

FINAL TRANSCRIPT

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VZ - Verizon to Discuss Plans to Divest Wireline Businesses in 14 States

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PRESENTATION

Operator

Welcome and thank you for standing by. At this time, all participants are in a listen-only mode. (Operator Instructions). Today's conference is being recorded. If you have any objections, you may disconnect at this time. Now I will turn the meeting over to Mr. Ron Lataille, Senior Vice President, Investor Relations. Sir, you may begin.

Ron Lataille - *Verizon Communications - SVP, IR*

Thanks, Fran and good morning, everyone. Thanks for joining us today. Also with me here on the call are Ivan Seidenberg, our Chairman and Chief Executive Officer and John Killian, our Chief Financial Officer.

Of course, before we get started, let me point out that the presentation slides for this call are available on the investor relations website and 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. So with that, I would like to turn the call over to Ivan.

Ivan Seidenberg - *Verizon Communications - Chairman & CEO*

Okay, thank you and good afternoon, everyone. I appreciate you taking the time. For those of you who had a chance to listen to the Frontier call this morning, they did an excellent job at presenting the framework and the terms and conditions. John and I thought that we would have an additional call just to make sure that we covered those items of interest that affect specifically Verizon and Verizon shareholders.

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As you might expect, this transaction is part of a disciplined strategy that we have been rolling out over the last five, six years to continue to change the growth profile of our business and to allow us to focus on those areas where we think we can offer the best opportunity for returns in the future.

So the highlight of this particular move will restructure our wireline business to the point where about 15% of our total revenues will be in this particular category and most of that will be covered by our FiOS strategy. So we are feeling very comfortable that we have a way clear to generate the kind of growth we are looking for in the local broadband business.

We do appreciate that, over the past several years, investors have recognized the fact that we have worked to create a higher growth profile asset base, including generating the kind of steady returns going forward. We think this transaction obviously unlocks additional value and John will talk about that in just a moment.

Frontier is a terrific company. They have proven to us and through their performance that they have an exquisite focus on rural markets and they know how to run communication services there. They have raised the bar for all of us in terms of what you can expect in terms of performance in these rural markets. They have some very good ideas about how to do that and while we felt comfortable that our business had good performance in those markets, they have proven to us that they can do even better with those assets. And when you give them the scale with their own company, we think that this is a win/win for shareholders.

Employees will be fine in this deal. Frontier obviously has agreed that all the people on the ground in their locations will be part of their future thinking and consumers obviously will benefit as well. John is going to take you now through some of the key attributes of it. And as we said this morning, we think that, when you look at the framework of this transaction, it has all the attributes that will be a positive sell in the political and regulatory environment as well and thus, we believe we can achieve the necessary approvals in about a year. So with that, John, let's turn this back to you and take us through the details.

John Killian - Verizon Communications - EVP & CFO

Thanks, Ivan and greetings to everyone. As Ivan just pointed out, this transaction has a number of clear strategic benefits and creates value for our shareholders. The structure of the transaction is a Reverse Morris Trust in which the divested operations are separated from Verizon and merged into Frontier in a stock-for-stock transaction. The total value of the deal to Verizon and our shareholders is about \$8.6 billion. Verizon shareholders will receive approximately \$5.3 billion of Frontier common stock, subject to a collar mechanism on a share price of \$7.75. The collar provides that the number of actual shares delivered to Verizon shareholders will vary depending on changes in the price of Frontier shares at closing between \$7 and \$8.50.

Verizon will receive approximately \$3.3 billion in value through a combination of cash in the form of a special distribution, securities and/or the assumption of existing Verizon debt by Frontier. Our intention is that this value received will be used to reduce outstanding debt.

Based on the midpoint of the collar and assuming no closing adjustments, Verizon shareholders will own approximately 68% of Frontier, receiving one share of Frontier common stock for approximately every 4.2 shares of Verizon stock held at the record date. We expect that the transaction will be tax-free to Verizon and its shareholders, except to the extent that cash is paid to Verizon shareholders in lieu of fractional shares.

From a regulatory point of view, Hart-Scott-Rodino, FCC, state commission and local franchise authority approvals must be obtained. This transaction will also require Frontier shareholder approval. Other terms and conditions are customary, so nothing unusual to point out here and we are targeting a closing in approximately 12 months, as Ivan said. Overall, I would say that this transaction represents an attractive value for these nonstrategic assets.

