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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

(Mark one)



ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-8606

## Verizon Communications Inc.

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction  
of incorporation or organization)

**23-2259884**

(I.R.S. Employer Identification No.)

**140 West Street**

**New York, New York**

(Address of principal executive offices)

**10007**

(Zip Code)

**Registrant's telephone number, including area code: (212) 395-1000**

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, \$.10 par value	New York Stock Exchange The NASDAQ Global Select Market London Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the  
Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was  
required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any,  
every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this  
chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post  
such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

At June 29, 2012, the aggregate market value of the registrant's voting stock held by non-affiliates was approximately \$126,583,478,030.

At January 31, 2013, 2,858,275,417 shares of the registrant's common stock were outstanding, after deducting 109,334,702 shares held in treasury.

**Documents Incorporated By Reference:**

Portions of the registrant's Annual Report to Shareowners for the year ended December 31, 2012 (Parts I and II).

Portions of the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with the registrant's 2013 Annual Meeting of Shareholders (Part III).

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## TABLE OF CONTENTS

Item No.		Page
<b>PART I</b>		
<b>Item 1.</b>	<u><a href="#">Business</a></u>	2
<b>Item 1A.</b>	<u><a href="#">Risk Factors</a></u>	15
<b>Item 1B.</b>	<u><a href="#">Unresolved Staff Comments</a></u>	18
<b>Item 2.</b>	<u><a href="#">Properties</a></u>	18
<b>Item 3.</b>	<u><a href="#">Legal Proceedings</a></u>	19
<b>Item 4.</b>	<u><a href="#">Mine Safety Disclosures</a></u>	19
<b>PART II</b>		
<b>Item 5.</b>	<u><a href="#">Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a></u>	20
<b>Item 6.</b>	<u><a href="#">Selected Financial Data</a></u>	20
<b>Item 7.</b>	<u><a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a></u>	20
<b>Item 7A.</b>	<u><a href="#">Quantitative and Qualitative Disclosures About Market Risk</a></u>	20
<b>Item 8.</b>	<u><a href="#">Financial Statements and Supplementary Data</a></u>	20
<b>Item 9.</b>	<u><a href="#">Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a></u>	21
<b>Item 9A.</b>	<u><a href="#">Controls and Procedures</a></u>	21
<b>Item 9B.</b>	<u><a href="#">Other Information</a></u>	21
<b>PART III</b>		
<b>Item 10.</b>	<u><a href="#">Directors, Executive Officers and Corporate Governance</a></u>	21
<b>Item 11.</b>	<u><a href="#">Executive Compensation</a></u>	22
<b>Item 12.</b>	<u><a href="#">Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a></u>	22
<b>Item 13.</b>	<u><a href="#">Certain Relationships and Related Transactions, and Director Independence</a></u>	22
<b>Item 14.</b>	<u><a href="#">Principal Accounting Fees and Services</a></u>	22
<b>PART IV</b>		
<b>Item 15.</b>	<u><a href="#">Exhibits, Financial Statement Schedules</a></u>	23
<u><a href="#">Signatures</a></u>		29
<u><a href="#">Certifications</a></u>		

## PART I

### Item 1. Business

#### General

Verizon Communications Inc. (Verizon, or the Company) is a holding company that, acting through its subsidiaries, is one of the world's leading providers of communications, information and entertainment products and services to consumers, businesses and governmental agencies with a presence in over 150 countries around the world. Formerly known as Bell Atlantic Corporation, we were incorporated in 1983 under the laws of the State of Delaware. We began doing business as Verizon on June 30, 2000 following our merger with GTE Corporation. We have a highly diverse workforce of approximately 183,400 employees.

Our principal executive offices are located at 140 West Street, New York, New York 10007 (telephone number 212-395-1000).

We have two primary reportable segments, Verizon Wireless and Wireline, which we operate and manage as strategic business segments and organize by products and services.

<b>Verizon Wireless</b>	Verizon Wireless' communications products and services include wireless voice and data services and equipment sales, which are provided to consumer, business and government customers across the United States.
<b>Wireline</b>	Wireline's voice, data and video communications products and enhanced services include local and long distance voice, broadband Internet access and video, corporate networking solutions, data center and cloud services, and security and managed network services. We provide these products and services to consumers in the United States, as well as to carriers, businesses and government customers both in the United States and in over 150 other countries around the world.

The following portions of the 2012 Verizon Annual Report to Shareowners are incorporated into this report:

- "Overview" on pages 22 through 24; and,
- "Segment Results of Operations" on pages 29 through 34 and in Note 13 to the consolidated financial statements on pages 77 through 79.

#### Verizon Wireless

##### Background

Our Verizon Wireless segment is primarily comprised of Cellco Partnership doing business as Verizon Wireless. Cellco Partnership is a joint venture formed in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone Group Plc (Vodafone). Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%. Verizon Wireless provides wireless communication services across one of the most extensive wireless networks in the United States and has the largest third-generation (3G) Evolution—Data Optimized (EV-DO) and fourth-generation (4G) Long-Term Evolution technology (LTE) networks of any U.S. wireless service provider.

Verizon Wireless is the largest wireless service provider in the United States as measured by retail connections and revenue. At December 31, 2012, Verizon Wireless had 98.2 million retail connections and 2012 revenues of approximately \$75.9 billion, representing approximately 66% of Verizon's 2012 aggregate revenues.

As of January 22, 2013, our 4G LTE network has been deployed in 476 markets covering more than 273 million people throughout the country, which is nearly 89% of the U.S. population. We expect to continue to deploy 4G LTE during 2013 and by year-end cover nearly our entire existing 3G network footprint. Our 4G LTE network provides higher data throughput performance for data services at lower cost compared to those offered by 3G technologies. As of December 31, 2012, nearly 50% of our wireless data traffic was on our 4G LTE network.

##### Wireless Service and Product Offerings

Our wireless services described below are available to our customers receiving service under the Verizon Wireless brand. In addition, customers can obtain wireless products and services that operate on our network from resellers that purchase network access from us on a wholesale basis.

## Wireless Services

We offer our wireless services on a postpaid and prepaid basis. Retail (non-wholesale) postpaid accounts represent retail customers that are under contract with Verizon Wireless directly served and managed by Verizon Wireless and use its branded services. Accounts include single connection plans, family plans, Share Everything® plans and corporate accounts. A single account may receive monthly wireless services for a variety of connected devices. Postpaid connections represent individual lines of service for which a customer is billed in advance a monthly access charge in return for a monthly network service allowance (access service revenues), and usage beyond the allowance is billed in arrears (usage service revenues). Approximately 94% of our retail connections received our wireless services on a postpaid basis as of December 31, 2012. Our prepaid service enables individuals to obtain wireless services without a long-term contract or credit verification by paying for all services in advance.

In 2012, Verizon Wireless launched the Share Everything plans, which were made available to both new and existing postpaid customers. These plans feature domestic unlimited voice minutes, unlimited text, video and picture messaging and a single data allowance that can be shared among up to 10 devices connected to the Verizon Wireless network. For an additional monthly access fee, our customers have the option of sharing long distance and roaming minutes among their devices for calls from the United States to, and calls while within, Canada and Mexico. The Share Everything plans also include the Mobile Hotspot service on our smartphones at no additional charge. The Mobile Hotspot service allows a customer to use our network to create a Wi-Fi network that can be used by Wi-Fi enabled devices. In January 2013, Verizon Wireless announced it will begin offering shared data plans for business, with the Share Everything plans for Small Business and the Nationwide Business Data Packages and Plans. As of December 31, 2012, Share Everything accounts represented approximately 23% of our retail postpaid accounts.

As wireless service providers continue to upgrade their networks to enhance data-carrying capabilities and to permit higher-speed data transmission, the demand for full Internet browsing capabilities for phones and the proliferation of wireless applications for wireless-enabled laptops, phones and other wireless devices is increasing and driving data transport access and usage revenue. This growing demand for wireless services has, in turn, spurred the demand for still higher-speed network technologies and the development of an array of more advanced wireless devices that include more robust functionality.

We offer access to a wide variety of wireless services, including Internet access via our broad range of devices. Our customers can access the Internet on all of our smartphones, as well as our basic phones that include HTML web-browsing capability. Our customers pay for this access under plans and arrangements that may vary based on the type of device and the customer's preference for network access. We offer various packages of wireless services that allow customers, regardless of the device, to select the plan that best matches their network usage patterns. Our pricing models offer customers options for smartphones, basic phones, tablets and other devices.

We also offer service that enables our customers to access the Internet wirelessly at broadband speeds on notebook computers and tablets that either have embedded 4G LTE or 3G EV-DO modules, or that are used in conjunction with separate devices that enable access to this service, such as smartphones and USB modems as well as Jetpacks™ and other dedicated devices that provide a mobile Wi-Fi connection. These devices can be added to the customer's Share Everything plan for an additional monthly fee, or the customer can obtain a separate plan for the device at various price points, depending upon both the size of the data allowance purchased and the device covered by the plan.

In addition, we offer messaging services, which enable our customers to send and receive text, picture and video messages. Our consumer-focused multimedia offerings, which are primarily provided via third-party arrangements, consist of applications providing music, video, gaming, news and other content to our customers, while our business-focused offerings, which are designed to increase the productivity of our business customers, include solutions that enable customers to access the Internet and their corporate intranets, as well as products that enable wireless e-mail across our diverse portfolio of wireless devices. Our location-based services provide our customers with directions to their destination and enable our business customers to locate, monitor and communicate with their mobile field workers. Our global data services allow our customers to access their e-mail on our Global Ready Phones from hundreds of international destinations and to access the Internet at such destinations with laptops that are either Global Ready, tethered to a Global Ready Phone, or are used in conjunction with other Global Ready devices, such as certain USB data modems or Jetpacks.

Our customers can make and receive calls on their home phone handsets using our wireless network through our Home Phone Connect service. We also offer HomeFusion® Broadband, which is a high-speed Internet service that provides customers with Internet connections in their homes using our 4G LTE network.

In addition to the foregoing offerings, our customers have access to hundreds of thousands of applications and services developed and distributed by third parties, such as those offered via Google Play, accessible on our smartphones running on the Google, Inc. (Google) Android operating system, those offered via the Apple, Inc. (Apple) iTunes store, accessible through smartphones and tablets running on the Apple iOS operating system, those offered by Microsoft Inc. (Microsoft), via Microsoft's Windows Phone OS operating system and those offered by Research in Motion Limited (RIM) doing business as Blackberry, through its BlackBerry App World webstore.

We offer a variety of plans for voice services and features with competitive pricing tailored to meet the needs of our customers. Our Share Everything plans allow customers to place unlimited domestic calls using our network. We adjust our plans periodically to address changing customer preferences and needs and to take advantage of the availability of new technology. We also offer a variety of international wireless voice services to our customers through roaming arrangements with wireless service providers outside of the United States.

In addition, we provide network access and enhanced value added services to support telemetry-type applications, which are characterized by machine-to-machine (M2M) wireless connections. Our M2M services support devices that are used by a variety of vertical market segments, including healthcare, manufacturing, utilities, distribution and consumer products. For example, companies purchase network access and enhanced services from us in order to connect with and monitor equipment, such as medical devices used to monitor patients, fleet management devices used to monitor company-operated vehicles and utility monitoring devices used for smart grid applications. Other companies purchase network access and enhanced services from us to support devices that are included in a service they, in turn, sell to end-users. We also support telematics services for some of the largest automotive manufacturers. We expect that consumer use of M2M wireless connections will increase as consumers take advantage of such services as home monitoring, health care, energy management and utilities management.

### **Wireless Devices**

We offer several categories of wireless devices, including smartphones, tablets and other Internet access devices as well as basic phones.

*Smartphones.* Our device line-up includes an array of smartphones that are enabled to utilize our 4G LTE and/or 3G EV-DO high-speed data services and run under various operating platforms, such as Google Android, Apple iOS, BlackBerry OS, and Windows Phone OS.

*Tablets and Other Internet Access Devices.* We offer a variety of 4G LTE and/or 3G EV-DO-enabled tablets from multiple manufacturers that run primarily on either the Apple iOS or Google Android operating system. These tablets also permit our customers to access the Internet via a Wi-Fi connection. In addition, we offer dedicated devices that provide a mobile Wi-Fi 4G LTE and/or 3G EV-DO connection, which we refer to as Jetpacks capable of connecting multiple Wi-Fi-enabled devices to the Internet at one time. Our customers can also access the Internet wirelessly at broadband speeds on their computers via data cards, USB modems or through the use of certain laptop computers and netbooks with embedded 4G LTE and 3G EV-DO Mobile Broadband modules offered by original equipment manufacturers (OEMs). During 2012, we continued to experience strong subscriber demand for tablets and Jetpacks, which continued to represent a growing proportion of our revenue growth.

*Basic Phones.* Some of our basic phones are 3G EV-DO-enabled and have HTML-browsing capability. We also offer a selection of basic phones that operate via our CDMA-1XRTT service.

We purchase wireless devices and accessories from a number of manufacturers, with the substantial majority of our purchases made from Apple, Motorola Mobility, Samsung, LG Electronics, RIM, and PCD (through which we purchase Pantech and HTC devices and accessories).

A key component of all wireless devices is the chipset, which contains the “intelligence” of the device. Most of our wireless device suppliers rely on Qualcomm Incorporated (Qualcomm) for manufacturing and supplying CDMA-1XRTT and EV-DO chipsets. We also sell phones that include CDMA-1XRTT and EV-DO chipsets manufactured by VIA Telecom under license from Qualcomm. The LTE chipsets used in our 4G LTE-enabled devices are manufactured by various companies, each using its own 4G LTE chipset technology. In addition, there are a number of other components common to wireless phones provided by various electronic component manufacturers that we do not deal with directly.

### **Strategic Initiatives**

We have undertaken several initiatives to develop innovative devices, data services and applications available to run on our networks, including the following:

- *Innovation centers.* We operate innovation centers in Waltham, Massachusetts and San Francisco. We believe our centers serve as catalysts for the development of non-traditional devices, services and applications that take full advantage of our 4G LTE network. The centers work with many of our strategic partners representing various industries to help them quickly bring products, services and applications to market.
- *Isis.* Isis is a mobile commerce platform launched on a trial basis in 2012 as a joint venture with AT&T Inc. (AT&T) and T-Mobile USA, Inc. (T-Mobile) that enables customers to pay for point-of-sale purchases via their mobile phones using near field communications technology rather than by paying with cash or a credit card. Known as the “ISIS Mobile Wallet,” this service enables customers to organize all of their payment cards, offers and loyalty cards in one convenient application on their Isis-ready phone.
- *Converged solutions.* In 2011, Verizon Wireless entered into commercial agreements, modified in 2012, with affiliates of Comcast Corporation, Time Warner Cable, Bright House Networks and Cox Communications Inc. (the cable companies). Through these agreements, the cable companies and Verizon Wireless became agents to sell certain of one another’s products and services and, over time, the cable companies will have the option, subject to the terms and conditions of the agreements, of selling Verizon Wireless service on a wholesale basis. Additionally, Comcast, Time Warner, Bright House and Verizon Wireless have formed an innovation technology joint venture for the development of technology to better integrate wireline

and wireless products and services.

#### ***Network***

We have the largest 3G EV-DO and 4G LTE networks of any service provider in the United States, with licensed and operational coverage in all of the top 100 most populous U.S. metropolitan areas, covering a population of approximately 298 million as of December 31, 2012.

We strive to provide our customers with the highest network reliability for their wireless services. We design and deploy our network in an efficient manner that we believe maximizes the number of successful data sessions and completions of large file downloads and uploads while delivering on our advertised throughput speeds, and that maximizes the number of calls that are connected on the first attempt and completed without being dropped. We plan to continue to build out, expand and upgrade our network as well as explore strategic opportunities to expand our national network coverage through selective acquisitions of wireless operations and spectrum licenses.

In addition to our own network coverage, we have roaming agreements with a number of wireless service providers to enable our customers to receive wireless service in nearly all other areas in the United States where wireless service is available. Certain of our roaming agreements are terminable at will by either party upon several months' notice; however, we do not believe that the termination of any of these at-will agreements would have a material adverse effect on our business.

### **Technology**

Our primary network technology platforms are 4G LTE and 3G CDMA. 4G LTE provides higher data throughput performance for data services at a lower cost compared to those offered by 3G technologies. We expect to continue to deploy 4G LTE during 2013 and by year-end cover nearly our entire existing 3G network footprint. We also are working to expand 4G LTE coverage beyond our network footprint through our LTE in Rural America Program. Under this program, we are working with wireless carriers in rural areas to collaboratively build and operate a 4G LTE network using each carrier's network assets and our core 4G LTE equipment and 700 MHz C-Block spectrum. We currently have 20 committed program participants that have the potential to provide 4G LTE coverage to more than two million people under the program and, to date, seven participants have commenced operations on such networks.

In 2012, we began testing our mobile VoIP (voice over internet protocol) network known as Voice over LTE (VoLTE). This technology, which is expected to be used in addition to the current voice technology, is anticipated to result in high quality of voice service as a result of our 4G LTE network. We expect to launch VoLTE for commercial use by early 2014.

Our 3G CDMA network is based on spread-spectrum digital radio technology. CDMA-1XRTT technology is deployed in nearly all of the cell sites in our 3G CDMA network. In addition, EV-DO, a 3G packet-based technology intended primarily for high-speed data transmission, is deployed in substantially all of the cell sites in our 3G CDMA network.

Our network includes various elements of redundancy designed to enhance the reliability of our service. Power and backhaul transport facilities can often become a network's vulnerability. Consequently, we have battery backup at every switch and every cell site in our network. We also utilize backup generators at a majority of our cell sites and at every switch location. In addition, we have a fleet of portable backup generators that can be deployed to cell sites if needed. We further enhance reliability by using a fully redundant backbone Multiprotocol Label Switching network in all critical locations.

In September 2011, Verizon Wireless implemented network optimization practices designed to ensure that the overwhelming majority of our data customers are not negatively impacted by the unusually high data consumption of a few data users. Under these current practices, the top five percent of our 3G smartphone data users with unlimited data plans, as well as 3G data users roaming on our network, may experience a reduction in average data speeds when connected to a congested cell site. If a cell site is not congested, a user's connection speed will not be impacted. Network optimization helps to ensure high quality network performance for our entire customer base.

### **Spectrum**

The spectrum licenses we hold can be used for mobile wireless voice and data communications services. We have licenses to provide these wireless services on portions of the 800 MHz band (also known as cellular spectrum), the 1800-1900 MHz band (also known as PCS spectrum) and the 1700 and 2100 MHz band (also known as AWS spectrum) in areas that, collectively, cover nearly all of the population of the United States. In addition, we hold licenses for portions of the 700 MHz band, including eight licenses that can, together, be used to provide wireless service coverage to the entire United States.

In 2012, Verizon Wireless acquired Advanced Wireless Service (AWS) spectrum in separate transactions with SpectrumCo, LLC and Cox TMI Wireless, LLC for which it paid an aggregate of \$3.9 billion at the time of the closings. During 2012, Verizon Wireless also completed license purchase and exchange transactions with Leap Wireless, Savary Island Wireless, which is majority owned by Leap Wireless, and a subsidiary of T-Mobile. As a result of these transactions, Verizon Wireless received an aggregate \$2.6 billion of AWS and PCS licenses at fair value and transferred certain AWS licenses to T-Mobile and a 700 megahertz (MHz) lower A block license to Leap Wireless.

On April 18, 2012, we announced plans to initiate an open sale process for all of our 700 MHz lower A and B block spectrum licenses, subject to the receipt of acceptable bids. We acquired these licenses as part of Federal Communications Commission (FCC) Auction 73 in 2008. On January 25, 2013, Verizon Wireless agreed to sell 39 lower 700 MHz B block spectrum licenses to AT&T in exchange for a payment of \$1.9 billion and the transfer by AT&T to Verizon Wireless of AWS (10 MHz) licenses in certain markets in the western United States. Verizon Wireless also agreed to sell certain lower 700 MHz B block spectrum licenses to an investment firm for a payment of \$0.2 billion. These transactions are subject to approval by the FCC and the Department of Justice (DOJ). When finalized, the sales will result in the completion of the open sale process. We expect to deploy the remaining licenses as necessary to meet our own spectrum needs.

During the fourth quarter of 2012, we entered into license exchange agreements with T-Mobile and Cricket License Company, LLC, a subsidiary of Leap Wireless, to exchange certain AWS licenses. These non-cash exchanges, which are subject to approval by the FCC and other customary closing conditions, are expected to close in 2013. The exchange includes a number of intra-market swaps that will result in more efficient use of the AWS band. As a result of these transactions, we expect to record an immaterial gain.

We anticipate we will need additional spectrum to meet future demand. This increasing demand is being driven by growth in customer connections and usage of wireless broadband services, which use more bandwidth and require ever faster rates of speed to stay competitive. We can meet spectrum needs by acquiring licenses or leasing spectrum from other licensees, or by acquiring new spectrum licenses from the FCC, if and when offered by the FCC in future spectrum auctions. Although the availability of new spectrum for commercial wireless services and the possible dates of future FCC spectrum auctions are uncertain at this time, the FCC and the current Presidential Administration have been seeking the release of additional mobile use spectrum. In addition, Congress has adopted legislation that provides for the establishment of a national public safety network and the reallocation and auction, through the use of voluntary incentive auctions, by 2022 of portions of the existing broadcast spectrum. The timing and nature of those auctions will be determined by future regulatory proceedings.

As we and competing wireless service providers have experienced spectrum shortages in certain markets and may have spectrum surpluses in others, we have at times exchanged spectrum licenses with other service providers through secondary market swap transactions, we expect to continue to pursue similar opportunities to trade spectrum licenses in order to meet certain of our capacity and expansion needs in the future. In other cases, Verizon Wireless has entered into intra-market spectrum swaps designed to increase the amount of contiguous spectrum within frequency bands in a specific market. Contiguous spectrum improves network performance and efficiency. These swaps as well as any spectrum purchases are subject to obtaining governmental approvals for the transfer of spectrum licenses in each instance.

#### ***Network Equipment and Build-out***

Our primary cell site equipment infrastructure vendors are Alcatel-Lucent, which provides more than half of our cell site equipment, and Motorola and Ericsson, which together provide nearly all of our remaining cell site equipment. We also rely upon Alcatel-Lucent, Motorola and Ericsson for our switching equipment. Alcatel-Lucent and Ericsson are currently our primary network vendors for our LTE network deployments.

As we continue to build and upgrade our existing network, we must complete a variety of steps, including securing rights to a large number of cell site and switch site locations and obtaining zoning and other governmental approvals. In some instances, we have encountered difficulty in obtaining the necessary site leases at commercially reasonable rates and the zoning approvals needed to construct new towers. We utilize tower site management firms, such as Crown Castle International Corp. and American Tower Corporation, as lessors or managers of our existing tower sites upon which our operations depend.

#### **Marketing and Distribution**

Our marketing strategy is focused on offering solutions tailored to the needs of our various customer market groups; promoting our brand; leveraging our extensive distribution network; jointly marketing with Vodafone; and jointly marketing our products and services to large business and government customers with Verizon's Wireline business units through Verizon Enterprise Solutions, a sales and marketing organization that encompasses all of Verizon's solutions for medium and large business and government customers globally. Our marketing plan includes a coordinated program of television, print, radio, outdoor signage, Internet and point-of-sale media promotions designed to present our corporate message consistently across all of our markets.

We use a combination of direct, indirect and alternative distribution channels in order to increase customer growth while reducing customer acquisition costs.

Company-operated stores are a core component of our distribution strategy. Our direct channel, which includes our business-to-business operations and systems organization, is focused on supporting the wireless communications needs of consumers and local, regional and national business customers. In addition, we have a telemarketing sales force dedicated to handling incoming calls from customers, and we offer fully-automated, end-to-end web-based sales of wireless phones, accessories and service plans.

Our indirect channel includes agents that sell our postpaid and prepaid wireless products and services at retail locations throughout the United States, as well as through the Internet. The majority of these agents sell both our postpaid and prepaid products and services, and do so under exclusive selling arrangements with us. We also utilize high-profile, national retailers, such as Best Buy, Wal-Mart, RadioShack and Target, to sell our postpaid and prepaid wireless products and services. Stores such as Dollar General and various drugstore chains sell our prepaid products and services. We have also entered into agency agreements with a number of broadband, video and voice service providers through which our products and services are sold on a stand-alone basis or bundled with their services.

#### **Competition**

We operate in a highly competitive industry. We compete against other national wireless service providers, including AT&T, Sprint Nextel Corporation and T-Mobile USA, as well as various regional wireless service providers, including US Cellular, Metro PCS and Leap Wireless. We also compete for retail activations with resellers that buy bulk wholesale service from facilities-based wireless service providers for resale, including those that buy from us. We expect competition to intensify as a result of continuing increases in wireless market penetration levels, the development and deployment of new technologies, the introduction of new products and services, new market entrants, the availability of additional spectrum, both licensed and unlicensed, and regulatory changes. Competition may also increase if smaller, stand-alone wireless service providers merge or transfer licenses to larger, better capitalized and more experienced wireless service providers.

The wireless industry also faces competition from other communications and technology companies seeking to increase their brand recognition and capture customer revenue with respect to the provision of wireless products and services. For example, Microsoft, Google, Apple and others are offering alternative means for making wireless voice calls that, in certain cases, can be used in lieu of the wireless provider's voice service.

We believe that the following are the most important competitive factors in our industry:

- *Network reliability, capacity and coverage.* We believe that a wireless network that consistently provides high quality and reliable service is a key differentiator in the U.S. market and a driver of customer satisfaction. Lower prices, improved service quality and new wireless service offerings have led to increased customer usage of wireless services, which, in turn, puts pressure on network capacity. In order to compete effectively, wireless service providers must keep pace with network capacity needs and offer highly reliable national coverage through their networks. We believe that the deployment of our 4G LTE network will help us to keep pace with network capacity requirements and meet customer demand for higher speeds.
- *Pricing.* Service and equipment pricing play an important role in the wireless competitive landscape. As the demand for wireless services continues to grow, wireless service providers are offering service plans that include unlimited voice minutes and text messages and a specific amount of data access in varying megabyte or gigabyte sizes or, in some cases, unlimited data usage. In addition, certain wireless service providers are also offering minutes-sharing plans; free mobile-to-mobile calling; offerings of larger bundles of included minutes at attractive price points with no roaming or long distance charges; calling group features that enable customers to place and receive calls from a group of U.S. phone numbers they designate (including landline numbers) without the call time counting against their minute allotment; and both prepaid and postpaid plans offering unlimited voice and data usage. We seek to compete in this area by offering our customers services and equipment that they will regard as the best available value for the price, as well as service plans that meet their wireless service needs.
- *Customer service.* We believe that high-quality customer service is a key factor in retaining customers and attracting both new-to-wireless customers and customers of other wireless providers. Our customer service, retention and satisfaction programs are based on providing customers with convenient and easy-to-use products and services in order to promote long-term relationships and minimize churn. Our competitors also recognize the importance of customer service and are also focused on improving it.
- *Product and service development.* As wireless technologies develop and wireless broadband networks proliferate, continued customer and revenue growth will be increasingly dependent on the development of new and enhanced data products and services. We continue to pursue the development and rapid deployment of new and innovative wireless products and services both independently and in collaboration with application service providers. We also collaborate with various device manufacturers in the development of distinctive smartphones and other wireless devices that can access the growing array of data applications and content available over the Internet. We continue to focus on increasing smartphone penetration throughout our customer base. In addition to these devices, we also continue to expand international roaming agreements and offer significant coverage outside of the United States for customers that require wireless services while abroad.
- *Sales and distribution.* Key to achieving sales success in the wireless industry is the reach and quality of sales channels and distribution points. We believe that attaining the optimal combination of varying distribution channels is important to achieving industry-leading profitability, as measured by operating income. We endeavor to increase sales through our company-operated stores, outside sales teams and telemarketing and web-based sales and fulfillment capabilities, as well as through our extensive indirect distribution network of retail outlets and prepaid replenishment locations and netbook and notebook OEMs. In addition, we sell network access to both traditional resellers, which resell network services to their end-users, and to various companies to enable wireless communications for their M2M devices or for their provision of telematics services.
- *Capital resources.* In order to expand the capacity and coverage of their networks and introduce new products and services, wireless service providers require significant capital resources. We generate significant cash flow from operations, as do some of our competitors.

Our success will depend on our ability to anticipate and respond to various factors affecting the wireless industry, including the factors described above, as well as new technologies, new business models, changes in customer preferences, regulatory changes, demographic trends, economic conditions and pricing strategies of competitors.

## Wireline

### Background

The Wireline segment provides communications products and services including local exchange and long distance voice service, broadband video and data, IP network services, network access and other services to consumers, small businesses and carriers in the United States, as well as to businesses and government customers both in the United States and in over 150 other countries around the world. In 2012, Wireline revenues were \$39.8 billion, representing approximately 34% of Verizon's aggregate revenues.

### Wireline Service and Product Offerings

We organize our service and product offerings by the primary market targeted by these offerings – mass markets, global enterprise, global wholesale and other.

During 2012, Verizon acquired HUGHES Telematics, Inc. (HUGHES Telematics). The acquisition has accelerated our ability to bring more telematics offerings to market for existing and new HUGHES Telematics and Verizon customers.

During 2011, we enhanced our offerings of cloud services by acquiring Terremark Worldwide Inc. (Terremark), a global provider of information technology infrastructure and cloud services, and by acquiring a provider of cloud software technology. These acquisitions improved Verizon's competitive position in the managed hosting and cloud services space, enhanced our offerings to business and government customers globally and contributed to our growth in revenues.

### Mass Markets

Mass Markets operations provide local exchange (basic service and end-user access) and long distance (including regional toll) voice services, broadband services (including high-speed Internet, FiOS Internet and FiOS Video services) to residential and small business subscribers. In 2012, Mass Markets revenues were \$16.7 billion, representing approximately 42% of Wireline's aggregate revenues.

*Video Services.* We offer video service over our fiber-optic network. As of December 31, 2012, FiOS Video is available to approximately 14.2 million homes across 12 states, as well as the District of Columbia. We believe FiOS Video has features that differentiate it from the competition, including its channel line-up, Interactive Media Guide, Home Media DVR and breadth of high definition content, as well as the following:

- *Flex View* – With Flex View, FiOS customers can watch content anytime, anywhere, on any device. Customers who subscribe to FiOS Video and Internet also have the ability to upload their photos, music and videos to their personal Flex View Library, which gives them easy access to this content via any data-capable device. Our HBO GO offering provides customers with unlimited access to HBO programming on any data-capable device. Verizon's FiOS Video subscribers can also access Turner Broadcasting's online programming directly on the TBS and TNT sites and through Verizon FiOS Video Online. In addition, through FiOS TV Widgets, viewers have one-touch, on demand access to local weather, traffic and community information and popular social media applications, such as Facebook, YouTube and Twitter, as well as online commerce opportunities. The widget platform has evolved in an open-development environment, which provides opportunities for third parties to develop enhanced customer features via the FiOS Video product.
- *Customer Premise Equipment interoperability* – We continue to partner with major corporations such as Microsoft and Apple to offer further interoperability with various products such as the Xbox, smart televisions and iPads. This technology further expands our initiative to provide customers with the ability to watch content anytime, anywhere, on any data-capable device.

In February 2012, Verizon entered into a venture with Redbox Automated Retail, LLC (Redbox), a subsidiary of Coinstar, Inc., to offer customers nationwide access to media rentals through online and mobile content streaming as well as physical media rentals through Redbox kiosks. Verizon holds a 65% majority ownership share in the venture and Redbox holds a 35% ownership share. The venture is consolidated by Verizon for reporting purposes. In December 2012, the venture introduced its product portfolio, which includes subscription services, under the name Redbox Instant by Verizon. The initial funding related to the formation of the venture is not significant to Verizon.

*Data services.* We offer high-speed Internet and FiOS broadband data products with varying downstream and upstream processing speeds, including FiOS Quantum. As consumers power multiple devices and stream more movies and video services, the need for faster broadband is evident. With FiOS Quantum, customers can achieve download speeds up to 300 megabytes per second (Mbps) and upload speeds up to 65 Mbps.

*Voice services.* We offer voice services that include local exchange, regional, long distance, wire maintenance and voice messaging services, as well as VoIP services, which use the Internet or private broadband networks to transmit voice communications. We also offer plans that include landline and wireless services with calling features and unlimited calling between a Verizon customer's home phone and wireless handset, all on a single bill.

## **Global Enterprise**

Global Enterprise offers Strategic services, including networking products and solutions, advanced communications services, and other core communications services to medium and large business customers, including multinational corporations, as well as state and federal government customers. Global Enterprise jointly markets these services with Verizon's other business units through Verizon Enterprise Solutions. In 2012, Global Enterprise revenues were \$15.3 billion, representing approximately 39% of Wireline's aggregate revenues.

*Strategic services.* Strategic services consist of networking products and solutions, advanced communication services for voice and video and security, infrastructure and cloud services.

Networking products and solutions primarily include:

- *Private IP* – This service, built on multiprotocol label switching (MPLS), enables customers to leverage the efficiency, performance and value of IP in a secure manner. Our Private IP network allows customers to communicate over a private, secure network in more than 120 countries using a variety of access methods, including Ethernet and Verizon Wireless 4G LTE.
- *Other corporate networking services* – Other services primarily include Ethernet access and ring services. Ethernet services allow customers to connect network environments around the world and enable applications and technologies to work seamlessly and with little disruption. Ring services include technologies that help customers handle bandwidth demands while controlling costs.

Advanced communication services primarily include:

- IP communications - Our IP communications services simplify network management and drive operational efficiencies by enabling the convergence of voice and data traffic on the same access connection.
- *Infrastructure and cloud services* – Our infrastructure and cloud services include managed hosting services that provide enterprise customers with data center and network facilities, connectivity, security, architecture and support; data center collocation services that house and protect customers' critical applications and systems, including several facilities that offer extensive carrier neutral options; application management services that provide customers with comprehensive monitoring and management of applications; and advanced enterprise-class cloud services that provide organizations with the ability to virtualize IT resources such as computing, memory and storage enabling their constituents to produce, consume and share information.
- M2M Services – Our acquisition of HUGHES Telematics in July 2012 provides a technology platform that can be leveraged to enter multiple M2M markets.
- *Security* – We provide integrated solutions to help companies secure their networks and data through the following services:
  - *Security professional services* – Security consultants that construct security plans tailored to the needs of our customers;
  - *Governance, risk and compliance* – Allows customers to assess risk levels based on current security controls and develop plans to address security-related compliance objectives;
  - *Identity management* – Provides identity-based access management for customer data, application, and systems across multiple IT environments;
  - *Managed security* – We design, implement, and maintain a secure IT infrastructure for our clients and help them prevent, detect, and report security threats.
- *Other advanced communications services* – Other services primarily include: dedicated Internet access, which provides enterprise customers with high-bandwidth dedicated access to Verizon's global network, unified communications and collaboration capabilities, which enable customers to communicate in real time through VoIP and IP conferencing, and emergency communication services, which allow customers to respond effectively to emergencies while maintaining business continuity.

*Core services.* Core services include core voice and data services, which consist of a comprehensive portfolio of global solutions utilizing traditional telecommunications technology, such as conferencing and contact center solutions, and private line and data access networks. Core services also include providing customer premise equipment, installation, maintenance and site services. We are continuing to transition customers out of historical core services such as Frame Relay and Asynchronous Transfer Mode (ATM) services.

## **Global Wholesale**

Global Wholesale provides communications services including data, voice, local dial tone and broadband services primarily to local, long distance and other carriers that use our facilities to provide services to their customers. In 2012, Global Wholesale revenues were \$7.2 billion, representing approximately 18% of Wireline's aggregate revenues. A portion of Global Wholesale revenues is generated by a few large telecommunication companies, most of which compete directly with us.

Global Wholesale provides the following services, which it jointly markets with Verizon's other business units through Verizon Enterprise Solutions:

- *Data services.* We offer a robust portfolio of data services with varying speeds and options to enhance our wholesale customers' networks and provide connections to their end users and subscribers. Our data services include high-speed digital data offerings, such as Ethernet and Synchronous Optical Network, as well as core data circuits, such as DS1s and DS3s. In addition, data services include special access revenues that are generated from carriers that buy dedicated local exchange capacity to support their private networks.

New Ethernet connectivity in the United States represents the largest data growth opportunity in wholesale, as we pursue our technology upgrade initiative and customers look to the future and higher capacity demands. These customers are also migrating networks from time division multiplexing (TDM) to Ethernet, which will better scale and service the growth of broadband services driven by smartphones, mobile broadband and mobile video. Global Wholesale offers a complete suite of services to support the expansion of 3G networks and 4G networks.

Data services also includes certain value-added business services, which leverage many of the same offerings available in the Global Enterprise portfolio, including:

- *Managed services* – Offers wholesale customers the opportunity to outsource the management of their networks, security, remote access, and web applications to Verizon;
- *Mobility* – Enables wholesale customers to enhance their portfolio to triple-play or quad-play capability by leveraging wireless devices and services offered through Verizon Wireless and packaged and resold under their own carrier brand; and
- *Security* – Provides wholesale customers integrated solutions to help their enterprise end-users secure their networks and data.
- *Voice services.* We provide switched access services that allow carriers to complete their end-user calls that originate or terminate within our territory.
- *Local services.* We offer an array of local dial tone and broadband services to competitive local exchange carriers, some of which are offered to comply with telecommunications regulations. In addition, we offer services such as collocation, resale and unbundled network elements in compliance with applicable regulations.

#### ***Other***

Other services include such services as local exchange and long distance services derived from former MCI mass market customers and operator services. In 2012, Other revenues were \$0.5 billion, representing approximately 1% of Wireline's aggregate revenues.

#### **Network**

To provide services to our customers, we operate an advanced telecommunications network in the United States and around the world.

*FiOS.* Our goal is to be the premier broadband and entertainment service provider in our service areas, and we believe network reliability and expanded functionality are key to achieving this goal. As of December 31, 2012, the FiOS network passed over 17.6 million premises. Verizon has extended FiOS to the business market, as Ethernet services have seen significant growth across all lines of business. We leverage our fiber-to-the-premise infrastructure to offer new services to the business community, expanding our coverage and Ethernet and IP WAN services sought by businesses today. We offer Internet speeds up to 300 Mbps utilizing Fiber-to-the-Premise (FTTP) access technologies over fiber optic cables. Our network architecture also provides the flexibility to adapt our facilities more easily to future product development. For example, new optical terminals can be added to the FTTP network providing greater bandwidth and new services without any additional field construction. Field trials have successfully achieved connection speeds of nearly one gigabit per second (Gbps) downstream and upstream, and when a more advanced XG-PON2 technology was connected to the fiber-optic network, connection speeds of 10 Gbps were reached, demonstrating the significant capacity built into the FiOS network.

*Global IP.* Verizon's global network encompasses over 830,000 route miles of terrestrial and undersea cable. We have expanded our Virtual Private LAN service to Europe, Asia-Pacific and additional North American locations. This long haul fiber network serves the business community to support and enable far reaching international operations. We have focused on the expansion of our private IP network to serve all key international markets with Quality of Service-aware IP Virtual Private Network managed services. Our Public IP network is now interconnected to our private IP network through Security Gateway platforms that allow business customers to extend the reach of their private virtual networks to 'off-net' sites, such as employees' homes, small branch offices and mobile work forces. We have installed additional private IP edge routers for a total of 1,145 edge routers in 257 sites throughout 66 countries.

Global IP traffic increased in recent years. Verizon's key build-out efforts in 2012 included network expansion initiatives into Europe, Asia, Africa, and South America, as well as continued deployment of the industry's first commercial 100G (gigabits per second) technology on U.S. and European backbone routes. More than 12,000 100G Ultra-Long-Haul route miles were added to the global IP backbone in 2012. We expect to further extend our 100G technology in 2013, from our long haul backbone into our metro networks. This expansion will enable us to meet growing demand with higher access speeds, and fully support increases in the use of cloud applications, video distribution services and wireless technologies in the enterprise market.

*Fiber-to-the-Cellsite.* Our FTTCS Ethernet backhaul initiative is critical to supporting the substantial growth requirements of expanding 3G and 4G LTE wireless data networks nationwide. To support this initiative, over 21,000 total cell site connections have been completed since the start of this program.

