FINAL TRANSCRIPT

Thomson StreetEvents℠

VZ - Q2 2008 Verizon Earnings Conference Call

Event Date/Time: Jul. 28. 2008 / 8:30AM ET

CORPORATE PARTICIPANTS

Ron Lataille
Verizon - SVP of IR

Doreen Toben
Verizon - EVP and CFO

Denny Strigl
Verizon - President and COO

CONFERENCE CALL PARTICIPANTS

John Hodulik
UBS - Analyst

Michael Rollins
Citigroup - Analyst

David Barden
Banc of America - Analyst

Simon Flannery
Morgan Stanley - Analyst

Mike McCormack
JPMorgan - Analyst

Jason Armstrong
Goldman Sachs - Analyst

Tim Horan
Oppenheimer & Co. - Analyst

Chris Larson
Credit Suisse - Analyst

PRESENTATION

Operator

Good morning, and welcome to the Verizon second-quarter 2008 earnings conference call. (Operator Instructions). As a reminder, this call is being recorded. 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 of IR*

Good morning, and welcome to our second-quarter 2008 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 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 web-cast. 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 Web site.

As you know, we completed the spinoff of access lines to FairPoint at the end of the first quarter. So our second-quarter results do not include these properties. For purposes of comparability, we have made available reclassified historical information on our website. These reclassifications affected revenues, expenses, and operating income. Prior-period earnings are unaffected by these reclassifications.

We have also adjusted the appropriate volume metrics. So, all the growth rates and prior-period information presented in our earnings materials are on a comparable basis.

Before turning the call over to Doreen for a review of our results, I would like to cover the differences between reported and adjusted earnings for the second quarter. Reported earnings per diluted share were $0.66. Adjusted earnings per share before the effects of special items were $0.67. The only special item we excluded from adjusted results this quarter is a charge of $22 million after-tax or $0.01 per share for MCI merger integration costs.

With that, I will now turn the call over to Doreen.

Doreen Toben - *Verizon - EVP and CFO*

Thanks, Ron, and good morning, everyone. The good momentum in our key strategic areas allowed us to turn in another quarter of mid-single digit revenue growth, continued margin expansion, and double-digit earnings growth. So from a financial perspective, we met our key performance metrics.

Verizon Wireless had a very strong quarter with revenue growth of nearly 12%, 1.5 million retail net adds, record low churn and an EBITDA margin of over 45%. Continued penetration of FiOS drove broadband and video revenues to $1.2 billion this quarter and with Verizon Business, strategic service revenues grew about 19%.

In terms of profitability, operating income margins increased to 19% and our EBITDA margins grew to 33.9%. Margin expansion is being driven by Wireless as well as improving FiOS efficiencies. Our $0.67 of diluted EPS from continuing operations this quarter was up 15.5% year over year.

We also had another strong quarter of cash generation. With steady capital spending and revenues continuing to grow, our capital efficiency has improved, a trend we expect will continue. Clearly, our network investments, together with the strength of our products and services, are enabling growth at both the top and bottom lines. Now, let's cover some of the details.

As you can see on slide 4, over the past year, we've been able to sustain strong earnings performance through consolidated revenue growth and steady margin expansion. This quarter was no exception. Our top line grew $1.1 billion or 4.9% this quarter on a year-over-year basis. Sequentially, quarterly revenues increased $549 million or 2.3%. Operating income grew over $450 million or 10.9% year over year and the margin increased 100 basis points. Our second-quarter EBITDA margin expanded 70 basis points year over year to 33.9%. Continued mid single-digit revenue growth and steady margin expansion resulted in $0.67 EPS this quarter.

On the next slide, you can see our strong cash generation profile. For the first half of this year, cash flow from continuing operations was about $12.1 billion, up 4.2% compared with last year. We believe very strongly that our disciplined investment in networks and new technologies will continue to provide the platform for growth, innovation, and productivity. Our revenue growth and slightly lower capital spending is improving the capital intensity of the business.

For the first half of the year, total CapEx was $8.4 billion, which is around $100 million less than we spent at this time last year. Our CapEx to revenue for the first half was 17.6%, an improvement of 120 basis points compared with a year ago.

