

FINAL TRANSCRIPT

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VZ - Verizon Conference Call on Broadcom Licensing Agreement

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Frank Louthan

Raymond James - Analyst

Tim Luke

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PRESENTATION

Operator

Good morning and welcome to a Verizon investor conference call to discuss its recently announced licensing agreement with Broadcom. At this time all participants have been placed in a listen-only mode and the floor will be open for questions following the presentation. (OPERATOR INSTRUCTIONS). It is now my pleasure to turn the call over to your host, Mr. Ron Lataille, Senior Vice President, Investor Relations Verizon.

Ron Lataille - *Verizon Communications - SVP, IR*

Good morning, everyone, and thanks for joining us this morning on short notice. I'm Ron Lataille. With me this morning is Lowell McAdam, President and CEO of Verizon Wireless. Our call today will be limited to a discussion of Verizon Wireless' licensing agreement with Broadcom which was announced on last Thursday. As most of you know, Verizon's second-quarter earnings conference call will be next Monday, July 30th, at this time.

Before we get started I want to remind you that this call is being webcast. If you would like to listen to a replay you can do so from our website. I would also like to draw your attention to our Safe Harbor statement on our website. Information in this discussion may contain statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. With that brief introduction I'll turn the call over to Lowell before we take your questions. Lowell?

Lowell McAdam - *Verizon Wireless - President, CEO*

Thanks, Ron. Good morning, everyone. Most of you probably saw our joint announcement with Broadcom last Thursday. This morning I'd like to share with you some background on why we entered into the agreement, why we felt this was the right time and why it is very positive for Verizon wireless.

As you know, the patent litigation between Broadcom and QUALCOMM at the International Trade Commission has been going on for more than two years. In June this litigation culminated in a downstream remedy that banned imports of future wireless

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phone models. Clearly this patent dispute put the entire wireless industry at risk for providing new and innovative handsets to our customers.

As you know, Verizon Wireless has had the strongest momentum in the marketplace for the past several years. We've accomplished this by combining innovative products with the best network resulting in the highest loyalty in the industry. That performance was put at risk clearly by the ITC litigation, but also by all of the additional cases that are still in litigation or otherwise in dispute between Broadcom and QUALCOMM.

We felt there was tremendous and continuing uncertainty considering that a favorable decision in the appeals process was not a guarantee as Friday's ruling from the Federal Circuit Court proved. A presidential veto of the ITC ban would be precedent setting, so we simply could not count on that happening as well.

Moreover, since there were other disputed patent cases pending, a successful appeal or veto could be just a short list stay in a very fast-moving industry. This dispute process could take years to fully resolve itself. In short, we could not put our customers or our business in such an unstable position, and so we pursued this agreement with Broadcom which protects our customers, allows Verizon Wireless alone to continue to provide innovative products and services into the foreseeable future.

So just to recap the terms and conditions that we did make public last week -- we pay Broadcom a \$6 license fee when we sell a broadband handset. Our maximum payment is \$40 million in any calendar quarter with a lifetime maximum payment of \$200 million. We don't expect that this will have a material impact on Verizon Wireless' results given the limits of these payments. So again, we are pleased with this agreement since we can now have a certain supply of innovative handsets for our customers, stability within the business for our owners. Now I'll take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). David Barden, Banc of America.

David Barden - Banc of America - Analyst

Good morning. Thanks for having this call and the chance to get some questions out there and hopefully answered. Lowell, just the first question is given that you guys have struck off and done this agreement directly with Broadcom, is there a secondary course of action that you could pursue to recoup the payment that you are now going to be making to Broadcom? For instance, is there an insurance policy or could you sue QUALCOMM in this regard for compensation to make up the difference here since they seem to be the ones responsible for kind of the [embrolio] at the moment?

And the second question is obviously the timing of the agreement is related to the appeals process and the presidential appeal, but I think people are going to obviously wonder what effect the iPhone and your experience in the month or so since it's been available led to this decision. Maybe you could speak to what your experience has been in the last month without the phones that you think you might be needing? Thanks a lot.

Lowell McAdam - Verizon Wireless - President, CEO

David, we're really not here to talk about the iPhone, so I'll pass on that one. Let me address the first part of your question however. We don't feel that this is a cost that we should bear for the long-term, so I am looking at several different options. I'm not going to quote specifically here today, but several different options to offset the cost of this. But the important thing here was that for a fee like \$200 million we did not want to have the instability within the business or the uncertainty for our customers.

