FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, and welcome to the Verizon third-quarter 2008 earnings conference call. 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). Today's conference is being recorded. If you have any objections, you may disconnect at this time. It is now my pleasure to turn the call over to your host, Mr. Ron Lataille, Senior Vice President, Investor Relations of Verizon.

Ron Lataille - *Verizon - SVP, IR*

Thanks, Stacey, and good morning, everyone, and welcome to our third-quarter 2008 earnings conference call. Thanks for joining us and I'm Ron Lataille. With me this morning are Ivan Seidenberg, our Chairman and Chief Executive Officer; Denny Strigl, our President and Chief Operating Officer and Doreen Toben, our Chief Financial Officer.

Before we get started, let me remind you that our earnings release, financial statements, the investor quarterly publication, and the presentation slides are on the investor relations website.

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. Information in this presentation contains statements about expected future events and financial results that are forward-looking and subject to risks and uncertainties. Discussion of factors that may affect future results is contained in Verizon's filings with the SEC, which are available on our website.

This presentation also contains certain non-GAAP financial measures. Reconciliations of these non-GAAP measures to the most directly comparable GAAP measures are also on our website.

I'd like to very quickly cover the differences between reported and adjusted earnings for the third quarter. Reported earnings per diluted share were $0.59. Adjusted earnings per share, before the effects of special items, were $0.66. We are excluding two special items from adjusted results. The first is a charge of $164 million after tax or $0.06 per share for severance and other related expenses. Included in this charge are costs recognized as a result of workforce reductions that are currently underway. The charge is associated with the reduction of approximately 2700 employees.

We're also excluding a charge of $32 million after tax or $0.01 per share for merger integration costs.

With that, I will now turn the call over to Ivan for some introductory remarks. Ivan?

Ivan Seidenberg - *Verizon - Chairman and CEO*

Okay, Ron. Thank you, and good morning, everyone.

In light of the extraordinary events and a lot of the market uncertainty we all face, we'd like to briefly change the format of our call this morning. Denny and I would like to provide a few opening comments and then, of course, Doreen will present a full financial review of the quarter's results.

So to start, I'd like to say that we are all very pleased with our third-quarter results. Base demand and interest in our products and services remain very strong. We were able to meet competitive challenges head on without deviating from our strategic business model and make progress in delivering value to shareowners. We also learned quite a bit during the quarter to help sharpen our focus even further. Denny in just a moment will provide some key insights to give you some sense of some of the operating lessons that we learned during the quarter.

Now going forward here, a very key question for us is whether in light of all this market turmoil, customer spending will continue at the same rate into the fourth quarter and even into 2009.

Now, for the past couple of months, all of us here have been talking to our partners, our vendors and surveying our customers to see what we might expect for the rest of the year. Based on these reviews and monitoring reports from companies that have already reported earnings, the general consensus is that for the Christmas season, consumer spending is likely to be lighter and business spending will be somewhat curtailed until next year.

We also believe that based on our results this quarter, that you can see our business has shown remarkable stability and strength. Now since we are about three quarters of the way through the year, 75% actually, we can offer some outlook for the rest of 2008. We expect for the full year 2008 our earnings per share will be somewhere around the 8% level, which is consistent with the targets we actually set for ourselves at the beginning of this year with our Board.

It is also consistent with the fact that we raised our dividend recently to 7% starting on November 1st, and we consider the combination of an 8% full year 2008 along with the 7% increase in dividend as a good result for the year in light of this economy.

Now, as to 2009, we are all working very hard to figure out what the glide path will be for customer spending and capital investments on the part of our customers and so on and so forth. We'll continue to work on this during the months of November and December and in January, when we report our fourth quarter, we'll try to give you some outlook as to how we expect the broader economy to affect the Company. The most important thing though is we believe our business has the underlying strength to continue making progress along the lines of our three key business units.

Now during the third quarter, we also made excellent progress in securing approvals for the Alltel transaction. This transaction is pending a decision before the FCC in just a few days.

Now, just to review the state of play, as of now, we have been asked to divest about 105 markets or roughly 2.3 million of the subscriber base of Alltel. This is within the range of expected divestitures. I would also point out that during the pendency of this transaction, while it is being approved, the Alltel base has also grown a little bit since the beginning of the signing of the definitive agreement. As most of you are well aware and based on the early questions you have given us, as in any deal, there are many last-chapter issues that are being worked right now.

Obviously, financing costs for the deal will be somewhat higher than we thought and there are a few regulatory issues under consideration by the FCC as we speak. In our view, absent a surprise or an unexpected condition, we still view this deal as very compelling and we believe it will be accretive in year one and we're very focused on trying to complete this transaction as soon as approvals are done.