Our higher debt balance is from borrowings relating to the purchase of the 700 MHz spectrum and the upfront purchase of bridge debt in the pending Alltel acquisition. These two strategic investments strengthen our overall growth outlook and provide the opportunity to further expand our wireless market leadership. We have made the determination to capitalize the interest on the wireless licenses while they are being readied for commercial use. As a result, we incurred no incremental interest expense in the quarter related to these borrowings. So now let's look at our segment results, beginning with Verizon Wireless on slide 6.

We had another strong quarter of customer growth, particularly in the retail market. Total net adds for the second quarter were 1.5 million, essentially all of which were retail postpaid. We now have 68.7 million total customers, which are largely retail. We only have 2.0 million reseller customers in our base. Our 66.7 million retail customers are largely postpaid. About 2.9 million or 4% are prepaid.

Gross add performance was very strong again this quarter with retail gross adds up 3.2% and nearly 5% for the first half compared with last year. Our industry-leading churn rates were a record low this quarter with total churn of 1.12% and retail postpaid churn of 0.83%, with both improvements sequentially and year over year. Clearly, we're gaining share. Throughout last year, we took between 50% and 55% of retail postpaid net adds among the top four carriers. In the first quarter, we took 78%. Since only two of us have reported so far, we don't know what the percentage will be this quarter, but we believe this will be a very impressive number once again.

Turning to revenues, we had another strong performance, sustaining double-digit growth. Service revenue grew to $10.5 billion this quarter, 11.6% year over year and 3.4% sequentially. Total service ARPU increased 0.9% to $51.53. More than 70% of the growth in total service revenue is from Wireless data and data now represents 24.4% of total service revenue. The drivers of growth are broadband access, e-mail, and messaging.

Data revenues in the quarter grew 45% year over year and nearly 10% sequentially. Data ARPU was up 31% over last year. About 60% of this growth is from non-messaging services. Mobile broadband access through PC cards and e-mail through integrated devices and PDAs are experiencing very high growth. There is plenty of upside here, particularly as we penetrate the small and medium businesses and enterprise markets. Roughly 60% of our retail base currently has a broadband capable device. In the near term, the introduction of new devices and new applications like our Push to Talk product will drive revenue growth.

Next year, our Rural Cellular and Alltel acquisitions will provide further opportunities for growth. Later this year, you will be hearing more about some new converged service applications and product integration between Wireless and our FiOS platform that will be very much differentiated in the marketplace, as well as some managed mobility solutions for global enterprise customers. Beyond that, our enhanced spectrum position, our 4G plans with LTE, and the innovation that will be fostered by our open development initiative will provide excellent future growth opportunities in the area of Wireless data.

In summary, our strong Wireless performance demonstrates our ability to execute in a very competitive environment. Our sharp focus on retention and further improving operational efficiency has resulted in industry-leading profitability and is generating substantial cash flow. EBITDA grew 5.1% on a sequential basis and 11.3% year over year with a very strong 45.6% EBITDA margin on service revenue this quarter.

Our capital spending totaled around $3.3 billion for the first half of the year, which is about 4% less than last year at this time. Our CapEx to revenue ratio for the first half was 13.7%, an improvement of 230 basis points from a year ago. So, our Wireless strategy and outlook are unchanged. Our primary focus is on maintaining double-digit revenue growth and strong cash generation. And we will continue to prudently strive for growth while maintaining profitability within our stated range of 43% to 45% EBITDA margins. Let's next move to Wireline, starting with customer growth in the consumer and small-business markets.

In terms of secular and competitive challenges, there is really nothing new here. We continue to see access line losses at roughly the same levels. FiOS is demonstrating continued strength in the marketplace, and we have achieved very good penetration in a relatively short period of time. In addition, we have a substantial growth opportunity as we launch FiOS TV service in New York City today. At the end of the quarter, our FiOS TV customer base was 1.4 million, which is 20% penetration. During the quarter, we added 176,000 net new customers. More than half of our markets are above 20% penetration.

In FiOS Internet, we ended the quarter with 2 million customers, representing 24% penetration. About half of our markets are above 25% penetration and a few are north of 30%.