In conjunction with the evolution of our access plant, we are also transitioning our metro (local) network infrastructure from traditional TDM/SONET (Synchronous Optical Network)/ATM technologies to Ethernet over Dense Wavelength Division Multiplexing (DWDM). This new optical transport network provides features optimized for video distribution services and high-speed data services, while maintaining the level of network reliability achieved with SONET.

To leverage this new network infrastructure and allow for the more efficient sharing of our network across services, we are upgrading our multiplexing and routing infrastructure to use IP, Ethernet and MPLS technologies. In addition, we are migrating from traditional TDM-based voice switching to VoIP. This migration lowers the cost of current data and voice services and creates a network that can offer future multi-media communications services by adding service platforms without requiring widespread network upgrades. We have been focused on growing our Ethernet infrastructure to support the full range of Ethernet private line and E-LAN services locally, domestically and globally. To lower the access cost and provide significant service flexibility, we are using a converged packet access strategy that replaces the private circuit-based customer access and aggregates traffic from multiple customers onto a shared Ethernet and MPLS network. We also continue to focus on emerging optical transport technologies to lower overall cost as we integrate Ethernet, SONET and Optics and ultra-long-haul technologies.

## Competition

The wireline telecommunications industry is highly competitive. We expect competition to intensify further with traditional, non-traditional and emerging players seeking increased market share. Current and potential competitors include cable companies, wireless service providers, other domestic and foreign telecommunications providers, satellite television companies, Internet service providers and other companies that offer network services and managed enterprise solutions.

In addition, companies with a global presence increasingly compete with our wireline businesses. A relatively small number of telecommunications and integrated service providers with global operations serve customers in the global enterprise and, to a lesser extent, global wholesale markets. We compete with these full or near-full service providers for large contracts to provide integrated services to global enterprises. Many of these companies have a strong market presence, brand recognition, and existing customer relationships, all of which contribute to intensifying competition and which may affect our future revenue growth.

We believe the following are the most important competitive factors and trends in the wireline industry:

- *Customer service:* Customers expect industry-leading service from their service providers. As technologies and services evolve, the ability of a carrier to excel in this area is very important for customer acquisition and retention. In Mass Markets, we compete in this area through our service representatives and online support. In Global Enterprise, we provide our customers with ready access to their system and performance information and we conduct proactive testing of our network to identify minor issues before they affect customers. In the wholesale business, we believe service improvement can be achieved through continued system automation initiatives.
- *Network reliability and bandwidth (speed):* As both consumers and small business customers look to leverage high-speed connections for entertainment, communications and productivity, we expect broadband penetration will continue to increase over the next several years. As online and online-enabled activities increase, so will bandwidth requirements, both downstream and upstream. To succeed, we and other network-based providers must ensure that our networks can deliver against these increasing bandwidth requirements. We continue to invest in our network to be able to meet this future demand. In addition, network reliability and security are increasingly important competitive factors in the global enterprise market.
- *Pricing:* Cable, telecommunications companies and integrated service providers use pricing to capture market share from incumbents. Pricing is also a significant factor as non-traditional modes of providing communication services emerge and new entrants compete for customers. For example, VoIP and portal-based calling is free or nearly free to customers and is often supported by advertising revenues.
- *Product differentiation:* As a result of pricing pressures, providers need to differentiate their products and services. Customers are shifting their focus from access to applications and are seeking ways to leverage their broadband and video connections. Converged features, such as integrated wireless and wireline functionality, are becoming similarly important, driven by both customer demand and technological advancement.

In the Mass Markets business, cable operators are significant competitors. Cable operators have increased the size and digital capacity of their networks so that they can offer digital products and services. We continue to market competitive bundled offerings that include high-speed Internet access, digital television and voice services. Several major cable operators also offer bundles with wireless services through strategic relationships.

In addition, wireless substitution is an ongoing competitive trend, which we expect to continue as wireless companies position their

service as a landline alternative. We also face increasing competition from cable companies and other providers of VoIP services as well as Internet portal providers.

As a result of the Telecommunications Act of 1996, which requires us to allow potential competitors to purchase our services for resale or access components of our network on an unbundled basis at a prescribed cost, competition in our local exchange markets continues. Our telephone

operations generally have been required to sell their services to competitive local exchange carriers at significant discounts from the prices our telephone operations charge their retail customers. The scope of these obligations going forward and the rates we receive are subject to ongoing review and revision by the FCC and state regulators. (See “Regulatory and Competitive Trends” in the 2012 Verizon Annual Report to Shareowners.)

In the global enterprise market, the customer’s need to reduce technical complexity coupled with the growth opportunity created by technology convergence is driving the expansion of the competitive landscape. Major competitors include system integrators, carriers and hardware and software providers. Some of the biggest companies in IT services are either making acquisitions or forging new alliances to be better positioned for a rebound in technology spending. Most new alliances and acquisitions have focused on emerging fields such as cloud computing, software delivery, communication applications and other computing tasks via the network, rather than on in-house machines. Carriers have also utilized acquisitions to make significant inroads into enterprise outsourcing markets that have long been dominated by the major IT outsourcers.

Global Wholesale competes with traditional carriers for long-haul, voice and IP services. In addition, mobile video and data needs are driving a greater need for wireless backhaul. Network providers, cable companies and niche players are competitors for this new revenue opportunity.

## **Patents, Trademarks and Licenses**

Verizon owns or has licenses to various patents, copyrights, trademarks, domain names and other intellectual property rights necessary to conduct our business. We actively pursue the filing and registration of patents, copyrights, domain names, trademarks and service marks to protect our intellectual property rights within the United States and abroad. Verizon also actively grants licenses, in exchange for appropriate fees or other consideration and subject to appropriate safeguards and restrictions, to other companies that enable such companies to utilize certain Verizon intellectual property rights and proprietary technology as part of their products and services. Such licenses enable such third party licensees to take advantage of the results of Verizon's research and development efforts. While these licenses result in valuable consideration being paid to Verizon, we do not believe that loss of such consideration, or the expiration of any of our intellectual property rights, would have a material effect on our results of operations.

Verizon periodically receives offers from third parties to purchase or obtain licenses for patents and other intellectual property rights in exchange for royalties or other payments. We also periodically receive notices alleging that our products or services infringe on third party patents or other intellectual property rights. These claims, whether against us directly or against third-party suppliers of products or services that we, in turn, sell to our customers, if successful, could require us to pay damages or royalties, or cease offering the relevant products or services.

## **Acquisitions and Divestitures**

"Acquisitions and Divestitures" on page 44 of the 2012 Verizon Annual Report to Shareowners is incorporated by reference into this report.

## **Regulatory and Competitive Trends**

"Regulatory and Competitive Trends" included in "Other Factors That May Affect Future Results" on pages 45 through 47 of the 2012 Verizon Annual Report to Shareowners is incorporated by reference into this report.

## **Environmental Matters**

"Environmental Matters" included in "Other Factors That May Affect Future Results" on page 47 of the 2012 Verizon Annual Report to Shareowners is incorporated by reference into this report.

## **Executive Officers**

See Part III, Item 10. "Directors, Executive Officers and Corporate Governance" of this Annual Report on Form 10-K for information about our executive officers.

## **Employees**

As of December 31, 2012, Verizon and its subsidiaries had approximately 183,400 employees. Unions represent approximately 29% of our employees. During 2012, we reached agreements with the Communications Workers of America and the International Brotherhood of Electrical Workers on new, three-year contracts that cover approximately 43,000 Wireline employees. These new agreements will expire on August 1, 2015.

## **Information on Our Internet Website**

We make available, free of charge on our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports at [www.verizon.com/investor](http://www.verizon.com/investor). Verizon has adopted a code of ethics, as that term is defined in Item 406(b) of Regulation S-K, which applies to our Chief Executive Officer, Chief Financial Officer and Controller. A copy of this code may be found on our website at [www.verizon.com/investor](http://www.verizon.com/investor). Any amendments to this code or any waiver of this code for any executive officer will be posted on that website.

### **Cautionary Statement Concerning Forward-Looking Statements**

In this report we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, along with those discussed elsewhere in this report could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- adverse conditions in the U.S. and international economies;
- competition in our markets;
- material changes in available technology or technology substitution;
- disruption of our key suppliers' provisioning of products or services;
- changes in the regulatory environments in which we operate, including any increase in restrictions on our ability to operate our networks;
- breaches of network or information technology security, natural disasters, terrorist attacks or significant litigation and any resulting financial impact not covered by insurance;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets impacting the cost, including interest rates, and/or availability of financing;
- changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings;
- material adverse changes in labor matters, including labor negotiations, and any resulting financial and/or operational impact;
- significant increases in benefit plan costs or lower investments returns on plan assets; and
- the inability to implement our business strategies.

## **Item 1A. Risk Factors**

The following discussion of “Risk Factors” identifies the most significant factors that may adversely affect our business, operations, financial condition or future performance. This information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included in this report. The following discussion of risks is not all-inclusive but is designed to highlight what we believe are important factors to consider when evaluating our business and expectations. These factors could cause our future results to differ materially from our historical results and from expectations reflected in forward-looking statements.

*Adverse conditions in the U.S. and international economies could impact our results of operations.*

Unfavorable general economic conditions, such as a recession or economic slowdown in the United States or in one or more of our other major markets, could negatively affect the affordability of and demand for some of our products and services. In difficult economic conditions, consumers may seek to reduce discretionary spending by forgoing purchases of our products, electing to use fewer higher margin services or obtaining lower-cost products and services offered by other companies. Similarly, under these conditions the business customers that we serve in the United States and abroad may delay purchasing decisions, delay full implementation of service offerings or reduce their use of services. In addition, adverse economic conditions may lead to an increased number of our consumer and business customers that are unable to pay for services. If these events were to occur, it could have a material adverse effect on our results of operations.

*We face significant competition that may reduce our market share and lower our profits.*

We face significant competition in our industry. The rapid development of new technologies, services and products has eliminated the traditional distinctions between wireless, cable, Internet, local and long distance communication services and brought new competitors to our markets, including other telephone companies, cable companies, wireless service providers, satellite providers, application and device providers, electric utilities, and providers of VoIP services. While these changes have enabled us to offer new types of services, they have also allowed other service providers to broaden the scope of their own competitive offerings. Our ability to compete effectively will depend on, among other things, our network quality, capacity and coverage, the pricing of our services and equipment, the quality of our customer service, our development of new and enhanced products and services, the reach and quality of our sales and distribution channels and our capital resources. It will also depend on how successfully we anticipate and respond to various factors affecting our industry, including new technologies and business models, changes in consumer preferences and demand for existing services, demographic trends and economic conditions. If we are not able to successfully respond to these competitive challenges, we could lose market share and experience reduced profits.

*If we are not able to adapt to changes in technology and address changing consumer demand on a timely basis, we may experience a decline in the demand for our services, be unable to implement our business strategy and experience reduced profits.*

Our industry is experiencing rapid change as new technologies are developed that offer consumers an array of choices for their communications needs. In order to grow and remain competitive, we will need to adapt to future changes in technology, enhance our existing offerings and introduce new offerings to address our customers’ changing demands. If we are unable to meet future challenges from competing technologies on a timely basis or at an acceptable cost, we could lose customers to our competitors. We may not be able to accurately predict technological trends or the success of new services in the market. In addition, there could be legal or regulatory restraints to our introduction of new services. If our services fail to gain acceptance in the marketplace, or if costs associated with implementation and completion of the introduction of these services materially increase, our ability to retain and attract customers could be adversely affected.

In addition to introducing new technologies and offerings, we must phase out outdated and unprofitable technologies and services. If we are unable to do so on a cost-effective basis, we could experience reduced profits.

*We depend on key suppliers and vendors to provide equipment that we need to operate our business.*

We depend on various key suppliers and vendors to provide us, directly or through other suppliers, with equipment and services, such as switch and network equipment, handsets and other devices and equipment, that we need in order to operate our business and provide products to our customers. For example, our handset and other device suppliers often rely on one vendor for the manufacture and supply of critical components, such as chipsets, used in their devices. If these suppliers or vendors fail to provide equipment or service on a timely basis or fail to meet our performance expectations, we may be unable to provide products and services as and when requested by our customers. We also may be unable to continue to maintain or upgrade our networks. Because of the costs and time lags that can be associated with transitioning from one supplier to another, our business could be substantially disrupted if we were required to, or chose to, replace the products or services of one or more major suppliers with products or services from another source, especially if the replacement became necessary on short notice. Any such disruption could increase our costs, decrease our operating efficiencies and have a material adverse effect on our business, results of operations and financial condition.

The suppliers and vendors on which we rely may also be subject to litigation with respect to technology on which we depend, including litigation involving claims of patent infringement. Such claims have been growing rapidly in the communications industry. We are unable to predict whether our business will be affected by any such litigation. We expect our dependence on key suppliers to continue as we develop and introduce more advanced generations of technology.

*Changes in the regulatory framework under which we operate could adversely affect our business prospects or results of operations.*

Our domestic operations are subject to regulation by the FCC and other federal, state and local agencies, and our international operations are regulated by various foreign governments and international bodies. These regulatory regimes frequently restrict our ability to operate in or provide specified products or services in designated areas and require that we maintain licenses for our operations and conduct our operations in accordance with prescribed standards. We are frequently involved in regulatory and non-regulatory governmental proceedings related to the application of these requirements. It is impossible to predict with any certainty the outcome of pending federal and state regulatory proceedings relating to our operations, or the reviews by federal or state courts of regulatory rulings. Unless we are able to obtain appropriate relief, existing laws and regulations may inhibit our ability to expand our business and introduce new products and services. Similarly, we cannot guarantee that we will be successful in obtaining the licenses needed to carry out our business plan or maintaining our existing licenses. For example, the FCC grants wireless licenses for terms generally lasting 10 years that are subject to renewal. The loss of, or a material limitation on, certain of our licenses could have a material adverse effect on our wireless business, results of operations and financial condition.

The adoption of new laws or regulations or changes to the existing regulatory framework at the federal or state level could also adversely affect our business plans. New regulations could restrict the ways in which we can manage our wireline and wireless networks, impose additional costs, impair revenue opportunities, and potentially impede our ability to provide services in a manner that would be attractive to us and our customers. For example, the development of new technologies, such as IP-based services, including VoIP and super high-speed broadband and video, could be subject to conflicting regulation by the FCC and various state and local authorities, which could significantly increase the cost of implementing and introducing new services based on this technology.

As the holder of 700 MHz C Block licenses, we are required to comply with certain “open access” regulations that the FCC has imposed on all licensees of 700 MHz C Block spectrum. These rules require us to allow customers to use devices and applications of their choice on the LTE network we are deploying on that spectrum, including those obtained from sources other than us or our distributors or dealers, subject to certain technical limitations established by us. In addition, our broadband Internet access services are subject to certain FCC-imposed “net neutrality” rules, which took effect in November 2011 and are subject to a pending appeal. These rules limit the ways that a broadband Internet access service provider can manage its network and the services it can provide over the network. Given that the scope of the restrictions and many critical terms in the “open access” and “net neutrality” rules are not fully defined and given that the rules create procedural mechanisms for parties to complain of violations, it is reasonable to expect litigation to resolve ambiguities, which could lead to yet further regulation. The regulation of broadband activities and any related court decisions could restrict our ability to compete in the marketplace and limit the return we can expect to achieve on past and future investments in our broadband networks.

*Cyber attacks or other breaches of network or information technology security could have an adverse effect on our business.*

Cyber attacks or other breaches of network or information technology (IT) security may cause equipment failures or disruptions to our operations. Our inability to operate our wireline or wireless networks as a result of such events, even for a limited period of time, may result in significant expenses and/or loss of market share to other communications providers. In addition, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Cyber attacks, which include the use of malware, computer viruses and other means for disruption or unauthorized access, on companies, including Verizon, have increased in frequency, scope and potential harm in recent years. While, to date, we have not been subject to cyber attacks or other cyber incidents which, individually or in the aggregate, have been material to our operations or financial condition, the preventive actions we take to reduce the risk of cyber incidents and protect our information technology and networks may be insufficient to repel a major cyber attack in the future. The costs associated with a major cyber attack on Verizon could include expensive incentives offered to existing customers and business partners to retain their business, increased expenditures on cyber security measures, lost revenues from business interruption, litigation and damage to our reputation. Further, certain of Verizon’s businesses, including the provisioning of security solutions and infrastructure and cloud services to business customers, could be negatively affected if our ability to protect our own networks is called into question as a result of a cyber attack. In addition, if we fail to prevent the theft of valuable information such as financial data, sensitive information about the Company and intellectual property, or if we fail to protect the privacy of customer and employee confidential data against breaches of network or IT security, it could result in damage to our reputation, which could adversely impact customer and investor confidence. Any of these occurrences could result in a material adverse effect on our results of operations and financial condition.

*Natural disasters, terrorist acts or acts of war could cause damage to our infrastructure and result in significant disruptions to our operations.*

Our business operations are subject to interruption by natural disasters, power outages, terrorist attacks, other hostile acts and events beyond our control. Such events could cause significant damage to our infrastructure, resulting in degradation or disruption of service to our customers. While we maintain insurance coverage for some of these events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Our system redundancy may be ineffective or inadequate and our disaster recovery planning may not be sufficient for all eventualities. These events could also damage the infrastructure of the suppliers that provide us with the equipment and services we need to operate our business and provide products to our customers. A natural disaster or other event causing significant physical damage could cause us to experience substantial losses resulting in significant recovery time and expenditures to resume operations. In addition, these occurrences could result in lost revenues from business interruption as well as damage to our reputation.

*Adverse changes in the credit markets could increase our borrowing costs and the availability of financing.*

We require a significant amount of capital to operate and grow our business. We fund our capital needs in part through borrowings in the public and private credit markets. Adverse changes in the credit markets, including increases in interest rates, could increase our cost of borrowing and make it more difficult for us to obtain financing for our operations. In addition, our borrowing costs can be affected by short and long-term debt ratings assigned by independent rating agencies which are based, in significant part, on our performance as measured by customary credit metrics. A decrease in these ratings would likely increase our cost of borrowing and/or make it more difficult for us to obtain financing. A severe disruption in the global financial markets could impact some of the financial institutions with which we do business, and such instability could affect our access to financing.

*Increases in costs for pension benefits and active and retiree healthcare benefits may reduce our profitability and increase our funding commitments.*

With approximately 183,400 employees and approximately 205,600 retirees as of December 31, 2012 participating in Verizon's benefit plans, the costs of pension benefits and active and retiree healthcare benefits have a significant impact on our profitability. Our costs of maintaining these plans, and the future funding requirements for these plans, are affected by several factors including the continuing implementation of the provisions of the Patient Protection and Affordable Care Act and the Health Care Education Reconciliation Act of 2010, increases in healthcare costs, decreases in investment returns on funds held by our pension and other benefit plan trusts and changes in the discount rate used to calculate pension and other postretirement expenses. If we are unable to limit future increases in the costs of our benefit plans, those costs could reduce our profitability and increase our funding commitments.

*A significant portion of our workforce is represented by labor unions and we could incur additional costs or experience work stoppages as a result of the renegotiation of our labor contracts.*

As of December 31, 2012, approximately 29% of our workforce was represented by labor unions. We are currently engaged in contract negotiations with labor unions representing approximately 4,800 Wireline employees, and we will engage in additional negotiations as other labor contracts expire in the future. Depending on the outcome of these negotiations, we could incur additional costs and/or experience lengthy work stoppages, which could adversely affect our business operations, including causing a loss of revenue and strained relationships with customers.

*We are subject to a significant amount of litigation, which could require us to pay significant damages or settlements.*

Our business faces a substantial amount of litigation, including, from time to time, patent infringement lawsuits, antitrust class actions, wage and hour class actions, personal injury claims and lawsuits relating to our advertising, sales, billing and collection practices. In addition, our wireless business also faces personal injury and consumer class action lawsuits relating to alleged health effects of wireless phones or radio frequency transmitters, and class action lawsuits that challenge marketing practices and disclosures relating to alleged adverse health effects of handheld wireless phones. We may incur significant expenses in defending these lawsuits. In addition, we may be required to pay significant awards or settlements.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our principal properties do not lend themselves to simple description by character and location. Our total investment in plant, property and equipment was approximately \$210 billion at December 31, 2012 and \$216 billion at December 31, 2011, including the effect of retirements, but before deducting accumulated depreciation. Our gross investment in plant, property and equipment consisted of the following:

At December 31,	2012	2011
Network equipment	<b>79.7%</b>	80.9%
Land, buildings and building equipment	<b>11.3%</b>	10.6%
Furniture and other	<b>9.0%</b>	8.5%
	<b>100.0%</b>	100.0%

Our properties as a percentage of total properties are as follows:

At December 31,	2012	2011
Wireline	<b>62.4%</b>	66.0%
Wireless	<b>36.5%</b>	32.8%
Other	<b>1.1%</b>	1.2%
	<b>100.0%</b>	100.0%

Network equipment consists primarily of cable (aerial, buried, underground or undersea) and the related support structures of poles and conduit, wireless plant, switching equipment, network software, transmission equipment and related facilities. Land, buildings and building equipment consists of land and land improvements, central office buildings or any other buildings that house network equipment, and buildings that are used for administrative and other purposes. Substantially all the switching centers are located on land and in buildings we own due to their critical role in the network and high set-up relocation costs. We also maintain facilities throughout the United States comprised of administrative and sales offices, customer care centers, retail sales locations, switching centers, cell sites and data centers. Furniture and other consists of telephone equipment, furniture, data processing equipment, office equipment, motor vehicles, plant under construction, capitalized non-network computer software costs and leasehold improvements. A portion of our property is subject to the liens of their respective mortgages securing funded debt.

### ***Item 3. Legal Proceedings***

On September 15, 2010, the U.S. Bank National Association (U.S. Bank), as Litigation Trustee for the Idearc Inc. Litigation Trust (Litigation Trust), filed suit in U.S. District Court for the Northern District of Texas against Verizon and certain subsidiaries challenging the November 2006 spin-off of Verizon's former directories business then known as Idearc Inc. U.S. Bank, which represents a group of creditors who filed claims in the Idearc Inc. bankruptcy proceedings, alleges that Idearc Inc. was insolvent at the time of the spin-off or became insolvent shortly thereafter. The Litigation Trust seeks over \$9 billion in damages. Following a two-week trial in October 2012 limited to the question of the value of Idearc Inc. on the date of the spin-off, on January 22, 2013, the Court issued a decision finding that the value was "at least \$12 billion." As \$12 billion exceeds the value of the debt and cash that Idearc transferred to Verizon on the date of the spin-off, the Court issued a related Order to Show Cause directing the Litigation Trust to submit a brief that "explains why any (or all) of its legal claims are viable in light of the court's finding on Idearc's value." Briefing of that issue is scheduled to be completed by March 15, 2013.

On October 25, 2011, a Litigation Trust created during the bankruptcy proceedings of FairPoint Communications, Inc. filed a complaint in state court in Mecklenburg County, North Carolina, against Verizon and other related entities, including Verizon Wireless. The complaint claims that FairPoint's acquisition of Verizon's landline operations in Maine, New Hampshire and Vermont in March 2008 was structured and carried out in a way that left FairPoint insolvent or led to its insolvency shortly thereafter and ultimately to its October 2009 bankruptcy. The Litigation Trust seeks approximately \$2 billion in damages. Verizon removed the case to the United States District Court for the Western District of North Carolina in November 2011. In June 2012, the Litigation Trust filed a Second Amended Complaint that dropped all claims against Verizon Wireless. Verizon filed a motion to dismiss the majority of claims in the Second Amended Complaint and a decision is pending. Discovery in the case is ongoing, with a trial set for May 2013.

### ***Item 4. Mine Safety Disclosures***

None.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The principal market for trading in the common stock of Verizon is the New York Stock Exchange. As of December 31, 2012, there were 614,409 shareowners of record.

High and low stock prices, as reported on the New York Stock Exchange composite tape of transactions, and dividend data are as follows:

		Market Price		Cash Dividend
		High	Low	Declared
2012	Fourth Quarter	\$47.32	\$40.51	\$ .5150
	Third Quarter	46.41	42.18	.5150
	Second Quarter	44.77	36.80	.5000
	First Quarter	40.48	37.07	.5000
2011	Fourth Quarter	\$40.25	\$35.17	\$ .5000
	Third Quarter	37.87	32.28	.5000
	Second Quarter	38.74	34.94	.4875
	First Quarter	38.95	33.36	.4875

On February 3, 2011, the Board approved a share buyback program which authorized the repurchase of up to 100 million shares of Verizon common stock terminating no later than the close of business on February 28, 2014. The Board also determined that no additional shares were to be purchased under the previously authorized buyback program. The program permits Verizon to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs. The Company may also enter into Rule 10b5-1 plans from time to time to facilitate repurchases of its shares under this authorization. A Rule 10b5-1 plan permits the Company to repurchase shares at times when it might otherwise be prevented from doing so, provided the plan is adopted when the Company is not aware of material non-public information.

During the fourth quarter of 2012, Verizon did not repurchase any shares of Verizon common stock. At December 31, 2012, the maximum number of shares that could be purchased by or on behalf of Verizon under our share buyback program was 100 million. Through February 15, 2013, we purchased approximately 3.50 million shares under this authorization.

For other information required by this item, see the section entitled "Stock Performance Graph" on page 21 of the 2012 Verizon Annual Report to Shareowners, which is incorporated herein by reference.

### Item 6. Selected Financial Data

Information required by this item is included in the 2012 Verizon Annual Report to Shareowners under the heading "Selected Financial Data" on page 21, which is incorporated herein by reference.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information required by this item is included in the 2012 Verizon Annual Report to Shareowners under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 22 through 40, which is incorporated herein by reference.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required by this item is included in the 2012 Verizon Annual Report to Shareowners under the heading "Market Risk" on page 41, which is incorporated herein by reference.

### Item 8. Financial Statements and Supplementary Data

Information required by this item is included in the 2012 Verizon Annual Report to Shareowners on pages 50 through 83, which is incorporated herein by reference.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

#### **Item 9A. Controls and Procedures**

Our chief executive officer and chief financial officer have evaluated the effectiveness of the registrant's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934), as of the end of the period covered by this Annual Report, that ensure that information relating to the registrant which is required to be disclosed in this report is recorded, processed, summarized and reported within required time periods. Based on this evaluation, our chief executive officer and chief financial officer have concluded that the registrant's disclosure controls and procedures were effective as of December 31, 2012.

There were no changes in the registrant's internal control over financial reporting during the fourth quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Management's report on internal control over financial reporting and the attestation report of Verizon's independent registered public accounting firm are included in the 2012 Verizon Annual Report to Shareowners on pages 48 and 49 and are incorporated herein by reference.

#### **Item 9B. Other Information**

None.

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

Set forth below is information with respect to our executive officers.

Name	Age	Office	Held Since
Lowell C. McAdam	58	Chairman and Chief Executive Officer	2011
Robert J. Barish	51	Senior Vice President and Controller	2009
Roy H. Chestnutt	53	Executive Vice President – Strategy, Development and Planning	2013
Roger Gurnani	52	Executive Vice President and Chief Information Officer	2010
Daniel S. Mead	59	Executive Vice President and President and Chief Executive Officer – Verizon Wireless Joint Venture	2010
Anthony J. Melone	52	Executive Vice President and Chief Technology Officer	2010
Randal S. Milch	54	Executive Vice President – Public Policy and General Counsel	2008
W. Robert Mudge	53	President – Consumer and Mass Business Markets	2012
Marc C. Reed	54	Executive Vice President and Chief Administrative Officer	2004
Francis J. Shammo	52	Executive Vice President and Chief Financial Officer	2010
John G. Stratton	51	Executive Vice President and President – Verizon Enterprise	2012

Prior to serving as an executive officer, each of the above officers has held high-level managerial positions with the Company or one of its subsidiaries for at least five years, with the exception of Mr. Chestnutt, who has been with the Company since 2011. Officers are not elected for a fixed term of office and may be removed from office at any time at the discretion of the Board of Directors.

Roy H. Chestnutt is Executive Vice President of Strategy, Development and Planning for Verizon. From the time he joined the Company in 2011 until he was appointed to his current role in January 2013, Mr. Chestnutt was Senior Vice President of Corporate Strategy. Prior to joining Verizon, Mr. Chestnutt served as Corporate Vice President of the Americas at Motorola Networks from June 2010 to June 2011, and from 2006 to 2009, Mr. Chestnutt was Chairman and Chief Executive Officer of Grande Communications Networks (Grande), a facilities-based provider of bundled communications services. Prior to joining Grande, Mr. Chestnutt held a variety of management positions with Sprint-Nextel Corporation, Nextel Communications and AirTouch Communications.

For other information required by this item, see the sections entitled “Election of Directors,” “About Verizon’s Governance Practices,” “About the Board of Directors” and “Security Ownership of Certain Beneficial Owners and Management—Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with our 2013 Annual Meeting of Shareholders, which are incorporated herein by reference.

#### ***Item 11. Executive Compensation***

For information with respect to executive compensation, see the section entitled “Compensation Discussion and Analysis” in our definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with our 2013 Annual Meeting of Shareholders, which is incorporated herein by reference.

#### ***Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

For information with respect to the security ownership of the Directors and executive officers and for information with respect to securities authorized for issuance under Verizon’s equity compensation plan, see the sections entitled “Security Ownership of Certain Beneficial Owners and Management” and “Approval of Performance Goals and Award Limits under Verizon’s 2009 Long-Term Incentive Plan”, respectively in our definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with our 2013 Annual Meeting of Shareholders, which is incorporated herein by reference.

#### ***Item 13. Certain Relationships and Related Transactions, and Director Independence***

For information with respect to certain relationships and related transactions and Director independence, see the sections entitled “About Verizon’s Governance Practices” and “About the Board of Directors” in our definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with our 2013 Annual Meeting of Shareholders, which are incorporated herein by reference.

#### ***Item 14. Principal Accounting Fees and Services***

For information with respect to principal accounting fees and services, see the section entitled “Ratification of Appointment of Independent Registered Public Accounting Firm” in our definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with our 2013 Annual Meeting of Shareholders, which is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report:

	Page
(1) Report of Management on Internal Control Over Financial Reporting	*
(2) Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	*
(3) Report of Independent Registered Public Accounting Firm on Financial Statements	*
Financial Statements covered by Report of Independent Registered Public Accounting Firm:	
Consolidated Statements of Income	*
Consolidated Statements of Comprehensive Income	*
Consolidated Balance Sheets	*
Consolidated Statements of Cash Flows	*
Consolidated Statements of Changes in Equity	*
Notes to Consolidated Financial Statements	*
* Incorporated herein by reference to the appropriate portions of the registrant's Annual Report to Shareowners for the fiscal year ended December 31, 2012. (See Part II.)	
(4) Financial Statement Schedule <u>II – Valuation and Qualifying Accounts</u>	28
(5) Exhibits	

**Exhibit**  
**Number Description**

---

3a Restated Certificate of Incorporation of Verizon Communications Inc. (Verizon) (filed as Exhibit 3a to Form 10-K for the year ended December 31, 2005 and incorporated herein by reference).

3b Bylaws of Verizon, as amended, effective as of December 3, 2009 (filed as Exhibit 3b to Form 8-K dated December 7, 2009 and incorporated herein by reference).

4 No instrument which defines the rights of holders of long-term debt of Verizon and its consolidated subsidiaries is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, Verizon hereby agrees to furnish a copy of any such instrument to the SEC upon request.

10a GTE's Charitable Awards Program (filed as Exhibit 10-10 to GTE's Form 10-K for the year ended December 31, 1992, File No. 1-2755 and incorporated herein by reference).\*\*

10b NYNEX Directors' Charitable Award Program (filed as Exhibit 10i to Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).\*\*

10c Verizon Long-Term Incentive Plan, As Amended and Restated (incorporated by reference to Appendix B of the Registrant's Proxy Statement included in Schedule 14A filed on March 23, 2009).\*\*

10c(i) Special Performance Stock Unit Agreement (filed as Exhibit 10j(vii) to Form 10-K for the year ended December 31, 2010 and incorporated herein by reference).\*\*

10c(ii) Performance Stock Unit Agreement 2010-12 Award Cycle (filed as Exhibit 10a to Form 10-Q for the period ended March 31, 2010 and incorporated herein by reference).\*\*

10c(ii)(a) Form of Addendum to Performance Stock Unit Agreement (filed as Exhibit 10b to Form 10-Q for the period ended March 31, 2010 and incorporated herein by reference).\*\*

10c(iii) Restricted Stock Unit Agreement 2010-12 Award Cycle (filed as Exhibit 10c to Form 10-Q for the period ended March 31, 2010 and incorporated herein by reference).\*\*

10c(iv) Performance Stock Unit Agreement 2011-2013 Award Cycle (filed as Exhibit 10a to Form 10-Q for the period ended March 31, 2011 and incorporated herein by reference).\*\*

10c(v) Restricted Stock Unit Agreement 2011-2013 Award Cycle (filed as Exhibit 10b to Form 10-Q for the period ended March 31, 2011 and incorporated herein by reference).\*\*

10c(vi) Form of 2011 Special Performance Stock Unit Agreement (filed as Exhibit 10 to Form 10-Q for the period ended September 30, 2011 and incorporated by reference).\*\*

10c(vii) Performance Stock Unit Agreement 2012-2014 Award Cycle (filed as Exhibit 10a to Form 10-Q for the period ended March 31, 2012 and incorporated herein by reference).\*\*

10c(viii) Restricted Stock Unit Agreement 2012-2014 Award Cycle (filed as Exhibit 10b to Form 10-Q for the period ended March 31, 2012 and incorporated herein by reference).\*\*

10d Verizon Short-Term Incentive Plan, As Amended and Restated (incorporated by reference to Appendix C of the Registrant's Proxy Statement included in Schedule 14A filed on March 23, 2009).\*\*

10e Verizon Income Deferral Plan (filed as Exhibit 10f to Form 10-Q for the period ended June 30, 2002 and incorporated herein by reference).\*\*

10e(i) Description of Amendment to Plan (filed as Exhibit 10o(i) to Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).\*\*

10f Verizon Excess Pension Plan (filed as Exhibit 10p to Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).\*\*

10f(i) Description of Amendment to Plan (filed as Exhibit 10p(i) to Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).\*\*

10g GTE's Executive Salary Deferral Plan, as amended (filed as Exhibit 10.10 to GTE's Form 10-K for the year ended December 31, 1998, File No. 1-2755 and incorporated herein by reference).\*\*

10h Bell Atlantic Senior Management Long-Term Disability and Survivor Protection Plan, as amended (filed as Exhibit 10h to Form SE filed on March 27, 1986 and Exhibit 10b(ii) to Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).\*\*

10i fGTE Executive Retiree Life Insurance Plan (filed as Exhibit 10q to Form 10-K for the year ended December 31, 2010 and incorporated herein by reference).\*\*

10j Verizon Executive Life Insurance Plan, As Amended and Restated September 2009 (filed as Exhibit 10s to Form 10-K for the year ended December 31, 2010 and incorporated herein by reference).\*\*

10k Verizon Executive Deferral Plan (filed as Exhibit 10e to Form 10-Q for the period ended June 30, 2009 and incorporated herein by reference).\*\*

10l Form of Aircraft Time Sharing Agreement (filed as Exhibit 10v to Form 10-K for the year ended December 31, 2010 and incorporated herein by reference).\*\*

10m Description of the Split-Dollar Insurance Arrangements (filed as Exhibit 10dd(i) to Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).\*\*

10m(i) Description of Change to Arrangements (filed as Exhibit 10dd(i) to Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).\*\*

10n NYNEX Deferred Compensation Plan for Non-Employee Directors (filed as Exhibit 10gg to NYNEX's Registration Statement No. 2-87850, File No. 1-8608 and incorporated herein by reference).\*\*

10o Amendment to NYNEX Deferred Compensation Plan for Non-Employee Directors (filed as Exhibit 10iii 5a to NYNEX's Quarterly Report on Form 10-Q for the period ended June 30, 1996, File No. 1-8608 and incorporated herein by reference).\*\*

10p Verizon Senior Manager Severance Plan (filed as Exhibit 10d to Form 10-Q for the period ended March 31, 2010 and incorporated herein by reference).\*\*

10q U.S. Wireless Agreement, dated September 21, 1999, among Bell Atlantic and Vodafone Airtouch plc, including the forms of Amended and Restated Partnership Agreement and the Investment Agreement (filed as Exhibit 10 to Form 10-Q for the period ended September 30, 1999 and incorporated herein by reference).

10r Credit Agreement, dated as of December 19, 2008, among Verizon Wireless and Verizon Wireless Capital LLC, as co-borrowers, Bank of America, N.A., as administrative agent, and the lenders named therein (filed as Exhibit 99 to Form 8-K dated December 19, 2008 and incorporated herein by reference).

10s Celco Partnership Amended and Restated Partnership Agreement among the Bell Atlantic Group and the Vodafone Group, dated as of April 3, 2000 (filed August 24, 2000 as Exhibit 10.3 to the Verizon Wireless Inc. Registration Statement on Form S-1 (No. 333-44394) and incorporated herein by reference).

10t Amendment and Joinder to Celco Partnership Amended and Restated Partnership Agreement, dated as of July 10, 2000 (filed July 10, 2002 as Exhibit 3.3.1 to Celco Partnership's Registration Statement on Form S-4 (No. 333-92214) and incorporated herein by reference).

10u Amendment to Celco Partnership Amended and Restated Partnership Agreement, dated as of July 24, 2003 (filed as Exhibit 3.3.2 to Celco Partnership's Quarterly Report on Form 10-Q for the period ended June 30, 2003 (No. 333-92214) and incorporated herein by reference).

10v Amendment No. 3 to Celco Partnership Amended and Restated Partnership Agreement, dated as of February 6, 2004 (filed as Exhibit 3.3.3 to Celco Partnership's Quarterly Report on Form 10-Q for the period ended March 31, 2004 (No. 333-92214) and incorporated herein by reference).

10w Amendment No. 4 to Celco Partnership Amended and Restated Partnership Agreement, dated as of July 16, 2010 (filed as Exhibit 3.1 to Celco Partnership's Quarterly Report on Form 10-Q for the period ended June 30, 2010 (No. 333-92214) and incorporated herein by reference).

10x Amendment No. 5 to Celco Partnership Amended and Restated Partnership Agreement, dated as of January 21, 2011, (filed as Exhibit 10ll to Form 10-K for the year ended December 31, 2010 and incorporated herein by reference).

12 Computation of Ratio of Earnings to Fixed Charges filed herewith.

13 Portions of Verizon's Annual Report to Shareowners for the fiscal year ended December 31, 2011 filed herewith. Only the information incorporated by reference into this Form 10-K is included in the exhibit.

21 List of principal subsidiaries of Verizon filed herewith.

23 Consent of Ernst & Young LLP filed herewith.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.PRE XBRL Taxonomy Presentation Linkbase Document.

101.CAL XBRL Taxonomy Calculation Linkbase Document.

101.LAB XBRL Taxonomy Label Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

\*\* Indicates management contract or compensatory plan or arrangement.

**Schedule II - Valuation and Qualifying Accounts**

**Verizon Communications Inc. and Subsidiaries**

For the Years Ended December 31, 2012, 2011 and 2010

(dollars in millions)

Description	Balance at Beginning of Period	Additions			Deductions Note (c)(d)	Balance at End of Period
		Charged to Expenses	Other Accounts Note (a)(b)			
<b>Allowance for Uncollectible Accounts Receivable:</b>						
<b>Year 2012</b>	\$ 802	\$ 972	\$ 113	\$ 1,246	\$ 641	
Year 2011	876	1,026	139	1,239	802	
Year 2010	976	1,246	103	1,449	876	
<b>Valuation Allowance for Deferred Tax Assets:</b>						
<b>Year 2012</b>	\$ 2,376	\$ 120	\$ 38	\$ 493	\$ 2,041	
Year 2011	3,421	108	25	1,178	2,376	
Year 2010	2,942	675	4	200	3,421	

- (a) Allowance for Uncollectible Accounts Receivable primarily includes amounts previously written off which were credited directly to this account when recovered.
- (b) Valuation Allowance for Deferred Tax Assets includes current year increase to valuation allowance charged to equity and reclassifications from other balance sheet accounts.
- (c) Amounts written off as uncollectible or transferred to other accounts or utilized.
- (d) Reductions to valuation allowances related to deferred tax assets.