I would remind everyone that even after the FCC action, there are notice periods and court actions required before final approvals are really secured. As most of you know, once that happens, there is a 120-day period in which we are required to close the deal. This will give us the flexibility in time to work through all of the issues to close. Our goal, of course, is to close the deal as soon as we can.

Now, I'd like to ask Denny to provide all of us with some additional insights on our operational performance this quarter. Denny?

Denny Strigl - *Verizon - President and COO*

Thank you, Ivan and good morning, everyone. Before Doreen gets into the details of the quarter, I'd like to give you some perspective on our performance. So in wireless, I believe our business model has not been challenged. We continue to successfully deliver both growth and profitability. There was clearly tough competition in wireless this quarter, but despite this competition, our network, our broad-based portfolio of devices, our strong distribution channels and award-winning customer satisfaction helped us to add 1.5 million new customers this quarter and at the same time, deliver an industry-leading margin of 44.2%. Doreen will review the specifics on revenue growth, ARPU and churn, but the bottom line is that Verizon Wireless had another strong quarter and I continue to see wireless delivering double-digit revenue growth and strong margins in the 43% to 45% range.

In telco, FiOS continues to show good subscriber growth, deeper penetration, and growing ARPUs. Over the last year, we have more than doubled video subscribers to 1.6 million and increased penetration about 500 basis points. We increased video net adds to 233,000 this quarter, and opened 1.2 million additional homes for sale in the quarter, which, of course, will help growth in the fourth quarter. Despite the rhetoric of the cable companies and their advocates, FiOS is a growing, formidable competitor. For example, in just the first three months, FiOS TV has achieved a 10% penetration in Staten Island here in New York City.

On average, FiOS TV achieves 17% penetration in just 12 months and over 26% penetration within two years. These numbers are better than we had anticipated. The next couple of months, we will be two-thirds through our fiber buildout and FiOS is on plan both operationally and financially. We will continue to see a shift of access lines. They will go primarily to wireless, but FiOS is scaling and clearly helping to grow consumer ARPU and helping margins.

FiOS feature enhancements should also provide further ARPU growth, so this has been our strategy and we continue to see upside potential for FiOS.

The global enterprise market remains very competitive. Demand for IP and managed services are the key drivers here as we continue to transform our product mix. Our strategic services portfolio is a good indicator of this transition, and these services grew over 15% this quarter and now account for 29% of total Verizon business revenues.

Now CIOs remain heavily reliant on the RFP process, and we've seen some aggressive competition in pricing and bidding for long-term contracts. We've had our share of wins, and, of course, we have been disciplined in our pricing. We're looking to balance new business growth and margins.

Although sales funnels are strong, we realized the consolidation in the financial services sector and an uncertain economic environment will likely have an impact in the short term. Longer term, the goal is to grow Verizon Business at GDP plus levels and we're changing the product mix and developing the capabilities to deliver this level of growth in the future as enterprise customers seek more bandwidth capabilities, add new applications, and buy managed services.

Finally, overall, we've maintained our operating flexibility, seizing on a number of opportunities to reduce costs through organizational efficiencies and process improvements. Fiber, for example, continues for us to show great promise for lowering our operating costs. So, from my perspective, the key strategic areas of the business, wireless, FiOS, and strategic business products, are all performing well. We continue to try to balance these growth areas, losses in the traditional access lines and profitability. Our diversified portfolio will help us through any economic slowdown, but we will monitor volumes and remain operationally flexible.

Doreen, I will turn it over to you now and Doreen will review the details of the quarter.

Doreen Toben - *Verizon - EVP and CFO*

Thanks and good morning, everyone. Let's start with some of the key highlights for the quarter. Consolidated revenues grew $1.3 billion or 5.4%.

Verizon Wireless had another excellent quarter with double-digit revenue growth of 12.5%, very solid customer growth of 1.5 million retail net adds, excluding acquisitions, and sustained strong profitability with an EBITDA margin on service revenues of 44.2%. We posted improved FiOS numbers this quarter with 233,000 new TV subscribers and 225,000 new Internet customers. The continued penetration of FiOS drove nearly 40% growth in total broadband and video revenues this quarter. And within Verizon Business, strategic services revenues continued to grow up more than 5% sequentially and 15% year over year.

We continue to be very disciplined and focused in our capital spending and we are on track to deliver a lower overall spend than 2007, even after taking into account about $200 million of integration capital related to Rural Cellular. As a result, our CapEx to revenue ratio has improved 120 basis points year to date and cash flows from operations less CapEx is significantly higher than a year ago. Our $0.66 of diluted EPS from continuing operations this quarter brings us to $1.93 year to date, up 10.3% over last year.