DSL was a net negative 133,000 customers this quarter. Total broadband subscribers, that is DSL plus FiOS Internet, now stand at 8.3 million, which is up 11.5% from a year ago. Although the broadband market is maturing, it is clear that demand for higher speeds and more bandwidth is increasing, which supports our FiOS strategy. We're seeing evidence of this today, whether it's customers opting for higher speed DSL or a DSL customer migrating to FiOS or even a FiOS customer opting for higher speeds. We now offer 50 megabits down and 20 megabits up throughout our entire FiOS footprint. No other company can match these upstream speeds.

The sequential decline in FiOS net adds was due primarily to a lower level of promotions, marketing and advertising activities during the quarter. For example, we ended our free TV offer. We expect promotional activity to increase in the third quarter, in part to support our New York City video launch.

Our New York City video franchise covers 3 million premises throughout all five boroughs, about 2 million of which are in multi-dwelling units or MDUs. To date, we've already passed about 25%, with a target to pass around 30% or about 900,000 premises by the end of 2008. In Staten Island, where we already offer FiOS Internet in many locations, our goal is to pass 98% with video by year-end. And in Manhattan, our goal is to pass 57% with video by the end of this year.

Effective today, there will be about 300,000 video homes open for sale with a year end target of 500,000.

I'm also very excited to announce that effective today, we are now offering 100 high-definition channels in the New York City and northern New Jersey areas. This is clearly a significant higher number of HD channels than cable competitors currently offer. It also highlights the additional value we offer FiOS customers and further differentiates that FiOS platform.

So with more than 11 million homes currently passed by FiOS, we're clearly gaining scale and momentum. To put this in perspective, a little more than 20% of our entire land line footprint can get the triple play today. Our triple play coverage will grow to at least 60% of our total homes, strengthening our ability to retain customers. As these customers increase their spending with us, it will not only help revenue metrics but also our cash flow.

With regard to access lines, our quarterly losses continue to track within a range. During the second quarter, total switched line losses were 920,000. There is usually a seasonal increase in disconnects in the second quarter, so I would say we haven't seen any substantial changes in trend.

From a consumer revenue perspective, broadband and video are clearly the growth drivers, topping the $1 billion mark in the second quarter. Broadband and video revenues now represent 28% of legacy consumer revenues this quarter and were up 53% year over year. Revenue from these services are also driving consistent growth in consumer retail ARPU, which is now nearly $64, up 10.4% from a year ago.

The continued deployment of FiOS and increased penetration of available homes will drive further growth in revenue and ARPU, especially as we increase triple play availability, which now stands at 84% of FiOS Internet homes open for sale. The blended FiOS ARPU is slightly over $130 per month. Since not everyone has all three services, the FiOS triple play is even higher.

Now, let's take a look at Verizon Business. In this market, we continue to see solid demand and our sales funnel remains strong. We've seen some pricing stability in certain products but it obviously remains a very competitive market. The top chart on slide 11 displays our global retail enterprise revenue, which is our primary strategic focus. Second-quarter revenues were up 1.7%.

As we've discussed before, recent quarterly growth rates have been negatively affected by strategic take-backs with certain customers moving traffic off our network. Excluding this effect in the second quarter, global retail enterprise growth would've been over 3%. We expect second-half revenue growth rates will improve, especially in the fourth quarter as we have some significant contract wins that will begin revenue contributions later this year.

Total revenues of $5.3 billion for Verizon Business grew 0.9% year over year. Strategic services now represent 28% of total Verizon Business revenue. Revenue associated with these services, mainly private IP, managed services and security, grew about 19% year over year.

In summary, we believe we are well positioned to compete effectively based on the positive momentum and demand for our key strategic products. Wireline EBITDA margin was 27.3%, which is up 60 basis points year-over-year and 30 basis points sequentially. As for top-line growth, we expect the customer demand for FiOS to continue, and we certainly have a great near-term opportunity ahead of us in the New York City market. We're also making progress in our discussions with some other large cities. Also, we expect our strategic services in the enterprise space to continue growing as more businesses transition to IP and look to companies like ours to manage their networks and provide data security.

In addition to these revenue growth opportunities, we also have significant opportunities to reduce costs. We remain committed to further margin expansion and we're targeting improvements during the second half of this year. We expect operational improvements in FiOS to continue. Our capital unit costs are trending lower as we scale, and we continue to be focused on productivity. We have made steady progress in reducing the cost of provisioning FiOS.