**Signatures**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VERIZON COMMUNICATIONS INC.

By: /s/ Robert J. Barish  
Robert J. Barish  
Senior Vice President and Controller

Date: February 26, 2013

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Principal Executive Officer:

/s/ Lowell C. McAdam Chairman and Chief  
Lowell C. McAdam Executive Officer

February 26, 2013

Principal Financial Officer:

/s/ Francis J. Shammo Executive Vice President and Chief  
Francis J. Shammo Financial Officer

February 26, 2013

Principal Accounting Officer:

/s/ Robert J. Barish Senior Vice President and  
Robert J. Barish Controller

February 26, 2013

<u>/s/ Richard L. Carrión</u> Richard L. Carrión	Director	February 26, 2013
<u>/s/ Melanie L. Healey</u> Melanie L. Healey	Director	February 26, 2013
<u>/s/ M. Frances Keeth</u> M. Frances Keeth	Director	February 26, 2013
<u>/s/ Robert W. Lane</u> Robert W. Lane	Director	February 26, 2013
<u>/s/ Sandra O. Moose</u> Sandra O. Moose	Director	February 26, 2013
<u>/s/ Joseph Neubauer</u> Joseph Neubauer	Director	February 26, 2013
<u>/s/ Donald T. Nicolaisen</u> Donald T. Nicolaisen	Director	February 26, 2013
<u>/s/ Clarence Otis, Jr</u> Clarence Otis, Jr.	Director	February 26, 2013
<u>/s/ Hugh B. Price</u> Hugh B. Price	Director	February 26, 2013
<u>/s/ Rodney E. Slater</u> Rodney E. Slater	Director	February 26, 2013
<u>/s/ Kathryn A. Tesija</u> Kathryn A. Tesija	Director	February 26, 2013

**Computation of Ratio of Earnings to Fixed Charges**  
**Verizon Communications Inc. and Subsidiaries**

Years Ended December 31,	2012	2011	2010	2009	2008
<b>Earnings:</b>					
Income before provision for income taxes, discontinued operations and extraordinary item	\$ 9,897	\$10,483	\$12,684	\$13,520	\$1,643
Equity in earnings of unconsolidated businesses	(324)	(444)	(508)	(553)	(567)
Dividends from unconsolidated businesses	401	480	510	942	779
Interest expense <sup>(1)</sup>	2,571	2,827	2,523	3,102	1,819
Portion of rent expense representing interest	837	817	837	839	734
Amortization of capitalized interest	162	148	139	134	125
Earnings, as adjusted	<b>\$13,544</b>	\$14,311	\$16,185	\$17,984	\$4,533
<b>Fixed Charges:</b>					
Interest expense <sup>(1)</sup>	\$ 2,571	\$ 2,827	\$ 2,523	\$ 3,102	\$1,819
Portion of rent expense representing interest	837	817	837	839	734
Capitalized interest	406	442	964	927	747
Fixed Charges	<b>\$ 3,814</b>	\$ 4,086	\$ 4,324	\$ 4,868	\$3,300
<b>Ratio of earnings to fixed charges</b>	<b>3.55</b>	3.50	3.74	3.69	1.37

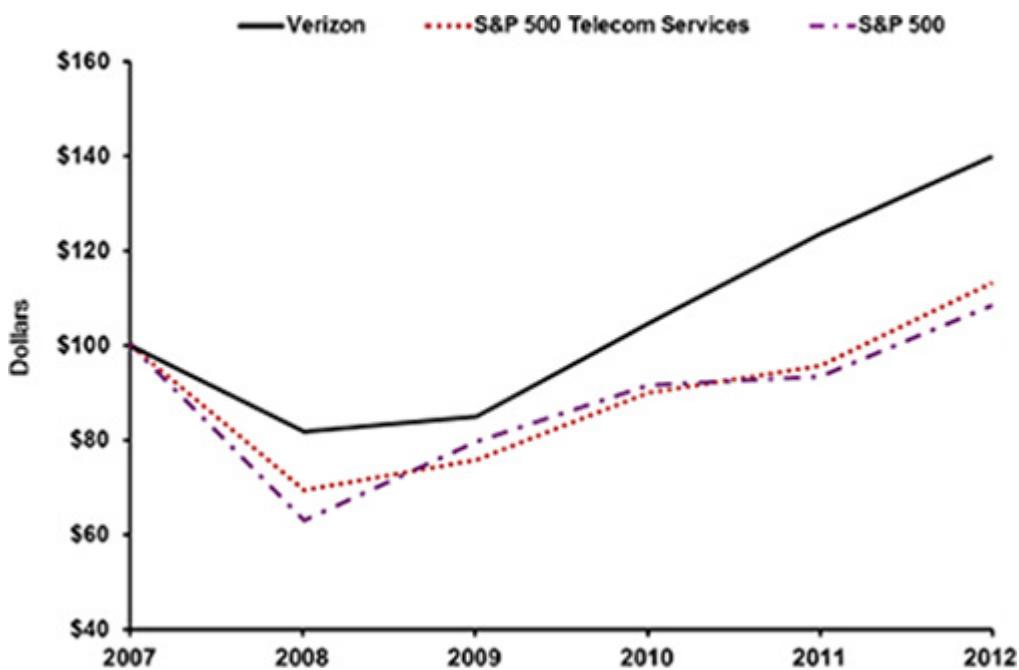
<sup>(1)</sup> We classify interest expense recognized on uncertain tax positions as income tax expense and therefore such interest expense is not included in the Ratio of Earnings to Fixed Charges.

## Selected Financial Data Verizon Communications Inc. and Subsidiaries

	(dollars in millions, except per share amounts)				
	2012	2011	2010	2009	2008
<b>Results of Operations</b>					
Operating revenues	\$ 115,846	\$ 110,875	\$ 106,565	\$ 107,808	\$ 97,354
Operating income	13,160	12,880	14,645	15,978	2,612
Net income (loss) attributable to Verizon	875	2,404	2,549	4,894	(2,193)
Per common share – basic	.31	.85	.90	1.72	(.77)
Per common share – diluted	.31	.85	.90	1.72	(.77)
Cash dividends declared per common share	2.030	1.975	1.925	1.870	1.780
Net income attributable to noncontrolling interest	9,682	7,794	7,668	6,707	6,155
<b>Financial Position</b>					
Total assets	\$ 225,222	\$ 230,461	\$ 220,005	\$ 226,907	\$ 202,185
Debt maturing within one year	4,369	4,849	7,542	7,205	4,993
Long-term debt	47,618	50,303	45,252	55,051	46,959
Employee benefit obligations	34,346	32,957	28,164	32,622	32,512
Noncontrolling interest	52,376	49,938	48,343	42,761	37,199
Equity attributable to Verizon	33,157	35,970	38,569	41,382	41,592

- Significant events affecting our historical earnings trends in 2010 through 2012 are described in “Other Items” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section.
- 2009 and 2008 data includes severance, pension and benefit charges, merger integration and acquisition costs, dispositions and other items.

## Stock Performance Graph

Comparison of Five-Year Total Return Among Verizon,  
S&P 500 Telecommunications Services Index and S&P 500 Stock Index

Data Points in Dollars	At December 31,					
	2007	2008	2009	2010	2011	<b>2012</b>
Verizon	100.0	81.9	85.1	104.8	123.9	<b>140.2</b>
S&P 500 Telecom Services	100.0	69.5	75.8	90.1	95.9	<b>113.4</b>
S&P 500	100.0	63.0	79.7	91.7	93.6	<b>108.6</b>

The graph compares the cumulative total returns of Verizon, the S&P 500 Telecommunications Services Index, and the S&P 500 Stock Index over a five-year period. It assumes \$100 was invested on December 31, 2007 with dividends (including the value of each respective spin-off) being reinvested.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

Verizon Communications Inc. (Verizon or the Company) is a holding company that, acting through its subsidiaries is one of the world's leading providers of communications, information and entertainment products and services to consumers, businesses and governmental agencies with a presence in over 150 countries around the world. Our offerings, designed to meet customers' demand for speed, mobility, security and control, include voice, data and video services on our wireless and wireline networks. We have two reportable segments, Verizon Wireless and Wireline. Our wireless business, operating as Verizon Wireless, provides voice and data services and equipment sales across the United States using one of the most extensive and reliable wireless networks. Our wireline business provides consumer, business and government customers with communications products and services, including voice, broadband data and video services, network access, long distance and other communications products and services, and also owns and operates one of the most expansive end-to-end global Internet Protocol (IP) networks. We have a highly skilled, diverse and dedicated workforce of approximately 183,400 employees as of December 31, 2012.

In recent years Verizon has embarked upon a strategic transformation as advances in technology have changed the ways that our customers interact in their personal and professional lives and that businesses operate. To meet the changing needs of our customers and address the changing technological landscape, we are focusing our efforts around higher margin and growing areas of our business: wireless data, wireline data and Strategic services, including cloud computing services.

Our strategy requires significant capital investments primarily to acquire wireless spectrum, put the spectrum into service, expand the fiber optic network that supports our wireless and wireline businesses, maintain our wireless and wireline networks and develop and maintain significant advanced database capacity.

In our Wireless business, in 2012 compared to 2011, strong revenue growth of 8.1% was driven by connection growth and strong demand for smartphones and Internet data devices. During 2012, we experienced a 4.3% increase in retail postpaid connections per account compared to 2011, with smartphones representing 58.1% of our retail postpaid phone base at December 31, 2012.

As of January 22, 2013, our fourth-generation (4G) Long-Term Evolution (LTE) network has been deployed in 476 markets covering more than 273 million people throughout the country, which is nearly 89% of the U.S. population. We expect to continue to deploy 4G LTE during 2013 and by year-end cover nearly our entire existing 3G network footprint. Our 4G LTE network provides higher data throughput performance for data services at lower cost compared to those offered by 3G technologies. As of December 31, 2012, nearly 50% of our wireless data traffic was on our 4G LTE network.

In 2012, Verizon Wireless launched the Share Everything plans, which were made available to both new and existing postpaid customers. These plans feature domestic unlimited voice minutes, unlimited text, video and picture messaging and a single data allowance that can be shared among up to 10 devices connected to the Verizon Wireless network. For an additional monthly access fee, our customers have the option of sharing long distance and roaming minutes among their devices for calls from the United States to, and calls while within, Canada and Mexico. The Share Everything plans also include the Mobile Hotspot service on our smartphones at no additional charge. The Mobile Hotspot service allows a customer to use our network to create a Wi-Fi network that can be used by Wi-Fi enabled devices. In January 2013, Verizon Wireless announced it will begin offering shared data plans for business, with the Share Everything plans for Small Business and the Nationwide Business Data Packages and Plans. As of December 31, 2012, Share Everything accounts represented approximately 23% of our retail postpaid accounts.

In Wireline, during 2012 compared to 2011, revenues were positively impacted by higher revenues in Consumer retail driven by FiOS services. FiOS represented approximately 65% of Consumer retail revenue during 2012, compared to approximately 58% during 2011. As the FiOS products mature, we continue to seek ways to increase incremental revenue and further realize operating and capital efficiencies as well as maximize profitability. As more applications are developed for this high-speed service, we expect that FiOS will become a hub for managing a multitude of home services that will eventually be part of the digital grid, including not just entertainment and communications, but also machine-to-machine communications, such as home monitoring, home health care, energy management and utilities management.

Also positively impacting Wireline's revenues during 2012 was a 6.3% increase in Strategic services revenue, which represented 53% of total Global Enterprise revenues during 2012. However, total Global Enterprise and Global Wholesale revenues declined as customers continue to be adversely affected by the economy, resulting in decreased discretionary spending and delayed purchasing decisions. To compensate for the shrinking market for traditional voice service, we continue to build our Wireline segment around data, video and advanced business services—areas where demand for reliable high-speed connections is growing.

In 2012, we reached agreements with the Communications Workers of America and the International Brotherhood of Electrical Workers on new, three-year contracts that cover approximately 43,000 Wireline employees. The new agreements will expire on August 1, 2015.

During 2012 and 2011, we made several strategic investments to improve our competitive position:

- In 2012, we completed separate transactions with SpectrumCo, LLC (SpectrumCo) and Cox TMI Wireless, LLC to acquire Advanced Wireless Service (AWS) spectrum. We also completed a series of purchase and exchange transactions for AWS and PCS licenses and a

700 megahertz (MHz) lower A block license. In addition, during January 2013, we agreed to sell a portion of our 700 MHz B block licenses, which upon receipt of regulatory approval, will result in the completion of our previously announced open sale process for all of our 700 MHz lower A and B block spectrum licenses. These transactions will allow us to meet the continued demand for wireless services.

- On June 1, 2012, we agreed to acquire HUGHES Telematics for approximately \$12 per share in cash for a total acquisition price of \$0.6 billion and we completed the acquisition on July 26, 2012. The acquisition has accelerated our ability to bring more telematics offerings to market for existing and new HUGHES Telematics and Verizon customers.
- In February 2012, we entered into a venture with Redbox Automated Retail, LLC, a subsidiary of Coinstar, Inc., to offer customers nationwide access to media rentals through online and mobile content streaming as well as physical media rentals through Redbox kiosks. In December 2012, the venture introduced its product portfolio, which includes subscription services, under the name Redbox Instant by Verizon.
- In 2011, Verizon Wireless entered into commercial agreements, modified in 2012, with affiliates of Comcast Corporation, Time Warner Cable, Bright House Networks and Cox Communications Inc. (the cable companies). Through these agreements, the cable companies and Verizon Wireless became agents to sell certain of one another's products and services and, over time, the cable companies will have the option, subject to the terms and conditions of the agreements, of selling Verizon Wireless service on a wholesale basis.
- In 2011, we acquired Terremark Worldwide Inc. (Terremark), a global provider of information technology infrastructure and cloud services. This acquisition enhanced our competitive position in managed hosting and cloud services offerings to business and government customers globally and is contributing to our growth in revenues. Additionally, in 2011, we acquired a provider of cloud software technology, which has further enhanced our offerings of cloud services. We expect our provisioning of cloud services to be instrumental to our future growth as it allows us to meet the evolving demands of our customers.

Investing in innovative technology like wireless networks, high-speed fiber and cloud services has positioned Verizon at the center of the growth trends of the future. By investing in our own capabilities, we are also investing in the markets we serve by making sure our communities have an efficient, reliable infrastructure for competing in the information economy. We are committed to putting our customers first and being a responsible member of our communities. Guided by this commitment and by our core values of integrity, respect, performance excellence and accountability, we believe we are well-positioned to produce a long-term return for our shareowners, create meaningful work for ourselves and provide something of lasting value for society.

During 2012, we purchased a single premium group annuity contract from The Prudential Insurance Company of America and Prudential Financial Inc.

In the sections that follow, we provide information about the important aspects of our operations and investments, both at the consolidated and segment levels, and discuss our results of operations, financial position and sources and uses of cash. In addition, we highlight key trends and uncertainties to the extent practicable.

### ***Trends***

We expect that competition will continue to intensify with traditional, non-traditional and emerging service providers seeking increased market share. We believe that our networks differentiate us from our competitors, enabling us to provide enhanced communications experiences to our customers. We believe our focus on the fundamentals of running a good business, including operating excellence and financial discipline, gives us the ability to plan and manage through changing economic conditions. We will continue to invest for growth, which we believe is the key to creating value for our shareowners.

### ***Connection and Operating Trends***

In our Wireless segment, we expect to continue to attract and maintain the loyalty of high-quality retail postpaid customers, capitalizing on demand for data services and bringing our customers new ways of using wireless services in their daily lives. We expect that future connection growth will continue as we introduce new smartphones, Internet devices such as tablets and our suite of 4G LTE devices. We believe these devices will attract and retain higher value retail postpaid connections, contribute to continued increases in the penetration of data services and keep our device line-up competitive versus other wireless carriers. We expect future growth opportunities will be dependent on expanding the penetration of our network services, offering innovative wireless devices for both consumer and business customers and increasing the number of ways that our customers can connect with our network and services.

In recent years, we have experienced continuing access line losses in our Wireline segment as customers have disconnected both primary and secondary lines and switched to alternative technologies such as wireless, VoIP and cable for voice and data services. We expect to continue to experience access line losses as customers continue to switch to alternate technologies.

Despite this challenging environment, we expect that we will continue to grow key aspects of our wireline business by providing superior network reliability, offering innovative product bundles that include high-speed Internet access, digital television and local and long distance voice services,

offering more robust IP products and service, and accelerating our cloud computing strategy. We will also continue to focus on cost efficiencies to attempt to offset adverse impacts from unfavorable economic conditions and intense competitive pressure.

#### *Operating Revenue*

We expect to experience service revenue growth in our Verizon Wireless segment in 2013, primarily as a result of continued growth in postpaid connections driven by increased sales of smartphones and other data-capable devices. We expect that retail postpaid average revenue per account (ARPA) will continue to increase as connections migrate from basic phones to smartphone devices and as the average number of connections per account increases which we expect to be driven by our new Share Everything plans that allow for the sharing of data among up to 10 devices. We expect that our future service revenue growth will be substantially derived from an increase in the sale and usage of innovative wireless smartphones and other data-capable devices in addition to our new pricing structure that will encourage customers to continue adding data-enabled devices onto existing accounts.

During 2012, we experienced an increase in Wireless equipment and other revenue as a result of sales of new smartphone devices, including our 4G LTE-capable devices. We expect that continued emphasis on increasing smartphone penetration will positively impact equipment revenue as these devices typically carry higher price points than basic phones.

We expect FiOS broadband and video penetration to positively impact our Mass Markets revenue and subscriber base and we also expect Strategic services revenue to continue to grow as we derive additional enterprise revenues from cloud, security and other solutions-based services and customers continue to migrate their services to Private IP and other strategic networking services. We believe the trend in these growth areas as well as new offerings in telematics and video streaming will help offset the continuing decline in revenues in our Wireline segment related to retail voice connection losses as a result of wireless substitution as well as the continued decline in our legacy wholesale and enterprise markets.

#### *Operating Costs and Expenses*

We anticipate our overall wireless operating costs will increase as a result of the expected increase in the volume of smartphone sales, which will result in higher equipment and sales commission costs. In addition, we expect content costs for our FiOS video services to continue to increase. However, we expect to achieve certain cost efficiencies in 2013 and beyond as data traffic continues to migrate to our lower-cost 4G LTE network and as we continue to streamline our business processes with a focus on improving productivity and increasing profitability.

#### *Capital Expenditures*

Our 2013 capital program includes capital to fund advanced networks and services, including 4G LTE and FiOS, the continued expansion of our core networks, including our IP and data center enhancements, maintenance and support for our legacy voice networks and other expenditures to drive operating efficiencies. The level and the timing of the Company's capital expenditures within these broad categories can vary significantly as a result of a variety of factors outside our control, including, for example, material weather events. We are replacing damaged copper wire with fiber-optic cable which will not alter our capital program but should result in lower maintenance costs. Capital expenditures were approximately \$16 billion in 2012 and 2011, respectively. We believe that we have significant discretion over the amount and timing of our capital expenditures on a Company-wide basis as we are not subject to any agreement that would require significant capital expenditures on a designated schedule or upon the occurrence of designated events. We expect capital expenditures as a percentage of revenue to decline in 2013 from levels in 2012.

#### *Cash Flow from Operations*

We create value for our shareowners by investing the cash flows generated by our business in opportunities and transactions that support continued profitable growth, thereby increasing customer satisfaction and usage of our products and services. In addition, we have used our cash flows to maintain and grow our dividend payout to shareowners. Verizon's Board of Directors increased the Company's quarterly dividend by 3.0% during 2012, making this the sixth consecutive year in which we have raised our dividend.

Our goal is to use our cash to create long-term value for our shareholders. We will continue to look for investment opportunities that will help us to grow the business. When appropriate, we will also use our cash to reduce our debt levels and to buy back shares of our outstanding common stock, and Verizon Wireless may make distributions to its partners (see "Cash Flows from Financing Activities"). There were no repurchases of common stock during 2012, 2011 or 2010. Through February 15, 2013, we purchased approximately 3.50 million shares under our current share buyback authorization.

#### *Other*

We do not currently expect that legislative efforts relating to climate control will have a material adverse impact on our consolidated financial results or financial condition. We believe there may be opportunities for companies to increase their use of communications services, including those we provide, in order to minimize the environmental impact of their businesses.

## Consolidated Results of Operations

In this section, we discuss our overall results of operations and highlight items of a non-operational nature that are not included in our segment results. We have two reportable segments, Verizon Wireless and Wireline, which we operate and manage as strategic business units and organize by products and services. In “Segment Results of Operations,” we review the performance of our two reportable segments.

Corporate, eliminations and other includes unallocated corporate expenses such as certain pension and other employee benefit related costs, intersegment eliminations recorded in consolidation, the results of other businesses such as our investments in unconsolidated businesses, lease financing and divested operations, and other adjustments and gains and losses that are not allocated in assessing segment performance due to their non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results as these items are included in the chief operating decision maker’s assessment of segment performance. We believe that this presentation assists users of our financial statements in better understanding our results of operations and trends from period to period.

Corporate, eliminations and other during 2010 included a one-time non-cash adjustment of \$0.2 billion primarily to adjust wireless service revenues. This adjustment was recorded to properly defer previously recognized wireless service revenues that were earned and recognized in future periods. The adjustment was not material to the consolidated financial statements (see “Other Items”). In addition, the results of operations related to the divestitures we completed in 2010 (see “Acquisitions and Divestitures”) are included in Corporate, eliminations and other, as follows:

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
<b>Impact of Divested Operations</b>			
Operating revenues	\$ –	\$ –	\$2,407
Cost of services and sales	–	–	574
Selling, general and administrative expense	–	–	665
Depreciation and amortization expense	–	–	413

## Consolidated Revenues

Years Ended December 31,				(dollars in millions)			Increase/(Decrease)	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010			
<b>Verizon Wireless</b>								
Service revenue	\$ 63,733	\$ 59,157	\$ 55,629	\$ 4,576	7.7 %	\$ 3,528	6.3 %	
Equipment and other	<u>12,135</u>	10,997	7,778	<u>1,138</u>	10.3	<u>3,219</u>	41.4	
Total	<u>75,868</u>	70,154	63,407	<u>5,714</u>	8.1	<u>6,747</u>	10.6	
<b>Wireline</b>								
Mass Markets	16,702	16,337	16,256	365	2.2	81	0.5	
Global Enterprise	15,299	15,622	15,316	(323)	(2.1)	306	2.0	
Global Wholesale	7,240	7,973	8,746	(733)	(9.2)	(773)	(8.8)	
Other	539	750	909	(211)	(28.1)	(159)	(17.5)	
Total	<u>39,780</u>	40,682	41,227	<u>(902)</u>	(2.2)	<u>(545)</u>	(1.3)	
Corporate, eliminations and other	<u>198</u>	39	1,931	<u>159</u>	nm	<u>(1,892)</u>	(98.0)	
<b>Consolidated Revenues</b>	<b><u>\$115,846</u></b>	<b>\$110,875</b>	<b>\$106,565</b>	<b><u>\$4,971</u></b>	<b>4.5</b>	<b><u>\$ 4,310</u></b>	<b>4.0</b>	

nm – not meaningful

## 2012 Compared to 2011

The increase in consolidated revenues during 2012 compared to 2011 was primarily due to higher revenues at Verizon Wireless, as well as higher Mass Markets revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise at our Wireline segment. Partially offsetting these increases were lower Global Wholesale and Global Enterprise Core revenues at our Wireline segment.

Verizon Wireless’ revenues increased during 2012 compared to 2011 due to growth in both service and equipment and other revenue. Service revenue increased during 2012 compared to 2011 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections of 5.1 million in 2012, as well as the continued increase in penetration of higher priced smartphones. Retail postpaid connections per account increased during 2012 compared to 2011 primarily due to the increased use of tablets and other Internet devices. In

2012, the increase in retail postpaid connection net additions was primarily due to an increase in retail postpaid and prepaid connection gross additions and improvements in our retail connections churn rate. Higher retail postpaid connection gross additions during 2012 primarily reflect the launch of our Share Everything plans coupled with new device introductions during the second half of 2012.

Equipment and other revenue increased during 2012 compared to 2011 primarily due to an increase in device upgrade fees, regulatory fees and equipment sales.

Wireline's revenues decreased during 2012 compared to 2011 primarily driven by declines in Global Wholesale, Global Enterprise Core and Other revenues, partially offset by higher revenues in Mass Markets driven by FiOS services and higher revenues from Strategic services.

Mass Markets revenues increased during 2012 compared to 2011 due to the expansion of FiOS services (Voice, Internet and Video) as well as changes in our pricing strategy adopted in 2012, partially offset by the continued decline of local exchange revenues.

Global Enterprise revenues decreased during 2012 compared to 2011 primarily due to lower local services and traditional circuit-based revenues, a decline in customer premise equipment revenues and the unfavorable impact of foreign currency translation. This decrease was partially offset by higher Strategic services revenues, primarily due to growth in advanced services, such as managed network solutions, contact center solutions, IP communications and our cloud and data center offerings.

Global Wholesale revenues decreased during 2012 compared to 2011 primarily due to a decline in traditional voice revenues as a result of decreased minutes of use (MOUs) and a decline in domestic wholesale connections, partially offset by continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities as well as Ethernet migrations from other core customers.

Other revenues decreased during 2012 compared to 2011 primarily due to reduced volumes, including former MCI mass market customer losses.

## **2011 Compared to 2010**

The increase in consolidated revenues during 2011 compared to 2010 was primarily due to higher revenues at Verizon Wireless, the expansion of FiOS services and increased revenues from Strategic services at our Wireline segment. In addition, the increase during 2011 was partially offset by the impact of divested operations.

The increase in Verizon Wireless' revenues during 2011 compared to 2010 was primarily due to growth in both service and equipment revenue. Service revenue increased during 2011 compared to 2010 primarily driven by higher retail postpaid service revenue, which increased as a result of an increase in retail postpaid connections of 4.3 million in 2011 as well as the continued increase in penetration of higher priced smartphones. Retail postpaid connections per account increased during 2011 compared to 2010 primarily due to the increased use of tablets and other Internet devices.

Equipment and other revenue increased during 2011 compared to 2010 due to an increase in the sales volume of smartphones to new and upgrading customers.

The decrease in Wireline's revenues during 2011 compared to 2010 was primarily driven by declines in Global Wholesale, and Global Enterprise Core and Other revenues. The decrease in Global Wholesale revenues was primarily due to a \$0.4 billion decline in international voice revenues as a result of decreased MOUs in traditional voice products as a result of increases in voice termination pricing on certain international routes. Global Enterprise Core revenues declined primarily due to lower customer premise equipment revenues, reflecting our focus on improving margins by de-emphasizing sales of equipment that are not a part of an overall enterprise solutions bundle, as well as customers migrating to next generation IP services. Other Wireline revenue also decreased primarily as a result of former MCI mass market customer losses. These revenue declines were partially offset by continued revenue growth in Global Enterprise Strategic services, in part due to the inclusion of the revenues of Terremark, and in Mass Markets, primarily due to the expansion of FiOS services (Voice, Internet and Video), partially offset by the decline of local exchange revenues.

## Consolidated Operating Expenses

Years Ended December 31,	2012	2011	2010	(dollars in millions)		2011 vs. 2010
				2012 vs. 2011	Increase/(Decrease)	
Cost of services and sales	\$ 46,275	\$45,875	\$44,149	\$ 400	0.9 %	\$1,726 3.9 %
Selling, general and administrative expense	39,951	35,624	31,366	4,327	12.1	4,258 13.6
Depreciation and amortization expense	16,460	16,496	16,405	(36)	(0.2)	91 0.6
<b>Consolidated Operating Expenses</b>	<b>\$102,686</b>	<b>\$97,995</b>	<b>\$91,920</b>	<b>\$4,691</b>	<b>4.8</b>	<b>\$6,075 6.6</b>

Consolidated operating expenses increased during 2012 and 2011 primarily due to higher non-operational charges (see “Other Items”) as well as increased operating expenses at Verizon Wireless. The changes in consolidated operating expenses during 2011 were also favorably impacted by divested operations.

### 2012 Compared to 2011

#### *Cost of Services and Sales*

Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits, materials and supplies, content costs, contracted services, network access and transport costs, wireless equipment costs, customer provisioning costs, computer systems support, costs to support our outsourcing contracts and technical facilities and contributions to the Universal Service Fund. Aggregate customer care costs, which include billing and service provisioning, are allocated between Cost of services and sales and Selling, general and administrative expense.

Cost of services and sales increased during 2012 compared to 2011 primarily due to higher cost of equipment sales, increased cost of network services and increased data roaming, partially offset by a decrease in cost for data services, a decrease in network connection costs and a decrease in the cost of long distance at our Verizon Wireless segment. Also contributing to the increase were higher content costs associated with continued FiOS subscriber growth and vendor rate increases, increased expenses related to our cloud and data center offering, higher costs related to FiOS installation as well as higher repair and maintenance expenses caused by storm-related events in 2012, partially offset by declines in access costs and customer premise equipment costs at our Wireline segment.

#### *Selling, General and Administrative Expense*

Selling, general and administrative expense includes: salaries and wages and benefits not directly attributable to a service or product; bad debt charges; taxes other than income taxes; advertising and sales commission costs; customer billing; call center and information technology costs; regulatory fees; professional service fees; and rent and utilities for administrative space. Also included are a portion of the aggregate customer care costs as discussed above.

Selling, general and administrative expense increased during 2012 compared to 2011 primarily due to higher non-operational charges noted in the table below as well as higher sales commission expense and costs associated with regulatory fees at our Verizon Wireless segment.

#### *Depreciation and Amortization Expense*

Depreciation and amortization expense decreased during 2012 compared to 2011 primarily due to a decrease in depreciable assets at our Wireline segment, partially offset by an increase in amortization expense related to non-network software.

### 2011 Compared to 2010

#### *Cost of Services and Sales*

Cost of services and sales increased during 2011 compared to 2010 primarily due to higher cost of equipment sales at our Verizon Wireless segment, as well as increased costs at our Wireline segment related to repair and maintenance expenses caused by storm-related events during 2011, higher content costs associated with continued FiOS subscriber growth and the acquisition of Terremark in the second quarter of 2011. Partially offsetting the increase were lower non-operational charges noted in the table below, a decrease in access costs resulting primarily from management actions to reduce exposure to unprofitable international wholesale routes and declines in overall wholesale long distance volumes.

#### *Selling, General and Administrative Expense*

Selling, general and administrative expense increased during 2011 compared to 2010 primarily due to higher severance, pension and benefit charges and costs caused by storm-related events as well as higher sales commission expense at our Verizon Wireless segment. Partially offsetting the

increase was the absence of merger integration and acquisition related charges and access line spin-off charges during 2011 and a decrease in compensation expense at our Wireline segment.

*Depreciation and Amortization Expense*

Depreciation and amortization expense increased during 2011 compared to 2010 as a result of growth in depreciable assets at our Wireless segment and the acquisition of Terremark in the second quarter of 2011, partially offset by lower non-operational charges noted in the table below and amortization expense as a result of a reduction in capitalized non-network software at our Wireline segment. The change in depreciation and amortization expense was also partially attributable to the impact of divested operations.

**Non-operational Charges**

Non-operational charges included in operating expenses (see “Other Items”) were as follows:

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
<b>Severance, Pension and Benefit Charges</b>			
Cost of services and sales	\$ —	\$ —	\$1,723
Selling, general and administrative expense	<u>7,186</u>	5,954	1,331
	<u>7,186</u>	5,954	3,054
<b>Merger Integration and Acquisition Related Charges</b>			
Cost of services and sales	—	—	376
Selling, general and administrative expense	—	—	389
Depreciation and amortization expense	—	—	102
	—	—	867
<b>Access Line Spin-off Related Charges</b>			
Cost of services and sales	—	—	42
Selling, general and administrative expense	—	—	365
	—	—	407
<b>Litigation Settlements</b>			
Selling, general and administrative expense	<u>384</u>	—	—
<b>Other Costs</b>			
Cost of sales and services	40	—	—
Selling, general and administrative expense	<u>236</u>	—	—
	<u>276</u>	—	—
<b>Total non-operating charges included in operating expenses</b>	<b><u>\$7,846</u></b>	<b>\$5,954</b>	<b>\$4,328</b>

See “Other Items” for a description of other non-operational items.

### *Consolidated Operating Income and EBITDA*

Consolidated earnings before interest, taxes, depreciation and amortization expenses (Consolidated EBITDA) and Consolidated Adjusted EBITDA, which are presented below, are non-GAAP measures and do not purport to be alternatives to operating income as a measure of operating performance. Management believes that these measures are useful to investors and other users of our financial information in evaluating operating profitability on a more variable cost basis as they exclude the depreciation and amortization expense related primarily to capital expenditures and acquisitions that occurred in prior years, as well as in evaluating operating performance in relation to our competitors. Consolidated EBITDA is calculated by adding back interest, taxes, depreciation and amortization expense, equity in earnings of unconsolidated businesses and other income and (expense), net to net income.

Consolidated Adjusted EBITDA is calculated by excluding the effect of non-operational items and the impact of divested operations from the calculation of Consolidated EBITDA. Management believes that this measure provides additional relevant and useful information to investors and other users of our financial data in evaluating the effectiveness of our operations and underlying business trends in a manner that is consistent with management's evaluation of business performance. See "Other Items" for additional details regarding these non-operational items and the impact of divested operations.

Operating expenses include pension and benefit related charges based on actuarial assumptions, including projected discount rates and an estimated return on plan assets. These estimates are updated in the fourth quarter to reflect actual return on plan assets and updated actuarial assumptions. The adjustment has been recognized in the income statement during the fourth quarter or upon a remeasurement event pursuant to our accounting policy for the recognition of actuarial gains/losses.

It is management's intent to provide non-GAAP financial information to enhance the understanding of Verizon's GAAP financial information, and it should be considered by the reader in addition to, but not instead of, the financial statements prepared in accordance with GAAP. Each non-GAAP financial measure is presented along with the corresponding GAAP measure so as not to imply that more emphasis should be placed on the non-GAAP measure. The non-GAAP financial information presented may be determined or calculated differently by other companies.

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
<b>Consolidated Operating Income</b>	<b>\$13,160</b>	\$12,880	\$14,645
Add Depreciation and amortization expense	<b>16,460</b>	16,496	16,405
<b>Consolidated EBITDA</b>	<b>29,620</b>	29,376	31,050
Add Non-operating charges included in operating expenses <sup>(1)</sup>	<b>7,846</b>	5,954	4,226
Add Deferred revenue adjustment	—	—	268
Less Impact of divested operations <sup>(1)</sup>	—	—	(1,168)
<b>Consolidated Adjusted EBITDA</b>	<b>\$37,466</b>	\$35,330	\$34,376

<sup>(1)</sup> Excludes non-operating charges included in Depreciation and amortization expense.

The changes in Consolidated Operating Income, Consolidated EBITDA and Consolidated Adjusted EBITDA in the table above were primarily a result of the factors described in connection with operating revenues and operating expenses above.

## Other Consolidated Results

### Equity in Earnings of Unconsolidated Businesses

Equity in earnings of unconsolidated businesses decreased \$120 million, or 27.0%, in 2012 compared to 2011 and \$64 million, or 12.6%, in 2011 compared to 2010 primarily due to lower earnings from operations at Vodafone Omnitel N.V. and, to a lesser extent, the devaluation of the Euro against the U.S. dollar.

### Other Income and (Expense), Net

Additional information relating to Other income and (expense), net is as follows:

Years Ended December 31,	2012	2011	2010	(dollars in millions)		2011 vs. 2010
				2012 vs. 2011	Increase/(Decrease)	
Interest income	\$ 57	\$ 68	\$ 92	\$ (11)	(16.2)%	\$ (24) (26.1)%
Foreign exchange gains (losses), net	(1)	(9)	5	8	(88.9)	(14) nm
Other, net	(1,072)	(73)	(43)	(999)	nm	(30) 69.8
<b>Total</b>	<b><u>\$(1,016)</u></b>	<b><u>\$(14)</u></b>	<b><u>\$ 54</u></b>	<b><u>\$1,002</u></b>	<b><u>nm</u></b>	<b><u>\$ (68)</u></b> nm

nm – not meaningful

Other income and (expense), net decreased during 2012 compared to 2011 primarily driven by higher fees of \$1.1 billion related to the early redemption of debt (see “Other Items”).

Other income and (expense), net decreased during 2011 compared to 2010 primarily driven by higher fees related to the early redemption of debt (see “Other Items”) and foreign exchange losses at our international wireline operations, partially offset by gains on sales of short-term investments.

### Interest Expense

Years Ended December 31,	2012	2011	2010	(dollars in millions)		2011 vs. 2010
				2012 vs. 2011	Increase/(Decrease)	
Total interest costs on debt balances	\$ 2,977	\$ 3,269	\$ 3,487	\$ (292)	(8.9)%	\$ (218) (6.3)%
Less Capitalized interest costs	406	442	964	(36)	(8.1)	(522) (54.1)
<b>Total</b>	<b><u>\$ 2,571</u></b>	<b><u>\$ 2,827</u></b>	<b><u>\$ 2,523</u></b>	<b><u>\$ (256)</u></b>	<b><u>(9.1)</u></b>	<b><u>\$ 304</u></b> 12.0
Average debt outstanding	<b><u>\$52,949</u></b>	<b><u>\$55,629</u></b>	<b><u>\$57,278</u></b>			
Effective interest rate	<b><u>5.6%</u></b>	<b><u>5.9%</u></b>	<b><u>6.1%</u></b>			

Total interest costs on debt balances decreased during 2012 compared to 2011 primarily due to a \$2.7 billion decrease in average debt (see “Consolidated Financial Condition”) and a lower effective interest rate. Capitalized interest costs were lower in 2012 primarily due to our ongoing deployment of the 4G LTE network.

Total interest costs on debt balances decreased during 2011 compared to 2010 primarily due to a \$1.6 billion decrease in average debt (see “Consolidated Financial Condition”) and a lower effective interest rate. Capitalized interest costs were lower in 2011 primarily due to our ongoing deployment of the 4G LTE network.

*Provision (Benefit) for Income Taxes*

Years Ended December 31,	2012	2011	2010	(dollars in millions)		2011 vs. 2010
				2012 vs. 2011	Increase/(Decrease)	
<b>Provision (Benefit) for income taxes</b>	<b>\$(660)</b>	<b>\$285</b>	<b>\$2,467</b>	<b>\$ (945)</b>	<b>nm</b>	<b>\$(2,182)</b> <b>(88.4)%</b>
Effective income tax rate	(6.7)%	2.7 %	19.4 %			

nm—not meaningful

The effective income tax rate is calculated by dividing the provision for income taxes by income before the provision for income taxes. Our effective income tax rate is significantly lower than the statutory federal income tax rate for all years presented due to the inclusion of income attributable to Vodafone Group Plc.'s (Vodafone) noncontrolling interest in the Verizon Wireless partnership within our income before the provision for income taxes. In 2012, we recorded a tax benefit on income before the provision for income taxes, which resulted in a negative effective income tax rate. In this circumstance, including the income attributable to Vodafone's noncontrolling interest in the Verizon Wireless partnership in our income before the provision for income taxes resulted in our negative effective tax rate being 300.3 percentage points higher during 2012. In 2011 and 2010, we recorded a tax provision on income before the provision for income taxes and when we include the income attributable to Vodafone's noncontrolling interest in the Verizon Wireless partnership in our income before the provision for income taxes it resulted in our effective income tax rate being 7.9 percentage points lower during 2011 and 29.8 percentage points lower during 2010.

The effective income tax rate for 2012 was (6.7)% compared to 2.7% for 2011. The negative effective income tax rate for 2012 and the decrease in the provision for income taxes during 2012 compared to 2011 was primarily due to lower income before income taxes as a result of higher severance, pension, and benefit charges as well as early debt redemption costs recorded in the current year.