Okay, let's talk about the quarter in more detail. As you can see on slide 4, our top line grew nearly $1.3 billion or 5.4% this quarter on a year-over-year basis and is up 5.3% through nine months. Operating income this quarter grew 5.3% and is up 10.1% year to date.

Our year-to-date operating income margin grew 80 basis points to 18.6%. Consolidated EBITDA is up $1.5 billion or 6.5% year to date, and our year-to-date EBITDA margin has expanded to 33.5%.

On the next slide, you can see our strong cash generation profile. For the first nine months of this year, cash flow from continuing operations was about $19.1 billion, up 5.9% compared with last year. Our revenue growth and lower capital spending are improving the capital intensity of the business. On a year-to-date basis, total CapEx was $12.6 billion, which is around $200 million less than we spent at this time last year. Our CapEx to revenue for the nine months was 17.4%, an improvement of 120 basis points compared with a year ago.

Our balance sheet metrics remain strong with net debt of $44 billion and net debt to EBITDA of less than 1.4 times. I would also add that we have not experienced a significant impact on our overall borrowing costs from the recent spike in short-term interest rates. At the end of the third quarter, more than two-thirds of our total debt portfolio consisted of fixed-rate debt. As a result, the rate of interest that we pay on our debt was not significantly affected by recent fluctuations in interest rates.

Also, access to commercial paper markets has not been an issue for us, although for a brief period, we did pay higher interest rates than we have paid under normal market conditions. However, we're not talking about anything of significance here. Our commercial paper balance at the end of the quarter was $1.7 billion, about the same place we were at the end of June.

In addition, on September 30th, we closed on a $4.4 billion three-year term loan for Verizon Wireless that refinanced the majority of the 364-day credit facility that we entered into in June to purchase Alltel debt at a discount and to fund our acquisition of Rural Cellular.

Let's now turn our attention to the segment results, beginning with Verizon Wireless on slide six. We had another strong quarter of high-quality retail customer growth. Excluding acquisitions, total net adds for the quarter were 1.5 million, all of which were retail and essentially all postpaid. We also added about 650,000 customers to our base through our acquisition of Rural Cellular. Our total customer base is 70.8 million. 68.8 million are retail and largely postpaid with just under 3 million prepaid customers and only 2 million customers from resellers.

Gross adds in the quarter were strong, up 5.8% compared with a year ago. And we continue to lead the industry in customer loyalty. Total churn of 1.33% was up 6 basis points year-over-year and retail postpaid churn of 1.03% was up 7 basis points from a year ago quarter.

Turning to revenues, wireless turned in another strong performance, once again delivering double-digit growth. Service revenue grew to $10.9 billion this quarter, up 12.2% year-over-year and 4.2% sequentially. Total service ARPU increased 0.9% to $52.18. Similar to last quarter, 70% of the growth in total service revenue is from wireless data. Data now represents 25.5% of total service revenue. The main drivers of growth continue to be broadband access and usage, e-mail and messaging.

Data revenues in the quarter grew 42.5% year over year. Data ARPU was up 28.3% over last year. About two-thirds of this growth is from non messaging services. Mobile broadband access through PC cards and e-mail through smartphones are experiencing very high growth. Smartphones represented about 30% of the retail devices sold in the quarter. There's plenty of momentum and upside here to increase smartphone penetration.

We have some exciting new devices coming this quarter, including the much anticipated BlackBerry Storm, which has received a number of very positive reviews. And as we said before, future growth opportunities will be driven by our enhanced spectrum position, our 4G plans with LTE and the innovation we expect to see with our open development initiative. These opportunities position us well for a future wireless growth model, which we believe will be driven by the number of connections and total revenues.

So to summarize wireless, we had another strong quarter of results across the board, with solid customer and revenue growth coupled with strong profitability in a very competitive environment. Our focus on increasing our retail market share, customer retention, and improving operational efficiency has resulted in sustained growth, industry-leading margins, and substantial cash flow.

EBITDA this quarter grew 11% year over year and is up more than 12% year to date. Our EBITDA margin on service revenue was 44.2% this quarter and 44.9% year to date.

Year-to-date wireless capital spending totaled $4.7 billion. The CapEx to revenue ratio for the year is 12.9%, an improvement of 220 basis points from a year ago.

Lastly, Verizon Wireless has won more top honors than any other carrier in the four J.D. Power customer satisfaction surveys released since August. These studies looked at retail sales and customer care nationally and overall customer satisfaction and call quality by region.

