FINAL TRANSCRIPT

Thomson StreetEvents℠

VZ - Q2 2009 Verizon Earnings Conference Call

Event Date/Time: Jul. 27. 2009 / 12:30PM GMT

Jul. 27. 2009 / 12:30PM, VZ - Q2 2009 Verizon Earnings Conference Call

CORPORATE PARTICIPANTS

Ron Lataille
Verizon - SVP, IR

John Killian
Verizon - EVP & CFO

Denny Strigl
Verizon - President & COO

CONFERENCE CALL PARTICIPANTS

David Barden
Bank of America - Analyst

Michael Rollins
Citigroup Investment Research - Analyst

Simon Flannery
Morgan Stanley - Analyst

John Hodulik
UBS - Analyst

Jason Armstrong
Goldman Sachs - Analyst

Mike McCormack
JPMorgan - Analyst

Chris King
Stifel Nicolaus - Analyst

Tim Horan
Oppenheimer & Co. - Analyst

Phillip Cusick
Macquarie - Analyst

PRESENTATION

Operator

Good morning and welcome to the Verizon second-quarter 2009 earnings conference call. (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*

Good morning and welcome to our second-quarter 2009 earnings conference call. Thanks for joining us this morning. I'm Ron Lataille. With me this morning are Denny Strigl, our President and Chief Operating Officer, and John Killian, 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 available on our Investor Relations website. This call is being webcast, and 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. A 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.

Next, I would like to quickly cover the difference between reported and adjusted earnings for the second quarter of 2009. In the second quarter, reported earnings per diluted share were $0.52. Adjusted earnings per share before the effects of special items were $0.63. We are excluding the following special items from adjusted results.

The first item is an after-tax charge of $253 million or $0.09 per share for pension settlement losses resulting from our separation plans. Pension accounting rules require that settlement losses be recorded once prescribed payment thresholds have been reached. We are also excluding an after-tax charge of $60 million or $0.02 per share, which is for merger integration costs and acquisition-related fees.

Amortization expense related to customer lists is not part of the special items that we have excluded from adjusted results. This represented a little more than $0.01 of EPS in the second quarter and is estimated to be about $0.05 for the full year.

Also, as we stated last quarter, the wireless properties that we will be divesting in connection with the Alltel acquisition are included in our current Wireless results and will be until those transactions close.

In addition, the Wireline properties which will be spun off and acquired by Frontier will remain in our results until the closing of that transaction.

With that, I will now turn the call over to our Chief Financial Officer, John Killian.

John Killian - *Verizon - EVP & CFO*

Thanks, Ron, and good morning to everyone. Before we get into the details of our quarterly performance, I would like to share a few of my perspectives on our results.

When I look at the quarter, I believe that our results show that we are very sound financially, and we are executing with a great deal of discipline. Clearly the broader economic issues are affecting the business. However, I'm very pleased with the success we had in Wireless, FiOS and strategic business services this quarter. I think this reflects the best assets in the industry, great scale, effective marketing and a seasoned management team.

I'm already looking ahead at the opportunities we have both in terms of revenue initiatives and cost savings. So while the current environment is challenging, there are still ways we can improve operations, and I'm very focused on these areas.

So let's start on slide three with our consolidated results. Overall, on the top line, we generated pro forma revenue growth of nearly 2%. As Ron indicated, we produced $0.63 of earnings per share in the second quarter, bringing our first-half total to $1.26. Cash flows from operations were strong in the first half of the year growing nearly 12%. Free cash flow of $6 billion was significantly higher than a year ago, up $1.8 billion year-to-date. Capital spending was down 3.6% for the first six months. As I said on our first-quarter earnings call, we will be very disciplined in terms of capital allocation and spending in order to maximize free cash flow.

As far as the balance sheet is concerned, debt reduction is going according to plan. Net debt stands at $64.1 billion, which is about 1.8 times EBITDA for the last 12 months on a pro forma basis. We have completely repaid the $12 billion bridge loan associated with the Alltel transaction through the issuance of a series of notes at Verizon Wireless with varying amounts and maturities together with cash generated from operations.

Okay. Let's take a closer look at the revenue trends starting on slide four. In the second quarter, I would say that there are two trends affecting revenues.

First, there are several areas of the business that continue to perform well and post solid growth, most notably Wireless services and Wireless data revenue. I will provide further details in a couple of minutes, but I would emphasize that Wireless is an increasing percentage of our overall revenues. Wireless currently makes up more than 57% of our top line, and after the Frontier transaction, it should be more than 60%.

