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Conference Call Transcript

VZ - Verizon FiOS Briefing Session

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PRESENTATION

Ron Lataille - ***Verizon - SVP, IR***

Good morning, everybody. Welcome. I'm Ron Lataille, and welcome to our FiOS briefing session today.

Before we get started, a couple of housekeeping things that I'd like to mention, and the first is that this meeting is being webcast, and the presentation materials are on the Verizon Investor Relations website.

I would also like to draw your attention to our Safe Harbor statement, which is on page 3 of our presentation materials. Today's presentation and the discussion will contain some statements about expected future events and forward results that are forward-looking and subject to risks and uncertainty.

So that being said, let me now introduce our speakers today. First, of course, is Doreen Toben, our Executive Vice President and Chief Financial Officer; next to her is Bob Mudge, our Executive Vice President and Chief Operating Officer of the Telecom business unit; Shadman Zafar from our IT organization, who is Senior Vice President of Architecture and eServices; and Virginia Ruesterholz, who is our President of the Telecom business unit.

Now, they have a lot of exciting information that they are going to share with you over the next two, two and a half hours, and of course, I encourage you to ask questions. And in fact, after each of the presentations, we have allotted quite a bit of time for a more interactive discussion with you.

So what I would ask you to do, however, is to hold your questions until the end of each speaker's module, okay? And there will be plenty of time to have some good discussion here.

Also, to make sure that we address as many of your FiOS questions as possible, I ask that your questions stay focused on FiOS. Any other questions about the business, of course, you can always call me later on, or we can arrange other meetings. But if you could keep it focused to FiOS, that would be great.

The only change on the agenda that I would note is after Bob Mudge's presentation, we will take a 10- or 15-minute break, and then we will return with Doreen to go through the financials.

So with those introductory comments, again, I'm excited that you're all here, and we have a lot of good news. And I'd like Doreen now to offer some opening comments. Doreen?

Doreen Toben - ***Verizon - EVP, CFO***

Good morning, everyone. I'm glad everybody is here. I probably have met with most of you over the last year or so and said when we were ready to give you the FiOS assumptions, we would do that. We wanted some time to make sure they were baked in, that we were comfortable with them. We are now at the point that I am very comfortable to really share them with you.

So what we're hoping today is that you are going to walk away with a much better understanding of FiOS, that you'll be as enthusiastic as we are when you see what we have to show you.

I'm just going to start with a quick overview of the strategic drivers and why we're doing this and what we are particularly focused on. You'll hear a lot more through the process from the speakers here. First, we are going to position ourselves to win the customer. There are many aspects to do this, but ultimately it's about providing a compelling value proposition, reliable and differentiated services at a competitive price.

We believe that FiOS is going to give us a competitive advantage. Our fiber overbuild strategy is creating the platform of the future with sufficient bandwidth and capabilities to meet our customer needs. This platform will encourage innovation and enable a host of new and differentiated services.

These are new market opportunities, new and useful interactive applications that are even hard to comprehend today. These applications will expand the pie and create significant revenue opportunities that go well beyond simply taking share in today's cable/satellite/video market. You'll hear more about the FiOS advantage from Virginia in just a few minutes.

We also believe that the fiber platform provides the opportunity for a whole new level of operating excellence, from both an efficiency standpoint as well as from a customer service point of view. There are also significant cost reduction opportunities, particularly in the outside plant service area. You'll get a better sense of both where we are and where we are going to in the operations world from Bob Mudge just after Virginia.

Lastly and most importantly, we are obviously driving the project to ensure value creation for the shareowner. We believe now more than ever that FiOS will result in sustainable profit growth for the business for years to come, and we hope that you will take a step closer to sharing our belief with us by the time the session is over today.

With that, I'm just going to turn it over to Virginia to go through the first piece.

Virginia Ruesterholz - ***Verizon Telecom - President***

Thank you, Doreen. Just a few words before I get started on the presentation -- first of all, the meaning of FiOS. It's more than the network that we're building, the FTTP network to my team. It is more than the product, the innovation of the product. It is really about transforming our organization, our team. It is really about the transformation of systems, network and our people. And I know Bob is going to go into a lot of detail about the transformation of telecom from the people standpoint.

But I just wanted to leave you with that, because FiOS has definitely gotten the buzz on the product side. But we really see it internally as a code word for transforming telecom.

Let me start by talking about the market opportunity. We see this as a great growth opportunity for us. When we look at the Verizon footprint, we know that there is about a $50 billion market for us, and about $20 billion of that is new revenue to us. It is in the form of video revenue. So we see this as a great opportunity for us to really grow revenue, grow profitable revenue. And we know that the market is changing from a narrowband market to a broadband market. We know that converged services are happening as we speak. And we really feel we are on the cutting edge of convergence.

We have gone to a new structure over the last six months. And I wanted to share that with you because I think it is a critical part of what we're doing in telecom to transform ourselves. We have built nine local regions, and the whole focus of those local regions is to get very focused on local marketing and sales, drive excellent customer service, execute on the FiOS plan, and lastly and most importantly, have accountability, P&L accountability, on revenue and margin. They are truly focused on understanding their customers, understanding the competition in their area, because we know it is local and we have to succeed on a local basis.

At the same time, we've kept national organizations to make sure that we are very focused on the technology, we are focused on our marketing efforts, product development and our systems. So we have standardization across those three areas. And of course, our wholesale organization is a national organization also. So regional, so we can execute well, focus on our customers, but keep a national look, too, on the things that we know need to be standardized across all the regions.

Let me now get into how we are doing. And let me start with the fiber deployment. When I look at fiber deployment, the way I would describe it is we have nailed it. We know how to pass homes. Every one of my regions is doing very well on meeting their commitments of the 3 million homes passed for the year. We will meet our 6 million objective by the end of the year. We will open 5 million premises for sale on the data side. As I stand here today, we have 5 million homes passed.

So we are well on our way as far as deployment goes. And Bob is going to get into how well we're doing, not just on meeting the numbers of the 6 million and the 5 million open for sale by end of the year, but also how we are driving efficiency and improving the costs. You can see the end-of-period objective there -- 18 million homes passed. And also, that would be about 50% of our households.

So I know that you have seen our second-quarter results on FiOS Internet, and we feel very proud of these results. We really feel that we are ramping and scaling very well with the product. You can see our average penetration rates have been very good. When you go out 12 months, our average penetration rate is 15%. We are seeing good results across all regions, again. And as I stand here, again, today, I'd like to tell you that we now have 500,000 FiOS Internet customers. So we are ramping. So when I look at the end-of-the-year objective, I feel very confident we can meet that objective.

And the other thing that I know Bob is going to spend a lot more time talking about is our churn number. This has been very important to us. We know churn equals loyalty, and we need to make sure that our customers are loyal to the product. We see very, very good churn numbers, and they have been very consistent. We have also seen that 70% of our subscribers to FiOS are new to Verizon broadband. So we're feeling very, very positive about our strong results so far on the Internet side.

As I look at what our FiOS broadband product brings to the table, clearly access is a big piece of the revenue. We know that. But as we look forward, we know that there is a lot more opportunity with the bandwidth that we are offering here. We see opportunities in the area of applications, whether it is gaming, whether it is security, whether it is storage. There's going to be many, many opportunities, as you know, to really utilize this bandwidth.

We also know that there's much more opportunity on the advertising side. And that's another area where we feel we can definitely accelerate some revenue growth. Later, Shadman is going to show you some of the great applications we've got going on in the future in 2007. They are not in the distant future -- very soon. And also the CPE -- we have our Verizon One phone. We have a prototype for a new FiOS Verizon One phone that will be coming out next year -- get a chance to take a look at that -- again, brings the opportunity of convergence to the customer.

Let me now move from the data side of FiOS to the TV side. And to me, this has been an incredible journey for my team. We have built a brand-new video network. We are in a business that we weren't in. We just celebrated our one-year launch of video. And I have to tell you, my team is so proud of the accomplishments they have made here.

This year alone, we are going to turn up more than 200 video-serving offices. This is a quality video network. We feel very, very positive about the engineering and technology work that went into it. And our execution on building this network has been really exceptional. So I am very, very pleased with our progress here. And I also feel that by the end of the year, you see we will have 1.8 million homes open for sale. We passed the 1 million mark this month. So I feel, again, confident that we can meet these objectives that we've set for ourselves.

One of the areas where I know there was some question about was could you match the franchising effort to this big build that we have going on. So executing on the network was a key piece of it. But it was just as important to us to be out there making sure that we were driving to get our franchises. We need that match-up.

You can see where we ended last year, and you can see where we are right now. We are sitting with 161 franchises, over 3 million households covered by those franchises. And when I look to the end of the year, these are our projections as far as franchises go.

We also have four states where we have legislation, as you know -- we have Texas, Virginia, recently New Jersey and California. So we are very excited about the ramp we have here. And this was an area where we had to learn to see whether this was going to be an issue for us. Right now, we feel very, very confident that we've got this moving in the right direction, and this isn't holding us back in our deployment of video.

So how are we doing on TV? I wanted to share with you our end-of-year target -- 175,000 subscribers on video. You can see the ramp. It is pretty incredible. Right now, we have passed 100,000 subscribers. So we feel we are well on our way to meeting our end-of-year objective. We are seeing very, very good ramp of our sales rates. And more importantly, Bob's team has done an incredible job ramping his force, both from a training side and from just handling the scale and scope of this ramp.

When I look at just some of the numbers -- again, churn numbers, under 1.5%. So our key measure is making sure we have great customer service and great loyalty. We are watching that like a hawk, and we see good results. We also see our subscribers to the premium tier at very, very high levels -- over 99%.

We are very pleased with our penetration of HD and the DVR -- 60%. And as you know, we just recently launched, over the last month or so, in August, our multiroom DVR and our Media Manager. Right now, 12% of our gross sales are coming from that area. So we are seeing great acceptance by our customers. The whole idea of putting out new and innovative products and having our customers jump on that and want it, we are seeing that. So we see this as the beginning of a lot more opportunity for us to expand the product.

So the other thing that we always try to take a look at is where are our customers coming from. And our early surveys say that about two-thirds are coming from cable. So sort of makes sense when you think about the market share between cable and satellite. So that is where we stand on that. So off to a very good start, a lot of scaling here, doing a good job, and definitely intend to meet our end-of-year target.

Let me spend a moment on the differentiators for FiOS, because we are really on this. We really feel that this is a network that gives us so much opportunity to innovate. This is one where I feel the network is future-proof. It has the ability to add so many applications to this network.

So when I think of today, my team has been very focused on making sure we have very good quality, both from the picture side, the sound side -- we talked about the quality of the network. The overall value proposition of our video product as well as our bundled products -- we think we're there on that -- but also stepping on beyond that and saying, how do we become leaders in our category?

So you have seen the beginning of that. We have a great video-on-demand library. We have a tremendous amount, I think more than anyone else, as far as HD channel lineup. We have been very focused on international channels because we feel that our customers are very interested in those niches and we want to be there for them. And you have seen the beginnings of the enhanced features. And the two that I mentioned there are widgets and the multiroom DVR.

Now the widgets, I think, are our first entrance into the whole idea of using the IP set-top box to converge the Internet with our video product using our broadcast product, but also going in and pulling information through our Internet. And I think that's what I want you to see as we go into 2007, is just the potential we have to grow both from an Internet convergence area and also the personalization that this product is going to allow.

When we think about what our customers are looking for, they want it to be an easy experience. They want to see convergence in their home. They want to get information across multiple devices. And the way our network is set up, we really are in a position to do that.

I will give you a couple of examples, but I know Shadman is going to do a lot better job of showing it because it's always better to see these things. But we really see on the On Demand side -- it is great to have a video-on-demand product, but we also know that we need to think about how do we get advertising into that On Demand product. You're going to see some of our ideas about bringing content, advertising content, to a customer and allowing them to decide whether they want to look at it or not. And it is pulling, again, information from the Internet and other areas. So you will see that -- the convergence there.

Our gaming, downstream and upstream -- great opportunity with our network to be very, very exceptional at gaming. And you'll see some of our gaming ideas.

Personalization -- first of all, having every customer feel that they have their own personal FiOS video set up when they walk in, whether it is Virginia there, she can click on Virginia and she can see all the things she wants to see, or whether it's one of the children in the house. And that goes a lot further. Can you have your own personal station, okay? And that is something that Shadman is going to show some of our key ideas on. Where can you take this as far as bringing new ideas to our customers and giving them the power of both the Internet and our broadcast network?