Let's next move to wireline, starting with the consumer market. Our FiOS triple play continues to be a powerful offer and remains at the center of our consumer strategy. In the third quarter, we entered a number of new video markets, including New York City and began marketing to an additional 1.2 million homes. We're quite pleased with our early progress in New York City, although I would say that it was only one factor in the strong result across the board. The sharp increase in homes open for sale this quarter bodes well for customer growth in subsequent quarters.

We added 233,000 new FiOS TV customers this quarter. So far this year, we have added over 670,000 new TV subscribers, expanded market availability by nearly 40% and increased penetration by almost 400 basis points to 20%. We're also continuing to add features, enhancements, and upgrades that no other provider can match. For example, we've expanded the multi-room features of our home media DVR to include HD content. Now customers can view a recorded HD program on other TV sets in the home provided they have an HD set-top box.

Customers can instantly upgrade to premium content channels straight from an on-demand menu using the remote control. We've introduced new channel sorting options and a wait-for-me feature, which allows customers to pause live programming, change channels, and then return to the paused program and pick up watching right where they left off. And there's more to come very shortly, including the ability to program a DVR from your cell phone, view Facebook on your TV screen, and search and view YouTube clips on the TV with your remote. These features, enhancements, and upgrades help highlight the growth potential of the FiOS platform.

On the broadband side, we added 129,000 new subscribers, about 140% better than last quarter. FiOS Internet adds jumped up to 225,000, and we saw some improvement in DSL. FiOS Internet penetration now stands at 24%, which is an improvement of more than 300 basis points this year. Fiber to the home now covers more than one-third of our households and nearly 70% of these homes passed can buy our video service.

So as we move into the end of this year, we are on track with our FiOS buildout and ahead of expectations with FiOS TV penetration.

On the traditional access line side of the business, we did not see a significant sequential change in retail residential primary lines, which were down 571,000 and total switched access lines declined by one million. As I said earlier, FiOS remains the center of our consumer strategy and has helped offset secular line loss trends.

As you can see on slide 10, broadband and video continue to be the big drivers of consumer revenue growth.

Legacy consumer revenues in the quarter were up 2.1% year over year. Broadband and video revenues totaled $1.1 billion in the quarter, up 45% from a year ago. We're also seeing consistently strong growth in consumer retail ARPU, which is now nearly $67, up 12.8% from a year ago. The overall FiOS ARPU continues to grow and is more than $130 per month. And the FiOS triple play ARPU is even higher.

Now, let's take a look at Verizon Business. Revenues from IP and strategic data products continue to show solid growth, up over 15% in the third quarter. Sales funnels remain strong and we've had some major customer wins. Total revenue growth for Verizon Business improved this quarter to 1.2% from last quarter's 0.9%. Pricing remains competitive, particularly for long-term contracts with the largest enterprise customers, but we will remain disciplined and balance market share wins and margins.

Although we have not seen any significant impact from the financial services sector yet, consolidation in this sector may have some impact in the next couple of quarters. So as I look at the business segment, there continues to be a shift to strategic services like Private IP, managed services and security. We continue to work through some strategic take-back losses from earlier this year and closely monitor the financial services sector.

We are pursuing federal government Networx contract opportunities and we continue to expand our international products and capabilities such as the private IP network in India.

In summarizing wireline, I'd like to say that we have continued to make progress in improving the overall revenue mix as broadband and video revenues now comprise 29% of legacy consumer revenues as compared with 20% a year ago. We continue to believe we are well-positioned to compete effectively in both the consumer and business markets. Our wireline EBITDA margin in the third quarter was 27.3%.

While we remain committed to expanding wireline margins, this we now believe that our original improvement targets will take longer to achieve than originally planned.

With regard to FiOS, we were on plan both financially and operationally. And finally, we remain focused on reducing the wireline cost structure. We have a good track record of taking cost out of the business. For example, we have reduced our wireline workforce by more than 10,000 positions in the past year. We also have additional cost reduction initiatives underway which will help lower our overall wireline expenses.

To summarize, through the first nine months of the year, we have delivered revenue, earnings and free cash flow growth. Our balance sheet is healthy and we have access to liquidity. The 7% dividend increase announced last month reflects the confidence we have in our cash flow outlook. Verizon's dividend yield currently ranks within the top 10% of the S&P 500.

So from my perspective, the quarter was solid. Volumes and revenues in our key strategic areas grew. The capital intensity of the business continues to improve, and cash flows remain strong. And with that, I'll turn it back to Ron.