On the Wireline side, we are seeing solid growth in FiOS, which is driving good consumer growth, and with the enterprise market, newer services like IP are also performing well. This growth is the result of our consistent approach to network investment and indicates that we continue to compete effectively and provide the products and services that customers continue to find valuable.

The second trend is more obvious, and that is the continued impacts of the economy, especially in the business markets. These adverse effects are primarily in volume-driven products, most notably voice, and we are seeing these effects in the small, medium and large enterprise markets. In the aggregate second-quarter consolidated revenues were still up both sequentially and year-over-year.

Now let's go through the segments, starting with Wireless on slide five. Total operating revenues for the quarter were $15.5 billion, up 27.7% from a year ago. On a pro forma basis, total Wireless revenues increased 7.6%, and more importantly, total service revenues were up 9%. And we continued to produce year-over-year growth in total service ARPU with an increase of 0.6% on a pro forma basis, which is a good result.

Taking a look at customer results, we turned in another very good quarter of high quality customer growth. Gross adds of 4.7 million were essentially flat year-over-year, due in part to lower demand on the business side. Net adds totaled 1.1 million, all retail and essentially all postpaid. Retail prepaid net adds totaled 67,000 in the quarter. So we ended the quarter with a total of 87.7 million customers. 80 million or 91% of our base is retail postpaid. Of the rest 5.2 million are retail prepaid, and about 2.5 million customers are from resellers.

Churn improved sequentially but was up from second quarter last year. On a pro forma basis, total churn of 1.37% was up 14 basis points year-over-year, and retail postpaid churn was up 12 basis points to 1.01%. The uptick is primarily due to cyclical factors with about half attributable to business-related disconnects of PC cards and the rest mainly line disconnects in small business. Overall our Wireless segment continues to produce solid growth in both customers and revenue.

Let's take a closer look at the drivers of Wireless revenue growth. As you know, data continues to be the predominant driver of topline growth in Wireless, and it is increasingly becoming a larger part of a growing revenue pie, representing more than 29% this quarter. Data revenue growth was 33.2% this quarter with non-messaging services up 44% and messaging up 20%. Data ARPU increased to just under $15.

Customers are increasingly seeking broadband mobility, which is expanding the demand for products and devices that leverage our network data capabilities. PDAs and smartphone sales remain strong, representing about 40% of new device sales this quarter. Continued growth in PC cards, despite some cyclical effects, and new products like Netbooks and MiFi Devices are also helping to expand the mobile broadband market. We see plenty of upside revenue opportunity, and the proliferation of new devices in the pipeline will stimulate both adoption and demand for increased wireless broadband data usage.

The main point here is that we are leading the industry in the deployment of LTE, and we are the most proactive company in enabling and preparing for continued growth in wireless data. Starting with our acquisition of nationwide 700 megahertz spectrum, coupled with our Open Development initiative, our leadership in the deployment of LTE, the formation of the Joint Innovation Lab and several other innovative partnerships, we continue to position ourselves to benefit from the growth potential of broadband mobility.

Another important area is the growth of mobile applications. We are intent on making the Verizon Wireless platform the choice for developers. Tomorrow we are holding our first ever Verizon Developer Community Conference in San Jose, which will be focused entirely on fostering the development of new mobile applications. We will detail how developers can take advantage of new tools and resources to build great applications for our more than 87 million customers.

There is a lot of excitement building around this event, and our goal is to have our "Apps Store up and running by the end of the year. Clearly we feel very good about the competitiveness of our Wireless business. Our second-quarter performance once again demonstrates our ability to achieve both solid growth and strong profitability, and this value-creating model is producing continued growth in free cash flow.

As you can see on slide seven, EBITDA was $6.2 billion this quarter, up 9.4% from last year on a pro forma basis. The second-quarter EBITDA margin on service revenue was an industry-leading 46.3%. Wireless capital spending was $1.8 billion in the second quarter for a total of $3.3 billion year-to-date.

The integration of Alltel is going very well. Nearly half of the former Alltel customer base has been converted to our billing system, and they now have access to our full suite of products and services. And we are on track to convert essentially all customers by the end of October.

So to sum up, solid growth, profitability and cash flows from our Wireless segment.