The effective income tax rate in 2011 decreased to 2.7% from 19.4% in 2010. This decrease was primarily driven by lower income before provision for income taxes as a result of higher pension and benefit charges recorded in 2011 as well as tax benefits from state valuation allowance reversals in 2011. The decrease was also due to a one-time, non-cash income tax charge of \$1.0 billion recorded during the three months ended March 31, 2010 as a result of the enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively the Health Care Act). Under the Health Care Act, beginning in 2013, Verizon and other companies that receive a subsidy under Medicare Part D to provide retiree prescription drug coverage will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage to the extent of the subsidy received. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in Verizon's financial statements, this change in law required Verizon to reduce the value of the related tax benefits recognized in its financial statements in the period during which the Health Care Act was enacted.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for each period is included in Note 12 to the consolidated financial statements.

*Net Income Attributable to Noncontrolling Interest*

Years Ended December 31,	2012	2011	2010	(dollars in millions)		2011 vs. 2010
				2012 vs. 2011	Increase/(Decrease)	
<b>Net income attributable to noncontrolling interest</b>	<b>\$9,682</b>	<b>\$7,794</b>	<b>\$7,668</b>	<b>\$1,888</b>	<b>24.2 %</b>	<b>\$ 126</b> <b>1.6 %</b>

The increases in Net income attributable to noncontrolling interest during 2012 compared to 2011, and 2011 compared to 2010 were due to higher earnings in our Verizon Wireless segment, which has a 45% noncontrolling partnership interest attributable to Vodafone.

## Segment Results of Operations

We have two reportable segments, Verizon Wireless and Wireline, which we operate and manage as strategic business units and organize by products and services. We measure and evaluate our reportable segments based on segment operating income. The use of segment operating income is consistent with the chief operating decision maker's assessment of segment performance.

Segment earnings before interest, taxes, depreciation and amortization (Segment EBITDA), which is presented below, is a non-GAAP measure and does not purport to be an alternative to operating income as a measure of operating performance. Management believes that this measure is useful to investors and other users of our financial information in evaluating operating profitability on a more variable cost basis as it excludes the depreciation and amortization expenses related primarily to capital expenditures and acquisitions that occurred in prior years, as well as in evaluating operating performance in relation to our competitors. Segment EBITDA is calculated by adding back depreciation and amortization expense to segment operating income.

Verizon Wireless Segment EBITDA service margin, also presented below, is calculated by dividing Verizon Wireless Segment EBITDA by Verizon Wireless service revenues. Verizon Wireless Segment EBITDA service margin utilizes service revenues rather than total revenues. Service revenues primarily exclude equipment revenues in order to reflect the impact of providing service to the wireless customer base on an ongoing basis. Verizon Wireline EBITDA margin is calculated by dividing Wireline EBITDA by total Wireline revenues. You can find additional information about our segments in Note 13 to the consolidated financial statements.

## Verizon Wireless

Our Verizon Wireless segment is primarily comprised of Cellco Partnership doing business as Verizon Wireless. Cellco Partnership is a joint venture formed in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone. Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%. Verizon Wireless provides wireless communications services across one of the most extensive wireless networks in the United States.

We provide these services and equipment sales to consumer, business and government customers in the United States on a postpaid and prepaid basis. Postpaid connections represent individual lines of service for which a customer is billed in advance a monthly access charge in return for a monthly network service allowance, and usage beyond the allowances is billed monthly in arrears. Our prepaid service enables individuals to obtain wireless services without a long-term contract or credit verification by paying for all services in advance.

All financial results included in the tables below reflect the consolidated results of Verizon Wireless.

### Operating Revenues and Selected Operating Statistics

Years Ended December 31,	2012	2011	2010	(dollars in millions, except ARPA)		Increase/(Decrease)	
				2012 vs. 2011	2011 vs. 2010	2011 vs. 2010	2012 vs. 2011
Retail service	<b>\$61,440</b>	\$56,660	\$53,308	<b>\$ 4,780</b>	<b>8.4 %</b>	\$ 3,352	6.3 %
Other service	<b>2,293</b>	2,497	2,321	(204)	(8.2)	176	7.6
Service revenue	<b>63,733</b>	59,157	55,629	<b>4,576</b>	<b>7.7</b>	3,528	6.3
Equipment and other	<b>12,135</b>	10,997	7,778	<b>1,138</b>	<b>10.3</b>	3,219	41.4
<b>Total Operating Revenues</b>	<b>\$75,868</b>	\$70,154	\$63,407	<b>\$ 5,714</b>	<b>8.1</b>	\$ 6,747	10.6
Connections ('000): <sup>(1)</sup>							
Retail connections	<b>98,230</b>	92,167	87,535	<b>6,063</b>	<b>6.6</b>	4,632	5.3
Retail postpaid connections	<b>92,530</b>	87,382	83,125	<b>5,148</b>	<b>5.9</b>	4,257	5.1
Net additions in period ('000): <sup>(2)</sup>							
Retail connections	<b>5,917</b>	4,624	1,977	<b>1,293</b>	<b>28.0</b>	2,647	nm
Retail postpaid connections	<b>5,024</b>	4,252	2,529	<b>772</b>	<b>18.2</b>	1,723	68.1
Churn Rate:							
Retail connections	<b>1.19%</b>	1.26%	1.38%				
Retail postpaid connections	<b>0.91%</b>	0.95%	1.02%				
Account Statistics:							
Retail postpaid ARPA	<b>\$144.04</b>	\$134.51	\$125.75	<b>\$ 9.53</b>	<b>7.1</b>	\$ 8.76	7.0
Retail postpaid accounts ('000): <sup>(1)</sup>	<b>35,057</b>	34,561	34,268	<b>496</b>	<b>1.4</b>	293	0.9
Retail postpaid connections per account <sup>(1)</sup>	<b>2.64</b>	2.53	2.43	<b>0.11</b>	<b>4.3</b>	0.10	4.1

<sup>(1)</sup> As of end of period

<sup>(2)</sup> Excluding acquisitions and adjustments

nm- not meaningful

### 2012 Compared to 2011

The increase in Verizon Wireless' total operating revenues during 2012 compared to 2011 was the result of growth in both service and equipment and other revenue.

#### Accounts and Connections

Retail (non-wholesale) postpaid accounts represent retail customers under contract with Verizon Wireless that are directly served and managed by Verizon Wireless and use its branded services. Accounts include single connection plans, family plans, Share Everything plans and corporate accounts. A single account may receive monthly wireless services for a variety of connected devices. Retail connections represent our retail customer device connections. Churn is the rate at which service to a connection is terminated.

Retail connections under an account may include smartphones, basic phones, Home Phone Connect, Home Fusion, tablets, and other Internet devices. We expect to continue to experience retail connection growth based on the strength of our product offerings and network service quality. Retail connection net additions increased during 2012 compared to 2011 primarily due to an increase in retail postpaid and prepaid connection gross additions and improvements in our retail connections churn rate. Higher retail postpaid connection gross additions during 2012 primarily reflect the launch of our Share Everything plans coupled with new device introductions during the second half of 2012.

#### *Retail Postpaid Connections per Account*

Retail postpaid connections per account is calculated by dividing the total number of retail postpaid connections by the average number of retail postpaid accounts in the period. Retail postpaid connections per account increased during 2012 compared to 2011 primarily due to the increased use of tablets and other Internet devices.

#### *Service Revenue*

Service revenue increased during 2012 compared to 2011 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections of 5.1 million in 2012, as well as the continued increase in penetration of higher priced smartphones. This increased penetration also contributed to the increase in our retail postpaid ARPA (the average revenue per account from retail postpaid accounts).

The increase in retail postpaid ARPA during 2012 compared to 2011 was primarily driven by increases in smartphone penetration and retail postpaid connections per account. During 2012, we experienced a 4.3% increase in retail postpaid connections per account compared to 2011, with smartphones representing 58.1% of our retail postpaid phone base as of December 31, 2012 compared to 43.5% as of December 31, 2011. The increase in retail postpaid connections per account is primarily due to increases in Internet data devices, which represented 9.3% of our retail postpaid connection base as of December 31, 2012 compared to 8.1% as of December 31, 2011 primarily due to strong sales of tablets and Jetpacks™.

Other service revenue decreased during 2012 compared to 2011 primarily as a result of a decrease in third party roaming revenue.

#### *Equipment and Other Revenue*

Equipment and other revenue increased during 2012 compared to 2011 primarily due to increases in device upgrade fees, regulatory fees and equipment sales.

### **2011 Compared to 2010**

The increase in Verizon Wireless' total operating revenue during 2011 compared to 2010 was primarily due to growth in both service and equipment revenue.

#### *Accounts and Connections*

Retail connections increased during 2011 compared to 2010 primarily due to an increase in retail postpaid and prepaid connection gross additions as well as ongoing improvements in our retail connection churn rate, both of which we believe were primarily the result of the strength of the devices in our product portfolio, including the Apple iPhone 4 and 4S, and our line-up of 3G and 4G Android and other 4G LTE capable devices, as well as the reliability of our network.

#### *Retail Postpaid Connections per Account*

Retail postpaid connections per account increased during 2011 compared to 2010 primarily due to the increased use of tablets and other Internet devices.

#### *Service Revenue*

Service revenue increased during 2011 compared to 2010 primarily driven by higher retail postpaid service revenue which increased as a result of an increase in retail postpaid connections of 4.3 million as well as the continued increase in penetration of higher priced smartphones, which also contributed to the increase in our retail postpaid ARPA.

The increase in retail postpaid ARPA for 2011 compared to 2010 was primarily driven by increases in smartphone penetration and in retail postpaid connections per account. The proportion of our retail postpaid phone base utilizing smartphones increased to 43.5% as of December 31, 2011 compared to 28.1% as of December 31, 2010 and retail postpaid connections per account increased by 4.1% during 2011 compared to 2010. The increase in retail postpaid connections per account is primarily due to increases in Internet data devices, which represented 8.1% of our retail postpaid connection base as of December 31, 2011 compared to 7.0 % as of December 31, 2010 primarily due to strong sales of Jetpacks.

Other service revenue increased during 2011 compared to 2010 as a result of year-to-date growth in wholesale and other connections, partially offset by a decrease in third party roaming revenue.

#### *Equipment and Other Revenue*

Equipment and other revenue increased during 2011 compared to 2010 due to an increase in the sales volume of smartphones to new and upgrading customers.

### **Operating Expenses**

Years Ended December 31,	2012	2011	2010	(dollars in millions)			2011 vs. 2010
				2012 vs. 2011	1.7%	Increase/(Decrease)	
Cost of services and sales	<b>\$24,490</b>	\$24,086	\$19,245	\$ 404	1.7%	\$4,841	25.2%
Selling, general and administrative expense	<b>21,650</b>	19,579	18,082	<b>2,071</b>	<b>10.6</b>	1,497	8.3
Depreciation and amortization expense	<b>7,960</b>	7,962	7,356	(2)	—	606	8.2
<b>Total Operating Expenses</b>	<b>\$54,100</b>	\$51,627	\$44,683	<b>\$2,473</b>	<b>4.8</b>	<b>\$6,944</b>	15.5

#### *Cost of Services and Sales*

Cost of services and sales increased during 2012 compared to 2011 primarily due to \$0.7 billion in higher cost of equipment sales, which was driven by increased sales of higher cost smartphones, increased cost of network services and increased data roaming, partially offset by a decrease in cost for data services, a decrease in network connection costs due to the ongoing deployment of Ethernet backhaul facilities primarily targeted at sites upgrading to 4G LTE and a decrease in the cost of long distance.

Cost of services and sales increased during 2011 compared to 2010 primarily due to higher costs of equipment sales. Cost of equipment sales increased by \$4.9 billion driven by increased sales of higher cost smartphones, including Apple's iPhone 4 and 4S and other data-capable devices. In addition, cost of services increased during 2011 due to higher wireless network costs resulting from an increase in local interconnection costs related to additional Evolution-Data Optimized (EV-DO) capacity to meet expected data usage demands as well as an increase in Ethernet facilities costs that support the 4G LTE network. The increase in cost of services was also impacted by higher roaming costs incurred in markets divested during 2010 and increased data roaming. Partially offsetting these increases was a decrease in costs for long distance and data services and applications.

#### *Selling, General and Administrative Expense*

Selling, general and administrative expense increased during 2012 compared to 2011 primarily due to higher sales commission expense in our indirect channel as well as costs associated with regulatory fees. Indirect sales commission expense increased \$1.3 billion during 2012 compared to 2011 primarily as a result of increases in the average commission per unit, as the mix of units continues to shift toward smartphones and more customers activate data services.

Selling, general and administrative expense increased during 2011 compared to 2010 primarily due to higher sales commission expense in our indirect channel. Indirect sales commission expense increased \$1.2 billion during 2011 compared to 2010 as a result of increases in the average commission per unit, as the mix of units continues to shift toward data devices and more customers activate data services, and increased contract renewals in connection with equipment upgrades.

#### *Depreciation and Amortization Expense*

Depreciation and amortization expense was essentially unchanged during 2012 compared to 2011. The increase in depreciation and amortization expense during 2011 compared to 2010 was primarily driven by growth in depreciable assets.

## Segment Operating Income and EBITDA

Years Ended December 31,	2012	2011	2010	(dollars in millions)		
				2012 vs. 2011	Increase/(Decrease)	2011 vs. 2010
<b>Segment Operating Income</b>	<b>\$21,768</b>	\$18,527	\$18,724	<b>\$3,241</b>	<b>17.5%</b>	\$ (197) (1.1)%
Add Depreciation and amortization expense	<b>7,960</b>	7,962	7,356	(2)	–	606 8.2
<b>Segment EBITDA</b>	<b>\$29,728</b>	\$26,489	\$26,080	<b>\$3,239</b>	<b>12.2</b>	\$ 409 1.6
<b>Segment operating income margin</b>	<b>28.7%</b>	26.4%	29.5%			
<b>Segment EBITDA service margin</b>	<b>46.6%</b>	44.8%	46.9%			

The changes in the table above during the periods presented were primarily a result of the factors described in connection with operating revenues and operating expenses above.

Non-recurring or non-operational items excluded from Verizon Wireless' Operating income were as follows:

Years Ended December 31,	2012	2011	2010	(dollars in millions)		
				2012	2011	2010
Merger integration and acquisition related charges	\$ –	\$ –	\$ 867			
Severance, pension and benefit charges	<b>37</b>	76	–			
Impact of divested operations	–	–	(348)			
Deferred revenue adjustment	–	–	235			
	<b>\$ 37</b>	\$ 76	\$ 754			

## Wireline

The Wireline segment provides communications products and services including local exchange and long distance voice service, broadband video and data, IP network services, network access and other services to consumers, small businesses and carriers in the United States, as well as to businesses and government customers both in the United States and in over 150 other countries around the world.

Reclassifications have been made to reflect comparable operating results for the spin-off of the operations included in the Frontier transaction, which we owned through June 30, 2010 (see "Acquisitions and Divestitures").

### Operating Revenues and Selected Operating Statistics

Years Ended December 31,	2012	2011	2010	2012 vs. 2011		(dollars in millions)	
				Increase/(Decrease)	2011 vs. 2010	Increase/(Decrease)	2011 vs. 2010
Consumer retail	\$14,043	\$13,606	\$13,419	\$ 437	3.2 %	\$ 187	1.4 %
Small business	2,659	2,731	2,837	(72)	(2.6)	(106)	(3.7)
Mass Markets	16,702	16,337	16,256	365	2.2	81	0.5
Strategic services	8,052	7,575	6,594	477	6.3	981	14.9
Core	7,247	8,047	8,722	(800)	(9.9)	(675)	(7.7)
Global Enterprise	15,299	15,622	15,316	(323)	(2.1)	306	2.0
Global Wholesale	7,240	7,973	8,746	(733)	(9.2)	(773)	(8.8)
Other	539	750	909	(211)	(28.1)	(159)	(17.5)
<b>Total Operating Revenues</b>	<b>\$39,780</b>	<b>\$40,682</b>	<b>\$41,227</b>	<b>\$ (902)</b>	<b>(2.2)</b>	<b>\$ (545)</b>	<b>(1.3)</b>
Connections ('000): <sup>(1)</sup>							
Total voice connections	22,503	24,137	26,001	(1,634)	(6.8)	(1,864)	(7.2)
Total Broadband connections	8,795	8,670	8,392	125	1.4	278	3.3
FiOS Internet subscribers	5,424	4,817	4,082	607	12.6	735	18.0
FiOS Video subscribers	4,726	4,173	3,472	553	13.3	701	20.2

<sup>(1)</sup> As of end of period

Wireline's revenues decreased during 2012 compared to 2011 primarily driven by declines in Global Wholesale, Global Enterprise Core and Other revenues, partially offset by higher revenues in Consumer retail driven by FiOS services and higher revenues from Strategic services.

### Mass Markets

Mass Markets operations provide local exchange (basic service and end-user access) and long distance (including regional toll) voice services, as well as broadband services (including high-speed Internet, FiOS Internet and FiOS Video) to Consumer retail and Small business subscribers.

#### 2012 Compared to 2011

Mass Markets revenues increased during 2012 compared to 2011 primarily due to the expansion of FiOS services (Voice, Internet and Video) as well as changes in our pricing strategy adopted in 2012, partially offset by the continued decline of local exchange revenues.

We have continued to grow our subscriber base and consistently improved penetration rates within our FiOS service areas during 2012. Also contributing to the increase in revenue from FiOS services were changes in our pricing strategy adopted in 2012. As of December 31, 2012, we achieved penetration rates of 37.3% and 33.3% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 35.5% and 31.5% for FiOS Internet and FiOS Video, respectively, at December 31, 2011.

Mass Markets revenues were negatively impacted by the decline of local exchange revenues primarily due to a 6.1% decline in Consumer retail voice connections resulting primarily from competition and technology substitution with wireless, VoIP, broadband and cable services. Total voice connections include traditional switched access lines in service as well as FiOS digital voice connections. There was also a decline in Small business retail voice connections, primarily reflecting challenging economic conditions, competition and a shift to both IP and high-speed circuits.

#### *2011 Compared to 2010*

Mass Markets revenues increased slightly during 2011 compared to 2010 primarily due to the expansion of consumer and small business FiOS services (Voice, Internet, Video), partially offset by the continued decline of local exchange revenues.

As we continued to expand the number of premises eligible to order FiOS services and our sales and marketing efforts to attract new FiOS subscribers, we continued to grow our subscriber base and consistently improved penetration rates within our FiOS service areas. Our pricing strategy allows us to provide competitive offerings to our customers and potential customers. As of December 31, 2011, we achieved penetration rates of 35.5% and 31.5% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 31.9% and 28.0% for FiOS Internet and FiOS Video, respectively, at December 31, 2010.

Mass Markets revenues were negatively impacted by the decline of local exchange revenues primarily due to a 7.2% decline in total voice connections, which resulted primarily from competition and technology substitution. Total voice connections include traditional switched access lines in service as well as FiOS digital voice connections. The majority of the decline in total voice connections was sustained in the residential retail market, which experienced a 7.3% voice connection loss primarily due to substituting traditional landline services with wireless, VoIP, broadband and cable services. There was also a 5.3% decline in small business retail voice connections, primarily reflecting challenging economic conditions, competition and a shift to both IP and high-speed circuits.

#### **Global Enterprise**

Global Enterprise offers Strategic services including network products and solutions, advanced communications services, and other core communications services to medium and large business customers, multinational corporations and state and federal government customers.

#### *2012 Compared to 2011*

Global Enterprise revenues decreased during 2012 compared to 2011 primarily due to lower local services and traditional circuit-based revenues, a decline in customer premise equipment revenues and the unfavorable impact of foreign currency translation. Core services, which consist of traditional circuit-based services such as frame relay, private line and Asynchronous Transfer Mode (ATM) services, declined compared to the similar period last year as our customer base continued to migrate to next generation IP services. The decline in customer premise equipment revenues reflects our focus on improving margins by continuing to de-emphasize sales of equipment that is not part of an overall enterprise solutions bundle. This decrease was partially offset by higher Strategic services revenues. Strategic services revenues increased \$0.5 billion, or 6.3% during 2012 compared to 2011 primarily due to growth in advanced services, such as managed network solutions, contact center solutions, IP communications and our cloud and data center offerings.

#### *2011 Compared to 2010*

Global Enterprise Core and Other revenues increased during 2011 compared to 2010 primarily driven by higher Strategic services revenues, in part due to the inclusion of the revenues of Terremark, partially offset by lower local services and traditional circuit-based revenues and decreased revenues from the sale of customer premise equipment. Strategic services revenues increased \$1.0 billion, or 15.2%, during 2011 compared to 2010 primarily due to growth in advanced services. Traditional circuit-based services declined compared to the similar period last year as our customer base continues to migrate to next generation IP services. The decline in customer premise equipment revenues reflects our focus on improving margins by de-emphasizing sales of equipment that is not a part of an overall enterprise solutions bundle.

#### **Global Wholesale**

Global Wholesale provides communications services including data, voice and local dial tone and broadband services primarily to local, long distance and other carriers that use our facilities to provide services to their customers.

#### *2012 Compared to 2011*

Global Wholesale revenues decreased during 2012 compared to 2011 primarily due to a decline in traditional voice revenues as a result of decreased MOUs and a 5.3% decline in domestic wholesale connections. The traditional voice product reductions are primarily due to the continued impact of competitors deemphasizing their local market initiatives coupled with the impact of technology substitution. Also contributing to the decline in voice revenues is the elimination of low margin international products and the continuing contraction of market rates due to competition. Partially offsetting the overall decrease in wholesale revenue was a continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities as well as Ethernet migrations from other core customers. As a result of the customer upgrades, the number of core data circuits experienced a 9.6% decline compared to the similar periods in 2011. We expect Global Wholesale revenue to continue to decline approximately 10% per quarter compared to the similar periods in the prior year, as we believe that the continued decline in core products will only be partially offset by growth in Ethernet and IP services.

#### *2011 Compared to 2010*

The decrease in Global Wholesale revenues during 2011 compared to 2010 was primarily due to a \$0.4 billion decline in international voice revenues as a result of decreased MOUs in traditional voice products as a result of increases in voice termination pricing on certain international routes, which

negatively impacted volume, and continued rate compression due to competition in the marketplace. Switched access and interexchange wholesale MOUs declined primarily as a result of wireless substitution and connection losses. Domestic wholesale connections as of December 31, 2011 declined 8.3% from December 31, 2010 due to the continued impact of competitors deemphasizing their local market initiatives coupled with the impact of technology substitution. Voice and local loop services declined during 2011 compared to 2010. Partially offsetting the overall decrease in Global Wholesale revenue was a continuing demand for high-speed digital data services primarily due to fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities. As a result of the upgrading customers, the number of DS1/DS3 circuits experienced a 9.5% decline compared to the similar period in 2010.

## Other

Other revenues include such services as local exchange and long distance services from former MCI mass market customers and operator services. The decrease in revenues from other services during 2012 and 2011 was primarily due to reduced volumes, including former MCI mass market customer losses.

## Operating Expenses

Years Ended December 31,				(dollars in millions)		Increase/(Decrease)
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010	
Cost of services and sales	\$22,413	\$22,158	\$22,618	\$ 255	1.2 %	\$(460) (2.0)%
Selling, general and administrative expense	8,883	9,107	9,372	(224)	(2.5)	(265) (2.8)
Depreciation and amortization expense	8,424	8,458	8,469	(34)	(0.4)	(11) (0.1)
<b>Total Operating Expenses</b>	<b>\$39,720</b>	<b>\$39,723</b>	<b>\$40,459</b>	<b>\$ (3)</b>	<b>-</b>	<b>\$(736) (1.8)</b>

### *Cost of Services and Sales*

Cost of services and sales increased during 2012 compared to 2011, primarily due to higher content costs associated with continued FiOS subscriber growth and vendor rate increases and increased expenses related to our cloud and data center offerings. Cost of services and sales was also impacted by higher costs related to FiOS installation, as well as higher repair and maintenance expenses caused by storm-related events in 2012 compared to 2011. The increases were partially offset by a decline in access costs primarily from management actions to reduce exposure to unprofitable international wholesale routes and declines in overall wholesale long distance volumes. Costs related to customer premise equipment also decreased, which reflects our focus on improving margins by deemphasizing sales of equipment that are not part of an overall enterprise solutions bundle.

Cost of services and sales decreased during 2011 compared to 2010 due to a decrease in access costs resulting primarily from management actions to reduce exposure to unprofitable international wholesale routes and declines in overall wholesale long distance volumes, as well as lower pension and other postretirement benefit expenses. The decrease was partially offset by higher costs related to repair and maintenance expenses caused by storm-related events during the third quarter of 2011, content costs associated with continued FiOS subscriber growth and the acquisition of Terremark in the second quarter of 2011.

### *Selling, General and Administrative Expense*

Selling, general and administrative expense decreased during 2012 compared to 2011 primarily due to lower allocations related to centralized administrative functions, and to a lesser extent, lower property and transaction tax expenses and employee costs.

Selling, general and administrative expense decreased during 2011 compared to 2010 primarily due to lower pension and other postretirement benefits and compensation expense, partially offset by higher costs caused by storm-related events in the third quarter of 2011, as well as the acquisition of Terremark in the second quarter of 2011.

### *Depreciation and Amortization Expense*

Depreciation and amortization expense decreased during 2012 compared to 2011 due to a decrease in net depreciable assets. The decrease was partially offset by an increase in amortization expense related to non-network software.

Depreciation and amortization expense was effectively flat during 2011 compared to 2010 primarily due to a decrease in amortization expense as a result of a reduction in capitalized non-network software, partially offset by an increase in depreciation expense primarily due to the acquisition of Terremark in the second quarter of 2011.

## Segment Operating Income and EBITDA

Years Ended December 31,							(dollars in millions)	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010	Increase/(Decrease)		
<b>Segment Operating Income</b>	<b>\$ 60</b>	<b>\$ 959</b>	<b>\$ 768</b>	<b><u>\$(899)</u></b>	<b><u>(93.7)%</u></b>	<b><u>\$ 191</u></b>	<b><u>24.9 %</u></b>	
Add Depreciation and amortization expense	<b>8,424</b>	<b>8,458</b>	<b>8,469</b>	<b><u>(34)</u></b>	<b><u>(0.4)</u></b>	<b><u>(11)</u></b>	<b><u>(0.1)</u></b>	
<b>Segment EBITDA</b>	<b><u>\$8,484</u></b>	<b><u>\$9,417</u></b>	<b><u>\$9,237</u></b>	<b><u><u>\$(933)</u></u></b>	<b><u><u>(9.9)</u></u></b>	<b><u><u>\$ 180</u></u></b>	<b><u><u>1.9</u></u></b>	
<b>Segment operating income margin</b>	<b>0.2%</b>	<b>2.4%</b>	<b>1.9%</b>					
<b>Segment EBITDA margin</b>	<b>21.3%</b>	<b>23.1%</b>	<b>22.4%</b>					

The changes in Wireline's Operating income, Segment EBITDA and Segment EBITDA margin during the periods presented were primarily a result of the factors described in connection with operating revenues and operating expenses above.

Non-recurring or non-operational items excluded from Wireline's Operating income were as follows:

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
Severance, pension and benefit charges	\$ -	\$ -	\$2,237
Access line spin-off related charges	-	-	79
Impact of divested operations	-	-	(408)
Other costs	<b>56</b>	-	-
	<b><u>\$ 56</u></b>	<b><u>\$ -</u></b>	<b><u>\$1,908</u></b>

## Other Items

### Severance, Pension and Benefit Charges

During 2012, we recorded net pre-tax severance, pension and benefits charges of approximately \$7.2 billion primarily for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The charges were primarily driven by a decrease in our discount rate assumption used to determine the current year liabilities from 5% at December 31, 2011 to a weighted-average of 4.2% at December 31, 2012 (\$5.3 billion) and revisions to the retirement assumptions for participants and other assumption adjustments, partially offset by the difference between our estimated return on assets of 7.5% and our actual return on assets of 10% (\$0.7 billion). As part of this charge, we also recorded \$1.0 billion related to the annuitization of pension liabilities (see “Employee Benefit Plan Funded Status and Contributions”), as well as severance charges of \$0.4 billion primarily for approximately 4,000 management employees.

During 2011, we recorded net pre-tax severance, pension and benefits charges of approximately \$6.0 billion for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The charges were primarily driven by a decrease in our discount rate assumption used to determine the current year liabilities from 5.75% at December 31, 2010 to 5% at December 31, 2011 (\$5.0 billion); the difference between our estimated return on assets of 8% and our actual return on assets of 5% (\$0.9 billion); and revisions to the life expectancy of participants and other adjustments to assumptions.

During 2010, we recorded net pre-tax severance, pension and benefits charges of \$3.1 billion. The charges during 2010 included remeasurement losses of \$0.6 billion, for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. Additionally, in 2010, we reached an agreement with certain unions on temporary enhancements to the separation programs contained in their existing collective bargaining agreements. These temporary enhancements were intended to help address a previously declared surplus of employees and to help reduce the need for layoffs. Accordingly, we recorded severance, pension and benefits charges associated with approximately 11,900 union-represented employees who volunteered for the incentive offer. These charges included \$1.2 billion for severance for the 2010 separation programs mentioned above and a planned workforce reduction of approximately 2,500 employees in 2011. In addition, we recorded \$1.3 billion for pension and postretirement curtailment losses and special termination benefits due to the workforce reductions.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See “Consolidated Results of Operations”) excludes the severance, pension and benefit charges presented above.

### Early Debt Redemption and Other Costs

During November 2012, we recorded debt redemption costs of \$0.8 billion in connection with the purchase of \$0.9 billion of the \$1.25 billion of 8.95% Verizon Communications Notes due 2039 in a cash tender offer.

During December 2012, we recorded debt redemption costs of \$0.3 billion in connection with the early redemption of \$0.7 billion of the \$2.0 billion of 8.75% Verizon Communications Notes due 2018, \$1.0 billion of 4.625% Verizon Virginia LLC Debentures, Series A, due March 2013 and \$0.75 billion of 4.35% Verizon Communications Notes due February 2013, as well as \$0.3 billion of other costs.

During November 2011, we recorded debt redemption costs of \$0.1 billion in connection with the early redemption of \$1.0 billion of 7.375% Verizon Communications Notes due September 2012, \$0.6 billion of 6.875% Verizon Communications Notes due June 2012, \$0.4 billion of 6.125% Verizon Florida Inc. Debentures due January 2013, \$0.5 billion of 6.125% Verizon Maryland Inc. Debentures due March 2012 and \$1.0 billion of 6.875% Verizon New York Inc. Debentures due April 2012.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See “Consolidated Results of Operations”) excludes the early debt redemption and other costs presented above.

### Litigation Settlements

In the third quarter of 2012, we settled a number of patent litigation matters, including cases with ActiveVideo Networks Inc. (ActiveVideo) and TiVo Inc. (TiVo). In connection with the settlements with ActiveVideo and TiVo, we recorded a charge of \$0.4 billion in the third quarter of 2012 and will pay and recognize over the next six years an additional \$0.2 billion.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See “Consolidated Results of Operations”) excludes the litigation settlement costs presented above.

## **Merger Integration Charges**

During 2010, we recorded pre-tax merger integration charges of \$0.9 billion primarily related to the Alltel acquisition. These charges were primarily due to the decommissioning of overlapping cell sites, preacquisition contingencies, handset conversions and trade name amortization.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See “Consolidated Results of Operations”) excludes the merger integration charges presented above.

## **Dispositions**

### *Access Line-Spin-off Related Charges*

During 2010, we recorded pre-tax charges of \$0.5 billion, primarily for costs incurred related to network, non-network software and other activities to enable the divested markets in the transaction with Frontier to operate on a stand-alone basis subsequent to the closing of the transaction; professional advisory and legal fees in connection with this transaction; and fees related to the early extinguishment of debt from the use of proceeds from the transaction (see “Acquisitions and Divestitures”).

### *Alltel Divestiture Markets*

During the second quarter of 2010, we recorded a tax charge of approximately \$0.2 billion for the taxable gain associated with the Alltel Divestiture Markets (see “Acquisitions and Divestitures”).

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See “Consolidated Results of Operations”) excludes the access line spin-off and Alltel Divestiture Markets charges presented above.

## **Medicare Part D Subsidy Charges**

Under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively the Health Care Act), beginning in 2013, Verizon and other companies that receive a subsidy under Medicare Part D to provide retiree prescription drug coverage will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage to the extent of the subsidy received. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in Verizon’s financial statements, this change in law required Verizon to reduce the value of the related tax benefits recognized in its financial statements in the period during which the Health Care Act was enacted. As a result, Verizon recorded a one-time, non-cash income tax charge of \$1.0 billion in the first quarter of 2010 to reflect the impact of this change.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See “Consolidated Results of Operations”) excludes the Medicare Part D subsidy charges presented above.

## **Deferred Revenue Charges**

Corporate, eliminations and other during the periods presented include a non-cash adjustment of \$0.2 billion in 2010, primarily to adjust wireless service revenues. This adjustment was recorded to properly defer previously recognized wireless service revenues that were earned and recognized in future periods. The adjustment was recorded during 2010, which reduced Net income attributable to Verizon by approximately \$0.1 billion.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See “Consolidated Results of Operations”) excludes the deferred revenue charges presented above.

## Consolidated Financial Condition

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
<b>Cash Flows Provided By (Used In)</b>			
Operating activities	\$ 31,486	\$ 29,780	\$ 33,363
Investing activities	(20,502)	(17,250)	(15,054)
Financing activities	(21,253)	(5,836)	(13,650)
<b>Increase (Decrease) In Cash and Cash Equivalents</b>	<b><u><u><b>\$(10,269)</b></u></u></b>	<b><u><u><b>\$ 6,694</b></u></u></b>	<b><u><u><b>\$ 4,659</b></u></u></b>

We use the net cash generated from our operations to fund network expansion and modernization, repay external financing, pay dividends, repurchase Verizon common stock from time to time and invest in new businesses. Our sources of funds, primarily from operations and, to the extent necessary, from external financing arrangements, are sufficient to meet ongoing operating and investing requirements. We expect that our capital spending requirements will continue to be financed primarily through internally generated funds. Debt or equity financing may be needed to fund additional development activities or to maintain an appropriate capital structure to ensure our financial flexibility. Our cash and cash equivalents are primarily held domestically in diversified accounts and are invested to maintain principal and liquidity. Accordingly, we do not have significant exposure to foreign currency fluctuations.

The volatility in world debt and equity markets has not had a significant impact on our ability to access external financing. Our available external financing arrangements include the issuance of commercial paper, credit available under credit facilities and other bank lines of credit, vendor financing arrangements, issuances of registered debt or equity securities and privately-placed capital market securities.

On February 7, 2012, we filed a new shelf registration statement for the issuance of debt or equity securities with an aggregate offering price of up to \$10 billion. In connection with this filing, the previous shelf registration statement was terminated. As of December 31, 2012, the shelf registration had an aggregate offering price of up to \$5.5 billion. We may also issue short-term debt through an active commercial paper program and have a \$6.2 billion credit facility to support such commercial paper issuances.

### Cash Flows Provided By Operating Activities

Our primary source of funds continues to be cash generated from operations, primarily from Verizon Wireless. Net cash provided by operating activities during 2012 increased by \$1.7 billion compared to 2011 primarily due to higher consolidated earnings, as well as improved working capital levels, due to timing differences, partially offset by an increase in pension contributions. Net cash provided by operating activities during 2012 and 2011 included net distributions received from Vodafone Omnitel of \$0.3 billion and \$0.4 billion, respectively.

Net cash provided by operating activities during 2011 decreased by \$3.6 billion compared to 2010 primarily due to purchases for wireless devices, cash flows from divested operations (see “Acquisitions and Divestitures”) and higher pension plan contributions. Net cash provided by operating activities during 2011 and 2010 included net distributions received from Vodafone Omnitel of \$0.4 billion in each year.

### Cash Flows Used In Investing Activities

#### *Capital Expenditures*

Capital expenditures continue to be our primary use of capital resources as they facilitate the introduction of new products and services, enhance responsiveness to competitive challenges and increase the operating efficiency and productivity of our networks.

Capital expenditures, including capitalized software, were as follows:

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
Verizon Wireless	\$ 8,857	\$ 8,973	\$ 8,438
Wireline	6,342	6,399	7,269
Other	976	872	751
	<b><u><u>\$ 16,175</u></u></b>	<b><u><u>\$ 16,244</u></u></b>	<b><u><u>\$ 16,458</u></u></b>
Total as a percentage of revenue	14.0%	14.7%	15.4%

Capital expenditures declined slightly at Verizon Wireless in 2012 compared to 2011 due to the decreased investment in the capacity of our wireless EV-DO network, partially offset by the increased build-out of our 4G LTE network. Capital expenditures declined slightly at Wireline due to lower legacy spending requirements.

The increase in capital expenditures at Verizon Wireless during 2011 was primarily due to the increased investment in the capacity of our wireless EV-DO network, as well as the build-out of our 4G LTE network. The decrease in capital expenditures at Wireline during 2011 was primarily due to capital expenditures in 2010 related to the local exchange business and related activities that were spun off to Frontier, as well as lower capital expenditures related to the build-out of FiOS.

#### *Acquisitions*

During 2012, 2011 and 2010, we invested \$3.9 billion, \$0.2 billion and \$0.8 billion, respectively, in acquisitions of wireless licenses, net. During 2012, 2011 and 2010, we also invested \$0.9 billion, \$1.8 billion and \$0.7 billion, respectively, in acquisitions of investments and businesses, net of cash acquired.

- During 2012, we paid approximately \$3.9 billion net to acquire wireless licenses primarily to meet future LTE capacity needs and enable LTE expansion. Additionally, during 2012, we acquired HUGHES Telematics, a provider of telematics services, for \$0.6 billion. See “Acquisitions and Divestitures” for additional details.
- During April 2011, we paid approximately \$1.4 billion for the equity of Terremark, which was partially offset by \$0.1 billion of cash acquired (see “Acquisitions and Divestitures”). See “Cash Flows From Financing Activities” below regarding the debt obligations of Terremark that were repaid during May 2011. In addition, during 2011, we acquired various wireless licenses and markets as well as a provider of cloud software technology for cash consideration that was not significant.
- On August 23, 2010, Verizon Wireless acquired the net assets and related customers of six operating markets in Louisiana and Mississippi in a transaction with AT&T Inc. for cash consideration of \$0.2 billion.

#### *Dispositions*

During 2012, we received cash consideration that was not significant related to the sale of some of our 700 MHz lower A and B block spectrum licenses. We acquired these licenses as part of FCC Auction 73 in 2008.

During 2010, we received cash proceeds of \$2.6 billion in connection with the sale of the Alltel Divestiture Markets (see “Acquisitions and Divestitures”).

#### *Other, net*

During 2011, Other, net primarily included proceeds related to the sales of long-term investments, which were not significant to our consolidated statements of income.

### **Cash Flows Used In Financing Activities**

We seek to maintain a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. During 2012, 2011 and 2010, net cash used in financing activities was \$21.3 billion, \$5.8 billion and \$13.7 billion, respectively.

#### *2012*

During January 2012, \$1.0 billion of 5.875% Verizon New Jersey Inc. Debentures matured and were repaid. During February 2012, \$0.8 billion of 5.25% Verizon Wireless Notes matured and were repaid. During July 2012, \$0.8 billion of 7.0% Verizon Wireless Notes matured and were repaid. In addition, during 2012 we utilized \$0.2 billion under fixed rate vendor financing facilities.

On November 2, 2012, we announced the commencement of a tender offer (the Tender Offer) to purchase for cash any and all of the outstanding \$1.25 billion aggregate principal amount of 8.95% Verizon Communications Notes due 2039. In the Tender Offer that was completed November 9, 2012, \$0.9 billion aggregate principal amount of the notes was purchased and \$0.35 billion principal amount of the notes remains outstanding. Any accrued and unpaid interest on the principal purchased was paid to the date of purchase.

During November 2012, we issued \$4.5 billion aggregate principal amount of fixed rate notes at varying maturities resulting in cash proceeds of approximately \$4.47 billion, net of discounts and issuance costs. The net proceeds were used for general corporate purposes, for the Tender Offer,

and to redeem \$0.7 billion of \$2.0 billion of 8.75% Verizon Communications Notes due 2018, \$1.0 billion of 4.625% Verizon Virginia LLC Debentures, Series A due 2013 and \$0.75 billion of 4.35% Verizon Communications Notes due 2013.

In addition, during 2012, various fixed rate notes totaling approximately \$0.2 billion were repaid and any accrued and unpaid interest was paid to the date of payment.