When we look at bundles, clearly this is important to us. And we are seeing a very, very high penetration of the triple play with our TV product. 79% of our TV customers are taking the triple play. So very, very positive. 99% of our FiOS TV customers have the double play. So this product is very sticky. It is pulling along with it at least one other product, if not two products. So we see this as a very, very compelling story on why our customers are going to buy the bundle. And also, the churn levels say that, yes, they want to stay with us.

So very, very good results on bundle, and this again gives us that opportunity -- if I go back to the beginning and I think about the market opportunity, that ability to increase our piece of the wallet share of the customer really comes out when you think about the bundling opportunity that we have.

Again, you know the churn on bundles is also much lower -- no matter what you bundle with a voice line, it does improve the churn. And this is just a great example of how that will help that.

So let me summarize how I see the FiOS advantage. Let me start with the bottom of the page, and you can see the network. We have a great network. The team is deploying it very effectively. It is, I believe, a future-proof network, that fiber will allow us to do great things. We've got a broadcast network, but we also have an IP network right with it. We have the three pillars of the product line -- video, data and voice. And in all cases, they are top of the line, high quality, and they have either the speed or the content to sell very effectively.

But it doesn't stop there. Today, we see the enhanced personalization and control that we are giving our customers. We are seeing them really like it. When you think about the sale rate of our Media Manager product right out the gate, and you think about the multiroom DVR, we know that customers definitely want more control and more personalization.

And as we go further into the future, and that means in 2007, we see a lot more opportunity in the area of interactivity and convergence. And I already mentioned some of these, so I'm not going to go over them again, because I want you to see the demo, what we have in mind, just some glimpses of the opportunity that we have ahead for us.

Let me introduce Shadman. And as Ron said, Shadman is our Senior VP for Architecture and IT. I would tell you that he is a great spokesperson for the level of innovation that I have within my organization -- great ideas, a lot of excitement, and a real bias to what our customers want. And I think that is really key to it.

So with that, Shadman, come on up.

Shadman Zafar - ***Verizon - SVP, Architecture and Services***

Thank you, Virginia.

Virginia Ruesterholz - ***Verizon Telecom - President***

You are welcome.

Shadman Zafar - ***Verizon - SVP, Architecture and Services***

Thank you for the introduction. So I get to get off the stage. So it will be fun, but I won't dance. Okay, so as Virginia says, my name is Shadman. I'm going to walk you through basically a little bit of a glimpse of some of the products and services we are working on for 2007. I will limit it to 2007 only, and I'm not going to walk through a whole roadmap also for 2007, but essentially I'll walk through some of the features that FiOS TV customers will see.

So let me just talk to you a little bit about the setup. Basically, this is my TV screen. I am a customer with my remote in my hand. And obviously, we don't have FiOS in the hotel here, so you are not going to see actual TV content or the crisp video quality you would expect from a FiOS-quality connection. But we will basically walk through all the services that you will see on a TV experience, if you will.

So I will get started. Maybe I will first give you like a quick orientation. Do people here have FiOS at home? Some of them? Okay, so some of you guys will probably relate to this. I will highlight some items.

So first I will just quickly do a little bit of an orientation. We have spent a tremendous amount of time in actually defining the experience of customers of entertainment for tomorrow, of how that works. So let's see, I am on the remote, and first I click my okay button or let's say my left arrow on my remote control, and I see sort of a main menu of TV -- of how I am going to interact with it.

And here you see your standard basic elements -- your main guide, where you actually browse through the TV channels, if you will, the broadcast channels. We will see my music -- music, videos, photos -- these are, by the way, your personal media that may be sitting anywhere inside your personal network. So it may be on your PC or some other devices, maybe even on your cellphone. This is actually part of the project we launched that Virginia was talking about earlier this year -- not on this experience, but they've gotten an exceptional response from the market right now -- as you were saying, I think 12% of our sales subscribing to this product.

So the key differentiation here, obviously, is we know inside the home. We know the network, right, because we come in the home to set up the network. So the discovery of your devices and your content is automatic for the customer.

So as opposed to -- so if you are maybe a techie like me, maybe two years ago or a year ago, you may tried to have done it, or today, by going to RadioShack or something, buying some kind of a wireless streamer for your TV and put a USB into your TV to actually do adaptor, and then tried to get the music or pictures from your PC, where you probably store all your digital media, to get to your TV.

Most people actually don't do that. It turns out when I ask around, I may be the only one who is techie enough to do that. Well, that is how people could do it.

But anyway, we found that this was an exceptional experience for people to do that. So you, in your home, these are actually pictures that are coming from the PC stream and into the television experience. And they all get automatically organized, obviously, based on the folders you have. They show up as your albums, including -- so I have all my vacation pictures. And also, when I actually go through these pictures, they also pick up -- they work like slide shows. They work in the background. The music also gets picked up -- my own. So this is like random music picked up from my own music collection, if you will.

So my TV, it's almost -- the experience is like watching the rest of the TV, if you will. The cellphone pictures, obviously, I don't organize them. They get automatically organized, though, by date, and if the GPS is on, then also the location where I was and those kind of things. So I sort of have my -- as I move around in my life, I sort of have my record of my life, if you will.

Same thing goes -- video is what is actually not out in the product, but we are sort of introducing video as well, your personal video that you can see on your TV. So that sort of brings all of your media in the home that you may have in different places to the best screen in the home and the best audio system in your home.

But anyway, I'll move on to more of what is coming up next. As I said, this is the home control -- this is the guide, as Virginia was talking about earlier. Set-top boxes are actually both IP and QAM or sort of broadcast boxes. So they are actually combined boxes. So you get actually value from both. That's where actually a lot of powerful features comes into play.

Here you actually see these dual tuners, right? You see picture-in-picture, so before even tuning into a picture, you can see what is going on on both channels. Mini-guide, this is probably just a different way of looking at the same thing. I will come back to that in a second. Studio TV is an interesting concept -- I will come back. Actually, what we will probably do is start from the bottom and then move up. So I will keep myself organized.

So On Demand -- On Demand highlights the point I was making about the IP and the broadcast working together and how that sort of changes the viewing experience. So we have a very large VoD library -- video-on-demand library. So the VoD experience is like what you see in this picture -- lines and lines and lines of titles that you may have, right? At best, you may see them sort of categorized by genre, with maybe movies versus TV shows.

Basically, as the content gets increased -- increasing on the television screen, the browsing experience of what you pick, and especially if you're going to pay for it, needs to be extremely simplified for the customer, what we call sort of minimize the thought processing. So when you are sitting in the entertainment chair in your house, you want to minimize any neurons firing.

So what we do for that is we bring -- here's like part of the example of how our VoD experience works. This is almost like what we call a Blockbuster experience. It is like being in a store, browsing through -- you see your DVD art; you see your DVD back cover. And you sort of browse through as if you are browsing through actually a movie store, if you will. You go further down, you may preview the movie before you buy it -- again, you are going to pay for this movie, right? So you preview the movie before you buy it. And if you decide to pay, then you pay it and watch it.

Now what happened here highlights a change on this screen. The broadcast stops and Internet application has started. We have thousands of titles here, so you can't put all of this DVD art and content in a set-top box. And you don't have -- and there is a lot -- pictures and all of that. So you can't, like, put this on a carousel, like how you would do maybe on a cable network, for example, for it to go back and sort of render these pictures and bring it down to a TV screen. It takes seconds and seconds. So you almost can't go up and down more than, like -- unless you have, like, three or four titles.

So what happens is the Internet application got started, brought everything together on an Internet site in a very faster speed and rendered it as an application, if you will, like an IP application. Then, eventually when I went further down -- deeper down into it, it became a streaming video on the IP network. And when I further go down, it becomes broadcast or whatever else. But this is sort of an example where the two networks coming together fundamentally changes parts of our experience.

Actually, a better example probably on this is what Virginia was talking about, interactive advertising. That is actually my favorite example of how bringing two networks together sort of enables some of the applications which you almost don't even think about, or if you think about, you will wish for it, and it will be almost impossible to do.

So, what is interactive advertising? Basically, today, a lot of us forward out our ads, right? You record them, and we like it because we sell DVRs. So that's good, except the advertisers have gone into a very significant boom towards product placement. The product goes into the actual show as opposed to showing outside, because people -- they know they are going to forward the ads anyway.

So how do you actually leverage that value proposition for the customer, but more importantly, or as importantly, for the advertiser, from the advertising space? So the way you do it is actually you take your broadcast stream, but then you layer it on top of an IP application. So depending on your contractual relationship with the advertiser, you can give them a layer of depths of different kind of advertising capabilities they want to give out to their customer -- maybe just show a little clip or go further, deeper down the transactional level.

Let me show you an example here. Maybe I will play this video. And in this example, you'll see that a couple of products are placed inside a scene. And as you'll see, the viewing experience is not going to get disrupted by the customer. If he chooses -- at this point, let's say they saw the placement ad there for Audi, for example -- nothing happens at this point, so unless I go and click on something. So if I hadn't clicked on something, the movie would have continued onward and the viewing experience wouldn't have been disrupted.

But if I decided to press something, you get three products that are placed in this scene. And they may have -- we may have a different revenue relationship with these three advertisers. So maybe the car, maybe just to view the clip and just see an ad -- so a traditional kind of a thing, if you will.

But maybe you might have a transactional relationship, so the Detective Spooner shoes he is wearing in that show, and do I actually transact on that show or not, on that product or not, and if I do, we can go either way. So in the case of Audi, for example, you may actually just, if you have transactional value, we may basically request a brochure. We know the address of the customer. We know they are looking at Audi, and they may request a brochure for example, and the mailing can start, whereas in the case of a shoe or a jacket, maybe the relationship would be at the transactional billing level -- that real expensive jacket that somebody really wants. Or a customer may just put it on your I will come back to it kind of bucket, so later on, come and interact with those ads, if you will, and then just carry on with with the rest of it. And then the component in which the product was placed moves away, obviously; the little sign goes away and all that.

So now what happened here is that basically the overall viewing experience did not change. The placement actually created value for the advertiser. More importantly, it has created, like, extreme targeting, both from the perspective of who's viewing, so you can actually mail to that person, or interestingly also, what people are doing with those ads. Are people really viewing them? Are they actually going to buy something or not? So the tracking of ROI on advertising changes significantly.

Anyway, let's move on. I will try to keep on time. I'll move next to search. That is sort of my favorite topic. In search we are bringing tremendous amount of content on the television screen, right? Now, television -- computer is a medium that was designed for search. The history of computer is it was built to keep records and people, like, search through records to do stuff. That is how that medium grew up.

TV grew up on a different medium -- remember, no neurons or brain cells firing. That is an important thing because you're sort of sitting back, leaning back, you're not leaning forward, and how do you then search the medium without typing something, for example? So we have designed search, which is really unique search in the marketplace. It is actually established -- you'll not see this anywhere, I guarantee it -- that how this works.

So the way this works is what we call this -- a character-based predictive search. So typically, how search engines work, you Google, Yahoo!, and you type a word, right? You type the word "carÃ¢â‚¬Â . So then it associates like the semantics of a word to the kind of result that will come up, which is important for Internet. You have to do that. But that also -- expecting you're sitting at a keyboard to be able to type those things. Too hard for a TV experience to do.

So we have actually narrowed it down to character-based search and actually optimized, based on characters, of what kind of media people are watching. So I will pick an example -- first, actually, before I start even the example, I want to say that typically when you search on TV today, you typically see things that are being searched are TV listings -- your next 10 to 15 days of TV listings. So if anything is playing on TV, it will show up. If it's not, it is not going to show up. We basically searched -- since we are going back into the network, and the IP connection is fast enough that you can actually do the search across all of your media. It is like your listing, On Demand, my own DVR, pay-per-view, but also other devices I may have connected.

So I will take actually an example like maybe an old movie. So it most probably would not be playing on a TV listing. And I will go and I will pick "The Good, the Bad and the Ugly." Hopefully it is not playing. So I will put "G" in. And as soon as I put the "G" in, I got the best searches that people are searching for that start with "G," if you will. But that didn't hit me. By the way, see at the bottom -- you also see graduation pictures -- that is actually coming from my PC. So it is not all the content on TV.

So I will carry on. I will enter the letter "O." I get closer -- I get some from VoD, some from pay-per-view. When I put "GOO," I got "The Good." Now, I don't need to type out the whole thing. I got "Good." I will put a little space and put the next word, "Bad," and I will put "B" in. Again, I'm not putting in the letter "D". And I got the first hit on "The Good, the Bad and the Ugly." So just by typing "GOO B," I got to -- but that is where the predictive search is, because obviously we have to narrow down with actually -- it is entertainment and media content we're looking at. So you have to optimize the relevancy of the search, if you will.

