

**VIA ELECTRONIC FILING**

November 28, 2006

Marlene Dortch  
Secretary  
Federal Communications Commission  
445 12th Street, SW  
Washington, DC 20554

Re: Application for Consent to the Transfer of Control of Telecomunicaciones de Puerto Rico, Inc. from Verizon to América Móvil (WT Docket. No. 06-113)

Dear Ms. Dortch:

Transmitted herewith, on behalf of América Móvil, S.A. de C.V. (“América Móvil”) and Verizon, is a response to the information request sent to América Móvil and Verizon on November 13, 2006.<sup>1</sup> Please note that the responses to questions 3 through 7 were provided by América Móvil, and the responses to questions 1 and 8, were provided by Verizon.

Please direct all communications concerning this response to the undersigned.

Respectfully Submitted,

/s/

Philip L. Verveer  
Michael G. Jones  
Daniel K. Alvarez  
*Counsel for América Móvil, S.A. de C.V.*

Enclosures

cc: Ms. Katherine Harris (via e-mail)  
Ms. Erin McGrath (via e-mail)

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<sup>1</sup> Letter to Michael E. Glover, Verizon, and Alejandro Cantu Jiménez, América Móvil, from Katherine M. Harris, Deputy Chief, Mobility Division, Wireless Telecommunications Bureau (November 13, 2006).

**In re Application for Consent to the Transfer of Control of Telecomunicaciones de Puerto Rico, Inc. from Verizon to América Móvil (WT Docket. No. 06-113)**

**November 28, 2006**

**Responses to FCC Information Request**

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**1.- On page 7 of the Public Interest Statement in the Application, Applicants state that TELPRI has “extensive” wireless and wireline operations in Puerto Rico.**

- i. Please describe with specificity the types of wireless services that TELPRI offers in Puerto Rico, including for example, prepaid and postpaid services and all voice, data and advanced services.**

TELPRI's subsidiary Puerto Rico Telephone Company, Inc. (PRT) provides a number of wireless voice and data services through its wireless division. These offerings are as follows:

Voice Services

- Prepaid and postpaid voice services

Data Services

- Prepaid and postpaid SMS (short message service) and voicemail services
- Postpaid BREW (downloading of ringtones, games, and wallpapers)
- Postpaid ringback tones
- Postpaid MMS (multimedia services, such as sending and receiving video clips)
- Postpaid WAP (wireless application protocol, such as limited Internet access)
- Postpaid Blackberry service and other wireless PDAs (including modem connection, email, and WAP)
- Postpaid data roaming to the mainland United States and the Dominican Republic (1xRTT)
- PRT plans to offer additional services in 2007.

- ii. **Please identify all of the network technologies (e.g. CDMA, W-CDMA, EDGE, TDMA, GSM, GPRS) TELPRI uses to support each of the wireless services it provides in Puerto Rico.**

The network technologies for wireless services used by PRT are as follows:

- Prepaid voices services –TDMA/AMPS, CDMA. PRT is phasing out its TDMA network and has moved the vast majority of its customers to its CDMA platform.
- Postpaid voice services – TDMA/AMPS, CDMA
- Prepaid and postpaid SMS and voicemail – TDMA and CDMA
- Postpaid BREW – CDMA
- Postpaid ringback tones – CDMA
- Postpaid MMS – CDMA
- Postpaid WAP – CDMA, EVDO (where available)
- Postpaid Blackberry service and other wireless PDAs – CDMA, EVDO (where available)
- Postpaid data roaming to the mainland United States and the Dominican Republic – CDMA

**2.- On page 4 of the Public Interest Statement, Applicants state that América Móvil is committed to "providing consumers with state-of the-art service" and to "assuring 3G service for its wireless subscribers in Puerto Rico...." On page 3 of the Opposition, Applicants state that América Móvil is committed to "pursuing the best means of achieving this upgrade [to 3G].... after an opportunity to analyze the matter."**

- i. **Please provide an expected timeline for the deployment of 3G service throughout Puerto Rico.**

TELPRI, under the Verizon Wireless name, is already providing 3G service using CDMA/EVDO technology. PRT is currently providing 3G service to most of the extended metro area which includes San Juan, Bayamon, Guaynabo, Trujillo Alto, Carolina, Dorado, Caguas as well as certain other parts of the island. PRT plans to offer additional EVDO services in 2007. América Móvil has no current plans to discontinue the 3G CDMA/EVDO service offering. To the contrary, after closing of the transaction, América Móvil plans to establish the necessary procedures for the upgrade referred to in the response to Question 2(ii) below (overlay of a GSM/EDGE/UMTS/HSPA (GSM and 3GSM) network to the existing Verizon Wireless network in Puerto Rico). América Móvil has experience constructing and operating overlay networks such as contemplated here while maintaining legacy networks. If América Móvil were to determine in the future that maintenance of two network technologies by TELPRI is

no longer warranted, América Móvil would establish an appropriate transition plan.

**ii. How does América Móvil plan to upgrade its network and deploy 3G service in Puerto Rico?**

América Móvil will overlay a GSM/EDGE/UMTS/HSPA (GSM and 3GSM) network to the existing TELPRI network in Puerto Rico. Additionally, América Móvil will increase the number of micro-cells to provide better in-building coverage in major buildings, commercial malls, convention centers, airports and high traffic areas. América Móvil will also add cell sites in some areas not currently covered by wireless services. In this way, América Móvil is planning to improve what today is “the most powerful network in Puerto Rico” according to Verizon Wireless advertising and independent benchmarks.

GSM and 3GSM technologies provide service to approximately 82% of all mobile subscribers in the world, or more than 2.175 billion subscribers. This guarantees the continued development of a technological evolution path for GSM and 3GSM, as well as the development of new services, infrastructure equipment options and user terminals. The number of infrastructure and handset vendors for GSM and 3GSM easily surpass the number of vendors in any other wireless technology. In the same way, many vendors of multiple wireless technologies usually prefer to develop any new service and/or equipment first for GSM/3GSM technologies and later for other wireless technologies, if they develop them at all. For these, among other reasons, GSM/3GSM is the technology preferred by América Móvil and by most of our new wireless customers.

**iii. Will this upgrade result in other wireless technologies (e.g., CDMA, W-CDMA, TDMA, EDGE, GSM, GPRS) currently deployed in Puerto Rico being discontinued? If so, please provide a timeline for the discontinuance as well as a transition plan for customers.**

América Móvil has no present plans to turn off the existing TELPRI CDMA/EVDO network. As noted above, América Móvil has experience constructing and operating overlay networks such as contemplated here while maintaining legacy networks. If América Móvil were to determine in the future that maintenance of two networks by TELPRI is no longer warranted, América Móvil would establish an appropriate transition plan.