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Turning to slide 6, let's take a closer look at the key metrics of the operations we are divesting. As detailed in our press release, we are divesting predominately rural lines that are part of our local wireline operating territories in 14 states. We will establish the operations in the 13 Western states as a standalone, independent business and cut over the West Virginia operations to Frontier at closing. This will ensure that we have a seamless operational transition.

You can see the key operational and financial metrics for 2008 listed on the chart -- 4.8 million access lines, \$4.4 billion in revenue, \$1.8 billion in EBITDA and about \$600 million in CapEx and approximately 11,000 employees. And while the 4.8 million lines represent about 13% of total switched access lines at the end of 2008, these operations cover 43% of the total square miles in our wireline footprint and about 37% of our total wire centers.

So we have significantly reduced our exposure to non-FiOS areas, at the same time created a significant opportunity to eliminate costs as a result of the improved density of our remaining telecom operations. Our remaining telecom footprint post-divestiture will include approximately 27 million households. We expect to pass just over 17 million homes with FiOS by the end of 2010 after accounting for the divestiture and ultimately a total of 18 million or nearly 70% FiOS coverage. There are no changes to our penetration targets for FiOS TV or Internet.

The transaction is estimated to be modestly dilutive to earnings in the first full year after closing. At this time, we are estimating dilution to be less than 5%. Obviously, our intention will be to minimize this impact and we believe that we have every opportunity to do so by the time the deal closes based on current operating trends and cost-savings initiatives already underway.

So to wrap up, this transaction further simplifies our business and sharpens our focus to drive superior returns with wireless broadband and IP-based assets. The remaining landline properties will be primarily FiOS markets with a much greater density and we have significant new opportunities to improve our operating efficiency and reduce our cost structure.

We expect the improvement in our revenue mix will enhance our top-line growth profile. We will continue to use our strong level of free cash flow to maintain a competitive and growing dividend, which, of course, is subject to Board approval. I believe that this transaction and the other strategic steps we have taken over the last several years differentiate us from all other companies in our sector.

We have already shifted our wireline segment to the growing broadband, video and global IP markets. Organic growth in these strategic markets, along with a continued focus on reducing our cost structure in all areas of the business, will deliver sustainable growth for shareholders. Clearly, this transaction with Frontier creates value for our shareholders at the time of the transaction and over the long term. I will now turn it back to Ron so we can get to your questions.

Ron Lataille - Verizon Communications - SVP, IR

Thanks, John. Fran, Ivan and John are now available to address any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Hodulik, UBS.

John Hodulik - UBS - Analyst

Okay, great. Thanks for the question, guys and thanks for doing the call. Just a couple housekeeping things actually. You said that it brings you down to 27 million homes in the territory. What was the number of homes in the territories divested? That

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would be helpful. And then I'll just run through a couple quick ones. And if you could help us on -- you said that you expect to be at 17 million homes by the end of 2010. Any sort of further update on sort of where you go from there, if in fact you get to a larger percentage of that 27 million over time?

And then from a pro forma standpoint, you did about 2% consumer retail growth in the first quarter. Obviously these are -- the access line trends here are certainly worse than you have had overall in that business. But can you give us a sense of what the growth rate might have been pro forma for this deal in the first quarter, it would be helpful? Thanks.

John Killian - Verizon Communications - EVP & CFO

Okay, let me hit a couple of these, John. If you look at homes in the divested property area, it is roughly 5 million. We have talked about a 32 million number roughly in that particular range. The slight difference we had in the FiOS target here is we have been talking 18 million by the end of 2010. About 750,000 of those were in the divested properties. So as we rethink this now, we think about a target of about 17 million. Our ultimate plan is about 18 million. We are, and as I mentioned this on the quarterly call, we had, a while ago, we are very focused obviously on free cash flow generation. We have invested a lot in FiOS and we are very satisfied with that investment. We are doing quite well with it, but that will begin to ramp down in 2010. And we will begin to see more free cash flow generation coming out of the wireline business as we enter 2011.

So that is kind of our current thinking here right now. I don't have the exact pro forma on the 2% number, but it will obviously be accretive to that number. When you think about the number we set here, I think the revenue in the divested properties was down a little over 4%. So this will give us accretion on that.

John Hodulik - UBS - Analyst

Perfect. Thanks, guys.

Ron Lataille - Verizon Communications - SVP, IR

Thanks, John. Fran, next question, please.

Operator

David Barden, Bank of America.