So anyway, at this point, I can dig deeper into it and I can do a lot more with it, right? I can either watch it right now -- but it is further connected, right? I have all the data about that search. So I can not just watch it, but see that Sergio has directed this movie. I can go and see other movies that he may have directed or go to Clint Eastwood and say these are the movies Clint Eastwood directed. Also, you see a mini-biography of Clint Eastwood and all of those details are there. By the way, if I had searched for something that was not in the title, or any of the other data that we have about that movie, these movies, too, would have showed up.

Director, actor, I say, okay, maybe I want to look at other movies that he has directed, "Million Dollar Baby," "Mystic River" -- I can jump into one of the movies and then start watching it.

Anyway, that is maybe just to give you guys an idea of how we designed generally the whole experience here, is -- you saw basically I went through a couple of complicated flows here, and not once I looked at the remote control. That is based on a very important design principle that we started in the beginning. And we call it dark room, beer in one hand experience. So if you can't do anything in a dark room with beer in one hand, that doesn't go in here. And we are hiring some testers, if you guys are interested -- free beer. That is what I do. Now you know why I love my job.

So anyway, that is search. I will keep moving on and keep myself on time. Games -- Virginia was talking about how games was like a very different experience for us. So typically when you will see games and on the TV experience, you will see -- I've put these actually as examples of either, like, puzzles, because the processing power, and then you have the old set-top boxes installed base for many of the cable companies or something -- you can't do much processing on those boxes, first of all, right? Or maybe you'll see, like, classics, so your Tetris, Space Invaders, or Virginia's favorite, Asteroids. So if you are in a big nostalgia of early '80s, you can probably play that. But those are not something that the kids today that are growing market in gaming play today.

That is where we really find ourselves in the sweet spot, for two reasons. One is we have a new generation of the set-top boxes. We have actually designed very innovative emulators for a lot of the games that play on PC or consoles to be emulated on a set-top box. And we have the capability to do the three-dimensional, polygonal drawing on this screen in real time. More importantly, we also have the latency -- low latency means that a game -- today's game requires to play of going back to the network and back, because it is not a carousel network. It is an IP network back and forth.

So I'm not going to show a commercial game, but an example game here to give you guys an idea the kind of games you will see. So as I go in, it actually loads the game from the network onto the set-top box. And as I pick the game -- now, this is a 3D environment, so the polygons are being built in 3D. And -- let me get into this guy first, and then I will talk. So this is just a sample implementation of the game we did. I am not going to win. I tried. I am usually pretty good at racing, but --.

It is a sample game that we give out to -- basically for ourselves to understand how we will simulate all the three-dimensional games. Now, the interesting thing you saw -- I was controlling the remote. And the response has got to be within 50 milliseconds. 50 milliseconds is pretty much the upper limit in today's games. It is really what I tell my team -- it is a matter of life and death. If you don't respond in 50 milliseconds, and your rifle doesn't shoot, the other guy's bullet is going to hit you and you will die. So you will lose the game. So it is important. So we worked well, well within those boundaries. And that is what sort of enables the next generation of games for us, if you will.

Last, I will come to my favorite, which is, as you sort of started talking about it, personal broadcast. You see here all the regular channels, and then you see this Studio TV favorites. So what is Studio TV? It's basically with FiOS, you enable essentially personal broadcasting. The personal broadcasting, the way I think of it is this way -- it's like in early '90s or so when Internet started to come around, it made a lot of people, almost everybody, a publisher. We think FiOS really now for the first time enables to make everybody a broadcaster, truly a broadcaster.

The way it works, you basically buy your own channel. Once you have a channel for a month, you upload it to different types of audience. So your audience might be -- it might be a family channel, so it's probably connected only to me, so I will have to put a password in to go in. But this will be videos that maybe my family is putting in -- actually, let me go to a bigger screen here. This might be another video that maybe my family is uploading and it is only being shared within the family, which we think it is actually a good viral marketing also, because if one family member gets FiOS, they would also have to get it to actually share it in this way as opposed to on computer.

But then you see things, obviously, like a community channel. So there's actually a Hoover High School. And they decide to have their local community channel broadcasting their own football games only to their community. Again, a simple channel, just like you buy a website today. So that's the website of tomorrow, if you will.

In the same manner, we bring our own interconnection of the content that is available on the Web, be it YouTube or Google Video -- the things they can't do, really, is really making this a TV experience, like really your channel. But, I mean, it's the same kind of content. Let's look at one of the top videos on the Net. This guy is called Real-World Spiderman -- apparently he does really good stunts or something.

I will show you the next one. The next one is actually an excellent example of a FiOS data product. But I'm showing it here because it plays well both ways. So one of my team members, he is an amateur musician, has his own band. They are planning to release a CD early next year. The band lives in two different cities, Boston and Dallas, and they haven't had time as well as money to get together on a regular basis to do professional studio recording in one city.

So they decided to -- actually, that guy is one of the designers for this product. So I told him I will give him a little bit of a pre-release promotion here. So they decided to go and do a full recording, a studio-quality analog audio recording, over the Net, over a FiOS connection. So that is what I have here. This is real connection that has been accepted by their studio, and the real audio recording, done primarily by using very high upstream of the FiOS network and the software that knows in deep how the network works to accommodate the latency changes.

Now, latency is a very tough -- so this is recording studio vocals from Boston to Dallas. This is a tough problem, probably actually as tough as it gets, because in a music recording that is being synchronized between different areas, even if seven or eight milliseconds off, and before you get to the middle of the song, is going to throw you off the beat. The vocalist will be off by a measure or so. So you need to have absolutely exactly the same synchronization. And that requires the software to know exactly how the network works and accommodate the latency and all of that and bring that out.

And so anyway, she is sitting in Boston, and this music is being streamed, effectively this stream is in Dallas. And the streaming is working both ways. So guitarist as well as the computer music is coming from Dallas, and she is only the vocalist. And she is getting that off them.

I was noticing to see who is actually a learned musician in the room. Did anybody catch if we missed a beat? No? Okay, that is pretty good. So we didn't miss a beat -- we actually measured it. By the end of the song, it was coming to around a 2 millisecond difference. And we have sort of accommodated that, improved some of the software to even take care of that. But it was at that level that only the professional studio recordings could detect that. So I didn't expect if you guys aren't musicians to actually find that out.

Obviously, I will end at last with -- this is my personal content, this is my cellphone, and I call it cellphone diary. This is essentially when I go down, take pictures with my cellphone, it automatically gets synchronized with the network. The slide shows gets automatically created on the software. The date is actually -- usually, it's more than date. Depending if my GPS is on, it will be date, where I was at that time when I took the picture, as well as the weather in that location at that time. The content will be organized automatically as sort of slide shows as I move through life. So this is my life, as I say, my life as seen through my phone.

So, I will end at that. I think I am pretty much out of time. These are some of the other devices right here you see that are coming out with the convergence devices. This is a new Verizon One phone, which has the video streaming capability as well as a phone. It is wirelessly connected to a home router broadband. This is a prototype, coming out next year.

This is a new remote that is coming out, all again designed to the ideas of user experience. As you see, this is all about ergonomics. These keys are dipped down, so you don't have to look down to see where this works, where the key that you always press to get to the main menu is protruded up. So almost you can close your eyes and manage this remote.

So with that, I will end that. Hopefully that was interesting to you guys.

Doreen Toben - ***Verizon - EVP, CFO***

Hopefully, that gave you a flavor of why we are so excited about this product. I mean, it has so many really neat applications. It's really hard to imagine. That was very short. We could have actually done this for a longer period of time. Tim, just imagine what your daughters could buy when they watch some of these movies, right? This would be very good.

And I will tell you later on, none of these applications, none of the advertising or none of these media applications are included in our business plan at all. So that is all upside to the plan -- hard to figure out how to size exactly -- so all upside.

So with that, what we're going to do is take some questions for Virginia, Shadman, actually, and Bob, in this period of time before we get to Bob. So we will open the floor up now. Dave.

QUESTION AND ANSWER

Unidentified Audience Member

I guess, maybe Virginia, in terms of the 2010 plan and some of the targets that are there, could you talk about I guess the sustainability of the substitution assumption that you are seeing now? Right now, you are saying that about 70% of the subscribers are new to Verizon. As you get to 7-odd million data subscribers, 4 million video subscribers, is that expected to be constant for that period? Those are the questions.

Virginia Ruesterholz - ***Verizon Telecom - President***

I think what we are going to see is continuing ramp. So just like you saw the end of 2006 results here, we are going to continue to ramp as we go forward. There will be more open for sale on the video side.

If you think about what we have done here, it is really an acceleration. We started with a build, passing the homes. And then what Bob's team has been doing is adding to that build now by connecting, so a whole other layer of acceleration of lines to customers now, not just passing -- driving connections. And I feel that that is going to continue. I feel very good about the penetration rates that you have in the plan, which in 2010 says about -- between 35 and 40%, I believe, on the data side, 25% video. So we feel that that is going to be a continued ramp. And we are scaling as we go. So you will see that through the plan.

Unidentified Audience Member

To follow up a little bit on the word acceleration you just used, and just thinking a little bit about -- you talked about churn being very low among your FiOS customers. What you didn't tie it back to, though, is what are you seeing in terms of the reduction in markets where you've got FiOS? You've obviously -- you're losing customers to cable telephony. How does that rate compare to the markets where you don't have FiOS?

But then on top of that, if it turns out that number is a huge gap, which one would expect there should be some improvement in the churn rate, then what would it take operationally if you decided, hypothetically, and all of us didn't get upset about it, to accelerate -- more than 3 million homes a year? Because your cost of retaining customers is a lot lower than your cost of winning them back again in the future.

Virginia Ruesterholz - ***Verizon Telecom - President***

So first of all, on the FiOS areas and how it is impacting lines, we have pockets at this point. So we have a lot of areas where we are there, but next door to it, we're not. So it's a little hard right now to say exactly how the line loss is going to change. What I would say is we are seeing very, very good, as you saw, churn rates, very good bundling results, when you think about the TV driving 80% triple play. So we are seeing those metrics which we believe is the right -- that makes us feel very good about the strategy we have around FiOS.

The other thing I would say is broadband in general is a key sticky product for us. And as you know, over the last three quarters, we have led in our net adds on broadband. And I still think we have a lot of potential there. So I think on both sides, our FiOS strategy and our overall broadband strategy, that is going to be a winning combination as we go forward on our overall keeping customers and growing customers.

And Bob, maybe you want to talk about how you are scaling as far as the people and --

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Bob Mudge - ***Verizon Telecom - EVP, COO***

Yes, I think if you just go back even a couple of years, you are seeing us scale from passing a million homes a year to 3. We think 3 is a good number right now as we balance the passed with the connect. But I think we have flexibility going forward as we see pockets where we begin to exceed our expectations where we can make adjustments on both and that we have the force and resources to do that. We just have to balance it out and make that decision as we see conditions roll out.

But I think I would go back to where we have already scaled and how far we have been able to change that run rate -- gives me a lot of confidence of what we can do going forward.

Doreen Toben - ***Verizon - EVP, CFO***

And I think if you look at our geography, we've got parts of our geography that DSL doesn't even necessarily prove in. And then you've got a subsegment that's on top of that where probably video doesn't prove in. So there is certainly a segment of our geography that we will probably never get to.

Virginia Ruesterholz - ***Verizon Telecom - President***

We are excited about the region concept because just last week we were out in Fort Wayne, Indiana, and we are going ahead with video there. So that is our last region where we didn't have a video play. Now all our regions have video. So I think that kind of spread, of having it across all of our regions, all of them excited about doing it, utilizing their resources across the different products, is going to help us be successful.

Unidentified Audience Member

You talked before about the multi-dwelling units as being a special case. Can you talk about how that is going and what are your goals for getting in there with both data and TV and what you have assumed in these numbers?

Virginia Ruesterholz - ***Verizon Telecom - President***

Sure. Clearly, the MDU process is a little bit more complicated than the single-family unit process. We've got the technology, so we feel very good about the technology solutions that we have as a team. What we are doing now is driving through the fact that we have to work with a landlord, get right-of-ways, work through the process. What I would tell you is my early results are showing that we are ramping well on that. And I continue to see that over the next quarter to end the year on a very positive note on MDU. And that will scale as we go into next year.

So I think technology-wise, we understand how to do it, which was key, and then secondly, do we have a very executable process around getting the right of way into the MDU buildings? And I would say, yes we do. It is a longer process. But we have it, and you are going to see that grow.

Unidentified Audience Member

Virginia, a couple of things. On seasonality, we have seen -- DSL obviously follows pretty seasonal trends. Does FiOS change or mute those seasonal impacts?