Let's move to Wireline. As I indicated earlier, we saw good success in the consumer market as FiOS continues to be a superior product, driving overall growth in consumer revenues. We have great momentum in FiOS, which provides us with a significant opportunity to drive further growth in both customers and revenue. FiOS continues to expand into new areas, and we plan to have about 70% coverage of our telecom footprint subsequent to the Frontier transaction.

In business markets we continue to see economic conditions affecting both revenues and margins. From a profitability perspective, Wireline margins have been impacted primarily by cyclical economic pressures. In addition, there are headwinds from incremental pension and OPEB costs.

I have been very focused on the cost side since taking over as CFO. Although we are taking steps to mitigate the negative impacts of the economy in the short term, we also need to more significantly reduce the Wireline cost structure over the next 12 to 18 months.

As part of our ongoing program to resize and reduce the cost structure, we reduced headcount by more than 8000 over the last 12 months. We plan to do more than 8000 in force and contractor reductions in the second half of this year. We are also attacking all other cost categories, including network integration, travel, sourcing, rationalizing our real estate portfolio and all other areas.

Let's take a closer look at revenues starting with mass markets. Mass markets includes consumer and small and medium business with a majority of these revenues in the consumer market where FiOS broadband and video continue to drive revenue and ARPU growth.

Second-quarter consumer revenues grew again this quarter by 2% year-over-year. FiOS revenues totaled more than $1.3 billion in the quarter, up 60.3% compared with the second quarter last year. We have also seen consistently strong growth in consumer retail ARPU, which increased to more than $72 this quarter, up 13.7% from a year ago. FiOS ARPU remains very strong at more than $135 per month.

On the traditional access line side of the business, we saw modest improvement in the level of total switched access line losses. We had another great quarter of FiOS performance, adding 300,000 TV customers and 303,000 Internet customers. Our penetration rates are strong, and we continue to expand FiOS availability.

In the past 12 months, we have increased our base of both FiOS TV and FiOS Internet customers by more than 1.1 million, and we have expanded the availability of our FiOS triple play by about 46% to 10.3 million homes open for sale at the end of June.

And DSL is holding its own, especially when you recognize that between 20% and 25% of the FiOS gross adds are DSL migrations. The positive implications are twofold. One, we are taking market share from cable, and two, we are successfully up-selling FiOS to our existing broadband customers.

From a FiOS deployment perspective, we passed an additional 650,000 homes in the quarter, which puts us at 13.8 million in total. We are on track to be substantially finished with the deployment by the end of 2010, which has positive implications for both capital spending and free cash flow.

We are very pleased with our progress in FiOS. The financial model is working. Consumers recognize it as a high quality service that is superior to anything in the market today. There is plenty of marketing buzz, and demand is strong. The key point here is that we have been able to replicate the operational and financial success we experienced in the smaller early markets like Texas across our newer and larger markets like the Potomac region, which includes Virginia and Maryland. Our increased scale is driving revenue growth, higher ARPUs and improving margins.

We continue to enhance the customer value proposition by introducing new features and functions, which further differentiate FiOS in the marketplace. Examples include faster upstream and downstream Internet connection speeds; our localized FiOS 1 news and information channel, which is available in certain markets; and interactive applications which allow customers to interact with sites like Facebook and Twitter while watching TV.

Let's turn next to the rest of the Wireline revenues, which include global enterprise and wholesale. When I look at the large enterprise business markets, I think there are four notable trends affecting both retail and wholesale revenues.

First, as I mentioned earlier, we continue to see year-over-year growth in strategic services, particularly global IP. Second, the cumulative effect of unemployment is clearly impacting usage volumes. Third, delayed decision-making on the part of CIOs is adversely affecting IT spending and CPE sales, and fourth, negative foreign exchange currency effects continue to impact year-over-year revenue comparisons.

From an operational perspective, we continued to compete very well. We have not lost any major customers. We have been successful in terms of new contracts with some good wins this quarter. So we are encouraged by that.

Longer term the continued shift to private IP and managed services is creating global opportunities for companies like us. We are very focused on positioning ourselves to capture our share of these opportunities when the economy improves.

In June we introduced a very comprehensive on-demand cloud-based computing as a service solution for enterprise customers. This service, which leverages our global IP infrastructure and data centers, will help business and government agencies be more efficient and securely manage IT resources in a very cost effective manner. We expect a great deal of interest from many of our enterprise customers, particularly in this resource constrained environment.