David Barden - Bank of America - Analyst

Thanks, guys, for taking the question. Maybe if I could, just two. First, John, maybe could you talk a little bit about what, if any, incremental pressure this places on the cash flow run rate of the wireline business for the next couple of years as it might be relevant to your payment of dividends from the wireless business? I guess does this increase the likelihood or bring forth the timing necessary for extracting cash from the wireless entity through dividends?

And I guess the second question would be just kind of going forward to the closing with respect to the closing conditions, could you talk about -- if the debt markets are not open and Frontier has to go out and get \$3.2 billion of debt, are you going to be helping them to do that or how does this deal anticipate varying capital market conditions in the forward year?

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John Killian - Verizon Communications - EVP & CFO

Okay, so, Dave, let me hit a couple of the issues here. From a cash flow perspective, think about this. We think the deal is going to close in about the middle of 2010 roughly, a year from now. So we will retain cash flow through that point. We have a sizable amount of cash flow in the business. And if you look at the business overall and the wireless contribution, our cash flow is growing. So I don't see a particular pressure that this adds to us from really any degree on our ability to generate cash flow.

On the Vodafone side, what we have always said is we will have an annual discussion with them. We don't think this changes that perspective at all. I think the key point here is we believe we are going to start generating a significant amount of free cash flow coming out of the wireline business starting in 2011 because we are going to be substantially done with the FiOS business and the FiOS deployment. So we are going to be in a much better place there.

As I talked about on the last call, we have got a lot of focus on capital intensity throughout the business. Our capital revenue ratio is coming down. We are still seeing very strong growth in the wireless business. We expect that to continue. So I don't think this adds any pressure and I think it puts us and continues us in a very good position.

On the debt markets, we do have the ability that there are extensions in the agreement now. By the way, we have no doubt that if they had to go to the market today that Frontier, they would have not had any issue with raising the \$3.3 billion. I have had discussions with numerous banks on that particular subject and we think that they will be in a very good position.

But the contract does permit time periods to deal with market conditions. Clearly, our treasury people will not be responsible at all for the financing, but they will always be in communication with the Frontier team. We work very well with them, so I think we will be in a good position to get that done.

David Barden - Bank of America - Analyst

Thanks a lot, guys.

Ron Lataille - Verizon Communications - SVP, IR

Okay, David, thanks. Fran, next question, please.

Operator

Chris King, Stifel Nicolaus.

Chris King - Stifel Nicolaus - Analyst

Good morning. Just two quick questions for you. First of all, with respect to the process here, it was mentioned on the Frontier call that they had actually approached you on this. Was just wondering if you could comment on whether or not there were any other interested parties or whether you allowed any other interested parties to participate in this process.

And then secondly, just looking forward, you guys now have roughly, what, 9 million to 10 million homes or so left that you do not currently plan on rolling FiOS out to. Is it safe to assume that those markets are available for any potential buyer that may have an interest at some point over the next several years?

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Ivan Seidenberg - Verizon Communications - Chairman & CEO

Yes, Ivan here. So on the first part of the question, when we file the S-4, you will get a full detail of who called whom and everything else, but just to give you a little bit of information on it. It was Frontier that talked to us about their idea and we think, with all the analysis that we have done over the past several years, this was clearly the best transaction that we could think of. So I think in that regard, we are very satisfied that this is a very good transaction and that Frontier offered the best partnership.

On the other question, I think the way to think about the other 9 million or 10 million lines, regardless of whatever size footprint you end up with, there is always going to be one line that doesn't have FiOS in it. So I think what is important to think about is that when we get finished with this, we are going to drive to get somewhere between 65% and 80% FiOS coverage. The reason I give you a big range like that is that, as technology shifts and changes and we get smarter about it and we can compress more work into the same amount of capital expenditures, we can find ourselves getting slightly more coverage. So some of that 9 million or 10 million will get eaten up because technology will give us improvements in our ability to deploy broadband.

For the remaining lines, given that they are located in all of the states that we have high concentrations in and lots of opportunities for good, sound, scalable cost structures, we will think about maybe further deployment where we need it of some additional DSL here and there.

So the way I would like investors to think about this, we have no further plans to think about divesting any of the further lines we have in the states because they are part of a bigger business in each of the remaining states that we own. FiOS will creep at that 9 million or 10 million and then we will do more work to get better broadband coverage with the residual lines.

I think when we look at the whole picture, this kind of completes the picture we have with respect to where we take our landline business and actually that is not the right term, where we take the local access business because the other part of our business is not really a landline business, it is a global IP business. John, did you want to add something?