In addition to other areas like systems consolidations and access cost reductions, we've got a number of cost reduction opportunities we are pursuing, many of which involve our centralized network, IT, marketing, and service organizations. Broadly speaking, we have programs to eliminate costs through network simplification. We're looking at work center consolidations, sourcing savings, and fleet and energy management programs. We've got quite a few automation and self-service programs underway to reduce average handling times and increased use of the Web and automated voice services. A lot of activity, but more to do.

In summary, we're on track to meet our financial objectives and we delivered a solid quarter. Our strategies are intact and our long-term outlook is unchanged with opportunities for continued revenue growth and steady margin improvement, and the ability to generate cash and delivered double-digit earnings growth over the planning period.

As far as pending transactions are concerned, we believe that the closing of the Rural Cellular acquisition is imminent. The Alltel approval process is well underway, and we remain optimistic that it will close by year end. In terms of our outlook for the second half of the year, we see our positive momentum continuing and we don't expect any significant economic impacts. We may begin to see some softening volumes, especially in the financial sector but we do not expect this to significantly affect our business plan. We expect consolidated results to post solid mid single-digit revenue growth, steadily increasing margins, strong cash generation, and meet earnings growth expectations.

As far as capital spending is concerned, we are confident that we will be below our 2007 amount of $17.5 billion with both Wireline and Wireless being less than last year. This includes an estimated $200 million in capital related to the rural cellular integration. Our strong cash outlook gives us the ability to continue investing for growth and we're comfortable in considering a dividend increase with our Board in the fall. With that, I will turn it back to you, Ron.

Ron Lataille - *Verizon - SVP of IR*

Thanks, Doreen. Stacey, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

The FiOS video numbers are a little bit below our expectations. Can you give us a sense of how you expect that to trend in the second half and maybe '09 versus '08, given the new promotions and new markets you guys are opening up, and maybe some detail on the slowdown versus in terms of penetration of new markets or whether you're seeing the slowdown really more in mature markets? And then related to that, do you expect the new promotions in the third quarter to have any impact or noticeable impact on the margins?

Denny Strigl - *Verizon - President and COO*

This is Denny Strigl. Let me start with the answer to your questions. First, so, FiOS net adds in the second quarter, we're actually about what we had expected coming off of a very good first quarter which was that free high-def TV. We expect third-quarter net adds to increase and sales, even so far in early June, are trending higher. We continue to expand homes passed and open for sale and we think we have the opportunity to improve net adds also with our New York City launch, which occurred this morning.

There will also be increased marketing around the New York City launch and we are now offering 100 HD channels on our FiOS TV service, as you heard in Doreen's comments. So, the more -- this will be more high-definition incidentally than our cable competition. So, we're expecting an upturn on our FiOS numbers in the third quarter.

John Hodulik - *UBS - Analyst*

And any impact on the margins from the increased activity, Doreen, or do you expect to see sequential improvement?

Doreen Toben - *Verizon - EVP and CFO*

No, John, I would say that we will continue to see improvement in the second half of the year, consistent to what we've said.

Ron Lataille - *Verizon - SVP of IR*

Stacey, next question please.

Operator

Michael Rollins, Citigroup.

Michael Rollins - *Citigroup - Analyst*

Just to follow up with two quick questions. Just one on the Wireline margin front. You talked about the 80 to 100 bps guidance beforehand for the full-year margin improvement. I was wondering, following the second quarter, where we are along that track and if you see some incremental -- you mentioned some items but if you see any incremental items really being the key factors to delivering that margin expansion.

And then just secondly, on the consumer business, what are you seeing in terms of where the incremental line loss is going? Do you feel it's going more wireless? Do you feel it's going more to cable or VoIP? And just any thoughts on how that should move over the next sort of 12 to 18 months? Is it going to be steady, do you think there will be more competition or less? Thanks.

Denny Strigl - *Verizon - President and COO*

I will start this and ask Doreen to add her thoughts. But, we have not changed our margin targets. Both Doreen and I remain convinced that we can improve Wireline margins and that our long-term goal of -- you've heard us say this before -- 30% to 33% is very achievable. So, the organization is focused on driving both top-line and bottom-line improvement, and we should be on a run rate of at least 28% in the fourth quarter of this year. So, Doreen, anything to add to that?