See "Other Items" regarding the early debt redemption costs incurred in connection with the aforementioned repurchases and redemptions.

#### *2011*

During 2011, proceeds from long-term borrowings totaled \$11.1 billion, which was primarily used to repay outstanding debt, redeem higher interest bearing debt maturing in the near term and for other general corporate purposes.

During 2011, \$0.5 billion of 5.35% Verizon Communications Notes matured and were repaid, and we utilized \$0.3 billion under fixed rate vendor financing facilities.

During March 2011, we issued \$6.25 billion aggregate principal amount of fixed and floating rate notes at varying maturities resulting in cash proceeds of approximately \$6.19 billion, net of discounts and issuance costs. The net proceeds were used for the repayment of commercial paper and other general corporate purposes, as well as to redeem \$2.0 billion aggregate principal amount of telephone subsidiary debt during April 2011.

The debt obligations of Terremark that were outstanding at the time of its acquisition by Verizon were repaid during the second quarter of 2011.

During November 2011, we issued \$4.6 billion aggregate principal amount of fixed rate notes at varying maturities resulting in cash proceeds of approximately \$4.55 billion, net of discounts and issuance costs. During November 2011, the net proceeds were used to redeem \$1.6 billion aggregate principal amount of Verizon Communications notes and \$1.9 billion aggregate principal amount of telephone subsidiary debt. The remaining net proceeds were used for the repayment of commercial paper and other general corporate purposes. See "Other Items" regarding the early debt redemption costs incurred in connection with the aforementioned redemptions.

During December 2011, we repaid \$0.9 billion upon maturity for the €0.7 billion of 7.625% Verizon Wireless Notes, and the related cross currency swap was settled. During May 2011, \$4.0 billion Verizon Wireless two-year fixed and floating rate notes matured and were repaid.

#### *2010*

During 2010, Verizon received approximately \$3.1 billion in cash in connection with the completion of the spin-off and merger of Spinco (see "Acquisitions and Divestitures"). This special cash payment was subsequently used to redeem \$2.0 billion of 7.25% Verizon Communications Notes due December 2010 at a redemption price of 102.7% of the principal amount of the notes, plus accrued and unpaid interest to the date of redemption, as well as other short-term borrowings. During 2010, \$0.3 billion of 6.125% and \$0.2 billion of 8.625% Verizon New York Inc. Debentures, \$0.2 billion of 6.375% Verizon North Inc. Debentures and \$0.2 billion of 6.3% Verizon Northwest Inc. Debentures matured and were repaid. In addition, during 2010 Verizon repaid \$0.2 billion of floating rate vendor financing debt.

In 2010, Verizon Wireless exercised its right to redeem the outstanding \$1.0 billion of aggregate floating rate notes due June 2011 at a redemption price of 100% of the principal amount of the notes, plus accrued and unpaid interest to the date of redemption. In addition, during 2010, Verizon Wireless repaid the remaining \$4.0 billion of borrowings that were outstanding under a \$4.4 billion Three-Year Term Loan Facility Agreement with a maturity date of September 2011 (Three-Year Term Loan Facility). As there were no borrowings outstanding under this facility, it was cancelled.

#### *Special Distributions*

In November 2012, the Board of Representatives of Verizon Wireless declared a distribution to its owners, which was paid in the fourth quarter of 2012 in proportion to their partnership interests on the payment date, in the aggregate amount of \$8.5 billion. As a result, Vodafone received a cash payment of \$3.8 billion and the remainder of the distribution was received by Verizon.

In July 2011, the Board of Representatives of Verizon Wireless declared a distribution to its owners, which was paid in the first quarter of 2012 in proportion to their partnership interests on the payment date, in the aggregate amount of \$10 billion. As a result, Vodafone received a cash payment of \$4.5 billion and the remainder of the distribution was received by Verizon.

#### *Other, net*

The change in Other, net financing activities during 2012 compared to the prior year was primarily driven by higher distributions to Vodafone, which owns a 45% noncontrolling interest in Verizon Wireless and higher early debt redemption costs (see “Other Items”). The change in Other, net financing activities during 2011 compared to 2010 was primarily driven by lower distributions to Vodafone.

#### *Dividends*

The Verizon Board of Directors determines the appropriateness of the level of our dividend payments on a periodic basis by considering such factors as long-term growth opportunities, internal cash requirements and the expectations of our shareowners. During the third quarter of 2012, the Board increased our quarterly dividend payment 3.0% to \$.515 per share from \$.50 per share in the same period of 2011. This is the sixth consecutive year that Verizon’s Board of Directors has approved a quarterly dividend increase. During the third quarter of 2011, the Board increased our quarterly dividend payment 2.6% to \$.50 per share from \$.4875 per share in the same period of 2010. During the third quarter of 2010, the Board increased our quarterly dividend payment 2.6% to \$.4875 per share from \$.475 per share in the same period of 2009.

During 2012, we paid \$5.2 billion in dividends compared to \$5.6 billion in 2011 and \$5.4 billion in 2010. As in prior periods, dividend payments were a significant use of capital resources. While the dividends declared per common share increased, the total amount of cash dividends paid decreased during 2012 compared with 2011 as a portion of the dividends was satisfied through the issuance of common shares from Treasury stock, as noted below (see “Common Stock”).

#### *Credit Facility*

As of December 31, 2012, the unused borrowing capacity under a \$6.2 billion three-year credit facility with a group of major financial institutions was approximately \$6.1 billion. On August 13, 2012, we amended our credit facility primarily to reduce fees and borrowing costs and extend the maturity date to August 12, 2016. The credit facility does not require us to comply with financial covenants or maintain specified credit ratings, and it permits us to borrow even if our business has incurred a material adverse change. We use the credit facility to support the issuance of commercial paper, for the issuance of letters of credit and for general corporate purposes.

Net Debt and the Net Debt to Consolidated Adjusted EBITDA ratio are non-GAAP financial measures that management believes are useful to investors and other users of our financial information in evaluating Verizon’s leverage. Net Debt is calculated by subtracting cash and cash equivalents from the sum of debt maturing within one year and long-term debt. For purposes of the Net Debt to Adjusted EBITDA Ratio, Adjusted EBITDA (See “Consolidated Results of Operations”) is calculated for the last 12 months. Management believes this presentation assists investors in understanding trends that are indicative of future operating results given the non-operational or non-recurring nature of the items excluded from the calculation.

Verizon’s ratio of net debt to Consolidated Adjusted EBITDA was 1.3x at December 31, 2012 and 1.2x at December 31, 2011. Consolidated Adjusted EBITDA excludes the effects of non-operational items (see “Other Items”).

#### *Common Stock*

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans, including 24.6 million common shares issued from Treasury stock during 2012, related to dividend payments, which had an aggregate value of \$1.0 billion. On February 3, 2011, the Board of Directors replaced the previously authorized share buyback program with a new program for the repurchase of up to 100 million common shares terminating no later than the close of business on February 28, 2014. The Board also determined that no additional shares were to be purchased under the prior program. Through February 15, 2013, we purchased approximately 3.50 million shares under this authorization.

There were no repurchases of common stock during 2012, 2011 or 2010.

#### *Credit Ratings*

The debt securities of Verizon Communications and its subsidiaries continue to be accorded high ratings by the three primary rating agencies.

Although a one-level ratings downgrade would not be expected to significantly impact our access to capital, it could increase both the cost of refinancing existing debt and the cost of financing any new capital requirements. Securities ratings assigned by rating organizations are expressions of opinion and are not recommendations to buy, sell, or hold securities. A securities rating is subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

#### *Covenants*

Our credit agreements contain covenants that are typical for large, investment grade companies. These covenants include requirements to pay interest and principal in a timely fashion, pay taxes, maintain insurance with responsible and reputable insurance companies, preserve our corporate

existence, keep appropriate books and records of financial transactions, maintain our properties, provide financial and other reports to our lenders, limit pledging and disposition of assets and mergers and consolidations, and other similar covenants.

We and our consolidated subsidiaries are in compliance with all debt covenants.

#### **Increase (Decrease) In Cash and Cash Equivalents**

Our Cash and cash equivalents at December 31, 2012 totaled \$3.1 billion, a \$10.3 billion decrease compared to Cash and cash equivalents at December 31, 2011 for the reasons discussed above. Our Cash and cash equivalents at December 31, 2011 totaled \$13.4 billion, a \$6.7 billion increase compared to Cash and cash equivalents at December 31, 2010 for the reasons discussed above.

As of December 31, 2012, Verizon Wireless cash and cash equivalents and debt outstanding totaled \$0.8 billion and \$10.1 billion, respectively.

#### **Free Cash Flow**

Free cash flow is a non-GAAP financial measure that management believes is useful to investors and other users of Verizon's financial information in evaluating cash available to pay debt and dividends. Free cash flow is calculated by subtracting capital expenditures from net cash provided by operating activities. The following table reconciles net cash provided by operating activities to Free cash flow:

Years Ended December 31,	(dollars in millions)		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
Net cash provided by operating activities	<b>\$31,486</b>	\$29,780	\$33,363
Less Capital expenditures (including capitalized software)	<b>16,175</b>	16,244	16,458
<b>Free cash flow</b>	<b>\$15,311</b>	\$13,536	\$16,905

The changes in free cash flow during 2012, 2011 and 2010 were a result of the factors described in connection with net cash provided by operating activities and capital expenditures above.

#### **Employee Benefit Plan Funded Status and Contributions**

##### **Pension Annuitization**

On October 17, 2012, we, along with our subsidiary Verizon Investment Management Corp., and Fiduciary Counselors Inc., as independent fiduciary of the Verizon Management Pension Plan (the Plan), entered into a definitive purchase agreement with The Prudential Insurance Company of America (Prudential) and Prudential Financial, Inc., pursuant to which the Plan would purchase a single premium group annuity contract from Prudential.

On December 10, 2012, upon issuance of the group annuity contract by Prudential, Prudential irrevocably assumed the obligation to make future annuity payments to approximately 41,000 Verizon management retirees who began receiving pension payments from the Plan prior to January 1, 2010. The amount of each retiree's annuity payment equals the amount of such individual's pension benefit. In addition, the group annuity contract is intended to replicate the same rights to future payments, such as survivor benefits, that are currently offered by the Plan.

We contributed approximately \$2.6 billion to the Plan between September 1, 2012 and December 31, 2012 in connection with the transaction so that the Plan's funding percentage would not decrease as a result of the transaction.

##### **Employer Contributions**

We operate numerous qualified and nonqualified pension plans and other postretirement benefit plans. These plans primarily relate to our domestic business units. During 2012 and 2011, we contributed \$0.9 billion and \$0.4 billion, respectively, to our qualified pension plans, excluding the pension annuitization discussed above. During 2010, contributions to our qualified pension plans were not significant. We also contributed \$0.2 billion, \$0.1 billion and \$0.1 billion to our nonqualified pension plans in 2012, 2011 and 2010, respectively.

In an effort to reduce the risk of our portfolio strategy and better align assets with liabilities, we have shifted our strategy to one that is more liability driven, where cash flows from investments better match projected benefit payments but result in lower asset returns. We intend to reduce the likelihood that assets will decline at a time when liabilities increase (referred to as liability hedging), with the goal to reduce the risk of underfunding.

to the plan and its participants and beneficiaries. Based on the revised strategy and the funded status of the plans at December 31, 2012, we expect the minimum required qualified pension plan contribution in 2013 to be immaterial. Nonqualified pension contributions are estimated to be approximately \$0.1 billion in 2013.

Contributions to our other postretirement benefit plans generally relate to payments for benefits on an as-incurred basis since the other postretirement benefit plans do not have funding requirements similar to the pension plans. We contributed \$1.5 billion, \$1.4 billion and \$1.2 billion to our other postretirement benefit plans in 2012, 2011 and 2010, respectively. Contributions to our other postretirement benefit plans are estimated to be approximately \$1.5 billion in 2013.

#### **Leasing Arrangements**

We are the lessor in leveraged and direct financing lease agreements for commercial aircraft and power generating facilities, which comprise the majority of our leasing portfolio along with telecommunications equipment, commercial real estate property and other equipment. These leases have remaining terms of up to 38 years as of December 31, 2012. In addition, we lease space on certain of our cell towers to other wireless carriers. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which is secured by a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with GAAP. All recourse debt is reflected in our consolidated balance sheets.

## Off Balance Sheet Arrangements and Contractual Obligations

### Contractual Obligations and Commercial Commitments

The following table provides a summary of our contractual obligations and commercial commitments at December 31, 2012. Additional detail about these items is included in the notes to the consolidated financial statements.

Contractual Obligations	(dollars in millions)				
	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt <sup>(1)</sup>	\$ 51,189	\$ 3,805	\$ 8,906	\$ 5,417	\$ 33,061
Capital lease obligations <sup>(2)</sup>	298	64	91	71	72
Total long-term debt, including current maturities	51,487	3,869	8,997	5,488	33,133
Interest on long-term debt <sup>(1)</sup>	32,761	2,780	4,818	4,321	20,842
Operating leases <sup>(2)</sup>	11,841	2,038	3,412	2,272	4,119
Purchase obligations <sup>(3)</sup>	41,768	29,645	7,503	4,162	458
Income tax audit settlements <sup>(4)</sup>	52	—	52	—	—
Other long-term liabilities <sup>(5)</sup>	3,921	1,663	2,258	—	—
<b>Total contractual obligations</b>	<b>\$ 141,830</b>	<b>\$ 39,995</b>	<b>\$ 27,040</b>	<b>\$ 16,243</b>	<b>\$ 58,552</b>

<sup>(1)</sup> Items included in long-term debt with variable coupon rates are described in Note 8 to the consolidated financial statements.

<sup>(2)</sup> See Note 7 to the consolidated financial statements.

<sup>(3)</sup> The purchase obligations reflected above are primarily commitments to purchase handsets and peripherals, equipment, software, programming and network services, and marketing activities, which will be used or sold in the ordinary course of business. These amounts do not represent our entire anticipated purchases in the future, but represent only those items that are the subject of contractual obligations. We also purchase products and services as needed with no firm commitment. For this reason, the amounts presented in this table alone do not provide a reliable indicator of our expected future cash outflows or changes in our expected cash position (see Note 16 to the consolidated financial statements).

<sup>(4)</sup> We are not able to make a reliable estimate of when the unrecognized tax benefits balance of \$2.9 billion and related interest and penalties will be settled with the respective taxing authorities until issues or examinations are further developed (see Note 12 to the consolidated financial statements).

<sup>(5)</sup> Other long-term liabilities include estimated postretirement benefit and qualified pension plan contributions (see Note 11 to the consolidated financial statements).

## Guarantees

In connection with the execution of agreements for the sale of businesses and investments, Verizon ordinarily provides representations and warranties to the purchasers pertaining to a variety of nonfinancial matters, such as ownership of the securities being sold, as well as financial losses (see Note 16 to the consolidated financial statements).

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries. As of December 31, 2012, \$4.3 billion principal amount of these obligations remain outstanding. Each guarantee will remain in place for the life of the obligation unless terminated pursuant to its terms, including the operating telephone company no longer being a wholly-owned subsidiary of Verizon.

We also guarantee the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003. As of December 31, 2012, \$1.7 billion principal amount of these obligations remain outstanding (see Note 8 to the consolidated financial statements).

As of December 31, 2012 letters of credit totaling approximately \$0.1 billion, which were executed in the normal course of business and support several financing arrangements and payment obligations to third parties, were outstanding (see Note 16 to the consolidated financial statements).

## Market Risk

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes, foreign currency exchange rate fluctuations, changes in investment, equity and commodity prices and changes in corporate tax rates. We employ risk management strategies, which may include the use of a variety of derivatives including cross currency swaps, foreign currency and prepaid forwards and collars, interest rate swap agreements, commodity swap and forward agreements and interest rate locks. We do not hold derivatives for trading purposes.

It is our general policy to enter into interest rate, foreign currency and other derivative transactions only to the extent necessary to achieve our desired objectives in limiting our exposure to various market risks. Our objectives include maintaining a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. We do not hedge our market risk exposure in a manner that would completely eliminate the effect of changes in interest rates and foreign exchange rates on our earnings. We do not expect that our net income, liquidity and cash flows will be materially affected by these risk management strategies.

## Interest Rate Risk

We are exposed to changes in interest rates, primarily on our short-term debt and the portion of long-term debt that carries floating interest rates. As of December 31, 2012, substantially all of the aggregate principal amount of our total debt portfolio consisted of fixed rate indebtedness, including the effect of interest rate swap agreements designated as hedges. The impact of a 100 basis point change in interest rates affecting our floating rate debt would result in a change in annual interest expense, including our interest rate swap agreements that are designated as hedges, that is not material. The interest rates on our existing long-term debt obligations are unaffected by changes to our credit ratings.

The table that follows summarizes the fair values of our long-term debt, including current maturities, and interest rate swap derivatives as of December 31, 2012 and 2011. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming 100-basis-point upward and downward shifts in the yield curve. Our sensitivity analysis does not include the fair values of our commercial paper and bank loans, if any, because they are not significantly affected by changes in market interest rates.

				(dollars in millions)
	Fair Value	Fair Value assuming + 100 basis point shift	Fair Value assuming - 100 basis point shift	
At December 31, 2012				
Long-term debt and related derivatives	\$ 61,045	\$ 56,929	\$ 65,747	
At December 31, 2011				
Long-term debt and related derivatives	\$ 61,870	\$ 58,117	\$ 66,326	

## Interest Rate Swaps

We have entered into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. We principally receive fixed rates and pay variable rates based on the London Interbank Offered Rate, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on our consolidated balance sheets as assets and liabilities. At December 31, 2012 the fair value of these interest rate swaps was not material, and at December 31, 2011, the fair value was \$0.6 billion, primarily included in Other assets and Long-term debt. As of December 31, 2012, the total notional amount of these interest rate swaps was \$1.3 billion. During 2012, interest rate swaps with a notional value of \$5.8 billion were settled. As a result of the settlements, we received net proceeds of \$0.7 billion, including accrued interest which is included in Other, net operating activities in the consolidated statement of cash flows. The fair value basis adjustment to the underlying debt instruments will be recognized into earnings as a reduction of Interest expense over the remaining lives of the underlying debt obligations.

## Foreign Currency Translation

The functional currency for our foreign operations is primarily the local currency. The translation of income statement and balance sheet amounts of our foreign operations into U.S. dollars is recorded as cumulative translation adjustments, which are included in Accumulated other comprehensive income in our consolidated balance sheets. Gains and losses on foreign currency transactions are recorded in the consolidated statements of income in Other income and (expense), net. At December 31, 2012, our primary translation exposure was to the British Pound Sterling, the Euro, the Indian Rupee, the Australian Dollar and the Japanese Yen.

### Cross Currency Swaps

Verizon Wireless previously entered into cross currency swaps designated as cash flow hedges to exchange approximately \$1.6 billion of British Pound Sterling and Euro-denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses. A portion of the gains and losses recognized in Other comprehensive income was reclassified to Other income and (expense), net to offset the related pretax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was not material at December 31, 2012 or December 31, 2011. During 2012 and 2011 the gains and losses with respect to these swaps were not material.

## Critical Accounting Estimates and Recent Accounting Standards

### Critical Accounting Estimates

A summary of the critical accounting estimates used in preparing our financial statements is as follows:

- Wireless licenses and Goodwill are a significant component of our consolidated assets. Both our wireless licenses and goodwill are treated as indefinite-lived intangible assets and, therefore are not amortized, but rather are tested for impairment annually in the fourth fiscal quarter, unless there are events or changes in circumstances during an interim period that indicates these assets may not be recoverable. We believe our estimates and assumptions are reasonable and represent appropriate marketplace considerations as of the valuation date. We do not believe that reasonably likely adverse changes in our assumptions and estimates would result in an impairment charge as of our latest impairment testing date. However, if there is a substantial and sustained adverse decline in our operating profitability, we may have impairment charges in future years. Any such impairment charge could be material to our results of operations and financial condition.

### Wireless Licenses

The carrying value of our wireless licenses was approximately \$77.7 billion as of December 31, 2012. We aggregate our wireless licenses into one single unit of accounting, as we utilize our wireless licenses on an integrated basis as part of our nationwide wireless network. Our wireless licenses provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communication services. There are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses. Our impairment test consists of comparing the estimated fair value of our wireless licenses to the aggregated carrying amount as of the test date. If the estimated fair value of our wireless licenses is less than the aggregated carrying amount of the wireless licenses then an impairment charge is recognized. Our annual impairment tests for 2012, 2011 and 2010 indicated that the fair value significantly exceeded the carrying value and, therefore, did not result in an impairment.

We estimate the fair value of our wireless licenses using a direct income based valuation approach. This approach uses a discounted cash flow analysis to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. As a result we are required to make significant estimates about future cash flows specifically associated with our wireless licenses, an appropriate discount rate based on the risk associated with those estimated cash flows and assumed terminal value and growth rates. We consider current and expected future economic conditions, current and expected availability of wireless network technology and infrastructure and related equipment and the costs thereof as well as other relevant factors in estimating future cash flows. The discount rate represents our estimate of the weighted-average cost of capital (or expected return, "WACC") that a marketplace participant would require as of the valuation date. We develop the discount rate based on our consideration of the cost of debt and equity of a group of guideline companies as of the valuation date. Accordingly, our discount rate incorporates our estimate of the expected return a marketplace participant would require as of the valuation date, including the risk premium associated with the current and expected economic conditions as of the valuation date. The terminal value growth rate represents our estimate of the marketplace's long-term growth rate.

### Goodwill

At December 31, 2012, the balance of our goodwill was approximately \$24.1 billion, of which \$18.2 billion was in our Verizon Wireless segment and \$5.9 billion was in our Wireline segment. Determining whether an impairment has occurred requires the determination of fair value of each respective reporting unit. Our operating segments, Verizon Wireless and Wireline, are deemed to be our reporting units for

purposes of goodwill impairment testing. The fair value of Verizon Wireless significantly exceeded its carrying value and the fair value of Wireline exceeded its carrying value. Accordingly, our annual impairment tests for 2012, 2011 and 2010 did not result in an impairment.

The fair value of the reporting unit is calculated using a market approach and a discounted cash flow method. The market approach includes the use of comparative multiples to corroborate discounted cash flow results. The discounted cash flow method is based on the present value of two components—projected cash flows and a terminal value. The terminal value represents the expected normalized future cash flows of the reporting unit beyond the cash flows from the discrete projection period. The fair value of the reporting unit is calculated based on the sum of the present value of the cash flows from the discrete period and the present value of the terminal value. The estimated cash flows are discounted using a rate that represents our WACC.

- We maintain benefit plans for most of our employees, including, for certain employees, pension and other postretirement benefit plans. At December 31, 2012, in the aggregate, pension plan benefit obligations exceeded the fair value of pension plan assets, which will result in higher future pension plan expense. Other postretirement benefit plans have larger benefit obligations than plan assets, resulting in expense. Significant benefit plan assumptions, including the discount rate used, the long-term rate of return on plan assets and health care trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations. A sensitivity analysis of the impact of changes in these assumptions on the benefit obligations and expense (income) recorded, as well as on the funded status due to an increase or a decrease in the actual versus expected return on plan assets as of December 31, 2012 and for the year then ended pertaining to Verizon's pension and postretirement benefit plans is provided in the table below.

(dollars in millions)	Percentage point change	Increase (decrease) at December 31, 2012*
Pension plans discount rate	+0.50	\$ (1,350)
	-0.50	1,504
Rate of return on pension plan assets	+1.00	(239)
	-1.00	239
Postretirement plans discount rate	+0.50	(1,678)
	-0.50	1,886
Rate of return on postretirement plan assets	+1.00	(24)
	-1.00	24
Health care trend rates	+1.00	3,251
	-1.00	(2,669)

\* In determining its pension and other postretirement obligation, the Company used a weighted-average discount rate of 4.20%. The rate was selected to approximate the composite interest rates available on a selection of high-quality bonds available in the market at December 31, 2012. The bonds selected had maturities that coincided with the time periods during which benefits payments are expected to occur, were non-callable and available in sufficient quantities to ensure marketability (at least \$0.3 billion par outstanding).

- Our current and deferred income taxes, and associated valuation allowances, are impacted by events and transactions arising in the normal course of business as well as in connection with the adoption of new accounting standards, changes in tax laws and rates, acquisitions and dispositions of businesses and non-recurring items. As a global commercial enterprise, our income tax rate and the classification of income taxes can be affected by many factors, including estimates of the timing and realization of deferred income tax assets and the timing and amount of income tax payments. We account for tax benefits taken or expected to be taken in our tax returns in accordance with the accounting standard relating to the uncertainty in income taxes, which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. We review and adjust our liability for unrecognized tax benefits based on our best judgment given the facts, circumstances, and information available at each reporting date. To the extent that the final outcome of these tax positions is different than the amounts recorded, such differences may impact income tax expense and actual tax payments. We recognize any interest and penalties accrued related to unrecognized tax benefits in income tax expense. Actual tax payments may materially differ from estimated liabilities as a result of changes in tax laws as well as unanticipated transactions impacting related income tax balances.
- Our Plant, property and equipment balance represents a significant component of our consolidated assets. We record plant, property and equipment at cost. We depreciate plant, property and equipment on a straight-line basis over the estimated useful life of the assets. We expect that a one-year increase in estimated useful lives of our plant, property and equipment would result in a decrease to our 2012 depreciation expense of \$1.5 billion and that a one-year decrease would result in an increase of approximately \$1.8 billion in our 2012 depreciation expense.

## **Recent Accounting Standards**

In July 2012, the accounting standard update regarding testing of intangible assets for impairment was issued. This standard update allows companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not the asset is impaired. We will adopt this standard update during the first quarter of 2013. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

In February 2013, the accounting standard update regarding reclassifications out of accumulated other comprehensive income was issued. This standard update requires companies to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in our consolidated statements of income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. We will adopt this standard in the first quarter of 2013. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

## **Acquisitions and Divestitures**

### **Spectrum Licenses**

During the third quarter of 2012, after receiving the required regulatory approvals, Verizon Wireless completed the following previously announced transactions in which we acquired wireless spectrum that will be used to deploy additional fourth-generation (4G) Long Term Evolution (LTE) capacity:

- Verizon Wireless acquired AWS spectrum in separate transactions with SpectrumCo and Cox TMI Wireless, LLC for which it paid an aggregate of \$3.9 billion at the time of the closings. Verizon Wireless has also recorded a liability of \$0.4 billion related to a three-year service obligation to SpectrumCo's members pursuant to commercial agreements executed concurrently with the SpectrumCo transaction.
- Verizon Wireless completed license purchase and exchange transactions with Leap Wireless, Savary Island Wireless, which is majority owned by Leap Wireless, and a subsidiary of T-Mobile. As a result of these transactions, Verizon Wireless received an aggregate \$2.6 billion of AWS and PCS licenses at fair value and net cash proceeds of \$0.2 billion, transferred certain AWS licenses to T-Mobile and a 700 megahertz (MHz) lower A block license to Leap Wireless, and recorded an immaterial gain.

### **HUGHES Telematics, Inc.**

On June 1, 2012, we agreed to acquire HUGHES Telematics for approximately \$12 per share in cash for a total acquisition price of \$0.6 billion and we completed the acquisition on July 26, 2012. As a result of the transaction, HUGHES Telematics became a wholly-owned subsidiary of Verizon. The consolidated financial statements include the results of HUGHES Telematics' operations from the date the acquisition closed. Upon closing, we recorded approximately \$0.6 billion of goodwill, \$0.1 billion of other intangibles, and assumed the debt obligations of HUGHES Telematics, which were approximately \$0.1 billion as of the date of acquisition, and which were repaid by Verizon. Had this acquisition been completed on January 1, 2012 or 2011, the results of the acquired operations of HUGHES Telematics would not have had a significant impact on the consolidated net income attributable to Verizon. The acquisition has accelerated our ability to bring more telematics offerings to market for existing and new HUGHES Telematics and Verizon customers.

The acquisition of HUGHES Telematics was accounted for as a business combination under the acquisition method. The cost of the acquisition was allocated to the assets and liabilities acquired based on their fair values as of the close of the acquisition, with the excess amount being recorded as goodwill.

### **Terremark Worldwide, Inc.**

During April 2011, we acquired Terremark for \$19 per share in cash. Closing and other direct acquisition-related costs totaled approximately \$13 million after-tax. The acquisition was completed via a "short-form" merger under Delaware law through which Terremark became a wholly owned subsidiary of Verizon. The acquisition enhanced Verizon's offerings to business and government customers globally.

### **Telephone Access Line Spin-off**

On July 1, 2010, after receiving regulatory approval, we completed the spin-off of the shares of a newly formed subsidiary of Verizon (Spinco) to Verizon stockholders and the merger of Spinco with Frontier. Spinco held defined assets and liabilities that were used in Verizon's local exchange businesses and related activities in 14 states. The total value of the transaction to Verizon and its stockholders was approximately \$8.6 billion.

## Alltel Divestiture Markets

As a condition of the regulatory approvals to complete the acquisition of Alltel Corporation in January 2009, Verizon Wireless was required to divest overlapping properties in 105 operating markets in 24 states (Alltel Divestiture Markets). During the second quarter of 2010, AT&T Mobility acquired 79 of the 105 Alltel Divestiture Markets, including licenses and network assets, for approximately \$2.4 billion in cash, and Atlantic Tele-Network, Inc. acquired the remaining 26 Alltel Divestiture Markets, including licenses and network assets, for \$0.2 billion in cash.

See Note 2 to the consolidated financial statements for additional information relating to the above acquisitions and divestitures.

## Other Factors That May Affect Future Results

### Regulatory and Competitive Trends

#### Competition and Regulation

Technological, regulatory and market changes have provided Verizon both new opportunities and challenges. These changes have allowed Verizon to offer new types of services in an increasingly competitive market. At the same time, they have allowed other service providers to broaden the scope of their own competitive offerings. Current and potential competitors for network services include other telephone companies, cable companies, wireless service providers, foreign telecommunications providers, satellite providers, electric utilities, Internet service providers, providers of VoIP services, and other companies that offer network services using a variety of technologies. Many of these companies have a strong market presence, brand recognition and existing customer relationships, all of which contribute to intensifying competition and may affect our future revenue growth. Many of our competitors also remain subject to fewer regulatory constraints than us.

We are unable to predict definitively the impact that the ongoing changes in the telecommunications industry will ultimately have on our business, results of operations or financial condition. The financial impact will depend on several factors, including the timing, extent and success of competition in our markets, the timing and outcome of various regulatory proceedings and any appeals, and the timing, extent and success of our pursuit of new opportunities.

#### FCC Regulation

The FCC has jurisdiction over our interstate telecommunications services and other matters under the Communications Act of 1934, as amended (Communications Act). The Communications Act generally provides that we may not charge unjust or unreasonable rates, or engage in unreasonable discrimination when we are providing services as a common carrier, and regulates some of the rates, terms and conditions under which we provide certain services. The FCC also has adopted regulations governing various aspects of our business including: (i) use and disclosure of customer proprietary network information; (ii) telemarketing; (iii) assignment of telephone numbers to customers; (iv) provision to law enforcement agencies of the capability to obtain call-identifying information and call content information from calls pursuant to lawful process; (v) accessibility of services and equipment to individuals with disabilities; (vi) interconnection with the networks of other carriers; and (vii) customers' ability to keep (or "port") their telephone numbers when switching to another carrier. In addition, we pay various fees to support other FCC programs, such as the universal service program discussed below. Changes to these mandates, or the adoption of additional mandates, could require us to make changes to our operations or otherwise increase our costs of compliance.

#### Broadband

The FCC previously adopted a series of orders that impose lesser regulatory requirements on broadband services and facilities than apply to narrowband or traditional telephone services. With respect to wireline facilities, the FCC determined that certain unbundling requirements that apply to narrowband facilities of local exchange carriers do not apply to broadband facilities such as fiber to the premise loops and packet switches. With respect to services, the FCC concluded that both wireline and wireless broadband Internet access services qualify as largely deregulated information services. Separately, certain of our wireline broadband services sold primarily to larger business customers were largely deregulated when our forbearance petition was granted. The latter relief has been upheld on appeal, but is subject to a continuing challenge before the FCC.

In December of 2010, the FCC adopted so-called "net neutrality" rules governing broadband Internet access services that it describes as intended to preserve the openness of the Internet. These rules, which took effect in November 2011 and are subject to a pending appeal, require providers of broadband Internet access to publicly disclose information relating to the performance and terms of its services. For "fixed" services, the rules prohibit blocking lawful content, applications, services or non-harmful devices. The rules also prohibit unreasonable discrimination in transmitting lawful traffic over a consumer's fixed broadband Internet access service. For "mobile" services, the rules prohibit blocking access to lawful websites or blocking applications that compete with the provider's voice or video telephony services. The restrictions are subject to "reasonable network management." The rules also establish a complaint process, and state that the FCC will continue to monitor developments to determine whether to impose further regulations.

## *Video*

The FCC has a body of rules that apply to cable operators under Title VI of the Communications Act of 1934, and these rules also generally apply to telephone companies that provide cable services over their networks. In addition, the Act generally requires companies that provide cable service over a cable system to obtain a local cable franchise, and the FCC has adopted rules that interpret and implement this requirement.

## *Interstate Access Charges and Intercarrier Compensation*

In 2011, the FCC issued a broad order changing the framework for the interstate and intrastate switched access per-minute rates that carriers charge each other for the exchange of voice traffic. The new rules will gradually reduce to zero the rates that Verizon pays to other carriers and the rates that Verizon charges other carriers. This order also established a per-minute intercarrier compensation rate applicable to the exchange of Voice over IP traffic regardless of whether such traffic is intrastate or interstate. This order is subject to certain pending reconsideration petitions and appeals.

The FCC's current rules for special access services provide for pricing flexibility and ultimately the removal of services from price regulation when prescribed competitive thresholds are met. More than half of special access revenues are now removed from price regulation. The FCC currently has a rulemaking proceeding underway to determine whether and how these rules should be modified.

## *Universal Service*

The FCC has adopted a body of rules implementing the universal service provisions of the Telecommunications Act of 1996, including provisions to support rural and non-rural high-cost areas, low income subscribers, schools and libraries and rural health care. The FCC's rules require telecommunications companies including Verizon to pay into the Universal Service Fund (USF), which then makes distributions in support of the programs. Under the broad order issued by the FCC in 2011, the focus of the USF will be gradually shifted from support of voice services to support of broadband services. The FCC is also currently considering other changes to the rules governing contributions to the fund. Any change in the current rules could result in a change in the contribution that Verizon and others must make and that would have to be collected from customers, or in the amounts that these providers receive from the USF.

## *Unbundling of Network Elements*

Under Section 251 of the Telecommunications Act of 1996, incumbent local exchange carriers are required to provide competing carriers with access to components of their network on an unbundled basis, known as UNEs, where certain statutory standards are satisfied. The FCC has adopted rules defining the network elements that must be made available, including criteria for determining whether high-capacity loops, transport or dark fiber transport must be unbundled in individual wire centers. The Telecommunications Act of 1996 also adopted a cost-based pricing standard for these UNEs, which the FCC interpreted as allowing it to impose a pricing standard known as "total element long run incremental cost" or "TELRIC."

## *Wireless Services*

The FCC regulates the licensing, construction, operation, acquisition and transfer of wireless communications systems, including the systems that Verizon Wireless operates, pursuant to the Communications Act, other legislation, and the FCC's rules. The FCC and Congress continuously consider changes to these laws and rules. Adoption of new laws or rules may raise the cost of providing service or require modification of Verizon Wireless' business plans or operations.

To use the radio frequency spectrum, wireless communications systems must be licensed by the FCC to operate the wireless network and mobile devices in assigned spectrum segments. Verizon Wireless holds FCC licenses to operate in several different radio services, including the cellular radiotelephone service, personal communications service, wireless communications service, and point-to-point radio service. The technical and service rules, the specific radio frequencies and amounts of spectrum Verizon Wireless holds, and the sizes of the geographic areas it is authorized to operate in, vary for each of these services. However, all of the licenses Verizon Wireless holds allow it to use spectrum to provide a wide range of mobile and fixed communications services, including both voice and data services, and Verizon Wireless operates a seamless network that utilizes those licenses to provide services to customers. Because the FCC issues licenses for only a fixed time, generally 10 years, Verizon Wireless must periodically seek renewal of those licenses. Although the FCC has routinely renewed all of Verizon Wireless' licenses that have come up for renewal to date, challenges could be brought against the licenses in the future. If a wireless license were revoked or not renewed upon expiration, Verizon Wireless would not be permitted to provide services on the licensed spectrum in the area covered by that license.

The FCC has also imposed specific mandates on carriers that operate wireless communications systems, which increase Verizon Wireless' costs. These mandates include requirements that Verizon Wireless: (i) meet specific construction and geographic coverage requirements during the license term; (ii) meet technical operating standards that, among other things, limit the radio frequency radiation from mobile devices and antennas; (iii) deploy "Enhanced 911" wireless services that provide the wireless caller's number, location and other information to a state or local public safety agency that handles 911 calls; (iv) provide roaming services to other wireless service providers; and (v) comply with regulations for the construction of transmitters and towers that, among other things,

restrict siting of towers in environmentally sensitive locations and in places where the towers would affect a site listed or eligible for listing on the National Register of Historic Places. Changes to these mandates could require Verizon Wireless to make changes to operations or increase its costs of compliance. In its November 4, 2008 order approving Verizon Wireless' acquisition of Alltel, the FCC adopted conditions that impose additional requirements on Verizon Wireless in its provision of Enhanced 911 services and roaming services. Subsequently, in its August 23, 2012 order approving Verizon Wireless' acquisition of various spectrum licenses from several cable companies and wireless carriers, the FCC adopted conditions obligating Verizon Wireless to meet specified buildout milestones for the acquired spectrum and to offer data roaming arrangements.

The Communications Act imposes restrictions on foreign ownership of U.S. wireless systems. The FCC has approved the interest that Vodafone Group Plc holds, through various of its subsidiaries, in Verizon Wireless. The FCC may need to approve any increase in Vodafone's interest or the acquisition of an ownership interest by other foreign entities. In addition, as part of the FCC's approval of Vodafone's ownership interest, Verizon Wireless, Verizon and Vodafone entered into an agreement with the U.S. Department of Defense, Department of Justice and Federal Bureau of Investigation which imposes national security and law enforcement-related obligations on the ways in which Verizon Wireless stores information and otherwise conducts its business.

Verizon Wireless anticipates that it will need additional spectrum to meet future demand. It can meet spectrum needs by purchasing licenses or leasing spectrum from other licensees, or by acquiring new spectrum licenses from the FCC. Under the Communications Act, before Verizon Wireless can acquire a license from another licensee in order to expand its coverage or its spectrum capacity in a particular area, it must file an application with the FCC, and the FCC can grant the application only after a period for public notice and comment. This review process can delay acquisition of spectrum needed to expand services, and can result in conditions on the purchaser that can impact its costs and business plans. The Communications Act also requires the FCC to award new licenses for most commercial wireless services through a competitive bidding process in which spectrum is awarded to bidders in an auction. Verizon Wireless has participated in spectrum auctions to acquire licenses for radio spectrum in various bands. Most recently, Verizon Wireless participated in the FCC's auction of spectrum in the 700 MHz band, and was the high bidder on 109 licenses in the 700 MHz band. The FCC granted all of those licenses to Verizon Wireless on November 26, 2008.

The FCC also adopted service rules that will impose costs on licensees that acquire the 700 MHz band spectrum either through auction or by purchasing such spectrum from other companies. These rules include minimum coverage mandates by specific dates during the license terms, and, for approximately one-third of the spectrum, known as the "C Block," "open access" requirements, which generally require licensees of that spectrum to allow customers to use devices and applications of their choice on the LTE network we are deploying on that spectrum, including those obtained from sources other than us or our distributors or dealers, subject to certain technical limitations established by us. Verizon Wireless holds the C Block 700 MHz licenses covering the entire United States. In adopting its "net neutrality" rules discussed above, the FCC stated that the new rules operate independently from the "open access" requirements that continue to apply to the C Block licensees.

The FCC is also conducting several proceedings to explore making additional spectrum available for licensed and/or unlicensed use or restricting spectrum holdings. Most recently, on September 28, 2012, pursuant to legislation that Congress enacted in February 2012, the FCC began a proceeding to consider making available certain spectrum currently used for television broadcast operations. On that day it also began a proceeding to consider whether to limit the aggregate amount of spectrum any one licensee could acquire or otherwise regulate licensees' spectrum holdings.