And secondly, you identified I think if you add them together, about 88% of people subscribe to either triple play or a TV plus data package. And you've got 375,000 Internet subs, but about 100,000 TV subs. I'm just trying to reconcile those two.

Virginia Ruesterholz - ***Verizon Telecom - President***

Sure. I think because we are just starting out on the FiOS, that you get a benefit from that, that seasonality will not have as much of an impact, because we're in that startup mode. So I think we get some boost by that versus being in a situation where you have a more mature product and you see those seasonality effects. So I think that is a plus for us. We are seeing continued ramp. And obviously, this starts to get to be a good part of the year, so our objectives are tough, and we intend to make them.

As far as the breakdown there, I was going off of TV. And when I look at our TV penetration, that's where I am getting the 80% are triple play. We also know that 56% of our video customers are buying data along with it. So we clearly see there is a pull by the video side. But at the same time, we have areas where we only have the double play for FiOS and we are seeing increased market share by having that double play in the market. So I think both are key to our strategy.

Doreen Toben - ***Verizon - EVP, CFO***

The answer to the second question is the video and the data don't overlap in who we are serving, right? So you can't take the video numbers in what she gave you and then apply it to the whole data footprint. John?

Unidentified Audience Member

Can you talk about the importance of owning content? There's been some stories recently in some magazine that you guys were thinking about developing your own sort of local news stations to compete with what Cablevision has. Is it important on a competitive basis to own or to have access to content like that or potentially develop it yourself? And is that in some of the numbers that you guys have shared with us today?

Virginia Ruesterholz - ***Verizon Telecom - President***

Right now we have all the content that we need. We have been negotiating those both from one-on-one negotiations as well as within forums. So I feel we have all the content we need at this point. No content deals as I believe were put into the plan, Doreen?

Doreen Toben - ***Verizon - EVP, CFO***

No, I don't think what you hear from us is that we feel that we need to own content. I think that the piece that you were talking about are folks thinking about something extremely local on a trial. So I actually -- yes, I wouldn't consider content, and content is not in the case, other than whatever we have to pay for the current video.

Unidentified Audience Member

How much are you paying for content?

Doreen Toben - ***Verizon - EVP, CFO***

I think you will get it in my presentation. But we have said consistently that we think that we are paying about the same level as satellite. So if you use satellite as a bogey, we think we're about at the same spot.

Unidentified Audience Member

This is one of the few times I've really seen something that is really, really impressive from the service providers. Congratulations. But what are you seeing out there in terms of usage from the customers, if they're surprising you right now? And I know there's going to be all new forms of content created from this, but what surprised you on the upside?

And in line with that, the navigation system has been a big problem for these things historically, going back to Time Warner in Orlando 12 years ago. Are people really using this navigation system? How do they feel about it?

Virginia Ruesterholz - ***Verizon Telecom - President***

I will take a shot at it and then Shadman, maybe you want to say a few things. We have been doing a lot of very detailed customer meetings and just trying to survey what they are seeing and what they like. A couple of things that Shadman said right off the bat is they really want simplicity. And what we are driving for here is a very simple experience. A TV experience shouldn't be complicated. So when you look at the program guide, what we're doing with the remote, how we are trying to format all of the content -- it's really to go around what we are hearing from our customers -- make it really a simple experience for us. Have all the content there. Make it easy to use.

The other thing that we are clearly hearing from our customers already is they really see the difference in the quality. And they like it. I know that even -- I have it in my home, much to my team's chagrin. They're watching it every minute, to see what I am watching. And I am a trial customer. And everybody that has come over to my house has said, the quality is just incredible. The picture quality really shows. And that, I think, to customers, they are seeing that difference. And we are hearing that across the board.

The other thing that I am hearing from customers, too, is the whole niche. The fact that we can offer an international package, be very specific to the diversity of our customers, is again another area where they are saying, gee, that's a difference. You care about what I want to watch. So those are just a few things that I would highlight as far as simplicity, content and the ability to really provide niche programming.

Shadman, do you want to add anything?

Shadman Zafar - ***Verizon - SVP, Architecture and Services***

Yes, there's a couple of points. As you said, the feedback from the customers have been great with some of the applications that we have even launched now. We were talking about the Media Manager earlier -- exceptional feedback. But I really appreciate recognizing as that fact that it's my personal favorite about the importance of navigation and simplicity.

I didn't even go through in my presentation, but we have spent a tremendous amount of time on that -- of the usability tests. We have usability labs around the country of how people deal with their TV. Even simple things like, as I was going through the presentation, you probably noted as I move up and down, even my eye focus doesn't change. Everything stays -- the whole application moves up and down, as opposed to your regular computer, right? Everything stays in the center of the eye. We have sort of taken care of that level of usability issues to make sure that that TV experience, just by sitting down, is exceptionally better. And that is the feedback we have been receiving from our usability teams across the --

Bob Mudge - ***Verizon Telecom - EVP, COO***

You know, the quality issue -- Virginia mentioned that we were working this now in nine regions. We are seeing some of the regions use partnerships with small providers from the local video stores, home theater stores, and literally what their marketing strategy is -- they just put three screens on the wall, and with televisions, out-of-the-box factory setting, no filtering, no adjustments -- put up a comparison on the picture quality. We've talked to one gentleman at one of the regions -- every 10 TVs he was selling, seven out of 10, the people were purchasing FiOS as a follow-up. So it's just another real concrete example from a quality standpoint on how we are using that.

Doreen Toben - ***Verizon - EVP, CFO***

Luke, maybe one last question.

Unidentified Audience Member

Could you talk about -- two separate questions, one on the business market. How is this changing your position in the small and medium sized business market? And just secondly, briefly, IPTV and where it is in terms of being commercially available?

Virginia Ruesterholz - ***Verizon Telecom - President***

Yes, on the business side, we really see an opportunity with FiOS. And we are already selling FiOS to our small and medium business customers. We have over 2 million of them in our footprint. So we see this as a great opportunity, again, good bandwidth, good Internet access, great opportunity, and also, as we move into the video side, offering them the triple play also.

So I see this as a positive. Our objectives already so far this year, we are exceeding them on the FiOS side. So that is a good story. And I think there is more opportunity there on the innovation side, too, as we look at product deployment. So there will be more to come on the small business side.

Moving on, your second question was IPTV. I think one of the points I wanted to make, and I think Shadman made it very well, is that our product right now is a blend of broadcast and IPTV. And as this technology -- we didn't start with IPTV because we wanted to get out in the market with a very quality product right off the get-go. And IPTV is evolving. And as it evolves, I think what we really have is the opportunity to move as much as we'd like toward that space. We've got a solid broadcast video network. It is working well for us. But we've also got IP set-top boxes. And we're using them today, as you saw -- with all the interactivity that we have, our whole VoD effort is all IPTV. So I think what we have done is we haven't boxed ourselves in in any way. We've got a technology that will grow and develop as IPTV does.

Shadman Zafar - ***Verizon - SVP, Architecture and Services***

And I said earlier that's the best of both worlds, right? We have the operational maturity and the quality of the broadcast with everything that -- that IP (indiscernible) provides basically the best of both.

PRESENTATION

Doreen Toben - ***Verizon - EVP, CFO***

Okay, I think we have two more sessions that you get questions on. So I think we will move now to Bob. You've got lots of questions on capital and operations savings. So Bob is going to go through some of that.

Bob Mudge - ***Verizon Telecom - EVP, COO***

Shadman gets to show you how to make a movie, and I get to cover drop wire. So I'll get right into that.

Good morning, again, and thank you for being here. I want to focus my discussion on really three primary areas that, from a regional standpoint, from an operations standpoint, really building a great network, building it and gaining efficiencies as we go, and just as important, creating a difference from a service standpoint in the eyes of our customers -- if we go back to some of the churn discussion, some of the other breakthroughs we're making, I want to spend some time on that also.

So let me first talk about our cost to pass. And what I am depicting here is really when you think about, when we talk about prems passed, and the costs associated, we're talking from the central office to the serving terminal outside a home. So it is preparing the network to meet any customer demand as we ramp up our marketing.

And as you can see, as we ended year end 2005, we are at about $1,000 -- $1,021, in terms of prems passed on a cumulative basis. Where we stand today in August, great progress. Really good reduction, down to $873. As you'll recall, we were targeting and shooting for about $890. So we have actually beat that number for this year. And I am very confident that we will move forward and come in at the end of the year at $850.

As you see in Doreen's model, looking forward in the future, we're targeting by 2010 to be at about $700 per prem passed. And given our run rate and things that we have done from a material standpoint, technology and innovation, we are really on a very good run rate for this. As Virginia said, this is an area where we have full confidence that we can continue to drive down this cost.

I don't think that from the elements I am showing you, from the OLT to the home, that any of those major materials have not had a price reduction -- anywhere from 15 and in some cases 40% even this year as we continue to scale, get the advantage of the scale, bring that back to our vendors on RFPs and negotiations to continue to drive down that cost.

The technology, we have gotten -- just really have made breakthroughs, really, when we talk about our VATS terminals. VATS is a technology whereas we lay out our fiber in the streets and then we string it on the poles. We have shifted our ability to place a terminal as we need it, when we need it. We have placing opportunities from a placing standpoint where innovation -- innovation that's not just coming from vendors and engineers, but innovation that is coming from our employees who are placing and splicing the materials that's really helping us with this. So as we continue, again, this is a good news story. And we will continue to drive this cost down. And we are very proud of the fact that we have done very well in this area.

On our cost to connect, this is an issue, again, where we see where we were last year, at about $1,200, and where we are today, down to about $933. A lot of great progress in terms of our labor costs, the time in the home being reduced, our contractor costs, and again, our material costs. Those are the three contributors to this area.

As you look at the depiction of the home today in 2007 and beyond, what I want to show here and kind of explain is where we are today and the changes that we are already making to greatly simplify the installation process and have a much better customer experience.

Simply put, if you look at today's home, we come in, we are running a CAT5 wire to a router, grabbing coax and also grabbing the voice lines. So think, in its simplest terms, that we come to the side of the house with the OLT and we have three distinct paths -- voice, data and video. As we move forward into 2007, and in fact, the managed broadband home router, which you see in the middle of the house on the right, we already have that in play. It is working and we are deploying it. Technicians love it, actually, great throughput. Saw one in action just a week and a half ago where we turned up the customer's line. She had a wireless PC just in the other room, full 10 megs, both wired and wireless, through this broadband home router. So that application is also bringing both customer experience up and saving us time in the house.

As we move forward, and we implement MoCA, which have implemented today through the set-top box, but integrate it into the ONT, which we expect to have working by the end of the year and scaling it next year, we will then be able to, in many, many cases, eliminate any new wires and utilize the coaxial cable inside the house. Use that, again, for a path both for video and data, and grab the inside wire that we need for voice.

So what you see going forward is far fewer elements in the home, less work required, and even throughout this year, though, with the economies that we have gained from productivity, the material changes we have already made and the contracting costs, we have dropped this about $300. I think our original target was about $715. I know we will get to the $880. We have built in, and I can see the next wave of material cost changes, some contractor changes and the ongoing productivity enhancements as we go forward that we get to that target. I am confident that we will do that. We would like to have gotten there a little bit quicker, but I really feel good about where and how we will get there.

From a productivity standpoint, I think another difference that I'm very optimistic about next year is, if you think of where we have been the last year or two, a lot of our productivity has been gained through training and learning and scaling. As we move forward, 2007 and beyond, this simpler application, the productivity is driven by removing work, removing elements from the installation itself so it's not just an ongoing getting better. We will do that. But we'll actually change the installation process itself. That is why I have such confidence that we will move to that number.

The fourth bullet on this page is also very important. As we move forward with the broadband home router that we're building in today, we move our surveillance capability from the side of the home all the way into the home and into the customer devices. So if you think about that from an install standpoint, from a technician that is turning up the service, from a customer issue or a question that they have, our ability to work with the customer on an element basis within the house will change as we overlay our customer management system right through to that managed BHR. Very different experience -- another way that we will continue to reduce operating costs because for some issues that we may have to dispatch today, we will diagnose. And in fact, we will proactively monitor the service going to that house. This is a network that allows us to surveil it 7 by 24.

Let me just show you a little bit of information about how we are cashing in on some savings right now. What I am showing you here is our actual outside plant report rate. This isn't a model. This is the actuals that we have attained through August. What it says is that the model and some of our expectations are actually being met. And if I look at our double play with voice and DSL, if I look at that outside plant report rate, I see that at about a 1%, the way we have traditionally measured it for years. As we look through August on this base of FiOS customers that we have growing, the similar report rate for the exact same type of trouble is the 0.2, or 5 times less.

