# 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, 2014

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**<br>(State or other jurisdiction of incorporation or organization) | **23-2259884**<br>(I.R.S. Employer Identification No.) |
| **1095 Avenue of the Americas<br>New York, New York**<br>(Address of principal executive offices) | **10036**<br>(Zip Code) |

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, $.10 par value | New York Stock Exchange<br>The NASDAQ Global Select Market<br>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 of this chapter) 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 30, 2014, the aggregate market value of the registrant's voting stock held by non-affiliates was approximately $202,799,662,275.

At January 30, 2015, 4,155,408,208 shares of the registrant's common stock were outstanding, after deducting 86,966,032 shares held in treasury.

**Documents Incorporated By Reference:**

Portions of the registrant's Annual Report to Shareowners for the year ended December 31, 2014 (Parts I and II).

## TABLE OF CONTENTS

## 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 around the world, we offer voice, data and video services and solutions on our wireless and wireline networks that are designed to meet customers' demand for mobility, reliable network connectivity, security and control. 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 177,300 employees.

Our principal executive offices are located at 1095 Avenue of the Americas, New York, New York 10036 (telephone number 212-395-1000).

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

| | |
|---|---|
| **Wireless** | 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. |
| **Wireline** | Wireline's voice, data and video communications products and enhanced services include broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice 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 around the world. |

The following portions of the 2014 Verizon Annual Report to Shareowners are incorporated into this report:

- "Overview" on pages 10 through 12; and,
- "Segment Results of Operations" on pages 17 through 23 and in Note 14 to the consolidated financial statements on pages 68 through 71.

#### Wireless

**Background**

Our Wireless segment is primarily comprised of Cellco Partnership doing business as Verizon Wireless. Cellco Partnership was formed as a joint venture in April 2000 by the combination of the United States (U.S.) wireless operations and interests of Verizon and Vodafone Group Plc (Vodafone). On September 2, 2013, Verizon entered into a stock purchase agreement with Vodafone and Vodafone 4 Limited, pursuant to which Verizon agreed to acquire all of Vodafone's indirect 45% interest in Verizon Wireless for aggregate consideration of approximately $130 billion (the Wireless Transaction). We completed the Wireless Transaction on February 21, 2014 and, as a result, we acquired 100% ownership of Verizon Wireless. The consideration paid was primarily comprised of cash and Verizon common stock.

Verizon Wireless is the largest wireless service provider in the United States as measured by retail connections and revenue. At December 31, 2014, Verizon Wireless had 108.2 million retail connections and 2014 revenues of approximately $87.6 billion, representing approximately 69% of Verizon's aggregate revenues. We provide wireless communication services across one of the most extensive wireless networks in the U.S. and have the largest fourth-generation (4G) Long-Term Evolution (LTE) technology and third-generation (3G) Evolution—Data Optimized (EV-DO) networks of any U.S. wireless service provider.

Our 4G LTE network is available to over 98% of the U.S. population in more than 500 markets covering approximately 309 million people, including those in areas served by our LTE in Rural America partners. 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 and Advanced Wireless Services (AWS) spectrum.

We have substantially completed the deployment of our 4G LTE network and are focusing our capital spending on adding capacity and density to this network.

**Wireless Service and Product Offerings**

Our wireless services 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 primarily represent retail customers under contract with Verizon Wireless that are directly served and managed by Verizon Wireless and use its branded services. A single account may include monthly wireless services for a variety of connected devices. A postpaid connection represents an individual line of service for a wireless device for which a customer is billed in advance a monthly access charge (access service revenues) in return for a monthly network service allowance, 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, 2014. Our prepaid service enables individuals to obtain wireless services without a long-term contract or credit verification by paying for all services in advance.

We offer various postpaid account plans, including our More Everything® plans, single connection plans and plans tailored to the needs of our business customers. Our More Everything plans feature domestic unlimited voice minutes, unlimited domestic and international text, video and picture messaging, cloud storage and a single data allowance that can be shared among up to 10 devices connected to the Verizon Wireless network. Customers that choose our Verizon Edge device payment plan option, which allows customers to upgrade their handset after a minimum of thirty days, subject to certain conditions, also receive discounted monthly access fees on More Everything plans. 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 More Everything plans also include our Mobile Hotspot service at no additional charge. This service enables a customer to activate a personal Wi-Fi hotspot via their smartphone that can provide Internet access to multiple Wi-Fi enabled devices. We also offer various voice and shared data plans for small and large businesses. As of December 31, 2014, More Everything accounts represented approximately 61% of our retail postpaid accounts.

We offer our customers a wide variety of wireless services accessible on a broad range of our devices. Our messaging services enable our customers to send and receive text, picture and video messages. In addition, access to the Internet is available on all of our smartphones and nearly all of our basic phones. 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 USB modems, Jetpacks™ and other dedicated devices that provide a mobile Wi-Fi connection.

Our customers can access multimedia offerings, mostly provided by third parties, consisting of applications providing music, video, gaming, news and other content. Our business-focused offerings, which are designed to increase productivity, include solutions that enable customers to access the Internet, their corporate intranets and 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 data services 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 modems or Jetpacks. In addition, depending upon their wireless device's operating system, our customers have access to more than one million applications and services offered by Google Inc. (Google) via Google Play, Apple Inc. (Apple) via iTunes, Microsoft Inc. (Microsoft) via its Windows Phone OS operating system and BlackBerry Limited (BlackBerry) via its BlackBerry App World webstore.

Our customers can make and receive calls on their home phone handsets using our wireless network through our Home Phone Connect service or Verizon 4G LTE Broadband Router with Voice service. We also offer LTE Internet (Installed), a high-speed Internet service that provides customers with Internet connections in their homes using our 4G LTE network.

In addition, we provide network access and, in some cases, 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 health monitoring, education, manufacturing, utilities, distribution and consumer products. For example, companies purchase network access and, in some cases, 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 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, such as home monitoring, health monitoring, energy management and utilities management will increase as consumers integrate these devices into their mobile lifestyle.

### *Wireless Devices*

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

*Smartphones and Basic Phones*. Nearly all of the smartphones we offer are enabled to utilize our 4G LTE and/or 3G EV-DO high-speed data services and run on various operating platforms, such as Apple iOS, Google Android, BlackBerry OS, and Windows

Phone OS. Most of the basic phones we offer are 3G EV-DO-enabled and have HTML-browsing capability.

*Tablets and Other Internet Devices.* We offer tablets from multiple manufacturers, all of which can access the Internet via our 4G LTE network or a Wi-Fi connection. The tablets run primarily on the Apple iOS, Google Android or Microsoft Windows operating systems. In addition, we offer dedicated devices, which we refer to as Jetpacks, that provide a mobile Wi-Fi 4G LTE and/or 3G EV-DO connection and are 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. During 2014, we continued to experience strong customer demand for tablets and the percentage of our retail postpaid connection base represented by connections to these devices continued to increase.

We purchase a substantial majority of our wireless devices and accessories from Apple, Motorola Mobility, Samsung, LG Electronics, BlackBerry and HTC.

A key component of all wireless devices is the chipset, which contains the "intelligence" of the device. The LTE chipsets used in our 4G LTE-enabled devices are manufactured by various companies, each using its own 4G LTE chipset. To support CDMA-1XRTT and EVDO technologies (with and without 4G LTE), most of our wireless device suppliers currently rely on Qualcomm Incorporated for the manufacture and supply of chipsets. In addition, there are a number of other components common to wireless devices provided by various electronic component manufacturers that we do not deal with directly.

**Network**

We have the largest 4G LTE and 3G EV-DO networks of any service provider in the United States, with licensed and operational coverage in all of the 100 most populous U.S. metropolitan areas. As of January 22, 2015, our 4G LTE network covered approximately 309 million people in the U.S., including those in areas served by our LTE in Rural America partners. We currently have 21 committed program participants that have the potential to provide 4G LTE coverage to approximately three million people and, to date, eighteen participants have commenced 4G LTE operations on such networks.

The foundation of our continued success is network reliability, which is the hallmark of the Verizon brand. We believe that steady and consistent network and platform investments provide the foundation for innovative products and services which will fuel profitable growth. The depth and breadth of our network provides our fundamental strength and is the basis for our competitive advantage.

In 2014, we announced the deployment of AWS spectrum in our 4G LTE network. This additional bandwidth, which we refer to and brand as XLTE, provides additional network capacity and is currently available in more than 400 markets. Nearly all 4G LTE devices that we currently sell can operate on XLTE.

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, including video, and completions of large file downloads and uploads while delivering on our advertised throughput speeds and the number of calls that are connected on the first attempt and completed without being dropped. We plan to continue to upgrade our network, primarily to increase its capacity and density, by utilizing small cell technology, in-building solutions and distributed antennae systems in addition to deploying existing AWS spectrum. We are also exploring 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. We also offer a variety of international wireless voice and data services to our customers through roaming arrangements with wireless service providers outside of the United States. Certain of our roaming agreements can be terminated 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 Code Division Multiple Access (CDMA). 4G LTE provides higher data throughput performance for data services at a lower cost compared to those offered by 3G technologies.

In 2014, we commercially launched our mobile Voice over Internet protocol (VoIP) service known as Voice over LTE (VoLTE). Advanced Calling 1.0 is a first generation suite of services enabled by VoLTE, which is a technology now being used, in addition to CDMA technology, to provide voice calling services to our customers.

Our network includes various elements of redundancy designed to enhance the reliability of our service. To mitigate the impact of power disruptions on our operations, 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.

**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 Personal Communication Services (PCS) spectrum, portions of the 700 MHz upper C band and AWS spectrum in the 1700 and 2100 MHz bands, in areas that, collectively, cover nearly all of the population of the United States.

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 our future spectrum needs by acquiring licenses or leasing spectrum from other licensees, or by acquiring new spectrum licenses from the Federal Communications Commission (FCC), if and when future FCC spectrum auctions occur. On January 29, 2015, the FCC completed an auction of 65 MHz of spectrum, which it identified as the AWS-3 band. Verizon participated in that auction, and was the high bidder on 181 spectrum licenses, for which we will pay approximately $10.4 billion. During the fourth quarter of 2014, we made a deposit of $0.9 billion related to our participation in this auction. On February 13, 2015, we made a down payment of $1.2 billion for these spectrum licenses. Verizon has submitted an application for these licenses and must complete payment for them in the first quarter of 2015. In addition, Congress has adopted legislation that provides for the establishment and funding 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 television broadcast spectrum in the 600 MHz band. The incentive auction related to such spectrum is expected to take place in 2016, although the specific timing of this and other auctions will be determined by future regulatory proceedings.

Since we and competing wireless service providers have experienced spectrum shortages in certain markets and may have spectrum surpluses in others, from time to time we 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, we have 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.

See Note 2 to the consolidated financial statements for additional information regarding spectrum license transactions.

**Network Equipment and Build-out**

Alcatel-Lucent and Ericsson are currently our primary network vendors for our LTE network deployments for macro sites as well as small cells. Our primary CDMA cell site equipment infrastructure vendors are Alcatel-Lucent, which provides more than half of our CDMA cell site equipment, and Nokia Solutions and Networks (NSN) and Ericsson, which together provide nearly all of our remaining cell site equipment. We also rely on Alcatel-Lucent, NSN and Ericsson for our switching equipment.

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 sites and obtaining zoning and other governmental approvals for macro sites, small cells, in-building systems and antennas and related radio equipment that comprise distributed antenna systems. We utilize tower site management firms, such as Crown Castle International Corp. and American Tower Corporation (American Tower), as lessors or managers of a portion of our existing tower sites.

On February 5, 2015, we announced an agreement with American Tower pursuant to which American Tower will have the exclusive rights to lease and operate over 11,300 of our wireless towers for an upfront payment of $5.0 billion. Under the terms of the leases, American Tower will have exclusive rights to lease and operate the towers over an average term of approximately 28 years. As part of this transaction, we will also sell 165 towers for $0.1 billion. We will sublease capacity on the towers from American Tower for a minimum of 10 years at current market rates, with options to renew. As the leases expire, American Tower will have fixed-price purchase options to acquire these towers based on their anticipated fair market values at the end of the lease terms. This transaction, which is subject to customary closing conditions, is expected to close during the first half of 2015.

**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; 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 sales 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 devices, accessories and service plans.

In 2013, we opened our first Verizon Destination Store at the Mall of America in Bloomington, Minnesota, and in 2014 we opened two additional Destination Stores in Chicago and Houston. These stores focus on the mobile lifestyle and highlight the many ways consumers can use wireless technology in their daily lives. These stores are part of a broader initiative that includes the redesign of our retail stores nationwide into “Smart Stores,” which showcase the same mobile lifestyle zones as the Verizon Destination Stores but on a smaller scale. In addition, our online store has also been redesigned to deliver a consistent shopping experience for customers, whether accessing the store via their desktop or mobile device.

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 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 also have 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 Corporation and T-Mobile USA, as well as various regional wireless service providers. 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. Competition has intensified and we expect it to remain intense as a result of continuing increases in wireless market penetration levels, network investment by our competitors, 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 as smaller, stand-alone wireless service providers merge or transfer licenses to larger, better capitalized 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, in addition to non-traditional offerings in mobile data. 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 or the provision of alternative means of consuming video content in a nonlinear format.

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, which in many cases include video content, 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 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 at competitive prices. Some wireless service providers also allow customers to rollover unused data allowances to the next billing period and are also offering installment plans that decouple service pricing from equipment pricing and blur the traditional boundary between prepaid and postpaid plans. In 2015, we expect that customers will continue to adopt these installment plans, which also offer discounts on the cost of wireless service. Furthermore, some wireless providers are offering new customers price plans that undercut pricing under the customer's service plan with its current wireless provider and provide a credit to reimburse early termination fees paid to their former wireless service provider, subject to certain limitations, in addition to promotions targeted specifically to customers of Verizon Wireless. 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 new customers, including those 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 and focusing on their needs 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 in this area. As part of our efforts to promote long-term relationships with our customers, in 2014 we introduced Verizon Smart Rewards, which is a program that offers a wide variety of rewards to customers in exchange for points they earn in connection with their account-related interactions with Verizon Wireless. The program offers customers discounts and savings on merchandise from well-known brands, as well as discounts and other offers at local shopping and dining venues.
- *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 and content 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 the penetration of smartphones, tablets and other connected devices throughout our customer base.

- *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 manufacturers of laptops and netbooks with embedded 4G LTE and 3G models that can access the Internet on our network in broadband speeds. 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

Our Wireline segment provides voice, data and video communications products and enhanced services, including broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice 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 around the world. In 2014, Wireline revenues were $38.4 billion, representing approximately 30% of Verizon's aggregate revenues.

### Wireline Service and Product Offerings

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

In 2014, our Wireline segment sold a non-strategic business, which provides communications solutions to a variety of government agencies. Accordingly, the historical Wireline results for these operations, which were not material to our consolidated financial statements or segment results of operations, have been reclassified to Corporate, eliminations and other to reflect comparable segment operating results.

On February 5, 2015, we announced that we have entered into a definitive agreement with Frontier Communications Corporation (Frontier) pursuant to which Verizon will sell its local exchange business and related landline activities in California, Florida, and Texas, including FiOS Internet and Video customers, switched and special access lines and high-speed Internet service and long distance voice accounts in these three states for approximately $10.5 billion. The transaction, which includes the acquisition by Frontier of the equity interests of Verizon's incumbent local exchange carriers (ILECs) in California, Florida and Texas, does not involve any assets or liabilities of Verizon Wireless. The assets and liabilities that will be sold are currently included in Verizon's continuing operations. As part of the transaction, Frontier will assume $0.6 billion of indebtedness from Verizon. The transaction is subject to the satisfaction of certain closing conditions including, among others, receipt of state and federal telecommunications regulatory approvals, and we expect this transaction to close during the first half of 2016.

The transaction will result in Frontier acquiring approximately 1.5 million FiOS Internet subscribers, 1.2 million FiOS Video subscribers and the related ILEC businesses from Verizon. This business generated revenues of approximately $5.4 billion, excluding revenue with affiliates, for Verizon in 2013, which is the most recent year for which audited stand-alone financial statements are currently available.

In 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 customers. These offerings include our suite of real-time vehicle communications services and applications which connect automobiles with content, applications and services. We provide services to new vehicles in the United States, China and Europe.

#### *Mass Markets*

Mass Markets operations provide broadband services (including high-speed Internet, FiOS Internet and FiOS Video services), local exchange (basic service and end-user access) and long distance (including regional toll) voice services to residential and small business subscribers. In 2014, Mass Markets revenues were $18.0 billion, representing approximately 47% of Wireline's aggregate revenues.

*Data services.* We offer FiOS broadband and high-speed Internet data products with varying throughput speeds, including FiOS Quantum, which includes speeds of 50 megabytes per second (Mbps) or more. We believe that as consumers connect more devices and stream more video, they will require increased broadband speeds. With our FiOS Quantum broadband service and certain other data services, our customers can achieve symmetrical upload and download speeds, which we refer to as SpeedMatch[sm], of up to 500 Mbps. As of December 31, 2014, approximately 59% of our FiOS Internet subscribers subscribed to FiOS Quantum. As more data storage and, in some cases, processing is moved to the cloud, we believe that customers will place an increasing value on upstream performance that matches what they already receive for downloads.

In 2014, we introduced the FiOS Quantum Gateway Wi-Fi router. This router uses dual-band technology, which allows users to perform both high and low bandwidth activities, and enables a more seamless Internet experience even when using multiple devices.

*Video Services.* We offer video service over our fiber-optic network. As of December 31, 2014, FiOS Video was available to approximately 15 million homes across 12 states, as well as the District of Columbia.

- *FiOS Quantum TV* – In 2014, we introduced FiOS Quantum TV, which provides FiOS TV customers with new features including the ability to record up to 12 shows at once and control live TV from any room in their home. This new service is now available everywhere that FiOS TV is offered.
- *FiOS on Demand* – With FiOS on Demand, FiOS customers can watch content anytime, anywhere, on any compatible device. Customers who subscribe to FiOS Video and Internet service also have the ability to upload their photos, music and videos to their personal FiOS on Demand Library, which gives them access to this content via various data-capable devices. With the FiOS Mobile App, programming, such as TNT, Nickelodeon, HBO and TBS, can be streamed to a customer's tablet or other mobile device. In addition, FiOS TV Widgets provide viewers with on demand access to local weather, traffic and community information, social media applications, such as Facebook, YouTube and Twitter, gaming and entertainment content, as well as online shopping and other commerce opportunities. The widget platform has evolved in an open-development environment, which provides opportunities for third parties to develop enhanced customer features for our FiOS Video products.
- *Customer Premise Equipment interoperability* – We continue to partner with major corporations to offer further interoperability with various products such as video game consoles, smart televisions and tablets. This technology further expands our initiative to provide customers with the ability to watch content anytime, anywhere, on any data-capable device.

*Voice services.* We offer voice services that include local exchange, regional and long distance calling and voice messaging services, as well as VoIP services, which use the Internet or private broadband networks to transmit voice communications.

***Global Enterprise***

Global Enterprise offers Strategic 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 2014, Global Enterprise revenues were $13.7 billion, representing approximately 36% 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, cloud and machine-to-machine services.

Advanced communication services primarily include:

- *IP communications* – Our Internet Protocol (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 Infrastructure as a Service (IaaS) and managed hosting services that provide enterprise customers with data center, computing, data storage and network facilities, connectivity, security, architecture and support; data center colocation 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, store, process, use and share information.
- *Machine-to-Machine (M2M) Services* – Our M2M services permit customers to connect and monitor equipment, such as medical devices, fleet management devices and utility monitoring devices. We believe that these services have the ability to reshape the way businesses operate and the way consumers interact with devices around them. Verizon offers platform-based solutions tailored to specific industries, such as automotive, transportation, fleet management, energy, education, insurance and consumer products, to enable value creation and new commercial business models. Our goal is to be a leader in implementing the next generation of connected services for vehicles, centered on a core platform of safety, security, fleet management, convenience and other offerings targeting commercial fleet operators, individual consumers and other customers.
- *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; and
    - *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.

Networking products and solutions primarily include:

- *Private IP* – This service enables customers around the world to communicate over a private, secure network using a variety of access methods, including Ethernet and Verizon Wireless 4G LTE.

- *Ethernet access and optical services* – These services allow customers to connect network environments around the world and enable applications and technologies to work seamlessly and with little disruption. Optical services include technologies that help customers handle bandwidth demands and control their costs.

*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, and installation, maintenance and site services. We are continuing to transition customers out of copper-based legacy voice and data services to fiber services including IP and Ethernet.

### *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 2014, Global Wholesale revenues were $6.2 billion, representing approximately 16% of Wireline's aggregate revenues. A portion of Global Wholesale revenues is generated by a few large telecommunications 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, we receive special access revenue from data services that is 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 customers anticipate higher capacity demands in the future. These customers are also migrating networks from time division multiplexing 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 4G and 3G networks.

  Data services also include 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 that can be 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 colocation, resale and unbundled network elements in compliance with applicable regulations.

### *Other*

Other Wireline services we provide include local exchange and long distance services used by former MCI mass market customers, and operator services. In 2014, 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 distinguish FiOS as a premier residential broadband service in the United States. As of December 31, 2014, our FiOS service passed over 19.8 million premises. We expect bandwidth demands to grow with the continued emergence of new video and data applications and the proliferation of IP devices in the home.

  The Passive Optical Network technology upon which the FiOS network is deployed positions Verizon to meet growing bandwidth requirements. Our network architecture provides the flexibility to adapt our facilities more easily to future product development. For example, new optical terminals can be added to the fiber-to-the-premise network providing greater bandwidth and new services without any additional field construction. Select field trials have successfully achieved connection speeds of nearly one gigabit per second (Gbps), and when a more advanced next generation technology has been connected to the fiber-optic network, connection speeds of 10 Gbps have been reached, demonstrating the significant growth capacity built into the FiOS platform.

  Additionally, this advanced optical network is also finding increased application opportunities in the business sector, especially as the industry seeks to migrate to Ethernet-based access services.

- *Global IP*. Verizon owns and operates one of the largest global fiber networks with long haul, metro and submarine cable assets providing connectivity to customers around the world. Verizon's global network encompasses over 800,000 route miles of terrestrial and undersea cable, serving the business community by supporting and enabling far reaching international operations.

  Global IP traffic has increased substantially over the last five years and is expected to continue to grow significantly. This global business is also rapidly evolving to an "everything-as-a-service" model in which business customers seek cloud-based, converged enterprise solutions delivered securely via managed and professional services. With the continued deployment of its packet optical transport strategy, Verizon is creating a single, high-capacity global network platform that combines optical transport with advanced packet switching technology. The result is a global IP network that can offer powerful solutions to these service demands.

In 2014, a number of key infrastructure enhancements and technology upgrades were designed and deployed. With FiOS Quantum, we introduced SpeedMatch and pushed our top tier FiOS service offering to 500 Mbps. We believe that our continued focus on advancing our fiber-based networks and achieving cost efficient solutions through new technology deployments will help Verizon advance its position as a provider of choice to residential and enterprise customers.

## 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, the 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 strong market presence, brand recognition, and existing customer relationships, all of which contribute to intensifying competition that may affect our future revenue growth.

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

- *Bandwidth (speed) and network reliability:* Consumers and small business customers are seeking to leverage high-speed connections for entertainment, communications and productivity. 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 meet these increasing bandwidth requirements. We continue to invest in our network to be able to meet this growing demand. In addition, network reliability and security are increasingly important competitive factors in the global enterprise market.
- *Pricing:* Cable operators, 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.
- *Customer service:* Customers expect industry-leading service from their service providers. As technologies and services evolve,

the ability to excel in this area is 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 issues before they affect customers. In the wholesale business, we believe service improvement can be achieved through continued system automation initiatives.

- *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 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.

We expect customer migration from traditional voice services to wireless services to continue as a growing number of customers place greater value on mobility and 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 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 strategic acquisitions or forging new alliances to be better positioned for a rebound in technology spending. Many 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.

## Strategic Initiatives

Technology developments, interconnected markets, shifting consumer needs and converging industry ecosystems are creating innovative opportunities for Verizon. Our vision is to be a globally-connected solutions company. Our market solutions are designed to deliver compelling products and services, strengthen our competitive advantage in the marketplace and drive a high-quality experience for our customers. To take advantage of these market trends, we have undertaken several strategic initiatives to further develop innovative products and services and enhance our market agility in the following areas of focus:

- <u>Interactive Entertainment</u>. We believe the growth in video consumption using mobile devices provides us with an opportunity for revenue growth. We have made investments in converging technologies and services involving content delivery networks (CDNs), video streaming and related consumer hardware to leverage new content models. Our wireless network enables us to move towards a unified video strategy that positions us to take advantage of this growth opportunity. For example, we are using Multimedia Broadcast Multicast Service technology to develop our LTE Multicast service, which we expect to be available in 2015. This service has the potential to enhance our network efficiency and provide our customers with access to live streaming video content with virtually no buffering, regardless of the number of devices using the service. In order to continue to meet the changing needs of our customers, we also expect to launch an IP television service in 2015. We also believe it is important to have rights to deliver content over a wireless network that does not require an authentication back to a subscription agreement. For example, our NFL agreement allows our customers to access certain games live on our 4G LTE network without authenticating back to any subscription.

  Customers are increasingly consuming large amounts of broadband data as connected devices and associated online applications continue to experience significant growth and we expect broadband usage to continue to increase. Our FiOS network positions us in the industry with leading broadband speeds and reliability. Broadband represents a growth opportunity for us as the use of over-the-top video and user generated content and data accelerates and the number of connected homes and devices continues to grow.

- <u>Internet of Things</u>. The adoption of machine-to-machine technology continues to increase, primarily led by the telematics and transportation industries, as well as the fields of education and energy management. Our suite of real-time vehicle communications services and applications connects automobiles with content, services and call centers. Our platform enables factory and aftermarket-installed automotive safety and security features as well as location-based services and vehicle diagnostics. We provide usage-based data services to new vehicles in the United States, China and in Europe. Through our In-

Drive solution, we have partnered with a major automotive insurance provider to deliver usage-based insurance programs and other connected applications. Our NetworkFleet solution provides commercial fleet managers throughout North America with real-time access to data that yields operational efficiencies, increased vehicle reliability and improved driver safety. We also provide this service to over 28,500 vehicles operated by Verizon. We are further expanding our telematics portfolio to add asset tracking capabilities.

Additionally, we are a partner in a pilot project which will put a 120-mile fully automated highway system in place in Michigan with sensors and cameras communicating with cars to show the possibilities of what can be accomplished with real-time vehicle communications services. We expect this project will show improvements in areas such as energy consumption and safety.

During the second quarter of 2015, we expect Verizon Vehicle, a vehicle information and technology service, to be available to consumers. With this subscription-based service, drivers will have diagnostic technology in their vehicles, access to live assistance at the press of a button and will be able to request roadside assistance with GPS accuracy when needed. Verizon Vehicle also offers the ability to connect with a certified mechanic to diagnose potential problems and offer solutions.

- *Digital Media*. We have continued to invest in Verizon Digital Media Services, which offers a scalable platform for delivering content including live broadcast, video on-demand, games, software and websites to our customers on their devices at any time. As the digital platform reshapes the delivery of media and entertainment content, there is an increasing need for a stable, high-quality video delivery platform. We aim to disrupt the existing media delivery ecosystem with a simple, end-to-end, global platform that enables the best experience of any content. These services are targeted at media and entertainment companies as well as businesses focused on delivering their digital products and services through the Internet. We also expect, through this platform, to further integrate our FiOS and wireless offerings. The current video and content delivery ecosystem is highly fragmented, made up of large and small players, ranging from commodity CDNs to video providers focused on value-added services. Competition includes traditional operators such as AT&T and Level 3 Communications, Inc. and non-traditional operators such as Amazon.com, Inc. and Akamai Technologies, Inc.

- *Cloud Services*. Capitalizing on market growth in cloud services and on enterprise trends toward outsourcing IT infrastructure and services, Verizon utilizes an evolutionary cloud platform built for speed and performance, using our own software-based intellectual property and enterprise-grade reliability. Verizon Cloud Compute and Cloud Storage adopt a new approach to how public clouds are built, enabling customers of all sizes to take advantage of the agility and economic benefit of a generic public cloud along with the reliability and scale of an enterprise-level service. Virtual machines (software-based computers and servers) can be created and deployed in seconds, and users build and pay for what they need.

  Our cloud infrastructure enables real-time analytical capabilities for our M2M customers, providing an end-to-end capability where customers can store, process and analyze large amounts of data on a real-time basis. Our cloud infrastructure also has the ability to handle multiple instances of an application providing global support and availability of the applications without increased latency. The integration of our cloud infrastructure with our telematics assets provides our customers with new and innovative service capabilities that are scalable, and which we believe are operationally superior to other bifurcated approaches.

- *Fostering Effective Partnerships and Alliances*. As a market leader in offering differentiated solutions to our connected customers across all their devices at home, at work and on the go, Verizon will continue to focus on strategic partnerships as an important pillar of our future strategy. Strategic partnerships are aimed at complementing and augmenting our strengths, expanding our addressable market, accelerating our pace of innovation, enabling faster delivery of solutions such as media, Internet of Things and cloud to the marketplace, and where possible, lowering our market and execution risk. Strong partnerships are expected to further our efforts to offer comprehensive solutions for our customers. We look to formulate strategic partnerships and alliances with a global orientation which will benefit us in terms of technology sourcing, content acquisition, consumer insights, and application ecosystems.

We believe these investments will assist us in bringing innovative next generation products and services to market and uncovering new sources of revenue, increasing revenue of existing projects and leveraging our strengths across the company.

## 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 34 of the 2014 Verizon Annual Report to Shareowners is incorporated by reference into this report.

## Regulatory and Competitive Trends

### Regulatory and Competitive Landscape

Verizon operates in a regulated and highly competitive market. Current and potential competitors include other voice and data service providers such as other wireless companies, traditional telephone companies, cable companies, Internet service providers, software and application providers, and other non-traditional companies. Many of these companies have strong market presence, brand recognition, and existing customer relationships, all of which contribute to intensifying competition that may affect our future revenue growth. Some of our competitors also are subject to fewer regulatory constraints than Verizon. For many services offered by Verizon, the FCC is our primary regulator. The FCC has jurisdiction over interstate telecommunications services and other matters under the Communications Act of 1934, as amended (Communications Act or Act). Other Verizon services are subject to state and local regulation.

### FCC Regulation

*Broadband*

Verizon offers many different broadband and Internet access services. The FCC has adopted a series of orders that impose lesser regulatory requirements on broadband services than apply to older voice and slower data services. In addition, the FCC concluded that both wireline and wireless broadband Internet access services qualify as largely deregulated information services. Our broadband Internet access services are subject to various attempts to impose so-called "network neutrality" rules, including the potential application of common carriage regulation under Title II of the Communications Act. Verizon has been and remains committed to the open Internet which provides consumers with competitive choices and unblocked access to lawful websites and content when, where, and how they want. Our commitment applies to broadband Internet access services provided over both our wireline and wireless networks and can be found on our website at http://responsibility.verizon.com/broadband-commitment.

*Video*

Verizon offers a multi-channel video service that is regulated like traditional cable service. The FCC has a body of rules that apply to cable operators, and these rules also generally apply to Verizon. In addition, the Act generally requires companies to obtain a local cable franchise, and the FCC has adopted rules that interpret and implement this requirement. In areas where Verizon offers its facilities-based multichannel video services, Verizon has typically been required to obtain a franchise from local authorities.

*Wireline Voice*

Verizon offers many different wireline voice services, including traditional telephone service and other services that rely on newer technologies such as VoIP. For regulatory purposes, legacy telephone services are generally considered to be "common carrier" services. Common carrier services are subject to heightened regulatory oversight with respect to rates, terms and conditions, and other aspects of the services. The FCC has not decided the regulatory classification of VoIP but has said VoIP service providers must comply with certain rules, such as 911 capabilities and law enforcement assistance requirements.

*Wireless Services*

The FCC regulates several aspects of Verizon Wireless' operations. Generally, the FCC has jurisdiction over the construction, operation, acquisition, and transfer of wireless communications systems. And all wireless services require use of radio frequency spectrum, the assignment and distribution of which is subject to FCC oversight. 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 others, or by participating in a competitive bidding process for new spectrum from the FCC. Both processes are subject to certain reviews, approvals, and potential conditions.

Today, Verizon Wireless holds FCC spectrum licenses that allow it to provide a wide range of mobile and fixed communications services, including both voice and data services. FCC spectrum licenses typically have a term of 10 years, at which time they are subject to renewal. While the FCC has routinely renewed all of Verizon Wireless' licenses, challenges could be raised in the future. If a wireless license was revoked or not renewed, Verizon Wireless would not be permitted to provide services on the spectrum covered by that license. Some of our licenses require us to comply with so-called "open access" FCC regulations, which generally require licensees of particular spectrum to allow customers to use devices and applications of their choice, subject to certain technical limitations. The FCC has also imposed certain specific mandates on wireless carriers including construction and geographic coverage requirements, technical operating standards, provision of enhanced 911 services, roaming obligations, and requirements for wireless tower and antenna facilities.

*Intercarrier Compensation and Network Access*

The FCC regulates some of the rates that carriers pay each other for the exchange of voice traffic (particularly traditional wireline traffic) over different networks and other aspects of interconnection for some voice services. In many instances, Verizon makes payments to other providers, and in turn Verizon receives some payments from other carriers. In 2011, the FCC issued a broad reform order changing, among other things, the framework for many of the per-minute rates that carriers charge each other for the exchange of voice traffic. The new rules gradually reduce many of these rates to zero. This order is subject to pending reconsideration petitions and appeals. The FCC also regulates some of the rates and terms and conditions for certain wireline "special access" and other services and network facilities. Verizon is both a seller and a buyer of these services. For example, on the wireline side Verizon sells wholesale circuits to other voice and data service providers. On the wireless side, Verizon purchases special access and other services to transport traffic to and from cell towers. In addition, as required by the Act, Verizon unbundles certain wireline network elements and makes these facilities and services available to other network providers.

*Universal Service*

The Communications Act charges the FCC with ensuring that certain groups and areas have access to communications services, including rural and other high-cost areas, low income subscribers, schools and libraries, rural health-care organizations, and deaf and hard-of-hearing individuals. The FCC established different subsidy and discount programs to achieve these goals. To pay for these programs, the FCC requires contributions from providers such as Verizon based on reported revenues for certain services. Verizon also receives some payments from some of these programs but is a net payer into them.

**State Regulation and Local Regulation**

*Wireline Services*

State public utility commissions regulate Verizon's telephone operations with respect to certain telecommunications intrastate matters. Verizon operates as an "incumbent local exchange carrier" in 13 states and the District of Columbia. These incumbent operations are subject to various levels of pricing flexibility and other state oversight and requirements. Verizon also has other wireline operations that are more lightly regulated. In addition, as a video services operator in many states, Verizon has been required to obtain a cable franchise from local government entities, or in some cases a state-wide franchise, and to comply with certain one-time and ongoing obligations as a result.

*Wireless Services*

The Communications Act generally preempts regulation by state and local governments of the entry of, or the rates charged by, wireless carriers. The Act does not prohibit states from regulating the other "terms and conditions" of wireless service. For example, some states attempt to regulate wireless customer billing matters and impose reporting requirements. Several states also have laws or regulations that address safety issues (e.g., use of wireless handsets while driving) and taxation matters. In addition, wireless tower and antenna facilities are often subject to state and local zoning and land use regulation, and securing approvals for new or modified facilities is often a lengthy and expensive process.

## Environmental Matters

Reserves have been established to cover environmental matters relating to discontinued businesses and past telecommunications activities. These reserves include funds to address contamination at the site of a former Sylvania facility in Hicksville, NY, which had processed nuclear fuel rods in the 1950s and 1960s. In September 2005, the Army Corps of Engineers (ACE) accepted the site into its Formerly Utilized Sites Remedial Action Program. As a result, the ACE has taken primary responsibility for addressing the contamination at the site. An adjustment to the reserves may be made after a cost allocation is conducted with respect to the past and future expenses of all of the parties. Adjustments to the environmental reserve may also be made based upon the actual conditions found at other sites requiring remediation.

## 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, 2014, Verizon and its subsidiaries had approximately 177,300 employees. Unions represent approximately 27% of our employees.

## 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/about/investors.

**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 and in other filings with the Securities and Exchange Commission (SEC), 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;
- the effects of competition in the markets in which we operate;
- material changes in technology or technology substitution;
- disruption of our key suppliers’ provisioning of products or services;
- changes in the regulatory environment 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 acts of war or significant litigation and any resulting financial impact not covered by insurance;
- our high level of indebtedness;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets affecting the cost, including interest rates, and/or availability of further financing;
- 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 investment returns on plan assets;
- changes in tax laws or treaties, or in their interpretation;
- changes in 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; 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 Result of Operations" and the consolidated financial statements and related notes. 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 economic conditions, such as a recession or economic slowdown in the United States or elsewhere, 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 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 profits.***

We face significant competition in our industry. The rapid development of new technologies, services and products has eliminated many of the traditional distinctions among 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 products and services, they have also allowed other 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 products and services, 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 respond successfully to these competitive challenges, we could 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 on 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. In addition, there could be legal or regulatory restraints on our ability to phase out current services.

***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 and handsets, 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 or impose conditions on our ability to operate in designated areas and to provide specified products or services. We are frequently required to maintain licenses for our operations and conduct our operations in accordance with prescribed standards. We are often involved in regulatory and other 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. Without 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 in maintaining our existing licenses. For example, the FCC grants wireless licenses for terms generally lasting 10 years, subject to renewal. The loss of, or a material limitation on, certain of our licenses could have a material adverse effect on our business, results of operations and financial condition.

New laws or regulations or changes to the existing regulatory framework at the federal, state and local, or international level could restrict the ways in which we 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, certain services could be subject to conflicting regulation by the FCC and/or various state and local authorities, which could significantly increase the cost of implementing and introducing new services. As another example, we hold certain wireless licenses that require us to comply with so-called "open access" FCC regulations, which generally require licensees of particular spectrum to allow customers to use devices and applications of their choice. In addition, our broadband Internet access services are subject to various attempts to impose so-called "network neutrality" rules, some of which were affirmed and others vacated on appeal by the U.S. District Court for the District of Columbia in early 2014. Proponents of these rules want to limit the ways that a broadband Internet access service provider can structure business arrangements and manage its network. Some of these parties have urged the FCC to "reclassify" broadband Internet access service as a "telecommunications service" under Title II of the Communications Act, thus subjecting these services to traditional utility-style regulation. The FCC has an open proceeding concerning whether and what new regulation to adopt, and on what legal basis. The further regulation of broadband, wireless, and our other 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 networks.

***Cyber attacks impacting our networks or systems could have an adverse effect on our business.***

Cyber attacks, including through the use of malware, computer viruses, dedicated denial of services attacks, credential harvesting and other means for obtaining unauthorized access to or disrupting the operation of our networks and systems and those of our service providers, could have an adverse effect on our business. Cyber attacks may cause equipment failures, loss of information, including sensitive personal information of customers or employees or valuable technical and marketing information, as well as disruptions to our or our customers' operations. Cyber attacks against companies, including Verizon, have increased in frequency, scope and potential harm in recent years. Further, the perpetrators of cyber attacks are not restricted to particular groups or persons. These attacks may be committed by company employees or external actors operating in any geography, including jurisdictions where law enforcement measures to address such attacks are unavailable or ineffective, and may even be launched by or at the behest of nation states. While, to date, we have not been subject to cyber attacks which, individually or in the aggregate, have been material to our operations or financial condition, the preventive actions we take to reduce the risks associated with cyber attacks, including protection of our systems and networks, may be insufficient to repel or mitigate the effects of a major cyber attack in the future.

Our inability to operate our wireline or wireless networks as a result of cyber attacks, even for a limited period of time, may result in significant expenses and/or loss of market share to other communications providers. 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 and the use of alternate resources, lost revenues from business interruption and litigation. The potential costs associated with these attacks could exceed the insurance coverage we maintain. Further, certain of Verizon's businesses, such as those offering security solutions and infrastructure and cloud services to business customers, could be negatively affected if our ability to protect our own networks and systems 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 Verizon and intellectual property, or if we fail to protect the privacy of customer and employee confidential data against cyber attacks, 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 upon which our business operations rely, 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.

***Verizon's debt has increased significantly and could increase further if Verizon incurs additional debt in the future and does not retire existing debt.***

As of December 31, 2014, Verizon had approximately $113.3 billion of outstanding indebtedness, as well as approximately $7.9 billion of unused borrowing capacity under its existing credit facility. Verizon's debt level and related debt service obligations could have negative consequences, including:

- requiring Verizon to dedicate significant cash flow from operations to the payment of principal, interest and other amounts payable on its debt and the preferred stock issued by the entity acquired from Vodafone, which would reduce the funds Verizon has available for other purposes, such as working capital, capital expenditures and acquisitions;
- making it more difficult or expensive for Verizon to obtain any necessary future financing for working capital, capital expenditures, debt service requirements, debt refinancing, acquisitions or other purposes;
- reducing Verizon's flexibility in planning for or reacting to changes in its industry and market conditions;
- making Verizon more vulnerable in the event of a downturn in its business; and
- exposing Verizon to increased interest rate risk to the extent that its debt obligations are at variable interest rates.

In addition, the term loan agreement Verizon entered into in connection with the Wireless Transaction requires Verizon to maintain a certain leverage ratio unless Verizon's credit ratings are at or above a certain level, which could limit Verizon's ability to obtain additional financing in the future.

***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/or make it more difficult for us to obtain financing for our operations or refinance existing indebtedness. 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 also 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 177,300 employees and approximately 209,000 retirees as of December 31, 2014 eligible to participate 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 and mortality assumptions 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, 2014, approximately 27% of our workforce was represented by labor unions. In 2015, we will be engaged in contract negotiations with labor unions representing approximately 39,000 employees of our wireline business. During the course of these negotiations we could experience lengthy work stoppages, which could adversely affect our business operations, including a loss of revenue and strained relationships with customers. We cannot predict the length of any such work stoppage. Depending on the outcome of the negotiations, we may incur additional costs. In addition, while the workforce of our wireless business is almost entirely non-union, we cannot predict what level of success unions may have in organizing this workforce or the potentially negative impact it would have on our costs.

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

We are subject to a substantial amount of litigation, including, from time to time, shareholder derivative suits, 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 $231 billion at December 31, 2014 and $221 billion at December 31, 2013, 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, | **2014** | 2013 |
|---|---|---|
| Network equipment | **80.0%** | 80.1% |
| Land, buildings and building equipment | **11.3%** | 11.2% |
| Furniture and other | **8.7%** | 8.7% |
| | **100.0%** | 100.0% |

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

| At December 31, | **2014** | 2013 |
|---|---|---|
| Wireline | **59.3%** | 61.3% |
| Wireless | **39.5%** | 37.7% |
| Other | **1.2%** | 1.0% |
| | **100.0%** | 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, garage work centers, 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 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 Idearc's bankruptcy, alleged that Idearc was insolvent at the time of the spin-off or became insolvent shortly thereafter. The Litigation Trust sought over $9 billion in damages. In its June 18, 2013 decision, the District Court entered judgment for Verizon and its subsidiaries and ruled that U.S. Bank would "take nothing" on its claims. U.S. Bank appealed the decision to the U.S. Court of Appeals for the Fifth Circuit, which upheld the District Court's decision on July 30, 2014. The Litigation Trust has sought review of the decision by the United States Supreme Court.

In October 2013, the California Attorney General's Office notified Verizon California Inc. and other Verizon companies of potential violations of California state hazardous waste statutes primarily arising from the disposal of electronic components, batteries and aerosol cans at certain California facilities. We are cooperating with this investigation and continue to review our operations relating to the management of hazardous waste. While penalties relating to the alleged violations could exceed $100,000, we do not expect that any penalties ultimately incurred will be material.

## *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, 2014, there were 664,218 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 |
| **2014** | **Fourth Quarter** | **$ 51.73** | **$ 45.09** | **$ .550** |
| | **Third Quarter** | **53.66** | **48.20** | **.550** |
| | **Second Quarter** | **50.33** | **45.85** | **.530** |
| | **First Quarter** | **49.40** | **45.45** | **.530** |
| 2013 | Fourth Quarter | $ 51.49 | $ 46.03 | $ .530 |
| | Third Quarter | 51.94 | 45.08 | .530 |
| | Second Quarter | 54.31 | 47.77 | .515 |
| | First Quarter | 49.59 | 41.50 | .515 |

**Stock Repurchases**

In March 2014, the Verizon Board of Directors authorized a three-year share buyback program to repurchase up to 100 million shares of the Company's common stock. Under the program, shares may be repurchased in privately negotiated transactions and on the open market, including through plans complying with Rule 10b5-1(c) under the Exchange Act. The timing and number of shares purchased under the program, if any, will depend on market conditions and the Company's corporate needs.

During the fourth quarter of 2014, Verizon did not repurchase any shares of Verizon common stock. At December 31, 2014, the maximum number of shares that could be purchased by or on behalf of Verizon under our share buyback program was 100 million.

In addition to the previously authorized three-year share buyback program, in February 2015, the Verizon Board of Directors authorized Verizon to enter into an accelerated share repurchase (ASR) agreement to repurchase $5.0 billion of the Company's common stock. The total number of shares that Verizon will repurchase under the ASR agreement will be based generally upon the volume-weighted average share price of Verizon's common stock during the term of the transaction. On February 10, 2015, in exchange for an up-front payment totaling $5.0 billion, Verizon received an initial delivery of 86.2 million shares having a value of approximately $4.25 billion. Final settlement of the transaction under the ASR agreement, including delivery of the remaining shares, if any, that Verizon is entitled to receive, is scheduled to occur in the second quarter of 2015.

For other information required by this item, see the section entitled "Stock Performance Graph" on page 9 of the 2014 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 2014 Verizon Annual Report to Shareowners under the heading "Selected Financial Data" on page 9, 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 2014 Verizon Annual Report to Shareowners under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 10 through 30, which is incorporated herein by reference.

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

Information required by this item is included in the 2014 Verizon Annual Report to Shareowners under the heading "Market Risk" on pages 30 through 31, which is incorporated herein by reference.

## *Item 8. Financial Statements and Supplementary Data*

Information required by this item is included in the 2014 Verizon Annual Report to Shareowners on pages 38 through 75, 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 using the criteria for effective internal control established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. 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, 2014.

In the ordinary course of business, we routinely review our system of internal control over financial reporting and make changes to our systems and processes that are intended to ensure an effective internal control environment. We are continuing an initiative to implement new financial systems in phases over the next several quarters. We are also continuing an initiative to standardize and centralize transaction-processing activities within our accounting processes, which we expect to continue over the next several years. These initiatives will incorporate certain changes in personnel as well. In connection with these initiatives and the resulting changes in our financial systems and transaction-processing activities, the Company continues to review the design and documentation of our internal control system and to enhance our processes as needed to ensure that controls over our financial reporting remain effective.