John Killian - Verizon Communications - EVP & CFO

No, the only thing I would add, Ivan -- I think you captured it all right. And you are right on the numbers, Chris. It is 9 million roughly, in that range. We will have a lot of focus, we will have bundled offerings focused on those. We will use DIRECTV where we don't have FiOS. And they will also get the benefit of a lot of the marketing we do on the FiOS side because of their close proximity and the contiguous nature. Very different than the lines that we are divesting where they cover 43% of our square miles, but only 13% of our lines.

Ron Lataille - Verizon Communications - SVP, IR

Thanks, Chris. Fran, next question, please.

Operator

Frank Louthan, Raymond James.

Frank Louthan - Raymond James - Analyst

Great, thank you. Going forward, it is clear from the Frontier call they are clearly looking at the broadband opportunity there. Are you going to be working with them as far as directing any CapEx in any particular direction or broadband build-out over the next 12 months in these properties that may be more into their liking, maybe a little less than what you would have done in the past? Will there be any sort of collaboration there?

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And then maybe give us a little extra color on the California, Texas, Florida properties, the old GTE properties that you are not divesting? I hear you saying that you are kind of down to the core business that you want, but is there anything in particular about those states or the growth characteristics that you can share with us that make them a little bit more attractive to hang on to over the long term? Thanks.

Ivan Seidenberg - Verizon Communications - Chairman & CEO

Well, as to the first question, it's business as usual. There are no agreements made to accelerate or decelerate any capital spending. We will run those businesses the way we should run them during the pendency of the approval process.

On your other question, I think the facts are -- if you look at Texas, markets that we have been in for -- and the characteristics of most of those markets is they are more suburban than they are rural. Our penetration runs anywhere from the low 20s to the high 30s. If you look at Florida, it is highly concentrated and California is highly concentrated. So the lines in Texas, California and Florida, as we see them, don't look any different than the lines in any of the northeastern states that we have. So we're very comfortable with them and we think they represent the right profile of lines to deploy FIOS.

Frank Louthan - Raymond James - Analyst

Great. Thank you.

Ron Lataille - Verizon Communications - SVP, IR

Okay, Frank, thank you. Fran, next question, please.

Operator

Tim Horan, Oppenheimer.

Tim Horan - Oppenheimer & Co. - Analyst

Thanks. Two questions. John, the Company has been selling a lot of assets the last couple of years and this is a fairly large one. Will there be any issue in trying to allocate corporate overhead and maybe healthcare for retirees over a smaller base? How do you see that playing out?

And for Ivan, I guess the only criticism I have heard on the deal is the valuations are a touch below some of the transactions we have seen in the last couple of years. Just curious if you can comment on those things.

John Killian - Verizon Communications - EVP & CFO

Tim, I will start on the cost side and Ivan talked about earlier on that we have been on a strategic transformation, which we have for the last several years. Candidly, we are also on a cost transformation. If you look back to three or four years ago, our initial foray was we set up the Verizon Services Organization, initially focused on some common functions of the business like real estate, procurement, some of the accounting operations.

We have taken another step this year in terms of bringing the network side of the business together on the wireline sign. We believe that's going to yield, over time, significant cost synergies. We are going to have a laserlike focus on corporate overheads

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as we divest properties like this. We will be going after and we already are quite candidly and we are very confident that we can take costs out of the system and we will do that.

Ivan Seidenberg - Verizon Communications - Chairman & CEO

Yes, I appreciate the question on valuations. I guess I get it and not John, but that's okay. The way I look at the valuation question here is when we look at this, I think a couple of the reports came out, looked at a headline number of 4.5 times EBITDA, but it was based on 2008. The way we look at this, this is about \$1800 a line, which, in this market, I think is about as good as you are going to get. If you want to go back and say lines were worth more at some point, that is okay, but that is not the way the market is at this point. So I think this is a really good, fair deal and so, Tim, \$1800 a line is a good number in this particular market.

And I think that -- but the other important thing about it is what Frontier has cleverly done is created a capital structure where they can create growth out of this asset and our shareholders will end up with 70% of that equity. So there is another way of people generating some value in it.

Tim Horan - Oppenheimer & Co. - Analyst

Yes, it looked like a great transaction. Thanks.

Ron Lataille - Verizon Communications - SVP, IR

Thanks, Tim. Fran, that will conclude our call today. I would like to thank everybody for joining us and appreciate it.

Operator

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

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