So, on the Wireline side, we have good growth with FiOS and IP services, offset by cyclical impacts in business. We are focused on trying to mitigate these impacts on our profitability, although we realistically expect these pressures to continue throughout the second half of the year.

So to quickly sum up, our second-quarter and first-half performance reflects good operational execution in the key strategic areas. Our balance sheet is healthy, and will continue to improve over the next few years as we pay down Wireless debt. We are very focused on our cost structure and believe there are significant opportunities to reduce costs over the next couple of years.

Our cash outlook is strong and will allow us to continue investing for growth while improving our capital efficiency and pay an attractive dividend creating value for shareholders. We are making good progress on the strategic front both in terms of the continued integration of the Alltel properties and in preparation for the divestiture of the Wireline properties to Frontier.

Lastly, we recognize the impacts the current economy is having on the business, and we are focused on ways to offset these effects.

And with that, I would like to turn back to Ron so he can get to your questions.

Ron Lataille - *Verizon - SVP, IR*

Fran, Denny and John are now available to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). David Barden, Bank of America.

David Barden - *Bank of America - Analyst*

Two, if I may, on Wireless pricing. First, at the higher end of the market guidance, as you are about to deploy LTE data services this year and then more broadly next year, how do you guys think about the pricing model and preserving the revenue contribution you are getting today from the 3G service set? Are you expecting people to spend up, or how do you plan to kind of preserve the value that you have created in 3G while overlaying this 4G product?

And then at the lower end, obviously there has been a tremendous amount of focus on your partnership with TracFone. Some have theorized that it is a Trojan horse to de-stabilize the market at the lower end and as part of a broader strategy there. Could you kind of talk through how you are thinking about that relationship and what it is intended to accomplish and where it stands today?

John Killian - *Verizon - EVP & CFO*

This is John. I will start with the front end on the LTE, and then Denny will hit the TracFone part of it. You know, we are in the very early days obviously on LTE. We are doing our trials this year. We have talked about deploying next year to 30 markets, 100 million pops roughly.

You know, a lot of the pricing that we will have out in the marketplace initially will be on our broadband access kinds of offerings. It will very much follow the kind of pricing structure that we have in place today. We will be 12 months down the road in a much bigger rollout there, so we will continue to monitor the market.

The other thing with LTE, though, there are a range of other applications, machine to machine kinds of things. So pricing structures for that will evolve as we go through the next 12 months.

Denny Strigl - *Verizon - President & COO*

And David, I like your Trojan horse strategy, but, frankly, that was not our intent. So we know investors have been interested in TracFone's introduction of the product that they call Straight Talk. And we are not here to disclose the terms and conditions of the contracts that we have with any of our partners, but I will address some of the broader issues of the TracFone arrangement.

First of all, I think that we have been very consistent in our comments that our key focus has been and will continue to be on the retail postpaid market, and there is no change in that strategy. That does not mean, however, that we will ignore the prepaid or our reseller partners.

The second point that I would make is that we will always look for opportunities to capture share on a profitable basis, but we would not do that by cannibalizing our own postpaid base. So our TracFone agreement is consistent with the points that I have just made. Of course, TracFone decides on the retail price that it enters the market with, and the use of the Verizon Wireless brand on the packaging of that product is an experiment or a trial, if you will. It is too early to say if the licensing of the use of the brand will continue. It is a six-month trial, and we have the flexibility to pull the brand name at any time.

So, as I said, I won't disclose any specific terms or pricing, but you can assume that our contracts are designed to provide flexibility and periodic opportunities to evaluate performance and make any adjustments that we feel may be necessary.

So, Dave, thank you for your question.

Operator

Michael Rollins, Citigroup Investment Research.

Michael Rollins - *Citigroup Investment Research - Analyst*

Just two questions for you. First, I was wondering if you can give us a sense of where the Alltel synergies stand in dollars? I realize it is early, but as of the second quarter, that would be great.

The second question is, if I look at the Wireline business, the primary line loss improved it looks like roughly 100,000 year over year in the second quarter. And I'm wondering if you could talk about that trend a little bit more in the sense of, it is a gross add versus churn issue? And is it a FiOS versus non-FiOS market issue, and give us maybe a little bit more color as to what is driving that and whether this is something we should expect to see in the future?

John Killian - *Verizon - EVP & CFO*

On the Alltel synergies side, we are making very good progress here on the Alltel synergies. We have converted a couple of -- two out of the four regions to our billing systems now. That has gone extremely well. You know, signage, stores, all of that is progressing along the way.