Except as noted above, there were no changes in the Company's internal control over financial reporting during the fourth quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our 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 2014 Verizon Annual Report to Shareowners on pages 36 and 37 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 | 60 | Chairman and Chief Executive Officer | 2011 |
| Roy H. Chestnutt | 55 | Executive Vice President – Strategy, Development and Planning | 2013 |
| Roger Gurnani | 54 | Executive Vice President and Chief Information and Technology Architect | 2015 |
| Daniel S. Mead | 61 | Executive Vice President and President of Strategic Initiatives | 2015 |
| Marc C. Reed | 56 | Executive Vice President and Chief Administrative Officer | 2012 |
| Diego Scotti | 42 | Executive Vice President and Chief Marketing Officer | 2014 |
| Francis J. Shammo | 54 | Executive Vice President and Chief Financial Officer | 2010 |
| Craig L. Silliman | 47 | Executive Vice President – Public Policy and General Counsel | 2015 |
| Anthony T. Skiadas | 46 | Senior Vice President and Controller | 2013 |
| John G. Stratton | 53 | Executive Vice President and President of Operations | 2015 |
| Marni M. Walden | 47 | Executive Vice President and President of Product Innovation and New Businesses | 2015 |

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, and Mr. Scotti, who has been with the Company since 2014. 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 – 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 as Chairman and Chief Executive Officer of Grande Communications Networks (Grande), a facilities-based provider of bundled communications services, from 2006 to 2009. Prior to joining Grande, Mr. Chestnutt held a variety of management positions with Sprint-Nextel Corporation, Nextel Communications and AirTouch Communications.

Diego Scotti is Executive Vice President and Chief Marketing Officer for Verizon. Mr. Scotti joined the company in October 2014. Prior to joining Verizon, Mr. Scotti served as Chief Marketing Officer of J. Crew from 2011 to 2014 and as Executive Director of Marketing at Conde Nast Publications, where he oversaw 20 print and digital media brands, from 2008 to 2011. Mr. Scotti also previously served as the head of global advertising and brand management at American Express.

For other information required by this item, see the sections entitled "Election of Directors," "About Verizon's Governance Practices – Business Code and Ethics and – Where to Find More Information on Governance at Verizon," "About Our Board of Directors – Committees of the Board and – Nomination of Candidates for Director" 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 2015 Annual Meeting of Shareholders, which are incorporated herein by reference.

## *Item 11. Executive Compensation*

For information with respect to executive compensation, see the sections entitled "Compensation Discussion and Analysis," "Compensation Tables" and "Compensation Committee Report" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with our 2015 Annual Meeting of Shareholders, which is incorporated by reference. There were no relationships to be disclosed under paragraph (e)(4) of Item 407 of Regulation S-K.

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

For information with respect to the security ownership, see the sections entitled "Security Ownership of Certain Beneficial Owners and Management" in our definitive Proxy Statement to be filed with the SEC and delivered to shareholders in connection with our 2015 Annual Meeting of Shareholders, which is incorporated herein by reference.

The following table provides information as of December 31, 2014 for (i) all equity compensation plans previously approved by the Company's shareholders, and (ii) all equity compensation plans not previously approved by the Company's shareholders. Since May 9, 2009, the Company has only issued awards under the 2009 Verizon Communications Inc. Long-Term Incentive Plan (2009 LTIP), which provides for awards of stock options, restricted stock, restricted stock units, performance stock units and other equity-based hypothetical stock units to employees of Verizon and its subsidiaries. No new awards are permitted to be issued under any other equity compensation plan. In accordance with SEC rules, the table does not include outstanding awards that are payable solely in cash by the terms of the award, and such awards do not reduce the number of shares remaining for issuance under the 2009 LTIP.

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | **15,006,570** (1) | $ — (2) | **96,814,478** (3) |
| Equity compensation plans not approved by security holders | **213,808** (4) | — | — |
| **Total** | **15,220,378** | **$ —** | **96,814,478** |

(1) This amount includes: 14,983,110 shares of common stock subject to outstanding restricted stock units and performance stock units, and 23,460 shares subject to outstanding deferred stock units, in each case including dividend equivalents accrued on such awards through December 31, 2014. This does not include performance stock units, deferred stock units and deferred share equivalents payable solely in cash.

(2) Verizon's outstanding restricted stock units, performance stock units and deferred stock units do not have exercise prices associated with the settlement of these awards.

(3) This number reflects the number of shares of common stock that remained available for future issuance under the 2009 LTIP.

(4) This number reflects shares subject to deferred stock units credited to the Verizon Income Deferral Plan, which were awarded in 2002 under the Verizon Communications Broad-Based Incentive Plan. No new awards are permitted to be issued under this plan.

## *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 – Related Persons Transactions" and "About Our Board of Directors – Independence" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with our 2015 Annual Meeting of Shareholders, which are incorporated 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 2015 Annual Meeting of Shareholders, which are incorporated by reference.

## PART IV

### *Item 15. Exhibits, Financial Statement Schedules*

(a) Documents filed as part of this report:



* Incorporated herein by reference to the appropriate portions of the registrant's Annual Report to Shareowners for the fiscal year ended December 31, 2014. (See Part II.)

| Exhibit Number | Description |
|---|---|
| 3a | Restated Certificate of Incorporation of Verizon Communications Inc. (Verizon) (filed as Exhibit 3a to Form 10-Q for the period ended June 30, 2014 and incorporated herein by reference). |
| 3b | Bylaws of Verizon, as amended, effective as of May 1, 2014 (filed as Exhibit 3b to Verizon's Form 8-K dated May 6, 2014 and incorporated herein by reference). |
| 4a | Indenture between Verizon, both individually and as successor in interest to Verizon Global Funding Corp., and U.S. Bank National Association, as successor trustee to Wachovia Bank, National Association, formerly known as First Union National Bank, as Trustee, dated as of December 1, 2000 (incorporated by reference to Verizon Global Funding Corp.'s Registration Statement on Form S-4, Registration No. 333-64792, Exhibit 4.1). |
| 4b | First Supplemental Indenture between Verizon, both individually and as successor in interest to Verizon Global Funding Corp., and U.S. Bank National Association, as successor trustee to Wachovia Bank, National Association, formerly known as First Union National Bank, as Trustee, dated as of May 15, 2001 (incorporated by reference to Verizon Global Funding Corp.'s Registration Statement on Form S-3, Registration No. 333-67412, Exhibit 4.2). |
| 4c | Second Supplemental Indenture between Verizon, both individually and as successor in interest to Verizon Global Funding Corp., and U.S. Bank National Association, as successor trustee to Wachovia Bank, National Association, formerly known as First Union National Bank, as Trustee, dated as of September 29, 2004 (incorporated by reference to Form 8-K filed on February 9, 2006, Exhibit 4.1). |
| 4d | Third Supplemental Indenture between Verizon, both individually and as successor in interest to Verizon Global Funding Corp., and U.S. Bank National Association, as successor trustee to Wachovia Bank, National Association, formerly known as First Union National Bank, as Trustee, dated as of February 1, 2006 (incorporated by reference to Form 8-K filed on February 9, 2006, Exhibit 4.2). |
| | Except for Exhibits 4a – 4d above, no other 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 | 2009 Verizon Long-Term Incentive Plan, As Amended and Restated (incorporated by reference to Appendix D of the Registrant's Proxy Statement included in Schedule 14A filed on March 18, 2013).** |
| | 10c(i) 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(ii) 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(iii) 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).** |

10c(iv) Performance Stock Unit Agreement 2013-2015 Award Cycle (filed as Exhibit 10a to Form 10-Q for the period ended March 31, 2013 and incorporated herein by reference).**

10c(v) Restricted Stock Unit Agreement 2013-2015 Award Cycle (filed as Exhibit 10b to Form 10-Q for the period ended March 31, 2013 and incorporated herein by reference).**

10c(vi) Performance Stock Unit Agreement 2014-2016 Award Cycle (filed as Exhibit 10a to Form 10-Q for the period ended March 31, 2014 and incorporated herein by reference).**

10c(vii) Restricted Stock Unit Agreement 2014-2016 Award Cycle (filed as Exhibit 10b to Form 10-Q for the period ended March 31, 2014 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 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).**

10n 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).**

10o 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).**

10p Term Loan Credit Agreement, dated as of October 1, 2013, among Verizon, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto (filed as Exhibit 10.1 to Form 8-K filed on October 3, 2013 and incorporated herein by reference).

10q Securities Purchase Agreement, dated as of February 5, 2015, by and between Frontier Communications Corporation and Verizon Communications Inc.

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, 2014 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, 2014, 2013 and 2012

(dollars in millions)

| | | Additions | | | |
|---|---|---|---|---|---|
| **Description** | **Balance at Beginning of Period** | **Charged to Expenses** | **Charged to Other Accounts Note (a)(b)** | **Deductions Note (c)(d)** | **Balance at End of Period** |
| Allowance for Uncollectible Accounts Receivable: | | | | | |
| **Year 2014** | **$ 645** | **$ 1,095** | **$ 141** | **$ 1,142** | **$ 739** |
| Year 2013 | 641 | 993 | 162 | 1,151 | 645 |
| Year 2012 | 802 | 972 | 113 | 1,246 | 641 |
| Valuation Allowance for Deferred Tax Assets:(e) | | | | | |
| **Year 2014** | **$ 1,685** | **$ 505** | **$ 5** | **$ 354** | **$ 1,841** |
| Year 2013 | 2,096 | 235 | 64 | 710 | 1,685 |
| Year 2012 | 2,410 | 120 | 82 | 516 | 2,096 |

(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.

(e) The presentation of the Valuation Allowance for Deferred Tax Assets has been updated to reflect the impact of the Wireless Transaction.

## 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/ Anthony T. Skiadas Date: February 23, 2015
Anthony T. Skiadas
Senior Vice President and Controller

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<br>Lowell C. McAdam | Chairman and Chief Executive Officer | February 23, 2015 |

Principal Financial Officer:

| | | |
|---|---|---|
| /s/ Francis J. Shammo<br>Francis J. Shammo | Executive Vice President and Chief Financial Officer | February 23, 2015 |

Principal Accounting Officer:

| | | |
|---|---|---|
| /s/ Anthony T. Skiadas<br>Anthony T. Skiadas | Senior Vice President and Controller | February 23, 2015 |

| | | |
|---|---|---|
| /s/ Lowell C. McAdam<br>Lowell C. McAdam | Director | February 23, 2015 |
| /s/ Shellye L. Archambeau<br>Shellye L. Archambeau | Director | February 23, 2015 |
| /s/ Mark T. Bertolini<br>Mark T. Bertolini | Director | February 23, 2015 |
| /s/ Richard L. Carrión<br>Richard L. Carrión | Director | February 23, 2015 |
| /s/ Melanie L. Healey<br>Melanie L. Healey | Director | February 23, 2015 |
| /s/ M. Frances Keeth<br>M. Frances Keeth | Director | February 23, 2015 |
| /s/ Robert W. Lane<br>Robert W. Lane | Director | February 23, 2015 |
| /s/ Donald T. Nicolaisen<br>Donald T. Nicolaisen | Director | February 23, 2015 |
| /s/ Clarence Otis, Jr.<br>Clarence Otis, Jr. | Director | February 23, 2015 |
| /s/ Rodney E. Slater<br>Rodney E. Slater | Director | February 23, 2015 |
| /s/ Kathryn A. Tesija<br>Kathryn A. Tesija | Director | February 23, 2015 |
| /s/ Gregory D. Wasson<br>Gregory D. Wasson | Director | February 23, 2015 |

**EXHIBIT 10q**

EXECUTION VERSION

SECURITIES PURCHASE AGREEMENT

by and between

FRONTIER COMMUNICATIONS CORPORATION

and

VERIZON COMMUNICATIONS INC.

Dated as of February 5, 2015

**TABLE OF CONTENTS**

ARTICLE X

MISCELLANEOUS

EXHIBITS, ANNEXES AND SCHEDULES

SCHEDULES

SECURITIES PURCHASE AGREEMENT, dated as of February 5, 2015, by and between Verizon Communications Inc., a Delaware corporation ("Seller"), and Frontier Communications Corporation, a Delaware corporation ("Buyer"). Capitalized terms used but not defined elsewhere in this Agreement shall have the meanings set forth in Section 1.1.

RECITALS:

WHEREAS, Verizon Florida LLC, GTE Southwest Incorporated and Verizon California Inc. (each an "ILEC Subsidiary" and collectively the "ILEC Subsidiaries") provide the ILEC Services in the States and Seller and certain of its Affiliates provide certain other services in the States;

WHEREAS, prior to the closing of the transactions contemplated by this Agreement, and subject to the terms and conditions contained in this Agreement, Seller and its Subsidiaries will effect the Pre-Closing Reorganization, pursuant to which (i) Seller will form a new limited liability company disregarded for federal income Tax purposes ("Newco"), (ii) Seller will cause GTE Corporation to contribute the membership interests and capital stock of the ILEC Subsidiaries to Newco, (iii) Seller and its Subsidiaries will transfer to Newco the Transferred Assets and the ILEC Subsidiaries will transfer to Seller and its Subsidiaries certain of the Excluded Assets and (iv) Newco will assume or retain the Assumed Liabilities and Seller and its Subsidiaries (other than Newco and the ILEC Subsidiaries (the "Transferred Companies")) will assume or retain the Excluded Liabilities; and

WHEREAS, Buyer desires to purchase from Seller and Seller desires to sell to Buyer all of the limited liability company interests of Newco and thereby Buyer will acquire the Transferred Business, upon the terms and conditions contained in this Agreement.

THEREFORE, in consideration of the premises and the mutual representations, warranties, covenants and undertakings contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

## ARTICLE I

## DEFINITIONS AND TERMS

1.1 Definitions. As used in this Agreement, the following terms have the meanings set forth below:

"Accountant" has the meaning set forth in Section 3.6(d).

"Action" means any demand, action, claim, suit, countersuit, arbitration, inquiry, discovery, notice, proceeding or investigation by or before any Governmental Entity, or any arbitration or mediation tribunal.

"Advanced Intelligent Network" means a telecommunications network architecture that uses databases to facilitate call processing, call routing and network management, allowing carriers to change the routing of both inbound and outbound calls from moment to moment, commonly referred to as "AIN."

"Affiliate" means, with respect to any Person, any Person directly or indirectly controlling, controlled by, or under common control with, such other Person as of the date on which, or at any time during the period for which, the determination of affiliation is being made. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such Person, whether through the ownership of voting securities or by Contract or otherwise.

"Agreement" means this Securities Purchase Agreement, together with the Annexes, Exhibits and Schedules hereto, as the same may be amended or supplemented from time to time in accordance with the terms hereof.

"Allocated Support Employees" has the meaning set forth in Section 4.10(i).

"Allocation Schedule" has the meaning set forth in Section 3.7.

"Alternative Financing" has the meaning set forth in Section 6.15(c).

"Ancillary Documents" means, collectively, the Cutover Plan Support Agreement, the Employee Matters Agreement, the Intellectual Property Agreement, Amendment No. 1 to FS Trademark License Agreement, the Software License Agreement, Amendment No. 1 to FS Intellectual Property Agreement, Amendment No. 2 to FS Intellectual Property Agreement, Amendment No. 1 to FS Software License Agreement, Amendment No. 2 to FS Software License Agreement, the SHE Video Services Agreement and the Point Code and IP Address Agreement in the forms attached hereto as Exhibits A – N and all other documents and certificates required to be executed pursuant to this Agreement and/or to effect the transactions contemplated by this Agreement, including the Assignment and Assumption Agreements and the Shared Location Leases.

"Assigned Contracts" means (i) all Contracts identified on Annex 1.1(a), (ii) all Customer Contracts and Service Contracts to which Seller or one or more of its Subsidiaries (other than the Transferred Companies) is a party, except, in each case (other than Contracts with any agency of the United States Government which are assigned even though expired, if there remain continuing obligations or rights under them or the Government has not closed out the Contract(s)), to the extent expiring after the date of this Agreement and prior to the Closing unless otherwise renewed or extended prior to the Closing, (iii) Transferred IP Licenses, (iv) the Transferred Affiliate Arrangements and (v) all other Contracts to which Seller or any of its Subsidiaries (other than the Transferred Companies) is a party which is exclusively related to the Transferred Business as of the Closing unless included as an Excluded Asset.

"Assignment and Assumption Agreements" means the assignment and assumption agreements to be entered into among Seller, Newco and the ILEC Subsidiaries, as applicable, in connection with the Pre-Closing Reorganization, substantially in the form set forth on Annex 2.5(a), providing for the transfer to and assumption by Newco of the Transferred Assets and the Assumed Liabilities and the transfer to and assumption by Seller and its Subsidiaries (other than the Transferred Companies) of the Excluded Assets and Excluded Liabilities.

"Assumed Liabilities" has the meaning set forth in Section 2.3.

"Audit Adjustment Amount" has the meaning set forth in Section 3.6(b).

"Audited 2014 Financial Statements" has the meaning set forth in Section 6.18(a).

"Audited 2014 Revenue Amount" has the meaning set forth in Section 3.6(b).

"Books and Records" means all books, ledgers, files, customer and supplier lists, reports, plans, records, manuals and other similar recordkeeping materials (in any form or medium).

"Business Conduct Exceptions" has the meaning set forth in Section 6.2(a).

"Business Day" means any day other than a Saturday, a Sunday or a day on which banks in New York City are authorized or obligated by Law or executive order to close.

"Business Employees" has the meaning set forth in Section 4.10(a).

"Buyer" has the meaning set forth in the Preamble.

"Buyer Adverse Condition" has the meaning set forth in Section 6.3(a).

"Buyer Confidential Information" has the meaning set forth in Section 6.8(a).

"Buyer Group" means Buyer and its Subsidiaries from time to time including, after the Closing, the Transferred Companies.

"Buyer Indemnified Parties" has the meaning set forth in Section 8.3(a).

"Buyer Licenses" has the meaning set forth in Section 5.10.

"Buyer Release Parties" has the meaning set forth in Section 6.11.

"Buyer Schedules" has the meaning set forth in Article V.

"Cash and Cash Equivalents" means, as of any date of determination, all cash and cash equivalents, including all deposited but uncleared bank deposits, determined in accordance with GAAP, but excluding any Restricted Cash.

"Chosen Courts" has the meaning set forth in Section 10.11.

"Claim Notice" has the meaning set forth in Section 8.4(a).

"Closing" means the closing of the sale and purchase of all the issued and outstanding limited liability company interests of Newco.

"Closing Date" has the meaning set forth in Section 3.3.

"Code" means the Internal Revenue Code of 1986, as amended.

"Collective Bargaining Agreements" has the meaning set forth in Section 4.11(a).

"Commitment Letter" has the meaning set forth in Section 5.8.

"Committed Financing" has the meaning set forth in Section 5.8.

"Committed Financing Sources" has the meaning set forth in Section 6.15(b).

"Communications Act" means the Communications Act of 1934, as amended, and the rules and regulations of the FCC thereunder.

"Communications Licenses" means all licenses issued or granted by the FCC, the State Commissions or the Video Franchisors held by Seller or any of its Subsidiaries in each applicable jurisdiction with respect to the Transferred Business as presently conducted, as set forth on Seller Schedule 4.18.

"Company Claims" has the meaning set forth in Section 6.14.

"Company Plans" has the meaning set forth in Section 4.10(a).

"Complaint" has the meaning set forth in Section 5.3(b).

"Confidentiality Agreement" means the confidentiality agreement between Seller and Buyer, dated November 13, 2012, as amended on August 4, 2014.

"Consolidated Tax Return" means any federal, state, local or foreign Tax Returns that are filed on an affiliated, consolidated, combined, unitary or similar basis that includes one or more of the Transferred Companies, on the one hand, and any member of the Seller Group, on the other hand.

"Contract" means any agreement, contract, lease, sublease, note, bond, loan, mortgage, commitment, license, purchase order or other agreement, whether written or oral.

"Customer Contracts" means (i) with respect to Contracts entered into by the ILEC Subsidiaries, all customer Contracts (other than any Master Agreement) with respect to the Transferred Business as of the Closing (including customer equipment leases, customer equipment warranties, payphone service agreements and other Contracts for the provision of goods or services), and (ii) with respect to Contracts entered into by Seller or any of its Affiliates (other than the Transferred Companies), (x) all customer Contracts that exclusively provide for the delivery of goods or services of the Transferred Business as of the Closing to customers of the Transferred Business as of the Closing in the States (including customer equipment leases, customer equipment warranties, pay phone service agreements and Contracts with customers with originating switched long distance traffic initiating from the local exchanges), and (y) the portion of any Master Agreement that provides for the delivery of goods or services of the

Transferred Business as of the Closing to customers of the Transferred Business as of the Closing in the States, it being understood that in no event shall those portions of any Master Agreement providing for the delivery of goods and services that do not relate to the Transferred Business as of the Closing be considered a Customer Contract. For the avoidance of doubt, "Customer Contract" shall include customer Contracts exclusively providing the FiOS TV video service in the States.

"Customer Proprietary Network Information" means customer proprietary network information as defined in the Communications Act, that was generated by the Transferred Companies, relating to goods or services in the States for any customers of the Transferred Business.

"Cutover" shall have the meaning assigned to such term in the Cutover Plan Support Agreement.

"Cutover Plan Support Agreement" means the Cutover Plan Support Agreement entered into by Seller (or its Subsidiary) and Buyer as of the date hereof and attached hereto as Exhibit A.

"Debt Obligations" means (i) $200,000,000 6.75% Series F Debentures issued by Verizon California Inc. due May 15, 2027, (ii) $300,000,000 6.86% Series E Debentures issued by Verizon Florida LLC due February 1, 2028, (iii) $100,000,000 8.50% Series E Debentures issued by GTE Southwest Incorporated (d/b/a Verizon Southwest) due November 15, 2031 and (iv) all accrued and unpaid interest on the items listed in clauses (i) through (iii) above.

"Disclosure Schedules" has the meaning set forth in Article V.

"Easements" means any easement, quasi-easement, right-of-way or right of re-entry to access real property located in the States.

"Effective Time" means 12:01 a.m., Eastern Time, on the Closing Date (if the penultimate sentence of Section 3.3 does not apply) or the date on which the Closing is deemed to have occurred (if the penultimate sentence of Section 3.3 does apply).

"Employee Matters Agreement" means the agreement between the parties attached hereto as Exhibit B.

"Encumbrance" means any lien, pledge, charge, security interest, option, mortgage or easement, or other similar restriction.

"Entitlement Party" has the meaning set forth in Section 10.9(c).

"Environmental Claim" means any Action by any Person alleging actual or potential liability (including actual or potential liability for investigatory costs, cleanup costs, governmental response costs, natural resources damages, property damages, personal injuries, attorneys' fees or penalties) arising out of, based on or resulting from (a) the presence, or release into the environment, of, or exposure to, any Hazardous Material at any location, whether or not owned or operated by any of the Transferred Companies, now or in the past, or (b) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law, and including any Action alleging the violation of an Environmental Law or Environmental Permit brought, issued or asserted by any Person for compliance, damages, penalties, removal, response, remedial or other action.

"Environmental Law" means any federal, state or local Law or requirements of any applicable Governmental Entity, and applicable common law, relating to (i) pollution, the protection of human health or the environment (including air, water vapor, surface water, groundwater, drinking water supply, surface or subsurface land or strata, and natural resources), (ii) the manufacture, generation, transportation, processing, handling, distribution, use, treatment, storage, containment (whether on or above ground or underground), or disposal of any Hazardous Material, (iii) emissions, discharges, releases or threatened releases of, or exposure to, Hazardous Materials, (iv) recordkeeping, notification, disclosure and reporting requirements regarding Hazardous Materials, (v) endangered or threatened species of fish, wildlife and plant and natural resources, or (vi) emissions or control of greenhouse gases.

"Environmental Permits" means all permits, licenses, approvals, authorizations, consents, orders or binding agreements required by or issued by or entered into with any Governmental Entity under any applicable Environmental Law.

"ERISA" has the meaning set forth in Section 4.10(a).

"ERISA Affiliate" has the meaning set forth in Section 4.10(c).

"Estimated Buyer Working Capital Payment" has the meaning set forth in Section 3.6(a).

"Estimated Closing Statement" has the meaning set forth in Section 3.6(a).

"Estimated Net Debt" has the meaning set forth in Section 3.6(a).

"Estimated Net Working Capital" has the meaning set forth in Section 3.6(a).

"Estimated Seller Working Capital Payment" has the meaning set forth in Section 3.6(a).

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and all regulations and rules issued thereunder, or any successor Law.

"Excluded Assets" means

(i) the assets, property and rights listed on Annex 2.1(b)(i);

(ii) any Intellectual Property, including Intellectual Property owned by Seller or any of its Affiliates (including the Transferred Companies), and Intellectual Property owned by any third party and licensed to Seller or any of its Affiliates (including the Transferred Companies), other than Intellectual Property licensed to the Transferred Companies pursuant to the Assigned Contracts (for the avoidance of doubt, this clause (ii) does not limit any Intellectual Property licenses granted pursuant to the Ancillary Documents);

(iii) all Retained Contracts;

(iv) all Books and Records (other than Transferred Books and Records);

(v) all assets and operations owned or used by Verizon Long Distance LLC (excluding, for the avoidance of doubt, accounts receivable, Customer Contracts, Master Agreements (to the extent transferred pursuant to Section 6.13(a)), accounts and relationships, in each case, to the extent related to customers in the States for services delivered in the States and to the extent related to the Transferred Business as of the Closing);

(vi) all assets and operations owned or used by Verizon Online LLC (excluding, for the avoidance of doubt, customer premises equipment (such as modems and set-top boxes), accounts receivable, Customer Contracts, Master Agreements (to the extent transferred pursuant to Section 6.13(a)), accounts and relationships, in each case, to the extent related to customers in the States for services delivered in the States and to the extent related to the Transferred Business as of the Closing);

(vii) all third party vendor relationships and agreements, excluding, for the avoidance of doubt, the Network Element Software Licenses assigned to or to be assigned to Newco pursuant to Section 6.17 and other vendor relationships and agreements that relate exclusively to the Transferred Business as of the Closing or that otherwise represent Service Contracts;

(viii) any third party communications facilities that are used to support the Excluded Assets;

(ix) the Super Head End and all equipment (other than the "patch panel" and all equipment running from the "patch panel" to the customer) located at 7701 Telecom Parkway, Temple Terrace, Florida 33637;

(x) all assets and operations owned or used by Verizon Network Integration Corp. and Verizon Select Services Inc. (excluding, for the avoidance of doubt, accounts receivable, Customer Contracts, Master Agreements (to the extent transferred pursuant to Section 6.13(a)), accounts and relationships, in each case, to the extent related to customers in the States for services delivered in the States and to the extent related to the Transferred Business as of the Closing);

(xi) all assets existing as of the Closing Date, to the extent relating to, arising out of or resulting from any intercompany receivables to be settled pursuant to Section 2.2; and

(xii) any IT Systems whether or not used in the Transferred Business, other than the Transferred IT Systems.

For the avoidance of doubt, the following shall not be included in the Transferred Assets or the assets held by the Transferred Companies as of immediately prior to the Closing and shall be considered to be Excluded Assets:

(x) any right, title, or interest to or in, or any assets used in any business of Seller or any of its Subsidiaries, whether tangible or intangible (including Seller Owned Software and, other than the Transferred IP Licenses, any licenses or other rights held by Seller or any of its Subsidiaries with respect to computer software and related databases), real, personal or mixed, used to deliver any of the following excluded functions or services: (i) any centralized support functions provided by Seller or any of its Subsidiaries, including the provision of network design, monitoring, surveillance and dispatch services, call center services and tools (including all interactive voice response applications and logic for call routing, self service functions and applications and tools such as call recording, training delivery and work force scheduling platforms), customer care/technical support, billing, order taking and processing and collection services, contract management systems, account management, sales opportunity databases, information technology services and the platforms and databases utilized in providing Advanced Intelligent Network and 911 services, (ii) any directory publishing services, (iii) mobile and fixed wireless service or (iv) any function or service listed on Annex 2.1(b)(ii); or

(y) any data network transport facilities, including circuits, routers and firewall equipment, that connect from the core routers serving the States to Seller's and its Subsidiaries' other routers.

"Excluded Liabilities" has the meaning set forth in Section 2.3.

"FCC" means the Federal Communications Commission.

"Fee Letter" has the meaning set forth in Section 5.8.

"Final Closing Statement" has the meaning set forth in Section 3.6(c).

"Final Determination" has the meaning set forth in Section 6.5(l).

"Final Net Debt" has the meaning set forth in Section 3.6(c).

"Final Net Working Capital" has the meaning set forth in Section 3.6(c).

"Financial Statements" has the meaning set forth in Section 6.18(a).

"Financing" has the meaning set forth in Section 6.15(d).

"Financing Sources" means the entities that have committed to provide, or enter into definitive agreements to provide, the Financing or Alternative Financing in connection with the transactions contemplated hereby, including the lead arranger or arranger or any of the parties to the Commitment Letter and any joinder agreements or credit agreements relating thereto, and their Affiliates and the former, current or future partners, shareholders, members, managers, directors, officers, employees, agents and representatives of the foregoing.

"GAAP" means United States generally accepted accounting principles as in effect from time to time.

"Governmental Authorizations" means all franchises, grants, licenses, certificates, permits, variances, exceptions, waivers, consents, orders and other authorizations and approvals issued by or obtained from a Governmental Entity, other than Governmental Consents and Easements. For the avoidance of doubt, "Governmental Authorization" does not include any form of notices to be made, or authorizations required to be maintained or obtained, pursuant to any Contract in respect to which a Governmental Entity is a customer of Seller or any of its Subsidiaries; provided that such Governmental Entity is only acting in the capacity of a customer pursuant to any such Contract.

"Governmental Consents" means all notices, reports and other filings required to be made prior to the Closing by Seller or Buyer or any of their respective Affiliates with, and all consents, registrations, approvals, permits, clearances and authorizations required to be obtained prior to the Closing by Seller or Buyer or any of their respective Affiliates from any Governmental Entity pertaining to the transactions contemplated by this Agreement and the Ancillary Documents. For the avoidance of doubt, "Governmental Consent" does not include any form of notices to be made, or consents required to be maintained or obtained, pursuant to any Contract in respect to which a Governmental Entity is a customer of Seller or any of its Subsidiaries; provided that such Governmental Entity is only acting in the capacity of a customer pursuant to any such Contract.

"Governmental Entity" means any U.S. federal, state or local government or governmental entity or any foreign government or governmental entity or any political or other subdivision, department or branch thereof or any regulatory, administrative or other agency or any court or tribunal of any of the foregoing or any stock exchange or similar self-regulatory organization.

"GTE" means GTE Corporation, a New York corporation.

"Hazardous Material" means chemical, pollutant, contaminant, waste, and any other substance or material that is listed, defined, designated, treated or classified as hazardous or toxic pursuant to applicable Environmental Laws, and including any petroleum or petroleum products, wastes or derivatives, asbestos or asbestos-containing materials, urea formaldehyde or poly chlorinated biphenyls, greenhouse gases, lead or lead-based paints or materials, radon, and toxic or hazardous mold.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"ILEC Subsidiaries" has the meaning set forth in the Recitals.

"ILEC Services" means, as the following services are provided as of any of (x) the date of this Agreement, (y) December 31, 2014 or (z) immediately prior to the Closing, in each case after giving effect to all changes to such services as are made from December 31, 2014 until immediately prior to the Closing (a) in the Ordinary Course and not in violation of Section 6.2(a) (as if such covenant were in effect as of December 31, 2014) or (b) that are otherwise required or expressly permitted by this Agreement (including the Seller Schedules), all of the incumbent local exchange carrier business activities and operations of Seller and its Affiliates in the States consisting of (i) local exchange services and exchange access, (ii) "intraLATA" toll services, (iii) network access services, (iv) enhanced voice and data services and (v) video services, broadband services, digital subscriber line services, fiber-to-the-premise high speed Internet in the States, wholesale services, operator services, payphone services, directory assistance services, special access services, unbundled network element platform services, customer service to end users, resale services, colocation services and any other services provided by Seller and its Subsidiaries (including the Transferred Companies) exclusively related to the delivery of the foregoing services, and, in connection with any of the foregoing, repairs, billing and collections.

"Indebtedness" means, without duplication, (i) all liabilities for borrowed money, whether current or funded, secured or unsecured, all obligations evidenced by bonds, debentures, notes or similar instruments, and all liabilities in respect of mandatorily redeemable or purchasable capital stock or securities convertible into capital stock and, except with respect to the Debt Obligations, all prepayment premiums, penalties and other fees and expenses paid or payable to satisfy such liabilities or obligations; (ii) any obligations under conditional sale or other title retention agreements; (iii) any obligations issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable and similar obligations to creditors for goods and services); (iv) any capitalized lease obligations; (v) all liabilities for the reimbursement of any obligor on any (x) letter of credit, (y) banker's acceptance or (z) similar credit transaction securing obligations of a type described in clause (i) above to the extent of the obligation secured; (vi) all accrued and unpaid interest on any of the liabilities or obligations described in clauses (i) through (v) above; and (vii) all liabilities as guarantor of obligations of any other Person of a type described in clauses (i) through (v) above, to the extent of the obligation guaranteed.

"Indemnified Parties" has the meaning set forth in Section 8.3(a).

"Indemnifying Party" has the meaning set forth in Section 8.4(a).

"Indemnity Cap" has the meaning set forth in Section 8.3(b).

"Indemnity Threshold" has the meaning set forth in Section 8.3(b).

"Information" means all lists of customers, records pertaining to customers and accounts, copies of Contracts, personnel records, lists and records pertaining to customers, suppliers and agents, and all accounting and other books, records, ledgers, files and business records, data and other information of every kind (whether in paper, microfilm, computer tape or disc, magnetic tape or any other form).

"Insolvent" has the meaning set forth in Section 5.9.

"Intellectual Property" means all intellectual property and industrial property rights throughout the world, including (i) trademarks, service marks, brand names, certification marks, collective marks, d/b/a's, Internet domain name registrations, logos, slogans, symbols, trade dress, design rights, assumed names, fictitious names, corporate names, trade names, social media usernames (e.g., Twitter handles), personalized subdomains or vanity URLs, and other digital identifiers and other indicia of origin, all registrations, renewals and applications for registration of the foregoing, and all goodwill associated therewith and symbolized by any of the foregoing (collectively, "Trademarks"); (ii) patents, patent applications, invention disclosures, and all related divisionals, continuations, continuations-in-part, provisional applications and renewal applications, and including renewals, extensions, substitutions, reexaminations and reissues; (iii) rights in confidential information, trade secrets and know-how, including processes, inventions, schematics, business methods, formulae, drawings, prototypes, models, methodologies, designs, customer lists and supplier lists, and other proprietary information (including concepts, ideas, procedures, techniques, technical information, specifications, operating and maintenance manuals, tools, algorithms, Software architectures, data and databases, plans, discoveries, research and development, compositions, modifications, extensions, improvements and other proprietary content) (collectively, "Trade Secrets"); (iv) copyrights and rights in copyrightable subject matter in published and unpublished works of authorship (other than rights in Software), including all registrations and applications therefor, and all renewals, extensions, restorations and reversions thereof; and (v) rights in all computer software programs, including application software, system software, firmware, middleware and mobile digital applications, and all versions, upgrades, updates, enhancements and error corrections of the foregoing, and all code, human-readable code, source code, and documentation related thereto, in any and all forms and media (collectively, "Software").

"Intellectual Property Agreement" means the Intellectual Property Agreement substantially in the form attached hereto as Exhibit C.

"Interim 2015 Financial Statements" has the meaning set forth in Section 6.18(a).

"IRS" has the meaning set forth in Section 4.10(b).

"IT Systems" means technology, computer systems and infrastructure (including Software, hardware, middleware, servers, workstations and routers).

"Knowledge" means, for those Persons listed on Exhibit D (in the case of Knowledge of Seller) or Exhibit E (in the case of Knowledge of Buyer), the actual knowledge of such Persons, without any inquiry or investigation other than reasonable inquiry by such Person of such Person's direct reports.

"Law" means any law, statute, ordinance, rule, regulation, code or Order enacted, issued, promulgated, enforced or entered by a Governmental Entity.

"Liabilities" means any and all debts, liabilities, commitments and obligations of any kind, whether fixed, contingent or absolute, matured or unmatured, liquidated or unliquidated, accrued or not accrued, asserted or not asserted, known or unknown, determined, determinable or otherwise, whenever or however arising (including, whether arising out of any Contract or tort based on negligence or strict liability) and whether or not the same would be required by GAAP to be reflected in financial statements or disclosed in the notes thereto.

"Listed Employees" has the meaning set forth in Section 4.10(i).

"Litigation Matters" means all pending or threatened litigation, investigations or claims that have been or may be asserted by a third party against, or otherwise adversely affect, Seller or its Subsidiaries (other than the Transferred Companies), on the one hand, and the Transferred Business, on the other hand.

"Losses" has the meaning set forth in Section 8.2.

"Marketing Period" means any period of twenty (20) consecutive Business Days throughout which (a) Buyer shall have received the Audited 2014 Financial Statements and all other applicable Required Information and (b) the applicable Refresh Date for the most recently delivered Financial Statements shall not have occurred; provided that (x) no "Marketing Period" shall commence and any prior Marketing Period shall be deemed not to have commenced if, on or prior to the completion of such twenty (20) consecutive Business Day period, (i) Ernst & Young LLP shall have withdrawn or qualified its audit opinion, or asked in writing that future reliance not be placed on such audit opinion, with respect to any of the Newco Financial Statements or the Financial Statements (in which case no Marketing Period may commence unless and until a new audit opinion is issued with respect to the combined financial statements of the Transferred Business for the applicable periods by Ernst & Young LLP, another "big-four" accounting firm or an independent public accounting firm reasonably acceptable to Buyer) or (ii) Seller or any of its Affiliates shall have publicly announced any intention to restate any material financial information included in the Required Information or that any such restatement is under consideration, unless, if any such announcement has been made, such restatement shall have been completed and the applicable Required Information shall have been amended or Seller or any of its Affiliates shall have announced that it has concluded that no restatement shall be required and (y) for purposes of any Marketing Period, (i) if such period has not ended prior to August 21, 2015, such period shall be deemed not to have commenced until September 8, 2015, (ii) November 25, 2015 and November 27, 2015 shall not be considered Business Days for purposes of any Marketing Period, and (iii) if such period has not ended prior to December 18, 2015, such period shall be deemed not to have commenced until January 4, 2016.

"Marketing Period Termination Date" means the earliest to occur of (a) the date of completion of two (2) non-overlapping Marketing Periods; provided that (x) the first Marketing Period shall commence no earlier than the date of delivery of the Audited 2014 Financial Statements and the Interim 2015 Financial Statements for the first and second fiscal quarters of 2015 (it being understood that such Financial Statements may be delivered on different days) and (y) the second Marketing Period shall commence no earlier than the date of delivery of the Interim 2015 Financial Statements for the first, second and third fiscal quarters of 2015 (it being understood that such Financial Statements may be delivered on different days), (b) the date on which the entire Committed Financing (less the amount of any Securities Financing) shall have been obtained and (c) the date on which Buyer notifies Seller in writing of its decision to accelerate the Marketing Period Termination Date.

"Master Agreements" means Contracts with customers of Seller or any of its Subsidiaries, in each case to which Seller or any of its Subsidiaries is a party, and in each case which provide for such customers to receive one or more products or services that are provided by the Transferred Business as well as one or more products or services that are provided by Seller's and its Subsidiaries' other business. For the avoidance of doubt, Master Agreements shall include the agreements listed on Annex 1.1(b).

"Material Contract" has the meaning set forth in Section 4.15(a).

"Material Transferred Lease" means any Transferred Real Property Lease with annual rent payments in excess of $100,000.

"Narrative Report" means, with respect to the financial statements for which such narrative report is required, a narrative report describing the financial condition and results of operations of the Transferred Business in a form reasonably acceptable to Buyer; provided that if such narrative report is in the form of a management's discussion and analysis of financial condition and results of operations customarily included in filings made with the SEC, such report shall be deemed to be acceptable to Buyer.

"NES Consideration" has the meaning set forth in Section 6.17(c).

"Network Element" means any network device, computer, server or other processing device connected to or used in support of the public switched voice, video hub office, data, digital subscriber line and other networks of the Transferred Companies, to the extent such element (i) is located in the States and (ii) is used primarily in the support of the Transferred Business as of the Closing.

"Network Element Software" means any third-party Software, as and to the extent installed on Network Elements as of the Closing.

"Network Element Software License" has the meaning set forth in Section 6.17(a).

"Net Debt" means an amount, which may be positive or negative, equal to (i) the amount of Indebtedness (including, for the avoidance of doubt, the Debt Obligations) of the Transferred Companies, less (ii) an amount equal to the Cash and Cash Equivalents of the Transferred Companies, in each case, as of the Effective Time (taking into account the effect of the transactions contemplated by the Pre-Closing Reorganization but otherwise without giving effect to the Closing).

"Net Debt Difference" has the meaning set forth in Section 3.6(e).

"Net Working Capital" means an amount equal to, as of the Effective Time (taking into account the effect of the transactions contemplated by the Pre-Closing Reorganization but otherwise without giving effect to the Closing) the "Net Working Capital" of the Transferred Business as defined and calculated in the manner set forth on Exhibit F.

"Net Working Capital Threshold" means $68,500,000.

"Newco" has the meaning set forth in the Recitals.

"Newco Audited Financial Statements" has the meaning set forth in Section 4.7(a).

"Newco Balance Sheet" has the meaning set forth in Section 4.7(a).

"Newco Financial Statements" has the meaning set forth in Section 4.7(a).

“Newco Unaudited Financial Statements” has the meaning set forth in Section 4.7(a).

“Non-Scheduled Contract” means any railroad crossing agreement or Easement, or any Transferred Real Property Lease with annual rents of less than $100,000.

“Notice Period” has the meaning set forth in Section 8.4(a).

“Order” means any judgment, determination, decree, injunction or order (whether temporary, preliminary or permanent) enforced or entered by a Governmental Entity.

“Ordinary Course” means the conduct of the Transferred Business in accordance with the normal customs, practices and procedures of Seller or its Subsidiaries applicable to the Transferred Business from time to time through the date hereof.

“Outside Counsel” has the meaning set forth in Section 10.18.

“Permitted Encumbrances” has the meaning set forth in Section 4.19.

“Person” means an individual, a group, a corporation, a partnership, an association, a limited liability company, a Governmental Entity, a trust or other entity or organization.

“Personal Information” has the meaning set forth in Section 4.14(g).

“Phaseout Period” has the meaning set forth in Section 6.19(c).

“Post-Closing Tax Period” means (a) in respect of income Taxes, any taxable period beginning after the Closing Date and the portion of any Straddle Period beginning after the Closing Date and (b) in respect of Taxes other than income Taxes, any taxable period beginning after the Effective Time and the portion of any Straddle Period beginning after the Effective Time.

“Pre-Closing Reorganization” means the reorganization contemplated by Article II.

“Pre-Closing Tax Period” means (a) in respect of income Taxes, any taxable period ending on or before the Closing Date and the portion of any Straddle Period ending on the Closing Date and (b) in respect of Taxes other than income Taxes, any taxable period ending before the Effective Time and the portion of any Straddle Period ending as of the Effective Time.

“Privileged Information” means, with respect to each party, Information regarding such party or its Subsidiaries, or any of its operations, assets or liabilities (whether in documents or stored in any other form or known to its employees or agents) that is protected from disclosure pursuant to the attorney-client privilege, the work product doctrine or another applicable legal privilege, in each case that the other party or its Subsidiaries may come into possession of or obtain access in connection with this Agreement or the Ancillary Documents.

“Purchase Price” has the meaning set forth in Section 3.2.

“Receiving Party” has the meaning set forth in Section 10.9(c).

"Refresh Date" shall mean (a) November 7, 2015, with respect to the Interim 2015 Financial Statements for the second fiscal quarter of 2015 and (b) March 1, 2016, with respect to the Interim 2015 Financial Statements for the third fiscal quarter of 2015.

"Required Information" means the Interim 2015 Financial Statements required to be delivered by Seller as of the date of determination pursuant to Section 6.18(a).

"Required Payment Amount" means the aggregate amount, if any, of all amounts (excluding, for the avoidance of doubt, any state income taxes imposed on Seller or its Subsidiaries as a result of the transfer of the outstanding membership interests of Newco as contemplated under this Agreement) required to be paid, refunded, deferred, escrowed or foregone pursuant to an Order, settlement agreement or otherwise (including in the form of any contribution or transfer of assets or assumption or retention of liabilities, measured at fair market value and assuming the maximum amount of any contingent amount is paid or foregone and the full amount of any deferred, contingent or escrowed amount is not received) by Seller or its Subsidiaries, other than post-Closing obligations of Newco or any Subsidiary of Newco, as a condition to obtaining any consent of any Governmental Entity in the States required to consummate the transactions contemplated by this Agreement or to comply with any Order approving the transactions contemplated by this Agreement, in each case excluding any amounts reimbursed by Buyer to Seller pursuant to Section 6.3(a); it being understood that any amount (i) required to be so paid, refunded, deferred, escrowed or foregone shall not be considered a Required Payment Amount to the extent not related to the Transferred Business, (ii) that is deferred and therefore included as a Required Payment Amount that is subsequently paid to any member of the Seller Group or any of their Affiliates after the Closing shall, to the extent of such subsequent payment to Seller, be promptly (but in no event later than five (5) Business Days after receipt of such payment) refunded to Buyer, (iii) that is contingent and therefore the maximum amount was assumed in the determination of Required Payment Amount and such amount subsequently is actually less than such assumed maximum amount, then to the extent such amount is actually less it shall be promptly (but in no event later than five (5) Business Days after final determination that such amount is actually less) refunded to Buyer and (iv) any amount that is part of the Required Payment Amount shall be supported by reasonable documentation provided by Seller to Buyer.

"Restricted Cash" means cash in escrow accounts or which is otherwise subject to any other contractual or legal restriction that impairs the ability of the owner of such cash to freely transfer or use such cash for any lawful purpose.

"Retained Contract" means (i) any Contract (including Master Agreements) entered into by Seller or any Subsidiary of Seller (other than any Transferred Company), on the one hand, with a non-Affiliate of Seller, on the other hand, which is used or held for use in the conduct of the Transferred Business as well as Seller's other business (in each case, other than the portions of any Master Agreements transferred or to be transferred pursuant to Section 6.13(a) or any Contract to the extent it represents a Service Contract), (ii) any Contract entered into solely between or among Seller and/or Affiliates of Seller, other than Transferred Affiliate Arrangements and Contracts entered into solely between or among the Transferred Companies, and (iii) those Contracts listed in Seller Schedule 1.1(a).

"Retained Employee" means a Listed Employee who will not be an employee of a Transferred Company at Closing.

"SEC" means the United States Securities and Exchange Commission.

"Section 338(h)(10) Allocation Schedule" has the meaning set forth in Section 6.5(n)(ii).

"Section 338(h)(10) Company" has the meaning set forth in Section 6.5(n)(i).

"Section 338(h)(10) Election" has the meaning set forth in Section 6.5(n)(i).

"Section 338(h)(10) Final Allocation Schedule" has the meaning set forth in Section 6.5(n)(ii).