Now, in some areas, for those of you that have been covering this industry, the outside plant cost is a major a piece of it. It can be up to half of our total report rate in any area. So as we see that driving down, we're seeing a much lower dispatch rate. We are seeing that this passive network -- this is magical in that the elements that require the power and that require the interaction are built -- are in a CO and in a weatherproof ONT, has really changed the design of our network.

And we see that as this continues to scale. This is a great opportunity for us. So the outside plant reductions are tremendous. Our overall dispatches, including our work in the central offices because of the simplicity of the design, are already down also. So we're already seeing some cash-in on the savings associated with what this network is doing for our plant.

I want to take a minute, though -- there has been a lot a discussion on the network, on our systems, and it really is breakthrough. What I am really proud of and what the team is pretty excited about, and Virginia mentioned this, is what is going on with our people and what's going on with our team.

When we looked at this even a couple of years ago and had a vision for where we wanted to bring service with FiOS, we wanted it to be high-touch. We knew that we had to transform the home. And we wanted to make that, then, become a positive experience for our customers. So when you call in, you will reach a service representative that can help with voice, data or video, who's had in some cases up to four months' training to make sure that we don't hand off. We're trying to remove our handoffs to make it very simple, just as we talk about the simplicity of watching TV, we want to make sure we're just as simple as people interface with us.

From an employee selection process, we use this as a way to re-energize our employees, so that if you are working in the core network and you wanted to work over in the FiOS and gain those skills and work in that area, we developed a selection process, developed a great training process where we have our employees who really have grown up in the business being retrained -- not only on the network components they were familiar with, but training them to be in the home with the customer and work and speak with the customer on their terms, whether it is with their PCs, their televisions or any of the other devices.

If you think about Shadman's application, we have to keep going with that because that will be a growing concern. But the results that we're getting back, and we asked thousands of customers -- people love and really are excited about our employees.

Some crazy things are going on. Team FiOS -- it sounds a little hokey -- but let me tell you, it works. The Team FiOS is where, in each of the regions, it might be a Saturday morning, 30 or 40 employees gather, and we take door hangers, we take marketing materials, and we have both management and our associates blitzing neighborhoods where we have built to accelerate sales and get the word out and have excitement about the FiOS product.

We have a ÃƒÂ¢Ã¢â€šÂ¬Ã…â€œSell One MoreÃƒÂ¢Ã¢â€šÂ¬Ã‚Â process, where we have gone around the country now and we're thanking people who are not traditionally salespeople, for generating $0.5 million in sales and customer leads with this product. So we have energized a lot of the processes we have for employee engagement.

The collaboration on these issues -- we are walking into jurisdictions today -- as we look for franchise relief, we're shoulder to shoulder with union leadership. We are shoulder to shoulder with our employees as we negotiate LFAs, and I think that is part of our great success. So the collaboration both within the business and across departments has become fascinating. And really, from an employee standpoint, at the garage floor, this is really changing our business. We are very excited about it.

How do I know that is really a tangible difference? What I am showing you here are some results that we track. And we have tracked them since I joined the business 23 years ago. And when we have transactions with our customers on the provisioning and installation, we take a very large sample of those customers and we ask them how they felt about the installation experience across many different elements -- the technology, the interface with the office, how they felt about our technicians, and their overall response.

And we pay ourselves, and I get paid, not on a good rating, but on a very good or outstanding. So what I am showing you here is of the customers that we have interviewed, for example, in FiOS, we have interviewed over 9,000 this year across all areas, all geographies, all with different scaling issues. And 84% of those customers have rated the installation process very good or outstanding.

I'm depicting this against our traditional voice service and even our DSL. And if you go on some of the external forums where you can begin to benchmark service against other competitors, you would see that this 84% and in fact, in Broadband.com, our 89% rating, is really different. And itÃƒÂ¢Ã¢â€šÂ¬Ã¢â€žÂ¢s directly related, again, back to that churn rate, which is really the measure of how people feel about our service, how they are staying with us.

So we are really proud about this. This is a real -- these numbers are fantastic. And they're as good as I have seen. And I think that we still have the opportunity on the upside, if you go back to the slide I showed you on the simplification in the house and the whole customer experience, I think we still have upside on this. And that is where we are driving the team.

Just to make sure we are not kidding ourselves, again, I have here a few samples, whether it is from PC Week, whether it is Broadband.com -- Broadbandreports.com, excuse me -- these are fairly recent. Broadbandreports.com -- I kind of like that one. It is very linear with where we see our level of excellence, measured, again, across value, customization, technology. The feedback on the technicians in particular is just outstanding. So this is a really great validation and again helps the team know that we really are on the right path.

Let me quickly summarize. Our challenge is to transform the network, but do it in a way that we make our cost targets. We are doing that on prems passed; we will do it, I am fully confident, on the prem to connect, and we have a clear path to get there. We are on target for those and we are going to keep moving forward.

Transforming the cost -- already, again, we are in the early stages of scaling when we look at the comparison of the costs that we are seeing in that embedded base. We are seeing a shift, and I think it is just the beginning of some of the cost savings that we will get.

Transforming the customers' experience -- whether we ask them or whether we look at third-party results, the feedback there is very positive. It's supported by the churn rate.

And again, I can't emphasize enough that this is an opportunity to utilize and transform our people. As I said, I have been in garages and down manholes, up holes for 23 years -- this is a very different experience, a very different opportunity, and I would say a very different level of pride for our frontline employees. So we are pretty psyched about that. And we are looking forward to continuing to scale it. Thank you.

QUESTION AND ANSWER

Unidentified Audience Member

Bob, you talked about the next phase of your installs in the house, and shifting towards MoCA and other technologies as you start to streamline that. What are the issues that you are anticipating relative to older coax in the house? Is this sort of a cutoff year where you can't really use the coax anymore for what you're planning on doing in the house?

Bob Mudge - ***Verizon Telecom - EVP, COO***

As we use the coax today, we test it to make sure it is meeting our specifications. We've had good success using it. The quality that we are showing, the feedback we are getting from customers, is reusing that coax more often. If we have to change a splitter out, change a configuration, we will do that. But I fully expect that we will be able to utilize the coax for quite a while.

Unidentified Audience Member

And coax has gone through its own evolution through the years it's been installed. Coax was installed 20 years ago as a very different product than what is being installed today in new builds. Is there a point at which you think the older coax -- I don't know if it's [CAT9] or something like that, but it is not usable anymore for your applications -- is there sort of a vintage house that you can't use it in?

Bob Mudge - ***Verizon Telecom - EVP, COO***

I don't think that there is a clear defining line on that. I think we have to -- one of the other things we are seeing is each install is unique based on whether it is a configuration that's in the house. In some areas, we are seeing some older homes versus some of the growth areas. So I think it is really a home at a time.

When we go back to the MoCA selection and we looked at the coax versus the other alternatives, I think the engineering planning team did a great job really robustly looking through the opportunities with CAT5, MoCA and even a few other choices where the robustness of the MoCA outweighed some of the other choices. And I think we are seeing that right now with the repairs and the follow-up calls pretty low and the quality high.

Unidentified Audience Member

As you look at the install costs, the $850 number -- is that a full-year 2006, or is that a year-end run rate number? And secondly, what is your expectation for 2007 for the install cost?

Doreen Toben - ***Verizon - EVP, CFO***

We're not going to give you an 2007 pinpoint. We are going to tell you where we think we will be at the end of 2010. And actually, I think the $850 is, in fact, end-of-year rate.

Bob Mudge - ***Verizon Telecom - EVP, COO***

Yes, the $850 would be the accumulation of the 12 months, year-to-date 12-month roll. And the reason why we do that is from concept to design to material ordering, placing and splicing, you really have to look -- to get a good look at that, you need to accumulate that and look at that average over 12 months. So the cost to connect, that's more a moment in time. So when I give you the cost to connect times, that is, where are we today with the current productivity, the current technology for that incident. So that is really the number within that month. That is how we differentiate the two of them. I think it is the best way to look at it because of the difference of how we accumulate cost on the build side.

Unidentified Audience Member

Two quick questions. Just in terms of the network cost savings and the reduction in trouble tickets on that slide that you put up there, it seems like your FiOS plan is absolutely brand-new and hasn't been in there for more than a couple of months, whereas your legacy plant probably hasn't been touched in many, many years. Is there any way of separating out the reduction in trouble tickets because it is FiOS as opposed to the fact that this is brand-new plant that you have just put in there?

Bob Mudge - ***Verizon Telecom - EVP, COO***

I think you can. I think, though, that what I am dealing with is, though, is what that embedded cost is across the millions of access lines we have. So I don't have that. I know we could. But what I like about what I have seen is the 1.1 is the total reality of what we have. The 0.2 is the reality of the run rate that we have even with new technology. And I think that is really what is exciting, because while we are ramping this and while we are stabilizing it, we already have a 5-to-1 ratio.

Doreen Toben - ***Verizon - EVP, CFO***

The other comment, not being the technology person, is that from an environment standpoint, if it rains and all of that, new copper, it still has trouble, right? I think Virginia went through -- maybe that was what she was going to say. Fiber doesn't. So there is a difference even new to new substantially between the two.

Virginia Ruesterholz - ***Verizon Telecom - President***

Yes, and the only other thing I would add is we do had experience with fiber in our network, for many years. And if you think about some of our circuits that we put like DS3s and products like that that have been out there for multiple years, and we see a very different report rate with those types of fiber-based products, and we expect the same with FiOS. So that would be my experience with using fiber versus copper. Because of the elements, because of the quality, you do see a difference, even when it is in the ground for multiple years.

Unidentified Audience Member

Is 0.2 the new reality? That's where you expect the trouble tickets on fiber plant to persist, or does it creep up as it gets older?

Bob Mudge - ***Verizon Telecom - EVP, COO***

Well, I think that, again, just looking at the outside plant, and I am thrilled it is at that level today.

Unidentified Audience Member

Could you just talk about the sales and the marketing costs for new customers? What sort of magnitude is that compared to these numbers? And in a given market, is there a natural progression you go through as you go --

Doreen Toben - ***Verizon - EVP, CFO***

I am going to do sort of overall expenses in my piece. And here is what I am going to tell you -- I am not going to give you the exact sales and marketing number. You guys, you know how to do that. I would say that our customer acquisition cost is normal. So if you benched us to cable or lots of other industries, just like in wireless, we don't give you the exact customer acquisitions, I would consider it normal, and I'm not going to give you an exact number.

Unidentified Audience Member

The $880, is that all -- how much of that is capitalized?

Doreen Toben - ***Verizon - EVP, CFO***

That is all capital.

Unidentified Audience Member

I just wanted to go back to this network report rate outside plant specification slide, where you are reporting an 80% decline in the report rate. Would that actually translate into an 80% decrease in your maintenance expenses, though, because I am assuming you still have copper in those markets, because you haven't yanked it out yet. And therefore, would you still have to run the [front rows] anyway as long as that copper is over there?

Bob Mudge - ***Verizon Telecom - EVP, COO***

Well, I think this is a piece of it that, again, Doreen will get into the broader cost model as we look at this and look at the other cost savings we expect going forward. So this is specific to a major element of the cost of outside plant troubles.

Doreen Toben - *Verizon - EVP, CFO*

I think you will see when I get to my pie and talk about overall maintenance savings on the whole total, you will see the numbers that I share with you. So yes.

Unidentified Audience Member

So the $850 and the $880 targets for homes passed and connected, how much of it is labor versus actual material? And what are the numbers that (inaudible -- microphone inaccessible)?

Doreen Toben - *Verizon - EVP, CFO*

I will answer that. I think we have given you an awful lot of information. That particular one I feel is relatively sensitive. So I'm not going to break out the different pieces of labor versus material.

Unidentified Audience Member

Yes, just to follow up on the question before that, just on the trouble ticketing -- so this slide is referring to the report rates -- these are essentially problems that happen at the customer prem that the people are calling in, and it's down 80%? Is that what you're saying?

Bob Mudge - *Verizon Telecom - EVP, COO*

These are actually problems that are happening in that outside network. So whether it is weather-related, as even up to and including a backhoe digging a cable, so you are never going to get to zero, because things can still happen, but this is the outside piece of that -- of the total report rate.

Unidentified Audience Member

And then you said the outside piece was 50% of the --

Bob Mudge - *Verizon Telecom - EVP, COO*

In some areas, that report rate could be -- it varies, depending on the age of the existing copper plant, but it can be as high as 50%.

Unidentified Audience Member

So in other words, you are saving 80% on 50% of the total?