Ron Lataille - *Verizon - SVP, IR*

Thanks, Doreen. Stacey, we're now available to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Thanks, good morning. I guess this question is for Denny and maybe Ivan as well. Were you guys surprised with the strength that we saw in the iPhone this quarter? And given the margin guidance, are you going to be able to maintain the net add momentum that we saw in the fourth quarter and next year?

And then a quick follow-up maybe for Doreen. I think Ivan said that there still expected to be accretion in the first year with the Alltel deal. Are we still talking in the neighborhood of about $0.10?

Denny Strigl - *Verizon - President and COO*

John, I will start that. Thank you for your question. And I think your iPhone question probably relates to churn. So our churn rate remained very low in the quarter, as you saw. On a sequential basis, we tend to see some seasonality in the third quarter, about 10 basis points. And I'm not really concerned about year-over-year churn, which was up about 6 basis points.

Now, specifically to your question on the iPhone, yes, of course, we did see some churn to the iPhone during the quarter. But our focus has been on a broad-based portfolio of devices and maintaining our margins in the 43% to 45% level. We think we will be able to do that into the future. Our plan is certainly to continue to grow at the -- like the kinds of numbers you have seen in this quarter.

We have a very competitive model in wireless. I think you know this. We meet the competition head on. And we are not wedded to just any one iconic device. So we're pleased with our result and I think you can continue to see similar results. That is our plan going forward.

Ivan Seidenberg - *Verizon - Chairman and CEO*

Ivan here. The issue on the Alltel accretion, the way we would look at it is that we're not prepared to give a specific level of guidance on this. The early estimate says you said we were about $0.10 and a lot of that is being eaten up by some of the financing costs. But we still have some work to do in terms of the sequencing on the financing and we have 120 days after final approvals. The business is performing very well, so one of the things that we're very pleased with is the Alltel management people have done a very good job of maintaining their focus during this period of time. So I think as we get more insight into the operating plan, we will be able to determine and give you better outlook as we get closer to actual close. But our goal is to still make sure in year one it's accretive.

John Hodulik - *UBS - Analyst*

Great, thanks.

Ron Lataille - *Verizon - SVP, IR*

Thanks, John. Stacey, next question, please.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

Thanks very much and good morning. Good progress on capital spending bringing down both the absolute and the percent of revenues. Can you talk a little bit about what we should see in 2009 given some of the macro concerns? And also, where we are in terms of ability to start spending on LTE and any improvements in the efficiency of cost per home passed and installed on the FiOS side? Thanks.

Denny Strigl - *Verizon - President and COO*

Simon, we have begun spending on LTE. We have a trial that is going. We are not disclosing specific spending on LTE. I can tell you looking at our capital spend plans for next year, we'll continue to bring our spend as a percent of revenue down. We will probably, given the economic circumstances that we are in, we will probably start out slower in the first quarter than what we did first quarter this year. And at this point, that's about all we're prepared to say about capital other than you can see it continue to come down as a percent of revenue.

Ron Lataille - *Verizon - SVP, IR*

Thanks for your question, Simon. Stacey, next question, please.

Operator

Mike McCormack, JPMorgan.

Mike McCormack - *JPMorgan - Analyst*

Doreen, could you just give us maybe a little more clarity on the wireline margin improvement story and just sort of the levers there? I know you mentioned FiOS as sort of tracking in line with your expectations, that can you give us any sort of magnitude on what kind of a drag it is right now? And also, on the VZ Business side, can you give us a sense for what the margins look like there? Thanks.

Denny Strigl - *Verizon - President and COO*

Mike, I guess I will start this and certainly Doreen can add to it. So looking at wireline margin, FiOS is on plan. Our productivity on FiOS is on track. As you saw, we had better volumes in the quarter with some additional promotional activity. So we're feeling good from a standpoint of our productivity and our FiOS plans. We had contract wins in Verizon Business. As I said during the quarter, some of those wins come with upfront costs. We've seen more competitive pricing in Verizon Business, and, of course, we've seen the secular pressures that continue in our telco group. But we continue to manage the cost structure. Like force reductions that we are undertaking now, primarily in telco, but also some consolidation on the business side additionally. We expect to hold margins in the fourth quarter. We continue to target a long-term goal of 30% to 33% margins for wireline. But the timing may be longer than expected and the uncertainty of the economy, of course, adds some risk to the timing.

Improving wireline margins, clearly, we can say they will be driven by a number of things. Continued FiOS scale and productivity improvements. Reducing our structural costs, including access rates in VZB, which we've been working on for the last 18 months or so and seeing some progress there. We will increase non-access cost bearing services.

The reductions like managed services, IT infrastructure, we think we've got some cost savings to realize there. We have been focused on that over the course of this year. And, of course, we will continue to focus on cost reductions like force automation, our VSO organization, that helps in that regard. So again, we expect to hold margins in the fourth quarter in spite of the economy.

