

FINAL TRANSCRIPT

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VZ - Verizon at Oppenheimer & Co. Annual Communications & Technology Conference (Invitation Only)

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PRESENTATION

Tim Horan - *Oppenheimer & Co. - Analyst*

Thanks, Charles. As Charles said, I am Tim Horan, the communications analyst here at Oppenheimer. We wanted a keynote speaker that would really cover the whole food chain of the communications technology, which is really more the driving industry in the U.S. economy for almost a century at this point. And the industry is undergoing a huge amount of change. Verizon is really at the forefront of that. They in our opinion have the premier wireless network in the US. They are in the process of building out the premier wireline network in U.S. I think this keynote speaker has got a phenomenal handle on what customers want and where the industry is going.

Shaygan Kheradpir has almost 20 years of experience in the industry or 21 years of experience in the industry. He is the Chief Information Officer for Verizon. He has 15,000 people reporting to him, which I hope never to have. (LAUGHTER) Before Verizon, he came out of GTE. He has a Ph.D., all three degrees actually from Cornell on the electrical engineering side. He worked as adjunct professor at Northeastern for awhile. He has written over 20 journal papers and has many patents directly under his own name. I've known Shaygan for over five years now. I always find him extremely interesting. I'm really pleased that he is here to talk about Verizon and where the industry is going. Thanks, Shaygan.

Shaygan Kheradpir - *Verizon - EVP, Chief Information Officer*

Thank you, Tim. First, the Safe Harbor statement -- I want to ask everybody to look at that. But I would also like to first introduce to you the new process of information technology, and those are the digital customers. They are the prime movers of the Infotech market today, and they are sort of the leading indicator of where this market is heading. They demand continuous innovation.

It used to be that SMS and MMS were good enough. It's not good enough anymore. If I can't take a picture with my cell phone and upload it right there to my Facebook, annotate it by my geography and the weather where I was and the time of day, that's what they want.

There's actually been a sea change in IT. Tim mentioned that I've been in this business for 20 years. For the past I would say at least 15, IT used to -- information technology goods and services used to be created by the companies and then tried on the market and the consumers. Sometimes they took it, sometimes they didn't.

But now, the flow has been reversed and through the consumers who are pushing down on the companies and they are saying more, more, more; we want more innovation. The reason this has changed, because of IT has consumer-ized, they have all of these gadgets; they think everything is possible and to some degree, their quality-of-life is attached to these devices, and that's why they push the companies now very hard for more and more innovation.

Second, these customers, these customers, they are leading indicators. They are a very impatient bunch. When they buy the product and the service, when they open the box, that thing better light up with something interesting. And then from that point onwards, they want their interactions to be one click with the device -- again, a big change.

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To give you an example, the BlackBerry that I have, the global BlackBerry from Verizon Wireless, this one in my hand has 100 times more software in it than the regular cell phone. (inaudible) kinds of things. We all know what more code means in terms of sophistication of operation. That really takes me to the third point on this slide, which is the technologies that now it takes to deliver these digital products to this customer base are highly sophisticated. So for example, our fibre-to-the-home product, our FiOS product, is a good example of this where people who have FiOS in their homes, they have an amazing array of technologies running their home. What they tell us is that their living rooms and their homes are technologically more powerful and certainly more interesting than their offices where they work.

The good news here is the customers really see the value of these products, all of the sophistication, and they are willing to pay for it. No matter what segments to take a look at -- you look at wireless, telecom and business -- are strategic digital products, generate multiple times ARPU than our core products. I don't care if you take FiOS versus score; I don't care if you take smart phone versus regular cell phone, or Voice-over-IP, Web services versus (inaudible) services, the ARPU side of the equation is great. But you really do need to have the systems and the back-office capabilities to scale these technologies for tens of millions of customers because certainly we can't have an IT department running out to every single one of these customers to make sure things work. And so, the focus of Verizon IT is across these three front lines.