As you remember, we said first full year would be somewhere in the range of $500 million to $600 million of expense synergies. We still feel very good about those numbers, very confident on that.

What I would tell you is in the first half of the year we have realized about 25% to 30% of that synergy level, so there will be more of an uptick as we get into the second half of the year on benefits.

Likewise, our spending will also go up on the capital side related to Alltel integration. On the access line side, we clearly do see a benefit, Mike, as we get FiOS out more into the marketplace. Our performance in non-FiOS areas is not quite as good as the FiOS side. So the success we are having with FiOS is helping us on the access line side. We do have tremendous attention on non-FiOS areas also from a management and performance perspective.

Denny Strigl - *Verizon - President & COO*

And Mike, if I could just add to what John has said here, we often get the question concerning cable competition in small business. And so my comment addresses that small business market in particular. So we are seeing an economic impact in some shift to Wireless. We think that we are holding share, and there has been, I guess I would call it at this point, limited impact due to cable competition. But we will monitor that closely. We are focusing on our marketing message to small business customers. We are making sure the accounts that we have are covered with the proper level of sales team coverage. And similar to what John mentioned, extending FiOS to multi-tenant units for small business customers is certainly in our game plan.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

John, you talked about accelerating cost reduction plans in the Wireline space. Can you give us a sense of what the timing on that will in terms of the heads coming out, has that started already? Will that start to go through Q3 so you will really see a bigger impact in Q4 than in Q3?

And then, Denny, if you could help us understand a little bit more where you are in understanding the capital spending associated with rolling out LTE. Thank you.

John Killian - *Verizon - EVP & CFO*

Okay. The force reductions and the expense reductions that I mentioned in the Wireline business, the backdrop here is I really said over the next 12 to 18 months we will have a lot of attention -- we have in the past -- but we will really be accelerating our attention on the cost side of the equation, particularly in the Wireline business.

But force is starting to go off as we speak. A good size of the force reductions will occur in the third quarter. There will be some also in the fourth quarter. I mentioned that if you look at the Wireline side of the business, over the last 12 months, we reduced the force by about 8000 in total. We will do at least that in the second half of the year when you look at force and contractors, and candidly we are looking at all other areas of expense also.

Denny Strigl - *Verizon - President & COO*

And so, Simon, on your LTE question, maybe it would be helpful if I just clarified our current game plan with LTE. So we plan to conduct LTE trials in Seattle and in Boston later this year. We are working on a launch of commercial LTE services and up to 30 markets next year. Our plan is to cover 100 million pops.

In 2011 and 2012, we will continue to expand significantly with the ultimate goal being to cover all of our pops with this great product by the end of 2013. The financial impact of LTE this year I would call no specific bubble in our numbers. It is a very small amount.

Next year we will be spending on LTE. We have not made public that amount. But I will tell you it is no significant addition on top of our planned capital budget for the Wireless group.

Operator

John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Just a quick follow-up to that, John. The cost reductions that you planned for the second half, do you think that will be enough to sort of arrest the sequential decline we have seen in Wireline margins, or do we have to wait for a turn in the economy and an improvement in the business market for that to either stabilize or start heading in the right direction?

And then secondly, on broadband you had a strong broadband quarter. Can you just talk about the trends you are seeing in that business? Were there new promotions that were driving it, or is it just a function of the strength that you saw in the overall FiOS growth?

John Killian - *Verizon - EVP & CFO*

On the margin side of the business, the cost efforts that we will have in the second half of the year will certainly help on the margin side. Continuing to get further down the path with FiOS will also help.

That being said, we are still facing the cyclical pressures that are affecting our enterprise, our small business and our wholesale side of the house. So we really have to see how that plays out. We have a lot of attention on margin, as I talked about on the front end here, on the expense side. There are a number of things we are also doing on the FiOS side, including we have a price increase going in for new customers and customers that will be coming out of contract. So that will also help us from that perspective.

Denny Strigl - *Verizon - President & COO*

So, John, on the broadband growth side, let me first say that we have been focused on keeping our DSL customers probably more in this last six months than we had in the past very focused on the packages that we provide and making sure that our customers understand that they are important and that we do have a good DSL product.

Now let me comment a bit. I think you may know some of this in terms of the promotions that we had in the second quarter for FiOS. So we have three triple-play packages -- good, better, best. Our prices range from $99.99 to $134.99. That is before the premium add-ons that we offer.