Ron Lataille - *Verizon - SVP, IR*

Okay, Mike, thank you. Stacey, next question, please.

Operator

Michael Rollins, Citigroup.

Michael Rollins - *Citigroup - Analyst*

Good morning. Just following up on some of the comments about trying to curtail costs. I was wondering if you could talk more specifically about the opportunities for headcount reduction. I think you announced some in the quarter. But also if you go back five years ago after the last union contract, if I remember correctly, there was a voluntary program and the reductions, I think were on a net basis around 18,000 about five years ago in the fourth quarter of '03. And I'm wondering if you can talk about the opportunities to help margins from those types of cost-cutting activities over the next 12 months. Thanks.

Ivan Seidenberg - *Verizon - Chairman and CEO*

Ivan here. Perhaps I can just give a broader comment on the subject. I think if you've watched over the past three or four years, we've had a steady decrease in employee headcount in those portions of the business that's going through the biggest transition. So you can see steady quarter-over-quarter and year-over-year transformation of the headcount reduction in the telco. And you can see the charge that Doreen described this quarter of 2700 management people is just part of that. I think it would be fair to say that with that, we'll continue to work on reducing other headcount in the telco, namely associates, as we continue to roll out FiOS, and we've been doing that on a consistent, steady basis.

So there's nothing in the union contract that either triggers that or prevents us from doing that. I think that what we wanted to make sure in this current contract is that we didn't lose any of the flexibility that we had been using for the past three or four years, and that's kind of where we are.

And I would also make the point that we have also had significant opportunities and we have done this to remove structural costs out of VZB and we've done that as well.

Denny might comment on a couple of the broader areas that we're looking at, but for the most part, we're dealing with continued improvements in operational flexibility with our new networks and we're dealing with mining the value of our Verizon services organization to do better with procurement and network operations and things of that nature. And, of course, we continue to add headcount in wireless where we need it. So overall you should expect the headcount number to come down in those parts of the Company in which we're transforming the business. And as technology keeps eating away at the access line base, moving many of those lines to wireless, you will see us continue to transform the base. Denny, do you have anything else you'd add?

Denny Strigl - *Verizon - President and COO*

I would just add one and this is down in the weeds of that. But we have numerous real estate consolidation occurring. This should save us money into '09. But a lot of consolidation particularly related to the downsizing in our telco force.

Michael Rollins - *Citigroup - Analyst*

Thank you.

Ron Lataille - *Verizon - SVP, IR*

Thanks, Mike. Stacey, next question, please.

Operator

David Barden, Banc of America.

David Barden - *Banc of America Securities - Analyst*

Thanks a lot for taking the question. Maybe just two if I could. First, on the Alltel transaction, Ivan, I think you kind of alluded to the fact that the difference in the credit markets today versus when the deal was struck has eroded I think you said a good portion of the potential $0.10 that was there. The FCC is considering eliminating CETC revenues, which are a meaningful percentage of the ARPU of Alltel.

I guess I understand the point that it can be done, but is this a deal that still should be done under the current terms and conditions that you have agreed to? Why wouldn't it be better for the shareholders to take advantage of your potential strength in this negotiation and try for something more attractive?

And the second question, if I could, Doreen, just on FiOS being on track, I know you've targeted EBITDA positive in the second half of '08. I was wondering if you could tell us if you have hit that? And whether what we're seeing on the DSL front was originally part of the business plan for FiOS and whether FiOS can really "hit its plan" if DSL is still kind of falling at about 100,000 a quarter. Thanks.

Ivan Seidenberg - *Verizon - Chairman and CEO*

So why don't we do this in reverse? We'll do the FiOS and the DSL question.

Doreen Toben - *Verizon - EVP and CFO*

Okay. Yes, FiOS is on plan and it is actually EBITDA positive this quarter. So we're very pleased with that.

And I have to -- on your DSL question, no, I don't think it will impact the FiOS net adds at all. We will continue. We're very encouraged by what we're seeing certainly into the late part of the quarter, and continue to be on plan, which is why we actually upped some of our own estimates on where we think we would be with FiOS. So very strong there.

Ivan Seidenberg - *Verizon - Chairman and CEO*

The Alltel transaction, as I said in the opening, is compelling. So you start with the early estimate of $9 billion in NPV coming from the deal. You look at the fact that when you look at the future synergies of combining the Alltel customer base and the network with us, I think the operating opportunities for leverage are just off the charts. So the issue is that when we look at the short-term issue of financing and some of these FCC issues on USF, first of all, the book isn't finally written on all those things. So my guess is we shouldn't be drinking the Kool-Aid until we see all of the final conditions on that.

