there is really not much else to talk about and as I said before, once this is finalized with our membership and our employees then we will discuss what this means going forward.

Jason Armstrong - *Goldman Sachs - Analyst*

Maybe I will ask one or two and then we will see what kind of response we get. But from your perspective -- I know you don't want to talk financials yet, totally fair -- but what are the key achievements from the management perspective?

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

Well, I think some of the key achievements here is as we said before, there were a lot of very old work rules that prohibited us from doing things that we now are able to more fluidly and more productively let our employees work the way they will.

And one example I'll give you is call centers. So I've talked about this before, which is under the old regime it was -- if a call originated in Pennsylvania only a Pennsylvania rep could answer that call, where now we will have some call sharing going across our call centers and this is important for our customers. It's also important for our employees because now we can share the knowledge and be more efficient of how we handle customers. So it's a lot of little things like that that I think really add value to the future of the business and really improve our customer relationships.

And then from an overall perspective, I think we have given -- we have a very competitive wage compensation base. The press has written up and the union declared what they got in a raise. We think that is a competitive raise. But there is healthcare contributions and there is some pension reform that is in this contract that I think is important to us.

So beyond that I think we will wait and get this ratified and then obviously I can share more financially what this means going forward.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay, and maybe just one last question. In terms of the benefits and obviously there's puts and takes but in terms of the benefits that you'll see, is there a glide path for investors? Is there sort of stair step initially? How do we think about this?

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

Well, I think -- look, I think you can read what was printed and I'm not going to say anymore than what is already in the press from a contribution level. But this is a four-year agreement; it expires in 2015. Without getting into too much detail, let's let leadership do their job and get it ratified and then we will go from there.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. Maybe moving on to some of the strategic items in the Company. Maybe I will start with spectrum and you recently closed the deal with the cable companies which really solidified the spectrum position for the next several years. Is that an accurate statement? Do you view this as a glide path -- multiyear glide path in spectrum and how far out do you think you've got visibility to be totally covered?

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

Yes, so this was an absolute strategic acquisition for us. So if you look at our LTE footprint, we had -- we won the auction of the 700 megahertz which is the contiguous footprint across the United States, which if you look at the 700, the propagation of 700 is very, very good for building penetration, so we have built the layer base of LTE out on the 700.

If you look at AWS and what we acquired from SpectrumCo and what we had in the East Coast, we now have a pretty complete footprint for capacity and if you look at the AWS, it's a higher frequency which is very efficient for capacity purposes.

So I think with those two, we have a very good road ahead of us from an LTE spectrum utilization. But the other thing that we have as well is the way that we partitioned our 3G network. As we go out in years, we will be able to take 2, 2.5 megahertz slices at a time and reappropriate that over to 4G as we need it. And of course there is a balancing act there, obviously.

But with the launch of the LTE iPhone, usage on 3G will start to decline, so we will be able to reappropriate that spectrum over 4G. So we think we have a pretty good path here and I would say at least from where we sit today, a four- to five-year path of where we really have no urgency for spectrum.

But having said that, obviously, spectrum is one of those things that's opportunistic and as it comes up you have to plan for it and you go and obviously the FCC is looking at some auctions now and will we participate in those auctions? Yes, obviously we will.

So this is an ongoing process but at this point in time we are very comfortable with our spectrum position.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay, and how should investors think through the A and B block process that they run 700 megahertz in terms of timing?

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

Yes, so, we just started the auction process. It is too early to tell yet as to what the response rate is. There is a lot of interested parties. Obviously this is going to be a longer-term issue because even though -- once the auction may complete and we decide that yes, we are getting full value for what we think it is and we move forward, you then have the regulatory process and obviously, that regulatory process could be long or short depending upon who the buyer is. So I think we're just going to have to wait to see how the auction goes how we proceed here.

But right now, I think if we realize the value of that license that we think it is, I would say that is probably a third or fourth quarter event over the next year.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. In terms of your outlook for M&A, you have been active as it relates to spectrum and active as it relates to cloud, so things that would support continue (inaudible) revenue growth over time, not necessarily the cost cutting and earnings deals. Is that then an appropriate way to sort of frame the focus of those deals and then the appropriate sort of mentality going forward that you have?