Doreen Toben - *Verizon - EVP and CFO*

I think on the margin, the only thing I would say is obviously there are puts and takes that will affect it in the short-term. We'll see where the volumes are for the third and fourth quarter. Also, obviously, the contract; I will have to see if there's anything major or different than I was expecting coming out of the contract. But having said all of that, I continue to be very comfortable with double-digit earnings growth for the year. And we have always said I am very comfortable -- there's lots more cost-saving opportunities that come. So we're comfortable with the revenue; see that there are more cost-savings that we can come in and the 30% to 33% target has not changed at all.

Denny Strigl - *Verizon - President and COO*

So, Mike, on the line loss question that you asked, first of all, I don't see that this will spike further. We work very hard to try to contain this. It is higher than what we had been geared for. But the fact of the matter is that it is very stiff competition that we're receiving from cable. And also, there is a wireless impact. It is our estimate that we see probably half of our line loss going to wireless service. But then at the same time, I think it's important to say going forward, we will continue to focus on growing our FiOS areas out as we do, and we continue to offer triple play packages. As Doreen had indicated in her comments, we have great success in competing with the cable companies.

Ron Lataille - *Verizon - SVP of IR*

Next question, please.

Operator

David Barden, Banc of America.

David Barden - *Banc of America - Analyst*

First, just on the Wireless, obviously no complaints about performance there. But ARPU was a little bit lighter than we were looking for. I was wondering if you could talk a little bit about puts and takes. We know Sprint is out there being very aggressive on giving away free months of service and such, trying to hold on to their customer base. There's obviously been a ramp-up presumably in some of the $100 unlimited plan take rates. I wonder if you could kind of talk about the trend in those variables. And then the second question if I could, just Denny and Doreen, in your commentary, is that all kind of assuming that the union relationship kind of continues as it is currently? Or what kind of costs could conceivably be incurred if contingency plans have to be put in place later in the quarter?

Denny Strigl - *Verizon - President and COO*

On the Wireless ARPU, our total ARPU this quarter was up, as you saw, $0.48 year over year, up $0.62 up from the first quarter. And by the way, our data ARPU this quarter was up $3.00 year over year and that's up $0.86 sequentially. So, these are good numbers, and we are still trending higher. In fact, we've had nine consecutive quarters of year-over-year ARPU growth.

So, as you know, our business model is focused on our postpaid market, which has better characteristics than high reseller and prepaid business models. We've had some good wins incidentally in the business market this quarter. When that occurs, on the business side, somewhat like the family share plans, we see somewhat lower ARPU initially, but then, there is more data upside from broadband and e-mail opportunities that we see over time on those business accounts.

And of course, the whole business opportunity that we have realized helps us drive our churn levels even lower. And so, I guess going forward -- and you've heard us say this before -- I would ask us to think in broader terms; ARPU being just one measure. I think we need to balance the ARPU with our leading churn rates with EBITDA growth and overall, with the quality of our customer base. We are quite pleased with the ARPU growth that we've had in the quarter.

Doreen Toben - *Verizon - EVP and CFO*

And I guess, David, they are in the middle of negotiations so I don't think it's appropriate to comment on this very much. But obviously, you've got salary and wage, you've got pension bans and you've got OPEB as big swings and countless other things.

David Barden - *Banc of America - Analyst*

(multiple speakers) Doreen, more on the financial impact (multiple speakers)

Denny Strigl - *Verizon - President and COO*

I'd like to comment just a step further on union negotiations, because we know that's been on all of your minds. So we are optimistic that we'll reach a fair settlement for our Company. We have been making good progress. The key issues really haven't changed. They are wage increases, health-care benefits, work rules. And I really would like you to know that our workforce has been very excited about our video opportunities, particularly in New York City. It's an opportunity in New York and in other major cities as we roll out that we will create new jobs and plenty of work for our existing workforce. So, having said that, the questions about where do we go with a strike; we think it would be unfortunate if a strike occurred. But we will deal with it if and when it comes. In the meantime, we will work hard to reach a fair settlement for our Company as quickly as possible.

Ron Lataille - *Verizon - SVP of IR*

Stacey, next question.