First, we are very focused on delivering innovative product platforms that are responsive to and are an enabler of the innovation that a customer requires. You'll see that in a minute when I drill down into what -- our product platform, but at this point all I would say is the platform is focused on giving customers the most approachable access and creation of content anywhere.

The second front for Verizon IT is to reduce the load that it takes the Company to deliver these products. We have a goal that we are very confident that we will hit in the next couple of years of cutting 50% of the load that it takes operationally to deliver these products and services and support them. I'll drill into that.

What I won't get into today is IT's [own house]. I think it's sort of well-documented that Verizon IT is a very efficient IT organization; it continues to be a very efficient IT organization by any benchmark across service companies. If we are not establishing the benchmark, we are at the very near of the top.

Over a number of years, we have got hundreds of millions of dollars of unnecessary expenditures in IT while at the same time significantly increasing our focus on the digital products and the two areas on the top that I mentioned.

Well, how did we do that? Very simple -- we have a lot of focus on attracting and keeping the best talent in the business. It starts really with that. We've done a lot of consolidation in our systems, standard operating environment, really focusing down on the few really strategic partners. We were one of the first companies who jumped on the bandwagon of virtualization and we have really see the benefits of that relative to our capital expenditures. I don't think you'll find another company has been writing Moore's Law faster than Verizon IT. In fact, I remember, in 2003, we had the front page article on Wall Street Journal explaining the whole tech situation in IT, Verizon IT, because we were writing the Moore's Law so fast.

Then obviously globalization -- we were also one of first companies to really figure out how to use the global forces to the benefit of the Company.

So, let's start with the product platform. This diagram (inaudible) depicts as best as I could what our product platform strategy is. I will focus you down on our three networks, and I think that they are the best networks anywhere. We have a Verizon Wireless network, EV-DO, going to LTE. On Verizon Telecom, we have FiOS, fibre-to-the-home, and on Verizon Business, we have a global MPLS network with the [UU] net that pretty much runs the Internet. We have the customer in the middle, the three big networks. Then attached to these networks are state-of-the-art devices that our consumers use day in/day out, be it TVs, be it smart phones, voice phones, BlackBerries, so forth and so on.

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So in the past number of years, what Verizon IT has done has linked everything together through software to what we call the shuttle interconnect that connects the three networks together, the devices that attach to these networks together, for the purpose of giving customers content with one click to get their contents where they want.

I will give you some examples of that in a minute, but if you want for example to pull material of your PC and watch it on you TV, you'll just do it with one click. If you want to control your DVR from your cell phone, you just do it with one click. No need for extra devices, for figuring out network protocols and extra software. The shuttle interconnect does the work for you.

The most important characteristic of this architecture and this platform is that it simplifies interactivity and delivers it to everyone. So, if my daughter wants to play her music from sitting on her laptop on the big screen surround sound system in my apartment, and my mother wants to do the same thing from her PC, they both use the same structure, the same platform, again, no extra boxes, no extra software, no fiddling around with network protocols and figuring out how to do this.

So I will give you one example of a product that we have developed using this architecture and on this platform, and that's FiOS TV. How many of you actually have FiOS TV? A number of you here, okay. We have been thrilled with both the customer and the analyst reaction and embracing of FiOS TV.

So, here's some screen snapshots of FiOS TV today. I will give you a few features of why people love the product.

First, it's got the best picture quality. Everybody knows that. It's well-documented that we don't compress video to get it through our pipes because our pipes are big enough. So we have the best picture quality because we show HD in true HD (inaudible).

Secondly, we have delivered what we call the interactive media guide. It reinvented the [IPG] (inaudible) interactive program guide. We've got a very grabbing and compelling IMG media guide. That's not only for browsing channels, and as you will see in a minute, but is a system and a structure to pull all content of different types right onto your TV.

When we first developed this, people said "This software just doesn't fit on the set-top boxes you have. How did you do that?" The answer was the platform that I showed you in the previous slide, because this is a perfect example, their FiOS TV [IMG] of network based computing using the platform I that showed you with the software interconnect; it's the shuttle.