As you move from good to best, you get higher Internet speeds. For example, good generally comes with 15/5 speeds, and we have areas with 35/20 speeds in our best packages. TV adds additional channels for our customers, additional high-definition channels and premium channels, a very competitive offering I think you all know. We are currently offering a net book or camcorder for customers who sign-up for better and best offers. The Netbook is about $300 value, and we send the customer a voucher after they have been with us for 90 days, which they can send to Compaq for the computer. They pay the shipping and handling costs of about $45 to $55. If an existing FiOS customer adds Internet or TV, they can get the camcorder free, or for $99 they can get the Netbook. And I think, as you know, we change our promotional offers periodically, and the current offer should end in another couple of weeks, and we will come to market with yet an additional offer. So we have been very aggressive in going after both FiOS and in keeping our DSL customers.

Operator

Jason Armstrong, Goldman Sachs.

Jason Armstrong - *Goldman Sachs - Analyst*

A couple of questions on wireless, maybe a follow-up on the wholesale strategy and maybe specifically just how we should think about the modeling of this from a margin perspective. Maybe specifically is this a segment where you are requiring at least retail-like EBITDA margin in order to facilitate resellers on the network?

And then maybe a second question just on Wireless. A number of competitive handset offerings surfacing late in the quarter whether it is the new iPhone, the Palm Pre, etc., obviously these surfaced in more the June timeframe, which seems to raise the risk profile a little bit as you are exiting the quarter. Can you step us through the trends and maybe speak to the exit rates you saw?

John Killian - *Verizon - EVP & CFO*

When we look at the reseller line of business, as well as our prepaid side, clearly we are very conscious of what the margin contribution is. We are also very conscious, as Denny Strigl mentioned earlier, with our prime strategy being the postpaid side, not risking the cannibalization of that postpaid stream.

So we have tremendous attention around the margin levels. We don't provide information in terms of what kind of margin levels we are driving on the postpaid side, the retail side versus the wholesale side. But let it just suffice to say, it is an area of focus for us.

You know, on the reseller channel, you don't have the marketing expenses; you don't have the cost of acquisition. It has not been a big impact on us either. If you look in the second quarter, not a lot of adds on the reseller side. So I will let Denny talk to the device issue now.

Denny Strigl - *Verizon - President & COO*

Okay, will do. You can expect to see a steady stream of attractive devices coming from Verizon Wireless. For example, we launched the BlackBerry Tour on July 12. We plan to refresh the Storm later this year. Android is on our roadmap. We have Motorola devices that are coming, and we plan to offer the Palm Pre early next year, and we have continued excellent relationship with the LG and Samsung. So yes, we do have a great device lineup. By the way, they are in the market today. They only improve going forward, and we feel very good about that.

Jason Armstrong - *Goldman Sachs - Analyst*

Like I said, thanks for that -- just asking more about competitive offerings that you saw. The churn results came in better than I think we and most people were expecting. That was a positive surprise. You talked to the trends within the quarter. I think that the Bear case here might be that June maybe there's a little bit more pressure than the other months just related to the competitive offerings. Can you speak to that?

John Killian - *Verizon - EVP & CFO*

This is John. On the churn side, you know, Lowell and his team have a lot of focus around churn. We improved sequentially from the first quarter, up slightly from the same quarter a year ago. Most of that candidly was driven by impacts on the business side -- broadband access, loss of employment, those kinds of things.

Operator

Mike McCormack, JPMorgan.

Mike McCormack - *JPMorgan - Analyst*

Maybe to circle back on Jason's questions real quickly. Just on the iPhone impact, the 3G S, the $99 iPhone, are you seeing any significant differences this time as opposed to when they rolled out the first 3G phone last July?

And then secondly, on the enterprise side, obviously the economy is having an impact there, but I'm wondering if there is not also some more aggressive behavior by some of the competitors whether it's the small, medium-sized opportunities or even with the large side getting more aggressive on price, trying to take obviously tougher share.

Denny Strigl - *Verizon - President & COO*

Okay, Mike. I got it. I understood Jason's question also. So let me hit the iPhone head on here. So clearly the iPhone has been a successful device, which for us has expanded the overall smartphone market. It has had an impact on our porting ratio. We are still competing successfully in the marketplace, and we will continue to do so.

I think that the lineup that I mentioned, the pipeline of products we have coming I think leave us in a strong position. Yes, we did see an uptick in the last couple of weeks of June, no question about that. But I think we are extremely well-positioned going forward.