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

Yes, and I think -- well, I guess I would split it in two fashions. One is, it's a topline focus and the other is a cost control focus. So from a topline growth perspective, obviously Wireless is where we need them from a spectrum perspective and launching the ShareEverything Plan and growing at a very nice clip and that is coming out of the first quarter.

I saw accelerating growth through each quarter going through this year. We showed that in the second quarter. We will show that in the third quarter, and I anticipate we will show that again in the fourth quarter. So that is the top line there.

Then you have Wireline from a topline focus, obviously FiOS gained traction coming out of the second quarter of 2.5%. I think we will double that by the end of the year, so good revenue growth there.

And then you have the enterprise piece and when you think about enterprise it's kind of this convergence of Wireless/Wireline and where we think the future is going exactly what you said here, Jason, which is the cloud and then you layer on the Hughes platform from machine to machine and we really think that the future is really more machine to machine applications that can run off of that Hughes platform in the Terremark cloud. So we obviously have a strategy there from a future revenue growth perspective. So that is really the strategic view of where we think it's going.

But Lowell implemented Verizon and Lean Six Sigma which we really have never had a program like this before in our history and it is really focused in on process and cost reduction. We started that program about a year ago and we are really starting to see some traction here so there is a cultural form within Verizon under this lean Sigma type scenario that really drives in on cost control as well.

Jason Armstrong - *Goldman Sachs - Analyst*

You mentioned a number of things you've done in cloud and enterprise. Saying that, both you and AT&T are still struggling a little bit to move the needle on enterprise. Is your exposure to these growth areas -- not that this point can you get there organically -- from here what might you look to do other sort of tuck-in acquisitions?

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

Yes, well I think that there is a lot of things swirling around the Enterprise segment and I guess the word I would use is uncertainty at this point. So if you look at an enterprise company, and even if I look at it from a Verizon perspective, it's very difficult to understand what does the future hold for 2013? Will we get -- will we come off the tax cliff? Will they solve that issue? So will we get bonus depreciation? Won't we get the bonus depreciation?

So there is a big event that is going to happen on December 31 and regardless of who is elected they need to deal with that tax cliff issue. So I think a lot of enterprise companies are sitting back saying okay, what is going to happen here?

And then the other big question too is we've been talking about corporate tax reform and getting into a better corporate tax rate. Well does that happen or doesn't that happen? And that really goes back to and it influences how does an enterprise decide to invest money? And right now what you see is a lot of corporations are sitting on the sidelines building their balance sheet, building up cash and they haven't made those decisions and when you don't have those decisions being made, your enterprise business because it always takes investment to invest in new technologies and switch over from legacy technology to new technology, and what we are seeing is that it's just -- as I said, we are kind of stuck in the mud at this point.

And we are just -- it's a flat line and until some of this uncertainty is lifted and then you have obviously the economics swirl around this and the flatness of the economy and then obviously if you go outside the United States, the European market is really declining from our perspective at this point, so that's a little bit of a headwind.

So I think once we get out from some of this uncertainty and things look more positive, I think this will open up. But I have to tell you, I don't think that is until mid '13 at this point.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. AT&T yesterday, when talking about sort of the regulatory environment as it relates to consolidations sort of reiterated a view that uncertainty has led to just the market being frozen at this point as it relates to consolidation.

Now saying that, you've kind of pushed the most recent deal through with the SpectrumCo process. Do you think that is a fair comment from AT&T? Help us think through some puts and takes in that process? What you learned and what that means for future consolidation?

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

Well, I think that consolidation is different than spectrum purchase and this was just a spectrum purchase which was very different than buying a whole other company and taking the Company out of the marketplace. So I think that is really a big difference between those two. But from a consolidation standpoint, I think we will see consolidation in this industry. I think we almost have to see that.

How that comes about I couldn't tell you. I think it would be difficult for me to sit up here and say that Verizon would acquire another wireless carrier. I just don't think that the regulatory agencies would be -- have an appetite for that but I think we are fine with that. We have the assets we need and we can execute on those assets which wireless shows.