We ship what's called Home Media DVR. This is a product that basically shuttles content within your home. If you record in one set-top box, you can watch on another; if you've got music and pictures on your laptop, on your PC, with one click you can pull them and bring them to the TV.

We have global search. The search on FiOS TV is network-based search. It searches your set-top box; it also goes and searches out on the Internet for you. So, the search is not in the box itself, mostly.

We've got things like interactive widgets so with one click, you can click and say "What's the weather like out there?" You see up there what the traffic is like out there. It goes into the network, pulls information, brings it back in. These are the features why analysts said finally somebody put IP in IPTV. You've got a large selection of video-on-demand (inaudible) Blockbuster looking posters and so forth and so on.

So that is FiOS TV today. I don't think anybody would argue, it is the best TV product in this country at this moment, at this point.

But we are not stopping there. Remember continuous innovation? That's what our customers demand. More, more, more.

So here I'm going to show you some of the upcoming features on FiOS TV that we will release this year. I will actually show you a demonstration of a couple of them in a short clip.

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The first one and the one really that personally I am very excited about is now FiOS TV will shortly be capable to not only look at broadcast TV but Internet content. So we will look at that in a minute, how that works and how that looks. FiOS TV will shortly be able to mix broadcast and interactivity. This will open up a whole new [vistas] for programmers, broadcasters, advertisers where we can actually trigger under programming based on what they want and throw off interactive content like for example the NBC Olympics.

We will have interactive games, but also our games will be play-along games. So, they will be interactive games that you will play along with the show itself, so again mixing the broadcast content with the games.

We will have this feature called "What's Hot", which basically shows what people are watching in your neighborhood, in your city, the top ten things people are watching, very interesting. Finally, we will put out -- many of you must have heard about our open development initiative on the wireless side, so we are stretching that onto the TV side. We will putting out an SDK, a software development kit, for third-party developers to come and innovate on FiOS TV. We actually are engaged with a number right now. What you'll see a lot of them are -- will be working on more interesting widgets, interactive widgets, be it social networking and so forth and so on. So stay tuned for that.

So now, I'm going to show you (inaudible) of two features. One is Internet content from FiOS TV using the architecture that I showed you. With one click, you can get content using the interconnect shuttle from one part of the network onto another part of the network and onto the device, in this case FiOS TV. And then I will show you how we will shortly be able to control FiOS TV from the Internet as well as with a cell phone, again using their shuttle interconnect architecture that we have developed.

Now, before actually I show this clip what -- this is actually a video of what I took from my office, that I am on FiOS TV. I will go and say "Bring up Media Manager, Home Media DVR that I mentioned to you that, and I will browse through and now we have added, in addition to music and pictures which we have today, we've also added video so you can stream video from your PC or go out to the Internet and get content and bring it to your nice HD TV. What I'm going to do is actually use our search technology that I mentioned to you, the network-based search, the search for content of potential interest, user-generated content in this case, and I will play it. Okay?

So here we go with the first. So this is my office. So I go to search; I go to Media Manager. I find my devices. I am not interested in photos or music; I'm interested in Internet videos. I do a search. Well, it's election season, so I put in Obama using my clicker. Out comes a bunch of videos of Obama, and I pick one that I think is interesting.

(Video plays)

Actually, this clip, when I did Obama, I was looking for -- and I had heard that he has given a speech the night before, and I wanted to see that speech at that time, so I punched in Obama looking for the speech. The speech was there but I said "Well, what is that (inaudible) clip? That looks to me more interesting." You know, I (inaudible) click and just watch it on your nice big screen TV and your (inaudible) don't have to get up and open up your laptop and so forth and so on. Again, the shuttle interconnect does the work for you.

So the next example (inaudible) will have this feature shortly, if you want, you will be the first one [in]. We also or shortly will launch our controlling your DVR remotely using the Internet and the handset. I'm going to show you a small clip of (inaudible) works.