"Securities Act" means the Securities Act of 1933, as amended, and all regulations and rules issued thereunder, or any successor Law.

"Securities Financing" has the meaning set forth in Section 6.15(d).

"Seller" has the meaning set forth in the Preamble.

"Seller Adverse Condition" has the meaning set forth in Section 6.3(a).

"Seller Authorizations" has the meaning set forth in Section 4.12.

"Seller Benefit Plans" has the meaning set forth in Section 4.10(a).

"Seller Confidential Information" has the meaning set forth in Section 6.8(b).

"Seller Group" means Seller and its Subsidiaries from time to time, other than the Transferred Companies.

"Seller Guarantees" has the meaning set forth in Section 6.23(a).

"Seller Indemnified Parties" has the meaning set forth in Section 8.2.

"Seller Insurance Policies" has the meaning set forth in Section 6.14.

"Seller IP" has the meaning set forth in Section 6.19(a).

"Seller Material Adverse Effect" means any event, occurrence, development, state of facts, effect, condition or change that, individually or in the aggregate, (a) has a material adverse effect on the business, financial condition, assets, liabilities or results of operations of the Transferred Business taken as a whole; provided that none of the following (or the results thereof) shall be, or shall be deemed to result in or contribute to, a Seller Material Adverse Effect: (i) any change in Law or accounting standards or interpretations thereof applicable to the Transferred Business, (ii) any change in the United States telecommunications industry or financial market conditions generally, (iii) any change in general economic conditions in the United States generally or in any of the States generally, (iv) any geopolitical conditions, the outbreak or escalation of hostilities, any acts of war, sabotage, terrorism or military actions, or any escalation or worsening of any such hostilities, acts of war, sabotage, terrorism or military actions threatened or underway as of the date of this Agreement, (v) hurricanes, tornados, earthquakes or other natural disasters, (vi) any action(s) taken by Seller or any of its Subsidiaries that are expressly required to be taken under this Agreement or actions not taken by Seller or its Subsidiaries that are expressly prohibited by this Agreement or to which Buyer has specifically consented in writing, (vii) any disruption of supplier, partner, employee or similar relationships or any loss of employees of the Transferred Business, in each case solely to the extent resulting from the execution, performance or public announcement of this Agreement or the Ancillary Documents or (viii) any condition, restriction, action or other matter that Buyer agrees to in connection with securing any consent, approval, waiver or authorization required in connection with the transactions contemplated by this Agreement; provided, further, that in the case of clauses (i), (ii), (iii) and (iv) above, only to the extent such event, occurrence, development, state of facts, effect, condition or change does not disproportionately adversely affect the Transferred Business compared to other companies operating in the United States telecommunications industry or (b) prevents or would reasonably be expected to prevent or materially delay or impede the consummation of the transactions contemplated by this Agreement.

"Seller Materials" has the meaning set forth in Section 6.19(c).

"Seller Owned Software" means software that has been developed, created or otherwise acquired by Seller or any Affiliate thereof.

"Seller Release Parties" has the meaning set forth in Section 6.11.

"Seller Schedules" has the meaning set forth in Article IV.

"Seller Trademarks" has the meaning set forth in Section 6.19(a).

"Service Contracts" means (i) all Contracts for the purchase by Seller or any of its Subsidiaries of services that are exclusively used by the Transferred Business as of the Closing and (ii) all pending or open purchase orders, statements of work and other similar Contracts to the extent providing for the purchase of goods or services by the Transferred Business as of the Closing (which purchase orders, statements of work and other similar Contracts, for the avoidance of doubt, shall each constitute its own individual "Service Contract" even if entered into under the framework of a master services agreement or similar Contract that is retained by the Seller Group under this Agreement).

"Shared Locations" means real property set forth on Seller Schedule 2.6.

"Shared Location Lease" has the meaning set forth in Section 2.6.

"SLA Licensed Software" means the Seller Owned Software agreed by the parties, as of the date hereof, to be licensed to Buyer pursuant to the Software License Agreement.

"Software" has the meaning set forth in the definition of "Intellectual Property".

"Software License Agreement" means the Software License Agreement substantially in the form attached hereto as Exhibit H.

"Specified Representations" has the meaning set forth in Section 7.2(b).

"State Commissions" means the California Public Utility Commission, the Florida Public Service Commission and the Public Utility Commission of Texas.

"States" means the states of California, Florida and Texas.

"Straddle Period" means (a) in the case of income Taxes, any taxable period that begins on or before and ends after the Closing Date and (b) in the case of Taxes other than income Taxes, any taxable period that begins before and ends after the Effective Time.

"Subsidiary" means with respect to any Person, any other Person of which at least fifty (50) percent of the securities or ownership interests having by their terms ordinary voting power to elect a majority of the board of directors or persons performing similar functions is directly or indirectly owned or controlled by such Person and/or by one or more of its Subsidiaries.

"Tariffs" shall mean tariffs, price lists, schedules of rates, or other statements of terms and conditions, including special customer arrangements, special assemblies, price flex arrangements, and individual customer-based arrangements of Seller and its Affiliates for telecommunications services, which are applicable in whole or in part in the States, are effective under applicable Laws, and are in effect immediately prior to the Closing.

"Tax Proceedings" has the meaning set forth in Section 6.5(f)(ii).

"Tax Returns" means all reports, returns, statements, schedules, notices, forms, declarations, or claims for refund (including any amendments to the foregoing) required to be filed with respect to Taxes, including any attachments thereto.

"Taxes" means all federal, state, local and foreign taxes, including income, alternative minimum, gross receipts, windfall profits, value added, severance, property, production, sales, use, duty, license, excise, franchise, employment, telecommunications, video, withholding or similar taxes of any kind, together with any deficiency, assessments, interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, provided that, for the avoidance of doubt, "Taxes" shall not include any e-911, USF or other similar federal, state or local regulatory fees or charges.

"Termination Date" has the meaning set forth in Section 9.1(b).

"Third-Party Claim" has the meaning set forth in Section 8.4(a).

"Third Party IP License" has the meaning set forth in Section 6.19(i).

"Trade Secrets" has the meaning set forth in the definition of "Intellectual Property".

"Trademarks" has the meaning set forth in the definition of "Intellectual Property".

“Transfer Documents” means the Assignment and Assumption Agreements and any other bills of sale, assignments, assumptions or other instruments of transfer documenting the Pre-Closing Reorganization.

“Transfer Taxes” means all U.S. federal, state and local and all foreign or other excise, sales, use, value added, transfer (including real property transfer or gains), stamp, documentary, filing, recordation and other similar Taxes and fees that may be imposed or assessed in connection with the Pre-Closing Reorganization or the transfer of the outstanding membership interests of Newco as contemplated under this Agreement, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties. For the avoidance of doubt, Transfer Taxes shall not include any income or similar taxes imposed on Seller or its Subsidiaries as a result of the transfer of the outstanding membership interests of Newco as contemplated under this Agreement.

“Transferred Affiliate Arrangements” means (i) this Agreement and all Ancillary Documents and all arrangements expressly contemplated by this Agreement or an Ancillary Document, (ii) all Affiliate interconnection Contracts and (iii) all Contracts listed on Seller Schedule 1.1(b) to the extent applicable to the Transferred Companies, in the case of clauses (ii) and (iii) true and substantially complete copies of which have been provided to Buyer prior to the date hereof.

“Transferred Assets” means (i) the Assigned Contracts, (ii) the Transferred Books and Records (subject to Section 6.1), (iii) to the extent not held by the Transferred Companies prior to Closing, the Transferred Real Property and Transferred Real Property Leases, (iv) set top boxes and other local equipment that is used to deliver FiOS video to Seller’s customers in the States, (v) all existing FTTP network elements located in the States, from and including the video hub office(s) to the end-user customers, including all elements of the video hub office(s) (including equipment primarily supporting the Video Head End), trunks and other connecting facilities from the video hub office(s) to the serving offices and all connections from serving offices to end-user customers in the States, (vi) the customer premises equipment sales and installation Contracts and related maintenance Contracts (including 911 customer premises equipment sales and maintenance Contracts) for customers whose telephone service is provided by the local exchanges, (vii) the assets, property and rights listed on Annex 1.1(c), (viii) personal computers, laptops, workstations and tablets used exclusively by Business Employees in the conduct of the Transferred Business as of the Closing (and excluding any software thereon other than Software licensed to the Transferred Companies pursuant to the Assigned Contracts), the Network Elements and, solely to the extent a Network Element Software License is assigned pursuant to Section 6.17, the corresponding Network Element Software and general business equipment, such as cell phones, fax machines, copiers and related infrastructure owned by or licensed directly to the Transferred Companies or used exclusively in the Transferred Business as of the Closing (collectively, the “Transferred IT Systems”), (ix) customer directories (other than publishing services associated therewith) of customers of the Transferred Companies, (x) retail stores primarily relating to the provision of ILEC Services, (xi) the fiber solutions facilities or centers and maintenance control operations centers located in the States, (xii) other fixed assets exclusively related to the provision of ILEC Services, (xiii) all assets, property and rights reflected on the balance sheet included in the Audited 2014 Financial Statements to the extent held by the Transferred Companies at Closing and (xiv) to the extent not held by the

Transferred Companies prior to the Closing, all other assets, property and rights (other than Intellectual Property and IT Systems) of Seller and its Subsidiaries as of immediately prior to the Closing that are exclusively used in the conduct of the Transferred Business as of the Closing, in each case other than any Excluded Assets.

"Transferred Books and Records" means the Books and Records (or portions thereof) in the possession of Seller or its Subsidiaries to the extent related to the Transferred Business as of the Closing but excluding, in each case, any such Books and Records (or portions thereof) to the extent that (a) they are included in or related to any Excluded Assets or Excluded Liabilities or any portion of Seller's and its Subsidiaries' business not being transferred hereunder, (b) any Law prohibits their transfer, (c) such Books and Records are not to be transferred as set forth in Section 6.1 or (d) such Books and Records are Consolidated Tax Returns. For the avoidance of doubt, Transferred Books and Records shall include all customer records held as of immediately prior to the Closing that are exclusively related to services provided by the Transferred Business as of the Closing, records of Business Employees and any Books and Records of the Transferred Companies to the extent that they relate to the States.

"Transferred Business" means the business of Seller and its Subsidiaries as conducted as of any of (x) the date of this Agreement, (y) December 31, 2014 or (z) immediately prior to the Closing, in each case after giving effect to all changes to such business as are made from December 31, 2014 until immediately prior to the Closing (a) in the Ordinary Course and not in violation of Section 6.2(a) (as if such covenant were in effect as of December 31, 2014) or (b) that are otherwise required or expressly permitted by this Agreement (including the Seller Schedules), of:

(i) providing, marketing and selling the ILEC Services in the States;

(ii) providing, marketing and selling video services in the States;

(iii) originating central office voice switched long distance services in the States switched by wire centers that are otherwise Transferred Assets;

(iv) the provision by Verizon Online LLC of dial-up, digital subscriber line ("DSL") and dedicated Internet access services and related value added services taken by DSL customers located in the States; or

(v) the sale, installation and related maintenance of customer premises equipment including 911 related premises equipment for customers of the ILEC Services in the States.

provided that, for the avoidance of doubt, "Transferred Business" shall not include the following:

(i) tangible long distance assets and related operations;

(ii) the entities listed and the specific services offered by such entities as described on Annex 1.1(d); and

(iii) the products and services listed on Annex 1.1(e).

"Transferred Business as of the Closing" means the Transferred Business as conducted as of any of (x) the date of this Agreement, (y) December 31, 2014 or (z) immediately prior to the Closing, in each case after giving effect to all changes to such business as are made from December 31, 2014 until immediately prior to the Closing (a) in the Ordinary Course and not in violation of Section 6.2(a) (as if such covenant were in effect as of December 31, 2014) or (b) that are otherwise required or expressly permitted by this Agreement (including the Seller Schedules).

"Transferred Companies" has the meaning set forth in the Recitals.

"Transferred Company Guarantees" has the meaning set forth in Section 6.23(b).

"Transferred IP Licenses" means any (x) Contract between a Transferred Company and a third party (other than Seller or any of its Affiliates) pursuant to which a Transferred Company is licensed directly Intellectual Property, provided, however, that if (A) such Contract licensing such Intellectual Property is governed by a master or enterprise license agreement between Seller or any of its Affiliates (other than the Transferred Companies) and a third party, then such Contract and such Intellectual Property shall be an Excluded Asset unless (1) such Contract for such Intellectual Property is assignable without any payment of any further consideration by Seller or any of its Affiliates (unless Buyer agrees in writing to pay any consideration required under a given Contract), and (2) the applicable master or enterprise agreement does not prevent a transfer or assignment of the underlying Contract licensing such Intellectual Property, and (B) if such Contract licensing such Intellectual Property is a Contract to which one or more Affiliates of Seller (other than the Transferred Companies) is also a party, then such Contract and such Intellectual Property shall be an Excluded Asset unless such Contract allows for the assignment of solely the portion of such Contract that is solely applicable to the Transferred Companies, without any payment of any further consideration by Seller or any of its Affiliates (unless Buyer agrees in writing to pay any consideration required under a given Contract), in which case solely such portion of such Contract shall be a Transferred IP License, and (y) Network Element Software License assigned to Newco pursuant to Section 6.17(a).

"Transferred IT Systems" has the meaning set forth in clause (viii) of the definition of "Transferred Assets".

"Transferred Leased Real Property" means all real property that is the subject of the Transferred Real Property Leases.

"Transferred Real Property" means all real property that is owned by Seller or any of its Subsidiaries as of immediately prior to the Closing and is primarily used in the Transferred Business as of the Closing.

"Transferred Real Property Leases" means (i) all leases and subleases of real property used primarily by the Transferred Business as of the Closing and (ii) all leases and subleases where one of the Transferred Companies is the landlord, sublandlord or licensor in respect of real property as of immediately prior to the Closing.

"Unassigned Assets" has the meaning set forth in Section 2.4(a).

"U.S. Antitrust Laws" means the Sherman Act, as amended, the Clayton Act, as amended, the HSR Act, the Federal Trade Commission Act, as amended, and all other federal and state Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade.

"USF" means universal service funding or universal service fund, as set forth in 47 CFR 36.601 et seq., as amended or supplemented.

"Video Franchisors" has the meaning set forth in Section 4.4.

"Volume Commitments" has the meaning set forth in Section 6.13(b).

"Working Capital Difference" has the meaning set forth in Section 3.6(e).

"Working Capital Principles" has the meaning set forth in Section 3.6(a).

1.2 Other Terms. Other terms may be defined elsewhere in the text of this Agreement and, unless otherwise indicated, shall have such meaning throughout this Agreement.

1.3 Other Definitional Provisions. Unless the express context otherwise requires:

(a) the words "hereof", "herein", and "hereunder" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement;

(b) terms defined in the singular have a comparable meaning when used in the plural, and vice versa;

(c) the terms "Dollars" and "$" mean United States Dollars;

(d) references herein to a specific Section, Subsection, Annex, Exhibit or Schedule shall refer, respectively, to Sections, Subsections, Annexes, Exhibits or Schedules of this Agreement;

(e) wherever the word "include", "includes", or "including" is used in this Agreement, it shall be deemed to be followed by the words "without limitation";

(f) references herein to any gender include each other gender; and

(g) terms defined herein shall have the meanings set forth herein without reference to statutory or industry usage unless otherwise specified herein.

# ARTICLE II

## THE PRE-CLOSING REORGANIZATION

2.1 Formation of Newco and Contribution and Distribution of Assets. Prior to the Closing, subject to the terms and conditions of this Agreement, Seller shall cause GTE to form Newco and shall (a) cause GTE to contribute the limited liability company interests and capital stock of the ILEC Subsidiaries to Newco and (b) to the extent not transferred pursuant to clause (a) of this Section 2.1, (i) Seller shall, and shall cause its Subsidiaries to, convey, transfer, assign and deliver to Newco all right, title and interest of Seller and its Subsidiaries in and to all of the Transferred Assets, free and clear of all Encumbrances (other than Permitted Encumbrances) and (ii) Seller shall cause the Transferred Companies to convey, transfer, assign and deliver to the Seller Group all right, title and interest of the Transferred Companies in and to all of the Excluded Assets.

2.2 Intercompany Agreements and Accounts. Immediately prior to the Closing, Seller shall have caused all intercompany payables and receivables between any member of Seller Group on the one hand and the Transferred Companies on the other hand (other than ordinary course trade payables and receivables outstanding as of the Effective Time, which shall be included in Net Working Capital and which Buyer and Seller agree not to dispute (or setoff) and agree to pay according to the terms thereof) to be settled, and all intercompany agreements between any member of Seller Group on the one hand and the Transferred Companies on the other hand, other than the Transferred Affiliate Arrangements, to be terminated, without any further liability, payment or obligation on the part of the Transferred Companies or the Seller Group thereunder.

2.3 Assumed and Excluded Liabilities. (a) The applicable Transferred Company shall assume or retain and be responsible, from and after the Closing, for (i) all of the Liabilities of Seller and its Subsidiaries to the extent relating to, arising out of or resulting from the Transferred Business, the Transferred Companies or the ownership or operation of the Transferred Assets, whether incurred before, on or after the Closing, including the Liabilities of the Transferred Companies under this Agreement and the Ancillary Documents (other than the Excluded Liabilities and except as otherwise expressly provided in this Agreement) including Liabilities (to the extent relating to, arising out of or resulting from the Transferred Business, the Transferred Companies or the ownership or operation of the Transferred Assets) (A) in respect of leased vehicles, equipment leases, Transferred Real Property Leases, or any of the Transferred Companies' use and occupancy of leased premises, (B) arising from existing orders of or agreements with the State Commissions, Video Franchisors and other regulatory authorities, (C) arising from new orders of or agreements with the State Commissions, Video Franchisors and other regulatory authorities imposed or agreed to during the course of approval for the transactions contemplated by this Agreement, (D) arising from customer service obligations and contracts, (E) for customer deposits, prepayments and advance billings and (F) arising out of or related to any of the Transferred Real Property; and (ii) all Liabilities in respect of the Assigned Contracts or Unassigned Assets or yet to be novated Federal Government Contracts as provided in Section 2.4 ((i) and (ii) collectively, the "Assumed Liabilities") and (b) one or more members of the Seller Group, as applicable, shall assume and be responsible for (i) all of the Liabilities of the Transferred Companies to the extent relating to, arising out of or resulting from an Excluded

Asset or any other asset specifically retained by the Seller Group at the Closing pursuant to this Agreement or an Ancillary Document, whether incurred before, on or after the Closing, provided, however, that this clause (b)(i) shall not apply to any Intellectual Property to the extent used or practiced in the Transferred Business before, on or after the Closing; (ii) any Liability of Seller or any of its Subsidiaries to their employees in their capacity as employers under any employee benefits or similar plans, or under any workers compensation Laws or arrangements, in each case except to the extent expressly assumed by Buyer under the Employee Matters Agreement; (iii) all Taxes for which Seller is responsible under Section 6.5(a); (iv) except as otherwise expressly provided in this Agreement or the Ancillary Documents, any liability for any fees or expenses incurred by Seller or any of its Subsidiaries (including the fees and expenses of legal counsel, any accountant, auditor, broker, financial advisor, investment banker or consultant retained by Seller or its Subsidiaries or on their behalf) in connection with the preparation, negotiation, execution and delivery of this Agreement or the Ancillary Documents or the consummation of the transactions contemplated by this Agreement, including any accountant, auditor, broker, financial advisor, investment banker or consultant fees in connection with the implementation of the Pre-Closing Reorganization; (v) any Liabilities of the Transferred Companies relating to, arising out of or resulting from any business currently or formerly conducted by Seller or any of its Subsidiaries (other than to the extent such Liabilities relate to, arise out of or result from the Transferred Business, the Transferred Companies, the ownership or operation of the Transferred Assets or the Transferred Companies' historic wireline business conducted within the States) and (vi) all Liabilities existing as of the Closing Date, to the extent relating to, arising out of or resulting from any intercompany payables to be settled pursuant to Section 2.2, in each case whether incurred before, on or after the Closing, except as otherwise expressly provided in this Agreement (collectively, the "Excluded Liabilities").

2.4 Nonassignability of Assets.

(a) Notwithstanding anything to the contrary contained in this Agreement, to the extent that the conveyance, transfer, assignment or delivery or attempted conveyance, transfer, assignment or delivery to or from the Transferred Companies, as the case may be, of any asset that would be a Transferred Asset (including an Assigned Contract) or Excluded Asset, as applicable, or any claim or right or any benefit arising thereunder or resulting therefrom (and the subsequent acquisition of Newco by Buyer) is prohibited by any applicable Law or would result in a violation or breach of Contract, or would require any Governmental Authorizations or third-party authorizations, approvals, consents or waivers, and such authorizations, approvals, consents or waivers have not been obtained, or such violation or breach has not been cured, prior to the Closing (other than for Federal Government Contracts, which will transfer at the Closing subject to a subsequent Federal Government Contract novation) (the "Unassigned Assets"), the Closing shall proceed without the conveyance, transfer, assignment or delivery of such asset and there shall be no adjustment to the Purchase Price. The parties shall use their commercially reasonable efforts for six (6) months following the Closing (other than for Federal Government Contracts, for which there will be no six (6) month limit on the parties' obligations to use commercially reasonable efforts to obtain a Federal Government novation), and cooperate with each other, to obtain promptly such authorizations, approvals, consents or waivers or cure any such violation or breach; provided, however, that none of Seller or its Subsidiaries or Buyer or its Subsidiaries shall be required to pay any consideration therefor, other than filing, recordation or similar fees and, provided, further, that the parties shall not be required to seek any authorizations, approvals, consents or waivers or cure any such violation or breach under Non-Scheduled Contracts. Seller shall not authorize or enter into any agreement or commitment with respect to obtaining any such authorizations, approvals, consents, novations or waivers or curing any such violation or breach that would impose an additional obligation or burden on the Transferred Business without Buyer's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed). Pending such authorization, approval, consent, novation or waiver, or the cure of any such violation or breach, and subject to Section 6.17, the parties shall cooperate with each other in any mutually agreeable, reasonable and lawful arrangements designed to assert any rights under such Unassigned Asset or yet to be novated Federal Government Contract (and Seller shall keep Buyer reasonably informed with respect to material changes to any such Unassigned Asset) and provide (a) to the intended transferee the benefits of use, burdens and obligations of such Unassigned Asset or yet to be novated Federal Government Contract and (b) to the intended transferor the benefits that they would have obtained had the Unassigned Asset been conveyed at the Closing and relief from all Liabilities associated with such Unassigned Asset or yet to be novated Federal Government Contract. Once authorization, approval, consent or waiver for the conveyance, transfer, assignment, or delivery of any such Unassigned Asset not conveyed, transferred, assigned, or delivered at the Closing is obtained, or such violation or breach is cured, Seller or Buyer, as applicable, shall, or shall cause the applicable Subsidiary or Subsidiaries to, convey, transfer and deliver such Unassigned Asset to the intended transferee for no additional cost (other than any applicable Transfer Taxes for which Buyer shall be responsible in accordance with Section 6.5(e) hereof), and such Unassigned Asset shall thereafter be deemed to be a Transferred Asset or Excluded Asset, as applicable.

(b) To the extent that any such Unassigned Asset or unnovated Federal Government Contract cannot be transferred or the full benefits of use of any such Unassigned Asset or unnovated Federal Government Contract cannot be provided to the intended transferee following the Closing pursuant to this Section 2.4 (including with respect to Non-Scheduled Contracts), then Buyer and Seller or the applicable Subsidiary shall enter into such arrangements (including subleasing, sublicensing or subcontracting) to provide to the parties hereto the operational equivalent, to the extent permitted, of obtaining such authorization, approval, consent or waiver, and the performance by the intended transferee of the obligations thereunder. Seller or Buyer, as applicable, shall hold in trust for and pay to the other party promptly upon receipt thereof, all income, proceeds and other monies received by such party or any of its Subsidiaries in connection with its use of any Unassigned Asset or unnovated Federal Government Contract in connection with the arrangements under this Section 2.4. Buyer or Seller, as applicable, shall pay to the other party, promptly upon receipt of any invoice from the other party, all Losses generated by such party or any of its Subsidiaries in connection with the intended transferee's use of any Unassigned Asset or unnovated Federal Government Contract in connection with the arrangements under this Section 2.4. Obligations pursuant to this Section 2.4(b) with respect to any such Unassigned Asset or unnovated Federal Government Contract shall continue for the duration of the term of such Unassigned Asset or unnovated Federal Government Contract and, for the avoidance of doubt, neither party nor their Subsidiaries may extend or renew the term of an Unassigned Asset or unnovated Federal Government Contract or exercise any option for such extension or renewal. Further, to the extent a party is required to give notice of intent not to renew or extend any term of an Unassigned Asset or unnovated Federal Government Contract at the end of a current term, such party may provide such notice in accordance with the terms and conditions of such underlying asset. This Section 2.4 shall be subject to the treatment of Contracts addressed in Section 6.13 and Section 6.17.

2.5 Transfer Documentation. The transfers of Transferred Assets and Excluded Assets, and the assumption of Assumed Liabilities and Excluded Liabilities, shall be effected pursuant to the Transfer Documents substantially in the form attached as Annex 2.5 to this Agreement; provided, however, that the transfer to Seller and its Affiliates of the Intellectual Property owned by the Transferred Companies prior to the Closing, and the license to the Transferred Companies from Seller and its Affiliates of certain Intellectual Property that is an Excluded Asset, shall be effected pursuant to the Intellectual Property Agreement substantially in the form attached as Exhibit C to this Agreement. Any substantive amendments, supplements or deviations from such forms shall require the prior written consent of Buyer.

2.6 Shared Locations. At or prior to Closing, Seller and Buyer (or their applicable Subsidiaries) shall enter into a lease, sublease or other occupancy agreement governing each Shared Location (each, a "Shared Location Lease") in accordance with the terms of Seller Schedule 2.6. To the extent that the consent of a third-party landlord is necessary for a Shared Location Lease and such consent is not obtained, such Shared Location shall be subject to Section 2.4. Buyer and Seller shall cooperate to identify any property that is used both in the Transferred Business and in the Seller Group's other operations and is not listed on Seller Schedule 2.6, and to fully negotiate a Shared Location Lease with respect to any such property, in each case no later than six (6) months from the date hereof; it being understood that any such Shared Location Lease shall be deemed an Ancillary Document.

## ARTICLE III

## PURCHASE AND SALE

3.1 Purchase and Sale. On the terms and subject to the conditions set forth herein, at the Closing, Seller shall cause GTE to sell, convey, transfer, assign and deliver to Buyer (or otherwise cause to be sold, conveyed, transferred, assigned and delivered to Buyer), and Buyer shall purchase and acquire from GTE, all of the issued and outstanding limited liability company interests of Newco free and clear of all Encumbrances.

3.2 Purchase Price. On the terms and subject to the conditions set forth herein, in consideration of the sale of Newco, at the Closing, Buyer shall pay to GTE an amount in cash equal to (i) $10,540,000,000 (ten billion five hundred forty million dollars), *plus* (ii) the Required Payment Amount, *plus* (iii) the Estimated Buyer Working Capital Payment, if any, *minus* (iv) the Estimated Seller Working Capital Payment, if any, *minus* (v) the Audit Adjustment Amount, if any, *plus* (vi) the absolute value of the amount of Estimated Net Debt, if negative, *minus* (vii) the amount of Estimated Net Debt, if positive (the "Purchase Price").

3.3 Closing. The Closing shall take place at the offices of Debevoise & Plimpton LLP, 919 Third Avenue, New York, New York 10022 at 10:00 a.m. New York City time on (i) the date that is the first Business Day that is in the month after, and is at least three (3) Business Days after, the later of (a) the date on which the conditions set forth in Article VII are satisfied (other than those conditions that by their nature are to be satisfied by actions taken at (or substantially concurrently with) the Closing, but subject to the satisfaction or waiver of those conditions) and (b) the Marketing Period Termination Date (but subject to the satisfaction or waiver of the conditions set forth in Article VII as of the date described in this clause (i)), provided that if (w) Buyer has used its reasonable best efforts to prepare for the Cutover at the time the Closing otherwise would have occurred pursuant to this clause (i), (x) despite such efforts Buyer reasonably believes that it would not be able to successfully achieve the Cutover on such date, (y) Buyer provides Seller written notice, at least sixty one (61) days prior to the date the Closing otherwise would have occurred pursuant to this clause (i), that it elects to defer the Closing due to the application of clauses (w) and (x) above, and (z) the date the Closing otherwise would have occurred pursuant to this clause (i) is on or prior to the date that is seventeen (17) months after the date hereof, then the Closing will occur on the first Business Day of the immediately following month (but subject to the satisfaction or waiver of the conditions set forth in Article VII as of such date) or (ii) at such other time and place as the parties hereto may mutually agree. Notwithstanding the foregoing, if such first Business Day of the month is not the first calendar day of the month, then the Closing will be deemed (other than with respect to Article VII and Article VIII hereunder) to occur at 12:01 a.m., Eastern Time, on the first calendar day of the month in which the Closing occurs and Seller will be deemed to have operated the Transferred Business for the benefit of Buyer between such first calendar day and such first Business Day (which shall include the payment by Seller to Buyer of any cash generated by the Transferred Business during such period and not held by the Transferred Companies). The date on which the Closing occurs is the "Closing Date".

3.4 Deliveries by Buyer. At the Closing, Buyer shall deliver to Seller the following:

(a) the Purchase Price, in immediately available funds by wire transfer to an account or accounts which have been designated by Seller in writing at least three (3) Business Days prior to the Closing Date;

(b) a duly executed counterpart of each of the Ancillary Documents to which Buyer is a party;

(c) a properly executed IRS Form 8023 with respect to the Section 338(h)(10) Companies (and any comparable state and local forms) signed by Buyer and containing information then available; and

(d) the certificate to be delivered pursuant to Section 7.3(d).

3.5 Deliveries by Seller. At the Closing, Seller shall deliver, or cause to be delivered, to Buyer the following:

(a) a membership interest transfer power transferring ownership of the limited liability company interests of Newco;

(b) a duly executed counterpart of each of the Ancillary Documents;

(c) a duly executed copy of each of the Transfer Documents;

(d) letters of resignation in form and substance reasonably acceptable to Buyer from each member of the Board of Directors (or similar governing body) of each of the Transferred Companies, effective not later than the Closing Date, or other evidence that each member of the Board of Directors (or similar governing body) of each of the Transferred Companies immediately prior to the Closing shall cease to be a member of the Board of Directors (or similar governing body) of the Transferred Companies at the Closing;

(e) a certificate of non-foreign status reasonably acceptable to Buyer and otherwise meeting the applicable requirements of Treasury Regulation Section 1.1445-2(b)(2);

(f) a properly executed IRS Form 8023 with respect to the Section 338(h)(10) Companies (and any comparable state and local forms) signed by Seller and containing information then available; and

(g) the certificate to be delivered pursuant to Section 7.2(g).

3.6 Closing Statement.

(a) No later than five (5) Business Days prior to the Closing Date, Seller shall deliver to Buyer an estimated pro forma (for the Pre-Closing Reorganization) statement of Net Working Capital ("Estimated Net Working Capital") and Net Debt ("Estimated Net Debt"), which statement will be prepared in accordance with GAAP, applied in a manner consistent with the preparation of the Newco Financial Statements and in accordance with the principles, policies and methodologies set forth in Exhibit F attached hereto (collectively, the "Working Capital Principles"). If there is a conflict between GAAP, applied in a manner consistent with the Newco Financial Statements, and Exhibit F, then Exhibit F shall prevail. The process described in this Section 3.6 is not intended to permit the introduction of different accounting methodologies, classification, practices, estimation techniques, assumptions and principles to the preparation of the Estimated Closing Statement or the Final Closing Statement from those used in the preparation of the balance sheet as of December 31, 2013 included in the Newco Financial Statements, except as may be expressly provided for in the definitions set forth herein and in Exhibit F attached hereto. The statement prepared in accordance with the foregoing is referred to as the "Estimated Closing Statement". Seller shall also prepare and deliver to Buyer a worksheet showing the difference, if any, between the Estimated Net Working Capital and the Net Working Capital Threshold. The amount, if any, by which the Estimated Net Working Capital exceeds the Net Working Capital Threshold is referred to herein as the "Estimated Buyer Working Capital Payment". The amount, if any, by which the Net Working Capital Threshold exceeds the Estimated Net Working Capital is referred to herein as the "Estimated Seller Working Capital Payment".

(b) Audit Adjustment Amount. If upon delivery to Buyer of the Audited 2014 Financial Statements pursuant to Section 6.18(a)(i), the total revenues of the Transferred Business reflected in the Audited 2014 Financial Statements for the fiscal year ending December 31, 2014 (the "Audited 2014 Revenue Amount") is less than the amount set forth on Schedule 3.6(b)(1), then the Purchase Price shall be decreased by the dollar amount equal to the product of (x) 5.9 *multiplied* by (y) 0.41 *multiplied* by (z) the dollar amount by which the Audited 2014 Revenue Amount is less than the amount set forth on Schedule 3.6(b)(2). The "Audit

Adjustment Amount" shall be either: (i) such product, if the Audited 2014 Revenue Amount is less than the amount set forth on Schedule 3.6(b)(1); or (ii) zero dollars ($0), if the Audited 2014 Revenue Amount is not less than the amount set forth on Schedule 3.6(b)(1).

(c) Seller shall prepare, or cause to be prepared, no later than sixty (60) days after the Closing Date, a statement of Net Working Capital and Net Debt of the Transferred Business as of the Effective Time, which statement (the "Final Closing Statement") will be prepared in accordance with the Working Capital Principles, together with a worksheet showing the difference, if any, between (i) the Net Working Capital shown on the Final Closing Statement (the "Final Net Working Capital") and the Estimated Net Working Capital and (ii) the Net Debt shown on the Final Closing Statement (the "Final Net Debt") and the Estimated Net Debt. From and after the Closing Date, Buyer shall provide Seller and its authorized representatives with reasonable access during business hours on reasonable notice to the Transferred Business, including the Transferred Books and Records, and other information that may reasonably relate to the Final Closing Statement as Seller shall from time to time reasonably request in writing.

(d) For thirty (30) days following its receipt of the Final Closing Statement, Buyer shall have the right to object thereto or any portion thereof (it being agreed that the only permitted reasons for objections shall be mathematical error or the failure to prepare the Final Closing Statement or compute items set forth therein in accordance with this Section 3.6, including any failure of the Final Closing Statement or any items set forth therein to adhere to the Working Capital Principles). Any objection made by Buyer shall be accompanied by materials showing in reasonable detail Buyer's support for its position or a reasonable basis for why it lacks sufficient information on which to make such an objection. Buyer shall be deemed to have waived any rights to object to the Final Closing Statement, unless Buyer furnishes its written objections, together with supporting materials, to Seller within such thirty (30) day period. Within thirty (30) days after Seller's receipt of Buyer's objection to the Final Closing Statement, Buyer and Seller shall meet to resolve any differences in their respective positions with respect to the Final Closing Statement. Each party shall provide the other party supporting documentation and make their respective representatives reasonably available to answer questions as to their respective positions with respect to the Final Closing Statement. If Buyer and Seller are unable to agree on the Final Closing Statement within ninety (90) days after Seller's receipt of Buyer's written objections, then PricewaterhouseCoopers LLP will be appointed to resolve any remaining disagreements. If such mutually selected accounting firm is not willing and able to serve in such capacity, then Seller shall deliver to Buyer a list of three (3) other accounting firms of recognized national standing in the United States and Buyer shall select one (1) of such three (3) accounting firms (PricewaterhouseCoopers LLP or such firm as is ultimately selected pursuant to the aforementioned procedures being the "Accountant"). Buyer and Seller shall execute any agreement reasonably required by the Accountant for its engagement hereunder. The Accountant, acting as an expert and not as an arbitrator, shall be charged with determining as promptly as practicable, but in any event within thirty (30) days after the date on which such dispute is referred to the Accountant, whether Final Net Working Capital, Final Net Debt and the Final Closing Statement were prepared in accordance with this Agreement, including the Working Capital Principles, and (only with respect to the disagreements as to the items set forth in the notice of disagreement and submitted to the Accountant and any other items affected by the resolution of those disputed items, and in all instances, the Accountant's determinations must be within the range of the amounts asserted by

Buyer and Seller) whether and to what extent, if any, Final Net Working Capital, Final Net Debt and the Final Closing Statement require adjustment. The Accountant shall allocate its costs and expenses between Buyer and Seller based upon the percentage of the contested amount submitted to the Accountant that is ultimately awarded to Buyer on the one hand or Seller on the other hand, such that Buyer bears a percentage of such costs and expenses equal to the percentage of the contested amount awarded to Seller and Seller bears a percentage of such costs and expenses equal to the percentage of the contested amount awarded to Buyer. If there is no timely objection as provided above, the Final Closing Statement as determined by Seller shall be binding and final for purposes of this Agreement. If there is a timely objection as provided above, the determination of the Accountant shall be binding and final for purposes of this Agreement.

(e) The amount equal to the Final Net Working Capital minus the Estimated Net Working Capital shall be referred to as the "Working Capital Difference" and the amount equal to the Final Net Debt minus the Estimated Net Debt shall be referred to as the "Net Debt Difference". Within two (2) Business Days following the final determination of the Final Closing Statement, whether by agreement between Buyer and Seller or as set forth in Section 3.6(b), (x) Buyer shall pay to GTE an amount equal to the Working Capital Difference, if the Working Capital Difference is a positive number, and Seller shall pay (or cause GTE to pay) to Buyer an amount equal to the absolute value of the Working Capital Difference, if the Working Capital Difference is a negative number, and (y) Seller shall pay (or cause GTE to pay) to Buyer an amount equal to the Net Debt Difference, if the Net Debt Difference is a positive number, and Buyer shall pay to GTE an amount equal to the absolute value of the Net Debt Difference, if the Net Debt Difference is a negative number. Such amount shall be paid, in immediately available funds, together with interest thereon calculated pursuant to the penultimate sentence of this Section 3.6(e), pursuant to the instructions previously delivered by Buyer or GTE, as applicable. Notwithstanding the foregoing, the aggregate of the respective amounts to be paid (if any) by Seller or GTE, on the one hand, and Buyer, on the other hand, under the preceding two sentences shall, if payable at the same time, be netted against each other and the party with the positive net payment obligation shall pay such net obligation amount. Any payment under this Section 3.6(e) shall accrue interest at the rate of 200 basis points per annum above the "prime rate" as of the Closing Date as announced by Bank of America, N.A. (or any successor thereto) from the Closing Date to the date of payment. Any payment made pursuant to this Section 3.6(e) shall, for tax purposes, be deemed to be an adjustment to the consideration payable to GTE.

3.7 Allocation of Purchase Price. The parties have agreed that the purchase and sale of the limited liability company interests of Newco shall be treated for U.S. federal income tax purposes as an acquisition by Buyer, and a sale by Seller, of all of the assets of Newco and that the purchase and sale of the limited liability company interests of Newco will be treated as an "applicable asset acquisition" within the meaning of Section 1060 of the Code. Within ninety (90) days following the Closing Date, Buyer shall deliver to Seller a draft allocation schedule, prepared in accordance with Section 1060 of the Code, allocating the Purchase Price and the Assumed Liabilities (to the extent treated as liabilities for federal income tax purposes) among the assets of Newco (including, for purposes of this Section 3.7, the stock of the Section 338(h)(10) Companies and the assets of any Subsidiary of Newco that is treated as a flow-through-entity for U.S. federal income tax purposes) (the "Allocation Schedule"). If Seller believes that all or a portion of the Allocation Schedule is incorrect and Seller notifies Buyer in a writing including a description of the objection and basis supporting Seller's objections and any calculations or documentation that support the objection, within 30 (thirty) days after having received such Allocation Schedule, Buyer and Seller agree to consult and resolve in good faith any such disputed item. In the event the parties are unable to resolve any such dispute within 30 (thirty) days following notice to Buyer of Seller's objection (in the form and within the time set forth herein), the Accountant will be retained to resolve solely any issue in dispute as promptly as possible and the determination of the Accountant shall be final with respect to such disputed issues. Buyer and Seller shall then be bound by the Allocation Schedule, as adjusted to reflect the determination, if any, of the Accountant. The costs of the Accountant shall be borne equally by Buyer and Seller. In the event that Final Net Working Capital is determined, or another adjustment to the Purchase Price for tax reporting purposes is made under this Agreement or the Employee Matters Agreement, after delivery of the Allocation Schedule, Buyer and Seller shall cooperate to revise such schedule to take into account the portion of such Final Net Working Capital or such other adjustment to the Purchase Price allocable to the assets of Newco. The Allocation Schedule, as finally determined, shall be used in preparing IRS Form 8883 and each of Seller, on the one hand, and Buyer on the other hand, shall report the transaction contemplated by this Agreement, and file all Tax Returns, in each case, for federal, state, local and foreign Tax purposes in accordance with the Allocation Schedule, as finally determined pursuant to this Section 3.7.

3.8 Withholding. Notwithstanding any other provision of this Agreement, any party making a payment under this Agreement shall be entitled to deduct and withhold from any consideration payable hereunder, or other payment otherwise payable pursuant to this Agreement, the amounts required to be deducted and withheld under the Code, or any provision of any U.S. federal, state, local or foreign Tax law, provided, however, that if either party becomes aware that any amount is required to be so withheld, it shall promptly notify the other party of any such required withholding and the parties shall cooperate with each other in good faith (including by taking all reasonable actions requested by the other party to the extent such actions would not reasonably be expected to have an adverse impact on the requested party) to minimize or eliminate such withholding Taxes. Any amounts so withheld shall be paid over to the appropriate Governmental Entity. To the extent that amounts are so deducted and withheld, such deducted and withheld amounts shall be treated for all purposes of this Agreement as having been paid to the Person in respect of which such deduction and withholding was made.

## ARTICLE IV

## REPRESENTATIONS AND WARRANTIES OF SELLER

Except as set forth in the applicable section or subsection of the disclosure schedules delivered to Buyer by Seller prior to the execution hereof (the "Seller Schedules") (it being agreed that disclosure of any item in any section or subsection of the Seller Schedules shall be deemed disclosure with respect to any other section or subsection to the extent the relevance of such item is reasonably apparent on its face), Seller represents and warrants to Buyer that:

4.1 Organization and Qualification. Each of Seller, each Transferred Company and each Subsidiary of Seller that has title to any asset reasonably expected to be a Transferred Asset is, and Newco on the date of its formation will be, duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization and has, and Newco on the date of its formation will have, all requisite corporate, limited liability company or similar power and authority to own, lease and operate its assets and to carry on its business as currently conducted and is, or in the case of Newco prior to the Closing will be, duly qualified to do business and is (or will be) in good standing as a foreign corporation, limited liability company or other entity in each jurisdiction where the ownership or operation of its assets or the conduct of its business requires such qualification, except for failures to be so qualified or in good standing that would not, individually or in the aggregate, reasonably be expected to have a Seller Material Adverse Effect.

4.2 Capital Structure.

(a) Prior to the date hereof, Seller has made available to Buyer complete and correct copies of the certificate of incorporation or certificate of formation and the by-laws (or similar organizational documents) of each of the Transferred Companies as presently in effect. Seller directly or indirectly owns all right, title and interest in and to, all outstanding stock, membership interests and other equity interests of the Transferred Companies, free and clear of all Encumbrances, other than Permitted Encumbrances. All of the outstanding stock, membership interests and other equity interests of the Transferred Companies have been duly authorized, are validly issued, fully paid and non-assessable. None of the shares of outstanding stock, membership interests and other equity interests of the Transferred Companies was issued in violation of any preemptive rights, rights of first refusal or similar rights.

(b) Seller Schedule 4.2(b) lists the total number of authorized and issued and outstanding shares of all classes of the capital stock or membership interests, as applicable, of each of the Transferred Companies as of the date of this Agreement. Except as contemplated by the Pre-Closing Reorganization, none of the Transferred Companies has any subsidiaries or owns any shares of capital stock, partnership interests or other beneficial ownership interests in any other Person.

(c) There are no preemptive or other outstanding rights, options, warrants, conversion rights, stock appreciation rights, redemption rights, repurchase rights, agreements, arrangements, commitments, securities or obligations of any character under which Seller or its Subsidiaries, including the Transferred Companies, are or may become obligated to issue or sell, or giving any Person a right to subscribe for or acquire, or in any way dispose of, any shares of the capital stock or other equity interests, or any securities or obligations exercisable or exchangeable for or convertible into any shares of the capital stock or other equity interests, of the Transferred Companies. The outstanding stock and other equity interests of the Transferred Companies are not subject to any voting trust agreement or other Contract, agreement or arrangement restricting or otherwise relating to the voting, dividend rights or disposition of such stock or other equity interests. There are no phantom stock or similar rights providing economic benefits based, directly or indirectly, on the value or price of the stock, membership interests or other equity interests of the Transferred Companies.

4.3 Corporate Authorization. Seller and each of its Subsidiaries, as applicable, has full corporate or limited liability company power and authority to execute and deliver this Agreement and each of the Ancillary Documents to which it is, or as of the Closing will be, a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereunder and thereunder. The execution, delivery and performance by Seller and each of its Subsidiaries, as applicable, of this Agreement and each of the Ancillary Documents to which it is, or as of the Closing will be, a party, and the consummation by Seller and each of its Subsidiaries, as applicable, of the transactions contemplated hereunder and thereunder, has been duly and validly authorized and no additional company or equityholder authorization or consent is required in connection with the execution, delivery and performance by Seller and each of its Subsidiaries, as applicable, of this Agreement or any of the Ancillary Documents to which it is, or as of the Closing will be, a party, and the consummation by Seller and each of its Subsidiaries, as applicable, of the transactions contemplated hereunder and thereunder.

4.4 Consents and Approvals. Other than (a) under the HSR Act, (b) from or to the FCC, (c) from or to the State Commissions (other than the Florida Public Service Commission), (d) from or to state and local regulatory bodies or grantors of multichannel video franchises set forth on Seller Schedule 4.4 (the "Video Franchisors") and (e) consents required to be maintained or obtained pursuant to any Contract in respect to which a Governmental Entity is a customer of Seller or any of its Subsidiaries, no consent, approval, waiver, authorization, report, notice or filing is required to be obtained by Seller or any of its Subsidiaries from, or to be given by Seller or any of its Subsidiaries to, or made by Seller or any of its Subsidiaries with, any Governmental Entity in connection with the execution, delivery and performance by Seller or any of its Subsidiaries of this Agreement and any Ancillary Document to which it is a party, and the consummation by Seller and each of its Subsidiaries, as applicable, of the transactions contemplated hereby and thereby, except for those consents, approvals, waivers, authorizations, reports, notices or filings the failure to obtain, give or make, as the case may be, would not, individually or in the aggregate, reasonably be expected to be material to the Transferred Business or reasonably be expected to prevent or materially impair or delay Seller's or its Subsidiaries' ability to perform their respective obligations under this Agreement or the Ancillary Documents.