Bob Mudge - *Verizon Telecom - EVP, COO*

Of that maintenance cost.

Unidentified Audience Member

And then one last thing -- some of the cable companies have said that they don't think that you should be allowed or they are going to potentially take action against you using some of that coax inside some of the existing homes that you are serving, based on the fact that a lot of times they have deployed it or helped to install it originally, the first time. Is that a risk? Is that something that -- do you think you have some potentially legal exposure to?

Bob Mudge - ***Verizon Telecom - EVP, COO***

Well, we are aware of it. We're using it. We think we know what our rights are and what the laws say. And that is how we are moving forward with it.

Unidentified Audience Member

Doreen, can you tell us how you account for the set-top boxes? Is that in this number? Is that separate? How many (multiple speakers) how much is that going to be?

Doreen Toben - ***Verizon - EVP, CFO***

You're going to get it -- it's capitalized. It is not in that number.

Unidentified Audience Member

It's in addition to both the homes passed and the cost to connect?

Doreen Toben - ***Verizon - EVP, CFO***

Yes.

Unidentified Audience Member

Recoup it in the monthly fee?

Doreen Toben - ***Verizon - EVP, CFO***

Well, I will tell you, on the set-top box all by itself, we are about maybe 2.5. But if you actually did the return on the set-top box, we depreciate it over about five years. With the monthly rental that we get on it, it gets its own return in, say, about a two, two and a half year period. So we sort of held that out separately.

Unidentified Audience Member

AT&T talks a lot about increasingly going to quadruple play. I don't really see that as part of your [sort of story here] as to what your vision is in terms of selling all four services.

Virginia Ruesterholz - ***Verizon Telecom - President***

We are definitely moving ahead with the quadruple play. We have plans in place. We are working with wireless. We see that as an important part of our strategy. So there will be more to come on that. But we clearly believe that taking the power of Verizon Wireless and their success and putting that with our product is going to be another very powerful piece of our revenue stream.

Doreen Toben - ***Verizon - EVP, CFO***

If we could take sort of a quick, I will call it a health break, for 10 minutes and come back.

PRESENTATION

Doreen Toben - ***Verizon - EVP, CFO***

Okay, I'm going to take you through the financial plans, so I am going to walk you through all the different assumptions -- the revenue, the expense assumptions, the capital. Obviously, you get to the economic impact. I'm going to talk to you about a single market, to give you an idea of like what an average 25,000 CO looks like, and then we will get to the returns.

So we're going to start, actually, with the data penetration. We expect -- and you heard this from Virginia -- we expect to have about 5 million homes open for sale by the end of 2006. And the end of 2010, we're going to pass 18 million homes and have 17 million open for sale. You heard again from Virginia that by the third quarter, we expect to have over 500,000 plus subscribers, and at the end of the year, a target of about 725,000 or 15% penetration. So what we did for the -- by 2010, a 35% to 40% penetration, 6 to 7 million homes.

I think that the only editorial comment I would make here is that broadband growing. So if you think about the broadband market all by itself, you have got a growing market. We are passing more homes; we get to play in that. On top of that, we take from cable, so we take from competition. So I think this is a real good opportunity, feel incredibly comfortable with the penetration numbers that we have shown you.

If I move now to video, you heard we currently have over 1 million homes open for sale, 1.8 million by the end of the year. Once again, we did 1 million in just under a year. By 2010, we expect to have about 15 million homes open for sale. Once again, end of third quarter, expect over 100,000 FiOS video customers, which is a number we are really pleased with and think is exceptional. By the end of the year, 175,000.

I think both of these numbers, I would tell you, are plan-of-record numbers. I would also mention to you that Virginia and Bob are compensated and Shadman on more aggressive numbers. So we really have spent time this time tying compensation to actual results. So other plan-of-record numbers -- we have got compensation numbers that are even stretched beyond that.

2010, 20% to 25% video penetration. Everything that we have seen on the video side is extremely positive. You heard it from Virginia. We are extremely pleased. You saw all the new things coming from Shadman's presentation, so pretty excited about where we are.

Moving over to churn, the model assumption is 1.5% or lower. You heard that we are in fact running lower than that. I think this is an incredible number. If you think the wireless guys, VZW runs at about 1.1%, but people move with their phone. So 1.5% is including movers. So if you imagine that there is a decent piece that are people that just move, this is an incredibly low number. So I think it shows us that in fact, we get pull-through revenue that Virginia talked about, and it really does show us that there's loyalty.

The other thing I want to point out, I guess, on this chart is that we are in the model, suggesting that we will retain 40% to 50% of the other voice lines that would have otherwise been lost to competition. So we do have that baked in as well.

Moving to ARPU, I'm not going to give you an ARPU assumption. We would have different opinions about what 2010 ARPU is, anyway. So what I have done for you is that here is our video pricing, here is our data pricing -- different speeds, different rates. We have got very competitive video pricing, as you can see. So we think we have got competitive pricing with compelling offers. We've got some of the set-top box numbers on the bottom. I would remind you that the ARPU also has a voice component on it, in it. I did not, in fact, put the voice pricing here. But obviously, when you do your model, there is a voice piece that goes to that. Obviously, we feel that we offer more digital, more HDTV; we have got regional and national sports. We have got an incredible number of international channels baked in. So we feel really good about where we are as far as ARPU.

On the capital components, there are the fixed capital components, which are in your cost to pass. We have got the variable cost components, which are in your cost to connect. Then we have what I will call -- upfront costs, in particular your video network and also your data backbone, your switching, your IP Ã¢â‚¬Å“and in addition, the set-top box.

I would like to look at the CapEx numbers -- you have heard, actually, some of this from Bobby -- and where we think we're going. So we think that the cost trends are coming down. If you look at per-home passed, we think scale and experience will allow us to scale it down even further. On the cost to connect, same thing, scale and experience. However, here we think technology, whether it's GPON or other technology, will allow us to improve even further. So we certainly can see our way to the 2010 number. Are there technologies that come about in the next couple of years that will even improve that number? Possibly, but right now, sitting here in 2006, I can't tell you what might come out in 2008 or 2009 to actually even improve that number.

I also would editorialize here in that if there is one thing Verizon is very good at, it's meeting their cost number. So I don't think there's ever been anything that we've done that if we say we can get to this cost number, we get there. Occasionally, it's a little bit longer than we think, but we really are excellent at doing this. So I have a high confidence level that we are going to meet or beat these numbers.

So now, we are going to look at the total capital spend. You have to remember this is over seven years, and it's an average per home. So if you look at sort of the gross number, which is $22.9 billion, the average over that seven-year period, starting with what was really expensive in 2004, driving out to the outer years, is about $817 per home passed. The video network is about $3.1 billion; that's about $172. The cost to connect is about $5.1 billion or about $718. So on a gross basis, it is about $1,700 per home.

If you now say there are cost savings that we get, capital savings, if we do this network, you now need to talk about your net capital. There's about $5 billion or about 20% of capital that we think is avoided because we do this network. What are they? They are things like we don't have to upgrade our existing network for things like DSL high-speed. There's no new copper in Greenfields. There's a lot of savings on copper rehab that we would have had to do on existing plants that we no longer have to do. Those are some examples of the savings that are very tangible, very real. So, if you get down to that number, now you have about $1,400 per home.

So now, most if you in this room are smart people, and you'll all say to me, okay, well that's your total number. But obviously, you now have to figure out you're not going to connect every home, and so you want to know what is the number per net home connected? So if you look at the cost to pass and the video piece and you do your penetrations and you say, okay, what is my net number? You basically take your $18 billion and divide by your number of subs. You come up with a cost of about $2,500 per home connected.

Finally, I mentioned to Simon before we have really put the set-top box off to the side. I guess somebody thought I meant 2.5 -- I meant $250 per set-top box. I meant 2.5 set-top boxes per house, for some of you that maybe thought I meant 250. So that's really a separate equation which covers itself and has its own returns.

So now, what we do is you take the 2,500, and there's a couple different ways you could have gone at returns. One is to basically say how much incremental EBITDA, how much incremental cash do I need per month to pick whatever return number? The other way you could have done it is you could do it on an ARPU, right? So you could also figure out the math to say, what is my average revenue per at certain ROICs? So if I look at this chart and say, well, what if I think we need to have an 11% return? Once again, this is over the period through 2010. And you say, okay, I need about $39 per month cash incremental per subscriber to have an 11% return, which is well over our cost of capital. How doable do I think that is?

Well, I've put some things on the bottom of the chart. OpEx savings, I am going to tell you in the next page, is about $9. You have got incremental EBITDA from your video customers. You have got incremental EBITDA from the new data customers on top of what you would have had. You have got your voice retention, you have new services -- which I don't have that baked in -- and you also have your cash tax depreciation. So if you put that all together, $39 is a very reasonable number to get, from a cash perspective, per sub. So I feel very comfortable that the return is easily in those kinds of ranges of 10%, 11%, 12%.

Now, I'll try to talk a little bit more about sort of the total OpEx savings that you were asking Bobby some questions. So if you look at how much we spend on maintenance expense, installation expense, call centers, really Bob's whole budget, which is basically the core network, excluding FTTP. So we spend about $6 billion a year. There's 50% or 60% that we can affect because we're going after those lines. There's a piece that right now, because we're only doing 18 million lines, we're actually not addressing. So you have about 50% to 60% of what we think we can address. In what we have calculated so far and what we believe we're getting, we think we get about $110 per line OpEx savings a year.

So if you put that all together, you end up, we think, about $1 billion of savings. Out of the number, that's about 50%, 60% of the $6 billion. What are the kinds of savings? Part of it is a per-line. There are also things that you get in [fleet] logistics. So other than the per-line, there are some other issues. But what are they? They are like lower maintenance and repair, as we went through. We have got fewer problems, fewer dispatches, quicker repairs, self provisioning after the initial connection. So once you have done this connection once and somebody moves out and the next person that comes in, it is automatically provisioned, so you get savings there.

The other one that you get, but we actually haven't baked into the case, is that if you think about the fiber network and you're moving all these customers, your DSL customers, onto fiber, you're actually freeing up all this copper for the customers who are still sitting back on copper for maintenance. We actually haven't sized that yet, but it is clear to us that that is in fact also a savings that we actually haven't built in. So I think it's very reasonable to expect that that's the kind of savings that we will get going out in the future.

Okay, now let's talk about some of the other expenses. I think we had some questions on them before. Obviously, we have the programming expense. That is basically -- there are no upfront costs from that. It's really a per-subscriber. We have anywhere from 3 to 5, some 10-year contracts. I mentioned before that as we would bench it, we think we bench probably around what satellite would pay, in that level.

Franchise fees -- there's nothing out of the normal here. These have been very typical of what the industry pays. You see about a 5% gross on revenues.

Finally, the subscriber acquisition, which is your marketing, your scales, your installation, your CPE. I think this is in line, what we have now and what we have going future, with sort of industry benchmark. So, as you fill out your models, you can sort of estimate what you think a benchmark is, and I think you'll be on target.

I have talked you through our assumptions, revenue, capital expense. I think we feel that they are absolutely achievable penetration rates. They are competitive and reasonable pricing. We think there are achievable operational savings, and we actually think we have been conservative on the retention estimates. We believe we will be able to drive cost-per's lower, but they are not baked, actually, into the plan. Once again, I think it's important to know, because it's a little bit hard to size, and I like to really do this when we have some real experience, all the advertising revenue that you saw, some of the new products that you saw -- none of that is in the case. In my mind, there is all upside here that will just come in the future, but not here yet. The personal broadcast channel -- none of that is here yet. So that will be add-ons.

Next, what I would like to do is take you sort of through a single market model because, as you know, as you're starting to go year by year, you keep adding towns. So if you look at that, we said there's -- this is actually a real example. We have about a 25,000 central office, had a mix of about 50/50 aerial and buries. We did not put a lot of the one-time costs in there. So, if there was a lot of one-time costs, we didn't put the whole VHO, if you would, against one particular CO, but we allocated what the appropriate piece of that central office was. So let me take you through sort of where we are.

So if you look at the single market and you look at the capital, so we have slotted the first five years. This one happens to be a growth capital level. It is what you expect to see, that early on you see the heavy spending (technical difficulty) cost to pass. Later on is where you see the cost to connect really kick up. So on a cumulative basis, it's about $45 million, with about $20 million of it coming on cost to pass, and about 80% of the capital is actually done in the first three years.

So the next piece I would describe in this model would just be the penetration, and it's really not different than we have talked to you about. We assume that we get to about 9,200 subscribers in data, about a 37% penetration and about a 24% penetration -- you can see it ramps early. So both of these ramp early in the first three years. So that's sort of the penetration assumptions; now you have the capital and the penetration.