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David Barden - Banc of America - Analyst

And if I could just follow-up maybe without respect the iPhone, I guess would you feel that you're striking this agreement because of the affect it's having your business or before it has an effective on your business?

Lowell McAdam - Verizon Wireless - President, CEO

No, this decision is not at all impacted by the iPhone in the market or not in the market. This, as I said, has been going on for two years and we were reaching kind of the pinnacle here between the appeals process and additional patents coming into litigation and we saw that this process could potentially drag on for many years into the future and it was time to inject some stability into the process and we used the market forces to make that happen rather than the government approach.

David Barden - Banc of America - Analyst

Thanks much.

Ron Lataille - Verizon Communications - SVP, IR

Thanks, David. Operator, next question, please.

Operator

John Hodulik, UBS.

John Hodulik - UBS - Analyst

Good morning, guys. Just a quick question, Lowell. When will this agreement take place? In other words, when should we expect to see new handsets in the Verizon stores?

Lowell McAdam - Verizon Wireless - President, CEO

John, the whole point of the agreement now is that we can continue our momentum in the marketplace. We have a very well-defined roadmap for bringing innovative handsets to both consumers and to business and all this does is remove a potential roadblock. Nothing was being held up in our process of delivering those. It would have been after the August deadline imposed by the ITC, but now all of that has been removed for Verizon Wireless.

John Hodulik - UBS - Analyst

Okay, great. And lastly, does this situation force you to rethink your agreement with QUALCOMM or maybe the 4G strategy as that comes together?

Lowell McAdam - Verizon Wireless - President, CEO

I didn't here who this question came from. Oh John, that was you again?

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John Hodulik - UBS - Analyst

Right.

Lowell McAdam - Verizon Wireless - President, CEO

No, this doesn't impact our plans for 4G in any way and we still have a strong partnership with QUALCOMM and that will evolve over time as technology evolves, but this agreement does not have a major impact there.

John Hodulik - UBS - Analyst

Okay, thanks.

Ron Lataille - Verizon Communications - SVP, IR

Thanks, John. Operator, next question, please.

Operator

Michael Rollins, Citigroup.

Michael Rollins - Citigroup - Analyst

Good morning. A couple questions. First, I guess there are some that thought there was a software solution that could be used for this issue. I'm curious if you looked at that and considered that as one of the options versus the settlement with Broadcom? And I guess the second question I would have is if you can maybe talk a little bit about this as an enabler for your phone lineup going forward and where you'd expect to focus that phone lineup now that this is no longer an issue in terms of ringing in EVDO or 3G like devices? Thanks.

Lowell McAdam - Verizon Wireless - President, CEO

First, on the workaround, there were a lot of unanswered questions from our perspective on the workaround, both technically as well as legally, and it was only for the ITC patent. And as we indicated, there are others in litigation and we have six patents covered by this agreement. So again, it just removed that much more uncertainty from our process.

As far as focusing on our EVDO handset lineup going forward, we've introduced a number of great devices over the last year -- we brought our first global BlackBerry to market which has been very strong, we just reintroduced the second generation of the Chocolate phone focused at youth and a music device. So we'll continue to bring those types of innovative products to the marketplace and this really doesn't change our strategy, it removes a roadblock from executing the strategy that we had in place all along as evidenced by the momentum that we've had in the market over the last several years.

Michael Rollins - Citigroup - Analyst

And just one follow-up. Do you look at maybe taking even more ownership of the handset process going forward whereby there may be Verizon branded phones that you procure from manufacturers and you design specifically for your specifications versus reselling a branded manufactured device?

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Lowell McAdam - Verizon Wireless - President, CEO

Michael, we've done that over the years and we'll continue to do that. We have some Smart Phones as well as regular voice products in the market today that were designed specifically to our specifications and carry the Verizon Wireless brand. But we also work very closely with the manufacturers through our specifications to deliver the kinds of handsets we think will be most successful in the marketplace. So we're happy with that dual prong approach, a partnership with the OEMs as well as some that we take on specifically and exclusively to our brand.

Michael Rollins - Citigroup - Analyst

Thank you for hosting the call.