In addition, other carriers such as Sprint/Nextel and Centennial utilize similar CDMA/EVDO technology, so it is not anticipated that a CDMA/EVDO wireless network would be unavailable in Puerto Rico even if América Móvil were to turn off the TELPRI CDMA/EVDO network in future years. Puerto Rico wireless customers will be able to

select the wireless service technology (CDMA/EVDO or GSM/3GSM) they prefer, based on their particular needs.

**3.- How much does América Móvil plan to invest in maintaining and improving the existing wireless technologies used in Puerto Rico for each of the next three years?**

América Móvil is planning to invest approximately \$280 million U.S. dollars in the next 3 years to upgrade and maintain the TELPRI wireless infrastructure in Puerto Rico. We expect to invest approximately \$140 million U.S. dollars in 2007 to deploy a new GSM/3GSM network as well as to maintain and expand the current CDMA/EVDO network. We plan to then invest approximately \$67 million US dollars in 2008 and \$73 million dollars in 2009 to maintain and improve those wireless networks.

**4.- Please describe with specificity the plans that América Móvil has to "expand both the coverage of telecommunications services and the service options available to consumers" in Puerto Rico, as set forth at page 6 of the Public Interest Statement.**

América Móvil has extensive experience in providing wireless services to customers of all income levels. We serve markets with very high population density and others with low population density, such as some rural areas in Puerto Rico. *See* Public Interest Statement at 5-6; Opposition to Petition to Deny at 4. Through the investments described above, América Móvil intends to take steps to improve the current wireless coverage in certain areas that today may not have good network quality or signal strength. Customers living and working in these areas will be able to enjoy the improved wireless service we are planning to provide.

América Móvil also provides wireline services to corporate and residential subscribers in Nicaragua, El Salvador, and Guatemala. This experience will inform América Móvil's plans to execute projects in Puerto Rico to bring the fiber optic network closer to the home and office buildings. This deployment will support our plans for Triple and Quadruple play offers, as well as many other IP based services.

América Móvil is also planning to offer new service options to wireline and wireless customers in Puerto Rico. Among some of the planned service offers are:

- IP TV services
- Triple and quadruple play packages
- Push to talk over cellular PoC
- Roaming in more than 120 countries with the same handset and the same number
- More wireless prepaid options: more handsets, lower prices available
- Extensive multilingual mobile content services
- Mobile Chat services
- Videotones
- Purchase and download of full song tracks
- Java applications purchase and download

- SMS messaging in wireline
- Videoconferencing services
- IMS based services
- Virtual administrator service for wireline and wireless corporate customers
- Integrated wireless/wireline corporate VPNs
- Integrated messaging and voice messaging platforms for wireline/wireless
- Location based services

**5.- On page 3 of the Public Interest Statement, Applicants state that América Móvil focuses on developing a "fully integrated telecommunications services provider" when it enters a new market.**

- i. Please describe with specificity América Móvil's plans to integrate wireline and wireless services in Puerto Rico.**

By deploying an IP/MPLS backbone for the TELPRI data, wireline and wireless networks, América Móvil will be able to optimize the transport infrastructure for all types of wireless, wireline and data telecommunications services.

By expanding the fiber optic network closer to the home and office, América Móvil will improve TELPRI's network infrastructure to offer Triple and Quadruple play services.

By replacing the TELPRI legacy wireline billing system, América Móvil will be able to offer an integrated invoice for all telecommunication services provided to a customer, reducing the number of bills customers are required to track and pay. This billing system integration will allow América Móvil to support quadruple play services.

Wireline and wireless integration will also allow a customer to benefit from a single number for all of his or her communication needs. Customers can also enjoy the benefits of a unified messaging system where a single mailbox is used for all wireless and wireline messaging needs, including voicemail, fax, e-mail and SMS.

América Móvil also plans to offer integrated wireless and wireline VPN services to corporate customers.

IMS implementation will allow América Móvil to offer services that integrate internet, wireless and wireline networks.

SMS for wireline will allow wireline customers to send and receive SMS messages to and from wireless customers.

- ii. When does América Móvil expect that this integration will be largely complete? How long has similar integration taken to achieve in other countries where América Móvil has integrated wireline and wireless networks?**

América Móvil expects to complete deployment of the IP/MPLS backbone and the changes to the billing systems within 2 years after closing. This is in line with our experience in other markets. Unified messaging services and integrated wireline and wireless VPN services could be offered within 1 year.

- iii. Provide specific examples of the benefits that consumers will experience once this integration is complete.**

- Through the integration of all services in an IP/MPLS backbone, América Móvil will be able to offer services such as 3G and IPTV services with better network service quality. Such integration will also enhance América Móvil's ability to provide IMS, VoIP and IP/PBX services to residential and business customers.
- Planned triple play and quadruple play service offerings in a single bill will provide cost benefits to customers against purchasing the services separately.
- IMS will allow América Móvil to offer a number of new services that will integrate the internet, wireless and wireline networks.
- Wireline SMS allows wireline customers to send and receive SMS messages to and from wireless subscribers.
- Wireline/Wireless bundled minutes packages offer consumers a way of saving in telecommunication expenses.
- Virtual Administrator service allows a corporate customer to monitor and control the usage in real time of its wireless and wireline corporate lines through a single interface.

**6.- América Móvil credits its ability to compete successfully on factors such as its customer service, marketing, and the ability to anticipate and respond to various competitive factors affecting the telecommunications industry. See Public Interest Statement at page 3.**

**i. Over the past three years, how much have América Móvil increased wireless penetration in each of the countries where it offers wireless service?**

América Móvil has been a proactive competitor in all the markets it serves. This has resulted in a significant increase in the wireless penetration in those markets, regardless of our market share gains. The table below shows the percentage of the total population subscribing to any wireless provider in countries where América Móvil provides wireless services (as noted, for Brazil, the percentages are calculated with respect to the service areas in which América Móvil operates, and the U.S. percentage is with respect to prepaid services only):

**Wireless Penetration**

	<b>2004</b>	<b>2005</b>	<b>3Q 2006</b>
Mexico	36%	45%	51%
Brazil*	37%	47%	50%
Colombia	23%	47%	67%
Ecuador	28%	48%	61%
Peru	15%	20%	28%
Argentina	34%	55%	69%
Chile	59%	72%	77%
Paraguay	22%	30%	42%
Uruguay	16%	35%	52%
El Salvador	23%	38%	46%
Guatemala	23%	33%	42%
Honduras	10%	17%	22%
Nicaragua	13%	19%	31%
USA prepaid**	7%	9%	10%
* Only for the region in which Claro operates			
**Prepaid sector			

**iii. What is the percentage increase of customers who have access to 3G wireless service over the last three years in each country where América Móvil provides such service?**

América Móvil has been evaluating different 3G technologies and vendor solutions for its 3G evolution. As a result of this process, América Móvil intends to deploy 3GSM services in 2007 in all its major markets.