Operator

Simon Flannery, Morgan Stanley.

Simon Flannery - *Morgan Stanley - Analyst*

Denny, some interesting Wireless initiatives that I think Doreen touched on in the call -- Push to Talk, rolling that out, integrating FiOS and Wireless and then some managed mobility solutions. Perhaps you can give a little bit more color on some of those. And then Doreen, just a quick one. What should we be thinking about for the tax rate in the second half? Thanks.

Denny Strigl - *Verizon - President and COO*

Simon, on the Push to Talk, last week, we announced a new Push to Talk device along with our partner, Motorola. Of course, it leverages our EVDO Rev A network and is actually available in our stores starting today. Unlimited Push to Talk is $10 per month on any line that has a nationwide voice plant. So we will offer more devices incidentally in the future, and we have a second device coming up shortly. But I have to be candid with you here, I see Push to Talk as just another part of our very broad product line. So, this is one product; I think we have some upside. But again, it is just one product.

Simon Flannery - *Morgan Stanley - Analyst*

And you've got the latency fixed on that now? That's coming in?

Denny Strigl - *Verizon - President and COO*

You know, Simon, I think we're in very good shape on latency. Unlike what you saw from us a couple of years ago, we're in a good place.

Simon Flannery - *Morgan Stanley - Analyst*

And anything on the FiOS (multiple speakers)

Doreen Toben - *Verizon - EVP and CFO*

(multiple speakers) Simon, I would say currently, we're sort of working with federal, state, and non-US settlements between now and the end of the year. And so, with that sort of as a caveat, I think the range is sort of 34% to 36%.

Ron Lataille - *Verizon - SVP of IR*

Next question.

Operator

Mike McCormack, JPMorgan.

Mike McCormack - *JPMorgan - Analyst*

On the small, medium-sized marketplace, can you give us a sense for what you're seeing there, trend-wise, whether or not you're seeing incremental cable competition as well.

And, secondly, on the enterprise trend, it seems like we've had a couple of data points out there about slower decision making or just a little bit more of a sluggish environment. Can you give us a sense if there's any sort of price competition that's resulting from that environment?

Lastly, maybe just some preliminary comments on what impact you may be seeing right now from the iPhone launch? Thanks.

Denny Strigl - *Verizon - President and COO*

A number of questions there, Mike. So looking overall at the iPhone launch -- let me start with that question. As we saw with the initial introduction of Apple's iPhone, we are seeing what we think is the same. It is a minimal short-term impact. I would have to say that the impact has been disproportionately less than our relative market share. So, we think that that's a good sign. Apple's iPhone has actually caused what we think is a stimulation of the sales of smartphones. So if we look at our PDAs and integrated devices we're now over 30% of our handset sales. And, as you can see from our net add results over the last three or four quarters, since the iPhone hit the market, we continue to be well-positioned and our continued success by the way is based on our focus on the best network and best customer service and actually not on any one device.

So, you asked about small business. Looking at what's occurring there, we've seen some competition at the low end of the small business market. There's no doubt about it, that has come from -- primarily from the cable companies. But, revenues actually on small business were also impacted by some of our bundled discounting. So, we're expanding FiOS Internet and video in the small business market, especially to the multi-tenant units, the MTU areas. I think we've got some good opportunity going forward in the small business market, particularly with our FiOS product.

Mike McCormack - *JPMorgan - Analyst*

Then, just on the overall competitiveness and enterprise? Any pricing actions going on or is that pretty stable?

Denny Strigl - *Verizon - President and COO*

We do -- we have really nothing new to report that Doreen and I hadn't already mentioned, I think, last quarter. We do see some forced downsizing, office closures, sales delays, decision delays in some of the financial services sector.

However, our enterprise sales funnels remain strong. And when you add new business wins and opportunities, we really don't expect that the net effect will have any significant impact on our financial results. But, Doreen might want to comment further on that.

Doreen Toben - *Verizon - EVP and CFO*

No, I think we've seen enterprise has been resilient to the industry. So when you look at other sectors, though, I think that that's been a real positive for us.

Mike McCormack - *JPMorgan - Analyst*

Are you guys seeing a disproportionate impact on the SME marketplace with respect to the economy versus large enterprise?