So I think at this point we will see how the lay of the land goes with the rest of the industry, but I would certainly think that we will see some consolidation here.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay, and I guess one of the things that people are potentially optimistic about is changes in spectrum policy and how the FCC sort of looks at market by market analysis and concentrations. As you look at them sort of kicking off that process, what is the optimal outcome for Verizon there?

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

Well, I think that with the SpectrumCo deal that we just got approved, the one thing I will say and I give a lot of credit to Lowell on this one is that he had a lot of personal conversations with the FCC and I think through this process we made a lot of headway with the FCC. And to their credit, they are willing to listen and I think that they do understand now a New York City is different than say a Wells Fargo in North Dakota and that spectrum capacity is very different in these types of markets. And you also have to understand that carriers have different needs within these things. You can't treat somebody who has 100,000 subs the same way that somebody has 16 million subs.

So I think to the FCC's credit they are listening and I think the outcome for us would be is that we get the spectrum that we need to deliver product to the consumers that wants the product from the carrier that they want and let the free market determine which consumer goes to what carrier based on quality, customer service and other things.

So I think we are having those discussions and we will see where we come out on this one.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. Maybe switching gears to operating momentum in the business and I will start with Wireless. IPhone 5 obviously very topical at this point. We've heard about very robust pre-order volumes really across the carriers. So I'm wondering if you can help us think about the volumes you've seen and is there anything interesting you are picking up? Can you pick up porting ratio changes from incoming pre-orders? Can you pick up eligibility versus non-eligibility and whether that is different than you assumed? Anything you can share?

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

Well, I can probably share a lot. I'm probably not, but no, look, I think the iPhone is a great product. Apple is a great partner of ours. They help us build our business and, look, I think if you look at this strategically I don't think anyone can dispute that Verizon Wireless is an absolutely a strategic advantage when it comes to LTE.

So when you look at their coverage which is more than two times all the other carriers combined and if you look at some of the press that has come out where they've tested the phones, I think it is pretty evident that the Verizon Wireless LTE Network is superior to everybody else. And that means something to people because when you want that coverage, you have it and we've invested a lot in LTE and I think we have a strategic advantage.

So look, it all comes down to allocation from Apple and there is -- they have an allocation worldwide so, look, we will sell what we get and we will have more information when we come into third-quarter.

Jason Armstrong - *Goldman Sachs - Analyst*

And network advantage in particular around early leadership in LTE has been the tag line and the marketing message for a while and iPhone 5 is the really the first device that I think brings that to the forefront.

So you are seeing that show in pre-order volumes a marketing message that is resonating relative to peers?

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

Sure.

Jason Armstrong - *Goldman Sachs - Analyst*

I guess along these lines on shared data, which seems to be off to a very good start, maybe help us think through a couple elements relative to shared data. First I guess is there is a sort of this fear that self-selection initially causes a little bit of blip in shared data and then we sort of move up from there. Are you seeing enough of that to be disruptive to trend rates at all?

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

Well, I guess a couple things here. I mean we are surprised on shared from many different aspects and as I said when you launch a price plan that really is a dynamic change to the industry, we spent over a year studying this plan to make sure that we knew exactly what was going to happen by customer actually because we have done a lot of segmentation here. And of course we had a lot of things that we said okay, here are our targets.

What I will tell you is obviously when you launch a price plan like this, the first people to go to that price plan are the people that believe that they can optimize their price plan and save a little money. So when you initially launch, you always know that you're going to have some dilution up front.

The good news here is though is the dilution is not as much as we expected. The other good news is we have more people going to shared than we actually anticipated. And the thing that really surprised us is we have a lot of people coming off unlimited to go to shared.

So what customers are understanding and through our good sales routine is once you explain to a customer their usage on a monthly basis, unlimited is just a word, it doesn't really mean anything and that people don't really -- I think a lot of consumers think they consume a lot more data than they really do. So that whole unlimited thing I think is going by the wayside and they see the benefit of going to the shared.