**7.- Applicants refer to the "advantages of scale and scope" that América Móvil will bring to Puerto Rico. See Public Interest Statement at page 5, Opposition at page 3.**

- i. Please specify in detail the benefits that will result from the advantages of scale and scope possessed by América Móvil. In particular, please discuss those advantages that are in addition to the ability to make bulk handset purchases.**

América Móvil provides wireless service to more than 110 million subscribers in 14 different countries, making us one of the largest wireless providers in the world. This allows us to enjoy reduced wireless infrastructure prices. Moreover, the world-wide predominance of GSM technology provides economies of scale for the production of GSM and 3GSM technologies. Thus, our high volume infrastructure purchases, together with the economies of scale realized by the GSM and 3GSM technologies, allow América Móvil to achieve improved capital expenditures results.

América Móvil can also draw upon the expertise of its sister companies, such as Telmex and CONDUMEX, with respect to its wireline operations. For example, through its relationship with Telmex, América Móvil has access to new telecommunications technology research and experimental infrastructure deployments. This allows América Móvil to make better strategic technology decisions that benefit both the company and its customers. A further example is América Móvil's relationship with CONDUMEX, one of the main copper cable and fiber optic manufacturers in Latin America, which allows América Móvil to obtain competitive prices in these items to deploy and expand its wireline networks.

By offering financing for the purchase of personal computers to their customers, Telmex and América Móvil are among the largest personal computer distributors in Mexico and Central America. For this reason, América Móvil is able to enjoy reduced computer prices that we plan to offer in easy installments to the Puerto Rico market, in order to increase the internet and broadband penetration on the island, as well as promote computer literacy, thereby reducing the digital divide.

- ii. In what ways is América Móvil better able than the current telecommunications provider, TELPRI (both with and without its indirect owner Verizon), to realize advantages of scale and scope?**

Some of the advantages are due to of the economies of scale that GSM/3GSM technology provides:

- Large variety of handsets to choose from (América Móvil offers over 150 models in some countries)

- Cheaper handsets for all customers
- More free handsets options available for postpaid contract customers
- Roaming with the same handset in 120+ countries
- Better roaming rates in the rest of the world
- Easier and more reliable national and international roaming
- Faster introduction to Puerto Rico of new handset models

Other advantages result from América Móvil operating in a large number of different markets with different conditions: from low income, low density, rural areas to high income, urban areas and a number of sophisticated corporate customers. América Móvil provides a large variety of services to satisfy the needs of a wide range of customers. Some of the services América Móvil currently offers in some markets, which are not currently provided by TELPRI/Verizon Wireless in Puerto Rico, include:

- Triple and quadruple play service offerings
- Corporate wireless and wireline integrated VPNs
- Financed PCs to increase internet/broadband penetration
- Huge multilingual and multicultural wireless content library
- Wireline prepaid service
- Numerous wireless prepaid options
- Location based services
- Multiple wireless email delivery technologies
- Hybrid prepaid/postpaid wireless service
- Wireline SMS
- Wireline/Wireless bundled minutes packages
- Virtual Administrator to allow the customer control the usage of its wireless and wireline corporate lines in real time in a single interface

**iii. Provide estimates of the benefits and/or the cost savings due to the improved economies of scale and scope caused by the transaction. If cost savings are anticipated, how much does América Móvil expect to pass onto consumers?**

Some of the benefits are associated with the lower costs of GSM and 3GSM infrastructure and terminal equipment, as well as the fact that América Móvil, with over 110 million subscribers worldwide, is one of the largest carriers in the world. Because of these economies of scale, América Móvil plans to take steps to improve wireless services in some areas not currently well covered by TELPRI/Verizon Wireless.

Customers will also benefit from:

- Triple and quadruple play service offerings, with the associated cost savings

- Lower entrance cost for wireless services. A large variety of handsets will be offered for free to contract customers. Prepaid no contract customers will have cheaper and better handset options to choose from. Lowering the entrance barrier for both contract and prepaid subscribers will help to increase the penetration of wireless services in Puerto Rico.
  - Financed Personal Computers to increase internet/broadband penetration
  - Wireline prepaid service to increase wireline penetration
- iv. **Provide an estimate of the time it will take to realize the benefits and or cost savings identified above.**

Some of the offerings previously mentioned will be available within 6-8 months after América Móvil acquires control of the TELPRI operations in Puerto Rico.

**8.- Applicants cite to a press release stating that Verizon plans to divest its ownership interest in TELPRI. See Opposition at page 7. If the transaction with América Móvil regarding TELPRI were not consummated for any reason, does Verizon plan to retain its interest in TELPRI or sell it to another purchaser? If possible, cite to public documents that discuss Verizon's intention to leave the Puerto Rico market.**

Verizon has made the corporate decision to divest TELPRI together with its other Caribbean and Latin American telecommunications operations as a "natural step in the evolution of [its] growth and shareholder value creation strategies." Press Release, Verizon Communications Inc., Verizon to Sell Caribbean and Latin American Telecom Operations in Three Transactions Valued at \$3.7 Billion (Apr. 3, 2006), <http://newscenter.verizon.com/proactive/newsroom/release.vtml?id=93365>. See also Ivan Seidenberg, Chairman, CEO, Verizon Communications, Inc., Remarks at the Sanford C. Bernstein & Co. Strategic Decisions Conference, at 2 (May 31, 2006) (attached). At this time, Verizon has entered into an agreement to sell its interest in TELPRI to Sercotel, a subsidiary of América Móvil. Pursuant to this agreement, Verizon cannot solicit or enter into a transaction with any other party for the sale of its interest in TELPRI. Should that agreement be terminated and the sale not be completed, Verizon will evaluate its options including the possibility of consummating a transaction with another buyer of TELPRI (or its operations) or otherwise divesting its interest.

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **VZ - Verizon at Sanford C. Bernstein & Co. Strategic Decisions Conference**

**Event Date/Time: May. 31. 2006 / 2:00PM ET**

May. 31. 2006 / 2:00PM, VZ - Verizon at Sanford C. Bernstein & Co. Strategic Decisions Conference

## CORPORATE PARTICIPANTS

### **Jeff Halpern**

*Sanford C. Bernstein & Co. - Analyst*

### **Ivan Seidenberg**

*Verizon Communications, Inc. - Chairman, CEO*

## PRESENTATION

**Jeff Halpern** - *Sanford C. Bernstein & Co. - Analyst*

Good afternoon. And welcome to the second of our telecom sessions at this 22nd Annual Sanford Bernstein Strategic Decisions conference. I am Jeff Halpern, Bernstein's senior U.S. telecom services analyst, and it is my pleasure to welcome you to this afternoon session with Verizon. Hopefully you are all thoroughly filled with sugar and coffee so that we have no problem staying awake now. Just a quick housekeeping item, there should be some cards on your chairs and as you have questions, please feel free to jot them down. Please do your best to write as legibly as possible because I'm going to have to juggle them and actually try and read them. And those will be passed to the center aisle when the presentation concludes and then there will be someone who will come down the aisle and pick them up and bring them up to me, and I will then have to try and juggle them up here.