John Killian - *Verizon - EVP & CFO*

On the enterprise side of the business, we would really point to the cyclical impacts -- what is happening with employment, particularly the loss of employment. We are not losing business, to be candid with you, to competitors. If anything, we are positive in terms of new customer contracts, very strong retention with the existing customers. We think we are very well positioned for when the economy turns around, employment starts to turn around. Fran Shammo who runs that business and his team has had tremendous focus around cost as we have gone through this downturn and trying to minimize any impacts on margin as we go through here. So competitive activity really has not been the issue as it relates to us. It has been much more the economy and employment.

Mike McCormack - *JPMorgan - Analyst*

John, how would you characterize the pricing environment? Is it unchanged?

John Killian - *Verizon - EVP & CFO*

I think it is, Mike. I think we talked about on the last quarter call that we had seen some stabilization, which we think is important. I think we continue to see that, to be quite candid with you, right now. So I would not say the pricing environment has been a big negative this quarter.

Operator

Chris King, Stifel Nicolaus.

Chris King - *Stifel Nicolaus - Analyst*

I just wanted to get your thoughts on a couple of the recent developments in Washington. You guys have been fairly proactive on a couple of issues; handset exclusivity and roaming being two of them. I just was wondering what your initial feedback that you guys were getting from Washington on those steps that you guys have taken? And how you view the environment seems to have turned to be a little bit more aggressive going up against the large telcos in the US. I just wanted to get your thought process on that, and what you guys see over the course of the next six to 12 months is kind of impacting the Washington environment?

Denny Strigl - *Verizon - President & COO*

Okay, Chris, I will start and, of course, John can add. On the handset exclusivity piece, so we did announce a six-month handset exclusivity limit. So we were attempting or are attempting to be proactive there.

Any new exclusivity arrangement we enter with handset makers will last no longer than six months for all manufacturers and all devices. Exclusivity arrangements, we strongly believe do promote competition and innovation in device development and design. So our take here is that this approach is fair to all sides.

You know, when you think about what Apple has done in bringing the iPhone into the marketplace, it truly has accelerated innovation. And as we talk to all of our manufacturers, everybody has come out with their own iconic device, and I think that this has been very good overall for our customers.

Relative to what we read about the DOJ review, if the DOJ conducts an investigation, we think that they will find a track record of vigorous competition. It has always been that way in the wireless business. We at Verizon Wireless have demonstrated over and over again our dedication to competition on the merits of our products, our services, our prices. I also think the record shows that the Wireless and Wireline markets overall in the US are extremely competitive at this point with many new players in the marketplace.

Relative to roaming, we work out roaming agreements with carriers on a carrier by carrier basis. I will tell you that we work very hard to make sure our roaming agreements are fair. We feel that we have a very good track record and a strong position.

Operator

Tim Horan, Oppenheimer & Co.

Tim Horan - *Oppenheimer & Co. - Analyst*

Two quick follow-ups or one follow-up. On the TracFone deal, I'm assuming that the pricing that you are offering is multiyear other than the brand name. Would this be considered a multi-year agreement?

I know on some of the television advertising, they also also use -- talk about America's most reliable network or best network. I don't know if that's part of the contract or not of the six-month trial.

And then secondly, if you can give us just a quick update on Frontier, how is the process going and maybe what are the main regulatory concerns?

John Killian - *Verizon - EVP & CFO*

On the Frontier piece, let me start with that. We filed the S4 on Friday, so we are starting to get into a period where we are limited on how much we can say. We have made all of the regulatory filings. So we are making all the progress we need to make there. We think Maggie and the Frontier team have done a very good job speaking about the transaction, and we think everything is going quite well from that perspective.

On the TracFone piece here, yes, it is a multiyear agreement in terms of pricing and those kinds of things. From a branding, as Denny mentioned earlier, it is a six-month trial, and we have the ability to pull that earlier if we chose to. I'm not sure myself about America's Network piece of it. I don't know, Denny, if you have a comment there.

Denny Strigl - *Verizon - President & COO*

To be honest, I'm not sure. We will look into that and get back to you on that. The only other piece I would add is we do strike multiyear contracts with our resellers.

Tim Horan - *Oppenheimer & Co. - Analyst*

Sure. John, could you just talk about maybe what the main regulatory concerns were going through the Frontier process, the compensations you have had?