And really the thing that we expected which we are actually pleased on is we knew people would go but really what made the plan very accretive to us was for them to attach more devices and what we are seeing is people are attaching more than we actually expected. So even though the optimizers are going over, they are actually attaching more than we had anticipated.

So the plan is doing exactly what we thought the plan would do because when you think about revenue growth into the future, the shared revenue plan and what I'll call revenue per account if you will, is really the critical piece because there are two functions. One is get people to share so that data becomes the most significant piece of the plan and the more data they consume the more they will have to buy up in bundles.

And the second one is make it easier for customers to attach more devices. So when you think about that future of the car, the home, medical devices, and anything else that you want to attach to that Wireless network, this is very easy now to attach those devices but can I get incremental dollars for each device that's attached and that is really what drives the future revenue growth.

Jason Armstrong - *Goldman Sachs - Analyst*

If we think about this from a revenue perspective, high single-digit service revenue growth which is obviously where you have been trending, help us think through relative to these changes, the volumes you are seeing and what this creates in terms of bringing additional devices into the plan. Does this create sustainability of high single-digit revenue growth for the foreseeable future?

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

Well, I think that where we are with our basic phone base at this point and what we are seeing is the shared plan is enticing those basic phone users to move to more smartphones. Obviously with the Apple iPhone 5 coming, more people are interested in upgrading to those smartphones.

I think that the way we view this is that we have a sustainable revenue growth projectile with shared pricing and especially with our lead on the LTE network which will drive that data consumption usage and once people see that consumption usage and you can see some of the press that has been written around what the iPhone now on the LTE network is getting from an upload and a download, that speed entices more usage. And the shared plan is based on higher consumption, building up in the plan and attaching more devices and I think that that will continue.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. As we think about margins, you reported record margins in the second quarter. Our estimates are you will record record margins for 2012 relative to any prior year. Lots of moving parts going forward but as you look at the transition to shared data bringing new devices in, is this transition supported for further margin expansion?

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

Well, I think so. The fact of a subsidy is we have lived with subsidies since this industry was born and that is just one function of the P&L and we manage that and I think you can see by the results -- if you go back to the second quarter and I know everybody is focused around the iPhone and your margins dilute when you sell more iPhones, but iPhone, but the fact is we sold 200,000 more iPhones in the second quarter of this year than we did last year and we have showed an all-time record margin.

So it is managing the entire business and I think that that is what is important and I think Verizon Wireless has a good trend on that. So I don't see that changing.

Jason Armstrong - *Goldman Sachs - Analyst*

And you mentioned sort of separate from subsidy you've taken $5 billion in costs out over the past few years. Can you help us think about further cost reduction opportunities? Are they of the same magnitude?

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

Yes, well I think that there is a lot of things here that go into this and as I said, it is managing the entire business. And we launched a call center strategy this year within Wireless and we have closed three call centers so far this year. And really the strategy here is to as we get into these smartphones and you think about customers really taking care of themselves through technology, you can see that infrastructure of call centers, you can see the view of that -- that should be reduced.

So there is a strategy around call center reduction. There is a strategy around logistics. I mean you can just -- if you can imagine the amount of phones that are moved in and out of the warehouse on a daily basis from new phones going out, refurbed phones coming back in, there is a huge cost infrastructure to that entire logistics systems.

So as I tell Wireless as good as they are, they can always get better. So we continue to think that we can run a more efficient business. So yes, they will continue to have these types of targets going into the future.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. Maybe switching gears to Wireline, FiOS specifically. It's a terrific product, priced very competitively. You talked more recently about focusing on profitability. There has been some rate hikes attached to that. I think you said even last week that may have -- as you think about the volumes in this business, you reset the bar in the second quarter call and said 150 to 170 could be the new norm. It seemed like maybe you were pointing a little bit below that for 3Q.

What are we doing -- do we need to do something to stimulate growth again as we think about fourth quarter?

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

Yes, no, I think that -- look, third quarter for us is always a very high move season. So it's one of our lowest growth quarters in FiOS and it always has been that way. So coming out of the second quarter, I thought we would get a little bit better but the moves have made us pretty -- we will be pretty much flat with the second quarter. But coming into September, I can tell you that I do see the view going into the fourth quarter that we'll hit that numbers that I gave in the second quarter between 150 and 170.