In contrast to AT&T whose chairman presented this morning and some of you were in the audience, Verizon has grown largely through organic investment as opposed to acquisition for much of the past 10 years. During that time Mr. Seidenberg, Chairman and CEO of Verizon has been at the helm; in fact all of that time for the last 10 years. And has made many bold strategic moves, though not necessarily in the acquisition realm. Often those moves have taken the form of spending capital on projects that at least initially in our opinion were misunderstood by investors. In the late 1990s and earlier part of this decade he invested far more aggressively than his peers in his wireless network, often to the consternation of the Company's investors.

Today Verizon Wireless is not only the premier wireless property in the industry, but as a recent report that we issued noted, it is out-earning its cost of capital by a wide margin and delivering far, far better returns than its peers. Similarly under Mr. Seidenberg's watchful eye, Verizon is today investing heavily in the upgrade of the Company's wireline infrastructure, likely spending when all is said and done something in the neighborhood of \$20 billion by our estimate. And while our work on fiber suggests this investment will also deliver very solid returns, the market is unfairly punishing Verizon today as investors are far less sure.

Is it simply a timing question? Or is the future of the wireline business so bleak that any capital invested is capital wasted and the bells should simply ratchet up their dividends, buy back shares and harvest what's left of a wasting wireline asset? Here to give us his take on the future of Verizon Communications is the Company's Chairman and CEO, Ivan Seidenberg.

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

Thank you very much. Good afternoon, ladies and gentlemen. I think that was a good introduction, Jeff. Thank you very much. As always, we appreciate the opportunity to be with you today and give you a status report on our Company and answer any questions that might be of interest to you as we go forward. I guess we've got the -- okay, good. The only thing missing from the Safe Harbor statement is protection of our shareholders from analysts. So I think we are going to add that in there in terms of a risk to it, so we will do that. But I am obligated to make sure you are aware of all of the conditions on the Safe Harbor statement.

Okay, growth. A couple of things here. I won't read all the charts, you can read them. I'm sure in the last couple weeks you've been to several of these conferences, so you probably seen our standard deck. I've culled it back a little bit so we have a little bit more time for your questions. I think the key point is we are still very much excited and focused on the growth opportunity that is in our space in an entirety. We see for the past seven or eight years -- we've seen a lot of horizontal expansion in terms

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of broadband and mobility; now we're seeing horizontal expansion in a lot of vertical opportunities for growth, and they come in the form of introduction of technologies like IP services and broadband. Particularly interactivity and then of course, the last one that we think we have a good place at the table to make a contribution would be managing multi technology platforms for customers which is integrating wireless and wireline and other kinds of technologies across both the consumer and the business markets to do that.

You can see that we feel good, we have a broad and diverse customer base. We have the right assets to go forward. What we've done in the last year or so is to try to simplify our Company by focusing on our network centric businesses, deploying our capital into the three spaces that we think make the most sense and at the same time simplifying our Company by agreeing to divest our Yellow Page operation, to sell our international and to sort of restructure the business to make us a lot more simple so that we can take advantage of what's going on in the future going forward.

We think over the next two to three years two-thirds of our revenues will come from products that are derivative of these new technology services going forward. And of course obviously any company like us will always focus on margin expansion through not only investments in new revenue growth opportunities, but really using our scale to drive cost efficiencies out of the business.

I would like to cover the three businesses that we have in a little bit of detail with you right now. We start with wireless. I think in our view that is very hard to suggest that we have anything but the premier performing asset in the whole space. Our wireless philosophy has centered around three or four things. We have focused on network investment. We have focused on distribution. We have built a very potent marketing machine to make sure that we have a good product lineup. The timing of those introductions flow consistently throughout the year and over the years. We focus on having a good customer experience, and probably the one of the hidden values in our business is that we have a really well-oiled employee culture, one that is really driven to performance and that is driven to really make the business very successful going forward.

The numbers speak for themselves. We've had 15 quarters of double-digit revenue growth, and our cost per customer is \$27.00. The next closest to the industry is \$33. We have margins in the mid-40s. We have the highest revenue growth in the industry. Our churn for two years running has been lower than 1.5, and in the most recent quarters our postpaid retail churn has broken one. You have to think about that for a minute because you have people that you force off the network at a greater rate, so when you think about our churn rate it is pretty extraordinary. When you look at going forward the opportunity in wireless with all the consolidation that has occurred with T and with Cingular, and with Sprint/Nextel, that is a very positive thing as far as we are concerned. I think as the industry consolidates we've seen all the carriers strengthen their margin performance and strengthen their growth. It has always been the question for us as others have consolidated, do we lose the growth? And quite frankly what we have done is widen the lead. And I think as you look at where we are in the next couple of years and look out you can see that the formula for us doesn't change. We've done pretty well at filling the horizontal space in the industry, and as you look now we have an opportunity to really double down vertically in the space. And you look at this, this is just a general map of the areas we focus on, but just a couple of examples.

There's tremendous opportunity in business services. And if you look at some of the announcements we've made in the last couple of weeks that looks at the Q phone with Motorola, if you look at the Treo 700w, the Treo 700p, you look at the Samsung i830, we've got a lot of products. You probably now see lots of advertising on providing an Air Card with some of the EVDO set. So we really feel there is an opportunity to increase the level of revenues that we generate in the business side. In the first quarter we had the highest percentage of data revenues as a total percentage of our base, we are tracking in the second quarter as equal to or even better than the percentages we had in the first quarter. So we really feel very good about the fact that wireless -- we have horizontal opportunity but a lot more opportunity vertically as we go forward.

We are going to do some more things with our store designs, which will give customers even more opportunities for improved service and to experience the product sets going forward. As you know we've made some changes in our distribution channels at the end of last year. Now we're trying some new things with a store within a store with DJ's and with Circuit City. We've got a good program going on with Wal-Mart, so we think we tried to change the mix and change the flow so to speak in this whole

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space. So when you look at this chart to us we think that the way we look at it, Verizon Wireless, this is our moment in time. We've had a good run but we think we're going to be better tomorrow and we think we have a great opportunity.

I'm sure you will ask me this question later. One of the most important ways to validate this is our friends over in Newberry in the UK, Vodafone, they figured out that we are on a good run. They decided to stay in the house. So the issue there is if -- you don't have to believe me but we've got a big shareholder who is looking out at the business and saying that we think you are going to create more value than anywhere else we can put the same amount of capital. And so I think that is a pretty good sign. So we feel really good about the wireless business but if I had to make a comment, I feel good about the entire wireless space in general because there's an opportunity for everybody to do better as we go forward.