Doreen Toben - *Verizon - EVP and CFO*

I don't think so. Certainly on the enterprise, it's easier for us to see. It's more segmented. But I would say probably not.

Denny Strigl - *Verizon - President and COO*

I agree.

Ron Lataille - *Verizon - SVP of IR*

Stacey, next question.

Operator

Jason Armstrong, Goldman Sachs.

Jason Armstrong - *Goldman Sachs - Analyst*

A couple of questions. First on pension, just sort of knowing what you know now about equity market performance this year, Doreen, can you talk us through pension plan performance and maybe help frame the 2009 earnings sensitivity for us, just as it relates to pension and OPEB?

And then second question just related to northern New England, where obviously you sold a lot of lines recently. You still had systems allocated to FairPoint. As you think through planning for sort of resource allocation and cost structure, what's your expectation for how long you have to support these systems?

Doreen Toben - *Verizon - EVP and CFO*

On the pension and OPEB, obviously, we are similar to where the market is. Although we have a lot of real estate and private equity. So our returns are probably much better than you would -- if you looked at the Dow or something like that. And we'd consistently be benchmark.

Having said all that, on the pension front, even if it's a slight negative or zero, you smooth in over five years. So I don't expect it to be a big impact. The much bigger impact is in the discount rate. And so, you don't really pick the discount rate until the end of the year. To the extent that interest rates move on us, you can totally offset the impact. So, until you really see the interest rate, it's hard to give you a number. Current course and speed, I don't expect it to be very different than it was this year. Just like '07 and '08 are relatively flat. My expectation sort of big moves and discount rate would be sort of similar.

On the systems allocation, do you want to --?

Denny Strigl - *Verizon - President and COO*

Yes, I'm happy to take that one. On the systems support for FairPoint, Jason, we actually have a contract with FairPoint to provide system support. I believe that that takes us into the late fall.

Doreen Toben - *Verizon - EVP and CFO*

November.

Denny Strigl - *Verizon - President and COO*

November.

Jason Armstrong - *Goldman Sachs - Analyst*

Okay, so the expectation is that they move off end of November?

Denny Strigl - *Verizon - President and COO*

Yes, sir.

Ron Lataille - *Verizon - SVP of IR*

Stacey, next question please.

Operator

Tim Horan, Oppenheimer.

Tim Horan - *Oppenheimer & Co. - Analyst*

Doreen, on the wholesale front, do you think we're basically done with the streamlining process here or not? I guess it was about around a 2% impact this quarter. When do you think we'll see the financial results of that?

And then, Danny, just a related question, why do you think the -- or Doreen, why do you think the enterprise has been so resilient? And obviously you have a lot of visibility into the second half but maybe some guesstimates on why that is still holding up real well, particularly versus consumer? Thanks.

Doreen Toben - *Verizon - EVP and CFO*

Hey, Tim, yesterday -- what do you mean by the wholesale 2%. I'm not sure I follow --?

Tim Horan - *Oppenheimer & Co. - Analyst*

I'm sorry. I think you said normalized revenue growth in Business would've been about 3%.

Doreen Toben - *Verizon - EVP and CFO*

Oh, okay, okay. Yes, sort of -- well, third quarter, we're mostly through with it. Fourth quarter, we're totally through with it. So you'll see an impact that bumps up in third, but you'll see it much more significantly, although you see a nice bump in the third in the fourth quarter. Do you want to do enterprise?

Denny Strigl - *Verizon - President and COO*

Don't have anything to add to it.

Doreen Toben - *Verizon - EVP and CFO*

On the enterprise side, your question was why we think it's resilient this time?

Tim Horan - *Oppenheimer & Co. - Analyst*

Yes, yes.

Doreen Toben - *Verizon - EVP and CFO*

We think it's a lot more -- you know, in the old days, it was a lot more when you lost a person, when they had the layoffs, it was the voice or the data lines or the desk. I think a lot -- this time, it's much more all your high-speed lines, your DS1s and your DS3s. And so I think that that's been a big difference.

The other impact is, we have a lot more global this time, right? So, back before we had MCI, we had no global. Now, there is a significant piece of our business which is global, which has been growing nicely.

Tim Horan - *Oppenheimer & Co. - Analyst*

And what have you done on the global front to really beef that business up? Because it does look like it's doing really well.