4.5 Non-Contravention. The execution, delivery and performance by Seller and its Subsidiaries of this Agreement and the Ancillary Documents to which they are, or as of the Closing will be, a party, and the consummation of the transactions contemplated hereby and thereby, do not and will not (i) violate any provision of Seller's or its Subsidiaries' respective organizational documents, (ii) assuming the receipt of all consents, approvals, waivers, novations and authorizations and the making of the notices and filings listed in Section 4.4 or set forth on Seller Schedule 4.4, conflict with or result in a violation or breach of, or constitute a default under, or result in the termination, cancellation, modification or acceleration (whether after the filing of notice or the lapse of time or both) of any right or obligation of Seller or any of its Subsidiaries under, or result in any right of buy-out by any third party under, or result in a loss of any benefit to which Seller or any of its Subsidiaries is entitled under, any Material Contract or result in the creation of any Encumbrance upon any of the Transferred Assets (other than Permitted Encumbrances), or (iii) assuming the receipt of all consents, approvals, waivers, novations and authorizations and the making of notices and filings listed in Section 4.4 or set forth on Seller Schedule 4.4 or required to be made or obtained by Buyer, conflict with or result in a violation or breach of, or constitute a default under, any Law to which the Transferred Business is subject, or under any Governmental Authorizations, other than, in the case of clauses (ii) and (iii), conflicts, violations, breaches, defaults, terminations, cancellations, modifications, accelerations, losses or Encumbrances that would not, individually or in the aggregate, reasonably be expected to have a Seller Material Adverse Effect (disregarding clauses (vi) and (vii) of the first proviso in the definition of Seller Material Adverse Effect) or prevent or materially impair or delay Seller's or its Subsidiaries' ability to perform their respective obligations under this Agreement or the Ancillary Documents.

4.6 Binding Effect. This Agreement and each of the Ancillary Documents, assuming due execution and delivery by Buyer and the other parties thereto, constitutes, or in the case of the Ancillary Documents will upon execution thereof constitute, a valid and legally binding obligation of any of Seller or any of its Subsidiaries that is a party to such agreements, enforceable against Seller or such Subsidiary, as applicable, in accordance with their respective terms, subject, in each case, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors' rights and to general equity principles.

4.7 Financial Statements.

(a) Seller has previously made available to Buyer true, complete and correct copies of the (i) audited combined statements of assets, liabilities and parent funding of the Transferred Business for the fiscal years ended December 31, 2013 (the "Newco Balance Sheet") and December 31, 2012, and the related audited combined statements of operations, cash flows and parent funding for the fiscal year ended December 31, 2013 and December 31, 2012, including the notes thereto and together with an unqualified report of Seller's independent accountant thereon (together with any reports related thereto, collectively, the "Newco Audited Financial Statements") and (ii) unaudited combined statements of assets, liabilities and parent funding of the Transferred Business for the nine months ended September 30, 2014, and the related unaudited combined statements of operations, cash flows and parent funding for the nine months ended September 30, 2014 (collectively, the "Newco Unaudited Financial Statements" and, together with the Newco Audited Financial Statements, the "Newco Financial Statements").

(b) The Newco Financial Statements present fairly, in all material respects, the financial position, cash flow, parent funding and results of operations of the Transferred Business as of the dates specified therein and for the period then ended and were prepared in accordance with GAAP applied in a manner consistent with Seller's past practices with respect to the Transferred Business and are compliant with Regulation S-X, in each case, except as otherwise noted therein and, in the case of the Newco Unaudited Financial Statements, subject to (x) the absence of notes and (y) normal year-end audit adjustments.

(c) The Financial Statements, when delivered pursuant to this Agreement, shall present fairly in all material respects, the financial position, cash flow, changes in parent funding and results of operations of the Transferred Business as of the dates specified therein and for the periods then ended (on an historical basis and in compliance with Regulation S-X), except as otherwise noted therein and, in the case of unaudited interim statements, subject to normal year-end audit adjustments. The Financial Statements shall be prepared in accordance with GAAP, applied in a manner consistent with Seller's past practices with respect to the Transferred Business and in compliance with Regulation S-X, in each case, except as otherwise noted therein and, in the case of unaudited statements, subject to (x) the absence of notes and (y) normal year-end audit adjustments.

(d) Except as set forth in the Newco Unaudited Financial Statements, since September 30, 2014, Seller and its Subsidiaries conducting the Transferred Business have not incurred any Liabilities that are of a nature that would be required to be disclosed on a combined balance sheet prepared consistently with the Newco Financial Statements or in the notes thereto prepared in conformity with GAAP, other than (i) Liabilities incurred in the Ordinary Course; (ii) other Liabilities under Contracts, Communications Licenses and other permits and licenses in accordance with the terms thereof (other than as a result of any breach thereof by Seller or its Subsidiaries); (iii) Liabilities that individually or in the aggregate would not reasonably be expected to be material to the Transferred Business; and (iv) Liabilities incurred in connection with the transactions contemplated by this Agreement prior to the date of this Agreement or to the extent permitted by this Agreement on or after the date of this Agreement. Notwithstanding the foregoing, the representations and warranties in this Section 4.7(d) shall not apply to any subject matters that are addressed by other representations and warranties in Section 4.8 (Litigation and Claims), Section 4.9 (Taxes), Section 4.12 (Compliance with Laws; Communications Authorizations) and Section 4.13 (Environmental Matters).

(e) Other than (i) the Debt Obligations and (ii) Indebtedness of less than $5,000,000 in the aggregate, the Transferred Companies have no Indebtedness.

4.8 Litigation and Claims.

(a) There is no civil, criminal or administrative action, suit, demand, claim, investigation, review hearing or proceeding pending, or to the Knowledge of Seller, threatened in writing against Seller or any of its Subsidiaries at law or in equity relating to the Transferred Business or the transactions contemplated by this Agreement or the Ancillary Documents, other than those that would not, individually or in the aggregate with any related claims, (i) have a reasonable possibility of resulting in (A) monetary liability of the Transferred Business in excess of $5 million individually or in the aggregate with any related claims, (B) material non-monetary relief against the Transferred Business, (C) a criminal violation or criminal liability by the Transferred Business or (D) a Seller Material Adverse Effect or (ii) reasonably be expected to prevent or materially impair or delay Seller's or its Subsidiaries' ability to perform their respective obligations under this Agreement or the Ancillary Documents.

(b) The Transferred Business is not subject to any order, writ, judgment, award, injunction or decree of any Governmental Entity of competent jurisdiction or any arbitrator or arbitrators, other than those that would not, individually or in the aggregate, (i) have a reasonable possibility of resulting in (A) monetary liability of the Transferred Business in excess of $5 million individually or in the aggregate with any related claims, (B) material non-monetary relief against the Transferred Business, (C) a criminal violation or criminal liability by the Transferred Business or (D) a Seller Material Adverse Effect or (ii) reasonably be expected to prevent or materially impair or delay Seller's or its Subsidiaries' ability to perform their respective obligations under this Agreement or the Ancillary Documents.

4.9 Taxes.

(a) (i) Seller has prepared or caused to be prepared in good faith and duly and timely filed or caused to be duly and timely filed (taking into account any extension of time within which to file) all material Consolidated Tax Returns to the extent relating to a Transferred Company or the Transferred Business, (ii) Seller has prepared or caused to be prepared in good faith and duly and timely filed (taking into account any extension of time within which to file) all other material Tax Returns required to be filed by or with respect to each of the Transferred Companies or the Transferred Business, (iii) all such Tax Returns described in clauses (i) and (ii) above are complete and accurate in all material respects to the extent relating to a Transferred Company or the Transferred Business, and (iv) each of Seller, the Transferred Companies and the Transferred Business has paid or caused to be paid all material Taxes that are required to be paid by or with respect to the Transferred Companies and the Transferred Business (whether or not shown an any Tax Return), or that such Transferred Company or the Transferred Business is obligated to withhold from amounts owing to any Person, except with respect to matters contested in good faith for which appropriate reserves have been maintained in accordance with GAAP.

(b) None of the Transferred Companies is currently the beneficiary of any outstanding waivers of any statute of limitations with respect to material Taxes or extensions of time with respect to a material Tax assessment or deficiency and no request for any such a waiver or extension is currently outstanding.

(c) There are no audits, examinations, investigations or other proceedings ongoing or threatened in writing in respect of material Taxes of the Transferred Companies or the Transferred Business.

(d) There are no material Encumbrances for Taxes on any of the assets of the Transferred Companies or the Transferred Business, other than Permitted Encumbrances.

(e) There is no pending claim for a material refund filed by or with respect to any of the Transferred Companies with respect to Taxes previously paid.

(f) None of the Transferred Companies has engaged in any listed transaction within the meaning of Treasury Regulation Section 1.6011-4.

(g) None of the Transferred Companies has received written notice from any jurisdiction in which such company currently does not file Tax Returns claiming that such company is required to file Tax Returns in such jurisdiction.

(h) None of the Transferred Companies (i) is or has ever been a member of an affiliated group filing a consolidated U.S. federal income tax return (other than the consolidated group of which Seller is the common parent), and (ii) has any liability for the Taxes of another Person under Treasury Regulation Section 1.1502-6 (or any comparable income tax provision of state or local law), as a transferee or successor or by Contract (other than the consolidated group of which Seller is the common parent and other than any Contract entered into in the ordinary course of business and which does not relate primarily to Taxes).

(i) None of the Transferred Companies will be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any (a) change in method of accounting under Section 481 of the Code (or any comparable provision of state, local, or foreign law) for a taxable period ending on or prior to the Closing Date; (b) "closing agreement" as described in Section 7121 of the Code (or any comparable provision of state, local, or foreign law) executed on or prior to the Closing Date; (c) installment sale or open transaction disposition made on or prior to the Closing Date; or (d) prepaid amount received on or prior to the Closing Date.

(j) None of the Transferred Companies is a party to or bound by any Tax allocation, indemnity, sharing or similar agreement that will not be terminated prior to the Closing (excluding, for the avoidance of doubt, any Contract entered into in the ordinary course of business and which does not relate primarily to Taxes).

(k) Other than with respect to a Consolidated Tax Return, no power of attorney which is currently in force has been granted by or with respect to any of the Transferred Companies with respect to any matter relating to Taxes that will not be terminated prior to the Closing.

(l) Newco is and has been since its date of formation a single member limited liability company properly treated as an entity disregarded as separate from GTE for U.S. federal income tax purposes and no election has been made to treat it as anything other than a disregarded entity for state income tax purposes. Verizon Florida LLC is a single member limited liability company properly treated as an entity disregarded as separate from GTE for U.S. federal income tax purposes and no election has been made to treat it as anything other than a disregarded entity for state income tax purposes. Both of GTE Southwest Incorporated and Verizon California Inc. are properly treated as corporations for U.S. federal income tax purposes that are members of the affiliated group filing a consolidated U.S. federal income Tax Return of which Seller is the common parent. None of the Transferred Companies has any Subsidiaries or owns any shares of capital stock, partnership interests or other beneficial ownership interests in any other Person, except for Newco, which as of the Closing will own the equity of the ILEC Subsidiaries.

4.10 Employees and Employee Benefits.

(a) As used in this Agreement, "Seller Benefit Plans" means all (i) "employee benefit plans" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and (ii) all other incentive, profit-sharing, stock option, stock purchase, other equity-based compensation, employment, compensation, vacation or other leave, change in control, retention, supplemental retirement, severance, health, medical, disability, life insurance, welfare, deferred compensation, fringe benefit and other employee compensation and benefit plans, programs, practices and agreements, written or oral, in each case established, maintained or contributed to, by Seller or any of its Affiliates and (x) that will (or will be required to) be established, maintained or contributed to, by Buyer on the Closing Date as provided herein, (y) with respect to which any Business Employee is (or will be) entitled to any benefit, or (z) with respect to which any Transferred Company has any liability. As used in this

Agreement, the term "Business Employees" means (i) all active Listed Employees who are employees of the Transferred Companies immediately prior to the Closing and (ii) all Listed Employees who immediately prior to the Closing are on maternity or paternity leave, educational leave, short-term disability, military leave with veterans' reemployment rights under federal law, leave under the Family Medical Leave Act of 1993, or any other approved leave of absence, or are union represented employees who have been laid off and have a right to recall that has not expired, but in either case, excluding all Retained Employees. The Seller Benefit Plans are set forth on Seller Schedule 4.10(a)(i), and those Seller Benefit Plans that are currently sponsored, maintained or contributed to solely by a Transferred Company (the "Company Plans") are set forth on Seller Schedule 4.10(a)(ii). None of the Seller Benefit Plans other than the Company Plans will be sponsored or maintained by a Transferred Company as of immediately prior to the Closing Date. With respect to each Seller Benefit Plan, Seller has made available to Buyer true and complete copies of all plan documents, summary plan descriptions, and any other documentation that is material to Buyer's obligations under Section 6.6 or the Employee Matters Agreement.

(b) Each Seller Benefit Plan has been operated and administered in compliance with its terms and with applicable Law, including ERISA and the Code, except for any non-compliance that, individually and in the aggregate, would not result in a Seller Material Adverse Effect. None of Seller or any of its Subsidiaries has engaged in a transaction with respect to any Seller Benefit Plan that, assuming the taxable period of such transaction expired as of the date of this Agreement (in the case of a Tax or penalty imposed by Section 4975 of the Code), would reasonably be expected to subject the Transferred Companies or any Seller Benefit Plan to a Tax or penalty imposed by Section 502(i) of ERISA or by Section 4975 of the Code, either individually or in the aggregate, in an amount which could be material. Each Seller Benefit Plan intended to be qualified under Section 401(a) of the Code, and the trust (if any) forming a part thereof, has received a favorable determination letter from the U.S. Internal Revenue Service ("IRS"), each trust maintained under any Seller Benefit Plan intended to satisfy the requirements of Section 501(c)(9) of the Code has received recognition of exemption from the IRS, and, to the Knowledge of Seller, no event has occurred and no condition exists that would reasonably be expected to adversely affect such qualified or exempt status.

(c) No liability under Title IV of ERISA has been or is reasonably expected to be incurred by the Transferred Companies or any ERISA Affiliate. None of the Transferred Companies or any ERISA Affiliate have failed to make any contribution when due to any Seller Plan subject to Section 412 of the Code or Section 302 of ERISA. As used in this Agreement, "ERISA Affiliate" means, with respect to a Transferred Company, any Person or any trade or business, whether or not incorporated, that, together with such Transferred Company, would be deemed a "single employer" within the meaning of Section 4001(b) of ERISA prior to the consummation of the transactions contemplated by this Agreement.

(d) No Seller Benefit Plan is a "multiemployer plan" as defined in Section 3(37) of ERISA. None of the Transferred Companies or any ERISA Affiliate has made or suffered or will as of the Closing Date (including as a result of the consummation of the transactions contemplated by this Agreement) have made or suffered a "complete withdrawal" or a "partial withdrawal" as such terms are respectively defined in Section 4203 and 4205 of ERISA, the liability for which has not been satisfied in full.

(e) All contributions required to be made under the terms of any material Seller Benefit Plan have been timely made when due and any other current obligations with respect thereto are appropriately reflected on the Newco Financial Statements and, when delivered, the Financial Statements.

(f) None of the Transferred Companies has obligations for retiree welfare benefits other than (i) coverage mandated by applicable Law or (ii) Transferred Company contributions toward such mandated coverage that continues during a severance period that does not exceed 18 months.

(g) There are no pending or, to the Knowledge of Seller, threatened written claims against Seller or its Affiliates under workers' compensation law or under the Seller Benefit Plans that (i) could transfer to Buyer (in whole or in part) in connection with an assumption of obligations required by Section 6.6 or the Employee Matters Agreement, (ii) are not accrued under the applicable Seller Benefit Plan or reflected on the Newco Financial Statements and (iii) if adversely determined, would, individually or in the aggregate, reasonably be expected to result in a material Liability to Buyer.

(h) Except as contemplated by this Agreement or the Employee Matters Agreement, the consummation of the transactions contemplated by this Agreement and the Ancillary Documents will not (either alone or together with any other event) (i) entitle any Business Employee to severance, change of control or other similar pay or benefits under any Seller Benefit Plan, or (ii) accelerate the time of payment or vesting or trigger any payment of funding (through a grantor trust or otherwise) of compensation or benefits to any Business Employee or beneficiary of any Business Employee under any Seller Benefit Plan, or increase the amount payable or trigger any other material obligation with respect to any Business Employee or beneficiary of any Business Employee.

(i) Seller Schedule 4.10(i) sets forth a list (as of the date set forth therein) of the individuals whose primary duties immediately prior to the date hereof have been (or whose primary duties immediately prior to their last date of active employment prior to commencing maternity or paternity leave, educational leave, short-term disability, military leave with veterans' reemployment rights under federal law, leave under the Family Medical Leave Act of 1993, or any other approved leave of absence, or in the case of individuals who were union represented employees who have been laid off and have a right to recall that has not expired, were) in respect of the Transferred Business or the Transferred Assets. Such Seller Schedule 4.10(i) separately identifies each Retained Employee and identifies as to each employee named on Seller Schedule 4.10(i) such employee's identification number and job title. In addition, Seller Schedule 4.10(i) identifies an estimate of the call center employees and other classifications of employees who do not individually devote a majority of their time to, but who currently support the Transferred Business and Transferred Assets, and who will be allocated to the Transferred Business (the "Allocated Support Employees"). Seller will provide a list of the names, identification numbers and job titles of such Allocated Support Employees not later than 90 days prior to the Closing Date, and such list shall be deemed to amend Seller Schedule 4.10(i). The individuals set forth on Seller Schedule 4.10(i), as the same may be amended in accordance herewith, shall be referred to as the "Listed Employees". Within both twenty-five (25) and ten (10) Business Days before the date that Seller reasonably anticipates will be the Closing, Seller shall further revise Seller Schedule 4.10(i) in accordance with the terms of Section 4.1(a) of the Employee Matters Agreement, with any final updates to such information to be provided to Buyer no later than ten (10) Business Days after the Closing in accordance with the terms of Section 4.1(a) of the Employee Matters Agreement.

(j) The Transferred Companies are not obligated under any service provider Contract for payroll, human resources, or employee benefits.

4.11 Labor and Employment Matters.

(a) Except for the collective bargaining agreements and other agreements disclosed in Seller Schedule 4.11(a) (each a "Collective Bargaining Agreement" and, collectively, the "Collective Bargaining Agreements"), neither Seller nor any of its Subsidiaries is party to or bound by any collective bargaining agreement or other agreement with a labor union regarding any of the Business Employees. Neither Seller nor any of its subsidiaries is currently engaged in negotiating a new collective bargaining agreement covering any of the Business Employees or is under an obligation to do so as a result of a unit certification issued by the National Labor Relations Board.

(b) Seller and its Subsidiaries are in compliance in all material respects with all Laws and material contractual obligations respecting employment, employment practices and terms and conditions of employment applicable to the Business Employees, including those relating to wages, hours, equal opportunity, labor relations, workplace safety and the payment of social security and unemployment Taxes.

(c) Neither Seller nor its Subsidiaries have engaged in any reductions in force or plant closings affecting Business Employees which triggered any notice obligation under the Worker Adjustment and Retraining Notification Act as of the one-year period preceding the date hereof that remain unsatisfied and do not anticipate engaging in any such activity prior to Closing.

(d) Except for such matters which would not, individually or in the aggregate, reasonably be expected to result in a Liability to Buyer of more than five million dollars ($5,000,000), there is no pending, or to the Knowledge of Seller, threatened strike, lockout, walkout, other work stoppage, or any adverse labor action such as picketing or boycott by any labor organization, or any union organizing effort by or among any of the Business Employees.

(e) There is no unfair labor practice charge or complaint against any of the Transferred Companies or related to the Business Employees pending or, to the Knowledge of Seller, threatened in writing before the National Labor Relations Board or any other Governmental Entity. There is no unit clarification or representation petition pending before the National Labor Relations Board.

(f) Except for such matters which would not, individually or in the aggregate together with any related claims, reasonably be expected to result in a Liability to Buyer of more than five million dollars ($5,000,000), there is no grievance or labor arbitration against any of the Transferred Companies pending, or to the Knowledge of Seller, threatened in writing.

4.12 Compliance with Laws; Communications Authorizations. (a) The Transferred Business is being, and has been for the three (3) year period prior to the date of this Agreement, conducted in compliance in all material respects with applicable Laws, (b) during the three (3) year period prior to the date of this Agreement, none of Seller or any of its Subsidiaries has received any written notice alleging (1) that the Transferred Business has been conducted in violation of applicable Law in any material respect or (2) that the Transferred Business is under investigation with respect to any such material violation and (c) the Transferred Companies have all the material Governmental Authorizations issued by the FCC, the State Commissions or other Governmental Entity under all Laws currently in effect that are material to the conduct of the Transferred Business as currently conducted (collectively, the "Seller Authorizations"); it being understood that nothing in this representation is intended to address the matters addressed by Section 4.9 (Taxes), Section 4.13 (Environmental Matters) or Section 4.18 (Communications Licenses). As of the date of this Agreement, there are no applications by Seller or any of its Subsidiaries pending before the FCC, the State Commissions or any other Governmental Entity for additional authorizations that would be Seller Authorizations if they existed as of the date of this Agreement.

4.13 Environmental Matters.

(a) All material Environmental Permits required for operation of the Transferred Business (i) have been obtained and are held by the Transferred Companies and (ii) are currently in full force and effect. The Transferred Companies are in material compliance with all Environmental Permits required for operation of the Transferred Business.

(b) The Transferred Companies and the Transferred Business are, and at the Effective Time each of the foregoing will be, in material compliance with all Environmental Laws applicable or relating to the Transferred Business, the Transferred Real Property or the Transferred Leased Real Property, including all reporting, discharge and emission requirements under or pursuant to any Environmental Laws, and neither Seller nor any of the Transferred Companies has received any notice from any Person alleging that any of the foregoing are not in such compliance with any Environmental Laws. There are no events, conditions, circumstances, activities, practices or incidents, including the release, emission, discharge, transportation, handling, storage, presence or disposal of any Hazardous Materials, related to the Transferred Business, the Transferred Real Property or the Transferred Leased Real Property which have given, or, to Seller's Knowledge, would reasonably be likely to give, rise to any material Environmental Claim or Liability.

(c) There is no civil, criminal or administrative action, suit, demand, Environmental Claim, hearing, notice, or demand letter, notice of violation, investigation or proceeding pending or, to Seller's Knowledge, threatened against the Transferred Companies or against any Person for whom the Transferred Companies are or would reasonably be expected to have Liability for, related to any Environmental Permit or any Environmental Law, or any plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated, pending or approved thereunder, that has constituted or would reasonably be expected to constitute a material Liability.

(d) (i) The Transferred Companies have not generated, stored, used, emitted, discharged or disposed of any Hazardous Material in the conduct of the Transferred Business except in material compliance with applicable Environmental Law, (ii) all underground storage tanks located at any Transferred Real Property or Transferred Leased Real Property are listed in Schedule 4.13 (d)(ii), and all such underground storage tanks are in material compliance with all Environmental Laws and have not been the subject of any release or investigation for any Hazardous Materials, (iii) there is no asbestos contained in or forming part of any building, building component, structure or office space owned, leased, operated or used by the Transferred Business except as is in material compliance with all Environmental Laws, and (iv) no polychlorinated biphenyls (PCBs) or PCB-containing items are owned by the Transferred Companies or the Transferred Business, and, to Seller's Knowledge, no PCB-containing equipment is located at any Transferred Real Property or Transferred Leased Real Property except in material compliance with Environmental Law.

(e) Prior to the date hereof, Seller has made available to Buyer all recent environmental assessments, reports, Environmental Permits, results of investigations, or audits, any material correspondence with agencies or third parties, and any other material documents concerning any of the foregoing regarding any matters that are outstanding or otherwise prepared in the last five (5) years that are in the possession of or reasonably available to Seller, any of its Subsidiaries, or any of the Transferred Companies pertaining to the Transferred Business, the Transferred Real Property or the Transferred Leased Real Property, or Liability of any of the foregoing under or pertaining to any Environmental Law.

(f) None of Seller, the Transferred Companies or the Transferred Business (i) have received any request for information or Environmental Claim regarding, or have been notified that they are a potentially responsible party under, or that any of the Transferred Business, the Transferred Real Property or the Transferred Leased Real Property are the subject of or responsible for any investigation, claim, remediation or Action for any on-site or off-site locations relating to the handling, transportation, storage, disposal, treatment or recycling of Hazardous Materials, including pursuant to the Comprehensive Environmental Response, Compensation, and Liability Act, or any state or provincial analog thereto, in connection with the conduct of the Transferred Business, the Transferred Real Property or the Transferred Leased Real Property, and (ii) have not been, and, to Seller's Knowledge, are not reasonably expected to be, subject to Liability for any Environmental Claim arising under or pursuant to such Laws in connection with the conduct of the Transferred Business, the Transferred Real Property or the Transferred Leased Real Property.

(g) Notwithstanding any other provision of this Article IV, the representations and warranties contained in this Section 4.13 constitute the sole and exclusive representations and warranties of Seller with respect to any Environmental Law, Environmental Claim or Hazardous Material.

4.14 Intellectual Property.

(a) To the Knowledge of Seller, the conduct of the Transferred Business (including the ILEC Services) does not, and as conducted during the two (2) year period prior to the date of this Agreement did not, infringe, misappropriate or otherwise violate any Intellectual

Property rights of any Person except for any such infringement, misappropriation or violations that would not, individually or in the aggregate, reasonably be expected to be material to the Transferred Business. Notwithstanding any other provision of this Article IV, the representations and warranties contained in this Section 4.14(a) constitute the sole and exclusive representations and warranties of Seller regarding infringement, misappropriation or other violation of any Intellectual Property of any Person by the conduct of the Transferred Business.

(b) Other than as would not reasonably be expected to be material to the Transferred Business, (i) there are no pending or, to the Knowledge of Seller, threatened, proceedings, administrative claims, litigation or adverse claims alleging that the operation of the Transferred Business infringes, misappropriates or otherwise violates the Intellectual Property rights of any other Person, and (ii) there has been no such claim threatened in writing or, to the Knowledge of Seller, asserted in the past two (2) years.

(c) To the Knowledge of Seller, no Person is infringing, misappropriating or otherwise violating any Intellectual Property owned by the Transferred Companies prior to the Closing, and no such claims have been asserted or threatened against any Person by Seller or its Subsidiaries in the past two (2) years.

(d) Seller and its Subsidiaries take reasonable measures to protect the confidentiality of Trade Secrets in respect of the Transferred Business. To the Knowledge of Seller, there has not been any disclosure of any material Trade Secret in respect of the Transferred Business to any Person in a manner that has resulted or is likely to result in the loss of trade secret or other rights in and to such information.

(e) The Transferred IT Systems have been maintained in accordance with standards prevalent in the telecommunications industry. To the Knowledge of Seller, the Transferred IT Systems are in good working condition, normal wear and tear excepted, and are useable to effectively perform all information technology operations necessary to conduct the portion of the Transferred Business that such Transferred IT Systems support. Seller and its Subsidiaries have not experienced within the past three (3) years any material disruption to, or material interruption in, their conduct of the Transferred Business attributable to a defect, bug, breakdown or other failure or deficiency of any Transferred IT Systems.

(f) Seller and its Subsidiaries have established, and the Transferred Business is in compliance in all material respects with, a written information security program or programs covering the Transferred Business that (i) includes safeguards for the security, confidentiality, and integrity of transactions and confidential or proprietary data, (ii) is designed to protect against unauthorized access to the Transferred IT Systems and proprietary data, and (iii) is adequate in all material respects for the conduct of the Transferred Business. To the Knowledge of Seller, the Transferred Business has not suffered a material security breach with respect to any proprietary data or Trade Secrets in the last three (3) years.

(g) Seller and its Subsidiaries, in respect of the Transferred Business, (i) have a privacy policy regarding the collection and use of information that identifies, or could reasonably be used to identify, any natural persons (including names, addresses, telephone numbers, email addresses, social security numbers, and/or account information) ("Personal

Information") and (ii) to the Knowledge of Seller are in compliance, and have complied, in all material respects with the privacy policies applicable to the Transferred Business and all applicable Laws regarding information privacy and security and the collection, use, disposal, disclosure, maintenance and transmission of Personal Information in connection with the Transferred Business. Seller has posted its applicable privacy policy(ies), or a link thereto, in a clear and conspicuous location on Seller's website located at www.verizon.com. Neither the execution, delivery or performance of this Agreement or any Ancillary Document nor the consummation of any of the transactions contemplated hereby will result in any violation, in any material respect, of (i) any of Seller's or its Subsidiaries' privacy policies applicable to the Transferred Business or (ii) of any agreement of Seller or its Subsidiaries with respect to the collection, use, disposal, disclosure, maintenance, and transmission of Personal Information.

4.15 Contracts.

(a) Seller Schedule 4.15 sets forth each of the Contracts in effect as of the date of this Agreement that (I) is a Transferred Asset or to which any of the Transferred Companies is a party (other than Contracts that are Excluded Assets) and (II): (i) limits in any material respect the freedom of any of the Transferred Companies or their Affiliates to compete in any line of business or within any geographic area or with any Person, (ii) involves the sharing of profits of any of the Transferred Companies with any third party (other than Seller or its Subsidiaries), (iii) involves future payments, performance or services or delivery of goods or materials to or by any of the Transferred Companies of any amount or value reasonably expected to exceed $5 million in any future twelve (12) month period, other than Contracts that can be terminated on less than ninety (90) days' notice without material monetary penalty or other material impact, (iv) involves any acquisition or disposition of any business or a majority of the stock or assets of any other Person, in each case having a purchase price in excess of $5 million, (v) contains a put, call or similar right (other than as described in clause (iii) above) pursuant to which any of the Transferred Companies could be required to purchase or sell, as applicable, any equity interests in or assets of any Person, in the case of this clause (v), having a purchase price for acquisition of assets in excess of $5 million, (vi) is a Material Transferred Lease or (vii) is a material partnership or joint venture agreement or similar Contract (any of the foregoing, together with any Contract of a type described above that is entered into after the date of this Agreement and prior to Closing, other than any portion of any Master Agreement that is not a Transferred Asset, a "Material Contract").

(b) Seller has made available to Buyer complete and accurate copies of each Material Contract as in effect as of the date of this Agreement. Each Material Contract is valid and binding on Seller or its Subsidiaries, as the case may be, and, to the Knowledge of Seller, each other party thereto, and is in full force and effect, except for failures to be valid and binding or to be in full force and effect as would not, individually or in the aggregate, reasonably be expected to be material to the Transferred Business. There is no default under any such Material Contract by Seller or any of its Subsidiaries, or, to the Knowledge of Seller, any other party thereto, and no event has occurred that, with the lapse of time or the giving of notice or both, would constitute a default thereunder by Seller or any of its Subsidiaries, or, to the Knowledge of Seller, any other party thereto, in each case except as would not, individually or in the aggregate, reasonably be expected to be material to the Transferred Business.

4.16 Absence of Changes. Since December 31, 2013 and through the date of this Agreement, (a) Seller and its Subsidiaries have conducted the Transferred Business only in the Ordinary Course, and have not taken any actions which, if taken after the date hereof, would require Buyer's consent pursuant to Section 6.2(a)(i) (with respect to such actions taken after September 30, 2014 and in all cases disregarding the proviso in Section 6.2(a)(i)), Section 6.2(a)(v), Section 6.2(a)(vi) and Section 6.2(a)(x) and (b) the Transferred Business has not experienced any event or condition, and no condition, change, event, occurrence or development has occurred, that, individually or in the aggregate, has had, or would reasonably be expected to have, a Seller Material Adverse Effect.

4.17 Assets.

(a) After giving effect to the Pre-Closing Reorganization, and subject to the receipt of all applicable approvals and consents, including those contemplated by Section 4.4, the Transferred Companies will have, in all material respects, good and valid title to, or in the case of leased property, valid leasehold interests in, all of the material Transferred Assets.

(b) Subject to the immediately following sentence, the assets of the Transferred Companies as of the Closing Date (assuming the consummation of the Pre-Closing Reorganization), together with the assets, licenses and services to be made available pursuant to the Ancillary Documents, will be sufficient, and constitute all assets of Seller and its Subsidiaries that are necessary, to permit Buyer and the Transferred Companies to operate the Transferred Business substantially in the same manner as the operation of the Transferred Business as of the Closing. Notwithstanding the foregoing, it is understood and agreed that:

(i) the Transferred Companies will not be assigned those assets and services listed or described in Seller Schedule 4.17(b)(i), which are necessary for the conduct of the Transferred Business;

(ii) the Transferred Companies are not being assigned the Retained Contracts and the services provided under the Retained Contracts (in each case excluding, for the avoidance of doubt, the portions of any Master Agreement transferred or to be transferred pursuant to Section 6.13(a)) that are necessary for the conduct of the Transferred Business;

(iii) certain of the administrative and regional headquarters management employees currently operating or advising the Transferred Business may not be transferred to the Transferred Companies and the immediately preceding sentence assumes that Buyer or the Transferred Companies after Closing will provide such equivalent personnel as may be appropriate for the benefit of the Transferred Business;

(iv) certain Intellectual Property that is not owned by or licensed to the Transferred Companies or included in the Transferred Assets is needed to operate the Transferred Business. Except as provided in Section 6.17, Seller will not be obligated to procure or grant rights in or licenses to such Intellectual Property on behalf of the Transferred Companies or the Transferred Business;

(v) certain Seller Owned Software is needed to operate the Transferred Business. Except for any such Seller Owned Software to be licensed to Buyer pursuant to an Ancillary Document or a software license agreement agreed upon pursuant to Sections 6.17(d) or 6.17(e) hereof, Seller will not be obligated to license any other Seller Owned Software or to procure rights in or licenses to any similar third party software after Closing;

(vi) certain IT Systems that are not Transferred IT Systems are needed to operate the Transferred Business. Except as may be set forth in any Ancillary Document, Seller will not be obligated to procure, lease or license any such IT Systems after Closing;

(vii) the only assets that will be held by the Transferred Companies as of the Closing with respect to (A) the provision by Verizon Online LLC of dial-up, DSL services and dedicated Internet access services and related value added services taken by DSL customers located in the States, (B) the resale of satellite to terrestrial video services, (C) the provision by Verizon Long Distance LLC of long distance services to customers located in the States, (D) the provision by Verizon Network Integration Corp. and Verizon Select Services Inc. of CPE sales, installation and related maintenance services and (E) the provision by Verizon Services Corp. and Verizon Avenue Inc. of services to multi-dwelling unit owners in the States, will be (i) customer relationships (including Contracts and terms and conditions with respect to such relationships) and (ii) those assets identified as exclusions in clauses (v), (vi) and (x) of the definition of Excluded Assets, and Buyer or the Transferred Companies will need to procure all other assets needed to undertake such activities;

(viii) the provisions of this Section 4.17 assume the receipt of all necessary authorizations, approvals, consents or waivers required by Law, by Governmental Entities or other third Persons pursuant to their Contract rights in connection with the transactions contemplated by this Agreement and the Ancillary Documents; and

(ix) this Section 4.17 does not constitute a representation or warranty regarding infringement, misappropriation or other violation of any Intellectual Property of any Person by the conduct of the Transferred Business, which is the subject of the representation and warranty set forth in Section 4.14(a).

4.18 Communications Licenses. Seller and its Subsidiaries are the authorized legal holders or otherwise have rights to the Communications Licenses, which licenses constitute all of the material licenses, from the FCC or the State Commissions that are required for and/or used in the operation of the Transferred Business as presently operated. All the Communications Licenses were duly obtained and are valid and in full force and effect, unimpaired by any condition, except those conditions that may be contained within the terms of such Communications Licenses or those conditions applicable to the particular class of Communications Licenses generally. Seller and its Subsidiaries are in compliance in all material respects with the Communications Act of 1934, as amended, and the rules, regulations and policies of the FCC and all applicable State Commissions in respect of the operation of the

Transferred Business. There is not pending or, to the Knowledge of Seller, threatened, any action by or before the FCC or any State Commissions in which the requested remedy is the revocation, suspension, cancellation, rescission or modification of any of the Communications Licenses. Seller Schedule 4.18 contains a complete and correct list of Seller's Communications Licenses.

4.19 Title to Property. Seller and its applicable Subsidiaries have transferred, and at or prior to the Closing will transfer, to the Transferred Companies, as applicable, good and valid title to, or a valid and binding leasehold interest in, the real and personal tangible property included in or with the tangible Transferred Assets that they own or lease having a value in excess of $100,000 (or which are otherwise material to the Transferred Business), free and clear of all Encumbrances, except (a) Encumbrances specifically reflected or specifically reserved against in the Newco Financial Statements, (b) mechanics', materialmen's, warehousemen's, carriers', workers', repairmen's or other similar common law or statutory Encumbrances arising or incurred in the Ordinary Course and which would not materially impair the use, operation or value of any material assets included in the Transferred Business, (c) Encumbrances for Taxes, assessments and other governmental charges not yet due and payable or due but not delinquent or being contested in good faith by appropriate proceedings for which reserves have been maintained in accordance with GAAP, (d) liens arising under original purchase price conditional sales contracts and equipment leases with third parties entered into in the Ordinary Course, (e) with respect to real property, (i) Easements, licenses, covenants or other similar restrictions, including any other agreements, conditions or restrictions, (ii) Encumbrances arising pursuant to the terms of any Transferred Real Property Lease, (iii) zoning, building, subdivision or other similar requirements or restrictions and (iv) Encumbrances arising pursuant to the terms of any leases, subleases and licenses, (f) non-exclusive licenses granted in the Ordinary Course and (g) the Encumbrances set forth on Seller Schedule 4.19 (collectively, the "Permitted Encumbrances").

4.20 Real Property.

(a) Prior to the date hereof, Seller has made available to Buyer complete and accurate copies of each of the Material Transferred Leases, as in effect as of the date of this Agreement. Neither Seller nor any of its Subsidiaries has granted any lease, license or sublicense to use the material Transferred Real Property, other than Permitted Encumbrances.

(b) The use and operation of the material Transferred Real Property and the Material Transferred Leases in the conduct of the Transferred Business do not violate in any material respect any instrument of record or agreement affecting such property.

(c) There are no pending, or to the Knowledge of Seller, threatened in writing, appropriation, condemnation, eminent domain or similar proceedings brought by a Governmental Entity relating to the material Transferred Real Property, or to the Knowledge of Seller, the Material Transferred Leases.

(d) As of the date of this Agreement, the Transferred Real Property and the Transferred Leased Real Property have not suffered any material damage by fire or other casualty which has not heretofore been repaired and restored to its condition prior to such damage in all material respects, except for damage that would not, individually or in the aggregate, reasonably be expected to be material to the Transferred Business.

4.21 Finders' Fees. There is no investment banker, broker, finder or other intermediary that has been retained by or is authorized to act on behalf of Seller or any of its Subsidiaries that might be entitled to any fee or commission from any of the Transferred Companies in connection with the transactions contemplated by this Agreement and the Ancillary Documents.

4.22 Customers. Set forth on Seller Schedule 4.22 is a complete and accurate list in respect of the Transferred Business in each of California, Florida and Texas of (a) the ten (10) largest wholesale customers and (b) the ten (10) largest commercial customers (in each case based on the amounts paid to Seller and its Subsidiaries in respect of the Transferred Business and in each case other than Seller or its Subsidiaries) during the nine (9) months ended September 30, 2014, with respect to the Transferred Business, showing the approximate total revenues generated with respect to the Transferred Business from each such customer during such period. As of the date of this Agreement, none of the customers set forth on Seller Schedule 4.22 has (i) terminated or canceled its business relationship with any of the Transferred Companies or (ii) to the Knowledge of Seller, provided written notice to Seller or any of its Subsidiaries of an intention or request to so terminate or cancel, except, in each case, for such termination or cancellation which would not reasonably be expected to be, individually or in the aggregate, material to the Transferred Business.

4.23 Newco. After formation until the Closing, Newco shall not conduct any business, and shall have no assets, liabilities or obligations of any nature, in each case, other than those incident to its formation and holding of the interests of the other Transferred Companies, the Transferred Assets and the Assumed Liabilities or relating to the Pre-Closing Reorganization and other transactions contemplated by to this Agreement.

## ARTICLE V

## REPRESENTATIONS AND WARRANTIES OF BUYER

Except as set forth in the applicable section or subsection of the disclosure schedules delivered to Seller by Buyer prior to the execution hereof (the "Buyer Schedules" and, together with the Seller Schedules, the "Disclosure Schedules") (it being agreed that disclosure of any item in any section or subsection of the Buyer Schedules shall be deemed disclosure with respect to any other section or subsection to the extent the relevance of such item is reasonably apparent on its face), Buyer represents and warrants to Seller that:

5.1 Organization and Qualification. Each of Buyer and each of its Subsidiaries is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and has all requisite corporate or similar power and authority to own, lease and operate its assets and to carry on its business as currently conducted and is duly qualified to do business and is in good standing as a foreign corporation or other entity in each jurisdiction where the ownership or operation of its assets or the conduct of its business requires such qualification, except for failures to be so qualified or in good standing that would not, individually or in the aggregate, reasonably be expected to prevent or materially impair or delay Buyer's or its Subsidiaries' ability to perform their respective obligations under this Agreement or the Ancillary Documents.

5.2 Corporate Authorization. Buyer has full corporate power and authority to execute and deliver this Agreement and each of the Ancillary Documents, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereunder and thereunder. The execution, delivery and performance by Buyer of this Agreement and each of the Ancillary Documents, and the consummation by Buyer of the transactions contemplated hereunder and thereunder, has been duly and validly authorized and no additional corporate or shareholder authorization or consent is required in connection with the execution, delivery and performance by Buyer of this Agreement or any of the Ancillary Documents and the consummation by Buyer of the transactions contemplated hereunder and thereunder.

5.3 Consents and Approvals.

(a) Other than (i) under the HSR Act, (ii) from or to the FCC, (iii) from or to the State Commissions (other than the Florida Public Service Commission), (iv) from or to the Video Franchisors and (v) consents required to be maintained or obtained pursuant to any Contract in respect to which a Governmental Entity is a customer of Seller or any of its Subsidiaries, no consent, approval, waiver, authorization, report, notice or filing is required to be obtained by Buyer from, or to be given by Buyer to, or made by Buyer with, any Governmental Entity in connection with the execution, delivery and performance by Buyer of this Agreement and the Ancillary Documents to which it is a party, and the consummation by Buyer of the transactions contemplated hereunder and thereunder, except for those consents, approvals, waivers, authorizations, reports, notices or filings the failure to obtain, give or make, as the case may be, would not, individually or in the aggregate, reasonably be expected to prevent or materially impair or delay Buyer's or its Subsidiaries' ability to perform their respective obligations under this Agreement or the Ancillary Documents.

(b) Assuming the receipt of all consents, approvals, waivers and authorizations and the making of all notices and filings listed in Section 5.3(a), Buyer will be, as of the Closing Date, authorized under the Communications Act and pursuant to such other Governmental Authorizations as are required from all Governmental Entities to provide the ILEC Services and to own and operate the Transferred Assets. As of the date of this Agreement, there is no claim, lawsuit, agency complaint, investigation or proceeding ("Complaint") pending against Buyer or any of its Subsidiaries, nor, to the Knowledge of Buyer, any threat to file a Complaint, in each case that if determined adversely to Buyer would materially impair or delay Buyer's qualifications to acquire the Transferred Companies, operate the Transferred Business or obtain any required Governmental Authorization, or materially delay the grant of any consent set forth on Buyer Schedule 5.3. As of the date of this Agreement, no Complaint has been filed with any Governmental Entity with jurisdiction over Buyer or any of its Subsidiaries that raises any such question or results in any such delay.

5.4 Non-Contravention. The execution, delivery and performance by Buyer of this Agreement and each of the Ancillary Documents, and the consummation of the transactions contemplated hereby and thereby, do not and will not (i) violate any provision of Buyer's organizational documents, (ii) assuming the receipt of all consents, approvals, waivers and authorizations and the making of the notices and filings listed in Section 5.3 or set forth on Buyer Schedule 5.3, conflict with or result in a violation or breach of, or constitute a default under, or result in the termination, cancellation, modification or acceleration (whether after the filing of notice or the lapse of time or both) of any right or obligation of Buyer under, or result in a loss of any benefit to which Buyer is entitled under, any Contract or result in the creation of any Encumbrance upon any of Buyer's or its Subsidiaries' assets or (iii) assuming the receipt of all consents, approvals, waivers and authorizations and the making of notices and filings listed in Section 5.3 or set forth on Buyer Schedule 5.3 or required to be made or obtained by Seller conflict with or result in a violation or breach of, or constitute a default under, any Law to which Buyer is subject, or under any Governmental Authorizations, other than, in the case of clauses (ii) and (iii), conflicts, violations, breaches, defaults, terminations, cancellations, modifications, accelerations, losses or Encumbrances that would not, individually or in the aggregate, reasonably be expected to prevent or materially impair or delay Buyer's or its Subsidiaries' ability to perform their respective obligations under this Agreement or the Ancillary Documents.

5.5 Binding Effect. This Agreement and each of the Ancillary Documents, assuming due execution and delivery by Seller and the other parties thereto, constitutes, or in the case of the Ancillary Documents will upon execution thereof constitute, a valid and legally binding obligation of Buyer and each of its Subsidiaries that is a party to such agreements, enforceable against Buyer and each such Subsidiary in accordance with their respective terms, subject, in each case, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors' rights and to general equity principles.

5.6 Litigation and Claims. As of the date of this Agreement, there is no civil, criminal or administrative action, suit, demand, claim, investigation, review hearing or proceeding pending, or to the Knowledge of Buyer, threatened against Buyer or any of its Subsidiaries at law or in equity relating to the businesses of Buyer or its Subsidiaries or the transactions contemplated by this Agreement and the Ancillary Documents, other than those that would not, individually or in the aggregate, reasonably be expected to prevent or materially impair or delay Buyer's or its Subsidiaries' ability to perform their respective obligations under this Agreement or the Ancillary Documents. As of the date of this Agreement, none of Buyer nor any of its Subsidiaries is subject to any order, writ, judgment, award, injunction or decree of any Governmental Entity of competent jurisdiction or any arbitrator or arbitrators, other than those that would not, individually or in the aggregate, reasonably be expected to prevent or materially impair or delay Buyer's or its Subsidiaries' ability to perform their respective obligations under this Agreement or the Ancillary Documents.

5.7 Finders' Fees. Except for JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and Greenhill & Co., LLC, whose fees will be paid by Buyer, there is no investment banker, broker, finder or other intermediary that has been retained by or is authorized to act on behalf of Buyer, or any Subsidiary of Buyer, that might be entitled to any fee or commission from Buyer or such Subsidiary of Buyer in connection with the transactions contemplated by this Agreement and the Ancillary Documents.