If you look at our telecom business, this is part of the business I spent a lot of time on. We have lots of issues here and lots of opportunity. Obviously this is a business in significant secular change. It has got all sorts of interesting competitive and technological issues. But it's not any different than wireless was when we first started. The cornerstone of our strategy here is that the future will demand that companies provide customers with speed and bandwidth and security, and the ability to transmit that information across large geographic territories and boundaries and it's an opportunity for us to fit the mold. I mean if you take a look at three years ago, music filled up the Internet. Now we are now looking at in the last six months the number of video downloads that you see on the Internet and the number of interactive capabilities that people are looking for over their fixed wired or fixed fiber solutions are extraordinary. So we see there's a tremendous opportunity for vertical expansion and that's the reason why we have deployed our files, which I will talk about in the next chart.

But the way we look at the business you can see that what we need to do is take that 16.7% of data revenue which moved to 19% or so in the first quarter of '06 and we need to continue to improve the relationship between the amount of revenues we generate from total data, and continue to reduce the revenue streams from voice. We can mine the voice revenue streams for a while but over time what we need to do is build a business that is based on significant broadband capability.

If you look down at the bottom of the chart just like in wireless as we were adding customers, net adds over the years, what we see here is our revenue generating units which is our broadband customers and all of the one-off sales we make. We can see we are kind of holding our own, it's flat so that for all of the access line losses we are suffering that we are able to offset that with DSL and with FiOS and with bundled packages going forward. So our business model here is to deploy capital. It is to drive the percentage of data up, eventually get the total category growing positive, and it's to continue to drive revenue generating units in the direction that goes north.

The flagship of our strategy here is you can see here the early results of our FiOS. Now we are into it now for the second full year. You can see here just some of the numbers. At the end of '05 we had deployed fiber to pass about 3 million homes by the end of the second quarter, our target is in the mid 4 range -- 4.3 or 4.4 million homes passed. So when we report at the end of the second quarter we will talk about being on target for passing about 4.3 to 4.4 million homes. We are offering speeds of 515 to 30 megabits per service. You can see that once we are in a franchise location for twelve months we see penetration rates on FiOS data that equal about 17%. There has been a pretty quick ramp up. I've never seen a product of this nature, particularly a facilities based product ramp up as quickly as this one has. And probably the reason for it is customers have such an appetite for bandwidth when they see a reliable source of getting high speed they purchase it if it is at a good price. And I think we are only limited on this in terms of how quickly we can deploy the fiber and just for what it's worth, we are deploying it as quickly as we know how and as fast as we know how in every place we can. So we feel really good about this.

Our stated target on the data penetration is 30% of the total area that we cover in a five-year period, so we feel we are well along the way of meeting those goals. When we get an approval to provide video in the same franchised market so we can now offer the customer both the high-speed Internet, the voice of course and their video, what we found is what we see on this chart -- these are just some examples -- but that the penetration rates for the uptake on the video product is even quicker than it was on the high-speed data. So we are looking here in terms of 1, 2, 3, 4, 5 months in the market you are looking at the penetration rates going anywhere from 6 to 10% in a couple of months all the way up to the mid 20s and our first market in Keller, Texas.

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We've gotten 72 local franchise agreements; we have got another 400 in progress. We're very comfortable that our -- the granting of these local franchise agreements will clearly be consistent with the deployment strategy we have. And so I think the early results of this operationally are working and that on a financial basis just like in the wireless business, each franchise will turn EBITDA positive first and then of course, will see net income contributions after that. If you remember in the early days each wireless franchise you bought usually took four years to five years to be cash flow neutral, then EBITDA positive and then net income positive. We're now finding this model is much different. Cash flow neutral in 4, or 5 years, then EBITDA positive and then you can see you move to a net income position right after that.

The important trigger point for us as we look at all this is to make sure that we can hold the pricing. And that we have the differentiated product in the marketplace that warrants the customer's loyalty, and in both cases that is the case. When you can offer 50 to 100 megabit speeds, all the HD channels that one wants, all of the local WAN requirements in a home that somebody would like; also link that up to their mobility devices and do some applications work to make that happen. We feel that this is a very good business for us and we're excited about it.

If I turn to VZ Business, which is the enterprise business that was created with the combination between Verizon Business, Enterprise Business and MCI. Here we are off to a good start. You know this business well. MCI served 94% of the Fortune 500. They get 20% of their revenues from the federal government. They got some great anchor customers. There is terrific growing demand for IT conversion across the entire enterprise space. The significant opportunity horizontally to manage wireless and wireline services across that. MCI has a particularly good position globally. They have a great global IP network and they have had great customer base in that direction. They obviously since their inception have focused pretty much -- if you drew a line from New York down to El Paso, Texas -- what you would see is 90% of their business is east of that. And so a lot of their business covers our footprint, so we have a good synergies in that in that regard. You can see that their strategic service revenue base is growing, and we feel pretty comfortable that on the growth side that we will see this particular business unit for us turn revenue positive next year. Which means that as we build through this year we will start to build the base. So this is a pretty good thing.

If you take a look at the kinds of synergies there are, the cost and revenue, if you look at the cost nothing has changed here. We've talked about \$550 million this year. We did \$50 million in the first quarter; we will do the other \$500 during the rest of the year. We are looking at as you've seen in '07 and '08 building up to a fund rate of 1.1 billion in 2008 which we think is very doable and we are anxious to make all that happen. Basically it happens on the network booming side as well as on the back office systems side.

On the revenue side of the business MCI itself was very strong in storage, virtual network, hosting, security services. They had a good position with their customers on that. When you look at the capability that Verizon brings in terms of our CPE focus and our wireless focus, we now have a new way of approaching all the enterprise customers with some interesting opportunities and I think solutions for a broader base. Lots of -- in our view what has happened here is, as we looked at the business it shouldn't surprise you, but some percentage of every IXC contracts that come up every year with some automatic rate reduction flow throughs the customers have negotiated. You tend to turn over your base every three or four years in doing that.

Everybody asks me about price stabilization. Well, the way we think about that is that some of the price reductions that we are facing this year are things that were negotiated by customers over the last two or three years. And as we replenish that and honor those contracts we have an opportunity to replace next year's price reductions with lots of new services. And so I think the way we look at price stabilization it comes in the form of, as we renew these contracts we can upsell customers and change the paradigm of the products and services that they are buying so that we can reduce future price reductions and in fact create some stabilization across the business.