John Killian - *Verizon - EVP & CFO*

The main regulatory concerns? Yes, I think I am limited, Tim, on how much I can say. But I think you know what they are. It is continued investment in those particular territories as they get spun out would probably be at the top of the list. There is always quality of service; those kinds of things would also be there.

Operator

Phillip Cusick, Macquarie.

Phillip Cusick - *Macquarie - Analyst*

Just a quick follow-up on Tim's and then a different question. On the wholesale side, are you telling us you have no ability to pull back the pricing that TracFone has put out there? That it is a multiyear contract, and you don't have any control on them essentially offering a 60% discount on your service, first of all?

And second of all, the inventories I noticed were up pretty substantially sequentially. You talked about free cash flow plan, but is there anything in particular that is ramping up on the inventories side because we had talked to Doreen back in January and she was talking about set-top boxes and handsets both down by quite a bit?

John Killian - *Verizon - EVP & CFO*

Let me hit the cash flow and inventory, and then Denny will follow-up and finish with the TracFone. Look, we have tremendous focus on cash from ops and free cash flow. We had very good growth -- 12% growth in cash from operations, 43% growth in free cash flow. We also have focused, to be honest, on all balance sheet items, working capital.

The issue in the quarter was you are right; we had some inventory buildup that was principally as we get into the third quarter on the Wireless side. It was stocking for the Storm and some of the other new devices. We are very comfortable with those levels there. We will continue to work that off as we go through the year. But that is really what drove that.

Seasonally in the second quarter, receivable balances, if you look back in time, go up a bit. It all has to do with billing cycles and those kinds of things. So we are not at all uncomfortable with the inventory level of what is happening from a working capital perspective.

Denny Strigl - *Verizon - President & COO*

So back to the TracFone agreement, and I think that I mentioned that we don't disclose any specific terms or the pricing that we offer to resellers. You can be assured that the contract does provide flexibility and opportunities to make adjustments as necessary, including pulling the brand name.

Now to your point on the pricing with which TracFone enters the market, we have nothing to do with that. That is strictly TracFone's prerogative and not something that we would ever interfere with.

Phillip Cusick - *Macquarie - Analyst*

Okay. Can I do one quick follow-up on the inventory side? You mentioned that there was stocking for the Storm. It seems like that is not going to launch for quite a while. Is that --?

John Killian - *Verizon - EVP & CFO*

No, no, Phil, if I said the Storm, let me correct myself -- the Tour, the BlackBerry Tour that just came out in July. That was one of the issues plus the back-to-school season. Historically we go up on inventory a bit in the third quarter. We went up a little bit more this year. That really was tied to the Tour introduction that I think Denny mentioned on July 12.

Ron Lataille - *Verizon - SVP, IR*

Fran, what I would like to do now is turn the call over to Denny for some concluding comments.

Denny Strigl - *Verizon - President & COO*

Okay. Thank you, Ron, and thanks, everybody, for your questions this morning. I have just a few comments before we close this call.

First, these are challenging times, but we stay focused on our strategy of growing revenues, taking share and improving profitability in each of our business units. The state of the economy may be more difficult now or make it more difficult in the short-term, but we will try to offset the negative impacts as much as possible by doing what we do best, and that is managing and reducing costs and being disciplined about our capital expenditures.

Second, I think we are in a good position to quickly take advantage of the recovery when it does develop. Our customer relationships remain very strong. We continue to rank high in customer satisfaction surveys and in wireless and in FiOS, and J.D. Power and Associates just ranked Verizon Business highest in customer satisfaction among large enterprise customers, I might point out, for both data and voice services. So eventually pent-up demand will result in improved topline numbers and improving margins.

And finally, we will continue to take steps that will enable future growth. A good example here is in our Wireless company. We will continue to combine the industry's best spectrum and LTE technology to give us an advantage in speed, coverage, capacity and cost, and we will leverage these network capabilities with products that realize 4G's potential.

John mentioned the developer conference tomorrow, which will help us create a robust application store and developer community. We will also be announcing tomorrow an innovative partnership to provide some advanced services and tap into some significant market opportunities ahead of us in the Wireless business. So although the short-term may be challenging, we believe we have the solid growth opportunities ahead of us, and I will conclude just once again by thanking you for joining us this morning.

Ron Lataille - *Verizon - SVP, IR*

Okay. That concludes our call today. Thank you, everyone.

Operator

Again, this concludes the call. You may now disconnect. Thank you for participating in today's conference call.