Denny Strigl - *Verizon - President and COO*

We've been much more focused on multinational accounts, not only headquartered here in the United States but around the world. And the IP global network that we have we think is quite superior to what others offer. So, that's been a big selling point for us. Once we're able to get in with the global IP network, of course, we do a fair amount of consulting and some of our strategic services. So, I think that's been to our advantage.

Doreen Toben - *Verizon - EVP and CFO*

I would say the Cybertrust acquisition -- the security products has done extremely well internationally.

Denny Strigl - *Verizon - President and COO*

Yes.

Ron Lataille - *Verizon - SVP of IR*

Stacey, next question, please.

Operator

Chris Larson, Credit Suisse.

Chris Larson - *Credit Suisse - Analyst*

Good morning, and thanks for taking my call. A couple questions. Doreen, you alluded to cost per FiOS installations coming down. Can you give us some parameters around that? Is it -- how meaningful that is.

And then secondly, on the Qwest business that you won, when can we start to see those Qwest subs come over? And is it your expectation that they will begin to transfer? I think they have about 900,000 customers. Will they begin to transfer those customers over to your Wireless business? Thanks.

Denny Strigl - *Verizon - President and COO*

Chris, let me start this. On the Qwest deal, as customers come out of contract, they will be migrating over to Verizon Wireless service, so we see that over time. It will happen probably over the next 12 to 18 months.

Doreen Toben - *Verizon - EVP and CFO*

And on the FiOS piece of it, just a couple of things. just let me do the capital for a second. The two capital metrics were cost per home passed and cost per home connect. And we had given you 2010 targets of like 650 and 700. We are and we've been saying we're now better than our target in the cost per home passed, and we are right on target, maybe a little bit better on the cost per home connected. So on the capital side, we've done extremely well.

And on the expense side, which is mostly the hours in the house for the most part. They are -- have come down nicely. So we're trending to be just about on plan. So they had been impactful. The most impact obviously to the case on an ROIC, however, was the capital, of which we've done extremely well.

Ron Lataille - *Verizon - SVP of IR*

Stacey, at this point, I'm going to hand the call over to Mr. Strigl for some closing comments.

Denny Strigl - *Verizon - President and COO*

Thank you very much, Ron, and thanks, everybody, for your questions. Before we close the call, I'd like to just take a minute to summarize a couple of things that we have said in our call this morning.

First, hopefully, you got the sense that Doreen and I and I know Ivan also feels very comfortable with our business plan, despite some of the concerns that others have been expressing about the economy. Although we may see some softening in some of our volumes, we do not expect any significant economic impact on our financial results in the second half of the year.

Our focus for the remainder of the year actually is pretty simple. We are intent on delivering top-line growth, and at the same time, delivering bottom-line performance. And as you heard from Doreen, we expect consolidated results to post solid mid single-digit revenue growth, steadily increasing margins, strong cash flow generation, and double-digit earnings growth.

I think when we look at the first half of 2008, we're pleased with the organic momentum that we've seen across all of our operating groups in telecom. We added about 450,000 FiOS Internet customers, 439,000 FiOS TV customers and in fact, a week ago, we added our 2 millionth FiOS Internet customer.

In Wireless, we added nearly 3 million new customers and over 90% of these net adds were into our retail postpaid category.

And in Verizon Business, strategic services grew 21% and global enterprise revenues before the strategic take-backs grew at 3.3%.

We've deployed capital and made investments to create this kind of organic growth and it's converting for us into solid revenue growth.

Another area of focus, of course, is margins, especially on the Wireline side of the business. In the first six months, we grew Wireline EBITDA, our margin by 40 basis points year over year.

And, my view here is that we should be doing better. We have not yet gained enough momentum on the margin line. And as you heard today, we expect margins will continue to improve, and we continue to drive our organization to accelerate margin improvements. But, despite all of the challenges, we had double-digit earnings growth this quarter and earnings were up 14.3% year to date.

So, we're making progress. We feel good about where we are halfway through the year, and we believe that we're positioned to continue to move in the right direction. So thank you, everyone, for joining us today.

Ron Lataille - *Verizon - SVP of IR*

Operator, that concludes our call today. And thank you, everyone, for joining us.