So customers of course they are very demanding; what they did is greater productivity, greater utility, greater coverage in return for some price stabilization. If we can't give them new product then they demand reductions in pricing. And I think from where we sit we're very well positioned to take all these next gen products, add wireless, add CPE to it and provide solutions to service

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issues that they might have. That will give us a chance to stabilize and grow the earnings and grow the revenues going forward. So we're excited about this and we think we can get this business growing late this year and certainly into 2007.

Just to round everything out we think there's a tremendous opportunity when you take the scale of all of our businesses, we created a small little internal unit we call Verizon Services. You can just see some of the functions we bundled in there. Financial services and procurement, real estate, human resource, benefits services and what we've done is any place where we have large-scale transactions that cut across the entire company, we put them together and we are trying the scale economies across it. So the simple way to think about this is we had Verizon Telecom and Verizon Wireless. We acquire MCI and the idea was to absorb as much of the MCI back-office at no cost.

Now it doesn't quite work that way but the fact is one plus one plus one shouldn't equal three, it should equal something a lot less than that and so we can see that. So if you look at some examples whether its bills payable or bills collections or to benefits administration or to energy costs or whatever it might be -- we have a chance to sort of bring the scale of the entire business across and do something very well. You see we have a simple focus -- three operating units, a centralized cost center and a corporate headquarters to run the business.

When you put this all together I think the Verizon story is all about we recognize for the past several years we have had mixed performance. We've had great wireless performance; we have had deteriorating vocal performance. We've made an acquisition of MCI and when we look out now into the future we think we are deploying our capital to create sustainable growth. And we want to drive our earnings from that and we can continue to get margin expansions because of our scale of economies and position our business in a way that when you look out over the next several years, we're very confident and feel very good about the prospects for the business.

We also feel good about the industry we are in. I think that wireless is always technology dislocations and there's always lots of issues with competitors and new things. As we move to a broadband world, an IT world, a digital world and a mobility world I think we're positioned to finally take advantage of a significant growth that could come vertically in all of the businesses that we have created. So Jeff, I hope that gives you a quick overview of where we are and if there is any time we would be happy to answer any questions.

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## QUESTIONS AND ANSWERS

**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

There's definitely time, and please remember cards to either end aisle would be great, and folks will be coming around to pick them up shortly. Why don't I kick it off until I have a chance to get through these? I know I get a tremendous number of questions about what drove your philosophical decision to go with fiber to the premise? Clearly your peers over on the other side of the United States made a decision that was not similar to yours. On the overbuild side. And I guess can you talk a little bit about what was your thought process in that decision and what were the elements you were considering?

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

I get this question a lot and I think the first thing I'd like to say is I think that whether you use a fiber to the premise or fiber to the node or use some hybrid or whatever, I think that all of us who came from the core Telco side recognize that cable over time had a pretty good asset in their fixed coax network and they could offer higher speeds. So I think whatever strategy you chose it was clearly to recognize the speed at which cable had a chance to penetrate your own markets. I think the telling issue for us would be when it's all said and done and we put all the work in and we spent all the money, we wanted to make sure that we had a chance to compete as I said on one of my charts -- in effect control the house. Our view is pretty simple, that we want

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the customer to pick us or Comcast, or pick us or Cablevision or pick us or Time Warner. You pick us, they're out. You pick them, we're out.

And our view is trying to share the house with the cable company is a difficult proposition, and I think that every architecture that we looked at and DSL is a good example, in a lot of cases the customer has a telecommunication solution and they had cable. Then when cable came up with cable modem, a lot of customers disconnected their DSL and then they eventually will disconnect their voice. So I think unless we had a compelling product that can offer the customer a high-speed Internet access as well as the video, we were at risk of getting a very small portion of household revenues. So Jeff, in the long-term we wanted to get a bigger wallet share of the residential customers. And for those of you who have been -- you are all consumers when you think about this companies like Verizon had the dominant wallet share in everybody's house twenty years ago. And we are slowly being marginalized out. And the only way to do that is to have a compelling product. We get a great percentage of the wallet share on wireless, and we needed to position ourselves to do that. So I think that what the other ILECs are doing is good because it is competing with cable. I think in our case we wanted a more dominant position to compete and win.

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**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

To that last point that you just created, do you believe that the competition with cable is a zero sum game, or do you think competition will spur increased demand for the various types of services being offered?

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

If you are an investor you think it is a zero sum game but it's not. There isn't -- any new technology that isn't additive. So I think what you have to look at is whether its us and cable, us and cable and satellite, I think the introduction of new technologies take entry barriers down, introduces new opportunities for innovation and I recognize that its the hardest thing for investors to do is to pay for innovation. But it happens. So I think what I think as we are deploying capital to compete with cable but I also think we will create brand new industries and brand new collateral opportunities to take advantage of the technologies that we are offering. So whether it is healthcare services or it is central government services, it is interactive services, whatever it might be, I think what we are going to find is as we deploy this, Jeff, we are going to see significant new revenue streams created for both of us. In our view cable has an orientation toward one type of service over their networks. We have an orientation toward a little different set of services. We serve more vertical markets. We serve more community-based services. So I think there's going to be plenty of room for both of us to win. I think right now you are into this battle of the two industries but in the long-term if you deploy the right capital you're going to expand the market for both sides.

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**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

And to the point of your vertical market comment, how do you view the potential entry of cable into the small medium business market. That cable adds -- I think it was last week a number of the CEOs in the various cable companies were talking -- and that was clearly a market they were talking about focusing in on the next several years?

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

I think it is a natural thing for them to try to do. If I were them I would do the same thing so I'm not at all particularly surprised about it. I think if I wanted to be somewhat cynical I would say this, that when you look at the market position they have as well as they are doing with cable modems and what they say they're going to do with VoIP, there is no reason to make a big play in what they're going to do in small and medium business. So I think that my view is look, the markets plenty big. It's fine. They should get into the market. We have a historically great position with small medium business customers and our issue there is deploying the technology. And what we are finding in all these franchises that we are deploying FiOS we are giving customers a much different value proposition and when we are not deploying FiOS our broadband sales are off the charts. I think that as

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we have picked up our momentum on broadband we have slowed down the cable juggernaut a little bit. And that is part of the reason they are now looking at some collateral moves into small and medium business. Having said that, it's okay. It is what it is, and we will show up, they'll show up and the customers will be better off.

**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

Harkening back a little bit to the first question I tossed at you, when you're looking at FiOS versus fiber to the premise versus fiber to the neighborhood, to what degree was the mix between the cost save opportunity and the revenue opportunity considered? What kind of looking at return on investment of the two opposing strategies, what were your thoughts?

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

I didn't mean to gloss over it. I thought you were looking at the strategic side of it. When we did the overall business case once we drew the conclusion that speed was important and the bandwidth was the critical factor, there were two or three parts of the business model that made a lot of sense. Speed of deployment, whether we can sustain the ARPUs and the fact that we can take 40 to 50% of the cost out of the business to do that. And so all of those things were factors in looking at that. But in our case any network technology we deploy generally has a productivity component to it, Jeff, as you know. In this case it is pretty substantial. Our experience so far as most of you know we are deploying FiOS by community.