5.8 Financial Capability. At the Closing, assuming the satisfaction of the conditions set forth in Section 7.2, Buyer will have sufficient funds to effect the Closing and all other transactions contemplated by this Agreement and the Ancillary Documents and to conduct its businesses and operations following the Closing. Buyer has provided to Seller, on or prior to the date of this Agreement, a true, complete and correct copy of the executed financing commitment letter among Buyer, JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Citigroup Global Markets Inc., including any exhibits, annexes, schedules or amendments thereto (collectively, the "Commitment Letter"), pursuant to which the lender party thereto has committed to provide, subject to the terms and conditions set forth therein, debt financing in the amounts set forth therein (the "Committed Financing"). As of the date of this Agreement, (i) the Commitment Letter is (A) a legal, valid and binding obligation of Buyer and, to the Knowledge of Buyer, each of the other parties thereto, (B) enforceable in accordance with its terms against Buyer and, to the Knowledge of Buyer, each of the other parties thereto, except as such enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors' rights and general equity principles (regardless of whether enforcement is sought in a proceeding at law or in equity) and (C) in full force and effect, (ii) the Commitment Letter has not been amended or modified except as permitted pursuant to Section 6.15, (iii) none of the obligations and commitments contained in the Commitment Letter has been withdrawn, terminated or rescinded in any respect, (iv) no event has occurred which (with or without notice or lapse of time, or both) would constitute a default or breach on the part of Buyer or, to the Knowledge of Buyer, any other parties thereto under the Commitment Letter, and (v) Buyer does not have any reason to believe that any of the conditions to the Committed Financing will not be satisfied or that the Committed Financing will not be available to Buyer at the Closing Date. Buyer has fully paid or caused to be paid any and all commitment fees or other fees in connection with the Commitment Letter that are payable on or prior to the date of this Agreement. The Commitment Letter contains all of the conditions precedent to the obligations of the lenders thereunder to fund the Committed Financing. Except for fee letters relating to fees with respect to the Committed Financing (a complete copy of which has been provided to Seller (the "Fee Letter"), with only the fee amounts, time periods, covenants that apply on and after the Closing Date, pricing caps, specific flex terms that do not relate to conditionality and other economic terms set forth therein (none of which would reasonably be expected to adversely affect the availability or aggregate principal amount of the Committed Financing) redacted, provided that Seller may only share such Fee Letter with those Persons set forth on Buyer Schedule 5.8), as of the date of this Agreement, there are no side letters or other agreements, arrangements or contracts (including fee letters) to which Buyer or any of its Subsidiaries is a party that would affect the availability of the Committed Financing other than as expressly set forth in the Commitment Letter. Without limiting Section 7.2, in no event shall the receipt or availability of any funds or financing by or to Buyer or any of its Subsidiaries or any other financing transaction be a condition to any of the obligations of Buyer hereunder.

5.9 Solvency. As of the Closing, after giving effect to any indebtedness being incurred on such date in connection herewith, and assuming satisfaction of the conditions set forth in Section 7.2(b), Section 7.2(c) and Section 7.2(d), and assuming that the Transferred Business is not Insolvent (as defined below) as of the date of this Agreement or as of the Closing, neither Buyer nor the Transferred Companies will (i) be insolvent (either because its financial condition is such that the sum of its debts (including a reasonable estimate of the amount of all contingent liabilities) is greater than the fair value of its assets, or because the present fair salable value of its assets will be less than the amount required to pay its probable liability on its debts as they become absolute and matured), (ii) have unreasonably small capital with which to engage in its business or (iii) have incurred or plan to incur debts beyond its ability to pay as they become absolute and matured (clauses (i)-(iii), "Insolvent").

5.10 Regulatory Compliance. Buyer and its Subsidiaries are the authorized legal holders or otherwise have rights to all material permits, licenses, franchises, waivers, orders, approvals, concessions, registrations and other authorizations issued or granted by the FCC, the State Commissions and the Video Franchisors that are required for and/or used in the operation of Buyer's business in the States (the "Buyer Licenses"). The Buyer Licenses were duly obtained and are valid and in full force and effect, unimpaired by any condition, except those conditions that may be contained within the terms of the Buyer Licenses or those conditions applicable to the particular class of licenses generally. Buyer and its Subsidiaries are in compliance in all material respects with the Communications Act of 1934, as amended, and the rules, regulations and policies of the FCC, the State Commissions and the Video Franchisors in respect of the operation of Buyer's business in the States, except to the extent that such non-compliance or violation would not reasonably be expected to, individually or in the aggregate, delay or adversely affect Buyer's ability to consummate the transactions contemplated by this Agreement. There is not pending or, to the Knowledge of Buyer, threatened, any action by or before the FCC, the State Commissions or Video Franchisors that would reasonably be expected to, individually or in the aggregate, delay or adversely affect Buyer's ability to consummate the transactions contemplated by this Agreement.

5.11 Inspections. Buyer is an informed and sophisticated purchaser that is, and has engaged expert advisers that are, experienced in the evaluation and purchase of property and assets such as the Transferred Companies and the Transferred Assets as contemplated hereunder. Buyer has undertaken an independent investigation of the business and operations of the Transferred Business and has been provided with and evaluated such documents and information made available by Seller as Buyer has determined are sufficient to make an informed decision with respect to the execution, delivery and performance of this Agreement and the Ancillary Documents and the consummation of the transactions contemplated hereby and thereby.

## ARTICLE VI

## COVENANTS

6.1 Access and Information.

(a) From the date of this Agreement until the Closing, subject to any applicable Laws, Seller shall afford Buyer and its representatives reasonable access, during regular business hours and upon reasonable advance written notice, to the Assigned Contracts, the Transferred Books and Records and the officers of the Transferred Business, as Buyer shall from time to time reasonably request in writing and otherwise as mutually agreed (including pursuant to the Cutover Plan Support Agreement). Seller shall use its reasonable best efforts to afford Buyer and its representatives reasonable access, during regular business hours and upon reasonable advance written notice, to (i) accountants' work papers relating to the Transferred Books and Records and access to auditors of Seller or any of its Affiliates and (ii) properties of the Transferred Business to the extent that circumstances arise that could reasonably be expected to result in a material environmental Liability, provided that Buyer or its representatives, during such access, shall not conduct any invasive procedures, including sampling of soil, groundwater, surface water or other media; it being understood and agreed that in no event shall Buyer have access to (i) any information that (x) Seller's counsel advises (after consultation in good faith with Buyer's counsel) that sharing such information would create any potential Liability under applicable Laws, including U.S. Antitrust Laws, (y) in the reasonable judgment of Seller would violate any obligation of Seller or any of its Subsidiaries with respect to disclosure of information or confidentiality or eliminate or reduce the benefit of any legal privilege of Seller or any of its Subsidiaries (if, with respect to confidentiality, Seller has made commercially reasonable efforts to obtain a waiver regarding the possible disclosure from the third party to whom it owes an obligation of confidentiality), provided that Seller shall in good faith use its commercially reasonable efforts to provide such information in a manner and form that would not reasonably be expected to violate any such obligation with respect to disclosure of information or confidentiality or eliminate or reduce the benefit of any such legal privilege, or (z) that constitutes Customer Proprietary Network Information (other than as permitted by the rules and regulations of the FCC); provided further that in the case of competitively sensitive information, Seller and Buyer shall agree upon mutually acceptable "clean team" procedures with respect to such information and it being further understood that Buyer shall reimburse Seller promptly for reasonable out of pocket costs and expenses incurred by Seller or any of its Subsidiaries in complying with any such request by or on behalf of Buyer. All information received by Buyer or its representatives pursuant to this Section 6.1 shall be governed by the terms of the Confidentiality Agreement.

(b) Following the Closing, upon the request of the other party, Buyer and Seller shall, to the extent permitted by Law, make available to the requesting party and its representatives copies of all financial, Tax and other information pertaining to the Transferred Business or the operation or ownership of the Transferred Business and its assets and liabilities, Transferred Assets, Assumed Liabilities and the Business Employees reasonably requested in connection with (i) any audit or other investigation by any Taxing authority or any required returns, responses to inquiries, reports or submissions to Governmental Entities (including reports filed with the SEC, any consolidated financial or statutory reporting obligations and any Tax Returns or replies to the Tax inquiries of Seller or its Subsidiaries) with respect to the Transferred Business, the Transferred Companies, the Transferred Assets, the Assumed Liabilities or the Excluded Liabilities related to periods prior to the Closing; provided, however, that Seller shall have no obligation to provide copies of any Consolidated Tax Return, or (ii) any matters relating to insurance coverage, third-party litigation, claims, proceedings and investigations pertaining to the Transferred Companies, the Transferred Assets, the Transferred Business, or the Assumed Liabilities, as applicable, in each case with respect to periods prior to the Closing. Without limiting the generality of the foregoing, Buyer shall comply with its obligations under Section 6.5(i).

(c) As promptly as reasonably practicable following the Closing Date, Seller will transfer, or cause to be transferred, to the Transferred Companies the organizational documents related to the Transferred Companies and materials in any data room prepared by Seller or its Subsidiaries in connection with the transactions contemplated by this Agreement. After the Closing, and until the expiration of any applicable retention periods described in Seller's data retention policy, as amended from time to time, Buyer or its Subsidiaries may request a copy of any other Transferred Books and Records not previously provided to Buyer. Upon receipt of such request, Seller or its Subsidiaries shall provide Buyer with the requested documents as promptly as reasonably practicable. Buyer shall reimburse Seller or its Subsidiaries for all reasonable out-of-pocket costs and expenses incurred by Seller in connection with providing any such requested records.

6.2 Conduct of Business.

(a) During the period from the date of this Agreement until the Closing, except (v) as otherwise expressly required or permitted by this Agreement, the Ancillary Documents or the Collective Bargaining Agreements, (w) as required by any Governmental Entity or Law, (x) for actions solely affecting the Excluded Assets or Excluded Liabilities, (y) as set forth on Seller Schedule 6.2(a) or (z) as Buyer otherwise consents in writing, which consent shall not be unreasonably delayed, conditioned or withheld (collectively, clauses (w) through (z), the "Business Conduct Exceptions"), Seller shall, and shall cause each of its Subsidiaries operating the Transferred Business to, operate the Transferred Business, in all material respects, in the Ordinary Course and use commercially reasonable efforts to preserve, in all material respects, the Transferred Companies, the Transferred Assets and relationships with the Listed Employees and customers of the Transferred Business. During the period from the date of this Agreement until the Closing, except for the Business Conduct Exceptions, Seller shall, and shall cause each of its Subsidiaries to, with respect to the Transferred Business, the Transferred Companies and the Transferred Assets, as applicable:

(i) not sell, lease, license, transfer, dispose of or create any Encumbrance on any assets having a replacement cost in excess of $500,000 individually or $10,000,000 in the aggregate, other than the sale of obsolete equipment (provided that such obsolete equipment is no longer in use in the support of customers in any manner, whether in call centers, IT, network, production of products or services or otherwise), in the Ordinary Course, or upon expiration of any leases for any such assets, and other than Permitted Encumbrances;

(ii) other than in the Ordinary Course, not enter into, terminate, materially extend or materially modify any Contract that is or would be if it had been entered into prior to the date of this Agreement (x) a Material Contract or (y) a Contract that includes any non-standard service levels to be maintained by any of the Transferred Companies in relation to customers or the Transferred Business;

(iii) not institute any proceeding with respect to, or otherwise materially change, amend or supplement any of its local exchange, intrastate toll or intrastate and interstate access Tariffs related to the Transferred Business or make any other filings with the FCC or State Commissions with respect to the Transferred Business, except in the Ordinary Course and other than Seller-wide proceedings with the FCC;

(iv) with respect to those Listed Employees other than the Retained Employees, not (A) increase materially the compensation of such Listed Employees individually or in the aggregate, except in the Ordinary Course or pursuant to the terms of the Collective Bargaining Agreements or any agreements or plans currently in effect and listed on Seller Schedule 4.10(a)(i) (provided, however, that Seller may increase benefits for Listed Employees as a result of the amendment of any Seller Benefit Plan to the extent such increase applies generally to participants under such Seller Benefit Plan, including a substantial number of employees who are similarly situated to the Listed Employees but are not Listed Employees), or (B) enter into any new employment or severance agreements with any such Listed Employee (it being understood and agreed that Seller shall not be restricted from making changes to severance programs that affect Seller's employees generally, unless such changes disproportionately affect Listed Employees as compared to other of Seller's employees);

(v) not amend the certificate of incorporation or certificate of formation, by-laws or other organizational documents of any of the Transferred Companies;

(vi) not issue, sell, pledge, transfer, dispose of or encumber any shares of the Transferred Companies' capital stock or limited liability company interests or securities convertible into or exchangeable for any such shares or interests, or any rights, warrants, options, calls or commitments to acquire any such shares or interests or other securities;

(vii) not alter or amend the list of Listed Employees, except as set forth in the Employee Matters Agreement;

(viii) not enter into any Contract that obligates any Transferred Company following the Closing under any service provider Contract for payroll, human resources or employee benefits;

(ix) other than in respect of matters relating to Taxes, not settle or compromise, or consent to entry of any judgment, any civil, criminal or administrative action, suit, demand, claim, hearing or proceeding which imposes on the Transferred Business or the Transferred Companies (A) material injunctive or other non-monetary relief, (B) a criminal violation or (C) Liability of more than $5 million individually or in the aggregate with any related claims;

(x) unless required by GAAP or applicable Law, (A) except for actions affecting the businesses, generally, of Seller or its Subsidiaries, not adopt any material accounting method or change any material accounting method that affects the Transferred Business or the Transferred Companies or (B) make any write downs, impairments or other accounting adjustments in respect of the Transferred Assets;

(xi) except to the extent related to a Consolidated Tax Return, not (A) make, change or revoke any material Tax election of the Transferred Companies, or file any amended Tax Return of or with respect to the Transferred Companies, (B) enter into any material closing agreement affecting any Tax Liability or refund of or with respect to the Transferred Companies, (C) settle or compromise any material Tax Liability or material refund of or with respect to the Transferred Companies or (D) extend or waive the application of any statute of limitations regarding the assessment or collection of any material Tax of or with respect to the Transferred Companies, in each case to the extent such action (x) relates to non-income Taxes and (y) would have a legally binding effect on Seller or the Transferred Business with respect to a Post-Closing Tax Period;

(xii) not permit any Transferred Company to adopt a plan of complete or partial liquidation or authorize or undertake a dissolution, consolidation, restructuring, recapitalization or other reorganization, other than as contemplated by this Agreement;

(xiii) incur any material Indebtedness that subjects the Transferred Assets to any Encumbrance, other than Permitted Encumbrances;

(xiv) not amend, modify, terminate, waive any rights under or fail to enforce any Transferred Affiliate Arrangement, except for Ordinary Course changes to Contracts providing for the delivery of ILEC Services to a member of the Seller Group;

(xv) maintain property and casualty insurance covering the Transferred Assets to an extent substantially consistent with such coverage as is maintained by Seller as of the date of this Agreement; it being understood that Seller shall, or shall cause its Affiliates to, promptly apply in full any proceeds (after deducting any related out-of-pocket costs) received from such insurance for damages or losses relating to the Transferred Business to the repair of such damages or losses;

(xvi) not authorize or enter into any agreement or commitment with respect to any of the foregoing;

(xvii) make capital expenditures in respect of the Transferred Business in amounts not less than the amounts set forth on Annex 6.2(a)(xvii); and

(xviii) make marketing expenditures in respect of the Transferred Business in amounts not less than the amounts set forth on Annex 6.2(a)(xviii).

(b) During the period from the date of this Agreement until the Closing, Buyer and its Subsidiaries shall not make any written or oral communications (including websites or other passive communications channels) that are directed to the directors, officers or employees of Seller or any of its Subsidiaries pertaining to the matters that are affected by the transactions contemplated by this Agreement, in each case except as permitted in the Employee Matters Agreement or the Cutover Plan Support Agreement.

(c) Prior to the Closing Date or at such other time as set forth in the Employee Matters Agreement, Seller and its Subsidiaries shall take all necessary actions to effect the actions contemplated in the Employee Matters Agreement.

6.3 Reasonable Best Efforts; Governmental and Other Consents.

(a) Each of Seller and Buyer shall cooperate and use their respective reasonable best efforts to consummate as promptly as practicable the transactions contemplated by this Agreement, including fulfilling the conditions precedent to the other party's obligations hereunder, and securing as promptly as practicable all Governmental Authorizations required in connection with the transactions contemplated by this Agreement; it being understood that nothing in this Agreement shall require, or be construed to require, (i) Seller or any of its Subsidiaries to (A) subject to Section 6.17(c), make any payment or incur any cost in connection with fulfilling such conditions precedent, other than (x) legal and accounting fees and disbursements and regulatory filing fees and costs and (y) payments or costs related to the Transferred Business that result in a dollar-for-dollar payment to Seller as a Required Payment Amount, or (B) take or refrain from taking any action, agree to any restriction or condition or enter into any agreement with respect to any of their assets or operations other than the Transferred Business (a "Seller Adverse Condition") or (C) request (x) any consent from any third party which is party to a Non-Scheduled Contract or (y) subject to Section 6.17(a), any consent from any third party if such consent is not material to the Transferred Business taken as a whole and Seller reasonably believes that such request would materially adversely affect Seller's relationship with such third party with respect to any of Seller's businesses other than the Transferred Business or (ii) with respect to the obligation to use reasonable best efforts to secure Governmental Consents, Buyer or any of its Subsidiaries to take or refrain from taking any action that would reasonably be expected to have a Buyer Adverse Condition. "Buyer Adverse Condition" means any action, restriction, condition or requirement which would, individually or in the aggregate and when combined with the Required Payment Amount, reasonably be expected to be materially adverse to Buyer and its Subsidiaries (including the Transferred Companies) taken as a whole (with materiality being measured for such purposes in relation to the financial condition, properties, assets, liabilities, business and results of operations of the Transferred Business, taken as a whole (*i.e.*, a business the size of the Transferred Business), rather than that of Buyer and its Subsidiaries, taken as a whole) disregarding for this purpose any condition or requirement (i) that is consistent with, or mandates the continuation of, the manner in which Buyer operates its and its Subsidiaries' existing business as of the date of this Agreement and/or the manner in which Seller operates the Transferred Business as of the date of this Agreement (including with respect to each of Buyer's and its Subsidiaries' existing business and the Transferred Business, capital expenditure conditions or requirements in an annualized amount consistent with the capital expenditures spent in such business in the twelve (12) months prior to the Closing) or (ii) that is offered by Buyer in its discretion in an application for an order approving the transactions contemplated by this Agreement or in any related filing or testimony. Without limiting the generality of the foregoing, Buyer and Seller will make all filings and submissions required by the U.S. Antitrust Laws, the FCC, any State Commission and any Video Franchisor within forty-five (45) Business Days after the date of this Agreement and promptly file any additional information requested as soon as reasonably practicable after receipt of such request therefor (provided that any failure to make such filings within forty-five (45) Business Days after the date of this Agreement shall not constitute a breach of this Agreement so long as such filings are made as promptly as reasonably practicable thereafter). To the extent that, as an accommodation to Buyer and with Buyer's prior written consent, Seller or any of its Subsidiaries incurs costs that Buyer otherwise would have to incur in order to secure any Governmental Authorization, Buyer shall promptly reimburse Seller for any such costs that are invoiced by Seller to Buyer.

(b) Subject to the terms and conditions set forth in this Agreement (including Section 6.3(a)), without limiting the generality of the undertakings pursuant to this Section 6.3, each of Seller and Buyer agree to take or cause to be taken the following actions: (i) the prompt provision to each and every federal, state, or local Governmental Entity with jurisdiction over enforcement of any applicable antitrust or competition Laws or state or federal telecommunication Laws (including multi-channel video and including any state, local municipal or county franchise authorities with respect to video franchises) of non-privileged information and documents requested by any such Governmental Entity or that are necessary, proper or advisable to permit consummation of the transactions contemplated by this Agreement and the Ancillary Documents; (ii) the prompt use of its reasonable best efforts to avoid the entry of any permanent, preliminary or temporary injunction or other order, decree, decision, determination or judgment that would reasonably be likely to delay, restrain, prevent, enjoin or otherwise prohibit consummation of the transactions contemplated by this Agreement and the Ancillary Documents, including the defense through litigation on the merits of any claim asserted in any court, agency or other proceeding by any Person, including any Governmental Entity, seeking to delay, restrain, prevent, enjoin or otherwise prohibit consummation of such transactions; and (iii) the prompt use of its reasonable best efforts to take, in the event that any permanent, preliminary or temporary injunction, decision, order, judgment, determination or decree is entered or issued, or becomes reasonably foreseeable to be entered or issued, in any proceeding or inquiry of any kind that would make consummation of the transactions contemplated by this Agreement in accordance with the terms of this Agreement and the Ancillary Documents unlawful or that would delay, restrain, prevent, enjoin or otherwise prohibit consummation of the transactions contemplated by this Agreement and the Ancillary Documents by the Termination Date, any and all steps (including the appeal thereof, the posting of a bond or in the case of Buyer, the taking of the steps contemplated by clause (ii) of this paragraph) necessary to resist, vacate, modify, reverse, suspend, prevent, eliminate or remove such actual, anticipated or threatened injunction, decision, order, judgment, determination or decree so as to permit such consummation prior to the Termination Date.

(c) Subject to the terms and conditions set forth in this Agreement (including Section 6.3(a)), Seller and Buyer shall cooperate with each other and shall furnish to each other all information necessary or desirable in connection with making any filing under the HSR Act and for any application or other filing to be made pursuant to any competition or state, local or federal telecommunications or franchising Law, or in connection with resolving any investigation or other inquiry by any Governmental Entity or any consumer advocate which is, or may reasonably be expected to be, a party to a proceeding before a Governmental Entity (or any third-party consultant or advisor to any of the foregoing) under any competition or state, local or federal telecommunications or franchising Laws with respect to the transactions contemplated by this Agreement and the Ancillary Documents. Each of Buyer and Seller shall promptly inform the other in writing of any communication with, and any proposed understanding, undertaking or agreement with, any Governmental Entity or any consumer advocate or third-party consultant or advisor to any of the foregoing regarding any such filings or any such transaction. Neither Seller nor Buyer shall participate in any substantive meeting (in person or by telephone) with any Governmental Entity or any consumer advocate or third-party consultant or advisor to any of the foregoing in respect of any such filings, investigation or other inquiry without giving the other party prior written notice of, and the opportunity to participate in, the meeting to the extent reasonably practicable. To the extent not prohibited by Law and reasonably practicable, the parties will consult and cooperate with one another in connection with any analyses, appearances, presentations, memoranda, briefs, arguments, opinions and proposals made or submitted by or on behalf of any party in connection with all meetings, actions and proceedings under or relating to the HSR Act or other competition or state, local or federal telecommunications or franchising Laws (including, with respect to making a particular filing, by providing copies of all such documents to the non-filing party and their advisors prior to making such filing and, if requested, giving due consideration to all reasonable additions, deletions or changes suggested in connection therewith).

(d) To the extent necessary to comply with state laws and regulations and the rules, regulations, written policies, instructions and orders of the FCC, including those prohibiting "slamming" as set forth in 47 C.F.R. Section 64.1120, at least 60 days prior to the estimated Closing Date (as reasonably estimated by the parties) (i) Buyer shall, at its own expense, prepare and deliver to Seller a draft notice providing the information required by 47 C.F.R. Section 64.1120(e) addressed to the telecommunications customers of the Transferred Companies, after giving effect to the Pre-Closing Reorganization, it being understood that Seller shall have the opportunity to review and comment on the contents of such notice and Buyer shall give reasonable consideration to any comment proposed by Seller and (ii) Seller shall, at Buyer's cost and expense (which shall be a reimbursement of Seller's reasonable and documented out-of-pocket costs and expenses), cause such notice to be delivered to such customers at least 30 days before the estimated Closing Date (as reasonably estimated by the parties) by a direct mailing or in accordance with such method of notice and notification period that the FCC or State Commissions may order or require. Seller will be responsible for preparing, distributing, and filing (at Buyer's expense) any notices relating to "discontinuance, reduction, or impairment" of service to the customers of the Transferred Companies after giving effect to the Pre-Closing Reorganization required by 47 C.F.R. Sections 63.19 and 63.71.

(e) Neither Buyer nor any of its Subsidiaries shall, directly or indirectly, acquire or agree to acquire (whether by merger, consolidation, stock or asset purchase, tender or exchange offer, recapitalization, reorganization or any other form of transaction) any other Person if and to the extent that such transaction would reasonably be expected to materially impair or delay the ability of Buyer to consummate the transactions contemplated by this Agreement (including as a result of the failure of Buyer to obtain the Debt Financing or have sufficient liquidity to fund its obligations in connection with the transactions contemplated by this Agreement).

6.4 Control of Business Pending the Closing. Nothing contained in this Agreement shall give Buyer, directly or indirectly, any right to control or direct the operations of Seller or any of its Subsidiaries prior to the Closing.

6.5 Tax Matters.

(a) Seller Liability for Taxes. Seller hereby agrees that from and after the Closing it shall indemnify, defend and hold harmless the Buyer Indemnified Parties from, against, and in respect of any Losses incurred or sustained by, or imposed upon, any such Buyer Indemnified Party based upon, arising out of, with respect to or by reason of: (i) Taxes imposed on any of the Transferred Companies under Treasury Regulation Section 1.1502-6 (and any comparable provision of state, local, or foreign Law), as a transferee or successor or by Contract (other than any Contract entered into in the ordinary course of business and which does not relate primarily to Taxes), for Taxes of any Person other than a Transferred Company for any Pre-Closing Tax Period; (ii) Taxes arising as a result of any deemed sale of assets of any Section 338(h)(10) Company for which a Section 338(h)(10) Election is made, (iii) Taxes imposed on any of the Transferred Companies or otherwise arising with respect to the Transferred Business with respect to a Pre-Closing Tax Period, (iv) Taxes arising as a result of any breach of or inaccuracy in any representation or warranty contained in Sections 4.9(d), 4.9(h), 4.9(i), 4.9(j) and 4.9(l) (determined as if such representations and warranties were made as of the Effective Time or, solely with respect to Section 4.9(l), as of the Closing), any indemnity pursuant to this clause (iv) is limited solely to Losses with respect to a Pre-Closing Tax Period, (v) any withholding Taxes imposed on the payment of the Purchase Price as a method for collecting a Tax payable by Seller under applicable Law or this Agreement (excluding, for the avoidance of doubt, withholding Taxes that represent a mechanism to collect a Transfer Tax which Buyer and Seller have agreed to share pursuant to Section 6.5(e)); (vi) Transfer Taxes for which Seller is responsible pursuant to Section 6.5(e); (vii) Taxes (other than Transfer Taxes) directly or indirectly arising from, related to or attributable to the Pre-Closing Reorganization or the transfer of Transferred Assets to the Transferred Companies, or any transfer of Excluded Assets to Seller or its Affiliates, pursuant to Section 10.9 after the Closing, and (viii) Taxes directly or indirectly arising from, related to or attributable to the breach of any covenant or agreement of Seller or any of its Affiliates contained in this Agreement, in each case, with respect to non-income Taxes only, to the extent such non-income Taxes exceed any accrual in respect thereof on the Final Closing Statement as finally determined, but only to the extent applicable.

(b) Buyer Liability for Taxes. Buyer hereby agrees that from and after the Closing it shall indemnify, defend and hold harmless the Seller Indemnified Parties from, against, and in respect of any Losses incurred or sustained by, or imposed upon, any such Seller Indemnified Party based upon, arising out of, with respect to or by reason of: (i) Taxes imposed on any of the Transferred Companies or otherwise arising with respect to the Transferred Business with respect to a Post-Closing Tax Period; (ii) Transfer Taxes for which Buyer is responsible pursuant to Section 6.5(e); (iii) Taxes arising from, related to or attributable to the breach of any covenant or agreement of Buyer or any of its Affiliates contained in this Agreement; and (iv) Taxes arising out of any action taken outside the ordinary course of business by Buyer or any of its Affiliates after the Closing but on the Closing Date.

(c) Proration of Taxes.

(i) With respect to a Straddle Period, the Taxes that shall be treated as attributable to a Pre-Closing Tax Period shall be determined as follows: (a) to the extent such Tax is calculated on an annual basis, whether or not the lien date, or valuation date, begins within the taxable year, such as property tax, such Tax shall be prorated based on the number of days in such taxable period up to and including the end of the day before the Effective Time, and (b) to the extent such Tax is measured by income or receipts or other factors not described in (a), above, such Tax shall be allocated based on a closing of the books on the Closing Date (or in the case of Taxes other than income Taxes, based on a closing of the books as of the end of the day before the Effective Time) with respect to the Transferred Companies.

(ii) In the case of Taxes that are payable with respect to a Straddle Period, the portion of any such Taxes that shall be treated as attributable to a Post-Closing Tax Period shall be all such Taxes other than the Taxes attributable to a Pre-Closing Tax Period pursuant to Section 6.5(c)(i) hereof.

(iii) To the extent permitted under applicable Law, the parties shall use commercially reasonable efforts to terminate the taxable year of the Transferred Companies on the Closing Date.

(d) Tax Returns.

(i) Seller shall have the sole and exclusive right to prepare and file all required Consolidated Tax Returns.

(ii) Seller shall timely prepare, or cause to be prepared, and, to the extent permitted by Law, timely file or cause to be timely filed all Tax Returns (other than Consolidated Tax Returns) that are required to be filed in respect of a taxable period ending on or before the Closing Date (taking into account any applicable extensions) by or with respect to the Transferred Companies or the Transferred Business and shall cause any amounts shown to be due on such Tax Returns to be timely remitted to the applicable Taxing authority. To the extent any Tax Return described in this Section 6.5(d)(ii) is required to be filed by Buyer or any of its Affiliates after the Closing, Buyer shall timely file or cause to be timely filed any such Tax Return upon receipt from Seller.

(iii) Buyer shall prepare, or cause to be prepared, and timely file, or cause to be timely filed, all Tax Returns in respect of a Straddle Period that are required to be filed by or with respect to the Transferred Companies; provided that: (A) before filing any such Tax Return, Buyer shall provide Seller with a copy of such Tax Return (or a pro forma Tax Return solely related to the Transferred Companies in the case of any consolidated, combined, affiliated or unitary Tax Return that includes Buyer or any of its Affiliates) at least thirty (30) days prior to the last date for timely filing such Tax Return (giving effect to any valid extensions thereof) accompanied by a statement setting forth Seller's indemnification obligation, if any, pursuant to Section 6.5(a); (B) Buyer shall consider the reasonable comments of Seller to any such Tax Return and shall not withhold incorporation of such comments to the extent doing so would not materially increase Buyer's or any of its Affiliates' liability for Taxes, (C) Seller shall pay to Buyer the amount of its indemnification obligation pursuant to Section 6.5(a) related to such Tax Returns within a reasonable time for the filing of such Tax Returns, (D) no such Tax Return shall be filed without the consent of Seller, such consent not to be unreasonably withheld, conditioned or delayed and (E) Buyer shall cause any amounts shown to be due on such Tax Returns to be timely remitted to the applicable Taxing authority.

(iv) Any Tax Returns described in Section 6.5(d)(ii) or Section 6.5(d)(iii) shall be prepared in a manner consistent with most recent past practice in respect of the Transferred Companies and the Transferred Business except to the extent otherwise required by applicable Law.

(v) Without the prior written consent of Seller, such consent not to be unreasonably withheld, conditioned or delayed, Buyer shall not, and shall not permit any of its Affiliates to, amend any Tax Returns or make or change any Tax elections or accounting methods, in each case with respect to any Transferred Company or otherwise with respect to the Transferred Business for any taxable period (or portion thereof) ending on or prior to the Closing Date, except to the extent required by applicable Law.

(e) Transfer Taxes. Seller and Buyer shall each bear one half of any Transfer Taxes, including, for the avoidance of doubt, any Transfer Taxes resulting from any transfer of Transferred Assets to the Transferred Companies, or any transfer of Excluded Assets to Seller or its Affiliates, pursuant to Section 10.9 after the Closing. Buyer and Seller will cooperate in the preparation and filing of any Tax Returns with respect to Transfer Taxes, and join in the execution of any such Tax Returns or other documentation, as applicable. Any Tax Returns that must be filed in connection with Transfer Taxes shall be prepared and filed by the party primarily or customarily responsible under applicable Law for filing such Tax Returns, provided that such party preparing such Tax Returns shall use its reasonable best efforts to provide such Tax Returns to the other party for review and comment at least ten (10) Business Days prior to the date such Tax Returns are due to be filed.

(f) Contest Provisions.

(i) Each of Buyer and Seller shall promptly notify the other in writing upon receipt of notice of any pending or threatened audits or assessments with respect to Taxes for which such other party (or such other party's Affiliates) may be liable hereunder.

(ii) Seller shall have the right to control all audits, examinations, assessments or other proceedings in respect of Taxes ("Tax Proceedings") and may make any decisions in connection with any Tax Proceeding relating to a Tax Return described in Section 6.5(d)(i) or Section 6.5(d)(ii) or that otherwise relates to Taxes for which Seller may be responsible under Section 6.5 (a); provided that (A) to the extent that any Tax Proceeding controlled by Seller relates to (1) Taxes arising as a result of any breach of or any inaccuracy in any representation or warranty contained in Section 4.9(l) or the tax treatment of the purchase and sale of the membership interests in Newco described in Sections 3.7 and 6.5(a), (2) the Allocation Schedule described in Section 3.7 or the Section 338(h)(10) Final Allocation Schedule described in Section 6.5(n)(ii) or (3) a Straddle Period (excluding in the case of this clause (3) any Tax Proceeding relating to a Consolidated Tax Return): (x) the Buyer Indemnified Parties may at their own expense participate in the proceedings related to such Tax Proceeding, but in the case of a Tax Proceeding in respect of a Consolidated Tax Return only with respect to Tax matters described in clause (1) or (2), (y) Seller shall keep the Buyer Indemnified Parties reasonably and timely informed with respect to the commencement, status and nature of such Tax Proceeding and (z) Seller shall consider any reasonable comments proposed by the Buyer Indemnified Parties that are related to the defense of such Tax Proceeding and (B) with respect to any Tax Proceeding controlled by Seller described in Section 6.5(f)(ii)(A)(3), Seller shall not settle, compromise or dispose of such Tax Proceeding if such settlement, compromise or disposition would reasonably be expected to adversely affect the Tax liability of the Buyer Indemnified Parties in a Post-Closing Tax Period without the consent of the Buyer Indemnified Parties, such consent not to be unreasonably withheld, conditioned or delayed; provided, further, however, that (1) nothing contained in this Section 6.5(f)(ii)(B) shall prohibit Seller from settling, compromising or disposing of a Tax Proceeding without the consent of the Buyer Indemnified Parties to the extent Seller agrees in writing to indemnify the Buyer Indemnified Parties for any Losses arising out of, with respect to or by reason of such settlement, compromise or disposition and (2) for the avoidance of doubt, this Section 6.5(f)(ii)(B) shall in no event apply to a Tax Proceeding relating to a Consolidated Tax Return.

(iii) The Buyer Indemnified Parties shall have the right to control all proceedings and may make any decisions in connection with all Tax Proceedings not controlled by Seller pursuant to Section 6.5(f)(ii).

(g) Refunds. If, after the Closing, Buyer or any of its Affiliates (A) receives any refund, or (B) utilizes the benefit of any overpayment or prepayment of Taxes (including as a result of any reimbursement or credit in respect of Taxes) which, in either of cases (A) and (B), (x) relate to a Tax paid by Seller or any of its Affiliates, or (y) is the subject of indemnification by Seller hereunder, Buyer shall promptly transfer, or cause to be transferred, to Seller the entire amount of the refund or overpayment (including interest or other additions thereto) received or utilized by Buyer or its Affiliates, net of any Taxes or other reasonable costs incurred by Buyer or its Affiliates attributable to the receipt of such refund. Buyer agrees to notify Seller promptly of both the discovery of a right to claim any such refund or overpayment and the receipt of any such refund or utilization of any such overpayment. Buyer agrees to use commercially reasonable efforts to claim any such refund or to utilize any such overpayment as soon as possible and to furnish to Seller all information, records and assistance necessary to verify the amount of the refund or overpayment, provided, that Buyer shall be permitted to use its own Tax attributes prior to utilizing such overpayment described in this Section 6.5(g).

(h) Assistance and Cooperation. From and after the Closing, the parties shall cooperate fully, as and to the extent reasonably requested by the other party, in preparing any Tax Returns and for any audits of, or disputes with Taxing authorities regarding, any Tax Returns involving the Transferred Companies or Transferred Business and payments in respect thereof. Such cooperation shall include, upon such other party's request, the provision of records and information reasonably relevant to the Transferred Companies or Transferred Business and any related Tax Returns or Tax Proceedings and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder; provided, however, that Seller shall have no obligation to provide Buyer copies of any Consolidated Tax Returns.

(i) Maintenance of Buyer's Books and Records. Until the later of seven (7) years following the Closing and expiration of the applicable statute of limitations (including periods of waiver) for any Tax Returns filed or required to be filed covering the periods up to and including the Closing Date, Buyer and Seller shall, and shall cause its respective Affiliates to, retain all Books and Records related to the Transferred Business and Transferred Companies and after the Closing Date will provide the other party access to such Books and Records for inspection and copying by Buyer or Seller, as applicable, or its respective agents and representatives upon reasonable request and upon reasonable notice. After the expiration of such period, no Books and Records referred to in the previous sentence shall be destroyed without first advising the other party in writing and giving such party a reasonable opportunity to obtain possession thereof, with any costs of transferring such Books and Records to be paid by the party requesting such books and records; provided, however, that Seller shall have no obligation to provide Buyer access to, or copies of, any Consolidated Tax Returns.

(j) Tax Sharing Agreements. As of the Closing Date and, after the Closing Date, none of the Transferred Companies shall be bound by or have any liability under any Tax sharing agreements with respect to or involving the Transferred Companies.

(k) Survival. The indemnification obligations pursuant to this Section 6.5, as well as the representations and warranties contained in Sections 4.9(d), 4.9(h), 4.9(i), 4.9(j) and 4.9(l), shall survive the Closing until ninety (90) days following the expiration of the applicable statute of limitations (including any extensions thereof) relevant to each particular item; provided that if a notice described under Section 6.5(f)(i) is provided to the Indemnifying Party prior to any such expiration date, any obligation to indemnify for any claim described in such notice shall continue indefinitely until such claim is finally resolved.

(l) Timing of Payments. The Indemnifying Party shall pay all amounts payable pursuant to this Section 6.5 promptly following receipt from an Indemnified Party of a claim for a Loss that is the subject of indemnification hereunder, unless and for so long as the Indemnifying Party in good faith disputes the Loss in which event it shall so notify the Indemnified Party. In any event, the Indemnifying Party shall pay to the Indemnified Party, by wire transfer of immediately available funds, the amount of any Loss for which it is liable hereunder no later than ten (10) Business Days following any Final Determination of such Loss and the Indemnifying Party's liability therefor. A "Final Determination" shall exist when (i) the parties to the dispute have reached an agreement in writing, (ii) a court of competent jurisdiction shall have entered a final and non-appealable order or judgment, or (iii) an arbitration or like panel shall have rendered a final non-appealable determination with respect to disputes the parties have agreed to submit thereto.

(m) Characterization of Indemnification Payments. Except as otherwise required by Law, all payments made by an Indemnifying Party to an Indemnified Party in respect of any claim pursuant to this Section 6.5 hereof shall be treated as adjustments to the Purchase Price for Tax purposes.

(n) Section 338(h)(10) Election.

(i) Buyer and Seller agree to treat the indirect acquisition of each of GTE Southwest Incorporated and Verizon California Inc. (each, a "Section 338(h)(10) Company") as a "qualified stock purchase" within the meaning of Section 338(d)(3) of the Code and shall make a joint election under Section 338(h)(10) of the Code, and comparable state and local Tax provisions, with respect to the acquisition of each of the Section 338(h)(10) Companies and, to the extent that an applicable State's treatment of Newco and Verizon Florida LLC does not conform to their U.S. federal income tax treatment as entities disregarded as separate from GTE, with respect to each of Newco and Verizon Florida LLC (the "Section 338(h)(10) Elections"). At the Closing, Buyer and Seller shall exchange properly completed and executed originals of IRS Form 8023 and any similar state or local forms, and required schedules thereto, containing information available at such time. If any changes are required in the forms as a result of information which is first available after such forms are prepared, Buyer and Seller will promptly agree on such changes. After all required schedules to support the forms are completed, Buyer and Seller shall file the forms, which filing shall be made within the time period specified under applicable Law. Buyer and Seller and their Affiliates shall make all required filings relating to the Section 338(h)(10) Elections in connection with their federal and applicable state and local income Tax Returns, and shall cooperate fully with each other to take all other actions necessary and appropriate otherwise to effect, perfect and timely preserve the Section 338(h)(10) Elections.

(ii) Within ninety (90) days following the Closing Date, Buyer shall (i) draft a schedule allocating the deemed sales price of the assets of the Section 338(h)(10) Companies resulting from the Section 338(h)(10) Elections among such assets (the "Section 338(h)(10) Allocation Schedule") and (ii) deliver such Section 338(h)(10) Allocation Schedule to Seller for Seller's review. The Section 338(h)(10) Allocation Schedule shall be prepared in accordance with Section 338(h)(10) of the Code and the Treasury regulations thereunder. If Seller believes that all or a portion of the Section 338(h)(10) Allocation Schedule is incorrect and Seller notifies Buyer in a writing including a description of the objection and basis supporting Seller's objections and any calculations or documentation that support the objection, within 30 (thirty) days after having received the Section 338 (h)(10) Allocation Schedule, Buyer and Seller agree to consult and resolve in good faith any such disputed item. In the event the parties are unable to resolve any such dispute within 30 (thirty) days following notice to Buyer of Seller's objection (in the form and within the time set forth herein), the Accountant will be retained to resolve solely any issue in dispute as promptly as possible and the determination of the Accountant shall be final with respect to such disputed issues. Buyer and Seller shall then be bound by the Section 338(h)(10) Allocation Schedule as adjusted to reflect the determination, if any, of the Accountant (the "Section 338(h)(10) Final Allocation Schedule"). The costs of the Accountant shall be borne equally by Buyer and Seller. In the event that Final Net Working Capital is determined, or another adjustment to the Purchase Price for tax reporting purposes is made under this Agreement or the Employee Matters Agreement, after delivery of the Section 338(h)(10) Allocation Schedule, Buyer and Seller shall cooperate to revise such schedule to take into account the portion of such Final Net Working Capital or such other adjustment to the Purchase Price allocable to the assets of the Section 338(h)(10) Companies. The Section 338(h)(10) Final Allocation Schedule shall be used in preparing IRS Form 8883 and each of Seller, on the one hand, and Buyer on the other hand, shall report the transaction contemplated by this Agreement, and file all Tax Returns, in each case, for federal, state, local and foreign Tax purposes in accordance with the Section 338(h)(10) Final Allocation Schedule.

(iii) Neither Buyer nor Seller shall take any action, whether before or after the Closing, that could reasonably be expected to cause the purchase and sale of the membership interests of Newco contemplated by this Agreement not to be treated as described in Sections 3.7 and this Section 6.5(n).

(o) Notwithstanding anything to the contrary in this Agreement, solely for purposes of this Section 6.5 and Section 4.9(l), and other than for purposes of any references to "Effective Time", any references to the Closing and Closing Date shall refer to the date on which the purchase and sale of all the issued and outstanding limited liability company interest of Newco actually occurs, and not the date on which the Closing and Closing Date are deemed to occur under the penultimate sentence of Section 3.3.

(p) Exclusivity. All issues relating to indemnification for the Tax matters addressed by Section 6.5(a) and Section 6.5(b) shall be governed exclusively by the provisions of this Section 6.5 and not by Article VIII, including a breach of the representations and warranties contained in Section 4.9 (Taxes). For the avoidance of doubt, the indemnification obligations under Section 6.5(a) and Section 6.5(b) shall not be subject to the limits on indemnity as described in Article VIII.

6.6 Employee Matters. Seller and Buyer agree that throughout the Pre-Closing Reorganization contemplated by this Agreement, the Listed Employees shall maintain uninterrupted continuity of employment, compensation and benefits, and, additionally for union-represented employees, uninterrupted continuity of representation for purposes of collective bargaining and uninterrupted continuity of coverage under their collective bargaining agreements, in each case as contemplated by and provided in the Employee Matters Agreement. Buyer's obligations and responsibilities in respect of the Business Employees shall be as set forth in the Employee Matters Agreement.

6.7 Non-Solicitation of Employees.

(a) Except as required by the terms of the Collective Bargaining Agreements or as otherwise mutually agreed by the parties, Seller agrees that it will not, and it will cause its Subsidiaries not to, for a period from the Closing Date until the date that is six (6) months after the Closing Date, (i) solicit or request any other Person to solicit any Business Employee to leave employment of Buyer or to accept any other position or employment with Seller Group, except for general solicitations of employment not targeted toward employees of Buyer or (ii) employ (directly or indirectly as a contractor) any employee of the Buyer Group who has voluntarily separated from employment with Buyer or any member of the Buyer Group within the immediately preceding six (6) months, provided that after the six (6) month anniversary of the voluntary separation of any such employee, Seller or any member of the Seller Group may employ or retain as a contractor such individual in its sole discretion.

(b) Except for those employees who shall be retained and employed by the Transferred Companies on and following the Closing Date or as otherwise mutually agreed by the parties, Buyer agrees that for a period from the Closing Date until the date that is six (6) months after the Closing Date, it will not, and will cause its Affiliates not to, (i) solicit or request any other Person to solicit (x) any officer of Seller or any of its Subsidiaries who works in a business similar to the Transferred Business or who otherwise negotiated or participated in the transactions contemplated by this Agreement or (y) Seller's agents or contractors who are or have been directly involved in supporting activities relating to the effecting of the transactions contemplated by this Agreement (such as pre-signing diligence or pre-closing readiness), provided, that Buyer shall be permitted to hire the companies that employ such individuals but not the individual agents or contractors who represented Seller or its Affiliates, to leave such employment or to accept any other position or employment with Buyer or its Affiliates except for general solicitations of employment not targeted toward employees of Seller or any of its Subsidiaries or (ii) employ (directly or indirectly as a contractor) any employee of the Seller Group who has voluntarily separated from employment with Seller or any member of the Seller Group within the immediately preceding six (6) months, provided that after the six (6) month anniversary of the voluntary separation of any such employee, Buyer or any member of the Buyer Group may employ or retain as a contractor such individual in its sole discretion.

6.8 Confidentiality.

(a) Subject to Section 6.9, which shall govern Privileged Information, and the terms of any Ancillary Document for the period commencing at the Closing and expiring on the third anniversary of the Closing Date, Seller shall, and shall cause its Subsidiaries to, treat as confidential and safeguard any and all information, knowledge and data included as of the Closing in the Transferred Business to the extent it is related to the Transferred Business (other than Excluded Assets) other than information, knowledge or data that becomes publicly available through no breach by Seller of this Agreement ("Buyer Confidential Information"). Thereafter, Seller shall not intentionally disclose any such information, knowledge or data without Buyer's written consent. Nothing herein shall restrict Seller's ability to make any disclosures that are required by applicable Law.