## **State Regulation and Local Approvals**

### *Telephone Operations*

State public utility commissions regulate our telephone operations with respect to certain telecommunications intrastate matters. Our competitive local exchange carrier and long distance operations are lightly regulated the same as other similarly situated carriers. Our incumbent local exchange operations (California, Connecticut, Delaware, the District of Columbia, Florida, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, Texas and Virginia) are subject to various levels of pricing flexibility, deregulation, detariffing, and service quality standards. None of the states are subject to earnings regulation.

### *Video*

Companies that provide cable service over a cable system are typically subject to state and/or local cable television rules and regulations. As noted above, cable operators generally must obtain a local cable franchise from each local unit of government prior to providing cable service in that local area. Some states have enacted legislation that enables cable operators to apply for, and obtain, a single cable franchise at the state, rather than local, level. To date, Verizon has applied for and received state-issued franchises in California, Florida, New Jersey, Texas and the unincorporated areas of Delaware. We also have obtained authorization from the state commission in Rhode Island to provide cable service in certain areas in that state, have obtained required state commission approvals for our local franchises in New York, and will need to obtain additional state commission approvals in these states to provide cable service in additional areas. Virginia law provides us the option of entering a given franchise area using state standards if local franchise negotiations are unsuccessful.

### *Wireless Services*

The rapid growth of the wireless industry has led to efforts by some state legislatures and state public utility commissions to regulate the industry in ways that may impose additional costs on Verizon Wireless. The Communications Act generally preempts regulation by state and local governments of the entry of, or the rates charged by, wireless carriers, but does not prohibit states from regulating the other "terms and conditions" of wireless service. While numerous state commissions do not currently have jurisdiction over wireless services, state legislatures may decide to grant them such jurisdiction, and those commissions that already have authority to impose regulations on wireless carriers may adopt new rules.

State efforts to regulate wireless services have included proposals to regulate customer billing, termination of service, trial periods for service, advertising, the use of handsets while driving, reporting requirements for system outages and the availability of broadband wireless services. Wireless tower and antenna facilities are also subject to state and local zoning and land use regulation, and securing approvals for new or modified tower or antenna sites is often a lengthy and expensive process.

Verizon Wireless (as well as AT&T and Sprint-Nextel) is a party to an Assurance of Voluntary Compliance (AVC) with 33 State Attorneys General. The AVC, which generally reflected Verizon Wireless' practices at the time it was entered into in July 2004, obligates the company to disclose certain rates and terms during a sales transaction, to provide maps depicting coverage, and to comply with various requirements regarding advertising, billing, and other practices.

#### **Environmental Matters**

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. In September 2005, the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to a reserve previously established for the remediation may be made. Adjustments to the reserve may also be made based upon actual conditions discovered during the remediation at this or any other site requiring remediation.

## **Cautionary Statement Concerning Forward-Looking Statements**

In this report we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, along with those discussed elsewhere in this report could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- adverse conditions in the U.S. and international economies;
- competition in our markets;
- material changes in available technology or technology substitution;
- disruption of our key suppliers' provisioning of products or services;
- changes in the regulatory environments in which we operate, including any increase in restrictions on our ability to operate our networks;
- breaches of network or information technology security, natural disasters, terrorist attacks or significant litigation and any resulting financial impact not covered by insurance;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets impacting the cost, including interest rates, and/or availability of financing;
- changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings;
- material adverse changes in labor matters, including labor negotiations, and any resulting financial and/or operational impact;
- significant increases in benefit plan costs or lower investments returns on plan assets; and
- the inability to implement our business strategies.

## **Report of Management on Internal Control Over Financial Reporting**

We, the management of Verizon Communications Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the company. Management has evaluated internal control over financial reporting of the company using the criteria for effective internal control established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2012. Based on this assessment, we believe that the internal control over financial reporting of the company is effective as of December 31, 2012. In connection with this assessment, there were no material weaknesses in the company's internal control over financial reporting identified by management.

The company's financial statements included in this Annual Report have been audited by Ernst & Young LLP, independent registered public accounting firm. Ernst & Young LLP has also provided an attestation report on the company's internal control over financial reporting.

/s/ Lowell C. McAdam

**Lowell C. McAdam**

Chairman and Chief Executive Officer

/s/ Francis J. Shammo

**Francis J. Shammo**

Executive Vice President and Chief Financial Officer

/s/ Robert J. Barish

**Robert J. Barish**

Senior Vice President and Controller

**Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting**

**To The Board of Directors and Shareowners of Verizon Communications Inc.:**

We have audited Verizon Communications Inc. and subsidiaries' (Verizon) internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Verizon's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Verizon maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Verizon as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2012 of Verizon and our report dated February 26, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

**Ernst & Young LLP**  
New York, New York

February 26, 2013

**Report of Independent Registered Public Accounting Firm on Financial Statements**

**To The Board of Directors and Shareowners of Verizon Communications Inc.:**

We have audited the accompanying consolidated balance sheets of Verizon Communications Inc. and subsidiaries (Verizon) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of Verizon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Verizon at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Verizon's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

**Ernst & Young LLP**  
New York, New York

February 26, 2013

**Consolidated Statements of Income Verizon Communications Inc. and Subsidiaries**

Years Ended December 31,	(dollars in millions, except per share amounts)		
	2012	2011	2010
<b>Operating Revenues</b>	<b>\$ 115,846</b>	\$ 110,875	\$ 106,565
<b>Operating Expenses</b>			
Cost of services and sales (exclusive of items shown below)	<b>46,275</b>	45,875	44,149
Selling, general and administrative expense	<b>39,951</b>	35,624	31,366
Depreciation and amortization expense	<b>16,460</b>	16,496	16,405
<b>Total Operating Expenses</b>	<b>102,686</b>	97,995	91,920
<b>Operating Income</b>			
Equity in earnings of unconsolidated businesses	<b>324</b>	444	508
Other income and (expense), net	<b>(1,016)</b>	(14)	54
Interest expense	<b>(2,571)</b>	(2,827)	(2,523)
<b>Income Before (Provision) Benefit For Income Taxes</b>	<b>9,897</b>	10,483	12,684
(Provision) Benefit for income taxes	<b>660</b>	(285)	(2,467)
<b>Net Income</b>	<b>\$ 10,557</b>	\$ 10,198	\$ 10,217
Net income attributable to noncontrolling interest	<b>\$ 9,682</b>	\$ 7,794	\$ 7,668
<b>Net income attributable to Verizon</b>	<b>875</b>	2,404	2,549
<b>Net Income</b>	<b>\$ 10,557</b>	\$ 10,198	\$ 10,217
<b>Basic Earnings Per Common Share</b>			
Net income attributable to Verizon	<b>\$ .31</b>	\$ .85	\$ .90
Weighted-average shares outstanding (in millions)	<b>2,853</b>	2,833	2,830
<b>Diluted Earnings Per Common Share</b>			
Net income attributable to Verizon	<b>\$ .31</b>	\$ .85	\$ .90
Weighted-average shares outstanding (in millions)	<b>2,862</b>	2,839	2,833

See Notes to Consolidated Financial Statements

**Consolidated Statements of Comprehensive Income Verizon Communications Inc. and Subsidiaries**

Years Ended December 31,	(dollars in millions)		
	<b>2012</b>	2011	2010
<b>Net Income</b>	<b>\$ 10,557</b>	\$ 10,198	\$ 10,217
<b>Other Comprehensive Income, net of taxes</b>			
Foreign currency translation adjustments	69	(119)	(171)
Unrealized gain (loss) on cash flow hedges	(68)	30	89
Unrealized gain (loss) on marketable securities	29	(7)	29
Defined benefit pension and postretirement plans	936	316	2,451
Other comprehensive income attributable to Verizon	966	220	2,398
Other comprehensive income (loss) attributable to noncontrolling interest	10	1	(35)
<b>Total Comprehensive Income</b>	<b>\$ 11,533</b>	\$ 10,419	\$ 12,580
Comprehensive income attributable to noncontrolling interest	9,692	7,795	7,633
Comprehensive income attributable to Verizon	1,841	2,624	4,947
<b>Total Comprehensive Income</b>	<b>\$ 11,533</b>	\$ 10,419	\$ 12,580

See Notes to Consolidated Financial Statements

## Consolidated Balance Sheets Verizon Communications Inc. and Subsidiaries

At December 31,	(dollars in millions, except per share amounts)	
	2012	2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 3,093	\$ 13,362
Short-term investments	470	592
Accounts receivable, net of allowances of \$641 and \$802	12,576	11,776
Inventories	1,075	940
Prepaid expenses and other	4,021	4,269
Total current assets	21,235	30,939
Plant, property and equipment	209,575	215,626
Less accumulated depreciation	120,933	127,192
	88,642	88,434
Investments in unconsolidated businesses	3,401	3,448
Wireless licenses	77,744	73,250
Goodwill	24,139	23,357
Other intangible assets, net	5,933	5,878
Other assets	4,128	5,155
Total assets	\$ 225,222	\$ 230,461
<b>Liabilities and Equity</b>		
Current liabilities		
Debt maturing within one year	\$ 4,369	\$ 4,849
Accounts payable and accrued liabilities	16,182	14,689
Other	6,405	11,223
Total current liabilities	26,956	30,761
Long-term debt	47,618	50,303
Employee benefit obligations	34,346	32,957
Deferred income taxes	24,677	25,060
Other liabilities	6,092	5,472
Equity		
Series preferred stock (\$.10 par value; none issued)	-	-
Common stock (\$.10 par value; 2,967,610,119 shares issued in both periods)	297	297
Contributed capital	37,990	37,919
Reinvested earnings (Accumulated deficit)	(3,734)	1,179
Accumulated other comprehensive income	2,235	1,269
Common stock in treasury, at cost	(4,071)	(5,002)
Deferred compensation – employee stock ownership plans and other	440	308
Noncontrolling interest	52,376	49,938
Total equity	85,533	85,908
Total liabilities and equity	\$ 225,222	\$ 230,461

See Notes to Consolidated Financial Statements

## Consolidated Statements of Cash Flows Verizon Communications Inc. and Subsidiaries

Years Ended December 31,	2012	2011	2010
(dollars in millions)			
<b>Cash Flows from Operating Activities</b>			
Net Income	\$ 10,557	\$ 10,198	\$ 10,217
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	16,460	16,496	16,405
Employee retirement benefits	8,198	7,426	3,988
Deferred income taxes	(952)	(223)	3,233
Provision for uncollectible accounts	972	1,026	1,246
Equity in earnings of unconsolidated businesses, net of dividends received	77	36	2
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses			
Accounts receivable	(1,717)	(966)	(859)
Inventories	(136)	208	299
Other assets	306	86	(313)
Accounts payable and accrued liabilities	1,144	(1,607)	1,075
Other, net	(3,423)	(2,900)	(1,930)
Net cash provided by operating activities	<u>31,486</u>	<u>29,780</u>	<u>33,363</u>
<b>Cash Flows from Investing Activities</b>			
Capital expenditures (including capitalized software)	(16,175)	(16,244)	(16,458)
Acquisitions of investments and businesses, net of cash acquired	(913)	(1,797)	(652)
Acquisitions of wireless licenses, net	(3,935)	(221)	(786)
Proceeds from dispositions	—	—	2,594
Net change in short-term investments	27	35	(3)
Other, net	494	977	251
Net cash used in investing activities	<u>(20,502)</u>	<u>(17,250)</u>	<u>(15,054)</u>
<b>Cash Flows from Financing Activities</b>			
Proceeds from long-term borrowings	4,489	11,060	—
Repayments of long-term borrowings and capital lease obligations	(6,403)	(11,805)	(8,136)
Increase (decrease) in short-term obligations, excluding current maturities	(1,437)	1,928	(1,097)
Dividends paid	(5,230)	(5,555)	(5,412)
Proceeds from sale of common stock	315	241	—
Proceeds from access line spin-off	—	—	3,083
Special distribution to noncontrolling interest	(8,325)	—	—
Other, net	(4,662)	(1,705)	(2,088)
Net cash used in financing activities	<u>(21,253)</u>	<u>(5,836)</u>	<u>(13,650)</u>
Increase (decrease) in cash and cash equivalents	(10,269)	6,694	4,659
Cash and cash equivalents, beginning of period	13,362	6,668	2,009
Cash and cash equivalents, end of period	<u>\$ 3,093</u>	<u>\$ 13,362</u>	<u>\$ 6,668</u>

See Notes to Consolidated Financial Statements

## Consolidated Statements of Changes in Equity Verizon Communications Inc. and Subsidiaries

(dollars in millions, except per share amounts, and shares in thousands)

Years Ended December 31,	2012	2011	2010			
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Common Stock</b>						
Balance at beginning of year	<b>2,967,610</b>	\$ 297	2,967,610	\$ 297	2,967,610	\$ 297
Balance at end of year	<b>2,967,610</b>	297	2,967,610	297	2,967,610	297
<b>Contributed Capital</b>						
Balance at beginning of year		<b>37,919</b>		37,922		40,108
Telephone access line spin-off (Note 2)		-		-		(2,184)
Other		71		(3)		(2)
Balance at end of year		<b>37,990</b>		37,919		37,922
<b>Reinvested Earnings (Accumulated Deficit)</b>						
Balance at beginning of year		<b>1,179</b>		4,368		7,260
Net income attributable to Verizon		875		2,404		2,549
Dividends declared (\$2.03, \$1.975, \$1.925) per share		(5,788)		(5,593)		(5,441)
Balance at end of year		<b>(3,734)</b>		1,179		4,368
<b>Accumulated Other Comprehensive Income (Loss)</b>						
Balance at beginning of year attributable to Verizon		<b>1,269</b>		1,049		(1,372)
Telephone access line spin-off (Note 2)		-		-		23
Adjusted balance at beginning of year		<b>1,269</b>		1,049		(1,349)
Foreign currency translation adjustments		69		(119)		(171)
Unrealized gains (losses) on cash flow hedges		(68)		30		89
Unrealized gains (losses) on marketable securities		29		(7)		29
Defined benefit pension and postretirement plans		936		316		2,451
Other comprehensive income		966		220		2,398
Balance at end of year attributable to Verizon		<b>2,235</b>		1,269		1,049
<b>Treasury Stock</b>						
Balance at beginning of year	<b>(133,594)</b>	(5,002)	(140,587)	(5,267)	(131,942)	(5,000)
Employee plans (Note 15)	11,434	433	6,982	265	347	13
Shareowner plans (Note 15)	13,119	498	11	-	8	-
Other (Note 9)	-	-	-	-	(9,000)	(280)
Balance at end of year	<b>(109,041)</b>	(4,071)	(133,594)	(5,002)	(140,587)	(5,267)
<b>Deferred Compensation-ESOPs and Other</b>						
Balance at beginning of year		<b>308</b>		200		89
Restricted stock equity grant		196		146		97
Amortization		(64)		(38)		14
Balance at end of year		<b>440</b>		308		200
<b>Noncontrolling Interest</b>						
Balance at beginning of year		<b>49,938</b>		48,343		42,761
Net income attributable to noncontrolling interest		9,682		7,794		7,668
Other comprehensive income (loss)		10		1		(35)
Total comprehensive income		<b>9,692</b>		7,795		7,633
Distributions and other		(7,254)		(6,200)		(2,051)
Balance at end of year		<b>52,376</b>		49,938		48,343
<b>Total Equity</b>		<b>\$ 85,533</b>		\$85,908		\$86,912

See Notes to Consolidated Financial Statements

## Notes to Consolidated Financial Statements Verizon Communications Inc. and Subsidiaries

### Note 1

#### Description of Business and Summary of Significant Accounting Policies

##### Description of Business

Verizon Communications Inc. (Verizon or the Company) is a holding company, which acting through its subsidiaries is one of the world's leading providers of communications, information and entertainment products and services to consumers, businesses and governmental agencies with a presence in over 150 countries around the world. We have two reportable segments, Verizon Wireless and Wireline. For further information concerning our business segments, see Note 13.

Verizon Wireless provides wireless communications services across one of the most extensive wireless networks in the United States (U.S.) and has the largest third-generation (3G) and fourth-generation (4G) Long-Term Evolution technology (LTE) networks of any U.S. wireless service provider.

The Wireline segment provides communications products and services including local exchange and long distance voice service, broadband video and data, IP network services, network access and other services to consumers, small businesses and carriers in the United States, as well as to businesses and government customers both in the United States and in over 150 other countries around the world.

##### Consolidation

The method of accounting applied to investments, whether consolidated, equity or cost, involves an evaluation of all significant terms of the investments that explicitly grant or suggest evidence of control or influence over the operations of the investee. The consolidated financial statements include our controlled subsidiaries. For controlled subsidiaries that are not wholly owned, the noncontrolling interest is included in Net income and Total equity. Investments in businesses which we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. Investments in which we do not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method. Equity and cost method investments are included in Investments in unconsolidated businesses in our consolidated balance sheets. Certain of our cost method investments are classified as available-for-sale securities and adjusted to fair value pursuant to the accounting standard related to debt and equity securities. All significant intercompany accounts and transactions have been eliminated.

##### Basis of Presentation

We have reclassified certain prior year amounts to conform to the current year presentation.

Corporate, eliminations and other during the periods presented include a non-cash adjustment of \$0.2 billion in 2010, primarily to adjust wireless service revenues. This adjustment was recorded to properly defer previously recognized wireless service revenues that were earned and recognized in future periods. The adjustment was recorded during 2010, which reduced Net income attributable to Verizon by approximately \$0.1 billion.

##### Use of Estimates

We prepare our financial statements using U.S. generally accepted accounting principles (GAAP), which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Examples of significant estimates include: the allowance for doubtful accounts, the recoverability of plant, property and equipment, the recoverability of intangible assets and other long-lived assets, unbilled revenues, fair values of financial instruments, unrecognized tax benefits, valuation allowances on tax assets, accrued expenses, pension and postretirement benefit assumptions, contingencies and allocation of purchase prices in connection with business combinations.

##### Revenue Recognition

###### *Multiple Deliverable Arrangements*

In both our Verizon Wireless and Wireline segments, we offer products and services to our customers through bundled arrangements. These arrangements involve multiple deliverables which may include products, services, or a combination of products and services.

On January 1, 2011, we prospectively adopted the accounting standard updates regarding revenue recognition for multiple deliverable arrangements, and arrangements that include software elements. These updates require us to allocate revenue in an arrangement using its best estimate of selling price if neither vendor specific objective evidence (VSOE) nor third party evidence (TPE) of selling price exists.

## **Verizon Wireless**

Our Verizon Wireless segment earns revenue primarily by providing access to and usage of its network. In general, access revenue is billed one month in advance and recognized when earned. Usage revenue is generally billed in arrears and recognized when service is rendered. Equipment sales revenue associated with the sale of wireless handsets and accessories is recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from providing wireless services. For agreements involving the resale of third-party services in which we are considered the primary obligor in the arrangements, we record the revenue gross at the time of the sale. For equipment sales, we currently subsidize the cost of wireless devices. The amount of this subsidy is generally contingent on the arrangement and terms selected by the customer. The equipment revenue is recognized up to the amount collected when the wireless device is sold.

## **Wireline**

Our Wireline segment earns revenue based upon usage of its network and facilities and contract fees. In general, fixed monthly fees for voice, video, data and certain other services are billed one month in advance and recognized when earned. Revenue from services that are not fixed in amount and are based on usage is generally billed in arrears and recognized when service is rendered.

We sell each of the services offered in bundled arrangements (i.e., voice, video and data), as well as separately; therefore each product or service has a standalone selling price. For these arrangements revenue is allocated to each deliverable using a relative selling price method. Under this method, arrangement consideration is allocated to each separate deliverable based on our standalone selling price for each product or service. These services include FiOS services, individually or in bundles, and High Speed Internet.

When we bundle equipment with maintenance and monitoring services, we recognize equipment revenue when the equipment is installed in accordance with contractual specifications and ready for the customer's use. The maintenance and monitoring services are recognized monthly over the term of the contract as we provide the services.

Installation related fees, along with the associated costs up to but not exceeding these fees, are deferred and amortized over the estimated customer relationship period.

For each of our segments we report taxes imposed by governmental authorities on revenue-producing transactions between us and our customers on a net basis.

## **Maintenance and Repairs**

We charge the cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, principally to Cost of services and sales as these costs are incurred.

## **Advertising Costs**

Costs for advertising products and services as well as other promotional and sponsorship costs are charged to Selling, general and administrative expense in the periods in which they are incurred (see Note 15).

## **Earnings Per Common Share**

Basic earnings per common share are based on the weighted-average number of shares outstanding during the period. Where appropriate, diluted earnings per common share include the dilutive effect of shares issuable under our stock-based compensation plans.

There were a total of approximately 9 million, 6 million and 3 million stock options and restricted stock units outstanding included in the computation of diluted earnings per common share for the years ended December 31, 2012, 2011 and 2010, respectively. Outstanding options to purchase shares that were not included in the computation of diluted earnings per common share, because to do so would have been anti-dilutive for the period, were not significant for the year ended December 31, 2012 and included approximately 19 million and 73 million weighted-average shares for the years ended December 31, 2011 and 2010, respectively.

We are authorized to issue up to 4.25 billion and 250 million shares of common stock and Series Preferred Stock, respectively.

## **Cash and Cash Equivalents**

We consider all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates quoted market value and include amounts held in money market funds.

## **Marketable Securities**

We have investments in marketable securities, which are considered "available-for-sale" under the provisions of the accounting standard for certain debt and equity securities, and are included in the accompanying consolidated balance sheets in Short-term investments, Investments in unconsolidated businesses or Other assets. We continually evaluate our investments in marketable securities for impairment due to declines in

market value considered to be other-than-temporary. That evaluation includes, in addition to persistent, declining stock prices, general economic and company-specific evaluations. In the event of a determination that a decline in market value is other-than-temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established.

## **Inventories**

Inventory consists of wireless and wireline equipment held for sale, which is carried at the lower of cost (determined principally on either an average cost or first-in, first-out basis) or market.

## **Plant and Depreciation**

We record plant, property and equipment at cost. Plant, property and equipment of wireline and wireless operations are generally depreciated on a straight-line basis.

Leasehold improvements are amortized over the shorter of the estimated life of the improvement or the remaining term of the related lease, calculated from the time the asset was placed in service.

When the depreciable assets of our wireline and wireless operations are retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts, and any gains or losses on disposition are recognized in income.

We capitalize and depreciate network software purchased or developed along with related plant assets. We also capitalize interest associated with the acquisition or construction of network-related assets. Capitalized interest is reported as a reduction in interest expense and depreciated as part of the cost of the network-related assets.

In connection with our ongoing review of the estimated remaining average useful lives of plant, property and equipment at our local telephone operations, we determined that there were no changes necessary for average useful lives for 2012, 2011, and 2010. In connection with our ongoing review of the estimated remaining average useful lives of plant, property and equipment at our wireless operations, we determined that changes were necessary to the remaining estimated useful lives as a result of technology upgrades, enhancements, and planned retirements. These changes resulted in increases in depreciation expense of \$0.4 billion and \$0.3 billion in 2011 and 2010, respectively. While the timing and extent of current deployment plans are subject to ongoing analysis and modification, we believe the current estimates of useful lives are reasonable.

## **Computer Software Costs**

We capitalize the cost of internal-use network and non-network software that has a useful life in excess of one year. Subsequent additions, modifications or upgrades to internal-use network and non-network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Planning, software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of internal-use network and non-network software. Capitalized non-network internal-use software costs are amortized using the straight-line method over a period of 3 to 7 years and are included in Other intangible assets, net in our consolidated balance sheets. For a discussion of our impairment policy for capitalized software costs, see "Goodwill and Other Intangible Assets" below. Also, see Note 3 for additional detail of internal-use non-network software reflected in our consolidated balance sheets.

## **Goodwill and Other Intangible Assets**

### *Goodwill*

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Impairment testing for goodwill is performed annually in the fourth fiscal quarter. The Company has the option to perform a qualitative assessment to determine if the fair value of the entity is less than its carrying value. However, the Company may elect to perform an impairment test even if no indications of a potential impairment exist. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. We have determined that in our case, the reporting units are our operating segments since that is the lowest level at which discrete, reliable financial and cash flow information is available. Step one compares the fair value of the reporting unit (calculated using a market approach and/or a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment is recognized.

### *Intangible Assets Not Subject to Amortization*

A significant portion of our intangible assets are wireless licenses that provide our wireless operations with the exclusive right to utilize designated radio frequency spectrum to provide wireless communication services. While licenses are issued for only a fixed time, generally ten years, such licenses are subject to renewal by the Federal Communications Commission (FCC). Renewals of licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses. As a result, we treat the wireless licenses as an indefinite-lived intangible asset. We reevaluate the useful life determination for wireless licenses each year to determine whether events and circumstances continue to support an indefinite useful life.

We test our wireless licenses for potential impairment annually. We evaluate our licenses on an aggregate basis using a direct value approach. The direct value approach estimates fair value using a discounted cash flow analysis to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. If the fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the licenses, an impairment is recognized.

Interest expense incurred while qualifying activities are performed to ready wireless licenses for their intended use is capitalized as part of wireless licenses. The capitalization period ends when the development is discontinued or substantially complete and the license is ready for its intended use.

#### *Intangible Assets Subject to Amortization and Long-Lived Assets*

Our intangible assets that do not have indefinite lives (primarily customer lists and non-network internal-use software) are amortized over their useful lives. All of our intangible assets subject to amortization and long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any indications were present, we would test for recoverability by comparing the carrying amount of the asset group to the net undiscounted cash flows expected to be generated from the asset group. If those net undiscounted cash flows do not exceed the carrying amount, we would perform the next step, which is to determine the fair value of the asset and record an impairment, if any. We reevaluate the useful life determinations for these intangible assets each year to determine whether events and circumstances warrant a revision in their remaining useful lives.

For information related to the carrying amount of goodwill by segment, wireless licenses and other intangible assets, as well as the major components and average useful lives of our other acquired intangible assets, see Note 3.

#### **Fair Value Measurements**

Fair value of financial and non-financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1—Quoted prices in active markets for identical assets or liabilities

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3—No observable pricing inputs in the market

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

#### **Income Taxes**

Our effective tax rate is based on pre-tax income, statutory tax rates, tax laws and regulations and tax planning strategies available to us in the various jurisdictions in which we operate.

Deferred income taxes are provided for temporary differences in the bases between financial statement and income tax assets and liabilities. Deferred income taxes are recalculated annually at tax rates then in effect. We record valuation allowances to reduce our deferred tax assets to the amount that is more likely than not to be realized.

We use a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. The first step is recognition: we determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset, or an increase in a deferred tax liability.

The accounting standard relating to income taxes generated by leveraged lease transactions requires that changes in the projected timing of income tax cash flows generated by a leveraged lease transaction be recognized as a gain or loss in the year in which the change occurs.

Significant management judgment is required in evaluating our tax positions and in determining our effective tax rate.

## **Stock-Based Compensation**

We measure and recognize compensation expense for all stock-based compensation awards made to employees and directors based on estimated fair values. See Note 10 for further details.

## **Foreign Currency Translation**

The functional currency of our foreign operations is generally the local currency. For these foreign entities, we translate income statement amounts at average exchange rates for the period, and we translate assets and liabilities at end-of-period exchange rates. We record these translation adjustments in Accumulated other comprehensive income (loss), a separate component of Equity, in our consolidated balance sheets. We report exchange gains and losses on intercompany foreign currency transactions of a long-term nature in Accumulated other comprehensive income (loss). Other exchange gains and losses are reported in income.

## **Employee Benefit Plans**

Pension and postretirement health care and life insurance benefits earned during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are generally amortized over the average remaining service period of the employees expected to receive benefits. Expected return on plan assets is determined by applying the return on assets assumption to the actual fair value of plan assets. Actuarial gains and losses are recognized in operating results in the year in which they occur. These gains and losses are measured annually as of December 31 or upon a remeasurement event. Verizon management employees no longer earn pension benefits or earn service towards the company retiree medical subsidy (see Note 11).

We recognize a pension or a postretirement plan's funded status as either an asset or liability on the consolidated balance sheets. Also, we measure any unrecognized prior service costs and credits that arise during the period as a component of Accumulated other comprehensive income (loss), net of applicable income tax.

## **Derivative Instruments**

We have entered into derivative transactions primarily to manage our exposure to fluctuations in foreign currency exchange rates, interest rates, equity and commodity prices. We employ risk management strategies, which may include the use of a variety of derivatives including cross currency swaps, foreign currency and prepaid forwards and collars, interest rate and commodity swap agreements and interest rate locks. We do not hold derivatives for trading purposes.

We measure all derivatives, including derivatives embedded in other financial instruments, at fair value and recognize them as either assets or liabilities on our consolidated balance sheets. Our derivative instruments are valued primarily using models based on readily observable market parameters for all substantial terms of our derivative contracts and thus are classified as Level 2. Changes in the fair values of derivative instruments not qualifying as hedges or any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in Other comprehensive income and recognized in earnings when the hedged item is recognized in earnings.

## **Recently Adopted Accounting Standards**

During the first quarter of 2012, we adopted the accounting standard update regarding the presentation of comprehensive income. This update was issued to increase the prominence of items reported in other comprehensive income. The update requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate, but consecutive statements. In connection with the adoption of this standard our consolidated financial statements include a separate statement of comprehensive income.

During the first quarter of 2012, we adopted the accounting standard update regarding fair value measurement. This update was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. This standard update also changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The adoption of this standard update did not have a significant impact on our consolidated financial statements.

During the first quarter of 2012, we adopted the accounting standard update regarding testing of goodwill for impairment. This standard update gives companies the option to perform a qualitative assessment to first assess whether the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The Company did not elect to use the qualitative assessment in 2012.

## Recent Accounting Standards

In July 2012, the accounting standard update regarding testing of intangible assets for impairment was issued. This standard update allows companies the option to perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. An entity is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the entity determines that it is more likely than not the asset is impaired. We will adopt this standard update during the first quarter of 2013. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

In February 2013, the accounting standard update regarding reclassifications out of accumulated other comprehensive income was issued. This standard update requires companies to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in our consolidated statements of income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. We will adopt this standard in the first quarter of 2013. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

### Note 2

#### Acquisitions and Divestitures

##### Verizon Wireless

###### *Spectrum Licenses*

During the third quarter of 2012, after receiving the required regulatory approvals, Verizon Wireless completed the following previously announced transactions in which we acquired wireless spectrum that will be used to deploy additional fourth-generation (4G) Long Term Evolution (LTE) capacity:

- Verizon Wireless acquired Advanced Wireless Service (AWS) spectrum in separate transactions with SpectrumCo, LLC (SpectrumCo) and Cox TMI Wireless, LLC for which it paid an aggregate of \$3.9 billion at the time of the closings. Verizon Wireless has also recorded a liability of \$0.4 billion related to a three-year service obligation to SpectrumCo's members pursuant to commercial agreements executed concurrently with the SpectrumCo transaction.
- Verizon Wireless completed license purchase and exchange transactions with Leap Wireless, Savary Island Wireless, which is majority owned by Leap Wireless, and a subsidiary of T-Mobile USA, Inc. (T-Mobile). As a result of these transactions, Verizon Wireless received an aggregate \$2.6 billion of AWS and PCS licenses at fair value and net cash proceeds of \$0.2 billion, transferred certain AWS licenses to T-Mobile and a 700 megahertz (MHz) lower A block license to Leap Wireless, and recorded an immaterial gain.

During 2011, Verizon Wireless entered into commercial agreements, modified in 2012, with affiliates of Comcast Corporation, Time Warner Cable, Bright House Networks and Cox Communications Inc. (the cable companies). Through these agreements, the cable companies and Verizon Wireless became agents to sell certain of one another's products and services and, over time, the cable companies will have the option, subject to the terms and conditions of the agreements, of selling Verizon Wireless service on a wholesale basis.

During the fourth quarter of 2012, we entered into license exchange agreements with T-Mobile and Cricket License Company, LLC, a subsidiary of Leap Wireless, to exchange certain AWS licenses. These non-cash exchanges, which are subject to approval by the Federal Communications Commission (FCC) and other customary closing conditions, are expected to close in 2013. The exchange includes a number of intra-market swaps that will result in more efficient use of the AWS band. As a result of these transactions, we expect to record an immaterial gain.

On April 18, 2012, we announced plans to initiate an open sale process for all of our 700 MHz lower A and B block spectrum licenses, subject to the receipt of acceptable bids. We acquired these licenses as part of FCC Auction 73 in 2008. On January 25, 2013, Verizon Wireless agreed to sell 39 lower 700 MHz B block spectrum licenses to AT&T Inc. (AT&T) in exchange for a payment of \$1.9 billion and the transfer by AT&T to Verizon Wireless of AWS (10 MHz) licenses in certain markets in the western United States. Verizon Wireless also agreed to sell certain lower 700 MHz B block spectrum licenses to an investment firm for a payment of \$0.2 billion. These transactions are subject to approval by the FCC and the Department of Justice (DOJ). When finalized, the sales will result in the completion of the open sale process. We expect to deploy the remaining licenses as necessary to meet our own spectrum needs.

###### *Alltel Divestiture Markets*

As a condition of the regulatory approvals to complete the acquisition of Alltel Corporation (Alltel) in January 2009, Verizon Wireless was required to divest overlapping properties in 105 operating markets in 24 states (Alltel Divestiture Markets). During the second quarter of 2010, AT&T

Mobility acquired 79 of the 105 Alltel Divestiture Markets, including licenses and network assets, for approximately \$2.4 billion in cash and Atlantic Tele-Network, Inc. acquired the remaining 26 Alltel Divestiture Markets, including licenses and network assets, for \$0.2 billion in cash.

During the second quarter of 2010, we recorded a tax charge of approximately \$0.2 billion for the taxable gain associated with these transactions.

#### *Other*

During 2012, we acquired various other wireless licenses and markets for cash consideration that was not significant and recorded \$0.2 billion of goodwill as a result of these transactions.

During 2011, we acquired various other wireless licenses and markets for cash consideration that was not significant.

During 2010, Verizon Wireless acquired the net assets and related customers of six operating markets in Louisiana and Mississippi in a transaction with AT&T for cash consideration of \$0.2 billion. The purchase price allocation resulted in \$0.1 billion of wireless licenses and \$0.1 billion in goodwill.

#### *Merger Integration Charges*

During 2010, we recorded pre-tax merger integration charges of \$0.9 billion primarily related to the Alltel acquisition. These charges were primarily due to the decommissioning of overlapping cell sites, preacquisition contingencies, handset conversions and trade name amortization.

#### **Wireline**

##### *HUGHES Telematics, Inc.*

On June 1, 2012, we agreed to acquire HUGHES Telematics, Inc. (HUGHES Telematics) for approximately \$12 per share in cash for a total acquisition price of \$0.6 billion and we completed the acquisition on July 26, 2012. As a result of the transaction, HUGHES Telematics became a wholly-owned subsidiary of Verizon. The consolidated financial statements include the results of HUGHES Telematics' operations from the date the acquisition closed. Upon closing, we recorded approximately \$0.6 billion of goodwill, \$0.1 billion of other intangibles, and assumed the debt obligations of HUGHES Telematics, which were approximately \$0.1 billion as of the date of acquisition, and which were repaid by Verizon. Had this acquisition been completed on January 1, 2012 or 2011, the results of the acquired operations of HUGHES Telematics would not have had a significant impact on the consolidated net income attributable to Verizon. The acquisition has accelerated our ability to bring more telematics offerings to market for existing and new HUGHES Telematics and Verizon customers.

The acquisition of HUGHES Telematics was accounted for as a business combination under the acquisition method. The cost of the acquisition was allocated to the assets and liabilities acquired based on their fair values as of the close of the acquisition, with the excess amount being recorded as goodwill.

##### *Terremark Worldwide, Inc.*

During April 2011, we acquired Terremark Worldwide, Inc. (Terremark), a global provider of information technology infrastructure and cloud services, for \$19 per share in cash. Closing and other direct acquisition-related costs totaled approximately \$13 million after-tax. The acquisition was completed via a "short-form" merger under Delaware law through which Terremark became a wholly owned subsidiary of Verizon. The acquisition enhanced Verizon's offerings to business and government customers globally.

The consolidated financial statements include the results of Terremark's operations from the date the acquisition closed. Had this acquisition been consummated on January 1, 2011 or 2010, the results of Terremark's acquired operations would not have had a significant impact on the consolidated net income attributable to Verizon. The debt obligations of Terremark that were outstanding at the time of its acquisition by Verizon were repaid during May 2011.

The acquisition of Terremark was accounted for as a business combination under the acquisition method. The cost of the acquisition was allocated to the assets and liabilities acquired based on their fair values as of the close of the acquisition, with the excess amount being recorded as goodwill. The fair values of the assets and liabilities acquired were determined using the income and cost approaches. The income approach was primarily used to value the intangible assets, consisting primarily of customer relationships. The cost approach was used, as appropriate, for plant, property and equipment. The fair value of the majority of the long-term debt acquired was primarily valued based on redemption prices. The final purchase price allocation presented below includes insignificant adjustments from the initial purchase price to the values of certain assets and liabilities acquired.

The following table summarizes the allocation of the acquisition cost to the assets acquired, including cash acquired of \$0.1 billion, and liabilities acquired as of the acquisition date:

(dollars in millions)	Final Purchase Price Allocation
<b>Assets</b>	
Current assets	\$ 221
Plant, property and equipment	521
Goodwill	1,211
Intangible assets subject to amortization	410
Other assets	12
<b>Total assets</b>	<b>2,375</b>
<b>Liabilities</b>	
Current liabilities	158
Debt maturing within one year	748
Deferred income taxes and other liabilities	75
<b>Total liabilities</b>	<b>981</b>
<b>Net assets acquired</b>	<b>\$ 1,394</b>

Intangible assets subject to amortization include customer lists which are being amortized on a straight-line basis over 13 years, and other intangibles which are being amortized on a straight-line basis over a period of 5 years.

#### *Telephone Access Line Spin-off*

On July 1, 2010, after receiving regulatory approval, we completed the spin-off of the shares of a newly formed subsidiary of Verizon (Spinco) to Verizon stockholders and the merger of Spinco with Frontier Communications Corporation (Frontier). Spinco held defined assets and liabilities that were used in Verizon's local exchange businesses and related activities in 14 states. The total value of the transaction to Verizon and its stockholders was approximately \$8.6 billion. The accompanying consolidated financial statements for the year ended December 31, 2010 include these operations prior to the completion of the spin-off.

During 2010, we recorded pre-tax charges of \$0.5 billion, primarily for costs incurred related to network, non-network software and other activities to enable the divested markets in the transaction with Frontier to operate on a stand-alone basis subsequent to the closing of the transaction; professional advisory and legal fees in connection with this transaction; and fees related to the early extinguishment of debt from the use of proceeds from the transaction.

#### *Other*

In February 2012, Verizon entered into a venture with Redbox Automated Retail, LLC (Redbox), a subsidiary of Coinstar, Inc., to offer customers nationwide access to media rentals through online and mobile content streaming as well as physical media rentals through Redbox kiosks. Verizon holds a 65% majority ownership share in the venture and Redbox holds a 35% ownership share. The venture is consolidated by Verizon for reporting purposes. In December 2012, the venture introduced its product portfolio, which includes subscription services, under the name Redbox Instant by Verizon. The initial funding related to the formation of the venture is not significant to Verizon.

During 2011, we acquired a provider of cloud software technology for cash consideration that was not significant.

**Note 3****Wireless Licenses, Goodwill and Other Intangible Assets****Wireless Licenses**

Changes in the carrying amount of Wireless licenses are as follows:

	(dollars in millions)
Balance at January 1, 2011	\$ 72,996
Acquisitions (Note 2)	58
Capitalized interest on wireless licenses	196
Balance at December 31, 2011	\$ 73,250
Acquisitions (Note 2)	4,544
Capitalized interest on wireless licenses	205
Reclassifications, adjustments and other	(255)
<b>Balance at December 31, 2012</b>	<b>\$ 77,744</b>

Reclassifications, adjustments, and other includes the exchanges of wireless licenses in 2012. See Note 2 ("Acquisitions and Divestitures") for additional details.