It's called FiOS remote DVR. So you just browse through the (technical difficulty) just like you would do on your FiOS TV. You know, if you had forgotten to record something, you can record using search for video-on-demand. You can put parental locks on so that if you're at work and you know your kids are coming back home and you don't want them to watch TV, you can lock or unlock it remotely. We will have this feature as well. Again, this is built on the same platform that I mentioned to you before.

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Now, can you hold this please? (inaudible) I want you to take a look at these two clips and I will tell you what (inaudible). Can I turn it up?

(Video plays)

So what this click is -- remember I mentioned the most approachable access to content, access in one click, you me the Obama clip or go on to program my DVR, but I also said most approachable content creation. So with our FiOS platform, you can now go and upload very high-quality DVR or high def quality onto the Internet. So, we've done that. We've actually partnered with [Akamai]; it is a site called [www.vhdweb.com]. Where you go on that site, you can see what a high-def user generated content site really looks like. And what I showed you is the exact same clip, one running on YouTube on the left-hand side, and one running on [vhdWeb.com powered by Verizon FiOS looks like. If you think (technical difficulty) people are gravitating to user-generated sites for these kinds of videos, just imagine what would happen when these videos are of high-def quality onto the Internet, okay?

So, I'm back to the overall architecture of connecting everything to everything via software so everybody can get in the game and with one click go around and access content on any device, anywhere, any time, no matter where that content resides.

Now, we are working obviously -- I showed you FiOS TV -- we are working on all sorts of other devices and other networks as well as products. For those, you have to stay tuned to see what we're coming out with.

Now, I will step into the other part of the focus of the Verizon IT that I mentioned at the beginning, and that is to make the delivery of these products much more effortless. Remember the 50% cut in average handling time on the loads and we chiefly do that through three sets of technologies. One is through self-service; everybody knows about that, but there's some new twists with that and I will go through them.

Second is through massive software, intelligent software in their back office to enable zero-touch 100% flowthrough of activity in the back office. If we can't fully automate the transaction through techniques one and two, we want to make sure that our frontline forces can get to the transactions in a (inaudible) driven manner ten clicks or less.

Now, I'm going to start with self-service. Obviously, everybody knows about the Web, and people can go on the Web and self-service themselves to Verizon products and services and support. But now automated voice for natural language speech has come to a level that you can a lot with it.

So what am going to play for you is a clip from our fibre solution center. If you bear with me, it's a 60-second clip of the actual customer that calls into our fibre solutions center and the problem she has is that she can't get on the Internet.

(Video plays)

Okay. This clip, did you notice at one point the machine said "Do you want me to stay on or leave and you go and do the thing yourself?" And she said "No, stay on." Because the customer almost felt they're talking to a live human.

Guess how much is that clip worth? (inaudible). That clip is somewhere between \$15 to \$20 per, because the machine does the work rather than you sending you to a human to do the work. We do thousands and thousands of these every day today using this kind of software. The savings obviously add up very radically.

Now I will take you to another class of self-service, and that's actually using the digital products themselves. Traditionally (inaudible) people think about self-service, they (inaudible) get up, go sit behind your computer or go and pick up the phone and call, but now the digital products have enough intelligence you can actually do stuff with them from a support perspective.

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So what I have on the right-hand side is, again, a FiOS TV example. What we did is, if you go on a channel and you are not subscribed to that channel, we don't say "call 1-800-Verizon". We say "If you want to subscribe, click and we will subscribe you."

So, before we had this feature, our self-serve rates on feature additions and packaged additions on FiOS TV was in the teens. Literally, the next day we put this feature in, our self service jumped over 50% and has been continuing over 50%, which basically tells us that customers like this method more. In fact, this channel has become our top-selling channel for these kinds of products. So the customers like the fact they can just deal with the product itself.

Now, I go down to the back office and network flowthrough. A great example again is FiOS, FiOS itself. What I have put on the chart is the steep ramp of the growth of FiOS customers on the platform.

When you first saw the FiOS, people said one of the reasons it's a top project is because you can't get the flowthrough rates off a service like this (inaudible) triple play service like this. And what we've done through our back office and network software and intelligence, we are now hitting flowthrough rates which are zero-touch back-office operations, levels that have never been seen in this business. It shows through the scaling of the FiOS platform.