(b) For the period commencing at the Closing and expiring on the third anniversary of the Closing Date, Buyer shall, and shall cause its Subsidiaries to, treat as confidential and safeguard any and all information, knowledge and data relating to the businesses of Seller and its Subsidiaries, other than to the extent it is related to the Transferred Business (other than Excluded Assets) as of the Closing, that becomes known to Buyer as a result of the transactions contemplated by this Agreement or the Ancillary Documents other than information, knowledge or data that (i) becomes known to Buyer from a third-party source not known by Buyer to be under an obligation to Seller to maintain confidentiality; or (ii) becomes publicly available through no breach by Buyer of this Agreement ("Seller Confidential Information"). Thereafter, Buyer shall not intentionally disclose any such Seller Confidential Information without Seller's written consent. Nothing herein shall restrict Buyer's ability to make any disclosures that are required by applicable Law. For the period commencing at the Closing and expiring on the third anniversary of the Closing Date, Buyer and its Subsidiaries shall not use any Seller Confidential Information for any purpose other than in connection with its rights and obligations under this Agreement or the Ancillary Documents.

(c) Buyer and Seller acknowledge that the confidentiality obligations set forth herein shall not extend to information, knowledge and data (i) the disclosure of which is required by applicable Law, (ii) that is publicly available or becomes publicly available through no act or omission of the party owing a duty of confidentiality, (iii) that becomes available on a non-confidential basis from a source other than the party owing a duty of confidentiality so long as such source is not known by such party to be bound by a confidentiality agreement with or other obligations of secrecy to the other party or (iv) that can reasonably be demonstrated to have been independently developed by a party without reference to or use of the other party's confidential information.

(d) In the event of a breach of the obligations hereunder by Buyer or Seller, the other party, in addition to all other available remedies, will be entitled to seek injunctive relief to enforce the provisions of this Section 6.8 in any court of competent jurisdiction.

6.9 Privileged Matters.

(a) Each party hereto acknowledges that: (i) each party and its Affiliates has or may obtain Privileged Information; (ii) there are and/or may be a number of Litigation Matters affecting both of Buyer and Seller; (iii) both Buyer and Seller have a common legal interest in Litigation Matters, in the Privileged Information and in the preservation of the confidential status of the Privileged Information, in each case relating to the Transferred Business; and (iv) both Buyer and Seller intend that the transactions contemplated hereby and by the Agreement and the Ancillary Documents and any transfer of Privileged Information in connection therewith shall not operate as a waiver of any potentially applicable privilege.

(b) Following the Closing, each of Buyer and Seller agrees, on behalf of itself and each of its Subsidiaries, not to disclose or otherwise waive any privilege attaching to any Privileged Information relating to the Transferred Business without providing prompt written notice to and obtaining the prior written consent of the other, which consent shall not be unreasonably withheld, conditioned or delayed and shall not be withheld, conditioned or delayed if the other party certifies that such disclosure is to be made in response to a likely threat of suspension or debarment or similar action; provided, however, that Buyer shall not be required to give any such notice or obtain any such consent and may make such disclosure or waiver with respect to Privileged Information if such Privileged Information relates solely to the Transferred Business (unless such information relates to matters for which Seller may have indemnification obligations under this Agreement or the Ancillary Documents). In the event of a disagreement concerning the reasonableness of withholding such consent, no disclosure shall be made prior to a resolution of such disagreement by a court of competent jurisdiction, provided that the limitations in this sentence shall not apply in the case of disclosure required by Law and so certified as provided in the first sentence of this paragraph.

(c) After the Closing, upon receipt of any subpoena or other compulsory disclosure notice from a Governmental Entity or otherwise which requests disclosure of Privileged Information relating to the Transferred Business, to the extent not prohibited by Law, Seller or Buyer (in the case of information relating to matters for which Seller may have indemnification obligations under this Agreement or the Ancillary Documents, or in the case of Privileged Information not solely related to the Transferred Business and in which Seller may have an interest), as applicable, shall as promptly as practicable provide to the other party (following the notice provisions set forth herein) a copy of such notice, the intended response, and all materials or information that might be disclosed and the proposed date of disclosure. In the event of a disagreement as to the intended response or disclosure, unless and until the disagreement is resolved as provided in paragraph (b) of this Section, the disclosing party shall, at the other party's expense, cooperate to the extent such other party seeks to limit such disclosure and take all reasonable steps to resist or avoid such disclosure, except as otherwise required by a court order requiring such disclosure.

(d) Nothing in this Section 6.9 shall limit a party's ability to assert its rights under this Agreement or the Ancillary Documents in the event of any dispute between the parties.

6.10 Production of Witnesses. Subject to Section 6.9, after the Closing, each of Buyer and Seller shall, and shall cause each of its Subsidiaries to, use its respective reasonable best efforts to make available to Seller or Buyer, as the case may be, upon reasonable prior written request, such party's directors, managers or other persons acting in a similar capacity, officers, employees and agents as witnesses to the extent that any such Person may reasonably be required in connection with any Litigation Matters, administrative or other proceedings in which the requesting party may from time to time be involved and relating to the Transferred Business, as applicable. The reasonable and documented out-of-pocket costs and expenses incurred in the provision of such witnesses shall be paid by the party requesting the availability of such persons.

6.11 Release by Seller and Its Affiliates. Seller, on behalf of itself and its Affiliates, successors, and assigns (all such Persons, together with Seller, the "Seller Release Parties"), as of the Closing, hereby releases and forever discharges Buyer, and its Affiliates, successors and assigns (all such Persons (including the Transferred Companies), together with Buyer, the "Buyer Release Parties"), from any and all Liabilities which the Buyer Release Parties may have or may have had, known or unknown, from the beginning of the world until the Closing, arising out of or against the Transferred Companies or the Transferred Assets or the Transferred Business; provided that nothing herein constitutes a release from, waiver of, or otherwise applies to the terms of this Agreement (including any matters for which Buyer has indemnification obligations pursuant to the provisions of this Agreement) or any Ancillary Documents, or any Liability, Contract or arrangement contemplated by this Agreement or any Ancillary Document to be in effect after the Closing, or any enforcement thereof; provided further that, for the avoidance of doubt, with respect to any Ancillary Document that constitutes an amendment to an existing agreement, the release herein shall apply to the terms of such existing agreement and any enforcement thereof for all periods prior to the Closing, unless otherwise contemplated by such Ancillary Document. Seller, for itself and the Seller Release Parties, hereby irrevocably covenants to refrain from, directly or indirectly, asserting any claim or demand, or commencing, instituting or causing to be commenced or voluntarily aiding, any proceeding of any kind against any Buyer Release Party, based upon any matter purported to be released hereby. Seller, for itself and the Seller Release Parties, shall refrain from bringing any Action for contribution or indemnification from the Buyer Release Parties (only with respect to the Transferred Companies or as a result of the transactions contemplated by this Agreement), or otherwise commencing, instituting or causing to be commenced any Action against any Buyer Release Party (only as it relates to the Transferred Companies or the transactions contemplated by this Agreement), for or in respect of any of the Actions set forth on Buyer Schedule 6.11.

6.12 Release by Buyer and Its Affiliates. Buyer, on behalf of itself and the Buyer Release Parties, as of the Closing, hereby releases and forever discharges all Seller Release Parties from any and all Liabilities which the Seller Release Parties may have or may have had, known or unknown, from the beginning of the world until the Closing, arising out of or against the Transferred Companies, the Transferred Assets or the Transferred Business (other than Excluded Assets or Excluded Liabilities); provided that nothing herein constitutes a release from, waiver of, or otherwise applies to the terms of this Agreement (including any matters for which Seller has indemnification obligations pursuant to the provisions of this Agreement) or any Ancillary Documents or any Liability, Contract or arrangement contemplated by this Agreement or any Ancillary Document to be in effect after the Closing, or any enforcement thereof; provided further that, for the avoidance of doubt, with respect to any Ancillary Document that constitutes an amendment to an existing agreement, the release herein shall apply to the terms of such existing agreement and any enforcement thereof for all periods prior to the Closing, unless otherwise contemplated by such Ancillary Document. Buyer, for itself and the Buyer Release Parties, hereby irrevocably covenants to refrain from, directly or indirectly, asserting any claim or demand, or commencing, instituting or causing to be commenced or voluntarily aiding, any proceeding of any kind against any Seller Release Party, based upon any matter purported to be released hereby.

6.13 Customer Agreements.

(a) With respect to Master Agreements, Seller, Buyer and their respective Subsidiaries will use commercially reasonable efforts to obtain prior to the Closing or, if not obtained, will use commercially reasonable efforts to obtain within six (6) months following the Closing Date (other than for Federal Government Contracts for which there will be no six (6) month limit on the parties' obligations to use commercially reasonable efforts to obtain a Federal Government novation), from the counterparty to each Master Agreement, any consent that is required to separate the portion of such Master Agreement that provides for the delivery of ILEC Services or other goods or services provided by the Transferred Business, it being understood that neither Seller nor Buyer or any of their respective Subsidiaries shall be required to grant any consideration to any counterparty to such Master Agreement. Buyer and Seller shall cooperate and work in good faith to separate the applicable portion of any Master Agreement hereunder. The Contract constituting the separated portion of any Master Agreement that provides for the delivery of ILEC Services or other goods or services provided by the Transferred Business as described in the preceding sentence shall constitute a "Customer Contract" and "Assigned Contract" under this Agreement, it being understood that in no event shall those portions of any Master Agreement providing for the delivery of goods and services that do not constitute ILEC Services or other goods or services provided by the Transferred Business be considered a Customer Contract or any Assigned Contract.

(b) Buyer agrees that, to the extent Tariffs or agreements implementing Tariffs contain rates and charges or other terms and conditions based on volume of service, amount of purchase or spend, or similar volume commitments by the customers which are party to agreements implementing such Tariffs with customers served by Seller or its Affiliates under Master Agreements and the agreements of customers who do not provide consents under this Agreement (the "Volume Commitments"), Buyer will, for the term of each such Master Agreement, reduce such Volume Commitments pro-rata, without a change in rates and charges or other terms and conditions under such Tariffs or agreements, to reflect the fact that the customers who are party to such an Agreement or such Affiliates may, after the Closing, take service from both Affiliates of Seller and Buyer and not from Affiliates of Seller or Buyer alone. The pro-rata reduction shall be equal to or exceed the amount of the Volume Commitment provided by Affiliates of Seller after the Closing. By way of example, and not by limitation, if after the Closing, such customer or Affiliate purchased 75% of a Volume Commitment from Buyer and 25% of a Volume Commitment from Affiliates of Seller, then Buyer would reduce the Volume Commitment by 25% in affected Tariffs and agreements implementing such Tariffs. Buyer and Seller shall work together to make all filings and take all other actions as may be required by applicable Laws to make the pro-rata reductions of Volume Commitments adopted or made by Buyer under this Section 6.13(b) legally effective no later than the Closing Date and each party shall bear its own costs associated with making its required filings.

(c) Buyer and Seller agree to use commercially reasonable efforts after Closing to finalize a United States Federal Government novation (per Federal Acquisition Regulation, Subpart 42.12) to have the Federal Government recognize the transfer, as a result of the transactions contemplated by this Agreement, to the Transferred Companies (and/or Buyer) of any: (i) Contracts between Seller and its Subsidiaries and U.S. Federal Government agencies which are exclusively for the provision of ILEC Services or the Transferred Business in the States if there remain continuing obligations or rights under them or the Federal Government has not closed out the Contract(s) or (ii) portions of Master Agreements between Seller and its Subsidiaries and the United States Federal Government agencies to the extent related to the provision of ILEC Services or the Transferred Business in the States if there remain continuing obligations or rights under them or the Federal Government has not closed out the Contract(s).

6.14 Insurance. Following the Closing, to the extent that (i) any insurance policies owned or controlled by any member of the Seller Group and provided by a Person who is not an Affiliate of Seller (collectively, "Seller Insurance Policies") cover any Assumed Liability or Loss of any of the Transferred Companies resulting from, arising out of, based on or relating to, occurrences prior to the Closing and (ii) the Seller Insurance Policies permit claims to be made thereunder with respect to the Assumed Liabilities or such Losses resulting from, arising out of, based on or relating to, occurrences prior to the Closing (the "Company Claims"), at Buyer's cost and expense (including any increased retrospective premiums, deductible and other retention amounts and any other reasonable out-of-pocket costs and expenses related to such Company Claims), Seller shall, and shall cause the other members of Seller Group to, cooperate with Buyer or its Subsidiaries in submitting Company Claims (or pursuing claims previously made) on behalf of Buyer or such Subsidiary, as applicable, under any Seller Insurance Policy; provided, however, that Buyer acknowledges and agrees that (A) none of Seller or any member of the Seller Group shall be responsible for any Assumed Liabilities or Losses that are "self-insured" by Seller or any member of Seller Group as of immediately prior to the Closing, that are within any applicable deductible or retention amounts under any Seller Insurance Policy or that are insured by any captive insurer, (B) none of Seller or any member of the Seller Group shall be liable to Buyer or any of its Subsidiaries (including, after the Closing, the Transferred Companies) for any losses or other amounts hereunder if any insurance company that has issued any Seller Insurance Policy fails to pay such losses or amounts as a result of, or in connection with, the filing or declaration of, or institution of proceeding for, any type of bankruptcy (whether voluntary or involuntary), insolvency or the commencement of any similar action or proceeding or otherwise, (C) the Seller Group may, at any time, without liability or obligation to Buyer or its Subsidiaries, including, after the Closing, the Transferred Companies, amend, commute, terminate, buy-out, extinguish liability under or otherwise modify any Seller Insurance Policy and (D) following the Closing, the Transferred Companies shall continue to be responsible for payment of any assessments made by any Governmental Entity associated with any Assumed Liabilities and none of Seller or any member of the Seller Group shall be responsible for the payment or reimbursement of any such assessments. Nothing in this Section 6.14 shall relieve Buyer or any of its Subsidiaries (including, after the Closing, the Transferred Companies) from any obligations with respect to the Assumed Liabilities or any other Losses. Nothing in this Section 6.14 affects rights of the Buyer Indemnified Parties to be indemnified under Section 8.3. This Agreement shall not be construed to waive any right or remedy of any member of Seller Group in respect of any Seller Insurance Policy.

6.15 Financing.

(a) Subject to the terms and conditions of this Agreement, Buyer shall use its reasonable best efforts (unless, with respect to any action, another standard for performance is expressly provided for herein) to obtain the Committed Financing (taking into account any reductions thereof pursuant to Section 6.15(b)(I)(A)) on the terms and conditions set forth in the Commitment Letter (taking into account the anticipated timing of the Marketing Period Termination Date), and Buyer shall not permit any amendment or modification to be made to, or any waiver of any provision under, the Commitment Letter or the Fee Letter (or following entry into definitive documents relating to the Committed Financing), such definitive documents) if such amendment, modification or waiver (A) with respect to the Commitment Letter or the Fee Letter or such definitive documents, as applicable, reduces (or would reasonably be expected to have the effect of reducing) the aggregate amount of the Committed Financing (including by increasing the amount of fees to be paid or original issue discount unless the Committed Financing is increased by a corresponding amount or the Committed Financing is otherwise made available to fund such fees or original issue discount) from that contemplated in the Commitment Letter or such definitive documents (other than any reductions permitted pursuant to Section 6.15(b)(I)(A)), or (B) imposes new or additional conditions or otherwise expands, amends or modifies any of the conditions to the Committed Financing, in a manner that would, in the case of this subclause (B), reasonably be expected to (x) prevent or materially delay the Closing or the availability of the Committed Financing on the Closing Date or (y) adversely impact the ability of Buyer to enforce its rights against the other parties to the Commitment Letter in any material respect (provided that, subject to compliance with the other provisions of this Section 6.15, Buyer may amend the Commitment Letter or such definitive documents to add additional lenders, arrangers and agents). Buyer shall promptly deliver to Seller copies of any such amendment, modification or replacement. For purposes of this Section 6.15 and Section 5.8 and the definitions of, and references to, the Financing, any Committed Financing Source, any Financing Source and the Marketing Period Termination Date, references to "Committed Financing" shall include the financing contemplated by the Commitment Letter as permitted by this Section 6.15(a) to be amended, modified or replaced and references to "Commitment Letter" shall include such document as permitted by this Section 6.15(a) to be amended, modified or replaced.

(b) Buyer shall (I) use its reasonable best efforts (taking into account the anticipated timing of the Marketing Period Termination Date) to (A) maintain in effect the Commitment Letter in accordance with the terms and subject to the conditions thereof, provided that, subject to clause (IV) of this sentence and to the penultimate sentence of this Section 6.15(b), Buyer may, without Seller's consent, reduce the amount of the Committed Financing under the Commitment Letter to the extent that the remaining amount of the Committed Financing under the Commitment Letter after such reduction, taken together with the net cash proceeds of one or more offerings, placements, sales and/or other issuances of debt and/or equity securities of or term loans to Buyer that are placed into escrow for use solely in paying amounts payable by Buyer at the Closing pursuant to this Agreement, is no less than $10,540,000,000 less the Debt Obligations, (B) negotiate and enter into definitive agreements with respect to the Committed Financing contemplated by the Commitment Letter on the terms and conditions contained in the Commitment Letter (or on such other terms not materially less favorable to Buyer (or its Subsidiaries), as determined in the reasonable judgment of Buyer after consultation with Seller, than the terms and conditions set forth in the Commitment Letter and that do not materially impair the ability of Buyer to fund its obligations at the Closing Date), (C) satisfy all conditions to funding in the Commitment Letter and such definitive agreements with respect thereto that are within its control and to consummate the Committed Financing at or prior to the Closing Date, as applicable, including using its reasonable best efforts to cause the lenders and the other persons committing to fund the Committed Financing on the Closing Date (the "Committed Financing Sources"), (D) enforce its rights under the Commitment Letter and any definitive agreements with respect thereto and (E) comply with its obligations under the Commitment Letter, (II) not use any net proceeds received and placed in escrow as contemplated in this Section 6.15(b) from any Financing other than to fund amounts required to be paid by Buyer pursuant to this Agreement at Closing and fees and expenses related to the Financing and the transactions contemplated hereby, (III) maintain cash on hand or access to other liquid sources of funding in an amount sufficient to make all payments required to be made by Buyer related to the transactions contemplated hereby, including any Required Payment Amount (the amount of which, solely for this purpose, shall be estimated in the good faith judgment of Buyer from time to time, to the extent such amount is not finally determined) and (IV) not take any action that would cause the amount of the Committed Financing to be reduced to the extent that the remaining amount of the Committed Financing under the Commitment Letter after such reduction, taken together with the net cash proceeds of one or more offerings, placements, sales and/or other issuances of debt and/or equity securities of or term loans to Buyer, as contemplated by the Commitment Letter and the related fee letter, that are placed into escrow (which escrow complies with the penultimate sentence of this Section 6.15(b)) for use solely in paying amounts payable by Buyer at the Closing pursuant to this Agreement, is less than $10,540,000,000 less the Debt Obligations. The conditions for the release of funds from any escrow referred to in this Section 6.15(b) shall include no new, additional or modified conditions beyond those applicable to the Committed Financing to the extent that such new, additional or modified conditions would reasonably be expected to prevent or materially delay the Closing or the availability of the escrowed funds on the Closing Date.

(c) Without limiting the generality of the foregoing, Buyer shall give Seller prompt notice (x) of any breach or default by any party to the Commitment Letter or definitive agreements relating to the Committed Financing of which Buyer has Knowledge, (y) of the receipt of any notice or other communication, in each case from any Committed Financing Source with respect to any actual or potential material breach, material default, termination or repudiation by any party to the Commitment Letter or definitive agreements relating to the Committed Financing of any provisions of the Commitment Letter or definitive agreements relating to the Committed Financing and (z) if at any time for any reason Buyer believes that it will not be able to obtain all or any portion of the Committed Financing on the terms and conditions, in the manner or from the Committed Financing Sources contemplated by the Commitment Letter or definitive agreements relating to the Committed Financing. As soon as reasonably practicable after the date Seller delivers to Buyer a written request, Buyer shall provide any information reasonably requested by Seller relating to any circumstance referred to in clause (x), (y) or (z) of the immediately preceding sentence. Upon the occurrence of any circumstance referred to in clause (x), (y) or (z) of the second preceding sentence resulting in any portion of the Committed Financing becoming unavailable, or if any portion of the Committed Financing otherwise becomes unavailable on the terms and conditions (including the flex provisions) contemplated in the Commitment Letter and Fee Letter, and such portion is reasonably required to effect the Closing, Buyer shall use its reasonable best efforts to arrange and obtain in replacement thereof alternative financing ("Alternative Financing") from alternative sources in an amount at least equal to the Committed Financing or such unavailable portion thereof, as the case may be (taking into account any reductions thereof pursuant to Section 6.15(b)(I)(A)), with terms and conditions not materially less favorable to Buyer (or its Subsidiaries), as determined in the reasonable judgment of Buyer after consultation with Seller, than the terms and conditions set forth in the Commitment Letter and the Fee Letter (including the flex provisions therein) and as promptly as reasonably practicable following the occurrence of such event. For the avoidance of doubt, in no event shall the reasonable best efforts obligation set forth in this Section 6.15 be construed so as to require Buyer or any of its Affiliates to (i) agree to, or accept, economic terms that are materially less favorable to Buyer, as determined in the reasonable judgment of Buyer after consultation with Seller, than the economic terms contained in the Commitment Letter and the Fee Letter (assuming the application of the "market flex" provisions) or (ii) seek any equity investment or any offering, placement, sale or other issuance of any equity securities (it being understood and agreed that any Alternative Financing shall be permitted to be in the form of any such equity financing). Buyer shall deliver to Seller true and complete copies of all written agreements, arrangements or contracts (including any side letters or (subject to customary redactions) fee letters) pursuant to which any such alternative source shall have committed to provide any Alternative Financing.

(d) From and after the date of this Agreement, and through the earliest of the Closing, the date on which this Agreement is terminated in accordance with Article IX and the completion of the Committed Financing, Seller shall, and Seller shall cause each of its Subsidiaries and each of its and their representatives to, use its respective reasonable best efforts to provide all cooperation that is necessary, customary or advisable and reasonably requested by Buyer to assist Buyer in the arrangement of the Committed Financing and any public or private offering, sale, placement or other issuance of debt and/or equity securities undertaken in replacement of all or a portion of the Committed Financing (the "Securities Financing" and, together with the Committed Financing, the "Financing") for the purposes of financing the Purchase Price and any other amounts required to be paid in connection with the consummation of the transactions contemplated hereby and all related fees and expenses of Buyer (it being acknowledged and agreed by Buyer that the receipt of such Financing is not a condition to the Closing), including (A) participating in a reasonable number of meetings, road shows, rating agency sessions and drafting sessions, and participating in reasonable and customary due diligence, (B) furnishing Buyer and the Committed Financing Sources with the Required Information, (C) assisting Buyer and the Committed Financing Sources in the preparation of (1) offering documents for the Financing and (2) materials for rating agency presentations, bank confidential information memoranda, pro forma financial statements and similar documents in connection with the Financing, (D) reasonably cooperating with the marketing efforts for any portion of the Financing, (E) using its reasonable efforts to cause its independent accountants to provide assistance and cooperation in the Financing, including (1) participating in a reasonable number of drafting sessions and accounting due diligence sessions, (2) providing any necessary customary consents to use or file with the SEC their audit reports relating to the Transferred Business and (3) providing any necessary customary "comfort letters," (F) causing the Transferred Companies to execute and deliver customary definitive financing documents to the extent reasonably requested by Buyer and otherwise facilitating the pledging of collateral reasonably necessary to secure the Financing; provided that the effectiveness of any definitive documentation executed by the Transferred Companies or the pledging of collateral by the Transferred Companies shall be subject to the occurrence of the Closing and (G) furnishing Buyer and any Committed Financing Sources promptly, and in any event at least five (5) Business Days prior to the Closing Date, with all documentation and other information required by any Governmental Entity with respect to the Financing under applicable "know your customer" and anti-money laundering rules and regulations, including the USA PATRIOT Act of 2001, as amended. Nothing herein shall require such cooperation to the extent it would (A) unreasonably disrupt the conduct of the business or operations of Seller or its Subsidiaries, (B) require Seller or any of its Subsidiaries to pay any commitment or other similar fee or incur any other cost or expense that is not reimbursed by Buyer or otherwise incur any liability or give any indemnities, in connection with the Financing; provided, however, that Seller shall be responsible for such fees, costs and expenses incurred by Seller in connection with preparing and delivering any of the Financial Statements provided for in Sections 6.18(a) or 6.18(b), or (C) require Seller or any of its Subsidiaries to take any action that would reasonably be expected to conflict with, or result in any violation or breach of, or default (with or without notice or lapse of time, or both) under, the certificate of incorporation or by-laws or other comparable organizational documents of Seller or any of its Subsidiaries, any applicable Laws or any material Contract. In addition, nothing herein shall require Seller or any of its Subsidiaries or any of its representatives to deliver legal opinions. In furtherance of and without limitation to the second immediately preceding sentence, nothing herein shall require Seller or any of its Subsidiaries to, enter into any agreement (or require their respective boards of directors or equivalent governing bodies to approve any such agreement) in connection with the Financing. Except for the fees, costs and expenses incurred by Seller in connection with preparing and delivering any of the Financial Statements provided for in Sections 6.18(a) or 6.18(b), Buyer shall promptly, upon request by Seller, reimburse Seller for all reasonable and documented out-of-pocket third party costs and expenses (including reasonable attorneys' fees) incurred by Seller or any of its Subsidiaries or their respective representatives in connection with the Financing and shall indemnify and hold harmless Seller, its Subsidiaries and their respective representatives from and against any and all losses, damages, claims, costs or expenses suffered or incurred by any of them in connection with the arrangement of the Financing and any information used in connection therewith (other than arising from fraud, intentional misrepresentation, misstatements or omissions on the part of Seller or its Affiliates).

6.16 Ancillary Documents.

(a) At the Closing, Buyer shall, and shall cause each of its applicable Subsidiaries to, execute and deliver each Ancillary Document, and Seller shall, and shall cause each of its applicable Subsidiaries to, execute and deliver each Ancillary Document to which it is a party.

(b) Except as expressly provided in this Agreement, in any Ancillary Document or in connection with providing any service under any Ancillary Document, (i) all data processing, accounting, insurance, banking, personnel, legal, communications, sales and marketing and other services provided to any member of the Seller Group by any of the Transferred Companies, or provided to the Transferred Companies by any member of the Seller Group and (ii) all Intellectual Property licenses granted by any member of the Seller Group to any of the Transferred Companies, including any agreements or understandings (written or oral) with respect thereto, will terminate as of the Closing.

6.17 Assistance with Network Element Software; Seller Owned Software.

(a) Prior to Closing, except to the extent Buyer instructs Seller otherwise with respect to any Software license, the parties shall reasonably cooperate to seek any consents required in connection with the assignment to Newco of the Software licenses between Seller or any of its Affiliates (other than the Transferred Companies) and a third party for Network Element Software used in the Transferred Business, provided that, if any such licenses were obtained pursuant to a master or enterprise license agreement that benefits both the Transferred Business and one or more of Seller's other businesses, the parties shall reasonably cooperate to seek consent to assign only the portions of such licenses that are applicable to the Transferred Business (collectively, the "Network Element Software Licenses"). If consent for assignment of any Network Element Software License cannot reasonably be obtained, Seller shall not be responsible for providing an alternative arrangement for the use of the applicable Network Elements or Network Element Software (other than by bearing its portion of the NES Consideration as set forth in Section 6.17(c)).

(b) Buyer shall be responsible for negotiating and obtaining its own Contracts with third parties to replace any Network Element Software Licenses in respect of which, following the commercially reasonable efforts of the parties, consent for assignment cannot be obtained. Seller shall use reasonable best efforts to: (i) identify all Network Element Software and third party licensors of Network Element Software as soon as reasonably practicable after the date hereof and (ii) provide (A) a preliminary schedule of such information to Buyer within two (2) months after the date hereof and (B) a substantially final schedule of such information to Buyer within six (6) months after the date hereof. Buyer shall use such schedules to (x) obtain its own Contracts for such Network Element Software (to the extent necessary in accordance with Section 6.17(a)), (y) notify Seller of any consents for which it will not require Seller's cooperation pursuant to Section 6.17(a) and (z) obtain appropriate maintenance services with respect to the Network Element Software.

(c) Each of Seller and Buyer shall bear fifty percent (50%) of any consent or one-time license fees required to be paid to (i) any third party vendor in connection with the assignment of any Network Element Software Licenses pursuant to Section 6.17(a) and (ii) any third party vendor in connection with Buyer's entry into any Contracts to replace any Network Element Software Licenses pursuant to Section 6.17(b) (collectively, the "NES Consideration") until the aggregate of all such NES Consideration equals $5,000,000 (five million dollars). Buyer shall bear one hundred percent (100%) of the portion of the NES Consideration that exceeds $5,000,000 (five million dollars).

(d) From and after the date hereof until such date that is five (5) years after the Closing Date, to the extent Buyer identifies any Seller Owned Software installed on a Network Element that is necessary for the operation of the Network Element, as operated as of the Closing, then Seller and Buyer shall negotiate in good faith, or amend the Software License Agreement to include, a perpetual, royalty-free license to such Seller Owned Software, on an "as-is, where-is" basis, solely for use as necessary for the operation of the Network Element in the conduct of the Transferred Business and solely on the Network Elements on which such Seller Owned Software was installed as of the Closing.

(e) From and after the date hereof until such date that is five (5) years after the Closing Date, to the extent Buyer identifies any Seller Owned Software (other than Seller Owned Software to which Buyer is entitled to a license pursuant to Section 6.17(d)) that is unique to Seller and necessary for the delivery of services to customers of the Transferred Business as conducted as of the Closing, then Seller and Buyer shall negotiate in good faith, or amend the Software License Agreement to include, a perpetual, royalty-free license to such Seller Owned Software, on an "as-is, where-is" basis, solely for use as necessary for the conduct of the Transferred Business and as such Seller Owned Software was used in the Transferred Business as of the Closing.

(f) The parties acknowledge and agree that (i) Seller Owned Software shall not be unique to Seller or deemed to be unique to Seller, for purposes of Section 6.17(e), if it is reasonably practicable for Buyer to replace such Seller Owned Software with third party Software that is generally or commercially available and, if necessary, is customizable for use in the Transferred Business, (ii) neither Section 6.17(d) nor Section 6.17(e) shall apply to any modules, scripts, applications, components or sub-categories of the SLA Licensed Software that are not expressly set forth, as of the date hereof, in Schedule A to the Software License Agreement and (iii) Seller shall have no responsibility to provide or license (as applicable) to Buyer or any of its Affiliates any maintenance, support, training, revisions, updates, upgrades, modifications, enhancements, new versions, bug fixes, patches or any other assistance of any kind for any Seller Owned Software licensed pursuant to Section 6.17(d) or 6.17(e), unless expressly negotiated and agreed pursuant to a separate Contract between the parties or any of their respective Affiliates.

(g) From the Closing Date until the date that is five (5) years after the Closing Date, Seller, on behalf of itself and its Affiliates, hereby covenants not to sue or commence any other legal proceeding against the Buyer or its Affiliates (including the Transferred Companies) due to the presence, on any Transferred Assets as of the Closing, of any Seller Owned Software to which Buyer and its Affiliates have not been granted a license, provided that, upon learning of any such Seller Owned Software, Buyer promptly either (i) requests and obtains a license for such Seller Owned Software from Seller pursuant to Section 6.17(d) or Section 6.17(e) or (ii) deletes such Seller Owned Software from the applicable Transferred Assets, at Buyer's expense, and certifies to Seller in writing that such deletion has been completed.

6.18 Financial Information.

(a) At Seller's sole cost and expense, Seller shall (i) deliver to Buyer by March 31, 2015 audited combined statements of assets, liabilities and parent funding of the Transferred Business, and the related audited combined statements of operations, cash flows and parent funding on an historical basis taking into account adjustments required by the Exchange Act or the Securities Act and prepared on a "predecessor" basis (together with a Narrative Report for such period and an unqualified report thereon of Seller's independent accountants that expressed the opinion on the Newco Audited Financial Statements; provided, that the inclusion of explanatory language in such accountant's report describing the special purpose nature of such financial statements, without more, will not make such report qualified) as of and for the year ending December 31, 2014 (such audited combined financial statements together with any reports related thereto, the "Audited 2014 Financial Statements"), (ii) unless the Closing has occurred prior to May 12, 2015, deliver to Buyer as soon as reasonably practicable but in any event no later than May 15, 2015 unaudited combined statements of assets, liabilities and parent funding of the Transferred Business, and the related combined statements of operations, cash flows and parent funding (reviewed in accordance with SAS 100 by Seller's independent accountants that expressed the opinion on the Newco Audited Financial Statements) as of and for the three months ended March 31, 2015 and the three months ended March 31, 2014 on an historical basis and in compliance with Regulation S-X and prepared on a "predecessor" basis (together with a Narrative Report for such period), (iii) unless the Closing has occurred prior to August 8, 2015, deliver to Buyer as soon as reasonably practicable but in any event no later than August 14, 2015 the unaudited combined statements of assets, liabilities and parent funding of the Transferred Business, and the related combined statements of operations, cash flows and parent funding (reviewed in accordance with SAS 100 by Seller's independent accountants that expressed the opinion on the Newco Audited Financial Statements) as of and for the three and six months ended June 30, 2015 and the three and six months ended June 30, 2014 on an historical basis and in compliance with Regulation S-X and prepared on a "predecessor" basis (together with a Narrative Report for such period), and (iv) unless the Closing has occurred prior to November 7, 2015, deliver to Buyer as soon as reasonably practicable but in any event no later than November 13, 2015 the unaudited combined statements of assets, liabilities and parent funding of the Transferred Business, and the related combined statements of operations, cash flows and parent funding (reviewed in accordance with SAS 100 by Seller's independent accountants that expressed the opinion on the Newco Audited Financial Statements) as of and for the three and nine months ended September 30, 2015 and the three and nine months ended September 30, 2014 on an historical basis and in compliance with Regulation S-X and prepared on a "predecessor" basis (together with a Narrative Report for such period) (together with such interim consolidated financial statements delivered pursuant to clauses (ii) and (iii) above, the "Interim 2015 Financial Statements"); provided, however, that if the Closing has not occurred (A) prior to February 29, 2016, Seller shall also deliver to Buyer as soon as reasonably practicable but in any event no later than March 30, 2016 audited combined statements of assets, liabilities and parent funding of the Transferred Business, and the related audited combined statements of operations, cash flows and parent funding (together with an unqualified report of Seller's independent accountants thereon; provided, that the inclusion of explanatory language in such accountant's report describing the special purpose nature of such financial statements, without more, will not make such report qualified) of the Transferred Business for the year ending December 31, 2015 on an historical basis and in compliance with Regulation S-X and prepared on a "predecessor" basis (together with a Narrative Report for such period) or (B) with respect to any fiscal quarter of Seller ending after December 31, 2015, Seller shall also deliver to Buyer as soon as reasonably practicable but in any event no later than the date that is 45 days after the end of any such fiscal quarter (provided that such date is prior to the Closing Date) unaudited combined statements of assets, liabilities and parent funding of the Transferred Business, and the related combined statements of operations, cash flows and parent funding (reviewed in accordance with SAS 100 by Seller's independent accountants that expressed the opinion on the Newco Audited Financial Statements) as of and for the applicable fiscal period of 2015 on an historical basis taking into account adjustments required by the Exchange Act or the Securities Act and prepared on a "predecessor" basis (together with a Narrative Report for such period) (the financial statements referred to in subclauses (A) and (B) of this sentence, together with the Audited 2014 Financial Statements and the Interim 2015 Financial Statements, the "Financial Statements"). If requested by Buyer in writing either prior to the Closing Date or following the Closing Date for a period of one year, Seller shall, as promptly as practicable (and in any event within fifteen (15) Business Days) and at Buyer's expense, deliver to Buyer any required adjustments and/or supporting documentation relating to the Newco Financial Statements and/or the Financial Statements as Buyer may reasonably require in connection with the Financing or with its reporting obligations under the Securities Act and the Exchange Act.

(b) To the extent the Financial Statements provided above do not include transaction(s) contemplated by the Pre-Closing Reorganization, Seller will prepare, at its expense, a schedule that shows the pro forma effects of the Pre-Closing Reorganization and reconciles any applicable adjustments to the related Financial Statements as a result of the Pre-Closing Reorganization. To the extent pro forma Financial Statements are prepared, Ernst & Young LLP will be engaged, at Buyer's expense, to perform procedures and deliver a report on such procedures to Buyer. Seller shall deliver the applicable pro forma schedule to Buyer no later than seven (7) days following the date that Seller delivers the corresponding Financial Statements pursuant to Section 6.18(a).

(c) Following the Closing Date for a period of one year, Seller shall, at Buyer's expense, provide Buyer with such financial information, on a historical basis, in compliance with Regulation S-X and prepared on a "predecessor" basis, from and after January 1, 2014 through the Closing for which quarterly financial statements were not previously provided to Buyer as Buyer may reasonably request with respect to the Transferred Business in connection with its reporting obligations under the Securities Act and the Exchange Act.

6.19 Intellectual Property Matters.

(a) Except as expressly provided in this Agreement or any Ancillary Document, it is expressly agreed that none of Buyer or any of its Subsidiaries (including, after the Closing, the Transferred Companies) is purchasing, acquiring, licensing or otherwise obtaining under this Agreement or any Ancillary Document any right, title or interest (whether express or implied) in, to or under (i) the trademarks Verizon, "Verizon" Logo, "V" Logo, VZ, FIOS, GTE, MCI, NYNEX and BELL ATLANTIC or any other Trademarks that are owned or controlled by Seller or any of its Subsidiaries, or any derivation, variation, translation or adaptation thereof, or any Trademarks that are confusingly similar to, including or embodying any of the foregoing (collectively, the "Seller Trademarks"), or (ii) any other Intellectual Property owned by or licensed to Seller or any of its Subsidiaries (including, prior to the Closing, the Transferred Companies) (the foregoing, together with the Seller Trademarks, the "Seller IP").

(b) Buyer, for itself and its Subsidiaries (including, after the Closing, the Transferred Companies), acknowledges and agrees that, (i) as between the parties hereto, Seller or its Subsidiaries own or have the exclusive right to use and display any and all of the Seller Trademarks and except as otherwise expressly provided in this Section 6.19 or in any Ancillary Document, neither Buyer nor any of its Subsidiaries (including, after the Closing, the Transferred Companies) shall, as of the Closing, have any rights in or to the Seller Trademarks and (ii) neither Buyer nor any of its Subsidiaries (including, after the Closing, the Transferred Companies) shall contest the use, ownership or validity of any rights of Seller or its Subsidiaries in or to the Seller IP that exists as of the Closing.

(c) Except as expressly provided in this Agreement or any Ancillary Document, Buyer shall, and shall cause its Subsidiaries (including, after the Closing, the Transferred Companies) to, cease and discontinue as of the Closing any and all uses of any and all Seller IP at the expense of Buyer or its Subsidiaries (including, after the Closing, the Transferred Companies). Notwithstanding the foregoing sentence, Buyer and its Subsidiaries (including, after the Closing, the Transferred Companies) shall have a limited right to utilize existing stationery, business cards, signage, vehicles, advertising materials, inventory, packaging, products, equipment, hard hats, tools, tool boxes, kits (safety and others), displays, manuals, forms, service and training literature, bulletins, sales literature, websites, email, computer software, Transferred IT Systems, and other similar materials bearing the Seller Trademarks (but excluding all credit and collection materials and notices) ("Seller Materials") following the Closing in the administration of the Transferred Business as conducted immediately prior to the Closing Date until the existing supply of such items is depleted or until the date that is one hundred twenty (120) days following the Closing Date (such one hundred twenty (120) day period, the "Phaseout Period"), whichever occurs first; provided, further, that notwithstanding the foregoing, Buyer and its Subsidiaries (including, after the Closing, the Transferred Companies) shall (i) have a period of up to one hundred eighty (180) days following the Closing Date to remove the Seller Trademarks from signs and vehicles to the extent Buyer and its Subsidiaries (including, after the Closing, the Transferred Companies) undertake commercially reasonable efforts immediately to remove such Seller Trademarks from such signs and vehicles, and (ii) use commercially reasonable efforts to remove the Seller Trademarks from tools, equipment, manuals and, except as expressly set forth in Section 6.19(d)(ii), other written materials or other assets that are used solely for internal purposes and are not visible by the public, on or prior to the date that is two hundred seventy (270) days following the Closing Date, or otherwise promptly after becoming aware of any Seller Trademarks on any of the foregoing items. Subject to the foregoing sentence, on or prior to the expiration of the Phaseout Period (or the timeframes set forth in Section 6.19(c)(i)-(ii), as applicable), Buyer shall, and shall cause its Subsidiaries (including, after the Closing, the Transferred Companies) to, destroy, or to remove, strike over, cover over or otherwise eliminate all Seller Trademarks from, all Seller Materials in their possession and to send a written statement to Seller confirming that Buyer has, and has caused its Subsidiaries to have, exhausted or destroyed all such Seller Materials or eliminated all Seller Trademarks therefrom. The foregoing permitted uses in this Section 6.19(c) are subject to (x) compliance by Buyer and its Subsidiaries with the reasonable quality control requirements and guidelines in effect for the Seller Trademarks immediately prior to the Closing, and (y) the conduct of the Transferred Business at a standard and with skill that is at least commensurate with the standard and skill at and with which the Transferred Business was conducted immediately prior to the Closing. Buyer and its Subsidiaries (including, after the Closing, the Transferred Companies) agree that any use of the Seller Trademarks in the operation of the Transferred Business after the Closing, as permitted by this Section 6.19, shall be provided in accordance with all applicable Laws, and Buyer and its Subsidiaries shall not use the Seller Trademarks in a manner that would reasonably be expected to reflect adversely upon Seller's good name. Buyer and its Subsidiaries (including, after the Closing, the Transferred Companies), shall promptly cease use of the Seller Trademarks in connection with any goods or services whose nature or quality is not substantially the same quality of such goods and/or services prior to the Closing.

(d) Notwithstanding the foregoing Section 6.19(c), nothing therein shall (i) require Buyer or its Subsidiaries to take any steps with respect to, or to destroy, any products (including any packaging), or any service, training, advertising or other related materials that have already been placed on the market or otherwise distributed in the ordinary course of conducting the Transferred Business as conducted immediately prior to the Closing, (ii) preclude Buyer or its Subsidiaries from making any reference to the Seller Trademarks in internal historical, tax, employment or similar records or for purposes of prospectus and similar disclosures as are reasonably necessary and appropriate to describe the historical relationship of the Transferred Business with Seller and its Affiliates, or (iii) preclude Buyer or its Subsidiaries (including, after the Closing, the Transferred Companies) from making use of the Seller Trademarks in a non-trademark manner for purposes of conveying to customers or the general public of the change in ownership or that the name of the business has changed, provided that the use described in this Section 6.19(d)(iii) shall exist for no more than one hundred twenty (120) days after Closing.

(e) Any and all goodwill arising from or in connection with the use of the Seller Trademarks by Buyer or its Subsidiaries (including, after the Closing, the Transferred Companies) shall inure to the benefit of Seller. Buyer, for itself and its Subsidiaries (including, after the Closing, the Transferred Companies), shall indemnify and hold harmless Seller and its Affiliates from and against any and all Losses arising from Buyer's and its Subsidiaries' (including, after the Closing, the Transferred Companies') use of the Seller Trademarks during the Phaseout Period.

(f) The parties hereto acknowledge that any damage caused to Seller or any of its Affiliates by reason of the breach by Buyer or any of its Subsidiaries (including, after the Closing, the Transferred Companies) of this Section 6.19 would cause irreparable harm that could not be adequately compensated for in money damages alone; therefore, each party agrees that, in addition to any other remedies, at law or otherwise, Seller and its Affiliates shall be entitled to seek an injunction from a court of competent jurisdiction restraining and enjoining any violation by Buyer or any of its Subsidiaries (including, after the Closing, the Transferred Companies) of this Section 6.19, and Buyer further agrees, and will cause its Subsidiaries (including, after the Closing, the Transferred Companies) to further agree, that it and they will stipulate to the fact that Seller or any of its Affiliates have been irreparably harmed by such violation and not oppose the granting of such injunctive relief. Buyer hereby waives, and will cause its Subsidiaries (including, after the Closing, the Transferred Companies) to waive, any requirement for the securing or posting of any bond in connection with such remedy.

(g) At the Closing, Buyer shall execute, or shall cause the execution of, such amended organizational documents with respect to the Transferred Companies such that each Transferred Company can effect a change in its respective name to a name not containing any of the Seller Trademarks. Immediately after the Closing, Buyer shall cause the Transferred Companies to file such amended organizational documents with the applicable Governmental Entity and take all other necessary action to fulfill its obligations set forth in this Section 6.19(g) as soon as reasonably practicable.

(h) Buyer acknowledges and agrees that on or before the Closing, Seller or its designee may transfer and migrate to any devices or media at a location or locations designated by Seller or its designee all copies and versions of any Seller Owned Software that reside on any of the IT Systems owned by the Transferred Companies or included in the Transferred Assets; provided, however, Seller or its designee shall leave copies of such Seller Owned Software on such IT Systems to the extent such Seller Owned Software will be licensed to Newco and its Affiliates that conduct the Transferred Business post-Closing pursuant to an Ancillary Document or a software license agreement entered into pursuant to Section 6.17(d) or Section 6.17(e).

(i) From and after the Closing until such date that is five (5) years after the Closing Date, in the event that a third Person asserts against Buyer or any of the Transferred Companies a written claim material to the Transferred Business that the conduct of the Transferred Business as of the Closing infringes, misappropriates or otherwise violates such Person's Intellectual Property rights, Buyer shall have the right to ask Seller if Seller obtained, prior to the Closing, a license to use or practice such asserted Intellectual Property in support of the Transferred Business (a "Third Party IP License"). After receiving notice from Buyer of such request, Seller shall either (i) notify Buyer that no Third Party IP License provides that the Transferred Business, as a divested business, may use or continue to make use of such asserted Intellectual Property, or (ii)(A) if a Third Party IP License provides that the Transferred Business, as a divested business, may continue to make use of such asserted Intellectual Property (without any need to grant a sublicense thereto), provide a copy of such Third Party IP License to Buyer if Seller is permitted to do so (or use commercially reasonable efforts to obtain such third Person's consent to disclose such Third Party IP License), or (B) if such Third Party IP License (I) includes a sublicensing right that permits Seller or any of its Affiliates to grant Buyer or the Transferred Companies rights in such asserted Intellectual Property in respect of the Transferred Business as of the Closing, and (II) requires a sublicense to Buyer or the Transferred Companies for such asserted Intellectual Property rights to apply to the Transferred Business as of the Closing, then provided that such a sublicense does not require the payment of any consideration by Seller, Seller shall grant to Buyer a sublicense for such asserted Intellectual Property no greater in scope than Seller's license under such Third Party IP License, solely for use in the conduct of the Transferred Business as of the Closing.