But when it's all said and done, this is a transaction that pays for itself, probably will pay for itself multiple times over. We do have admittedly an issue in which the early returns will be lower than we thought, but in no way will the long-term benefit of this deal be negated by some of these short-term issues.

So it is a deal that should get done and it is a deal that -- by the way, I would make the point that the speed at which the government is looking at this should tell everybody that even they think this is a deal that should get done. And we haven't had to push them as hard as we normally would because they're looking at this and they're suggesting that telecommunications is one of the stable industries right now in all of this turmoil that's going on, and a little consolidation is a good thing.

And we even read some of it this morning in the RLEC space side. I think it's a good thing for people to see that kind of consolidation. So yes, we agree that it didn't quite meet what we originally thought, but in the longer term, it's going to exceed everything we ever thought.

David Barden - *Banc of America Securities - Analyst*

Thanks.

Ron Lataille - *Verizon - SVP, IR*

Okay, thanks, David, for the question and Stacey, next question, please.

Operator

Tom Seitz, Barclays.

Tom Seitz - *Barclays - Analyst*

Thanks for taking the question. Denny, I think you mentioned in your opening remarks that homes open for sale is going to increase as New York City ramps. Can you give us some sort of idea of the magnitude of that? For example, in 4Q '07, I think you opened 1.2 million new homes open for sale. And in first quarter, it was closer to 500,000. Are we going to be north of a million for the next several quarters or somewhere in between that range?

Denny Strigl - *Verizon - President and COO*

Actually, where we will be is very close to what you saw in the third quarter. Now, we did have New York City opening in the third quarter, but we continue to ramp up. I'd say that our range will be in about the 1 million level.

Tom Seitz - *Barclays - Analyst*

Okay, great. Thank you very much.

Ron Lataille - *Verizon - SVP, IR*

Okay, Tom. Thanks. Stacey, next question, please.

Operator

Chris Larsen, Credit Suisse.

Chris Larsen - *Credit Suisse - Analyst*

Thanks for taking the question. Two actually. One was just a point of clarification. Do you need to sell the 105 markets that need to be divested in order to close the Alltel transaction? And then secondly, Denny, the last recession we saw slower wireless growth, which eventually led to competitive pricing. We're in a different environment now that where everybody's got significant share. How do you think either Verizon plays itself out in a slower wireless market or how some of your competitors may also play it out? Thanks.

Denny Strigl - *Verizon - President and COO*

We're really not seeing any significant slowdown or impact in wireless at this point. We are right on the target that we had set for ourselves, so we don't see any shifting to lower-priced packages. But as you may have seen, Chris, in our numbers, very good data growth. And our expectation is that we will continue to see that data accelerate. We had 80 billion text messages alone in the quarter, so a big part of that is text. But also use of e-mail, PDAs, smartphones. I think we've got a good growth opportunity going forward.

Ivan Seidenberg - *Verizon - Chairman and CEO*

And on the Alltel question, we will be permitted to put the markets in trust and they will be operated separately. And I might add, by the way, when you put all of those subscribers into a company, it's a fairly substantially sized business. So it will be operated separately and we will be allowed to close the deal pending the final sale of those properties.

Chris Larsen - *Credit Suisse - Analyst*

Thank you.

Ron Lataille - *Verizon - SVP, IR*

Okay, Chris. Stacey, next question, please.

Operator

Tim Horan, Oppenheimer.

Tim Horan - *Oppenheimer - Analyst*

Two if you don't mind. Ivan, do you expect any other regulatory changes out of the FCC between now and the end of the year? They seem to have a fairly large agenda for the meeting next week.

And secondly, Denny, on the enterprise business front, do you think the pricing pressure is coming more from competition or is it just more from new technologies bundling voice and with data? Because it doesn't seem like there's a lot of competitors out there really on the business front? It's really just you and AT&T have the lion's share of the market out there. Thanks.

Ivan Seidenberg - *Verizon - Chairman and CEO*

I don't see anything other than everything we all know about what the FCC is doing, so I think obviously the devil is always in the details and we're doing our part to work through it. But I think the November 4th agenda is the last big thing for the year. And hopefully there are a lot of things that the FCC is doing that we think will continue to make the industry I think more rational depending on the absolute details and we're working our way through that. So I don't see anything of a major surprise after November 4th.

Denny Strigl - *Verizon - President and COO*

Tim, on the enterprise competition question, look, I think this is coming strictly from competition. And it is competition that is driving the prices down. We know this. We participate in every big deal across the country and around the world.