So we are not quite in a spot where it has contiguous critical mass, but the way we are deploying it we have already seen network trouble report rates lower than they would be with the existing (indiscernible). So I think over the next year or so as we start to get critical mass we will see some significant reductions in the labor intensity of maintaining a copper-based network. And of course, we have one now, regardless of VoIP you might think -- been a lot of years doing this -- maintaining a DSL based architecture is difficult. Because even if you get it within 3000 or 4000 feet of the home which is great, fiber that is, you still got that copper the last 3000 or 4000 feet and its difficult; it is a difficult issue.

**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

To what degree do you, given that the cost categories that are opportunities for cost reduction for FiOS also are the most heavily unionized elements of the workforce? To what degree do your relations with the unions play a role here, and what do you see as any issues in terms of the timing of being able to achieve the cost cuts from the productivity perspective because of that?

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

I might answer that a little differently. I think there is a challenge, and I think there's a myth here. I think so let me give you the hard issue. The hard issue with unions is not any different than with my management. I think we have high legacy benefit costs. And I think that should be no surprise that over time we've tried to capture that and manage it down. So what we've done in our Company which is probably unique in the industry is if you look at Verizon Wireless, Verizon Wireless doesn't have high legacy benefit costs because we were not any different than Microsoft. We have a 401(k), we have no pension plan, we have no post retirement benefit. Verizon Business, we integrated it in and we did it exactly the same way as we did with Verizon Wireless. So in the traditional Telco what we did is, the first thing we did is we decided to stop contributions to our management pension plan, and so I think Jeff really what I'm getting at is that over time you will watch us manage the benefit and legacy costs down.

So if you associate that with unions that is okay, but it is a little bit unfair simply because a lot of management people have the same thing. But what we have tried to do is not to allow that to grow out of control and to put that in place. Now on the other side of that with respect to bargain for people, I don't know. I think that if you go out in Long Island or Westchester or in Brooklyn and you tell the technicians that if you don't compete with cable you're going to lose your job, they're going to compete. So

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I'm not sure that we've had any issues with our bargain for people when it comes to the excitement they have in deploying the FiOS. When you think about it, it is stock security, they love the work and they love the chance to fight. And I think if we do the job right, we can do it. I think -- so I do think we have a rub on the benefit and the side but I don't think we have the rub on the productivity side and I believe that we are getting great utility out of it. You do hear some stories about it takes four hours, five hours to install this, and I don't think it has anything to do with unions. It has to do with the fact that we are perfecting the processes and the technologies that we have going forward.

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**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

Here's another question that I thought you would like which is when are you going to rollout cable in Philly? I'm tired of getting overcharged by Comcast.

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

You could move to Keller, Texas right now.

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**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

(inaudible) Back on the services side of the fiber deployment again relative -- well Comcast (inaudible) really relative to the cable guys in general. As you look today and then as you look call it four, five years out what services can you offer today or in the foreseeable future that you don't estimate the cable company will be able to match you on?

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

Well, that is a question that if Brian were here he would say he can do anything that we can do, so I guess it's an issue. But if you look at what we believe when we're in the lab and we are looking at this, first of all you have a couple things. There is the whole ability to offer unlimited HDTV channels. Regardless of what you may read, physics takes over at some point and you can only get so much out of the bandwidth you have without having to stack it to do some other things. So I think the first is unlimited HDTV. I think there's a whole level of interactivity that we think goes with our FiOS architecture that is hard to duplicate with any of the other technologies that we see. So whether it's fiber to the node, or its fiber to the curb or it is the current cable architecture we think there's some level of issue that you have with that. I also think that there's another issue associated with the security of the networks.

We think we have some advantages in simplifying how we can secure the network across the platforms. I think, however, in the final analysis its the speed and the interactivity that make the defining difference. So I think if you have the service, those of you who have it, its pretty clear, its different than your dial-up service. And if you have a cable modem -- I know I have -- my mom has a house in Florida. We ordered her a cable modem because we couldn't get DSL at the time, and not in an area we serve. And I see the difference in the quality of service and the hits. I see it all along; it is not that the cable modem is a bad service, its a good service, DSL is a good service. But high-speed Internet access on FiOS is not even close. Its the difference between driving a luxury car versus a pickup truck. It's much different.

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**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

Some would argue the pickup truck actually is a more utility vehicle.

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

When you get to be my age it's not the case.

**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

I am going to combine a couple questions here, which all center around a similar theme, which is one of the points that have come out of discussions I've had with you and some of your senior management centers around the rate at which you are deploying. And some degree you are gauged by field experience today and getting it deployed and part of it is you're still on the declining cost curve on the connection cost. So the high-level cost is where are you today and where do you really see that going over time in terms of the cost to connect customers? And then as you look out a little bit further and you are starting to now be moving to GPON technology out of the labs and into field deployment, is that going to have a significant impact on that cost to deploying and over what timeframe?

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

Well, have we given out numbers on cost to connect? (multiple speakers) I know the numbers but have we given them out? Why have we given them out? Okay, so our stated targets on cost per home passed is just under \$900. So we started out a little higher than that, and we're scaling quickly to do that. Even though that we've got it down now to a point where the process and electronics are about right, you still need a lot of arms and legs to do more than about \$3 million per year. And so we haven't made a -- we don't think it would make a lot of sense to all of a sudden doubled down on that. bad. Because you still have regulatory approvals; you still have to train your people, you still have to market, you still have to do a lot of things that would suggest that 3 million homes per year or anything that you do is big time. So we are comfortable with that.

The weakness in our current FiOS deployment is the cost per premise passed and there our target is to be somewhere around \$700, and there we are fairly higher than that. And that is a question of some experience because the complication you have when you have to get the fiber from just off the curb or off the driveway into the home, navigate through all the customer requirements, get it connected in the house, get all that, you need some experience in that. We've got to work ourselves through it, but that is a scale question. I think we will solve that. And now there are some issues, Jeff, that will fix that long-term, and that is things like once we figure out the right technology in an apartment building, a multiple dwelling unit, you will see the averages come down. Because the averages today represent mostly residential in suburban markets. So I think we have an opportunity to fix that.