Ron Lataille - Verizon Communications - SVP, IR

Thanks, Mike. Operator, next question, please.

Operator

Frank Louthan, Raymond James.

Frank Louthan - Raymond James - Analyst

One of the other things mentioned in the agreement are some of the advantages you get with some of Broadcom's other products like set-top boxes and so fourth. Maybe you can comment a little bit on what that got you that you may not otherwise have gotten. And are some of those agreements exclusive for your products there on the video side? Thanks.

Lowell McAdam - Verizon Wireless - President, CEO

Frank, we allude to a strategic partnership with Broadcom going forward. Dick Lynch in his new role of CTO for Verizon Communications will be actively engaged in managing that partnership. Broadcom has many chips in our cell phones today, but they are also involved in our FIOS set-top boxes and some of the multimedia over cable electronics that we put in the household today. I think Dick's role going forward will be looking at the opportunity to expand that, to have them be a second source provider in some of our devices and expanding them into new devices that we will be bringing to market. So more to come on that, Frank, over the next quarter.

Frank Louthan - Raymond James - Analyst

Okay. And one other question. Down the road if QUALCOMM approaches some sort of a settlement how would affect the settlement that you have? Would you switch to that agreement or are you still in with -- is this one with Broadcom going to be it?

Lowell McAdam - Verizon Wireless - President, CEO

We're hopeful that QUALCOMM and Broadcom can reach a broader agreement, but that's not something that I can speak to, it's a specific term -- part of our T's and C's in the Broadcom agreement and I can't speak to that specifically today.

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Frank Louthan - *Raymond James - Analyst*

If they come to an agreement that's maybe more economically favorable to you than the one that you have, would you be able to opt in to that or would you have to remain with the agreement that you have?

Lowell McAdam - *Verizon Wireless - President, CEO*

I can't comment on specific aspects of -- that aspect of the agreement. So I'm sorry, Frank, I can't answer that one.

Frank Louthan - *Raymond James - Analyst*

Okay, fair enough. Thank you.

Ron Lataille - *Verizon Communications - SVP, IR*

Operator, next question, please.

Operator

Tim Luke, Lehman Brothers.

Tim Luke - *Lehman Brothers - Analyst*

Thank you so much. Just a couple of clarifications and a question. If there was a presidential veto put in place that would not affect the current deal, would that be correct? That would be the clarification. And then just as a question, I was wondering if you had any broader comments on how you, as a major player in the industry, view these IP disputes and I was wondering how you had moved to the \$6 fee per phone. That seemed quite a high rate per device, but any color there?

Lowell McAdam - *Verizon Wireless - President, CEO*

The first one, Tim, on the presidential veto, again that is for one patent and we view that as it might be a bit of a delaying tactic, but the problem would still be on our doorstep very quickly again because of some of the other cases that are in the public domain on the Santa Ana that have been communicated in Santa Ana and then there are other patents coming down. So no, this is a broader more all-encompassing agreement that takes the uncertainty out of us for the foreseeable future. And so one veto on one patent does not impact this.

I think the second thing about getting caught in these IP disputes, this is a problem for the industry in general. We think the marketplace is the best place to have this fixed versus having government agencies going to the courts getting into this process and we hope that that will occur rapidly on numerous fronts, not just the QUALCOMM/Broadcom issue, but on other fronts as well.

Tim Luke - *Lehman Brothers - Analyst*

Do you worry that paying the \$200 million and giving a strategic alliance after someone has gone down this track of launching IP disputes for acquired patents may in any way incent others to do the same?

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Lowell McAdam - Verizon Wireless - President, CEO

Well, that whole IP litigation process is something that I really can't comment on, there are a lot of lawyers said can do that other, Tim. But again, in our case a fixed fee for -- with a cap associated with it, in order for us to maintain the momentum in the marketplace and to continue to provide innovative services for our customers without having a material impact on Verizon Wireless' financials was the right way for us to go. And again, I will be looking at opportunities to mitigate that with other parties involved and that's really about all I can say on the issue right now.

Tim Luke - Lehman Brothers - Analyst

Thank you.

Ron Lataille - Verizon Communications - SVP, IR

Operator, that will conclude our call today. Thank you, everybody, for joining us and we look forward to talking to you next Monday on our earnings call. Thank you.

Operator

Thank you. This concludes today's Verizon conference call. You may now disconnect.

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