6.20 Exclusivity. From the date of this Agreement through the earlier of the Closing Date or the termination of this Agreement, Seller and its Affiliates shall not (and shall cause their representatives not to) (i) solicit, initiate, facilitate or encourage the submission of any proposal or offer from any Person relating to the acquisition of all or a majority of the Transferred Business in any State; or (ii) participate in any discussions or negotiations regarding, furnish any information with respect to, assist or participate in, or facilitate in any other manner any effort or attempt by any Person to do or seek any of the foregoing.

6.21 USF Refunds. To the extent not included in the calculation of Net Working Capital pursuant to Section 3.6, if, after the Closing, Buyer or its Affiliates (A) receive any refund, or (B) utilize the benefit of any overpayment or prepayment of USF contributions which relate to amounts paid by Seller or any of its Subsidiaries (including the Transferred Companies prior to Closing), Buyer shall promptly transfer, or cause to be transferred, to Seller the entire amount of the refund or overpayment (including interest) received or utilized by Buyer or its Affiliates, net of any Taxes or other costs incurred by Buyer or its Affiliates attributable to the receipt of such refund. Buyer agrees to notify Seller promptly of both the discovery of a right to claim any such refund or overpayment and the receipt of any such refund or utilization of any such overpayment. Buyer agrees to use commercially reasonable efforts to claim any such refund or to utilize any such overpayment as soon as possible and to furnish to Seller all information, records and assistance necessary to verify the amount of the refund or overpayment.

6.22 Publishing Agreements. At or prior to the Closing, Buyer shall enter into a publishing agreement, a non-compete agreement and a branding agreement with Dex Media, each effective as of the Closing, as required by Seller's agreements with Dex Media for the States, unless otherwise agreed by Dex Media.

6.23 Guarantee Obligations and Liens.

(a) Seller and Buyer shall reasonably cooperate, and shall cause their respective Subsidiaries to reasonably cooperate and use their respective reasonable best efforts to: (x) terminate, or to cause Newco, or the appropriate member of the Buyer Group, to be substituted in all respects for Seller or the applicable member of the Seller Group in respect of, all obligations of any member of the Seller Group under any Assumed Liabilities, performance bonds or other financial underwriting identified by Seller for which such member of the Seller Group may be liable, as guarantor, original tenant, primary obligor or otherwise ("Seller Guarantees"), and (y) terminate, or to cause reasonably comparable substitute Transferred Assets to be substituted in all respects for any Excluded Assets in respect of, any liens or Encumbrances identified by Seller on Excluded Assets which are securing any Assumed Liabilities. If such a termination or substitution is not effected by the Closing Date, without the prior written consent of Seller, from and after the Closing Date, Buyer shall not, and shall not permit any member of the Buyer Group to, renew or extend the term of, increase its monetary obligations (or any other obligations for which Seller or any of its Affiliates might be liable) under, or transfer to a third party, any loan, lease, contract or other obligation for which a member of the Seller Group is or may be liable or for which any Excluded Asset is or may be encumbered unless all obligations of the Seller Group and all Encumbrances on any Excluded Asset with respect thereto are thereupon terminated by documentation reasonably satisfactory in form and substance to Seller. Buyer further agrees that to the extent Seller or any of its Affiliates incurs any Losses in connection with such Seller Guarantees on or after the Closing Date, Buyer shall indemnify, defend and hold harmless Seller against, and reimburse Seller for, any and all Losses, including costs or expenses in connection with such Seller Guarantees, including Seller's expenses in maintaining such Seller Guarantees, whether or not any such Seller Guarantee is drawn upon or required to be performed, and shall in any event promptly reimburse Seller to the extent any Seller Guarantee is called upon and Seller or any of its Affiliates incurs any Losses in connection with the Seller Guarantees; provided that the foregoing indemnity shall not apply with respect to any out-of-pocket cost or expense to be borne by Seller, as described in this Section 6.23(a).

(b) Seller and Buyer shall reasonably cooperate, and shall cause their respective Subsidiaries to reasonably cooperate and use their respective reasonable best efforts to: (x) terminate, or to cause a member of the Seller Group to be substituted in all respects for any Transferred Company in respect of, all obligations of any Transferred Company under any Excluded Liabilities for which such Transferred Company may be liable, as guarantor, original tenant, primary obligor or otherwise ("Transferred Company Guarantees"), and (y) terminate, or cause reasonably comparable substitute Excluded Assets to be substituted in all respects for any Transferred Assets in respect of, any liens or Encumbrances on Transferred Assets which are securing any Excluded Liabilities. If such a termination or substitution is not effected by the Closing Date, without the prior written consent of Buyer, from and after the Closing Date, Seller shall not, and shall not permit any member of the Seller Group to, renew or extend the term of, increase its monetary obligations (or any other obligations for which Buyer or any of its Affiliates might be liable) under, or transfer to a third party, any loan, lease, contract or other obligation for which any of the Transferred Companies is or may be liable or for which any Transferred Asset is or may be encumbered unless all obligations of the Transferred Companies and all Encumbrances on any Transferred Asset with respect thereto are thereupon terminated by documentation reasonably satisfactory in form and substance to Buyer. Seller further agrees that to the extent any of the Transferred Companies incurs any Losses in connection with such Transferred Company Guarantees on or after the Closing Date, Seller shall indemnify, defend and hold harmless the Transferred Companies against, and reimburse the Transferred Companies for, any and all Losses, and shall in any event promptly reimburse the Transferred Companies to the extent any Transferred Company Guarantee is called upon and any Transferred Company incurs any Losses in connection with such Transferred Company Guarantees.

## ARTICLE VII

## CONDITIONS TO CLOSING

7.1 Conditions to the Obligations of Buyer and Seller. The obligations of the parties hereto to effect the Closing are subject to the satisfaction (or written waiver) prior to the Closing of the following conditions:

(a) HSR Act. The waiting period applicable to the consummation of the transactions contemplated by this Agreement under the HSR Act shall have expired or been earlier terminated.

(b) FCC and Other Approvals. All approvals, waivers and authorizations required to be obtained from the FCC, the California Public Utility Commission and the Public Utility Commission of Texas pertaining to the transactions contemplated by this Agreement and the Ancillary Documents shall have been obtained.

(c) Litigation. No court or other Governmental Entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Order or Law on or after the date of this Agreement that restrains, enjoins or otherwise prohibits consummation of the transactions contemplated by this Agreement.

7.2 Conditions to the Obligations of Buyer. The obligation of Buyer to effect the Closing is also subject to the satisfaction (or written waiver by Buyer) prior to the Closing of the following conditions:

(a) Consents and Approvals. All Video Franchisor approvals shall have been obtained, except for such Video Franchisor approvals the failure of which to be obtained would not reasonably be expected, individually or in the aggregate, to have a Buyer Adverse Condition.

(b) Representations and Warranties. (i) The representations and warranties of Seller set forth in Section 4.1 (Organization and Qualification), Section 4.2 (Capital Structure), Section 4.3 (Corporate Authorization), Section 4.6 (Binding Effect) and Section 4.21 (Finders' Fees) (collectively, the "Specified Representations") of Seller shall be true and correct in all material respects, in each case as of the date of this Agreement and as of the Closing as though made on and as of such date and time (except to the extent that any such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be so true and correct as of such earlier date) and (ii) the representations and warranties of Seller set forth in Article IV of this Agreement (other than the Specified Representations) shall be true and correct as of the date of this Agreement and as of the Closing as though made on and as of such date and time (except to the extent that such representation and warranty expressly speaks as of an earlier date, in which case such representation and warranty shall be so true and correct as of such earlier date), and in each case disregarding any materiality and Seller Material Adverse Effect qualifications contained therein (provided that the "Seller Material Adverse Effect" qualifier in Section 4.16(b) and any reference to materiality in the definition of "Material Contract" shall not be disregarded), except, in the case of this clause (ii) for such failures to be so true and correct that have not had, and would not reasonably be expected to have, individually or in the aggregate, a Seller Material Adverse Effect.

(c) No Seller Material Adverse Effect. Since the date of this Agreement, there shall not have occurred any event, occurrence, development, state of facts, effect, condition or change that, individually or in the aggregate, has had, or is reasonably likely to have, a Seller Material Adverse Effect.

(d) Covenants. The covenants and agreements of Seller to be performed on or prior to the Closing shall have been duly performed in all material respects.

(e) Cutover Milestone. The conditions to Closing set forth under Section 2.4 "Condition to Closing" of the Cutover Plan Support Agreement shall have been satisfied or waived.

(f) Financial Statements. (x) Seller shall have complied in all material respects with its obligation to deliver the Financial Statements required to be delivered pursuant to Section 6.18 prior to the time that the Closing would have occurred pursuant to Section 3.3

(disregarding this clause (x) of Section 7.2(f)) and (y) any unqualified report relating to the Financial Statements and the Newco Financial Statements, as applicable, of Seller's independent accountants shall not have been withdrawn or qualified (unless another such unqualified report is subsequently delivered and not withdrawn or qualified); provided, that the inclusion of explanatory language in such accountant's report describing the special purpose nature of such financial statements, without more, will not make such report qualified.

(g) Certificate. Buyer shall have received a certificate, signed by a duly authorized officer of Seller and dated the Closing Date, to the effect that the conditions set forth in Sections 7.2(b) and 7.2(d) have been satisfied.

7.3 Conditions to the Obligations of Seller. The obligation of Seller to effect the Closing is also subject to the satisfaction (or written waiver by Seller) prior to the Closing of the following conditions:

(a) Consents and Approvals. All Video Franchisor approvals shall have been obtained, except for such Video Franchisor approvals the failure of which to be obtained would not reasonably be expected, individually or in the aggregate, to have a Seller Adverse Condition.

(b) Representations and Warranties. The representations and warranties of Buyer set forth in Section 5.1 (Organization and Qualification), Section 5.2 (Corporate Authorization), Section 5.5 (Binding Effect) and Section 5.7 (Finders' Fees) shall be true and correct in all material respects as of the date of this Agreement and as of the Closing as if made on and as of the Closing (except for such representations and warranties that are made as of a specific date which shall speak only as of such date, in which case such representation and warranty shall be so true and correct as of such earlier date). The representations and warranties of Buyer set forth in Article V (other than Section 5.1 (Organization and Qualification), Section 5.2 (Corporate Authorization), Section 5.5 (Binding Effect) and Section 5.7 (Finders' Fees)) shall be true and correct as of the date of this Agreement and as of the Closing as though made as of such date and time (except to the extent that any such representation expressly speaks as of an earlier date, and in each case disregarding any materiality qualifications contained therein) except in the case of this sentence where such failure would not reasonably be expected to prevent or materially impair or delay Buyer's or its Subsidiaries ability to perform their respective obligations under this Agreement or the Ancillary Documents.

(c) Covenants. The covenants and agreements of Buyer to be performed on or prior to the Closing shall have been duly performed in all material respects.

(d) Certificate. Seller shall have received a certificate, signed by a duly authorized officer of Buyer and dated the Closing Date, to the effect that the conditions set forth in Section 7.3(b) and Section 7.3(c) have been satisfied.

## ARTICLE VIII

## SURVIVAL; INDEMNIFICATION; CERTAIN REMEDIES

8.1 Survival. The representations and warranties of Seller and Buyer contained in this Agreement and all claims with respect thereto shall survive the Closing for the periods set forth in this Section 8.1. All representations and warranties contained in this Agreement and all claims with respect thereto shall terminate upon the expiration of eighteen (18) months after the Closing Date, except that the representations and warranties contained in Section 4.1 (Organization and Qualification), Section 4.2 (Capital Structure), Section 4.3 (Corporate Authorization), Section 4.6 (Binding Effect) and Section 4.21 (Finders' Fees) shall terminate sixty (60) days after the expiration of the applicable statutes of limitations, the representations and warranties contained in Section 4.10 (Employees and Employee Benefits) and Section 4.13 (Environmental Matters) shall terminate upon the expiration of three (3) years after the Closing Date, and the representations and warranties contained in Section 4.9 (Taxes) shall terminate as of the Closing, except for the representations and warranties contained in Sections 4.9(d), 4.9(h), 4.9(i), 4.9(j) and 4.9(l) and the related indemnification obligations contained in Section 6.5 (Tax Matters) which shall survive as provided for in Section 6.5. Any claim for breach of representation or warranty must be delivered prior to the expiration of the applicable survival term set forth in this Section 8.1. It is the intention of the parties that the survival periods and termination dates set forth in this Section 8.1 supersede any statute of limitation applicable to such representations and warranties or claims with respect thereto. Any covenants contained in this Agreement shall survive in accordance with their terms and any claim for Losses in respect of a breach of a covenant for which this Agreement contemplated performance prior to Closing must be delivered within eighteen (18) months after the Closing.

8.2 Indemnification by Buyer. Buyer agrees that from and after the Closing Date it shall indemnify, defend and hold harmless Seller, each of Seller's Subsidiaries, and their respective directors, officers, shareholders, partners, members, attorneys, accountants, agents, representatives and employees and their heirs, successors and permitted assigns, each in their capacity as such (the "Seller Indemnified Parties") from, against and in respect of any claims, damages, losses, charges, Liabilities, actions, suits, proceedings, judgments, settlements, assessments, interest, penalties, and reasonable costs and expenses (including reasonable attorneys' fees and expenses) (collectively, "Losses") actually incurred or suffered by any of the Seller Indemnified Parties arising out of or resulting from, (i) any breach of any representation or warranty made by Buyer in Article V of this Agreement (including as if such representations and warranties were made as of the Effective Time (except for such representations and warranties that are made as of a specific date)) for the period such representation or warranty survives, (ii) except to the extent that the Buyer Indemnified Parties are entitled to be indemnified in respect thereof (without giving effect to the limitations contained in Section 8.1 or 8.3(b)), any of the Assumed Liabilities, (iii) any breach of a covenant or agreement of Buyer or any of its Affiliates contained in this Agreement and (iv) except to the extent that the Buyer Indemnified Parties are entitled to be indemnified in respect thereof (without giving effect to the limitations contained in Section 8.1 or 8.3(b)), any Liabilities that Buyer has expressly agreed to assume pursuant to this Agreement.

8.3 Indemnification by Seller.

(a) Seller hereby agrees that from and after the Closing it shall indemnify, defend and hold harmless Buyer, its Affiliates, and their respective directors, officers, shareholders, partners, members, attorneys, accountants, agents, representatives and employees (other than the Business Employees) and their heirs, successors and permitted assigns, each in their capacity as such (the "Buyer Indemnified Parties" and, collectively with the Seller

Indemnified Parties, the "Indemnified Parties") from, against and in respect of any Losses actually incurred or suffered by any of the Buyer Indemnified Parties arising out of or resulting from (i) subject to Section 8.3(b), any breach of any representation or warranty made by Seller in Article IV of this Agreement (including as if such representations and warranties were made as of the Effective Time (except for such representations and warranties that are made as of a specific date)) for the period such representation or warranty survives, (ii) any breach of any covenant or agreement of Seller contained in this Agreement, (iii) any of the Excluded Liabilities, (iv) all USF contributions that relate to the Transferred Business prior to the Closing, and (v) any Indebtedness of the Transferred Companies existing as of immediately prior to the Closing (after taking into account the Pre-Closing Reorganization) and not reflected on the Final Closing Statement.

(b) Seller shall not be liable to the Buyer Indemnified Parties for any Losses with respect to the matters contained in Section 8.3(a)(i) unless the Losses therefrom exceed an aggregate amount equal to $131,750,000 (the "Indemnity Threshold") and then only for Losses in excess of that amount and up to an aggregate amount equal to $1,054,000,000 (the "Indemnity Cap"). Seller shall not be liable to the Buyer Indemnified Parties in respect of any individual claim or series of claims arising out of a similar occurrence or set of facts for indemnification under Section 8.3(a)(i) involving Losses of less than $300,000 and no such amounts shall be taken into account for purposes of satisfying the Indemnity Threshold. Notwithstanding the foregoing, the limitations set forth in this Section 8.3(b) shall not apply to any claims for Losses resulting from or arising out of breaches of the Specified Representations or Section 4.9(l) or due to fraud by or on behalf of Seller.

(c) For purposes of this Article VIII, any inaccuracy in or breach of any representation or warranty shall be determined without regard to any "material", "materially", "in all material respects", "in any material respect", "material to the Transferred Business" and "Seller Material Adverse Effect" qualification contained in or otherwise applicable to such representation or warranty, provided that (A) such qualifiers shall not be disregarded in Section 4.7(d) (Financial Statements), Section 4.8 (Litigation and Claims), Section 4.10(i) (Employees and Employee Benefits), Section 4.15(a) (Contracts), Section 4.16 (Absence of Changes), the first sentence of Section 4.18 (Communications Licenses) or Section 4.19 (Title to Property), and (B) the word "material" shall not be disregarded where it immediately precedes (1) the term "Seller Benefit Plan" in Section 4.10 (Employees and Employee Benefits) and (2) the term "Governmental Authorizations" in Section 4.12 (Compliance with Laws; Communications Authorizations). The rights of an Indemnified Party to indemnification under this Agreement or any Ancillary Documents shall not be affected by any investigation conducted or actual or constructive knowledge acquired at any time by such Indemnified Party, whether before or after the date of this Agreement or any Closing Date.

8.4 Third-Party Claim Indemnification Procedures.

(a) In the event that any claim or demand for which an indemnifying party (an "Indemnifying Party") may have liability to any Indemnified Party hereunder is asserted against or sought to be collected from any Indemnified Party by a third party (other than a claim by a Taxing authority for Taxes) (a "Third-Party Claim"), such Indemnified Party shall promptly, but in no event more than thirty (30) days following such Indemnified Party's receipt of a Third-

Party Claim, notify the Indemnifying Party in writing of such Third-Party Claim, the amount or the estimated amount of damages sought thereunder (which estimate shall not be conclusive of the final amount of such Third-Party Claim), any other remedy sought thereunder, any relevant time constraints relating thereto and, to the extent practicable, any other material details pertaining thereto (a "Claim Notice"); provided, however, that the failure timely to give a Claim Notice shall affect the rights of an Indemnified Party hereunder only to the extent that such failure has an adverse effect on the resolution of the Third-Party Claim or on the defenses or other rights available to the Indemnifying Party with respect to such Third-Party Claim. The Indemnifying Party shall have thirty (30) days after receipt of the Claim Notice (the "Notice Period") to notify the Indemnified Party that it desires to defend the Indemnified Party against such Third-Party Claim. Notwithstanding anything to the contrary contained herein, to the extent that Buyer reasonably expects that the Losses resulting from a Third-Party Claim would not, when aggregated with all other Losses for which Seller has previously indemnified Buyer Indemnified Parties pursuant to this Agreement or would reasonably be expected to indemnify Buyer Indemnified Parties in the future (based on information available at such time), exceed the Indemnity Threshold, Buyer shall have the right to defend such Third-Party Claim and shall have the sole power to direct and control such defense.

(b) In the event that the Indemnifying Party notifies the Indemnified Party within the Notice Period that it desires to defend the Indemnified Party against a Third-Party Claim, the Indemnifying Party shall have the right to defend the Indemnified Party by appropriate proceedings and shall have the sole power to direct and control such defense. Once the Indemnifying Party has duly assumed the defense of a Third-Party Claim, the Indemnified Party shall have the right, but not the obligation, to participate in any such defense. If the Indemnified Party shall participate in any such defense, it shall participate at its sole cost and expense unless (i) the Indemnifying Party and the Indemnified Party are both named parties to the proceedings and the Indemnified Party shall have reasonably concluded that representation of both parties by the same counsel would be inappropriate, due to a non-waivable conflict, or (ii) the Indemnified Party assumes the defense of a Third-Party Claim after the Indemnifying Party has failed to diligently pursue a Third-Party Claim it has assumed, in which case the Indemnifying Party shall be liable for the reasonable and documented fees and expenses of one separate counsel (in addition to any necessary local counsel) to the extent such Third-Party Claim is subject to indemnification or reimbursement under Section 8.2 or Section 8.3. The Indemnifying Party shall not, without the prior written consent of the Indemnified Party, settle, compromise or offer to settle or compromise any Third-Party Claim on a basis that would result in (i) the imposition of a consent order, injunction or decree that would restrict the future activity or conduct of the Indemnified Party, (ii) a finding or admission of a violation of Law or violation of the rights of any Person by the Indemnified Party, (iii) a finding or admission that would have an adverse effect on other claims made or threatened against the Indemnified Party, or (iv) except to the extent within the amounts set forth in Section 8.3(b) if applicable, any monetary liability of the Indemnified Party that will not be paid or reimbursed by the Indemnifying Party.

(c) If the Indemnifying Party (i) elects not to defend the Indemnified Party against a Third-Party Claim, whether by not giving the Indemnified Party timely notice of its desire to so defend or otherwise, (ii) is not entitled to defend the Third-Party Claim as a result of the Indemnified Party's election to defend the Third-Party Claim as provided in Section 8.4(b) hereof, or (iii) after assuming the defense of a Third-Party Claim, fails to take reasonable steps necessary to defend diligently such Third-Party Claim, the Indemnified Party shall have the right but not the obligation to provide its own defense and shall consult with the Indemnifying Party regarding the strategy for defense of such claim, including with respect to the Indemnified Party's choice of legal counsel; it being understood that the Indemnified Party's right to indemnification for a Third-Party Claim shall not be adversely affected by whether it assumes the defense of such Third-Party Claim. The Indemnified Party shall have no liability with respect to a Third-Party Claim settled in violation of the last sentence of Section 8.4(b).

(d) The Indemnified Party and the Indemnifying Party shall cooperate in order to ensure the proper and adequate defense of a Third-Party Claim, including by providing access to each other's relevant business records and other documents, and employees (including, if necessary, availability for depositions and testifying); it being understood that the reasonable and documented costs and expenses of the Indemnified Party relating thereto shall be considered Losses. The Indemnified Party and the Indemnifying Party shall keep each other fully informed with respect to the status of such Third-Party Claim.

(e) The Indemnified Party and the Indemnifying Party shall use commercially reasonable efforts to avoid production of confidential information (consistent with applicable Law), and to cause all communications among employees, counsel and others representing any party to a Third-Party Claim to be made so as to preserve any applicable attorney-client or work-product privileges (if applicable).

(f) Each of Buyer and Seller hereby consents to the non-exclusive jurisdiction of any court in which a Third-Party Claim is brought for purposes of any claim for indemnification or reimbursement with respect to such Third-Party Claim or the matters alleged therein.

8.5 Consequential Damages. Notwithstanding anything to the contrary contained in this Agreement, no Person shall be liable under this Article VIII for any consequential, punitive, special or exemplary damages, regardless of the form of action, whether in contract, tort, strict liability or otherwise, and whether or not such damages were foreseen or unforeseen, except to the extent awarded by a court of competent jurisdiction in connection with a Third-Party Claim; provided, however, that nothing herein shall limit an Indemnified Party's ability to recover lost profits or diminution in value to the extent they are reasonably foreseeable damages from the applicable matter that is the subject of an indemnity claim.

8.6 Limitation on Indemnification by Seller. Seller shall not be required to indemnify, defend or hold harmless the Buyer Indemnified Parties from, against or in respect of any Losses incurred or suffered by any of the Buyer Indemnified Parties arising out of or resulting from any Liability to the extent the amount of such Liability is included in the calculation of Final Net Working Capital.

8.7 Adjustments to Losses.

(a) Insurance. In calculating the amount of any Loss, the proceeds actually received by the Indemnified Party or any of its Affiliates under any insurance policy or pursuant to any claim, recovery, settlement or payment by or against any other Person, net of any actual costs, expenses or premiums incurred in connection with securing or obtaining such proceeds, shall be deducted, except to the extent that the adjustment itself would excuse, exclude or limit the coverage of all or part of such Loss. In the event that an Indemnified Party has any rights against a third party with respect to any occurrence, claim or loss that results in a payment by an Indemnifying Party under this Article VIII, such Indemnifying Party shall be subrogated to such rights to the extent of such payment; provided that until the Indemnified Party recovers full payment of the Loss, any and all claims of the Indemnifying Party against any such third party on account of said indemnity payment is hereby expressly made subordinate and subject in right of payment to the Indemnified Party's rights against such third party. Without limiting the generality or effect of any other provision hereof, each Indemnified Party and Indemnifying Party shall duly execute upon request all instruments reasonably necessary to evidence and perfect the subrogation and subordination rights detailed herein, and otherwise cooperate in the prosecution of such claims.

(b) Reimbursements and Adjustments. In calculating the amount of any Loss for which either party is entitled to indemnification hereunder, to the extent such Loss is otherwise recovered by a party pursuant to other terms of this Agreement or any Ancillary Document, such amount actually recovered shall be deducted from the amount owed for such Loss, so that the same amount shall not be paid more than once.

(c) Reimbursement. If an Indemnified Party recovers an amount from a third party in respect of a Loss that is the subject of indemnification hereunder after all or a portion of such Loss has been paid by an Indemnifying Party pursuant to this Article VIII, the Indemnified Party shall promptly remit to the Indemnifying Party the excess (if any) of (A) the amount paid by the Indemnifying Party in respect of such Loss, plus the amount received from the third party in respect thereof (net of any actual costs or expenses incurred in connection with obtaining such amount), less (B) the full amount of the Loss.

8.8 Payments. The Indemnifying Party shall pay all amounts payable pursuant to this Article VIII promptly following receipt from an Indemnified Party of a claim for a Loss that is the subject of indemnification hereunder, unless and for so long as the Indemnifying Party in good faith disputes such claim in which event it shall so notify the Indemnified Party. The Indemnifying Party agrees to provide reasonable supplementary documentation for all claims they make under this Article VIII. In any event, the Indemnifying Party shall pay to the Indemnified Party, by wire transfer of immediately available funds, the amount of any Loss for which it is liable hereunder no later than three (3) Business Days following any Final Determination of such Loss and the Indemnifying Party's liability therefor.

8.9 Characterization of Indemnification Payments. Except as otherwise required by Law, all payments made by an Indemnifying Party to an Indemnified Party in respect of any claim pursuant to Section 6.23, Section 8.2 or Section 8.3 hereof shall be treated as adjustments to the Purchase Price for Tax purposes.

8.10 Mitigation. Nothing herein shall prevent an Indemnifying Party from asserting that the amount of such Loss incurred by an Indemnified Party for which indemnification is sought hereunder may take into account the Indemnified Party's failure to use commercially reasonable efforts to mitigate such Loss; it being understood that any such assertion shall not be dispositive in determining the amount of such Loss.

8.11 Remedies. Except as otherwise expressly specified in this Agreement, the rights and remedies of Seller and Buyer under this Article VIII are exclusive following the Closing and in lieu of any and all other rights and remedies which Seller and Buyer may have under this Agreement or otherwise for monetary relief with respect to the subject matter hereof. The parties covenant not to sue, assert any arbitration claim or otherwise threaten any claim other than those described in this Article VIII as being available under the particular circumstances described in this Article VIII.

8.12 Specific Performance. The parties acknowledge and agree that any breach of this Agreement would give rise to irreparable harm for which monetary damages would not be an adequate remedy. The parties accordingly agree that, in addition to any other rights or remedies it may have at law or in equity, the other party shall be entitled to (x) enforce the terms of this Agreement by decree of specific performance without the necessity of proving the inadequacy of monetary damages as a remedy and (y) seek injunctive relief against any breach or threatened breach of this Agreement. Neither party will contest an action by the other party for injunctive relief or an order of specific performance on the basis that there is an adequate remedy at law, or that an award of specific performance is not an appropriate remedy for any reason, at law or in equity. The parties agree to not seek and agree to waive any requirement for the securing or posting of a bond in connection with a party seeking or obtaining any relief pursuant to this Section 8.12.

## ARTICLE IX

## TERMINATION

9.1 Termination. This Agreement may be terminated at any time prior to the Closing:

(a) by mutual agreement of Buyer and Seller;

(b) by either Buyer or Seller, by giving written notice of such termination to the other party, if the Closing shall not have occurred by the date that is fourteen months after the date hereof (as extended pursuant to this Section 9.1, the "Termination Date"); provided, however, that in the event that, as of such date, all Closing conditions other than the conditions set forth in Section 7.1(a), Section 7.1(b), Section 7.2(a), Section 7.2(e), Section 7.2(f) or Section 7.3(a) are satisfied, waived or capable of being satisfied as of such date (assuming for such purpose that such date were the Closing Date), then the Termination Date may be extended by either Buyer or Seller on one or more occasions upon written notice to the other party and the period of each such extension shall be for a one month period, not to exceed four (4) calendar months in the aggregate, to satisfy the conditions set forth in Section 7.1(a), Section 7.1(b), Section 7.2(a), Section 7.2(e), Section 7.2(f) and Section 7.3(a); provided, further, that if Buyer shall have delivered the notice contemplated by the proviso of clause (i) of Section 3.3, neither Buyer nor Seller may terminate this Agreement until the second Business Day of the immediately following month;

(c) by either Buyer or Seller, by giving written notice of such termination to the other party, if any Order prohibiting the Closing shall become final and non-appealable;

(d) by Buyer if there has been a breach of any representation, warranty, covenant or agreement made by Seller in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, such that Section 7.2(b) or 7.2(d) would not be satisfied and such breach or condition is not curable or, if curable, is not cured within the earlier of (i) sixty (60) days after written notice thereof is given by Buyer to Seller and (ii) the Termination Date; or

(e) by Seller if there has been a breach of any representation, warranty, covenant or agreement made by Buyer in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, such that Section 7.3(b) or 7.3(c) would not be satisfied and such breach or condition is not curable or, if curable, is not cured within the earlier of (i) sixty (60) days after written notice thereof is given by Seller to Buyer and (ii) the Termination Date.

9.2 Effect of Termination. In the event of the termination of this Agreement in accordance with Section 9.1, this Agreement shall thereafter become void and have no further effect, and no party hereto shall have any liability to the other party hereto or their respective Affiliates, directors, officers or employees, except for the obligations of the parties hereto contained in this Section 9.2 and in the last sentence of Section 6.1 (Access and Information), and in Section 10.1 (Notices), Section 10.2 (Amendment; Waiver), Section 10.3 (No Assignment or Benefit to Third Parties), Section 10.4 (Entire Agreement), Section 10.6 (Public Disclosure), Section 10.7 (Expenses), Section 10.11 (Governing Law; Submission to Jurisdiction; Selection of Forum; Waiver of Jury Trial), Section 10.14 (Severability), Section 10.15 (Construction) and Section 10.17 (No Recourse) hereof (and any related definitional provisions set forth in Article I), and except that nothing in this Section 9.2 shall relieve any party from liability for any fraud or willful or material breach of this Agreement that arose prior to such termination.

## ARTICLE X

## MISCELLANEOUS

10.1 Notices. All notices and communications hereunder shall be deemed to have been duly given and made if in writing and if served by personal delivery upon the party for whom it is intended or delivered by registered or certified mail, return receipt requested, or if sent by facsimile, provided that the facsimile is promptly confirmed by telephone confirmation thereof, to the Person at the address set forth below, or such other address as may be designated in writing hereafter, in the same manner, by such Person:

To Buyer:

Frontier Communications Corporation
3 High Ridge Park
Stamford, CT 06905
Telephone: (203) 614-5600
Facsimile: (203) 614-4651
Attn: General Counsel

With a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, New York 10036
Telephone: (212) 735-3000
Facsimile: (212) 735-2000
Attn: Martha E. McGarry
Thomas W. Greenberg

To Seller:

Verizon Communications Inc.
One Verizon Way
Basking Ridge, New Jersey 07920
Telephone: (908) 559-2001
Facsimile: (908) 766-3818
Attn: William L. Horton, Jr., Senior Vice President, Deputy General Counsel and Corporate Secretary
Michael Rosenblat, Vice President, Associate General Counsel

With a copy to:

Debevoise & Plimpton LLP
919 Third Avenue
New York, New York 10022
Telephone: (212) 909-6000
Facsimile: (212) 909-6836
Attn: Jeffrey J. Rosen
Michael A. Diz

10.2 Amendment; Waiver. Any provision of this Agreement may be amended or waived if such amendment or waiver is in writing and signed, in the case of an amendment, by the parties hereto, or in the case of a waiver, by the party against whom the waiver is to be effective. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. Notwithstanding the foregoing, the provisions of this Section 10.2, Section 10.3, Section 9.2, Section 10.11 and Section 10.17, to the extent affecting any of the Financing Sources, may not be amended, modified, waived or supplemented (including any defined term used therein) in a manner adverse to any of the Financing Sources without the prior written consent of each such affected Financing Source.

10.3 No Assignment or Benefit to Third Parties.

(a) This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, legal representatives and permitted assigns. No party to this Agreement may assign any of its rights or delegate any of its duties or obligations under this Agreement, by operation of Law or otherwise, without the prior written consent of the other party hereto, provided that Buyer may, by written notice, assign any and all of its rights under this Agreement (A) to one or more of its wholly owned Subsidiaries or (B) to the Committed Financing Sources for collateral security purposes (but no such assignment referred to in the foregoing clause (A) or (B) shall relieve Buyer of any of its duties or obligations hereunder). Nothing in this Agreement, express or implied, is intended to confer upon any Person other than Buyer, Seller, the Indemnified Parties and their respective successors, legal representatives and permitted assigns, any rights or remedies under or by reason of this Agreement, except for the rights of the Financing Sources pursuant to this Section 10.3, Section 10.2, Section 9.2, Section 10.11 and Section 10.17 and Outside Counsel pursuant to Section 10.18.

(b) Prior to the Closing, Buyer shall not convey, transfer or lease its properties and assets substantially as an entirety to any Person, unless the Person which acquires by conveyance or transfer, or which leases, the properties and assets of Buyer substantially as an entirety shall expressly assume, by an instrument in writing, executed and delivered to Seller, in form reasonably satisfactory to Seller, the due and punctual payment of any amounts due from Buyer at or prior to the Closing hereunder and the performance or observance of every covenant of this Agreement on the part of Buyer to be performed or observed at or prior to the Closing.

10.4 Entire Agreement. This Agreement (including the Confidentiality Agreement, and all Disclosure Schedules, Annexes and Exhibits hereto) and the Ancillary Documents contain the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral or written, with respect to such matters, except for the Confidentiality Agreement, which shall remain in full force and effect until the Closing.

10.5 Fulfillment of Obligations. Any obligation of any party to any other party under this Agreement, which obligation is performed, satisfied or fulfilled completely by an Affiliate of such party, shall be deemed to have been performed, satisfied or fulfilled by such party.

10.6 Public Disclosure. Each party hereto shall obtain consent of the other party (such consent to be not unreasonably delayed, conditioned or withheld), prior to issuing any press releases regarding this Agreement or the transactions contemplated hereby, except as required by Law or by any Governmental Entity and except to the extent that the text of such release is substantially similar to text that has previously been publicly disclosed by Seller or Buyer in accordance with the terms of this Agreement or is substantially similar to any mutually agreed upon communication plan. In the case of any such press release to be made as required by Law or by any such Governmental Entity, the party proposing to make such disclosure shall provide the other party a reasonable opportunity to review and comment on any reference to this Agreement or the transactions contemplated hereby, prior to issuing or making any such press release (and such disclosing party shall review and consider any such comments in good faith). To the extent practicable, each party shall use reasonable best efforts to cause any other public announcements or public disclosures (other than press releases) with respect to the transactions contemplated by this Agreement and any Ancillary Documents to be consistent with the parties' prior disclosures and any mutually agreed upon communication plan. Notwithstanding the foregoing, Buyer may, in connection with the Financing, disclose information concerning the transactions contemplated by this Agreement or the Ancillary Documents of the type typically included in a public debt offering on Form S-3 where the proceeds are to be used by an operating company in the telecommunications industry to finance an acquisition, including pro forma financial information and a summary of the transaction, this Agreement and the Ancillary Documents, after providing Seller a reasonable opportunity to review such disclosure and acting in good faith to take into account the reasonable comments of Seller; provided, however, that Buyer will not disclose any information that is competitively sensitive to Seller, without obtaining Seller's prior written consent. To the extent a party is obligated to file this Agreement or any Ancillary Document publicly with any Governmental Entity, such party shall give the non-disclosing party a reasonable opportunity to review and comment (and shall in good faith take into account the comments of such party) on the scope of any redactions and requests for confidential treatment of the terms hereof.

10.7 Expenses. Except as otherwise expressly provided in this Agreement or the Ancillary Documents, whether or not the transactions contemplated by this Agreement and the Ancillary Documents are consummated, all costs and expenses incurred in connection with this Agreement and the Ancillary Documents and the transactions contemplated hereby and thereby shall be borne by the party incurring such expenses. For the avoidance of doubt, except as otherwise expressly provided in this Agreement or the Ancillary Documents, whether or not the transactions contemplated by this Agreement and the Ancillary Documents are consummated, any fees or expenses incurred by any of Seller, its Subsidiaries of the Transferred Companies or any of their respective Affiliates (including the fees and expenses of legal counsel, any accountant, auditor, broker, financial advisor or consultant retained by them or on their behalf) in connection with the preparation, negotiation, execution and delivery of this Agreement or the Ancillary Documents or the consummation of the transactions contemplated by this Agreement shall be the responsibility of, and paid by, Seller.

10.8 Bulk Sales. Seller and Buyer (on behalf of themselves and their Subsidiaries) agree to waive compliance with Article 6 of the Uniform Commercial Code and other bulk sales Laws as adopted in each of the jurisdictions in which any of the Transferred Assets are located to the extent that such Article is applicable to the transactions contemplated by this Agreement and the Ancillary Documents.

10.9 Further Assurances.

(a) From time to time after the Closing Date, Seller shall, and shall cause its applicable Subsidiaries to, promptly execute, acknowledge and deliver any other documents and take such further actions as may be reasonably requested by Buyer and necessary for Buyer to satisfy its obligations hereunder or under the Ancillary Documents.

(b) From time to time after the Closing Date, Buyer shall, and shall cause its Subsidiaries to, promptly execute, acknowledge and deliver any other documents and take such further actions as may be reasonably requested by Seller and necessary for Seller or any of its Subsidiaries to satisfy its obligations hereunder or under the Ancillary Documents.

(c) If after the Closing Date, Seller or its Affiliate (other than a Transferred Company), on the one hand, or Buyer, on the other hand (the "Receiving Party"), receives any funds which belong to the other party (the "Entitlement Party") under this Agreement or the Ancillary Documents, the Receiving Party shall hold such funds in trust for, and immediately pay over such funds to, the Entitlement Party.

(d) In the event it is determined following the Closing that (i) any asset that constitutes a Transferred Asset should have been transferred to the Transferred Companies pursuant to Section 2.1 but was not so transferred, such asset shall be promptly transferred, without the payment of additional consideration by Buyer or the Transferred Companies, to the applicable Transferred Company, and shall upon such transfer constitute a Transferred Asset and (ii) any Liability that constitutes an Assumed Liability that should have been assumed by the Transferred Companies pursuant to Section 2.3 but was not assumed pursuant to an instrument of assumption, such Liability shall be promptly assumed by the applicable Transferred Company (and Buyer shall cause the applicable Transferred Company to assume such Liability), without the payment of additional consideration by Seller, pursuant to an instrument of assumption.

(e) In the event it is determined following the Closing that (i) any asset that is not a Transferred Asset and should not have been transferred to, or held by, the Transferred Companies pursuant to Section 2.1 but was transferred to, or held by, the Transferred Companies, such asset shall be promptly transferred (and Buyer shall cause the applicable Transferred Company to transfer such asset), without the payment of consideration by Seller, to Seller, and shall upon such transfer not constitute a Transferred Asset or (ii) any Liability that is an Excluded Liability that should not have been assumed or retained by the Transferred Companies pursuant to Section 2.3 but was assumed pursuant to an instrument of assumption or retained by the Transferred Companies, such Liability shall be promptly assumed by Seller, without the payment of additional consideration by Buyer, pursuant to an instrument of assumption.

(f) The obligations of Buyer and Seller under subsections (a), (b), (d), (e) and (f) of this Section 10.9 shall terminate on the date that is one year following the Closing Date.

10.10 Disclaimer of Other Representations or Warranties. EACH PARTY AGREES THAT, EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN THIS AGREEMENT OR THE ANCILLARY DOCUMENTS, NEITHER BUYER NOR SELLER MAKES OR RELIES ON ANY OTHER REPRESENTATIONS, WARRANTIES OR INDUCEMENTS, AND EACH HEREBY DISCLAIMS ANY OTHER REPRESENTATIONS, WARRANTIES OR INDUCEMENTS, EXPRESS OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF ANY OTHER INFORMATION (INCLUDING IN ANY

DATAROOM OR MANAGEMENT PRESENTATION OR INFORMATION MEMORANDUM OR IN RESPONSE TO QUESTIONS SUBMITTED BY A PARTY OR ANY OF ITS REPRESENTATIVES AND INCLUDING ANY PROJECTIONS OR SIMILAR INFORMATION), MADE BY, OR MADE AVAILABLE BY, ITSELF OR ANY OF ITS REPRESENTATIVES, WHETHER WRITTEN OR ORAL, WITH RESPECT TO, OR IN CONNECTION WITH, THE NEGOTIATION, EXECUTION OR DELIVERY OF THIS AGREEMENT OR THE ANCILLARY DOCUMENTS OR THE CONSUMMATION OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT AND THE ANCILLARY DOCUMENTS, NOTWITHSTANDING THE DELIVERY OR DISCLOSURE TO THE OTHER PARTY OR THE OTHER PARTY'S REPRESENTATIVES OF ANY DOCUMENTATION OR OTHER INFORMATION WITH RESPECT TO ANY ONE OR MORE OF THE FOREGOING. FOR THE AVOIDANCE OF DOUBT, EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES CONTAINED IN Article IV OR THE ANCILLARY DOCUMENTS, (I) NEITHER SELLER NOR ANY OTHER PERSON MAKES ANY EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY ON BEHALF OF SELLER, AND, NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, SELLER MAKES NO EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY WITH RESPECT TO ANY EXCLUDED ASSETS AND (II) THE TRANSFERRED ASSETS AND TRANSFERRED COMPANIES ARE ASSIGNED "AS IS" WITHOUT ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, AT LAW OR IN EQUITY, INCLUDING ANY WARRANTIES OF OR RELATED TO TITLE, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

10.11 Governing Law; Submission to Jurisdiction; Selection of Forum; Waiver of Jury Trial. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO ITS PRINCIPLES OR RULES OF CONFLICT OF LAWS, TO THE EXTENT SUCH PRINCIPLES OR RULES ARE NOT MANDITORILY APPLICABLE BY STATUTE AND WOULD PERMIT OR REQUIRE THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION. Each party hereto agrees that it shall bring any action or proceeding in respect of any claim arising out of or related to this Agreement or the transactions contained in or contemplated by this Agreement and the Ancillary Documents (including any action or proceeding involving any Financing Sources), exclusively in courts of the State of New York located in the Borough of Manhattan or Federal courts of the United States of America located in the Southern District of New York (the "Chosen Courts"), and solely in connection with claims arising under this Agreement or the transactions contained in or contemplated by this Agreement and the Ancillary Documents (a) irrevocably submits to the exclusive jurisdiction of the Chosen Courts, (b) waives any objection to laying venue in any such action or proceeding in the Chosen Courts, (c) waives any objection that the Chosen Courts are an inconvenient forum or do not have jurisdiction over any party hereto, (d) agrees that service of process upon such party in any such action or proceeding shall be effective if notice is given in accordance with Section 10.1 of this Agreement and (e) agrees not to bring or permit any of their controlled Affiliates to bring any such action or proceeding in any court other than the Chosen Courts. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (INCLUDING ANY LEGAL PROCEEDING INVOLVING ANY FINANCING SOURCES).

The provisions of this Section 10.11 shall inure to the benefit of, and be enforceable by, each Financing Source, each of which is hereby intended to be an express third-party beneficiary of this Section 10.11.

10.12 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same Agreement.

10.13 Headings. The heading references herein and the table of contents hereof are for convenience purposes only, and shall not be deemed to limit or affect any of the provisions hereof.

10.14 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

10.15 Construction. The parties have participated jointly in negotiating and drafting this Agreement. In the event that an ambiguity or a question of intent or interpretation arises, this Agreement shall be construed as if jointly drafted by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

10.16 Payments. No party hereto shall be entitled to payment under any provision of this Agreement for any amount to the extent payment with respect to the same matter is recovered by such Person or its Affiliates or such amount is otherwise included or taken into consideration under any other provision of this Agreement or any Ancillary Document such that such party would be unfairly enriched.

10.17 No Recourse. No Financing Source shall have any liability for any obligations or liabilities hereunder of the parties to this Agreement or in respect of any oral representations made or alleged to be made in connection herewith. Without limiting the rights of Seller against Buyer (including in connection with causing Buyer to enforce its rights against the Financing Sources), Seller (on behalf of itself and its stockholders, partners, members, Affiliates, directors, officers and employees, representatives and agents) hereby waives to the fullest extent permitted by law any rights or claims against any Financing Source in connection with this Agreement or the Commitment Letter or any other commitment or engagement with respect to any Financing or Alternative Financing, whether in law or equity, in contract, in tort or otherwise.

10.18 Conflicts; Privilege. Recognizing that Debevoise & Plimpton LLP and certain other law firms or outside counsel (each an "Outside Counsel") have acted as legal counsel to Seller, the Transferred Companies and certain of their respective Affiliates prior to date hereof, and that Debevoise & Plimpton LLP intends to act as legal counsel to Seller and its Affiliates after the Closing (which will no longer include the Transferred Companies), Buyer hereby waives, on its own behalf and agrees to cause its Affiliates, the Transferred Companies and its Subsidiaries to waive, any conflicts that may arise in connection with Debevoise & Plimpton LLP representing Seller or its Affiliates after the Closing as such representation may relate to Buyer, the Transferred Companies or the transactions contemplated hereby. In addition, all communications involving attorney-client confidences between Seller, its Subsidiaries, the Transferred Companies and their respective Affiliates, on the one hand, and such Outside Counsel or internal counsel of Seller or any of its Affiliates, on the other hand, in the course of the negotiation, documentation, preparation, execution, delivery and consummation of the transactions contemplated hereby, or any dispute or proceeding arising under or in connection with this Agreement (including in any claim for indemnification brought by Buyer), shall be deemed to be attorney-client confidences that belong solely to Seller and its Affiliates (and not the Transferred Companies). Accordingly, the Transferred Companies shall not have access to any such communications or to the files of such Outside Counsel or such internal counsel relating to such engagement from and after the Closing and none of Buyer, the Transferred Companies or any Person acting or purporting to act on behalf of or through Buyer or the Transferred Companies shall seek to obtain the same by any process on the grounds that the privilege attaching to such communications belongs to Buyer or the Transferred Companies. Without limiting the generality of the foregoing, from and after the Closing, (a) Seller and its Affiliates (and not the Transferred Companies) shall be the sole holders of the attorney-client privilege with respect to such engagement, and none of the Transferred Companies shall be a holder thereof, (b) to the extent that files of such Outside Counsel or such internal counsel in respect of such engagement constitute property of the client, only Seller and its Affiliates (and not the Transferred Companies) shall hold such property rights and (c) such Outside Counsel or such internal counsel shall have no duty whatsoever to reveal or disclose any such attorney-client communications or files to the Transferred Companies by reason of any attorney-client relationship between such Outside Counsel or such internal counsel and the Transferred Companies or otherwise. For the avoidance of doubt, nothing in this Section 10.18 shall apply to any communication between the Transferred Companies and their Affiliates (including Buyer), on the one hand, and internal counsel of the Transferred Companies, on the other hand, from and after the Closing. This Section 10.18 will be irrevocable, and no term of this Section 10.18 may be amended, waived or modified, without the prior written consent of such Outside Counsel.