At December 31, 2012 and 2011, approximately \$7.3 billion and \$2.2 billion, respectively, of wireless licenses were under development for commercial service for which we were capitalizing interest costs.

The average remaining renewal period of our wireless license portfolio was 6.1 years as of December 31, 2012 (see Note 1, Goodwill and Other Intangible Assets – *Intangible Assets Not Subject to Amortization*).

**Goodwill**

Changes in the carrying amount of Goodwill are as follows:

	(dollars in millions)	Verizon	Wireless	Wireline	Total
Balance at January 1, 2011	\$ 17,869	\$ 4,119	\$ 21,988		
Acquisitions (Note 2)	94	1,275	1,369		
Balance at December 31, 2011	\$ 17,963	\$ 5,394	\$ 23,357		
Acquisitions (Note 2)	209	551	760		
Reclassifications, adjustments and other	–	22	22		
<b>Balance at December 31, 2012</b>	<b>\$ 18,172</b>	<b>\$ 5,967</b>	<b>\$ 24,139</b>		

## Other Intangible Assets

The following table displays the composition of Other intangible assets, net:

	2012			2011			(dollars in millions)
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount	
At December 31,							
Customer lists (6 to 13 years)	\$ 3,556	\$ (2,338)	\$ 1,218	\$ 3,529	\$ (2,052)	\$ 1,477	
Non-network internal-use software (3 to 7 years)	10,415	(6,210)	4,205	9,536	(5,487)	4,049	
Other (2 to 25 years)	802	(292)	510	561	(209)	352	
Total	<b>\$ 14,773</b>	<b>\$ (8,840)</b>	<b>\$ 5,933</b>	<b>\$ 13,626</b>	<b>\$ (7,748)</b>	<b>\$ 5,878</b>	

The amortization expense for Other intangible assets was as follows:

Years	(dollars in millions)
2012	\$ 1,540
2011	1,505
2010	1,812

Estimated annual amortization expense for Other intangible assets is as follows:

Years	(dollars in millions)
2013	\$ 1,633
2014	1,176
2015	988
2016	790
2017	593

## Note 4

### Plant, Property and Equipment

The following table displays the details of Plant, property and equipment, which is stated at cost:

At December 31,	Lives (years)	(dollars in millions)	
		2012	2011
Land	—	\$ 859	\$ 862
Buildings and equipment	15-45	22,909	21,969
Central office and other network equipment	3-15	113,262	107,322
Cable, poles and conduit	11-50	53,761	67,190
Leasehold improvements	5-20	5,404	5,030
Work in progress	—	4,126	3,417
Furniture, vehicles and other	3-20	9,254	9,836
		<b>209,575</b>	<b>215,626</b>
Less accumulated depreciation		<b>120,933</b>	<b>127,192</b>
Total		<b>\$ 88,642</b>	<b>\$ 88,434</b>

**Note 5****Investments in Unconsolidated Businesses**

Our investments in unconsolidated businesses are comprised of the following:

		(dollars in millions)	
	Ownership	2012	2011
At December 31,			
<b>Equity Investees</b>			
Vodafone Omnitel	23.1%	\$2,200	\$2,083
Other	Various	1,106	1,320
Total equity investees		3,306	3,403
<b>Cost Investees</b>	Various	95	45
Total investments in unconsolidated businesses		\$3,401	\$3,448

Dividends and repatriations of foreign earnings received from these investees amounted to \$0.4 billion in 2012, \$0.5 billion in 2011 and \$0.5 billion in 2010. See Note 12 regarding undistributed earnings of our foreign subsidiaries.

**Equity Method Investments***Vodafone Omnitel*

Vodafone Omnitel N.V. (Vodafone Omnitel) is one of the largest wireless communications companies in Italy. At December 31, 2012 and 2011, our investment in Vodafone Omnitel included goodwill of \$1.0 billion, respectively.

*Other Equity Investees*

We have limited partnership investments in entities that invest in affordable housing projects, for which we provide funding as a limited partner and receive tax deductions and tax credits based on our partnership interests. At December 31, 2012 and 2011, we had equity investments in these partnerships of \$0.9 billion and \$1.1 billion, respectively. We adjust the carrying value of these investments for any losses incurred by the limited partnerships through earnings.

The remaining investments include wireless partnerships in the U.S. and other smaller domestic and international investments.

## Summarized Financial Information

Summarized financial information for our equity investees is as follows:

### Balance Sheet

	(dollars in millions)	
	2012	2011
<u>At December 31,</u>		
Current Assets	\$ 3,516	\$ 3,720
Noncurrent Assets	8,159	8,469
<b>Total Assets</b>	<b>\$ 11,675</b>	<b>\$ 12,189</b>
Current liabilities	\$ 5,526	\$ 6,123
Noncurrent liabilities	5	8
Equity	6,144	6,058
<b>Total liabilities and equity</b>	<b>\$ 11,675</b>	<b>\$ 12,189</b>

### Income Statement

	(dollars in millions)		
	2012	2011	2010
<u>Years Ended December 31,</u>			
Net revenue	\$10,825	\$12,668	\$12,356
Operating income	2,823	4,021	4,156
<b>Net income</b>	<b>1,679</b>	2,451	2,563

Note 6	
<b>Noncontrolling Interest</b>	

Noncontrolling interests in equity of subsidiaries were as follows:

	(dollars in millions)	
	2012	2011
<u>At December 31,</u>		
Noncontrolling interests in consolidated subsidiaries:		
Verizon Wireless	\$ 51,492	\$ 49,165
Wireless partnerships and other	884	773
	<b>\$ 52,376</b>	<b>\$ 49,938</b>

### Wireless Joint Venture

Our Verizon Wireless segment is primarily comprised of Cellco Partnership doing business as Verizon Wireless (Verizon Wireless). Cellco Partnership is a joint venture formed in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone. Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%.

### Special Distributions

In November 2012, the Board of Representatives of Verizon Wireless declared a distribution to its owners, which was paid in the fourth quarter of 2012 in proportion to their partnership interests on the payment date, in the aggregate amount of \$8.5 billion. As a result, Vodafone received a cash payment of \$3.8 billion and the remainder of the distribution was received by Verizon.

In July 2011, the Board of Representatives of Verizon Wireless declared a distribution to its owners, which was paid in the first quarter of 2012 in proportion to their partnership interests on the payment date, in the aggregate amount of \$10 billion. As a result, Vodafone received a cash payment of \$4.5 billion and the remainder of the distribution was received by Verizon.

**Note 7****Leasing Arrangements****As Lessor**

We are the lessor in leveraged and direct financing lease agreements for commercial aircraft and power generating facilities, which comprise the majority of our leasing portfolio along with telecommunications equipment, commercial real estate property and other equipment. These leases have remaining terms of up to 38 years as of December 31, 2012. In addition, we lease space on certain of our cell towers to other wireless carriers. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which is secured by a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with GAAP. All recourse debt is reflected in our consolidated balance sheets.

At each reporting period, we monitor the credit quality of the various lessees in our portfolios. Regarding the leveraged lease portfolio, external credit reports are used where available and where not available we use internally developed indicators. These indicators or internal credit risk grades factor historic loss experience, the value of the underlying collateral, delinquency trends, and industry and general economic conditions. The credit quality of our lessees primarily varies from AAA to CCC+. For each reporting period the leveraged leases within the portfolio are reviewed for indicators of impairment where it is probable the rent due according to the contractual terms of the lease will not be collected. All significant accounts, individually or in the aggregate, are current and none are classified as impaired.

Finance lease receivables, which are included in Prepaid expenses and other and Other assets in our consolidated balance sheets, are comprised of the following:

At December 31,	(dollars in millions)					
	2012			2011		
	Leveraged Leases	Direct Finance Leases	Total	Leveraged Leases	Direct Finance Leases	Total
Minimum lease payments receivable	\$ 1,253	\$ 58	\$1,311	\$ 1,610	\$ 119	\$1,729
Estimated residual value	923	6	929	1,202	9	1,211
Unearned income	(654)	(10)	(664)	(874)	(19)	(893)
<b>Total</b>	<b>\$ 1,522</b>	<b>\$ 54</b>	<b>\$1,576</b>	<b>\$ 1,938</b>	<b>\$ 109</b>	<b>\$2,047</b>
Allowance for doubtful accounts			(99)			(137)
Finance lease receivables, net			\$1,477			\$1,910
Prepaid expenses and other			\$ 22			\$ 46
Other assets			1,455			1,864
			<b>\$1,477</b>			<b>\$1,910</b>

Accumulated deferred taxes arising from leveraged leases, which are included in Deferred income taxes, amounted to \$1.2 billion at December 31, 2012 and \$1.6 billion at December 31, 2011.

The following table is a summary of the components of income from leveraged leases:

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
Pretax income	\$ 30	\$ 61	\$ 74
Income tax expense	12	24	32

The future minimum lease payments to be received from noncancelable capital leases (direct financing and leveraged leases), net of nonrecourse loan payments related to leveraged leases and allowances for doubtful accounts, along with expected receipts relating to operating leases for the periods shown at December 31, 2012, are as follows:

Years	(dollars in millions)	
	Capital Leases	Operating Leases
2013	\$ 123	\$ 184
2014	45	162
2015	52	139
2016	122	114
2017	38	89
Thereafter	931	90
<b>Total</b>	<b>\$ 1,311</b>	<b>\$ 778</b>

#### As Lessee

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense under operating leases amounted to \$2.5 billion in 2012, 2011 and 2010, respectively.

Amortization of capital leases is included in Depreciation and amortization expense in the consolidated statements of income. Capital lease amounts included in Plant, property and equipment are as follows:

At December 31,	(dollars in millions)	
	2012	2011
Capital leases	\$ 358	\$ 362
Less accumulated amortization	158	132
<b>Total</b>	<b>\$ 200</b>	<b>\$ 230</b>

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2012, are as follows:

Years	(dollars in millions)	
	Capital Leases	Operating Leases
2013	\$ 86	\$ 2,038
2014	67	1,840
2015	57	1,572
2016	54	1,280
2017	44	992
Thereafter	99	4,119
<b>Total minimum rental commitments</b>	<b>407</b>	<b>\$ 11,841</b>
Less interest and executory costs	109	
Present value of minimum lease payments	298	
Less current installments	64	
<b>Long-term obligation at December 31, 2012</b>	<b>\$ 234</b>	

**Note 8****Debt**

Changes to debt during 2012 are as follows:

	Debt Maturing within One Year	Long-term Debt	(dollars in millions) Total
Balance at January 1, 2012	\$ 4,849	\$ 50,303	\$ 55,152
Proceeds from long-term borrowings	—	4,489	4,489
Repayments of long-term borrowings and capital leases obligations	(6,403)	—	(6,403)
Decrease in short-term obligations, excluding current maturities	(1,437)	—	(1,437)
Reclassifications of long-term debt	7,062	(7,062)	—
Debt acquired (Note 2)	122	—	122
Other	176	(112)	64
<b>Balance at December 31, 2012</b>	<b>\$ 4,369</b>	<b>\$ 47,618</b>	<b>\$ 51,987</b>

Debt maturing within one year is as follows:

	(dollars in millions)	
	2012	2011
At December 31,		
Long-term debt maturing within one year	\$ 3,869	\$ 2,915
Commercial paper	500	1,934
<b>Total debt maturing within one year</b>	<b>\$ 4,369</b>	<b>\$ 4,849</b>

The weighted-average interest rate for our commercial paper outstanding was 0.4% at December 31, 2012 and 2011, respectively.

**Credit Facility**

On August 13, 2012, we amended our credit facility to reduce fees and borrowing costs and extend the maturity date to August 12, 2016. As of December 31, 2012, the unused borrowing capacity under this \$6.2 billion four-year credit facility with a group of major financial institutions was approximately \$6.1 billion.

## Long-Term Debt

Outstanding long-term debt obligations are as follows:

At December 31,	Interest Rates %	Maturities	(dollars in millions)	
			2012	2011
Verizon Communications—notes payable and other	<b>0.70 – 3.85</b>	<b>2013 – 2042</b>	<b>\$ 11,198</b>	\$ 6,900
	<b>4.35 – 5.50</b>	<b>2013 – 2041</b>	<b>7,062</b>	7,832
	<b>5.55 – 6.90</b>	<b>2016 – 2041</b>	<b>11,031</b>	11,043
	<b>7.35 – 8.95</b>	<b>2018 – 2039</b>	<b>5,017</b>	6,642
	<b>Floating</b>	<b>2014</b>	<b>1,000</b>	1,000
Verizon Wireless—notes payable and other	<b>5.55 – 8.88</b>	<b>2013 – 2018</b>	<b>8,635</b>	9,331
Verizon Wireless—Alltel assumed notes	<b>6.50 – 7.88</b>	<b>2013 – 2032</b>	<b>1,500</b>	2,315
Telephone subsidiaries—debentures	<b>4.75 – 7.00</b>	<b>2013 – 2033</b>	<b>2,045</b>	4,045
	<b>7.15 – 7.88</b>	<b>2022 – 2032</b>	<b>1,349</b>	1,449
	<b>8.00 – 8.75</b>	<b>2019 – 2031</b>	<b>880</b>	880
Other subsidiaries—debentures and other	<b>6.84 – 8.75</b>	<b>2018 – 2028</b>	<b>1,700</b>	1,700
Capital lease obligations (average rate of 6.3% in 2012 and 2011, respectively)			<b>298</b>	352
Unamortized discount, net of premium			<b>(228)</b>	(271)
Total long-term debt, including current maturities			<b>51,487</b>	53,218
Less long-term debt maturing within one year			<b>3,869</b>	2,915
<b>Total long-term debt</b>			<b>\$ 47,618</b>	<b>\$ 50,303</b>

### 2012

On November 2, 2012, we announced the commencement of a tender offer (the Tender Offer) to purchase for cash any and all of the outstanding \$1.25 billion aggregate principal amount of 8.95% Verizon Communications Notes due 2039. In the Tender Offer that was completed November 9, 2012, \$0.9 billion aggregate principal amount of the notes was purchased at a price of 186.5% of the principal amount of the notes (see “Early Debt Redemption and Other Costs” below) and \$0.35 billion principal amount of the notes remains outstanding. Any accrued and unpaid interest on the principal purchased was paid to the date of purchase.

During November 2012, we issued \$4.5 billion aggregate principal amount of fixed rate notes resulting in cash proceeds of approximately \$4.47 billion, net of discounts and issuance costs. The issuances consisted of the following: \$1.0 billion of 0.70% Notes due 2015, \$0.5 billion of 1.10% Notes due 2017, \$1.75 billion of 2.45% Notes due 2022 and \$1.25 billion of 3.85% Notes due 2042. During December 2012, the net proceeds were used to redeem: \$0.7 billion of the \$2.0 billion of 8.75% Notes due November 2018 at a redemption price of 140.2% of the principal amount of the notes (see “Early Debt Redemption and Other Costs” below), \$0.75 billion of 4.35% Notes due February 2013 at a redemption price of 100.7% of the principal amount of the notes and certain telephone subsidiary debt (see “Telephone and Other Subsidiary Debt” below), as well as for the Tender Offer and other general corporate purposes. Any accrued and unpaid interest was paid to the date of redemption.

In addition, during 2012 we utilized \$0.2 billion under fixed rate vendor financing facilities.

## 2011

During March 2011, we issued \$6.25 billion aggregate principal amount of fixed and floating rate notes resulting in cash proceeds of approximately \$6.19 billion, net of discounts and issuance costs. The issuances consisted of the following: \$1.0 billion of Notes due 2014 that bear interest at a rate equal to three-month London Interbank Offered Rate (LIBOR) plus 0.61%, \$1.5 billion of 1.95% Notes due 2014, \$1.25 billion of 3.00% Notes due 2016, \$1.5 billion of 4.60% Notes due 2021 and \$1.0 billion of 6.00% Notes due 2041. The net proceeds were used for the repayment of commercial paper and other general corporate purposes, as well as for the redemption of certain telephone subsidiary debt during April 2011 (see “Telephone and Other Subsidiary Debt” below).

During November 2011, we issued \$4.6 billion aggregate principal amount of fixed rate notes resulting in cash proceeds of approximately \$4.55 billion, net of discounts and issuance costs. The issuances consisted of the following: \$0.8 billion of 1.25% Notes due 2014, \$1.3 billion of 2.00% Notes due 2016, \$1.9 billion of 3.50% Notes due 2021 and \$0.8 billion of 4.75% Notes due 2041. During November 2011, the net proceeds were used to redeem \$1.0 billion of 7.375% Verizon Communications Notes due September 2012 at a redemption price of 105.2% of principal amount of the notes, \$0.6 billion of 6.875% Verizon Communications Notes due June 2012 at a redemption price of 103.5% of principal amount of the notes and certain telephone subsidiary debt (see “Telephone and Other Subsidiary Debt” below), as well as for the repayment of commercial paper and other general corporate purposes. Any accrued and unpaid interest was paid to the date of redemption. In addition, we settled the interest rate swap with a notional value totaling \$1.0 billion related to the \$1.0 billion of 7.375% Verizon Communications Notes due September 2012.

During 2011, \$0.5 billion of 5.35% Verizon Communications Notes matured and were repaid and we utilized \$0.3 billion under fixed rate vendor financing facilities.

The debt obligations of Terremark that were outstanding at the time of its acquisition by Verizon were repaid during the second quarter of 2011.

### **Verizon Wireless – Notes Payable and Other**

Verizon Wireless Capital LLC, a wholly owned subsidiary of Verizon Wireless, is a limited liability company formed under the laws of Delaware on December 7, 2001 as a special purpose finance subsidiary to facilitate the offering of debt securities of Verizon Wireless by acting as co-issuer. Other than the financing activities as a co-issuer of Verizon Wireless indebtedness, Verizon Wireless Capital LLC has no material assets, operations or revenues. Verizon Wireless is jointly and severally liable with Verizon Wireless Capital LLC for co-issued notes.

## 2012

During February 2012, \$0.8 billion of 5.25% Verizon Wireless Notes matured and were repaid. During July 2012, \$0.8 billion of 7.0% Verizon Wireless Notes matured and were repaid.

## 2011

During May 2011, \$4.0 billion aggregate principal amount of Verizon Wireless two-year fixed and floating rate notes matured and were repaid. During December 2011, we repaid \$0.9 billion upon maturity for the €0.7 billion of 7.625% Verizon Wireless Notes and the related cross currency swap was settled.

### **Telephone and Other Subsidiary Debt**

## 2012

During January 2012, \$1.0 billion of 5.875% Verizon New Jersey Inc. Debentures matured and were repaid. During December 2012, we redeemed the \$1.0 billion of 4.625% Verizon Virginia LLC Debentures, Series A, due March 2013 at a redemption price of 101.1% of the principal amount of the debentures. Any accrued and unpaid interest was paid to the date of redemption.

In addition, during 2012, various Telephone and Other Subsidiary Debentures totaling approximately \$0.2 billion were repaid and any accrued and unpaid interest was paid to the date of payment.

## 2011

During April 2011, we redeemed the \$1.0 billion of 5.65% Verizon Pennsylvania Inc. Debentures due November 15, 2011 at a redemption price of 102.9% of the principal amount of the debentures; and the \$1.0 billion of 6.50% Verizon New England Inc. Debentures due September 15, 2011 at a redemption price of 102.3% of the principal amount of the debentures. Any accrued and unpaid interest was paid through the date of redemption.

During November 2011, we redeemed the following debentures: \$0.4 billion of 6.125% Verizon Florida Inc. Debentures due January 2013 at a redemption price of 106.3% of the principal amount of the debentures; \$0.5 billion of 6.125% Verizon Maryland Inc. Debentures due March 2012 at a redemption price of 101.5% of the principal amount of the debentures; and \$1.0 billion of 6.875% Verizon New York Inc. Debentures due April 2012 at a redemption price of 102.2% of the principal amount of the debentures. Any accrued and unpaid interest was paid through the date of redemption.

### **Early Debt Redemption and Other Costs**

During November 2012, we recorded debt redemption costs of \$0.8 billion in connection with the purchase of \$0.9 billion of the \$1.25 billion of 8.95% Verizon Communications Notes due 2039 in a cash tender offer.

During December 2012, we recorded debt redemption costs of \$0.3 billion in connection with the early redemption of \$0.7 billion of the \$2.0 billion of 8.75% Verizon Communications Notes due 2018, \$1.0 billion of 4.625% Verizon Virginia LLC Debentures, Series A, due March 2013 and \$0.75 billion of 4.35% Verizon Communications Notes due February 2013, as well as \$0.3 billion of other costs.

During November 2011, we recorded debt redemption costs of \$0.1 billion in connection with the early redemption of \$1.0 billion of 7.375% Verizon Communications Notes due September 2012, \$0.6 billion of 6.875% Verizon Communications Notes due June 2012, \$0.4 billion of 6.125% Verizon Florida Inc. Debentures due January 2013, \$0.5 billion of 6.125% Verizon Maryland Inc. Debentures due March 2012 and \$1.0 billion of 6.875% Verizon New York Inc. Debentures due April 2012.

### **Guarantees**

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries. As of December 31, 2012, \$4.3 billion principal amount of these obligations remain outstanding. Each guarantee will remain in place for the life of the obligation unless terminated pursuant to its terms, including the operating telephone company no longer being a wholly-owned subsidiary of Verizon.

We also guarantee the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003. As of December 31, 2012, \$1.7 billion principal amount of these obligations remain outstanding.

### **Debt Covenants**

We and our consolidated subsidiaries are in compliance with all debt covenants.

### **Maturities of Long-Term Debt**

Maturities of long-term debt outstanding at December 31, 2012 are as follows:

<b>Years</b>	<b>(dollars in millions)</b>
2013	\$ 3,869
2014	6,809
2015	2,188
2016	4,146
2017	1,342
Thereafter	33,133

**Note 9****Fair Value Measurements and Financial Instruments**

The following table presents the balances of assets measured at fair value on a recurring basis as of December 31, 2012:

	(dollars in millions)				
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total	
Assets:					
Short-term investments:					
Equity securities	\$ 310	\$ -	\$ -	\$ 310	
Fixed income securities	-	160	-	160	
Other current assets:					
Interest rate swaps	-	7	-	7	
Other assets:					
Fixed income securities	-	943	-	943	
Cross currency swaps	-	153	-	153	
<b>Total</b>	<b>\$ 310</b>	<b>\$ 1,263</b>	<b>\$ -</b>	<b>\$ 1,573</b>	

<sup>(1)</sup> quoted prices in active markets for identical assets or liabilities

<sup>(2)</sup> observable inputs other than quoted prices in active markets for identical assets and liabilities

<sup>(3)</sup> no observable pricing inputs in the market

Equity securities consist of investments in common stock of domestic and international corporations measured using quoted prices in active markets.

Fixed income securities consist primarily of investments in municipal bonds that do not have quoted prices in active markets. For these securities, we use alternative matrix pricing resulting in these debt securities being classified as Level 2.

Derivative contracts are valued using models based on readily observable market parameters for all substantial terms of our derivative contracts and thus are classified within Level 2. We use mid-market pricing for fair value measurements of our derivative instruments.

We recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during 2012.

#### *Fair Value of Short-term and Long-term Debt*

The fair value of our debt is determined using various methods, including quoted prices for identical terms and maturities, which is a Level 1 measurement, as well as quoted prices for similar terms and maturities in inactive markets and future cash flows discounted at current rates, which are Level 2 measurements. The fair value of our short-term and long-term debt, excluding capital leases, was as follows:

At December 31,	(dollars in millions)			
	2012	2011	Carrying	Carrying
	Fair	Amount	Value	Value
Short- and long-term debt, excluding capital leases	\$ 51,689	\$ 61,552	\$ 54,800	\$ 64,485

#### **Derivative Instruments**

##### *Interest Rate Swaps*

We have entered into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. We principally receive fixed rates and pay variable rates based on the London Interbank Offered Rate, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on

our consolidated balance sheets as assets and liabilities. At December 31, 2012 the fair value of these interest rate swaps was not material, and at December 31, 2011, the fair value was \$0.6 billion, primarily included in Other assets and Long-term debt. As of December 31, 2012, the total notional amount of these interest rate swaps was \$1.3 billion. During 2012, interest rate swaps with a notional value of \$5.8 billion were settled. As a result of the settlements, we received net proceeds of \$0.7 billion, including accrued interest which is included in Other, net operating activities in the consolidated statement of cash flows. The fair value basis adjustment to the underlying debt instruments will be recognized into earnings as a reduction of Interest expense over the remaining lives of the underlying debt obligations.

#### *Forward Interest Rate Swaps*

In order to manage our exposure to future interest rate changes, during the second quarter of 2012, we entered into forward interest rate swaps with a notional value of \$1.0 billion. We designated these contracts as cash flow hedges. In November 2012, we settled these forward interest rate swaps and the pretax loss was not material.

#### *Cross Currency Swaps*

Verizon Wireless previously entered into cross currency swaps designated as cash flow hedges to exchange approximately \$1.6 billion of British Pound Sterling and Euro-denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses. A portion of the gains and losses recognized in Other comprehensive income was reclassified to Other income and (expense), net to offset the related pretax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was not material at December 31, 2012 or December 31, 2011. During 2012 and 2011 the gains and losses with respect to these swaps were not material.

#### *Prepaid Forward Agreement*

During the first quarter of 2009, we entered into a privately negotiated prepaid forward agreement for 14 million shares of Verizon common stock at a cost of approximately \$0.4 billion. We terminated the prepaid forward agreement with respect to 5 million of the shares during the fourth quarter of 2009 and 9 million of the shares during the first quarter of 2010, which resulted in the delivery of those shares to Verizon.

#### **Concentrations of Credit Risk**

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments, short-term and long-term investments, trade receivables, certain notes receivable, including lease receivables, and derivative contracts. Our policy is to deposit our temporary cash investments with major financial institutions. Counterparties to our derivative contracts are also major financial institutions. The financial institutions have all been accorded high ratings by primary rating agencies. We limit the dollar amount of contracts entered into with any one financial institution and monitor our counterparties' credit ratings. We generally do not give or receive collateral on swap agreements due to our credit rating and those of our counterparties. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial condition.

#### **Note 10**

##### **Stock-Based Compensation**

###### *Verizon Communications Long-Term Incentive Plan*

The Verizon Communications Inc. Long-Term Incentive Plan (the Plan) permits the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and other awards. The maximum number of shares available for awards from the Plan is 119.6 million shares.

###### *Restricted Stock Units*

The Plan provides for grants of Restricted Stock Units (RSUs) that generally vest at the end of the third year after the grant. The RSUs granted prior to January 1, 2010 are classified as liability awards because the RSUs will be paid in cash upon vesting. The RSUs granted subsequent to January 1, 2010 are classified as equity awards because the RSUs will be paid in Verizon common stock upon vesting. The RSU equity awards are measured using the grant date fair value of Verizon common stock and are not remeasured at the end of each reporting period. Dividend equivalent units are also paid to participants at the time the RSU award is paid, and in the same proportion as the RSU award.

###### *Performance Stock Units*

The Plan also provides for grants of Performance Stock Units (PSUs) that generally vest at the end of the third year after the grant. As defined by the Plan, the Human Resources Committee of the Board of Directors determines the number of PSUs a participant earns based on the extent to which the corresponding performance goals have been achieved over the three-year performance cycle. The PSUs are classified as liability awards because the

PSU awards are paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the price of Verizon common stock as well as performance relative to the targets. Dividend equivalent units are also paid to participants at the time that the PSU award is determined and paid, and in the same proportion as the PSU award. The granted and cancelled activity for the PSU award includes adjustments for the performance goals achieved.

The following table summarizes Verizon's Restricted Stock Unit and Performance Stock Unit activity:

(shares in thousands)	<b>Restricted Stock Units</b>	<b>Performance Stock Units</b>
<b>Outstanding January 1, 2010</b>	<b>19,443</b>	<b>29,895</b>
Granted	8,422	17,311
Payments	(6,788)	(14,364)
Cancelled/Forfeited	(154)	(462)
<b>Outstanding December 31, 2010</b>	<b>20,923</b>	<b>32,380</b>
Granted	6,667	10,348
Payments	(7,600)	(12,137)
Cancelled/Forfeited	(154)	(2,977)
<b>Outstanding December 31, 2011</b>	<b>19,836</b>	<b>27,614</b>
<b>Granted</b>	<b>6,350</b>	<b>20,537</b>
<b>Payments</b>	<b>(7,369)</b>	<b>(8,499)</b>
<b>Cancelled/Forfeited</b>	<b>(148)</b>	<b>(189)</b>
<b>Outstanding December 31, 2012</b>	<b>18,669</b>	<b>39,463</b>

As of December 31, 2012, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately \$0.4 billion and is expected to be recognized over approximately two years.

The RSUs granted in 2012 and 2011, and classified as equity awards, have weighted-average grant date fair values of \$38.67 and \$36.38 per unit, respectively. During 2012, 2011 and 2010, we paid \$0.6 billion, \$0.7 billion and \$0.7 billion, respectively, to settle RSUs and PSUs classified as liability awards.

#### *Verizon Wireless' Long-Term Incentive Plan*

The Verizon Wireless Long-Term Incentive Plan (the Wireless Plan) provides compensation opportunities to eligible employees of Verizon Wireless (the Partnership). Under the Wireless Plan, Value Appreciation Rights (VARs) were granted to eligible employees. As of December 31, 2012, all VARs were fully vested. We have not granted new VARs since 2004.

VARs reflect the change in the value of the Partnership, as defined in the Wireless Plan. Similar to stock options, the valuation is determined using a Black-Scholes model. Once VARs become vested, employees can exercise their VARs and receive a payment that is equal to the difference between the VAR price on the date of grant and the VAR price on the date of exercise, less applicable taxes. All outstanding VARs are fully exercisable and have a maximum term of 10 years. All VARs were granted at a price equal to the estimated fair value of the Partnership, as defined in the Wireless Plan, at the date of the grant.

The following table summarizes the assumptions used in the Black-Scholes model during 2012:

	<b>End of Period</b>
Risk-free rate	0.19%
Expected term (in years)	0.62
Expected volatility	43.27%

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the measurement date. Expected volatility was based on a blend of the historical and implied volatility of publicly traded peer companies for a period equal to the VARs expected life ending on the measurement date.

The following table summarizes the Value Appreciation Rights activity:

(shares in thousands)	VARs	Weighted-Average Grant-Date Fair Value
Outstanding rights, January 1, 2010	16,591	\$ 16.54
Exercised	(4,947)	24.47
Cancelled/Forfeited	(75)	22.72
Outstanding rights, December 31, 2010	11,569	13.11
Exercised	(3,303)	14.87
Cancelled/Forfeited	(52)	14.74
Outstanding rights, December 31, 2011	8,214	12.39
<b>Exercised</b>	<b>(3,427)</b>	<b>10.30</b>
<b>Cancelled/Forfeited</b>	<b>(21)</b>	<b>11.10</b>
<b>Outstanding rights, December 31, 2012</b>	<b>4,766</b>	<b>13.89</b>

During 2012, 2011 and 2010, we paid \$0.1 billion, respectively, to settle VARs classified as liability awards.

#### *Stock-Based Compensation Expense*

After-tax compensation expense for stock-based compensation related to RSUs, PSUs, and VARs described above included in Net income attributable to Verizon was \$0.7 billion, \$0.5 billion and \$0.5 billion for 2012, 2011 and 2010, respectively.

#### *Stock Options*

The Plan provides for grants of stock options to participants at an option price per share of no less than 100% of the fair market value of Verizon common stock on the date of grant. Each grant has a 10-year life, vesting equally over a three-year period, starting at the date of the grant. We have not granted new stock options since 2004.

The following table summarizes Verizon's stock option activity:

(shares in thousands)	Stock Options	Weighted-Average Exercise Price
Outstanding, January 1, 2010	107,765	\$ 44.52
Exercised	(372)	34.51
Cancelled/Forfeited	(50,549)	44.90
Outstanding, December 31, 2010	56,844	44.25
Exercised	(7,104)	35.00
Cancelled/Forfeited	(21,921)	51.06
Outstanding, December 31, 2011	27,819	41.24
<b>Exercised</b>	<b>(7,447)</b>	<b>35.20</b>
<b>Cancelled/Forfeited</b>	<b>(17,054)</b>	<b>45.15</b>
<b>Outstanding, December 31, 2012</b>	<b>3,318</b>	<b>34.69</b>

All stock options outstanding at December 31, 2012, 2011 and 2010 were exercisable.

The following table summarizes information about Verizon's stock options outstanding as of December 31, 2012:

Range of Exercise Prices	Stock Options (in thousands)	Weighted-Average Remaining Life (years)	Weighted-Average Exercise Price
\$30.00-39.99	3,273	0.8	\$ 34.58
40.00-49.99	45	0.3	42.99
<b>Total</b>	<b>3,318</b>	<b>0.8</b>	<b>34.69</b>

The total intrinsic value for stock options outstanding as of December 31, 2012 is not significant. The total intrinsic value of stock options exercised was \$0.1 billion in 2012 and the associated tax benefits were not significant in 2012, 2011 and 2010. The amount of cash received from the exercise of stock options was \$0.3 billion in 2012, \$0.2 billion in 2011 and not significant in 2010. There was no stock option expense for 2012, 2011 and 2010.

## Note 11

### Employee Benefits

We maintain non-contributory defined benefit pension plans for many of our employees. In addition, we maintain postretirement health care and life insurance plans for our retirees and their dependents, which are both contributory and non-contributory, and include a limit on our share of the cost for certain recent and future retirees. In accordance with our accounting policy for pension and other postretirement benefits, operating expenses include pension and benefit related charges based on actuarial assumptions, including projected discount rates and an estimated return on plan assets. These estimates are updated in the fourth quarter to reflect actual return on plan assets and updated actuarial assumptions. The adjustment is recognized in the income statement during the fourth quarter or upon a remeasurement event pursuant to our accounting policy for the recognition of actuarial gains/losses.

### Pension and Other Postretirement Benefits

Pension and other postretirement benefits for many of our employees are subject to collective bargaining agreements. Modifications in benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans. The following tables summarize benefit costs, as well as the benefit obligations, plan assets, funded status and rate assumptions associated with pension and postretirement health care and life insurance benefit plans.

### Obligations and Funded Status

	(dollars in millions)			
	Pension	Health Care and Life	2012	2011
At December 31,				
<b>Change in Benefit Obligations</b>				
Beginning of year	\$ 30,582	\$ 29,217	\$ 27,369	\$ 25,718
Service cost	358	307	359	299
Interest cost	1,449	1,590	1,284	1,421
Plan amendments	183	(485)	(1,826)	–
Actuarial loss, net	6,074	3,360	1,402	1,687
Benefits paid	(2,735)	(2,564)	(1,744)	(1,756)
Annuity purchase	(8,352)	–	–	–
Settlements paid	(786)	(843)	–	–
End of Year	<b>\$ 26,773</b>	\$ 30,582	<b>\$ 26,844</b>	\$ 27,369
<b>Change in Plan Assets</b>				
Beginning of year	\$ 24,110	\$ 25,814	\$ 2,628	\$ 2,945
Actual return on plan assets	2,326	1,191	312	63
Company contributions	3,719	512	1,461	1,376
Benefits paid	(2,735)	(2,564)	(1,744)	(1,756)
Settlements paid	(786)	(843)	–	–
Annuity purchase	(8,352)	–	–	–
End of year	<b>\$ 18,282</b>	\$ 24,110	<b>\$ 2,657</b>	\$ 2,628
<b>Funded Status</b>				
End of year	<b>\$ (8,491)</b>	\$ (6,472)	<b>\$ (24,187)</b>	\$ (24,741)

	Pension		(dollars in millions) Health Care and Life	
	2012	2011	2012	2011
At December 31,				
<b>Amounts recognized on the balance sheet</b>				
Noncurrent assets	\$ 236	\$ 289	\$ —	\$ —
Current liabilities	(129)	(195)	(766)	(735)
Noncurrent liabilities	(8,598)	(6,566)	(23,421)	(24,006)
Total	<b><u><span style="border-bottom: 1px solid black;">\$(8,491)</span></u></b>	<b><u><span style="border-bottom: 1px solid black;">\$(6,472)</span></u></b>	<b><u><span style="border-bottom: 1px solid black;">\$ (24,187)</span></u></b>	<b><u><span style="border-bottom: 1px solid black;">\$ (24,741)</span></u></b>
<b>Amounts recognized in Accumulated Other Comprehensive Income (Pretax)</b>				
Prior Service Cost	\$ 181	\$ (3)	\$ (2,247)	\$ (510)
Total	<b><u><span style="border-bottom: 1px solid black;">\$ 181</span></u></b>	<b><u><span style="border-bottom: 1px solid black;">\$ (3)</span></u></b>	<b><u><span style="border-bottom: 1px solid black;">\$ (2,247)</span></u></b>	<b><u><span style="border-bottom: 1px solid black;">\$ (510)</span></u></b>

See Note 12 ("Taxes") for details regarding the impact of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010.

Beginning in 2013, as a result of federal health care reform, Verizon will no longer file for the Retiree Drug Subsidy (RDS) and will instead contract with a Medicare Part D plan on a group basis to provide prescription drug benefits to Medicare eligible retirees. This change to our Medicare Part D strategy resulted in the adoption of plan amendments during the fourth quarter of 2010 which will allow the company to be eligible for greater Medicare Part D plan subsidies over time.

During 2012, we reached agreements with the Communications Workers of America and the International Brotherhood of Electrical Workers on new, three-year contracts that cover approximately 43,000 Wireline employees. This resulted in the adoption of plan amendments which will result in lower other postretirement benefit costs in 2013 and beyond.

The accumulated benefit obligation for all defined benefit pension plans was \$26.5 billion and \$30.3 billion at December 31, 2012 and 2011, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets follows:

	(dollars in millions)	
	2012	2011
At December 31,		
Projected benefit obligation	\$ 26,351	\$ 29,643
Accumulated benefit obligation	26,081	29,436
Fair value of plan assets	<b><u><span style="border-bottom: 1px solid black;">17,623</span></u></b>	<b><u><span style="border-bottom: 1px solid black;">22,916</span></u></b>

## Net Periodic Cost

The following table summarizes the benefit (income) cost related to our pension and postretirement health care and life insurance plans:

Years Ended December 31,	(dollars in millions)					
	Pension			Health Care and Life		
	2012	2011	2010	2012	2011	2010
Service cost	\$ 358	\$ 307	\$ 353	\$ 359	\$ 299	\$ 305
Amortization of prior service cost (credit)	(1)	72	109	(89)	(57)	375
Subtotal	357	379	462	270	242	680
Expected return on plan assets	(1,795)	(1,976)	(2,176)	(171)	(163)	(252)
Interest cost	1,449	1,590	1,797	1,284	1,421	1,639
Subtotal	11	(7)	83	1,383	1,500	2,067
Remeasurement (gain) loss, net	5,542	4,146	(166)	1,262	1,787	758
Net periodic benefit (income) cost	5,553	4,139	(83)	2,645	3,287	2,825
Curtailment and termination benefits	—	—	860	—	—	386
<b>Total</b>	<b>\$ 5,553</b>	<b>\$ 4,139</b>	<b>\$ 777</b>	<b>\$ 2,645</b>	<b>\$ 3,287</b>	<b>\$ 3,211</b>

Other pre-tax changes in plan assets and benefit obligations recognized in other comprehensive (income) loss are as follows:

	(dollars in millions)			
	Pension		Health Care and Life	
	2012	2011	2012	2011
At December 31,				
Prior service cost	\$183	\$(485)	\$ (1,826)	\$ —
Reversal of amortization items				
Prior service cost	1	(72)	89	57
<b>Total recognized in other comprehensive (income) loss (pretax)</b>	<b>\$184</b>	<b>\$(557)</b>	<b>\$ (1,737)</b>	<b>\$ 57</b>

The estimated prior service cost for the defined benefit pension plan that will be amortized from Accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year is not significant. The estimated prior service cost for the defined benefit postretirement plans that will be amortized from Accumulated other comprehensive income (loss) into net periodic benefit (income) cost over the next fiscal year is \$(0.2 billion).