I go back long enough where in the '70s when you all had hardwire phones to your black telephones. Someone would say then we put in jacks; audiences like you would say we will never get all those jacks in. It will never happen. You laughed, you are probably one of the ones who said it. Right? But here's what happened. In seven years -- this is true -- you can look this up. In seven years every home had at least one jack. And 50% of the homes had multiple jacks. So it went from an impossible engineering feat to the home market shifted in that regard. When we first deployed DSL the issue became we had truck rolls every place, and then within two years 95% of everything was done without a truck roll. So I think on this issue while we are above where we would like to be, our people will design new processes and new technologies that will drive that down and we are comfortable we will have that. Now in GPON I'm not sure what the question is. I think we're going to get more speed quicker. I think it's going to drive applications faster, is what its going to do. So I think it will lower our cost, and I think it will give us new opportunities for exploiting, frankly, the fiber that we have going forward.

**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

About ten minutes left, I am going to actually keep away from the FiOS questions now and let's talk a little bit about wireless if we can. The first one, not surprisingly there is a bunch of questions about Vodafone in here -- your comment earlier on clearly indicated that the discussions with Vodafone at this point have been put to rest for a while. Is that a fair interpretation that

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they've decided definitively we're staying and we're not interested in continuing to move forward with your potentially buying us out? And if that's true, can you just define under what terms can Vodafone sell their stake? I guess to the third party would be the implied question there?

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

Its not a big mystery here. I think we've been a buyer of this for five years, so to the extent that they were willing to sell their 45% share, we've been a buyer. We've always been willing and understood that the current put option was not to their liking, not efficient. So we were always willing to pay what we considered to be a market premium for their share. There are some precedent transactions out there that would tell you what we think a market premium would look like. So Vodafone understands where we are very clearly. We speak to them all the time; we have good communications. I know (indiscernible) for a long time and we've had good relationships with them. So I think on this point my take on the matter is that they have been responding to the pressure on them over the last several months. And one day they are interested in hearing a bid, the next day they're not sure. So I think the latest take is that when they look at our plan going out -- I read their transcript from their conference the other day.

Andy Halford, who is the CFO of Verizon Wireless said -- and I didn't make this point earlier because I didn't want to pile on, but in spite of what everybody else is saying about wireless, we took 35% of the revenue share in the first quarter. Vodafone gave us credit for 40%, its a little bit of an overstatement, but the fact is if they are looking at us vertically expanding the business by taking a disproportionate share of revenues in the next two years, their view is that that is going to create a lot of value so they're not interested in selling their [45%] at this time. So they call themselves a happy shareholder. They are a very good shareholder; they are a good partner. So we have the other side of this coin is we have no sense of urgency. We have control of the operations; they've never gotten in the way of operations. We've been able to run the operations in a good way. If we could own it all we would. During the next several years while they think through their view we get a chance to deliver; in the process of delivering Verizon benefits. So I think we will just wait for a better day but in the interim, I think its business as usual.

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**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

This creates a good segue to the next question which really is if you think about the ways to differentiate, there is the product, there is the quality and then there is price. Right? And Verizon Wireless is historically significantly differentiated on the quality. Cingular would argue today that their quality metrics are starting to rival yours. How do you see your differentiation for Verizon Wireless going forward? How do you see persisting the various forms of differentiation?

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

Are you trying to get me angry?

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**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

No.

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

Well, I don't think things happen because you say they happen; I think you have to do it. So like we have to do it with FiOS. The cable guys would say until we do it, we didn't do it. Its the same thing in wireless until you do it, you haven't done it. I think that in the issue of wireless I think it is different than just picking a metric or two and saying now we are world class in a given metric. You know when you are first in something you develop intellectual property. So when we look at say network reliability we look at ineffective attempts, we look at lost calls, we look at signal quality, we look at security, we look at speed of recovery

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when it breaks, when you look at the hurricanes in Florida and the hurricane in New Orleans we were up and running faster than anybody was. Look at the fires in California we were up and running faster than anybody was. So I think when you look at overall experience we're there. If you look at another difference in our model is we have almost 2000 stores. It takes a long time to build the intellectual property to run those stores and to create the kind of products you're looking at.

So I think that's another place that you can kind of look at. If you take a look at our product rollout, this is a marketing business. We've got a great infrastructure underneath it, but we've had a very consistent rollout of products and services over the course of time, and I think we just announced the music and the Q phone and we've got all these things going forward. So I think I have to give credit to our team that they don't rest on copying someone else's best metric. They are constantly creating the next differentiation going forward. So for us as we saw the industry consolidating and we recognized the net add game, we've become more competitive. We decided to do two things. The first was we said we will own the postpaid market. We own the postpaid market. Postpaid market has the highest life cycle revenue and value from a customer. It is indisputable. And the second thing we said we would own is percentage of data revenues of total revenues and we decided to own that and we have done that. So I think the issue for us is while others are getting stronger and having year-over-year improvement which I think is good for the industry, I think Jeff, we have sort of taken our game to the next step.

So in wireless its kind of like we used to be able to shoot trees, now we can go left. So we're just going to keep working on changing the game as we go forward which I think helps the whole industry. So this is not a comment that we win, someone else loses. This is an industry that if we all do better, the one with the best franchise is going to do better. I like to make the point that that is exactly the way we feel about our other two legs of the business. No question cable has an advantage over us in the broadband space. We have work to do to create the value proposition to catch them and beat them. And so I don't find that to be an issue; I find it to be energizing and I think it energizes our people.

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**Jeff Halpern** - *Sanford C. Bernstein & Co. - Analyst*

I want to close with a quintessentially strategic decisions conference kind of question, which is how would you characterize your view of the long-term invested capital trends for Verizon over the next five to ten years? What are your objectives, where do you see them starting out today, and if you want to do it by line of business --?

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

Well if somebody asked me that question ten years ago, I probably gave an answer and here we are ten years later, I am sure shareholders would like me to have made a different answer. So I think going forward what we have to actually do a better job is operationalizing and converting the investments into earnings growth. I think in all fairness shareholders are probably rightfully out of patience with okay, when is it going to happen now. I feel that we have a great track record in wireless. I think that we have the cable companies give us a great, I think a great model that says, if we could create the network and create the product set, we can generate 6% or 7% top-line growth and get an EBITDA return of six or seven times instead of three or four times in doing that. So I think what we need to do is move our capital spending closer into the mid-teens. I don't know if you asked all these questions but I will answer it anyway.

Our debt to EBITDA numbers, our targets are 1.4. 1.4 sounds like okay, but to me we can do a little better than that. I think that wouldn't hurt. Our debt to equity structure is 50-50 today just about; if it were 60-40 that would sound good to me. So I think when you are in a hypercompetitive industry that requires capital you need to have a great balance sheet, you need to have great product innovation and you have to have great execution. And I think that ten years ago I don't think we felt we could do that. I think in the next ten years we have a much better chance to be a better operator and to operationalize the investments we make on behalf of our shareholders.

May. 31. 2006 / 2:00PM, VZ - Verizon at Sanford C. Bernstein & Co. Strategic Decisions Conference

**Jeff Halpern** - Sanford C. Bernstein & Co. - Analyst

Thanks, Ivan.

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