Let me give you the results. So I think the punchline is, when you look at this, you actually go EBITDA positive in the third year, and you go op income positive in the fourth year. So we feel very comfortable, having experience now in towns for a year, that these numbers are accurate, and it basically says on a town-by-town basis, on this kind of timeframe, you are getting these kinds of returns.

Now, if I turn this to the total model, and the total model is really done on a net basis, so it is not done on a gross basis. But to the extent that we have moved DSL over or voice over, we obviously net that. It's made up, obviously, of many single models, so many of the towns as they start to roll in. You see steady revenue growth as you go, and once again, this is EBITDA positive in 2008 and operating income positive in 2009. My opinion is that for an infrastructure that is this big, to go EBITDA positive in 2008 and operating income positive in 2009 is something that is excellent and will provide benefits, not only financial benefits to Verizon, but also shareholder returns and great value to our shareowners.

Looking at the next chart, we're just going to summarize a few of the take-aways. We think this creates significant market opportunity for us. We have a lot of things going on to win the hearts and minds of our customers. You can read the attributes on the chart, including convergence, which we don't actually think is easily replicated by some of our competitors. We are building the network. We are offering differentiated products at competitive prices with good returns. We think this creates significant market opportunity and value.

You have heard us say that with FiOS, we're transforming the home and the customer experience. It's also transforming the way we interact with our customers, and it's transforming our employees. I think you heard Bob really go through how it's really changing the hearts and minds of some of our employees -- even our, as he calls them, front-line employees. It has been a big boost to them. We believe FiOS will dramatically improve retention and increase loyalty as customers take advantage of the value of the converged networks. As we have mentioned, there's significant cost reduction opportunities for us, and we are very confident we will be able to take those costs out of the business. It's something that, if you look at our mergers over the years, it's something that would have proved that we know how to do, we meet or exceed time and time again.

Lastly, this chart summarizes the convictions of our entire management team. We are extremely confident in our ability to execute and achieve the targets in our plan of record. Hopefully, with the folks here up on the podium, you've seen some of that confidence here today, and they have really demonstrated it. We believe we have reasonable assumptions and achievable targets. Most importantly, once again -- and I hear that from a lot of you -- is that we're holding people accountable from a compensation and results point of view, to get these positive returns. So, based on what we have seen in the last year, which is why it's taken this long to have this kind of a session, we are absolutely confident that we can get this job done. I encourage you -- I don't think I need to do that -- to go back and plug this into all your models, and then call us and we will be happy to talk and dialogue with you, after you sort of do that.

So with that, I am open to questions.

QUESTION AND ANSWER

Unidentified Audience Member

If you could maybe dig a little bit deeper into the OpEx savings slide that you had, the pie chart? Just so I understand this correctly, the $6 billion that you have in (indiscernible) expenses right now -- if we're going to figure out what percentage of that you can save, should we be taking a pro rata so you're doing 18 million homes (multiple speakers)?

Doreen Toben - ***Verizon - EVP, CFO***

Right. So what I said is, if you take the $6 billion, if you say we can address 50% to 60%. So take -- make my math easy -- if we can address $3 billion, because the rest are lines that we're not. So out of that $3 billion, what I am saying is we can get a savings of $1 billion.

Unidentified Audience Member

(Indiscernible) of your maintenance [expense] (indiscernible)?

Doreen Toben - ***Verizon - EVP, CFO***

It's broader than maintenance, right? So I think it's primarily maintenance, but there's installation. There's pieces -- it's not just maintenance. You have to think about sort of total network expenses.

Unidentified Audience Member

To get those savings, do you need to actually take all the copper out of those markets? Or can you actually leave both copper and fiber in those markets and get those savings?

Doreen Toben - ***Verizon - EVP, CFO***

No. The way the model is currently structuring -- I'm not sure what you're asking. It is really -- you are leaving the copper in. So if you have a central office and you have 50% penetration, the 50% that are not on FiOS stay on copper. We are not, at this point, suggesting that we're going to be pulling copper out, at least at this point.

Virginia Ruesterholz - ***Verizon Telecom - President***

(Technical difficulty) if you look at customers that you might say the report rates are high in copper and you have fiber, we will have the ability to do some migration there. So we didn't bake that into the plan, but clearly Bob is already looking at that as an opportunity to improve his overall structure.

Bob Mudge - ***Verizon Telecom - EVP, COO***

I think also, to Doreen's point, think beyond just the maintenance. While I gave the outside plant and focused on maintenance, think of the difference of the overall tiering of the network. So, to Doreen's point, the installation will become far more simple for those affected lines. The maintenance -- we're already seeing the results. The surveillance of that network and the ability to proactively look at that network, which is now a much more simple -- singular common network is a better word for it today versus the evolution of a 100-year-old network versus what is common. Those are the costs that are baked in there right now, and that is why we have confidence on it.

Again, as we begin to go down to the point where, again, we now get into the fabric of the switching and get economies there as we go from TDM to softswitch and beyond, there will be other upside, to Virginia's point.

Unidentified Audience Member

Doreen, if I look at the chart on page 49, it seems to imply that your dilution from FiOS will drop by anywhere from a third to a half next year. Is that a fair characterization? What's going on with CapEx, given that you will be installing a lot more TV and data customers, despite still spending, installing, building past 3 more million?

Doreen Toben - ***Verizon - EVP, CFO***

I am not going to give 2007 guidance. You are trying to read the line, but I'm not going to give you exact 2007 numbers at this point. What we've said before, I will stand by. So we've said some things about CapEx, we've said some things about dilution. I think that those haven't changed, but I am not willing to say something new today. What I will tell you is the capital is -- there is certainly a significant piece that is success-based. So, to the extent that we have picked a number in 2007 and we actually are not totally closed on our 2007 numbers, if it's higher or lower, the success base, and you saw the size of that, we'll obviously change.

Unidentified Audience Member

The marketing plan seems very kind of feet-on-the-street intensive. It seems somewhat hard to believe that the cost per grow add is comparable to the peers that you were giving, sunlight and cable. Could you dig in a little bit there?

Second, on the total scope of the project, 18 million homes, is the 18 millionth home in your footprint the breakeven home? Or is there scope for FiOS to be expanded beyond that?

Doreen Toben - ***Verizon - EVP, CFO***

Let me start on the marketing expense. I have to say I was personally amazed how reasonable, if I would, on the cost of acquisition on the feet on the street. So, although one would have guessed that would be, perhaps, an expensive channel, when you look at the numbers in what they are actually delivering, which is sizable, and you look at the cost per acquisition -- very reasonable, so absolutely within in benchmark.

On the 18 million homes, no, I would not say that that was the breakeven home. Breakeven home comes well before the 18th million customer.

Unidentified Audience Member

The limit of the scope of the project being net present value?

Doreen Toben - ***Verizon - EVP, CFO***

I think we would consider reassessing as we get into 2007 or something.

Unidentified Audience Member

What are your assumptions on the pricing side when you're looking at your return on invested capital, maybe both from a data perspective as well as a video perspective?

Doreen Toben - ***Verizon - EVP, CFO***

What I don't want to do is give you the ARPUs by year. Maybe I'll do it backwards, because you guys can do the backwards math yourself. I think, if you looked at the ROIC and did an ARPU -- so, rather than an EBITDA -- you get, I think, about $105 to $110 average ARPU that you would need to get, say, an 11% return. So if you think about it that way, without giving you what each piece part is, that should help you.

Unidentified Audience Member

Sort of to make sure I'm clear on the total breakeven target, so that includes essentially the EBITDA dollars that will be foregone by DSL customers that are in place now essentially moving to FiOS, as well as in an assumption of losing a lot less access lines that might have been in your model and the expenses savings all wrapped up into --?

Doreen Toben - ***Verizon - EVP, CFO***

Correct.

Unidentified Audience Member

-- so it's more of a net Verizon FiOS model.

Doreen Toben - ***Verizon - EVP, CFO***

Correct. Right. So it's DSL, which I think we just told you was only EBITDA positive last year. So to the extent that it's EBITDA positive this year and going forward, we would subtract out in the net case whatever that profitability was, as well as those revenues, and the other pieces are in.

Unidentified Audience Member

(Indiscernible). Is this the (indiscernible) earnings dilution from FiOS, or is it 2007? Just round numbers, not the exact numbers, obviously.

Doreen Toben - ***Verizon - EVP, CFO***

I think I'm going to go back on not giving guidance. What we have said is we thought it was -- when we have said previously is we thought it would be around flat in 2007. At this point, I'm not going to go off of that statement.

Unidentified Audience Member

What is the cost per set-top box? I'm just trying to figure out if it's appropriate to leave that out of your return on invested capital calculation. I know that you recover the costs -- you say recover the costs in two and a half years from the rental fees, but it seems, with the types of applications that you are rolling out, [the lost] years of improvements in the service that you are offering -- the set-top box might not have a life of two and a half years.

Doreen Toben - ***Verizon - EVP, CFO***

I think at this point, we consider the set-top -- well, I'll start. Then Shadman is much better.

Doreen Toben - ***Verizon - EVP, CFO***

I was going to say we consider it sensitive, so I wasn't giving the exact number. But Shadman is going to tell you why they are coming down. He explains it much better than I can.

Shadman Zafar - ***Verizon - SVP, Architecture and Services***

I think your question was the lifecycle for the set-top box. I think all the applications are actually (indiscernible). That's the reason I was sort of talking about. The key pieces of the software that is designed for this set-top box. It is planned for. The applications are planned for, for the generation of set-top box we are deploying right now. So I think it's absolutely within its lifecycle that we have that Doreen was talking about.

Doreen Toben - ***Verizon - EVP, CFO***

Do you want to talk about set-top boxes and conceptually where they are going?

Shadman Zafar - ***Verizon - SVP, Architecture and Services***

From the pricing perspective, you mean? Yes. We absolutely are seeing, first of all -- right now we have one supplier adding suppliers as well as changes in technology. We had the number of (indiscernible) you may have, if you're using more IP, for example, pure IP set-top box obviously goes down. You have got [further] CPU MIBs pricing going down, so we have the same price set-top box today, with approximately 230% of the MIBs that some of the set-top boxes [ever] deployed by cable companies in the middle of 2004. So we feel pretty comfortable, both in the decline of the price of the set-top box but, more importantly, the lifecycle.

Unidentified Audience Member

Can you give us a general sense of the cost per home for just the set-top box piece of the equation, what we should add to that 2,500?

Doreen Toben - ***Verizon - EVP, CFO***

I think I would just tell you industry normal, what you think a normal set-top box is.

Unidentified Audience Member

If we just [stem] the set-top box and talk a little bit about the ability for the phone to give you my pictures and that to come on, what is involved with that today? What is the revenue opportunity from that? In other words, is Verizon Wireless going to get a data revenue stream from that? What about wide-open Internet access, me going to my YouTube, whatever, and downloading Ted Stevens on the Internet?

Doreen Toben - ***Verizon - EVP, CFO***

Can we go back and say I said none of that was in the case yet? (Multiple speakers).

Unidentified Audience Member

No, I want to know, technologically, what's required to get the handset to do that. And is it over the EV-DO network, or is it I'm going to plug my phone in and it's going to synch up? When do we get to the point where I can go on the Internet and get YouTube or whatever? I also want (multiple speakers).

Shadman Zafar - ***Verizon - SVP, Architecture and Services***

First, absolutely not, no plugging over the network, right? No plugging, automatic synchronization between -- and goes both ways, by the way, right? It might be also data that's going from here to there or controlling your set-top box from here. So you may be out traveling and you may want to remember later on and you might want to record a show. Or your kid may call you and say, can I buy that movie? Authorize it and those kind of things -- all done over the network, for sure. Access to the Internet, I think, so that's kind of what we showed here.

What we are careful about is doing it in a TV experience, so really making it simple to get to the Internet rather than putting a keyboard into your TV. But absolutely, they will certainly be able to access it.

Doreen Toben - ***Verizon - EVP, CFO***

What we're already trialing with Verizon Wireless is what Shadman is talking about, where from your phone you can go ahead and program your DVR. You can be out looking at something and say I want to take a picture of it and whoever is at home wants to see it. Click, it comes back through the network, and you can view that on the video. He showed his cellphone pictures, but where we're headed is much more of an instantaneous interaction between the wireless phone and the FiOS network. So I think there's tremendous upside potential, and that is already stuff that we're already using and trialing in the lab. So I don't see that there's going to be a lot of change out here as far as any equipment.

Bob Mudge - ***Verizon Telecom - EVP, COO***

You can do YouTube or buy a video on Amazon.com and actually watch it right then and there on your real TV as opposed to the PC.