And our goal here is to be very careful in balancing our new customers, re-signing additional -- resigning our existing customers and protecting the margin at the same time.

And, as I mentioned in my opening remarks, our goal is to grow at GDP plus levels. And some of the new product that we see, which includes, by the way, just more bandwidth that customers are asking for, but also new applications and managed services, those come at a very good profit margin for us. And as you see in our numbers, some very good growth out of managed services in particular. But the overall answer to your question is competition is what's impacting pricing.

Tim Horan - *Oppenheimer - Analyst*

Thank you.

Ron Lataille - *Verizon - SVP, IR*

Stacey, next question please.

Operator

Jason Armstrong, Goldman Sachs.

Jason Armstrong - *Goldman Sachs - Analyst*

Thanks for taking the questions. I guess first one on wireless, what percent of the customer base upgraded handsets this quarter?

And then I know you talked about sort of the 30% of gross adds coming in on smartphones, but what does that percentage look like for the subscribers upgrading within your own base?

And then second question, Doreen, I know it's early, but any comments on pensions in terms of the magnitude of EPS impact in '09? And then do you think there's going to be any sort of cash contribution requirements into pension funds? Thanks.

Doreen Toben - *Verizon - EVP and CFO*

I'll do the pension fund first. Similar to any other investor's portfolio, certainly, our portfolio is negative at this point. Where it ends the year is anybody's guess at this point as far as into December. We do have a smoothing impact, so it will take us five years to smooth it in. Depending on a discount rate, if we don't pick until December 31st, there might be some mitigation. So we really don't know the full impact from a P&L standpoint until the end of December.

However, from a funding prospective, our last 10-K had a number of a little bit over $300 million. Current course and speed, that is still a good number for funding in '09, so in the $300 million, assuming the fund is sort of where it is as of kind of mid-October. As far as the upgrade number, that is not a number that we give out as far as percentage of upgrades.

Ron Lataille - *Verizon - SVP, IR*

Thanks for the question, Jason. And Stacey, that will conclude our questions and I'd like to hand it off to Ivan now for a couple of summary comments.

Ivan Seidenberg - *Verizon - Chairman and CEO*

Okay, very good. Thank you. First of all, thank you all for attending the call. Just a couple of quick points. If there's any points of emphasis we would like you to consider this quarter, is a couple of things.

First of all, we had what we thought is a good quarter in light of this entire economic uncertainty around the world. But a couple of things unique to us is that our business shows remarkable stability and strength. We think we have an approach to dealing with the competitive forces that will continue to allow us to sustain good performance in this marketplace. I think in wireless, you can see we have the belief we can continue to grow, we can continue to add vertical capabilities and ARPUs and at the same time, manage our costs and our overall business to maintain our margin levels.

In FiOS, what we are seeing is in spite of all of the secular shifts going on, we are able to increase ARPUs and increase penetration, so that is a physics problem for us, which is how quickly can we get the stuff deployed. And as Denny said, we're two-thirds of the way through, which is pretty significant. And we have very, very specific performance metrics that we have been meeting now for the past two or three years and you can see that.

In Verizon Enterprise, what you see there is that we also have a very disciplined approach. Our sales activities are very vibrant, but we are running into the fact that customers are beginning to time some of their spending a little differently. But as Denny said, we're working really hard to make sure that we improve the product mix within Verizon Business so we can keep adding all of those strategic capabilities that customers are looking for.

So the unspoken thing on this call is this whole issue of access line loss. And just very quickly, what I'd like to say on that is that we're not surprised at the access line loss. We've been saying now for a couple of years that DSL itself was going to become less potent. Wireless is obviously much more of a substitutable capability going forward. And so the issue for us is that this issue of margins and access line loss is sort of trying to balance this issue on the head of a pin has been difficult.

But what we feel is that we have momentum going in all of the growth areas so that as we sort of get through this tunnel and we are beginning to see light at the end of it, we can start to continue to show a lot of growth. Somebody earlier mentioned that they see our CapEx to spending ratios coming down, so you can see that all of the capital that we've putting in these gross areas is starting to give us some leverage to improve the capital ratios and the return on invested capital for the business.

And lastly, we tried to give you some outlook for the fourth quarter. We think an 8% EPS return in this environment is a very good result, along with a 7% dividend. And we are anxious to talk to you about 2009 and we will do that in January and with that, we thank you all for your attending the call.

Ron Lataille - *Verizon - SVP, IR*

Thank you, Ivan, and that concludes our call today, and we appreciate your being on.

Operator

Thank you. This concludes today's conference. You may disconnect at this time. Thank you for participating in today's conference.