And it's really -- we probably pulled back a little bit too much on promotion. I think you are seeing -- even if you see now, you will probably see a little bit more promotion coming out of FiOS. It is that balancing act that we have got to get right.

If you look at Wireless, it's a very balanced approach. You grow, you get profitability. We are learning that within the FiOS arena. So I think what you will see going forward is you will see profitable growth, better topline growth from a revenue perspective and a more steady net add growth. So I think we will get back there in the fourth quarter.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. So it seems like you would characterize 3Q as more of a demand issue as opposed to supply issue. I think you talked about backlog over time. You don't -- there is no installation related issue in 3Q that is causing backlogs to balloon?

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

No, backlog is flat.

Jason Armstrong - *Goldman Sachs - Analyst*

Maybe help us think through copper decommissioning. It's one of the bigger cost structure objectives here in the business. I think 200,000 roughly is the target for this year. How do you think about accelerating that in the next year?

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

Well, I mean if you look at it by quarter, we have actually really accelerated towards the back half of this year. When we started this, I will tell you the first quarter was around 15,000 so you can probably do the math by quarter to get to 200, but it really has accelerated through the year as we've gotten more and more -- more of our systems in sync with what we do. Because part of this is that every copper customer doesn't make financial sense to convert to FiOS. There are certain copper customers who have no problems. So it doesn't make sense to invest that $700 to convert them over. Really what we are attacking is the ones that are chronic and that means that they had two truck rolls every six months to their house.

So by getting the systems to identify when they call in for trouble that we automatically go out and not repair the copper but immediately flip them over to FiOS. So we've gotten better through that as the year has gone and I think again you will see some acceleration here going into '13 with the systems and training the techs and everything else.

So I think we're on a good path here and this is -- this will really start to benefit us two ways, quite honestly. One is what we are seeing is as customers convert to FiOS, even if they are just voice and DSL over to voice and Internet, what we are seeing is once we connect them up to the Internet, they see the speed, they are buying up the bundle. So we are seeing accretion from these customers that we are migrating.

And then of course just the operating cost of getting off of that copper on to FiOS significantly reduces our operating costs. So there is a twofold benefit and, quite honestly, Lowell keeps enforcing we need to do more and I think the business is scaling to get more done.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. When we think about the margin in Wireline, obviously that has been in focus this year and we are trending more to flat sort of year-over-year. I think there was an expectation of margin improvement. Maybe -- the first question would be if you think about the differences you have versus peers and there is sort of 800 or 900 basis point gap versus AT&T. Can you help us think through -- is that the long-term opportunity or are there structural differences whether it's off network traffic, enterprise or labor differences or running to networks?

Maybe sort of segment the different opportunities you have? Help us understand what you can close versus what you probably can't over time?

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

Yes, and I think -- I mean obviously there are huge amounts of difference between us and AT&T from a Wireline perspective. Obviously the Northeast Corridor is very different than some of the other footprint in the United States and we even see that between -- if you took our California property or our Texas property versus the Northeast Corridor, they are very, very different.

So there is a lot that plays into that but I think the way I would preface it is this. I think that if you look at our FiOS consumer business, I think we have hit an inflection point and I think we are going to start to improve here based on everything we just talked about. So I do see '13 being a margin expansion in FiOS.

Now I was the one that was optimistic in '12 stating that I thought we would see some margin accretion but to be honest with you, I didn't think we would be sitting here 15 months later without a union contract so that played a little bit into that. But now we have that done and once that is ratified I think we're in a good place here.

As far as the enterprise side of the house goes, obviously my footprint is smaller from a third-party access perspective and we have to -- we just have to be more strategic in the business that we go after on-net versus offnet. And I think John is focused on that -- John Stratton is focused on that and so there is a lot of differences in Wireline.

But having said all that, Lowell and I are confident that we can increase the Wireline margin going into '13 and beyond and there is a lot of things that go into that. Obviously, topline but the Verizon Lean Six Sigma project, we have a number of projects working in the Wireline business right now that will bring some benefit to us in '13 -- copper migration.