Shadman Zafar - ***Verizon - SVP, Architecture and Services***

On your TV, for example, right? So actually, the product that was launched this year was actually accessing a lot of the Internet content from your PC onto your TV. So that's actually a part that's already out. You will be seeing some of the extension to that product as it [potentially reaches out] exactly what you're talking in 2007.

Unidentified Audience Member

If you're saving $110 per home connected, and you're spending whatever it ends up being to connect the home, I guess part of the question is, can you talk a little bit about the threshold for connecting customers? What are the conditions to connect customers? So If I move into a market that happens to be upgraded to FiOS, it's in your interest to keep a very low threshold on what gets me connected to the FiOS network, right? Because theoretically it's not just about what I might buy from you in the future, if I don't decide to initially, but it's also about how much money you could save because you get me off of a global copper -- electrical network and put me on the network with much lower cost to maintaining of the customer. Can you talk about where that threshold is in your mind, as far as connecting customers? Because clearly, the more you scale up your customer base, actual connected customers -- theoretically, the bigger the slice of that $6 billion pie you could save.

Bob Mudge - ***Verizon Telecom - EVP, COO***

I don't know that it's a cutoff threshold, as much as how far we can get in each market. Again, with the growth that we're at right now, we look at the model in terms of what we baked in for the cost and what we know is the actual, on those average numbers we see that as the gain. I think there's actually, below that, a level where, at a customer at a time, depending on what their specific costs are and what their experience is in the traditional network, that there's actually individual customer upside that actually makes it better, when we look at the total marketplace with the average of 25,000. In terms of the percentages on that, I don't know the answer to that. But I think as a per-customer basis, it becomes another cost opportunity.

Virginia Ruesterholz - ***Verizon Telecom - President***

I think if it's a customer that has got trouble, voice trouble, you're going to do exactly what Bobby said. He's got lots of examples. If it's not, you probably want a voice and data customer before you really try to force migrate them. I don't know what --

Unidentified Audience Member

I guess the second part of the question is, if you know there are certain cables in markets that have trouble, you red flag the file, someone moves into a house on that cable, it's not even a question.

Virginia Ruesterholz - ***Verizon Telecom - President***

That's exactly right.

Unidentified Audience Member

You would migrate. You would force migrate.

Virginia Ruesterholz - ***Verizon Telecom - President***

Yes. We do that kind of analysis at a very low level as far as (technical difficulty) and that's the kind of decision we can make back to the idea of migrating customers, getting them off high [report rate] cables and putting them on FiOS if we've got it there. That's something that we definitely want to be able to do and we will do.

The other piece I'd say is if you look at that pie that we showed you on just the TV product and the percent that were just voice only, and it's a very small amount. When we get a customer in the door, the upsell potential -- so if they come in for voice and they have got FiOS availability, we are just on that like anything to sell the broadband and sell the TV. So I think there's a lot of power to that, and our door-to-door and our reps in the centers and all of our channels, I think, really are doing a very good job selling double and triple play with the product.

Unidentified Audience Member

(Technical difficulty) the first call they make when they move into a market, or is it power? Do you know?

Virginia Ruesterholz - ***Verizon Telecom - President***

It's power. So, again, that's back to what are our tactics? I think Bobby did a good job of describing it. But at the local level, we are doing a lot of door-to-door with our own employees and with other account people to do it. We are using retail venues, which is going to continue to grow. So I think there's a lot of channels here that we can utilize to really go after a customer when they move in. So wireless is another great example. We have kiosks in the wireless stores that we have implemented, and we're seeing very good take rate of our FiOS product with that. We intend to expand that also.

So when you look at the opportunity of going after a customer, we are not making the old call center approach. We are saying, that's a great avenue for many customers, but a lot of customers want to have a different experience when they are buying a product like this. We are trying to address each of those.

Why don't you give them the [product] examples?

Bob Mudge - ***Verizon Telecom - EVP, COO***

I was just going to mention it. It's not only the identification and the provisioning of people who would be moving in, but what we're doing and we will be scaling this year is we've got systems integration. So if you call in for repair trouble, we have linked the FiOS availability with your database as an existing customer. So we can make a here-and-now discussion right then with our customer, arrange access, let them know what we're going to upgrade and migrate him to FiOS, and make that decision based on, hey, here's the cost. I have an assumption, whether it's proactive or reactive. And we are doing that now. We're excited about scaling it.

Another problem, up to Virginia's point, if you think about what is happening here, as I think I mentioned to somebody, I happened to be in the kitchen with somebody a week and a half ago. The woman's comment was intriguing. Not only was she getting 10 Meg on her PC, I almost think she didn't believe that it was showing up on the wireless PC two rooms over. The second comment after that was, wait until I tell my neighbor about this. So there is something viral about this. It is different. You can see it, you can feel that. It's not dial tone. I think that that's it.

As we continue to scale, our opportunity to mix the local marketing with, nowadays, a broader mass-market marketing will be a mix that we can customize and maximize the cost of that to the revenue. That's something exciting also.

Doreen Toben *- Verizon - EVP, CFO*

Obviously, $110 is the average. On a chronic, it's probably like $700, $800. So you really want to go after those.

Unidentified Audience Member

If you look at your residential business, you guys have pretty extreme line losses at this point. You have recently, in the last couple of quarters, seen some real pressure on ARPU. Video is a big-ticket item, and with the number of homes passed and open to sales of both video and data, are you ready to say that you think that 2007 -- you see an inflection and either of those metrics, come 2007, for both the line loss or the ARPU?

Doreen Toben *- Verizon - EVP, CFO*

I think what we will do is I'll let Virginia answer it, but we're going to answer it in a FiOS context, because I'm really trying to keep this to FiOS, if I could.

Virginia Ruesterholz *- Verizon Telecom - President*

I'm not going to project 2007, but what we're seeing is [RCM], revenue per customer, this is a great driver for that. It's going to have a very positive impact for us as we go forward, because you're layering on this penetration of broadband and the video onto your base. So we see that as very positive.

As I mentioned earlier, we know that there has been a little overheating. By having FiOS in locations, it has probably spurred on some more competitive activity. At the same time, though, we're seeing the kind of bundled penetration from the product, although it's early on, that we feel very confident that this is going to be a line retainer for us.

Unidentified Audience Member

(Technical difficulty) some sort of real life experience. Can you give us a sense for in markets before FiOS, in markets after FiOS, what the percentage change in line loss was? If it was 6% line loss that you were seeing on an annual basis quarter to quarter, you put FiOS in and it goes down by a third or that kind of thing?

Virginia Ruesterholz *- Verizon Telecom - President*

It's too early for me to give the specifics, because when I look at markets, because we're still in the early deployment staged, you have a mix of both in very small markets. So it's not easy to determine that. I think, as we scale, though, you are going to be definitely able to pinpoint it a lot better.

Unidentified Audience Member

Doreen, what are you depreciating the assets at, just on average, and those operating income line items?

You mentioned two-thirds of the video subs are coming from cable. Of the 70% of data customers that are coming to Verizon, are those dialup customers? Is that a base that you are mining, a scene that is going to go away? Or where are those customers coming from?

Doreen Toben *- Verizon - EVP, CFO*

I have to tell you, if you want the depreciation rate, I can't do it off the top of my head; I'll have to get back to you -- unless, Ron, you know it off the top (inaudible). I'll get back to you, though.

Virginia Ruesterholz *- Verizon Telecom - President*

I don't have the breakdown exactly of how many are coming from cable versus dialup on our 70% that are new to Verizon broadband. We do know, though, they are not DSL upgrades. They are definitely coming either new entrants into broadband, or they are coming from cable modem.

Unidentified Audience Member

Can you just help us bridge the gap between the macro return on investment slide you put up, with sort of 8% to 12%, and then the single-market model, what the -- the return on investment slide with a range of scenarios, the single-market model that's sort of one pinpoint scenario. What assumption underlies the single-market model? You referenced 11% a couple times.

Doreen Toben *- Verizon - EVP, CFO*

The ROIC part I gave you was for the whole thing. It wasn't for the single market. So your question -- I'm not sure I follow your question. (Multiple speakers).

Unidentified Audience Member

Just trying to bridge the gap between the ROIC is the total market, as you said.

Doreen Toben *- Verizon - EVP, CFO*

Right.

Unidentified Audience Member

-- and the single-market model. In the ROIC framework, you laid out 8% to 12% return to capital.

Doreen Toben *- Verizon - EVP, CFO*

So what is the ROIC on the single market?

Unidentified Audience Member

If you will answer that, yes. What is the underlying assumption for (multiple speakers)?

Doreen Toben - *Verizon - EVP, CFO*

I'm not sure I still follow your question. Well, I guess it's hard to do, because the single market is on a gross basis. I think, on the chart, the actual -- and then the total market is on the net. They are not all that different. So I think I'm going to have to get back to you, because I don't exactly follow your question.

Unidentified Audience Member

My question is, you referenced the return on invested capital slide. Both on the slide and when you came back to it to talk about what revenue that implied, you referenced the 11% scenario, the $39 in EBITDA, $105 in revenue. Is that the assumption underlying the single-market model as well? Because you gave us a range of estimates but kept referencing 11%.

Doreen Toben - *Verizon - EVP, CFO*

I'm not going to give you the ARPU. I am back to -- I'm not going to give you the ARPU for the single market. So is your question -- I still don't follow your question. Unless Ron can help me. Is it like --?

Unidentified Audience Member

(Technical difficulty) ultimately, the revenue assumption per market or the EBITDA assumption. You have given us --

Doreen Toben - *Verizon - EVP, CFO*

And that's what I'm not going to give you.

Unidentified Audience Member

A follow-up on Simon's question on the dilution. Previously, you have said that 2006 would be the peak year of FiOS solutions, and I guess we didn't see that reiterated in the release today. And you showed us this chart, which shows next year should be better. Now you're saying that it may not be. So maybe just help us understand what --

Doreen Toben - *Verizon - EVP, CFO*

I think we may have said peak or someone may have said peak. I think what we have been saying for at least the past many months has been peak to flattish. So I think that that has not changed. I'm not changing it today, so I would leave it at that.

Unidentified Audience Member

Versus, I guess, the chart that shows operating income better on a net basis for the project in year two, what would change that so that it would be flat next year instead of following that trend per the exhibit?

Doreen Toben - *Verizon - EVP, CFO*

What do you want to know? What would make --?

Unidentified Audience Member

(Technical difficulty) the income be better next year than this year, as the exhibit shows of the plan?

Doreen Toben - ***Verizon - EVP, CFO***

You have got a lot more connects.

Unidentified Audience Member

You think you're doing better on connects versus the plan?

Doreen Toben - ***Verizon - EVP, CFO***

Well, you asked me this year and next year, right? Next year has all the connects. The connect number is substantially higher next year than this year, and so it's really the connects, as well as more video buildout.

Unidentified Audience Member

Operating income, you think, flat next year?

Doreen Toben - ***Verizon - EVP, CFO***

Get off of 2007, right? Okay.

Unidentified Audience Member

What are the regulatory assumptions underlying all of this? Are you flogging it out state and local, or is there any (technical difficulty) [number of] national baked in here? If you get national, what does that do to the 2010 target?

Doreen Toben - ***Verizon - EVP, CFO***

I think I will do it and Virginia can follow up. We have gone through it -- she did it. We have Virginia, we have Texas, we have Florida, we have California, we have New Jersey. We have almost all of Maryland, because they are very big counties, and so what we don't have is teeny. What we don't have is Pennsylvania, New York and Massachusetts. We are optimistic on state legislation in at least some of those states. In the meantime, they have done an incredible job locally. So franchising is not an issue for us.

Virginia Ruesterholz - ***Verizon Telecom - President***

I agree 100%. I feel that the franchising is not holding us back. In those numbers that I had for the end of the year, I didn't even include all the New Jersey households that could come online. I'm being very conservative there. I am hoping to get them right before the holiday rush, so we have a great opportunity. I really don't see that as a necessity to have a nationwide relief on that.

Bob Mudge - ***Verizon Telecom - EVP, COO***

I think what we have already is giving us a lot of flexibility as we look in 2007-2008, as we see case rates and we see success, that that balance between where we have franchises and where we want to invest [to connect a] success base, that we have got a lot of choices where we can really target our investment for maximum returns. So we work that every day with the government affairs people to keep that. I think we are even ahead of where we thought we would be from an LFA.

Doreen Toben - ***Verizon - EVP, CFO***

Thanks. Hopefully, you leave as enthused as we are, and I'm sure we will hear from all of you soon. Thank you.