## Assumptions

The weighted-average assumptions used in determining benefit obligations follow:

	Pension		Health Care and Life	
	2012	2011	2012	2011
At December 31,				
Discount Rate	4.20%	5.00%	4.20%	5.00%
Rate of compensation increases	3.00	3.00	N/A	N/A

The weighted-average assumptions used in determining net periodic cost follow:

	Pension			Health Care and Life		
	2012	2011	2010	2012	2011	2010
At December 31,						
Discount Rate	5.00%	5.75%	6.25%	5.00%	5.75%	6.25%
Expected return on plan assets	7.50	8.00	8.50	7.00	6.00	8.25
Rate of compensation increases	3.00	3.00	4.00	N/A	N/A	N/A

In order to project the long-term target investment return for the total portfolio, estimates are prepared for the total return of each major asset class over the subsequent 10-year period. Those estimates are based on a combination of factors including the current market interest rates and valuation levels, consensus earnings expectations and historical long-term risk premiums. To determine the aggregate return for the pension trust, the projected return of each individual asset class is then weighted according to the allocation to that investment area in the trust's long-term asset allocation policy.

The assumed health care cost trend rates follow:

	<b>Health Care and Life</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
At December 31,			
Healthcare cost trend rate assumed for next year	<b>7.00 %</b>	7.50 %	7.75 %
Rate to which cost trend rate gradually declines	<b>5.00</b>	5.00	5.00
Year the rate reaches the level it is assumed to remain thereafter	<b>2016</b>	2016	2016

A one percentage point change in the assumed health care cost trend rate would have the following effects:

<b>One-Percentage Point</b>	<b>(dollars in millions)</b>	
	<b>Increase</b>	<b>Decrease</b>
Effect on 2012 service and interest cost	\$ 232	\$ (187)
Effect on postretirement benefit obligation as of December 31, 2012	3,251	(2,669)

## Plan Assets

Historically, our portfolio strategy emphasized a long-term equity orientation, significant global diversification, and the use of both public and private investments. In an effort to reduce the risk of our portfolio strategy and better align assets with liabilities, we have shifted our strategy to one that is more liability driven, where cash flows from investments better match projected benefit payments but result in lower asset returns. We intend to reduce the likelihood that assets will decline at a time when liabilities increase (referred to as liability hedging), with the goal to reduce the risk of underfunding to the plan and its participants and beneficiaries. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors. Our diversification and risk control processes serve to minimize the concentration of risk.

While target allocation percentages will vary over time, the company's overall investment strategy is to achieve a mix of assets, which allows us to meet projected benefits payments while taking into consideration risk and return. The current target allocation for plan assets is designed so that 70% of the assets have the objective of achieving a return in excess of the growth in liabilities (comprised of public equities, private equities, real estate, hedge funds and emerging debt) and 30% of the assets are invested as liability hedging assets (typically longer duration fixed income). This allocation will shift as funded status improves to a higher allocation to liability hedging assets. Target policies will be revisited periodically to ensure they are in line with fund objectives. Due to our diversification and risks control processes, there are no significant concentrations of risk, in terms of sector, industry, geography or company names.

Pension and healthcare and life plans assets do not include significant amounts of Verizon common stock.

*Pension Plans*

The fair values for the pension plans by asset category at December 31, 2012 are as follows:

<b>Asset Category</b>	(dollars in millions)			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 1,618	\$ 1,586	\$ 32	\$ —
Equity securities	2,944	2,469	475	—
Fixed income securities				
U.S. Treasuries and agencies	1,589	1,125	464	—
Corporate bonds	2,456	35	2,225	196
International bonds	601	140	461	—
Other	210	—	210	—
Real estate	2,018	—	—	2,018
Other				
Private equity	5,039	—	—	5,039
Hedge funds	1,807	—	1,249	558
<b>Total</b>	<b>\$18,282</b>	<b>\$ 5,355</b>	<b>\$ 5,116</b>	<b>\$ 7,811</b>

The fair values for the pension plans by asset category at December 31, 2011 are as follows:

<b>Asset Category</b>	(dollars in millions)			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Cash and cash equivalents	\$ 1,215	\$ 1,184	\$ 31	\$ —
Equity securities	6,829	5,704	1,125	—
Fixed income securities				
U.S. Treasuries and agencies	1,796	1,239	557	—
Corporate bonds	2,140	65	1,886	189
International bonds	1,163	158	1,005	—
Other	359	—	359	—
Real estate	2,158	—	—	2,158
Other				
Private equity	6,109	—	54	6,055
Hedge funds	2,341	—	1,679	662
<b>Total</b>	<b>\$24,110</b>	<b>\$ 8,350</b>	<b>\$ 6,696</b>	<b>\$ 9,064</b>

The following is a reconciliation of the beginning and ending balance of pension plan assets that are measured at fair value using significant unobservable inputs:

	Corporate Bonds	Real Estate	Private Equity	Hedge Funds	(dollars in millions) Total
Balance at January 1, 2011	\$ 180	\$1,769	\$ 5,849	\$ 716	\$ 8,514
Actual gain (loss) on plan assets	(4)	258	477	(4)	727
Purchases and sales	48	43	(203)	(50)	(162)
Transfers in and/or out	(35)	88	(68)	—	(15)
Balance at December 31, 2011	\$ 189	\$2,158	\$ 6,055	\$ 662	\$ 9,064
<b>Actual gain on plan assets</b>	<b>12</b>	<b>84</b>	<b>146</b>	<b>43</b>	<b>285</b>
<b>Purchases and sales</b>	<b>(14)</b>	<b>(224)</b>	<b>(1,162)</b>	<b>(147)</b>	<b>(1,547)</b>
<b>Transfers in</b>	<b>9</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>9</b>
<b>Balance at December 31, 2012</b>	<b>\$ 196</b>	<b>\$2,018</b>	<b>\$ 5,039</b>	<b>\$ 558</b>	<b>\$ 7,811</b>

#### *Health Care and Life Plans*

The fair values for the other postretirement benefit plans by asset category at December 31, 2012 are as follows:

Asset Category	Total	(dollars in millions)		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 291	\$ 13	\$ 278	\$ —
Equity securities	1,753	1,004	749	—
Fixed income securities				
U.S. Treasuries and agencies	118	80	38	—
Corporate bonds	192	11	181	—
International bonds	189	72	117	—
Other	114	—	114	—
<b>Total</b>	<b>\$2,657</b>	<b>\$ 1,180</b>	<b>\$ 1,477</b>	<b>\$ —</b>

The fair values for the other postretirement benefit plans by asset category at December 31, 2011 are as follows:

Asset Category	(dollars in millions)			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 281	\$ 22	\$ 259	\$ —
Equity securities	1,695	951	744	—
Fixed income securities				
U.S. Treasuries and agencies	85	58	27	—
Corporate bonds	119	26	93	—
International bonds	192	67	125	—
Other	210	—	210	—
Other	46	—	46	—
Total	<u>\$2,628</u>	<u>\$ 1,124</u>	<u>\$ 1,504</u>	<u>\$ —</u>

The following are general descriptions of asset categories, as well as the valuation methodologies and inputs used to determine the fair value of each major category of assets.

Cash and cash equivalents include short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and are valued using quoted market prices or other valuation methods, and thus are classified within Level 1 or Level 2.

Equity securities are investments in common stock of domestic and international corporations in a variety of industry sectors, and are valued primarily using quoted market prices or other valuation methods, and thus are classified within Level 1 or Level 2.

Fixed income securities include U.S. Treasuries and agencies, debt obligations of foreign governments and domestic and foreign corporations. Fixed income also includes investments in collateralized mortgage obligations, mortgage backed securities and interest rate swaps. The fair value of fixed income securities is based on observable prices for identical or comparable assets, adjusted using benchmark curves, sector grouping, matrix pricing, broker/dealer quotes and issuer spreads, and thus is classified within Level 1 or Level 2.

Real estate investments include those in limited partnerships that invest in various commercial and residential real estate projects both domestically and internationally. The fair values of real estate assets are typically determined by using income and/or cost approaches or a comparable sales approach, taking into consideration discount and capitalization rates, financial conditions, local market conditions and the status of the capital markets, and thus are classified within Level 3.

Private equity investments include those in limited partnerships that invest in operating companies that are not publicly traded on a stock exchange. Investment strategies in private equity include leveraged buyouts, venture capital, distressed investments and investments in natural resources. These investments are valued using inputs such as trading multiples of comparable public securities, merger and acquisition activity and pricing data from the most recent equity financing taking into consideration illiquidity, and thus are classified within Level 3.

Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. The fair values of hedge funds are estimated using net asset value per share (NAV) of the investments. Verizon has the ability to redeem these investments at NAV within the near term and thus are classified within Level 2. Investments that cannot be redeemed in the near term are classified within Level 3.

### Cash Flows

In 2012, we contributed \$0.9 billion to our qualified pension plans, \$0.2 billion to our nonqualified pension plans and \$1.5 billion to our other postretirement benefit plans, exclusive of the annuitization discussed below. We expect the qualified pension plan contributions in 2013 to be immaterial. We anticipate approximately \$0.1 billion in contributions to our non-qualified pension plans and \$1.5 billion to our other postretirement benefit plans in 2013.

## Estimated Future Benefit Payments

The benefit payments to retirees are expected to be paid as follows:

Year	Pension Benefits	Health Care and Life	(dollars in millions)
2013	\$ 3,487	\$ 1,662	
2014	2,513	1,670	
2015	2,315	1,665	
2016	1,782	1,614	
2017	1,686	1,567	
2018-2022	6,703	7,174	

## Savings Plan and Employee Stock Ownership Plans

We maintain four leveraged employee stock ownership plans (ESOP). Only one plan currently has unallocated shares. We match a certain percentage of eligible employee contributions to the savings plans with shares of our common stock from this ESOP. At December 31, 2012, the number of unallocated and allocated shares of common stock in this ESOP was 711,000 and 64 million, respectively. All leveraged ESOP shares are included in earnings per share computations.

Total savings plan costs were \$0.7 billion in 2012, 2011 and 2010, respectively.

## Pension Annuitization

On October 17, 2012, we, along with our subsidiary Verizon Investment Management Corp., and Fiduciary Counselors Inc., as independent fiduciary of the Verizon Management Pension Plan (the Plan), entered into a definitive purchase agreement with The Prudential Insurance Company of America (Prudential) and Prudential Financial, Inc., pursuant to which the Plan would purchase a single premium group annuity contract from Prudential.

On December 10, 2012, upon issuance of the group annuity contract by Prudential, Prudential irrevocably assumed the obligation to make future annuity payments to approximately 41,000 Verizon management retirees who began receiving pension payments from the Plan prior to January 1, 2010. The amount of each retiree's annuity payment equals the amount of such individual's pension benefit. In addition, the group annuity contract is intended to replicate the same rights to future payments, such as survivor benefits, that are currently offered by the Plan.

We contributed approximately \$2.6 billion to the Plan between September 1, 2012 and December 31, 2012 in connection with the transaction so that the Plan's funding percentage would not decrease as a result of the transaction.

## Severance Benefits

The following table provides an analysis of our actuarially determined severance liability recorded in accordance with the accounting standard regarding employers' accounting for postemployment benefits:

Year	Beginning of Year	Charged to				(dollars in millions)
		Expense	Payments	Other	End of Year	
2010	\$ 1,638	\$ 1,217	\$ (1,307)	\$ 21	\$ 1,569	
2011	1,569	32	(474)	(14)	1,113	
<b>2012</b>	<b>1,113</b>	<b>396</b>	<b>(531)</b>	<b>32</b>	<b>1,010</b>	

## Severance, Pension and Benefit Charges

During 2012, we recorded net pre-tax severance, pension and benefits charges of approximately \$7.2 billion primarily for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The charges

were primarily driven by a decrease in our discount rate assumption used to determine the current year liabilities from a weighted-average of 5% at December 31, 2011 to a weighted-average of 4.2% at December 31, 2012 (\$5.3 billion) and revisions to the retirement assumptions for participants and other assumption adjustments, partially offset by the difference between our estimated return on assets of 7.5% and our actual return on assets of 10% (\$0.7 billion). As part of this charge, we also recorded \$1.0 billion related to the annuitization of pension liabilities, as described above, as well as severance charges of \$0.4 billion primarily for approximately 4,000 management employees.

During 2011, we recorded net pre-tax severance, pension and benefits charges of approximately \$6.0 billion for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The charges were primarily driven by a decrease in our discount rate assumption used to determine the current year liabilities from 5.75% at December 31, 2010 to 5% at December 31, 2011 (\$5.0 billion); the difference between our estimated return on assets of 8% and our actual return on assets of 5% (\$0.9 billion); and revisions to the life expectancy of participants and other adjustments to assumptions.

During 2010, we recorded net pre-tax severance, pension and benefits charges of \$3.1 billion. The charges during 2010 included remeasurement losses of \$0.6 billion, for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. Additionally, in 2010, we reached an agreement with certain unions on temporary enhancements to the separation programs contained in their existing collective bargaining agreements. These temporary enhancements were intended to help address a previously declared surplus of employees and to help reduce the need for layoffs. Accordingly, we recorded severance, pension and benefits charges associated with approximately 11,900 union-represented employees who volunteered for the incentive offer. These charges included \$1.2 billion for severance for the 2010 separation programs mentioned above and a planned workforce reduction of approximately 2,500 employees in 2011. In addition, we recorded \$1.3 billion for pension and postretirement curtailment losses and special termination benefits due to the workforce reductions.

## Note 12

### Taxes

The components of income before provision for income taxes are as follows:

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
Domestic	\$ 9,316	\$ 9,724	\$ 11,921
Foreign	581	759	763
<b>Total</b>	<b>\$ 9,897</b>	<b>\$ 10,483</b>	<b>\$ 12,684</b>

The components of the provision (benefit) for income taxes are as follows:

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
Current			
Federal	\$ 223	\$ 193	\$ (705)
Foreign	(45)	25	(19)
State and Local	114	290	(42)
Total	<u>292</u>	<u>508</u>	<u>(766)</u>
Deferred			
Federal	(553)	276	2,945
Foreign	10	(38)	(24)
State and Local	(403)	(455)	316
Total	<u>(946)</u>	<u>(217)</u>	<u>3,237</u>
Investment tax credits	(6)	(6)	(4)
Total income tax provision (benefit)	<u><u><b>(\$660)</b></u></u>	<u><u><b>\$ 285</b></u></u>	<u><u><b>\$2,467</b></u></u>

The following table shows the principal reasons for the difference between the effective income tax rate and the statutory federal income tax rate:

Years Ended December 31,	2012	2011	2010
Statutory federal income tax rate	<b>35.0 %</b>	35.0 %	35.0 %
State and local income tax rate, net of federal tax benefits	(1.9)	(1.0)	1.4
Affordable housing credit	(1.9)	(1.8)	(1.3)
Employee benefits including ESOP dividend	(1.1)	(1.4)	(1.2)
Medicare Part D subsidy charge	—	—	6.9
Equity in earnings from unconsolidated businesses	(1.4)	(1.9)	(1.6)
Noncontrolling interest	(33.7)	(23.0)	(19.5)
Other, net	(1.7)	(3.2)	(0.3)
Effective income tax rate	<b>(6.7) %</b>	2.7 %	19.4 %

The effective income tax rate for 2012 was (6.7)% compared to 2.7% for 2011. The negative effective income tax rate for 2012 and the decrease in the provision for income taxes during 2012 compared to 2011 was primarily due to lower income before income taxes as a result of higher severance, pension, and benefit charges as well as early debt redemption costs recorded in the current year.

The effective income tax rate in 2011 decreased to 2.7% from 19.4% in 2010. This decrease was primarily driven by lower income before provision for income taxes as a result of higher pension and benefit charges recorded in 2011 as well as tax benefits from state valuation allowance reversals in 2011. The decrease was also due to a one-time, non-cash income tax charge of \$1.0 billion recorded during the three months ended March 31, 2010 as a result of the enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively the Health Care Act). Under the Health Care Act, beginning in 2013, Verizon and other companies that receive a subsidy under Medicare Part D to provide retiree prescription drug coverage will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage to the extent of the subsidy received. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in Verizon's financial statements, this change in law required Verizon to reduce the value of the related tax benefits recognized in its financial statements in the period during which the Health Care Act was enacted.

The amounts of cash taxes paid are as follows:

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
Income taxes, net of amounts refunded	\$ 351	\$ 762	\$ 430
Employment taxes	1,308	1,328	1,372
Property and other taxes	1,727	1,883	1,963
<b>Total</b>	<b>\$3,386</b>	<b>\$3,973</b>	<b>\$3,765</b>

Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Significant components of deferred tax assets and liabilities are as follows:

At December 31,	(dollars in millions)	
	2012	2011
Employee benefits	\$13,644	\$13,119
Tax loss and credit carry forwards	4,819	5,170
Uncollectible accounts receivable	206	224
Other - assets	1,050	952
<b>Valuation allowances</b>	<b>19,719</b>	19,465
Deferred tax assets	(2,041)	(2,376)
	<b>17,678</b>	17,089
Former MCI intercompany accounts receivable basis difference	1,275	1,435
Depreciation	13,953	13,743
Leasing activity	1,208	1,569
Wireless joint venture including wireless licenses	22,171	21,778
Other - liabilities	1,320	1,233
Deferred tax liabilities	39,927	39,758
<b>Net deferred tax liability</b>	<b>\$22,249</b>	\$22,669

At December 31, 2012, undistributed earnings of our foreign subsidiaries indefinitely invested outside of the United States amounted to approximately \$1.8 billion. The majority of Verizon's cash flow is generated from domestic operations and we are not dependent on foreign cash or earnings to meet our funding requirements, nor do we intend to repatriate these undistributed foreign earnings to fund U.S. operations. Furthermore, a portion of these undistributed earnings represents amounts that legally must be kept in reserve in accordance with certain foreign jurisdictional requirements and are unavailable for distribution or repatriation. As a result, we have not provided U.S. deferred taxes on these undistributed earnings because we intend that they will remain indefinitely reinvested outside of the United States and therefore unavailable for use in funding U.S. operations. Determination of the amount of unrecognized deferred taxes related to these undistributed earnings is not practicable.

At December 31, 2012, we had net after tax loss and credit carry forwards for income tax purposes of approximately \$4.6 billion. Of these net after tax loss and credit carry forwards, approximately \$4.0 billion will expire between 2013 and 2032 and approximately \$0.6 billion may be carried forward indefinitely. The amount of net after tax loss and credit carry forwards reflected as a deferred tax asset above has been reduced by approximately \$0.1 billion at December 31, 2012 and 2011, respectively, due to federal and state tax law limitations on utilization of net operating losses.

During 2012, the valuation allowance decreased approximately \$0.3 billion. The balance of the valuation allowance at December 31, 2012 and the 2012 activity is primarily related to state and foreign tax losses and credit carry forwards.

*Unrecognized Tax Benefits*

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	(dollars in millions)		
	2012	2011	2010
<b>Balance at January 1,</b>	<b>\$3,078</b>	\$ 3,242	\$ 3,400
Additions based on tax positions related to the current year	131	111	231
Additions for tax positions of prior years	92	456	476
Reductions for tax positions of prior years	(415)	(644)	(569)
Settlements	100	(56)	(256)
Lapses of statutes of limitations	(43)	(31)	(40)
<b>Balance at December 31,</b>	<b>\$2,943</b>	\$ 3,078	\$ 3,242

Included in the total unrecognized tax benefits at December 31, 2012, 2011 and 2010 is \$2.1 billion, \$2.2 billion and \$2.1 billion, respectively, that if recognized, would favorably affect the effective income tax rate.

We recognized the following net after tax benefits related to interest and penalties in the provision for income taxes:

Years Ended December 31,	(dollars in millions)	
<b>2012</b>	<b>\$</b>	<b>82</b>
2011	60	
2010	29	

The after-tax accruals for the payment of interest and penalties in the consolidated balance sheets are as follows:

At December 31,	(dollars in millions)	
<b>2012</b>	<b>\$</b>	<b>386</b>
2011	470	

Verizon and/or its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state, local and foreign jurisdictions. As a large taxpayer, we are under audit by the Internal Revenue Service (IRS) and multiple state and foreign jurisdictions for various open tax years. The IRS commenced its examination of the Company's U.S. income tax returns for tax years 2007-2009 in the third quarter of 2012. Significant tax examinations are ongoing in Italy and New York City for tax years as early as 2000. The amount of unrecognized tax benefits will change in the next twelve months due to the resolution of various income tax matters, including the resolution of tax litigation in Canada in the first quarter of 2013. An estimate of the range of the possible change cannot be made until these tax matters are further developed or resolved. The impacts of the favorable resolution of the Canada litigation will be accounted for in the first quarter of 2013.

## Note 13

### Segment Information

#### Reportable Segments

We have two reportable segments, which we operate and manage as strategic business units and organize by products and services. We measure and evaluate our reportable segments based on segment operating income, consistent with the chief operating decision maker's assessment of segment performance.

Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses, such as our investments in unconsolidated businesses, pension and other employee benefit related costs, lease financing, as well as the historical results of divested operations and other adjustments and gains and losses that are not allocated in assessing segment performance due to their non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results as these items are included in the chief operating decision maker's assessment of segment performance.

The reconciliation of segment operating revenues and expenses to consolidated operating revenues and expenses below also includes those items of a non-recurring or non-operational nature. We exclude from segment results the effects of certain items that management does not consider in assessing segment performance, primarily because of their non-recurring or non-operational nature.

In order to comply with regulatory conditions related to the acquisition of Alltel in January 2009, Verizon Wireless divested overlapping properties in 105 operating markets in 24 states during the first half of 2010. In addition, on July 1, 2010, certain of Verizon's local exchange business and related activities in 14 states were spun off (see Note 2). Accordingly, the historical Verizon Wireless and Wireline results for these operations have been reclassified to Corporate and Other to reflect comparable segment operating results.

We have adjusted prior-period consolidated and segment information, where applicable, to conform to current year presentation.

Our segments and their principal activities consist of the following:

Segment	Description
<b>Verizon Wireless</b>	Verizon Wireless' communications products and services include wireless voice and data services and equipment sales, which are provided to consumer, business and government customers across the United States.
<b>Wireline</b>	Wireline's voice, data and video communications products and enhanced services include local and long distance voice, broadband Internet access and video, corporate networking solutions, data center and cloud services and security and managed network services. We provide these products and services to consumers in the United States, as well as to carriers, businesses and government customers both in the United States and in over 150 other countries around the world.

The following table provides operating financial information for our two reportable segments:

2012	Verizon Wireless	Wireline	(dollars in millions)	
			Total Segments	
External Operating Revenues				
Retail service	\$ 61,383	\$ –	\$ 61,383	
Other service	2,290	–	2,290	
Service revenue	63,673	–	63,673	
Equipment	8,010	–	8,010	
Other	4,096	–	4,096	
Consumer retail	–	14,043	14,043	
Small business	–	2,648	2,648	
Mass Markets	–	16,691	16,691	
Strategic services	–	8,052	8,052	
Core	–	7,240	7,240	
Global Enterprise	–	15,292	15,292	
Global Wholesale	–	6,177	6,177	
Other	–	508	508	
Intersegment revenues	89	1,112	1,201	
Total operating revenues	75,868	39,780	115,648	
Cost of services and sales	24,490	22,413	46,903	
Selling, general and administrative expense	21,650	8,883	30,533	
Depreciation and amortization expense	7,960	8,424	16,384	
Total operating expenses	54,100	39,720	93,820	
Operating income	\$ 21,768	\$ 60	\$ 21,828	
Assets	\$ 142,485	\$ 84,815	\$ 227,300	
Plant, property and equipment, net	34,545	52,911	87,456	
Capital expenditures	8,857	6,342	15,199	

2011	Verizon Wireless	Wireline	(dollars in millions)
			Total Segments
<b>External Operating Revenues</b>			
Retail service	\$ 56,601	\$ –	\$ 56,601
Other service	2,497	–	2,497
Service revenue	59,098	–	59,098
Equipment	7,446	–	7,446
Other	3,517	–	3,517
Consumer retail	–	13,605	13,605
Small business	–	2,720	2,720
Mass Markets	–	16,325	16,325
Strategic services	–	7,607	7,607
Core	–	8,014	8,014
Global Enterprise	–	15,621	15,621
Global Wholesale	–	6,795	6,795
Other	–	704	704
Intersegment revenues	93	1,237	1,330
Total operating revenues	70,154	40,682	110,836
Cost of services and sales	24,086	22,158	46,244
Selling, general and administrative expense	19,579	9,107	28,686
Depreciation and amortization expense	7,962	8,458	16,420
Total operating expenses	51,627	39,723	91,350
Operating income	\$ 18,527	\$ 959	\$ 19,486
Assets	\$ 147,378	\$ 86,185	\$ 233,563
Plant, property and equipment, net	33,451	54,149	87,600
Capital expenditures	8,973	6,399	15,372

2010		Verizon Wireless	Wireline	(dollars in millions) Total Segments
<b>External Operating Revenues</b>				
Retail service	\$ 53,267	\$ —	\$ 53,267	
Other service	2,321	—	2,321	
Service revenue	55,588	—	55,588	
Equipment	4,412	—	4,412	
Other	3,341	—	3,341	
Consumer retail	—	13,419	13,419	
Small business	—	2,828	2,828	
Mass Markets	—	16,247	16,247	
Strategic services	—	6,602	6,602	
Core	—	8,712	8,712	
Global Enterprise	—	15,314	15,314	
Global Wholesale	—	7,526	7,526	
Other	—	858	858	
Intersegment revenues	66	1,282	1,348	
Total operating revenues	63,407	41,227	104,634	
Cost of services and sales	19,245	22,618	41,863	
Selling, general and administrative expense	18,082	9,372	27,454	
Depreciation and amortization expense	7,356	8,469	15,825	
Total operating expenses	44,683	40,459	85,142	
Operating income	\$ 18,724	\$ 768	\$ 19,492	
Assets	\$ 138,863	\$ 83,849	\$ 222,712	
Plant, property and equipment, net	32,253	54,594	86,847	
Capital expenditures	8,438	7,269	15,707	

### Reconciliation to Consolidated Financial Information

A reconciliation of the segment operating revenues to consolidated operating revenues is as follows:

Years Ended December 31,		2012	2011	(dollars in millions) 2010
<b>Operating Revenues</b>				
Total reportable segments	\$ 115,648	\$ 110,836	\$ 104,634	
Reconciling items:				
Deferred revenue adjustment (see Note 1)	—	—	(235)	
Impact of divested operations	—	—	2,407	
Corporate, eliminations and other	198	39	(241)	
Consolidated operating revenues	\$ 115,846	\$ 110,875	\$ 106,565	

A reconciliation of the total of the reportable segments' operating income to consolidated Income before provision for income taxes is as follows:

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
<b>Operating Income</b>			
Total segment operating income	<b>\$21,828</b>	\$19,486	\$19,492
Merger integration and acquisition related charges (see Note 2)	-	-	(867)
Access line spin-off related charges (see Note 2)	-	-	(407)
Litigation settlements (see Note 16)	<b>(384)</b>	-	-
Severance, pension and benefit charges (see Note 11)	<b>(7,186)</b>	(5,954)	(3,054)
Deferred revenue adjustment (see Note 1)	-	-	(235)
Impact of divested operations (see Note 2)	-	-	755
Other costs (see Note 8)	<b>(276)</b>	-	-
Corporate, eliminations and other	<b>(822)</b>	(652)	(1,039)
Consolidated operating income	<b>13,160</b>	12,880	14,645
Equity in earnings of unconsolidated businesses	<b>324</b>	444	508
Other income and (expense), net	<b>(1,016)</b>	(14)	54
Interest expense	<b>(2,571)</b>	(2,827)	(2,523)
Income Before Provision for Income Taxes	<b>\$ 9,897</b>	\$10,483	\$12,684

A reconciliation of the total of the reportable segments' assets to consolidated assets is as follows:

At December 31,	(dollars in millions)	
	2012	2011
<b>Assets</b>		
Total reportable segments	<b>\$227,300</b>	\$233,563
Corporate, eliminations and other	<b>(2,078)</b>	(3,102)
Total consolidated	<b>\$225,222</b>	\$230,461

We generally account for intersegment sales of products and services and asset transfers at current market prices. No single customer accounted for more than 10% of our total operating revenues during the years ended December 31, 2012, 2011 and 2010. International operating revenues and long-lived assets are not significant.

#### Note 14

##### Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting equity that, under GAAP, are excluded from net income. Significant changes in the components of Other comprehensive income, net of provision for income taxes are described below.

##### Foreign Currency Translation Adjustments

The change in Foreign currency translation adjustments during 2012, 2011 and 2010 was primarily related to our investment in Vodafone Omnitel N.V. and was primarily driven by the movements of the U.S. dollar against the Euro.

#### *Net Unrealized Gains (Losses) on Cash Flow Hedges*

During 2012, 2011 and 2010, Unrealized gains (losses) on cash flow hedges included in Other comprehensive income attributable to noncontrolling interest, primarily reflect activity related to a cross currency swap (see Note 9). Reclassification adjustments for gains (losses) realized in net income were not significant.

#### *Net Unrealized Gains (Losses) on Marketable Securities*

During 2012, 2011 and 2010, reclassification adjustments on marketable securities for gains (losses) realized in net income were not significant.

#### *Defined Benefit Pension and Postretirement Plans*

The change in Defined benefit pension and postretirement plans of \$0.9 billion, net of taxes of \$0.6 billion at December 31, 2012 was primarily a result of plan amendments.

The change in Defined benefit pension and postretirement plans of \$0.3 billion, net of taxes of \$0.2 billion at December 31, 2011 was primarily a result of plan amendments.

#### **Accumulated Other Comprehensive Income**

The components of Accumulated other comprehensive income were as follows:

At December 31,	(dollars in millions)	
	2012	2011
Foreign currency translation adjustments	\$ 793	\$ 724
Net unrealized gain on cash flow hedges	88	156
Unrealized gain on marketable securities	101	72
Defined benefit pension and postretirement plans	1,253	317
Accumulated Other Comprehensive Income	<u>\$ 2,235</u>	<u>\$ 1,269</u>

#### **Note 15**

##### **Additional Financial Information**

The tables that follow provide additional financial information related to our consolidated financial statements:

#### **Income Statement Information**

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
Depreciation expense	\$14,920	\$14,991	\$14,593
Interest costs on debt balances	2,977	3,269	3,487
Capitalized interest costs	(406)	(442)	(964)
Advertising expense	2,381	2,523	2,451

## Balance Sheet Information

At December 31,	(dollars in millions)	
	2012	2011
<i>Accounts Payable and Accrued Liabilities</i>		
Accounts payable	\$ 4,740	\$ 4,194
Accrued expenses	4,608	3,786
Accrued vacation, salaries and wages	5,006	4,857
Interest payable	632	774
Taxes payable	1,196	1,078
	<b>\$ 16,182</b>	<b>\$ 14,689</b>
<i>Other Current Liabilities</i>		
Advance billings and customer deposits	\$ 3,554	\$ 3,411
Dividends payable	1,494	1,440
Special distribution to noncontrolling interest	–	4,500
Other	1,357	1,872
	<b>\$ 6,405</b>	<b>\$ 11,223</b>

## Cash Flow Information

Years Ended December 31,	(dollars in millions)		
	2012	2011	2010
<i>Cash Paid</i>			
Interest, net of amounts capitalized	\$1,971	\$2,629	\$2,433

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans, including 24.6 million common shares issued from Treasury stock during 2012, related to dividend payments, which had an aggregate value of \$1.0 billion.

## Note 16

### Commitments and Contingencies

In the ordinary course of business Verizon is involved in various commercial litigation and regulatory proceedings at the state and federal level. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In none of the currently pending matters is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) uncertain damage theories and demands; (2) a less than complete factual record; (3) uncertainty concerning legal theories and their resolution by courts or regulators; and (4) the unpredictable nature of the opposing party and its demands. We continuously monitor these proceedings as they develop and adjust any accrual or disclosure as needed. We do not expect that the ultimate resolution of any pending regulatory or legal matter in future periods, including the Hicksville matter described below, will have a material effect on our financial condition, but it could have a material effect on our results of operations for a given reporting period.

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. In September 2005, the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to a reserve previously established for the remediation may be made. Adjustments to the reserve may also be made based upon actual conditions discovered during the remediation at this or any other site requiring remediation.

Verizon is currently involved in approximately 50 federal district court actions alleging that Verizon is infringing various patents. Most of these cases are brought by non-practicing entities and effectively seek only monetary damages; a small number are brought by companies that sell products and seek injunctive relief as well. These cases have progressed to various degrees and a small number may go to trial in the coming 12 months if they are not otherwise resolved. In the third quarter of 2012, we settled a number of patent litigation matters, including cases with ActiveVideo Networks Inc. (ActiveVideo) and TiVo Inc. (TiVo). In connection with the settlements with ActiveVideo and TiVo, we recorded a charge of \$0.4 billion in the third quarter of 2012 and will pay and recognize over the next six years an additional \$0.2 billion.

In connection with the execution of agreements for the sales of businesses and investments, Verizon ordinarily provides representations and warranties to the purchasers pertaining to a variety of nonfinancial matters, such as ownership of the securities being sold, as well as indemnity from certain financial losses. From time to time, counterparties may make claims under these provisions, and Verizon will seek to defend against those claims and resolve them in the ordinary course of business.

Subsequent to the sale of Verizon Information Services Canada in 2004, we continue to provide a guarantee to publish directories, which was issued when the directory business was purchased in 2001 and had a 30-year term (before extensions). The preexisting guarantee continues, without modification, despite the subsequent sale of Verizon Information Services Canada and the spin-off of our domestic print and Internet yellow pages directories business. The possible financial impact of the guarantee, which is not expected to be adverse, cannot be reasonably estimated as a variety of the potential outcomes available under the guarantee result in costs and revenues or benefits that may offset each other. We do not believe performance under the guarantee is likely.

As of December 31, 2012, letters of credit totaling approximately \$0.1 billion, which were executed in the normal course of business and support several financing arrangements and payment obligations to third parties, were outstanding.

We have several commitments primarily to purchase handsets and peripherals, equipment, software, programming and network services, and marketing activities, which will be used or sold in the ordinary course of business, from a variety of suppliers totaling \$41.8 billion. Of this total amount, \$29.6 billion is attributable to 2013, \$7.5 billion is attributable to 2014 through 2015, \$4.2 billion is attributable to 2016 through 2017 and \$0.5 billion is attributable to years thereafter. These amounts do not represent our entire anticipated purchases in the future, but represent only those items that are the subject of contractual obligations. Our commitments are generally determined based on the noncancelable quantities or termination amounts. Purchases against our commitments for 2012 totaled approximately \$16 billion. Since the commitments to purchase programming services from television networks and broadcast stations have no minimum volume requirement, we estimated our obligation based on number of subscribers at December 31, 2012, and applicable rates stipulated in the contracts in effect at that time. We also purchase products and services as needed with no firm commitment.

## Note 17

### Quarterly Financial Information (Unaudited)

(dollars in millions, except per share amounts)

Quarter Ended	Operating Revenues	Operating Income (Loss)	Net Income (Loss) attributable to Verizon <sup>(1)</sup>			Net Income (Loss)
			Amount	Per Share-Basic	Per Share-Diluted	
<b>2012</b>						
March 31	\$ 28,242	\$ 5,195	\$ 1,686	\$ .59	\$ .59	\$3,906
June 30	28,552	5,651	1,825	.64	.64	4,285
September 30	29,007	5,483	1,593	.56	.56	4,292
December 31	30,045	(3,169)	(4,229)	(1.48)	(1.48)	(1,926)
<b>2011</b>						
March 31	\$ 26,990	\$ 4,453	\$ 1,439	\$ .51	\$ .51	\$3,264
June 30	27,536	4,892	1,609	.57	.57	3,604
September 30	27,913	4,647	1,379	.49	.49	3,542
December 31	28,436	(1,112)	(2,023)	(.71)	(.71)	(212)

- Results of operations for the third quarter of 2012 include after-tax charges attributable to Verizon of \$0.2 billion related to legal settlements.
- Results of operations for the fourth quarter of 2012 include after-tax charges attributable to Verizon of \$5.3 billion related to severance, pension and benefit charges and early debt redemption and other costs.
- Results of operations for the third quarter of 2011 include after-tax charges attributable to Verizon of \$0.2 billion related to severance, pension and benefit charges.
- Results of operations for the fourth quarter of 2011 include after-tax charges attributable to Verizon of \$3.5 billion related to severance, pension and benefit charges and costs related to the early redemption of debt.

<sup>(1)</sup> Net income (loss) attributable to Verizon per common share is computed independently for each quarter and the sum of the quarters may not equal the annual amount.

**Verizon Communications Inc. and Subsidiaries**  
Principal Subsidiaries of Registrant at December 31, 2012

<b>Name</b>	<b>Jurisdiction of Organization</b>
Verizon California Inc.	California
Verizon Delaware LLC.	Delaware
Verizon Florida LLC.	Florida
Verizon Maryland LLC.	Delaware
Verizon New England Inc.	New York
Verizon New Jersey Inc.	New Jersey
Verizon New York Inc.	New York
Verizon Pennsylvania LLC.	Delaware
GTE Southwest Incorporated (d/b/a Verizon Southwest)	Delaware
Verizon Virginia Inc.	Virginia
Bell Atlantic Mobile Systems LLC.	Delaware
Celco Partnership (d/b/a Verizon Wireless)	Delaware
GTE Corporation	New York
GTE Wireless Incorporated	Delaware
MCI Communications Corporation	Delaware
Verizon Business Global LLC.	Delaware
Cranberry Properties LLC.	Delaware

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Verizon Communications Inc. (Verizon) of our reports dated February 26, 2013, with respect to the consolidated financial statements of Verizon and the effectiveness of internal control over financial reporting of Verizon, included in the 2012 Annual Report to Shareowners of Verizon.

Our audits also included the financial statement schedule of Verizon listed in Item 15(a). This schedule is the responsibility of Verizon's management. Our responsibility is to express an opinion based on our audits. In our opinion, as to which the date is February 26, 2013, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the following registration statements of Verizon and where applicable, related Prospectuses, of our reports dated February 26, 2013, with respect to the consolidated financial statements of Verizon and the effectiveness of internal control over financial reporting of Verizon, incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule of Verizon included in this Annual Report (Form 10-K) for the year ended December 31, 2012: Form S-4, No. 333-11573; Form S-8, No. 333-41593; Form S-8, No. 333-50146; Form S-4, No. 333-76171; Form S-8, No. 333-76171; Form S-8, No. 333-53830; Form S-8, No. 333-82690; Form S-4, No. 333-124008; Form S-8, No. 333-124008; Form S-4, No. 333-132651; Form S-8, No. 333-169267; Form S-8, No. 333-172501; Form S-8, No. 333-172999; Form S-3, No. 333-179402 and Form S-3, No. 333-182749.

/s/ **Ernst & Young LLP**

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Ernst & Young LLP  
New York, New York

February 26, 2013

I, Lowell C. McAdam, certify that:

1. I have reviewed this annual report on Form 10-K of Verizon Communications Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2013

/s/ Lowell C. McAdam

Lowell C. McAdam  
Chairman and Chief Executive Officer

**EXHIBIT 31.2**

I, Francis J. Shammo, certify that:

1. I have reviewed this annual report on Form 10-K of Verizon Communications Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2013

/s/ Francis J. Shammo  
Francis J. Shammo  
Executive Vice President  
and Chief Financial Officer

**EXHIBIT 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE**

I, Lowell C. McAdam, Chairman and Chief Executive Officer of Verizon Communications Inc. (the Company), certify that:

- (1) the report of the Company on Form 10-K for the annual period ending December 31, 2012 (the Report) fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (the Exchange Act); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods referred to in the Report.

Date: February 26, 2013

/s/ Lowell C. McAdam  
Lowell C. McAdam  
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Verizon Communications Inc. and will be retained by Verizon Communications Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE**

I, Francis J. Shammo, Executive Vice President and Chief Financial Officer of Verizon Communications Inc. (the Company), certify that:

- (1) the report of the Company on Form 10-K for the annual period ending December 31, 2012 (the Report) fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (the Exchange Act); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods referred to in the Report.

Date: February 26, 2013

/s/ Francis J. Shammo  
Francis J. Shammo  
Executive Vice President  
and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Verizon Communications Inc. and will be retained by Verizon Communications Inc. and furnished to the Securities and Exchange Commission or its staff upon request.