But we are also very fortunate that we decided to have fibre come all the way into the home. Here's what we see. I just pulled the graph from a recent weather storm in one of our regions last month. What you see is that the copper network is obviously a much less resilient network under normal conditions, but during a severe weather condition, it is significantly more (technical difficulty) as a result generates significantly more load on the Company than the fibre network. The fibre network is resilient to weather conditions, which is actually one of the most things that drives load, and in fact most of our load on the copper comes on the last mile. So again, we are very fortunate to have (inaudible) all the way into the home and get the benefits of this.

Go ahead?

Unidentified Participant

(inaudible)

Shaygan Kheradpir - Verizon - EVP, Chief Information Officer

We are almost done anyway. So on the load that hits the field, our field technicians are now -- they all carry this thing called the memory stick, and when they go into a FiOS home, they're able to put the memory stick into the computer. It's the software that goes across the home; it discovers what is in the home, the [OMC], the modems, the set-top boxes, what not. The software is the one that activates and you can see it on the picture -- check, check, check, check, check -- rather than the manual labor of going and manually having to activate all of these elements.

We are also moving away from the laptop into -- our techs love the handhelds, the BlackBerries, to be able to go into a FiOS home and actually do all of the work right on the BlackBerry itself rather than having to lug a heavy laptop with them.

On the Verizon Business side, we have recently launched a new version of our global customer portal called the Verizon Enterprise Center. It's the one place that customers can go, our business customers, and manage their network, their accounts, their inventory, everything from one place.

Also, on backbone provisioning, internally within Verizon, now our systems, we've demonstrated that they can provision an optical backbone end-to-end with no touch and cut the provisioning time of the backbone on the optical side by three-quarters.

On the wireless side, all our stores across the nation are now running on a single billing platform. So what does that mean for the customers? That means that, if you live in Boston, this is your home base, if you go into San Francisco and walk into a Verizon

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Wireless store, they can take care if you seamlessly the same way that they did in Boston, no difference. Also what it means is if you have a family share account and you live in Boston but your son just went to school in San Francisco, you can put them all together in one account. Again, not many people can do that.

Finally, on the wireless side, we continue to digitize, we continue to host customers' digital assets on something called "My Verizon". For example, everything from your collateral to your address books to your ring tones and so forth and so on posted on My Verizon so that the activity in the store is mostly focused on sales rather than, okay, move my contacts over, move my ring tones over, and so forth and so on. In fact, we've just launched a one-stop shop multimedia store that has ring tones, ringback tones, everything songs, so forth and so on. Go and check it out on VerizonWireless.com. Again, these are examples of how we are making the delivery of these sophisticated digital services more effortless.

But we are also simplifying for the end customer directly, so today, if you go on Verizon.com, you can order all four services seamlessly, quad play off Verizon.com and. Instead of getting four bills, you can get one bill. You can manage your account, all four, on Verizon.com. Because we've done a lot of work on that last year, this past January, Verizon.com was ranked number one in accounts management for triple play by the Customer Respect Group in January '08. We are very happy about that.

But we are not stopping there. We are taking Verizon.com to the next level, so what you'll see is, in addition to go and managing your account and ordering service and stuff, now you will begin to also manager your end-user devices. So for example, here's a shot of actually going to Verizon.com to manage your set-top box, look at video-on-demand, purchase video-on-demand. We have actually launched the first release of that last week; it is out there. So I go and click on my TV.

(Video plays)

(inaudible) this was on TV, you can, when you log in, you can also go and put your finger on the phone and do similar things on your phone like caller ID, voicemails and so forth and so on, so taking Verizon.com to the next level.

I summarize by saying that these are the three fronts that Verizon information technology is focused at, and we firmly believe that there's no other company better positioned to serve and capture the (inaudible) to the digital customers and the digital wave that we're going through.

Thank you. (APPLAUSE)

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