So you put all this together, Jason, and I can't point my finger to one thing but I do know that based on what I see, I am confident that we will start to accrete our margins.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. Shifting gears to capital spending. Maybe you could help us think through by segment Wireless and Wireline absolute dollar trends in capital spending you would expect over the next couple of years?

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

You guys love to split me when it comes to capital spend and what I keep trying to tell everybody is just look at me in total. And the reason for that is not to be between Wireline and Wireless, but if you break the Company down today, the fact of the matter is is Wireline capital -- and I won't get the number but it's pretty substantial -- is being spent on the Wireline side of the house to support the Wireless growth. So the IP backbone, the data transmission, fiber to the cell, that is all on the Wireline books but it's all being built for the Wireless Company.

So when you look at it, it is hard for me to say, well, in absolute dollars because if Wireless continues to grow and I need more IP backbone, that will be built on the Wireline side of the house. But what I will tell you is if you look at Wireless this year, I think year-to-date we are down about $1.3 billion through the first half of the year. As we stop building out EVDO, we have significantly curtailed the amount of spend we have on our 3G network. Obviously we are still continuing to build out our 4G.

So if you look at overall, I continue to say we will be flat to down and I think we will be probably more slightly down than flat, and we -- Lowell and I are really starting to really focus in on where do we spend that investment and make sure that that investment returns on a shorter period of time. And that is really the focus.

So what I like to say is that our ratio of CapEx to revenue will continue to decline.

Jason Armstrong - *Goldman Sachs - Analyst*

As we think specifically about LTE being one of the -- obviously the big swing factors here, you are well ahead of peers -- you will have -- through 2013, largely completed the footprint. Is there a gap between completing that and then starting to fill in activities to add more depth in markets? Or sort of a seamless transition where maybe the spending is actually more stable?

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

Well, I think the spending will become more stable. The projection we have right now is by mid 2013, our 4G footprint will be the exact as our 3G footprint. And then to your point then we will start to fill in gaps, we will start to -- in certain cities, we will have to start to provision the AWS spectrum for capacity. So I think you will get to more a flat investment type on the Wireless side.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. On Wireline, as we sort of got past the peak investment days in FiOS and we've come down substantially off of that, I think -- and maybe it's an allocation issue but I think as people look at segmenting the units that there has been probably surprise that Wireless has come down as much as it has this year, but Wireline hasn't come down all that much and part of it may be backhaul and stuff that is sort of comingled.

But as you -- as it relates to significant amounts of FiOS spending coming off, where has that been directed?

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

Yes so -- well, the fact is is that we are still passing about a million homes a year, so you can do the math there on what it takes to pass a home. The next cliff will be in about two years where the LFA requirement will substantially decrease. So you won't see us passing as many homes. So then it will be more success based.

So I do think you will see a step function two years out when we really substantially complete our build program from an LFA requirement perspective. So if you go back to 2008, we were passing 3 million. We dropped it to a million. The next step will be significantly reduced from a million and that then you will see some benefit from a Wireline capital perspective.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. Let me ask one more and then I'll turn it over to the audience. Your favorite question, Vodafone, but maybe I will take a -- obviously at the Board meeting, the VZW Board meeting very recently -- maybe I will frame it as the cash you have on the VZW balance sheet. I think you mentioned over $8 billion in the second quarter call. How should investors think through your willingness to continue to build cash on the balance sheet?

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

Well, I mean it is the same answer I give all the time, which is Lowell and I both said we will be prudent cash stewards and it's not a fact of building cash up on the balance sheet. We exited the second quarter with $8 billion but we knew we had SpectrumCo and we closed that and that was $4 billion. So we need to make sure that there is cash on the Verizon Wireless balance sheet to be able to do what Verizon Wireless needs done.

And then of course, as we showed back -- it seems like everybody forgets, but back in January, we did a $10 billion distribution. So it is not a fact that we won't do distributions. It is a matter of when is the prudent time to do a distribution without having Verizon Wireless suffer from a growth perspective, and that's how we manage the business.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay. I guess just one other question on that. It's one I get a decent amount. I'm sure a lot of people in this room are focused on it, but the lot of people would point out the evaluation differences between Verizon and what is and what is implied in Verizon Wireless and Vodafone, people have pointed to as much as a sort of $50 billion arbitrage opportunity for Verizon to buy Vodafone.

Without commenting specifically on that, it sounds like an interesting opportunity, but there is a whole lot that goes along with that, including a lot of Wireline -- a lot of exposure in Europe that I'm not sure you guys will be all that comfortable managing. But maybe help us think through, is this something you spend any time on?

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

No. We spend time on executing on what we have. No, look, we have a great partnership with Vodafone. They are a very good partner. They have never stood in the way of Verizon Wireless. As you can tell, we have built an unbelievable business. So look, you're always looking at opportunities but right now is not -- that opportunity doesn't exist in our minds.

But look, at the end of the day as Ivan used to say and Lowell says and I said, if there is a willing seller, there is a willing buyer. But the price has to be right but we are not -- we don't spend much time on this one.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay, great. Let's turn it over to the audience for some questions. If you have questions, raise your hand, we have mics roaming around. Over here.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Thank you. I have two brief questions. You mentioned that the Wireline part of the business is incurring CapEx to build out back haul for Wireless. I presume that there is some kind of transfer pricing in there so that the Wireline, the wholly-owned business isn't effectively subsidizing the 45% shareholders at the Wireless?

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

That's correct. I mean everything is done at an arm's length transaction with Verizon Wireless because we do have a fiduciary responsibility for the Vodafone partnership. So there is governance around that, and that is at an arm's length transaction.

Unidentified Audience Member

Thank you. And then regarding this FiOS building out a million passings per year for two more years, then the passings growth will come down because of an LFA requirement. I am not familiar with what LFA is, but can you tell us when you say two years, like two years from today, or is it the end of '14? And to what level approximately will the passings growth fall thereafter?

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

Yes, it's two years, so the significant build in is at the end of the '14. And an LFA is a licensed franchise agreement area which we've entered into, oh, I guess about eight years ago with each of the states and we have different requirements within each state that we have to pass so many homes within those states and every agreement is different.

So that is kind of the way that we look at it and this is not -- we are not passing more than we originally said. We will still end up at around that 18 million to 19 million mark from a pass perspective. And at this point we won't build beyond that, because at this point we have to capitalize on what we have invested. So that is kind of the lay out.

Jason Armstrong - *Goldman Sachs - Analyst*

Other questions? There is one up here.

Unidentified Audience Member

Just in terms of special access, how important is that to the Wireline business? If rules were to change, if the 94% rule, or whatever it is were to go down, what do you think the impact would be?

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

Well, I mean special access is still a considerable part of the Wireline business and obviously we're a big pusher for special access. But look, it's no different than the rest of the legacy products of Wireline, which continue to decline and it declines month after month. The real pickup here is to move everybody to more IP backbone, more data consumption and that is really the focus of the wholesale business which is really where special access comes in.

Jason Armstrong - *Goldman Sachs - Analyst*

Any other questions?

Unidentified Audience Member

Just a quick question with regards to the pension deficit. And just your overall trends, your debt levels have been going down absent this SpectrumCo deal. I am wondering where rates are right now would you make -- do you have any plans to perhaps take advantage of that by plugging the pension gap or maybe increasing debt levels just to have a more efficient capital structure?

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

Well, as we know, we have legislation in front of us that extends out the contribution to a pension plan and the recalculation from an IRS perspective and we continue to look at all that. And as I said, I will have more information on the third-quarter call as to exactly the strategy that we are going to lay out. We are not sure we are going to file that yet, but there is a lot of other things that go into that. There is the tax deduction of a contribution, borrowing rates so there is a lot of things that we are playing with and a lot of different strategies.

In the third-quarter call, I will have more as to what you can expect going into '13 from a pension strategy.

Jason Armstrong - *Goldman Sachs - Analyst*

Anybody else? Okay. We will leave it there. Thanks, Fran.

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

Thank you, everyone.