[*Signature page follows.*]

IN WITNESS WHEREOF, the parties have executed or caused this Agreement to be executed as of the date first written above.

FRONTIER COMMUNICATIONS CORPORATION

By: /s/ Mary Agnes Wilderotter
Name: Mary Agnes Wilderotter
Title: Chairman and Chief Executive Officer

VERIZON COMMUNICATIONS INC.

By: /s/ John N. Doherty
Name: John N. Doherty
Title: Senior Vice President, Corporate Development and Ventures

**EXHIBIT 12**

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

(dollars in millions)

| Years Ended December 31, | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Earnings:** | | | | | |
| Income before (provision) benefit for income taxes | **$ 15,270** | $ 29,277 | $ 9,897 | $ 10,483 | $ 12,684 |
| Equity in earnings of unconsolidated businesses | **(1,780)** | (142) | (324) | (444) | (508) |
| Dividends from unconsolidated businesses | **37** | 40 | 401 | 480 | 510 |
| Interest expense [(1)] | **4,915** | 2,667 | 2,571 | 2,827 | 2,523 |
| Portion of rent expense representing interest | **912** | 851 | 837 | 817 | 837 |
| Amortization of capitalized interest | **191** | 177 | 162 | 148 | 139 |
| Earnings, as adjusted | **$ 19,545** | $ 32,870 | $ 13,544 | $ 14,311 | $ 16,185 |
| **Fixed Charges:** | | | | | |
| Interest expense [(1)] | **$ 4,915** | $ 2,667 | $ 2,571 | $ 2,827 | $ 2,523 |
| Portion of rent expense representing interest | **912** | 851 | 837 | 817 | 837 |
| Capitalized interest | **376** | 754 | 406 | 442 | 964 |
| Fixed charges | **$ 6,203** | $ 4,272 | $ 3,814 | $ 4,086 | $ 4,324 |
| **Ratio of earnings to fixed charges** | **3.15** | 7.69 | 3.55 | 3.50 | 3.74 |

(1) 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.

**EXHIBIT 13**

## Selected Financial Data Verizon Communications Inc. and Subsidiaries

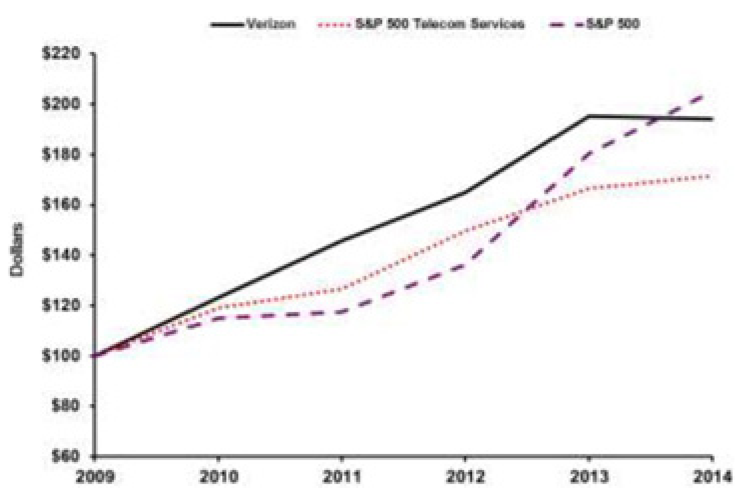
(dollars in millions, except per share amounts)

| | **2014** | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Results of Operations** | | | | | |
| Operating revenues | **$ 127,079** | $ 120,550 | $ 115,846 | $ 110,875 | $ 106,565 |
| Operating income | **19,599** | 31,968 | 13,160 | 12,880 | 14,645 |
| Net income attributable to Verizon | **9,625** | 11,497 | 875 | 2,404 | 2,549 |
| Per common share – basic | **2.42** | 4.01 | .31 | .85 | .90 |
| Per common share – diluted | **2.42** | 4.00 | .31 | .85 | .90 |
| Cash dividends declared per common share | **2.160** | 2.090 | 2.030 | 1.975 | 1.925 |
| Net income attributable to noncontrolling interests | **2,331** | 12,050 | 9,682 | 7,794 | 7,668 |
| **Financial Position** | | | | | |
| Total assets | **$ 232,708** | $ 274,098 | $ 225,222 | $ 230,461 | $ 220,005 |
| Debt maturing within one year | **2,735** | 3,933 | 4,369 | 4,849 | 7,542 |
| Long-term debt | **110,536** | 89,658 | 47,618 | 50,303 | 45,252 |
| Employee benefit obligations | **33,280** | 27,682 | 34,346 | 32,957 | 28,164 |
| Noncontrolling interests | **1,378** | 56,580 | 52,376 | 49,938 | 48,343 |
| Equity attributable to Verizon | **12,298** | 38,836 | 33,157 | 35,970 | 38,569 |

- Significant events affecting our historical earnings trends in 2012 through 2014 are described in “Other Items” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section.
- 2011 data includes severance, pension and benefit charges and early debt redemption costs. 2010 data includes severance, pension and benefit charges, merger integration charges, dispositions, Medicare Part D Subsidy charges 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, 2009 | 2010 | 2011 | 2012 | 2013 | **2014** |
|---|---|---|---|---|---|---|
| Verizon | 100.0 | 123.1 | 145.7 | 164.8 | 195.3 | **194.2** |
| S&P 500 Telecom Services | 100.0 | 119.0 | 126.5 | 149.6 | 166.6 | **171.5** |
| S&P 500 | 100.0 | 115.1 | 117.5 | 136.2 | 180.3 | **205.0** |

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, 2009 with dividends (including the value of the telephone access line spin-off that occurred in 2010) 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 around the world, we offer voice, data and video services and solutions on our wireless and wireline networks that are designed to meet customers' demand for mobility, reliable network connectivity, security and control. We have two reportable segments, 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 enhanced services, including broadband data and video, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice 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 177,300 employees as of December 31, 2014.

As advances in technology have changed the ways that our customers interact in their personal and professional lives and that businesses operate, we have continued to focus our efforts around higher margin and growing areas of our business: wireless and 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, provide additional capacity for growth in our wireless and wireline networks, invest in the fiber optic network that supports our wireless and wireline businesses, maintain our wireless and wireline networks and develop and maintain significant advanced information technology systems and data system capabilities. We believe that steady and consistent investments in networks and platforms will drive innovative products and services and fuel our growth. Our wireless and wireline networks will continue to be the hallmark of our brand, and provide the fundamental strength upon which we build our competitive advantage.

***Strategic Transactions***

*Wireless Transaction*

On February 21, 2014, we set the stage for the next phase of our company's growth when we completed the acquisition of Vodafone Group Plc's (Vodafone) indirect 45% interest in Cellco Partnership d/b/a Verizon Wireless for aggregate consideration of approximately $130 billion (the Wireless Transaction). The consideration paid was primarily comprised of cash of approximately $58.89 billion and Verizon common stock with a value of approximately $61.3 billion. With full control of Verizon Wireless enhancing our operational efficiency, we believe we are well-positioned to meet the challenges of an increasingly competitive industry. See Note 2 to the consolidated financial statements for additional information.

*Spectrum Auction*

On January 29, 2015, the Federal Communications Commission (FCC) completed an auction of 65 MHz of spectrum, which it identified as the Advanced Wireless Services (AWS)-3 band. Verizon participated in that auction, and was the high bidder on 181 spectrum licenses, for which we will pay approximately $10.4 billion. During the fourth quarter of 2014, we made a deposit of $0.9 billion related to our participation in this auction. On February 13, 2015, we made a down payment of $1.2 billion for these spectrum licenses. Verizon has submitted an application for these licenses and must complete payment for them in the first quarter of 2015.

*Access Line Sale*

On February 5, 2015, we announced that we have entered into a definitive agreement with Frontier Communications Corporation (Frontier) pursuant to which Verizon will sell its local exchange business and related landline activities in California, Florida, and Texas, including FiOS Internet and Video customers, switched and special access lines and high-speed Internet service and long distance voice accounts in these three states for approximately $10.5 billion. The transaction, which includes the acquisition by Frontier of the equity interests of Verizon's incumbent local exchange carriers (ILECs) in California, Florida and Texas, does not involve any assets or liabilities of Verizon Wireless. The assets and liabilities that will be sold are currently included in Verizon's continuing operations. As part of the transaction, Frontier will assume $0.6 billion of indebtedness from Verizon. The transaction is subject to the satisfaction of certain closing conditions including, among others, receipt of state and federal telecommunications regulatory approvals, and we expect this transaction to close during the first half of 2016.

The transaction will result in Frontier acquiring approximately 1.5 million FiOS Internet subscribers, 1.2 million FiOS Video subscribers and the related ILEC businesses from Verizon. This business generated revenues of approximately $5.4 billion, excluding revenue with affiliates, for Verizon in 2013, which is the most recent year for which audited stand-alone financial statements are currently available.

*Tower Monetization Transaction*

On February 5, 2015, we announced an agreement with American Tower Corporation (American Tower) pursuant to which American Tower will have the exclusive rights to lease and operate over 11,300 of our wireless towers for an upfront payment of $5.0 billion. Under the terms of the leases, American Tower will have exclusive rights to lease and operate the towers over an average term of approximately 28 years. As part of this transaction, we will also sell 165 towers for $0.1 billion. We will sublease capacity on the towers from American Tower for a minimum of 10 years at current market rates, with options to renew. As the leases expire, American Tower will have fixed-price purchase options to acquire these towers based on their anticipated fair market values at the end of the lease terms. We plan to account for the upfront payment primarily as prepaid rent and a portion as a financing obligation. This transaction, which is subject to customary closing conditions, is expected to close during the first half of 2015.

### *Business Overview*

*Wireless*

Demand for our fourth generation (4G) Long Term Evolution (LTE) smartphones and tablets continues to drive growth in our Wireless business. During 2014, Wireless revenue increased $6.6 billion, or 8.2%, compared to 2013 driven by service revenue growth of $3.6 billion, or 5.2%, which does not include recurring equipment installment billings related to Verizon Edge. Also contributing to the increase in Wireless revenue was equipment revenue growth of $2.8 billion, or 35.1%, driven by higher sales of equipment under both the traditional subsidy model and Verizon Edge, a program that enables qualified customers to purchase their devices on an installment payment plan. During 2014, retail postpaid connections increased 5.5% compared to 2013, with smartphones representing 79% of our retail postpaid phone base at December 31, 2014 compared to 70% at December 31, 2013. Also, during 2014, postpaid smartphone activations represented 92% of phones activated compared to 86% in 2013.

We are focusing the capital spending in our Wireless business on adding capacity and density to our 4G LTE network, which is available to over 98% of the U.S. population in more than 500 markets covering approximately 309 million people, including those in areas served by our LTE in Rural America partners. Our 4G LTE network provides higher data throughput performance for data services at a lower cost compared to that provided via third-generation (3G) networks. Approximately 84% of our total data traffic in December 2014 was carried on our 4G LTE network. In May 2014, we announced the deployment of AWS spectrum in our 4G LTE network. This additional bandwidth, which we refer to and brand as XLTE, provides additional network capacity and is currently available in more than 400 markets. Nearly all of the 4G LTE devices Verizon Wireless currently sells can operate on XLTE.

In February 2014, we introduced our More Everything® plans which replaced our Share Everything® plans. These plans feature domestic unlimited voice minutes, unlimited domestic and international text, video and picture messaging, cloud storage and a single data allowance that can be shared among multiple devices connected to the Verizon Wireless network. As of December 31, 2014, More Everything accounts represented approximately 61% of our retail postpaid accounts compared to Share Everything plans representing approximately 46% of our retail postpaid accounts as of December 31, 2013. Verizon Wireless also offers shared data plans for business, with More Everything plans for Small business and Nationwide Business Data Packages and Plans.

*Wireline*

In our Wireline business, revenues decreased 0.5% during 2014 compared to 2013, primarily due to declines in Global Enterprise Core and Global Wholesale revenues resulting from lower voice services and data networking revenues as well as the contraction of market rates due to competition. 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. Wireline's revenues during 2014 included a 2.3% increase in Strategic services revenues, which represented 61% of total Global Enterprise revenues, as compared to 57% of total Global Enterprise revenues during 2013.

Wireline revenues during 2014 also included increases in Consumer retail revenue driven by FiOS services. FiOS represented approximately 76% of Consumer retail revenue during 2014, compared to approximately 71% during 2013. As the penetration of FiOS products increases, we continue to seek ways to increase 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 multiple 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, health monitoring, energy management and utilities management.

We continue to enrich the customer value proposition by creating new and innovative services on our FiOS platform. During 2014, Verizon announced the introduction of FiOS Quantum TV, which provides FiOS video subscribers with new features, including the ability to record up to 12 shows at once and control live TV from any room in their home. This new service is now available everywhere that FiOS TV is offered. With our FiOS Quantum broadband service and certain other data services, our residential and small business customers can achieve symmetrical upload and download speeds of up to 500 megabytes per second, which we refer to as SpeedMatch℠.

*Capital Expenditures and Investments*

We are investing in wireless networks, high-speed fiber and cloud services to position ourselves at the center of growth trends for the future. During 2014, these investments included capital expenditures of $17.2 billion and acquisitions of wireless licenses of $0.4 billion. See "Cash Flows Used in Investing Activities" and Note 2 to the consolidated financial statements for additional information.

By investing to expand our own capabilities, we are also providing the communities we serve with 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 lasting value for society.

### *Trends*

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.

The industries that we operate in are highly competitive, which we expect to continue particularly as traditional, non-traditional and emerging service providers seek increased market share. We believe that our high-quality customer base and superior networks differentiate us from our competitors and enable 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 and competitive 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 4G LTE devices, including new smartphones and tablets. We believe these devices will attract and retain higher value retail postpaid connections, contribute to continued increases in the penetration of data services and help us remain competitive with other wireless carriers. However, as a result of the increasing competition within our industry, we expect our churn to increase in 2015. 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.

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 at competitive prices. Some wireless service providers also allow customers to rollover unused data allowances to the next billing period and are also offering installment plans that decouple service pricing from equipment pricing and blur the traditional boundary between prepaid and postpaid plans. In 2015, we expect that customers will continue to adopt these installment plans, which also offer discounts on the cost of wireless service. Furthermore, some wireless providers are offering new customers price plans that undercut pricing under the customer’s service plan with its current wireless provider and provide a credit to reimburse early termination fees paid to their former wireless service provider, subject to certain limitations, in addition to promotions targeted specifically to customers of Verizon Wireless. 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.

In our Wireline segment, we have experienced continuing access line losses as customers have disconnected both primary and secondary lines and switched to alternative technologies such as wireless, voice over Internet protocol (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. We also expect Consumer retail revenues to increase, primarily driven by our FiOS services, as we seek to increase our penetration rates within our FiOS service areas.

Despite this challenging environment, we expect that we will be able to grow key aspects of our Wireline segment by providing network reliability, offering product bundles that include broadband Internet access, digital television and local and long distance voice services, offering more robust IP products and service, and accelerating our cloud computing and machine-to-machine strategies. We will also continue to focus on cost efficiencies to attempt to offset adverse impacts from unfavorable economic conditions and competitive pressures.

*Operating Revenue*

We expect to experience revenue growth in our Wireless segment in 2015, primarily as a result of continued growth in postpaid connections driven by sales of smartphones and tablets, partially offset by declining prices in response to increasing competitive pressure from other wireless carriers. We also expect the activation of devices on Verizon Edge to contribute positively to our Wireless segment revenue and operating income. In 2015, we expect the rate at which customers activate devices on Verizon Edge to increase. As more customers adopt Verizon Edge, we expect equipment and other revenue to be positively impacted, while we expect retail postpaid average revenue per account (ARPA) and service revenue, in each case when considered as a percentage of total revenue, to continue to be negatively impacted. We expect that our future service revenue growth will be substantially derived from an increase in the usage of innovative mobile services in addition to our pricing structure that will encourage customers to continue adding data-enabled devices onto existing accounts. We expect that continued emphasis on increasing smartphone penetration, including continuing to migrate customers from basic phones to smartphones and from 3G devices to 4G LTE devices, in addition to increasing our tablet penetration will positively impact our revenue.

We expect FiOS broadband and video penetration to positively impact our Mass Markets revenue and subscriber base. Although we have recently experienced decelerating revenue growth within our Strategic services business, we expect our Strategic services business to be positively impacted by additional enterprise revenues from application services, such as our cloud, security and other solutions-based services and from continued customer migration of their services to Private IP and other strategic networking services. We believe the trend in these growth areas as well as our 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 technology substitution, as well as the continued decline in our legacy wholesale and enterprise markets. Upon the closing of the sale of our local exchange business and related landline activities in California, Florida and Texas, we expect that our Wireline segment EBITDA margin and operating income margin will decline. Prior to closing this transaction, we expect to undertake initiatives to address our cost structure to mitigate this impact to our margins.

*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 costs. In addition, we expect content costs for our FiOS video service to continue to increase. However, we expect to achieve certain cost efficiencies in 2015 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 2015 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, and support for our copper-based 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 copper wire with fiber-optic cable which will not alter our capital program but should result in lower maintenance costs in the future. Capital expenditures were $17.2 billion in 2014 and $16.6 billion in 2013. 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 in 2015, which will be primarily focused on adding capacity to our 4G LTE network in order to stay ahead of our customers' increasing data demands, to be in the range of approximately $17.5 billion to $18.0 billion. We also expect our capital expenditures as a percentage of revenue to decline in 2015 from 2014 levels.

*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 3.8% during 2014, making this the eighth 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. We expect to use our cash to reduce our debt levels in order to return to our pre-Wireless Transaction credit metrics by 2019, invest in the business, including spectrum licenses (see "Cash Flows from Investing Activities"), pay dividends to our shareholders and, when appropriate, buy back shares of our outstanding common stock (see "Cash Flows from Financing Activities").

## 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, 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.

On February 21, 2014, we completed the acquisition of Vodafone's indirect 45% interest in Verizon Wireless. As a result, our results reflect our 55% ownership of Verizon Wireless through the closing of the Wireless Transaction and reflect our full ownership of Verizon Wireless from the closing of the Wireless Transaction through December 31, 2014.

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 as well as the historical results of divested operations, 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. Effective January 1, 2014, we have also reclassified the results of certain businesses, such as development stage businesses that support our strategic initiatives, from our Wireline segment to Corporate, eliminations and other. The impact of this reclassification was not material to our consolidated financial statements or our segment results of operations.

On July 1, 2014, our Wireline segment sold a non-strategic business (see "Acquisitions and Divestitures"). Accordingly, the historical Wireline results for these operations, which were not material to our consolidated financial statements or our segment results of operations, have been reclassified to Corporate, eliminations and other to reflect comparable segment operating results. The results of operations related to this divestiture included within Corporate, eliminations and other are as follows:

| | | | (dollars in millions) |
|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 |
| **Impact of Divested Operations** | | | |
| Operating revenues | **$ 256** | $ 599 | $ 835 |
| Cost of services and sales | **239** | 531 | 756 |
| Selling, general and administrative expense | **5** | 25 | 23 |

### Consolidated Revenues

| | | | | | | (dollars in millions) | |
|---|---|---|---|---|---|---|---|
| | | | | **Increase/(Decrease)** | | | |
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014 vs. 2013** | | 2013 vs. 2012 | |
| Wireless | | | | | | | |
| Service revenue | **$ 72,630** | $ 69,033 | $ 63,733 | **$ 3,597** | **5.2%** | $ 5,300 | 8.3% |
| Equipment and other | **15,016** | 11,990 | 12,135 | **3,026** | **25.2** | (145) | (1.2) |
| Total | **87,646** | 81,023 | 75,868 | **6,623** | **8.2** | 5,155 | 6.8 |
| Wireline | | | | | | | |
| Mass Markets | **18,047** | 17,383 | 16,746 | **664** | **3.8** | 637 | 3.8 |
| Global Enterprise | **13,684** | 14,182 | 14,577 | **(498)** | **(3.5)** | (395) | (2.7) |
| Global Wholesale | **6,222** | 6,594 | 7,094 | **(372)** | **(5.6)** | (500) | (7.0) |
| Other | **476** | 465 | 528 | **11** | **2.4** | (63) | (11.9) |
| Total | **38,429** | 38,624 | 38,945 | **(195)** | **(0.5)** | (321) | (0.8) |
| Corporate, eliminations and other | **1,004** | 903 | 1,033 | **101** | **11.2** | (130) | (12.6) |
| **Consolidated Revenues** | **$ 127,079** | $ 120,550 | $ 115,846 | **$ 6,529** | **5.4** | $ 4,704 | 4.1 |

**2014 Compared to 2013**

The increase in consolidated revenues during 2014 compared to 2013 was primarily due to higher revenues at Wireless, as well as higher Mass Markets revenues driven by FiOS services at our Wireline segment. Partially offsetting these increases were lower Global Enterprise Core and Global Wholesale revenues at our Wireline segment.

Wireless' revenues increased $6.6 billion, or 8.2%, during 2014 compared to 2013 primarily as a result of growth in service revenue and equipment revenue. The increase in service revenue, which does not include recurring equipment installment billings related to Verizon Edge, during 2014 compared to 2013 was primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of 4G LTE smartphones and tablets through our More Everything plans. Equipment and other revenue increased during 2014 compared to 2013 primarily due to an increase in equipment sales under both the traditional subsidy model and Verizon Edge. Retail postpaid connection net additions increased during 2014 compared to 2013 primarily due to an increase in retail postpaid connection gross additions partially offset by an increase in our retail postpaid connection churn rate. Retail postpaid connections per account increased as of December 31, 2014 compared to December 31, 2013 primarily due to the increased penetration of tablets.

Wireline's revenues decreased $0.2 billion, or 0.5%, during 2014 compared to 2013 primarily as a result of declines in Global Enterprise Core and Global Wholesale, partially offset by higher Mass Markets revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise.

Mass Markets revenues increased $0.7 billion, or 3.8%, during 2014 compared to 2013 primarily due to the expansion of FiOS services (Voice, Internet and Video), including our FiOS Quantum offerings, as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues.

Global Enterprise revenues decreased $0.5 billion, or 3.5%, during 2014 compared to 2013 primarily due to lower voice services and data networking revenues, the contraction of market rates due to competition and a decline in Core customer premise equipment revenues. This decrease was partially offset by an increase in Strategic services revenues, primarily due to growth in our application services, such as our cloud and data center offerings and contact center solutions.

Global Wholesale revenues decreased $0.4 billion, or 5.6%, during 2014 compared to 2013 primarily due to a decline in data revenues driven by the 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 a decline in traditional voice revenues. During 2014, we also experienced a decline in domestic wholesale connections.

**2013 Compared to 2012**

The increase in consolidated revenues during 2013 compared to 2012 was primarily due to higher revenues at 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 Enterprise Core and Global Wholesale revenues at our Wireline segment.

Wireless' revenues increased $5.2 billion, or 6.8%, during 2013 compared to 2012 due to growth in service revenue. Service revenue increased during 2013 compared to 2012 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of smartphones, tablets and other Internet devices through our Share Everything plans. Retail postpaid connection net additions decreased during 2013 compared to 2012 primarily due to an increase in our retail postpaid connection churn rate, partially offset by an increase in retail postpaid connection gross additions. Retail postpaid connections per account increased as of December 31, 2013 compared to December 31, 2012 primarily due to the increased penetration of tablets and other Internet devices.

Wireline's revenues decreased $0.3 billion, or 0.8%, during 2013 compared to 2012 primarily driven by declines in Global Enterprise Core and Global Wholesale, partially offset by higher Mass Markets revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise.

Mass Markets revenues increased $0.6 billion, or 3.8%, during 2013 compared to 2012 due to the expansion of FiOS services (Voice, Internet and Video) as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues.

Global Enterprise revenues decreased $0.4 billion, or 2.7%, during 2013 compared to 2012 primarily due to a decline in Core customer premise equipment revenues and lower voice services and data networking revenues. This decrease was partially offset by growth in Strategic services revenues, primarily due to an increase in advanced services, such as contact center solutions, IP communications, and our cloud and data center offerings as well as revenue from a telematics services business that we acquired in the third quarter of 2012.

Global Wholesale revenues decreased $0.5 billion, or 7.0%, during 2013 compared to 2012 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 2013 compared to 2012 primarily due to reduced volumes outside of our network footprint.

**Consolidated Operating Expenses**

(dollars in millions)

| Years Ended December 31, | 2014 | 2013 | 2012 | Increase/(Decrease) 2014 vs. 2013 | | 2013 vs. 2012 | |
|---|---|---|---|---|---|---|---|
| Cost of services and sales | **$ 49,931** | $ 44,887 | $ 46,275 | **$ 5,044** | **11.2%** | $ (1,388) | (3.0)% |
| Selling, general and administrative expense | **41,016** | 27,089 | 39,951 | **13,927** | **51.4** | (12,862) | (32.2) |
| Depreciation and amortization expense | **16,533** | 16,606 | 16,460 | **(73)** | **(0.4)** | 146 | 0.9 |
| **Consolidated Operating Expenses** | **$ 107,480** | $ 88,582 | $ 102,686 | **$ 18,898** | **21.3** | $ (14,104) | (13.7) |

Consolidated operating expenses increased during 2014 primarily due to non-operational charges recorded in 2014 as compared to non-operational credits recorded in 2013 (see "Other Items") as well as increased operating expenses at Wireless. Consolidated operating expenses decreased during 2013 primarily due to non-operational credits recorded in 2013 as compared to non-operational charges recorded in 2012 (see "Other Items").

**2014 Compared to 2013**

*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 2014 compared to 2013 primarily due to an increase in cost of equipment sales of $5.3 billion at our Wireless segment as a result of an increase in the number of devices sold as well as an increase in the cost per unit.

*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 in "Cost of Services and Sales" above.

Selling, general and administrative expense increased during 2014 compared to 2013 primarily due to non-operational charges, primarily severance, pension and benefit charges, recorded in 2014 as compared to non-operational credits, primarily severance, pension and benefit credits, recorded in 2013 (see "Other Items").

*Depreciation and Amortization Expense*

Depreciation and amortization expense decreased during 2014 compared to 2013 primarily due to a decrease in net depreciable assets at our Wireline segment, partially offset by an increase in depreciable assets at our Wireless segment.

**2013 Compared to 2012**

*Cost of Services and Sales*

Cost of services and sales decreased during 2013 compared to 2012 primarily due to a decrease in cost of equipment sales, decreased data roaming, a decline in cost of data services and a decrease in network connection costs at our Wireless segment, as well as a decrease in costs related to customer premise equipment, a decline in access costs and the net effect of storm-related insurance recoveries at our Wireline segment. Partially offsetting these decreases were higher content costs associated with continued FiOS subscriber growth and programming license fee increases at our Wireline segment, as well as increases in cost of network services at our Wireless segment.

*Selling, General and Administrative Expense*

Selling, general and administrative expense decreased during 2013 compared to 2012 primarily due to the non-operational credits recorded in 2013 and declines in employee costs at our Wireline segment as well as the non-operational charges recorded in 2012 (see "Other Items"). This decrease was partially offset by higher sales commission expense at our Wireless segment.

*Depreciation and Amortization Expense*

Depreciation and amortization expense increased during 2013 compared to 2012 primarily due to an increase in net depreciable assets at our Wireless segment and an increase in amortization expense at our Wireline segment. These increases were partially offset by a decline in net depreciable assets at our Wireline segment.

**Non-operational (Credits) Charges**

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

| | | (dollars in millions) | |
|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 |
| **Severance, Pension and Benefit (Credits) Charges** | | | |
| Selling, general and administrative expense | **$ 7,507** | $ (6,232) | $ 7,186 |
| **Gain on Spectrum License Transactions** | | | |
| Selling, general and administrative expense | **(707)** | (278) | – |
| **Litigation Settlements** | | | |
| Selling, general and administrative expense | **–** | – | 384 |
| **Other Costs** | | | |
| Cost of services and sales | **27** | – | 40 |
| Selling, general and administrative expense | **307** | – | 236 |
| | **334** | – | 276 |
| **Total non-operating (credits) charges included in operating expenses** | **$ 7,134** | $ (6,510) | $ 7,846 |

See "Other Items" for a description of these and 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.

Operating expenses include pension and benefit related credits and/or 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.

| | | | (dollars in millions) |
|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 |
| **Consolidated Operating Income** | **$ 19,599** | $ 31,968 | $ 13,160 |
| Add Depreciation and amortization expense | **16,533** | 16,606 | 16,460 |
| **Consolidated EBITDA** | **36,132** | 48,574 | 29,620 |
| Add (Less) Non-operating (credits) charges included in operating expenses | **7,134** | (6,510) | 7,846 |
| Less Impact of divested operations | **(12)** | (43) | (56) |
| **Consolidated Adjusted EBITDA** | **$ 43,254** | $ 42,021 | $ 37,410 |

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.

## Other Consolidated Results

*Equity in Earnings of Unconsolidated Businesses*

Equity in earnings of unconsolidated businesses increased $1.6 billion during 2014 compared to the similar period in 2013 primarily due to the gain of $1.9 billion recorded on the sale of our interest in Vodafone Omnitel N.V. (Vodafone Omnitel) during the first quarter of 2014, which was part of the consideration for the Wireless Transaction.

Equity in earnings of unconsolidated businesses decreased $0.2 billion, or 56.2%, in 2013 compared to 2012 primarily due to lower earnings from operations at Vodafone Omnitel. The decrease during 2013 was partially offset by an immaterial gain recorded by Verizon Wireless upon obtaining control of previously unconsolidated wireless partnerships, which were previously accounted for under the equity method and are now consolidated.

*Other Income and (Expense), Net*

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

| | | | | | | | (dollars in millions) |
|---|---|---|---|---|---|---|---|
| | | | | Increase/(Decrease) | | | |
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014 vs. 2013** | | 2013 vs. 2012 | |
| Interest income | **$ 108** | $ 64 | $ 57 | **$ 44** | **68.8%** | $ 7 | 12.3% |
| Other, net | **(1,302)** | (230) | (1,073) | **(1,072)** | **nm** | 843 | (78.6) |
| **Total** | **$ (1,194)** | $ (166) | $ (1,016) | **$ (1,028)** | **nm** | $ 850 | (83.7) |

nm – not meaningful

Other income and (expense), net changed unfavorably during 2014 compared to the similar period in 2013 primarily due to early debt redemption costs of $1.4 billion incurred in 2014 (see "Other Items").

Other income and (expense), net changed favorably during 2013 compared to 2012 primarily due to fees of $1.1 billion incurred in 2012 related to the early redemption of debt, partially offset by $0.2 billion of fees incurred during the fourth quarter of 2013 as a result of the termination of a bridge credit agreement upon the effectiveness of a term loan agreement (see "Other Items").

*Interest Expense*

| | | | | (dollars in millions) | | | |
|---|---|---|---|---|---|---|---|
| | | | | **Increase/(Decrease)** | | | |
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014 vs. 2013** | | 2013 vs. 2012 | |
| Total interest costs on debt balances | **$ 5,291** | $ 3,421 | $ 2,977 | **$ 1,870** | **54.7%** | $ 444 | 14.9% |
| Less Capitalized interest costs | **376** | 754 | 406 | **(378)** | **(50.1)** | 348 | 85.7 |
| **Total** | **$ 4,915** | $ 2,667 | $ 2,571 | **$ 2,248** | **84.3** | $ 96 | 3.7 |
| Average debt outstanding | **$ 108,461** | $ 65,959 | $ 52,949 | | | | |
| Effective interest rate | **4.9%** | 5.2% | 5.6% | | | | |

Total interest costs on debt balances increased during 2014 compared to 2013 primarily due to the issuance of fixed and floating rate notes to finance the Wireless Transaction (see "Acquisitions and Divestitures") resulting in an increase in average debt and a corresponding increase in interest expense, partially offset by a lower effective interest rate (see "Consolidated Financial Condition"). Capitalized interest costs were lower in 2014 primarily due to a decrease in wireless licenses that are currently under development, which was due to the deployment of AWS licenses for commercial service during 2014.

Total interest costs on debt balances increased during 2013 compared to 2012 primarily due to the issuance of $49.0 billion of fixed and floating rate notes to finance the Wireless Transaction (see "Acquisitions and Divestitures") resulting in an increase in average debt as well as an incremental increase in interest expense of $0.7 billion, partially offset by a lower effective interest rate (see "Consolidated Financial Condition"). Capitalized interest costs were higher in 2013 primarily due to increases in wireless licenses that are currently under development.

*Provision (Benefit) for Income Taxes*

| | | | | (dollars in millions) | | | |
|---|---|---|---|---|---|---|---|
| | | | | **Increase/(Decrease)** | | | |
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014 vs. 2013** | | 2013 vs. 2012 | |
| **Provision (Benefit) for income taxes** | **$ 3,314** | $ 5,730 | $ (660) | **$ (2,416)** | **(42.2)%** | $ 6,390 | nm |
| **Effective income tax rate** | **21.7%** | 19.6% | (6.7)% | | | | |

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. The effective income tax rate for 2014 was 21.7% compared to 19.6% for 2013. The increase in the effective income tax rate was primarily due to additional income taxes on the incremental income from the Wireless Transaction completed on February 21, 2014 and was partially offset by the utilization of certain tax credits in connection with the Omnitel Transaction in 2014 and the effective income tax rate impact of lower income before income taxes due to severance, pension and benefit charges recorded in 2014 compared to severance, pension and benefit credits recorded in 2013. The decrease in the provision for income taxes was primarily due to lower income before income taxes due to severance, pension and benefit charges recorded in 2014 compared to severance, pension and benefit credits recorded in 2013.

The effective income tax rate for 2013 was 19.6% compared to (6.7)% for 2012. The increase in the effective income tax rate and provision for income taxes was primarily due to higher income before income taxes as a result of severance, pension and benefit credits recorded during 2013 compared to lower income before income taxes as a result of severance, pension and benefit charges as well as early debt redemption costs recorded during 2012.

Our effective income tax rate differed significantly from the statutory federal income tax rate for 2013 and 2012 due to the inclusion of income attributable to Vodafone's noncontrolling interest in the Verizon Wireless partnership for the full year within our income before the provision for income taxes. In 2013, we recorded a tax provision on income before the provision for income taxes and when we included 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 13.7 percentage points lower during 2013. 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.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for each period is included in Note 13 to the consolidated financial statements.

*Net Income Attributable to Noncontrolling Interests*

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | (dollars in millions) |
| | | | | **Increase/(Decrease)** | | | |
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014 vs. 2013** | | 2013 vs. 2012 | |
| **Net income attributable to noncontrolling interests** | **$ 2,331** | $ 12,050 | $ 9,682 | **$ (9,719)** | **(80.7)%** | $ 2,368 | 24.5% |

The decrease in Net income attributable to noncontrolling interests during 2014 compared to 2013 was primarily due to the completion of the Wireless Transaction on February 21, 2014. As a result, our results reflect our 55% ownership interest of Verizon Wireless through the closing of the Wireless Transaction and reflect our full ownership of Verizon Wireless for the remainder of the year. The noncontrolling interests that remained after the completion of the Wireless Transaction primarily relate to wireless partnership entities.

The increase in Net income attributable to noncontrolling interests during 2013 compared to 2012 was due to higher earnings in our Verizon Wireless segment, which had a 45% noncontrolling partnership interest attributable to Vodafone as of December 31, 2013.

## Segment Results of Operations

We have two reportable segments, 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.

Wireless EBITDA margin is calculated by dividing Wireless EBITDA by total Wireless revenues. Wireless Segment EBITDA service margin, also presented below, is calculated by dividing Wireless Segment EBITDA by Wireless service revenues. 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. Wireline EBITDA margin is calculated by dividing Wireline EBITDA by total Wireline revenues. You can find additional information about our segments in Note 14 to the consolidated financial statements.

## Wireless

Our Wireless segment is primarily comprised of Cellco Partnership doing business as Verizon Wireless. Cellco Partnership was formed as a joint venture in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone. Prior to the completion of the Wireless Transaction, Verizon owned a controlling 55% interest in Verizon Wireless and Vodafone owned the remaining 45%. On February 21, 2014, the Wireless Transaction was completed and Verizon acquired 100% ownership of Verizon Wireless. 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 allowance 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

(dollars in millions, except ARPA)

| | | | | **Increase/(Decrease)** | | | |
|---|---|---|---|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014 vs. 2013** | | 2013 vs. 2012 | |
| Retail service | **$ 69,501** | $ 66,334 | $ 61,440 | **$ 3,167** | **4.8%** | $ 4,894 | 8.0% |
| Other service | **3,129** | 2,699 | 2,293 | **430** | **15.9** | 406 | 17.7 |
| Service revenue | **72,630** | 69,033 | 63,733 | **3,597** | **5.2** | 5,300 | 8.3 |
| Equipment | **10,959** | 8,111 | 8,023 | **2,848** | **35.1** | 88 | 1.1 |
| Other | **4,057** | 3,879 | 4,112 | **178** | **4.6** | (233) | (5.7) |
| Equipment and other | **15,016** | 11,990 | 12,135 | **3,026** | **25.2** | (145) | (1.2) |
| **Total Operating Revenues** | **$ 87,646** | $ 81,023 | $ 75,868 | **$ 6,623** | **8.2** | $ 5,155 | 6.8 |
| Connections (‘000):(1) | | | | | | | |
| Retail connections | **108,211** | 102,799 | 98,230 | **5,412** | **5.3** | 4,569 | 4.7 |
| Retail postpaid connections | **102,079** | 96,752 | 92,530 | **5,327** | **5.5** | 4,222 | 4.6 |
| Net additions in period (‘000):(2) | | | | | | | |
| Retail connections | **5,568** | 4,472 | 5,917 | **1,096** | **24.5** | (1,445) | (24.4) |
| Retail postpaid connections | **5,482** | 4,118 | 5,024 | **1,364** | **33.1** | (906) | (18.0) |
| Churn Rate: | | | | | | | |
| Retail connections | **1.33%** | 1.27% | 1.19% | | | | |
| Retail postpaid connections | **1.04%** | 0.97% | 0.91% | | | | |
| Account Statistics: | | | | | | | |
| Retail postpaid ARPA | **$ 159.86** | $ 153.93 | $ 144.04 | **$ 5.93** | **3.9** | $ 9.89 | 6.9 |
| Retail postpaid accounts (‘000)(1) | **35,616** | 35,083 | 35,057 | **533** | **1.5** | 26 | 0.1 |
| Retail postpaid connections per account(1) | **2.87** | 2.76 | 2.64 | **0.11** | **4.0** | 0.12 | 4.5 |

(1) As of end of period
(2) Excluding acquisitions and adjustments

### 2014 Compared to 2013

Wireless’ total operating revenues increased by $6.6 billion, or 8.2%, during 2014 compared to 2013 primarily as a result of growth in service revenue and equipment revenue.

*Accounts and Connections*

Retail (non-wholesale) postpaid accounts primarily represent retail customers under contract with Verizon Wireless that are directly served and managed by Verizon Wireless and use its branded services. Accounts include More Everything plans and corporate accounts, as well as legacy single connection plans and family plans. A single account may include 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 connections is terminated.

Retail connections under an account may include: smartphones, basic phones, tablets, LTE Internet (Installed) and other connected devices. Retail postpaid connection net additions increased during 2014 compared to 2013 primarily due to an increase in retail postpaid connection gross additions partially offset by an increase in our retail postpaid connection churn rate. Higher retail postpaid connection gross additions were driven by gross additions of tablets as well as 4G LTE smartphones. During 2014, our retail postpaid connection net additions included approximately 4.2 million tablets as compared to 1.4 million tablets in 2013.

*Retail Postpaid Connections per Account*

Retail postpaid connections per account is calculated by dividing the total number of retail postpaid connections by the number of retail postpaid accounts as of the end of the period. Retail postpaid connections per account increased 4.0% as of December 31, 2014 compared to December 31, 2013 primarily due to the increased penetration of tablets.

*Service Revenue*

Service revenue, which does not include recurring equipment installment billings related to Verizon Edge, increased by $3.6 billion, or 5.2%, during 2014 compared to 2013 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of 4G LTE smartphones and tablets through our More Everything plans. The penetration of 4G LTE smartphones was driven by the activation of smartphones by new customers as well as existing customers migrating from basic phones and 3G smartphones to 4G LTE smartphones.

The increase in retail postpaid ARPA (the average revenue per account from retail postpaid accounts), which does not include recurring equipment installment billings related to Verizon Edge, during 2014 compared to 2013 was primarily driven by increases in smartphone penetration and retail postpaid connections per account. As of December 31, 2014, we experienced a 4.0% increase in retail postpaid connections per account compared to 2013, with smartphones representing 79% of our retail postpaid phone base as of December 31, 2014 compared to 70% as of December 31, 2013. The increased penetration in retail postpaid connections per account is primarily due to increases in Internet data devices, which represented 14.1% of our retail postpaid connection base as of December 31, 2014 compared to 10.7% as of December 31, 2013, primarily due to tablet activations. Additionally, during 2014, postpaid smartphone activations represented 92% of phones activated compared to 86% during 2013.

Other service revenue increased during 2014 compared to 2013 due to growth in wholesale connections.

*Equipment and Other Revenue*

Equipment and other revenue increased during 2014 compared to 2013 primarily due to an increase in equipment sales under both the traditional subsidy model and Verizon Edge.

**2013 Compared to 2012**

The increase in Wireless' total operating revenues of $5.2 billion, or 6.8%, during 2013 compared to 2012 was primarily the result of growth in service revenue.

*Accounts and Connections*

Retail postpaid connection net additions decreased during 2013 compared to 2012 primarily due to an increase in our retail postpaid connection churn rate, partially offset by an increase in retail postpaid connection gross additions.

*Retail Postpaid Connections per Account*

Retail postpaid connections per account increased 4.5% as of December 31, 2013 compared to December 31, 2012 primarily due to the increased penetration of tablets and other Internet devices.

*Service Revenue*

Service revenue increased $5.3 billion, or 8.3%, during 2013 compared to 2012 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of smartphones, tablets and other Internet devices through our Share Everything plans. The penetration of smartphones was driven by the activation of smartphones by new customers as well as existing customers migrating from basic phones to smartphones.

The increase in retail postpaid ARPA during 2013 compared to 2012 was primarily driven by increases in smartphone penetration and retail postpaid connections per account. As of December 31, 2013, we experienced a 4.5% increase in retail postpaid connections per account compared to 2012, with smartphones representing 70% of our retail postpaid phone base as of December 31, 2013 compared to 58% as of December 31, 2012. The increased penetration in retail postpaid connections per account is primarily due to increases in Internet data devices, which represented 10.7% of our retail postpaid connection base as of December 31, 2013 compared to 9.3% as of December 31, 2012, primarily due to activations of tablets and other Internet devices. Additionally, during 2013, postpaid smartphone activations represented 86% of phones activated compared to 77% during 2012.

Other service revenue increased during 2013 compared to 2012 due to growth in wholesale connections, partially offset by a decrease in revenue related to third party roaming.

*Equipment and Other Revenue*

Equipment and other revenue decreased during 2013 compared to 2012 as a decline in regulatory fees was partially offset by an increase in revenue related to upgrade fees.

**Operating Expenses**

(dollars in millions)

| | | | | Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014 vs. 2013** | | 2013 vs. 2012 | |
| Cost of services and sales | **$ 28,825** | $ 23,648 | $ 24,490 | **$ 5,177** | **21.9%** | $ (842) | (3.4)% |
| Selling, general and administrative expense | **23,602** | 23,176 | 21,650 | **426** | **1.8** | 1,526 | 7.0 |
| Depreciation and amortization expense | **8,459** | 8,202 | 7,960 | **257** | **3.1** | 242 | 3.0 |
| **Total Operating Expenses** | **$ 60,886** | $ 55,026 | $ 54,100 | **$ 5,860** | **10.6** | $ 926 | 1.7 |

*Cost of Services and Sales*

Cost of services and sales increased during 2014 compared to 2013 primarily due to an increase in cost of equipment sales of $5.3 billion as a result of an increase in the number of devices sold as well as an increase in the cost per unit. The increase in the number of devices sold was driven, in part, by the launch of new devices.

Cost of services and sales decreased during 2013 compared to 2012 primarily due to a decrease in cost of equipment sales of $0.4 billion, which was partially due to a decline in postpaid upgrades, decreased data roaming, a decline in cost of data services and a decrease in network connection costs due to the deployment of Ethernet backhaul facilities primarily targeted at sites upgrading to 4G LTE, partially offset by an increase in cost of network services.

*Selling, General and Administrative Expense*

Selling, general and administrative expense increased during 2014 compared to 2013 primarily due to a $0.2 billion increase in advertising expense and gains recorded in the first quarter of 2013 related to wireless license exchange agreements, partially offset by a decline in sales commission expense, which was driven by the adoption of Verizon Edge.

Selling, general and administrative expense increased during 2013 compared to 2012 primarily due to higher sales commission expense in our indirect channel. Indirect sales commission expense increased $1.1 billion during 2013 compared to 2012 primarily as a result of increases in indirect gross additions and upgrades, as well as the average commission per unit, as the mix of units continues to shift toward smartphones and more customers activate data services.

*Depreciation and Amortization Expense*

The increase in depreciation and amortization expense during 2014 compared to 2013, and 2013 compared to 2012, respectively, was primarily driven by an increase in net depreciable assets.

**Segment Operating Income and EBITDA**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | (dollars in millions) | | | |
| | | | | Increase/(Decrease) | | | |
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014 vs. 2013** | | 2013 vs. 2012 | |
| **Segment Operating Income** | **$ 26,760** | $ 25,997 | $ 21,768 | **$ 763** | **2.9%** | $ 4,229 | 19.4% |
| Add Depreciation and amortization expense | **8,459** | 8,202 | 7,960 | **257** | **3.1** | 242 | 3.0 |
| **Segment EBITDA** | **$ 35,219** | $ 34,199 | $ 29,728 | **$ 1,020** | **3.0** | $ 4,471 | 15.0 |
| | | | | | | | |
| **Segment operating income margin** | **30.5%** | 32.1% | 28.7% | | | | |
| **Segment EBITDA margin** | **40.2%** | 42.2% | 39.2% | | | | |
| **Segment EBITDA service margin** | **48.5%** | 49.5% | 46.6% | | | | |

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.

Non-operational items excluded from Wireless' Operating income were as follows:

| | | | |
|---|---|---|---|
| | | (dollars in millions) | |
| Years Ended December 31, | **2014** | 2013 | 2012 |
| Gain on spectrum license transactions | **$ (707)** | $ (278) | $ – |
| Severance, pension and benefit (credits) charges | **86** | (61) | 37 |
| Other costs | **109** | – | – |
| | **$ (512)** | $ (339) | $ 37 |

## Wireline

Our Wireline segment provides voice, data and video communications products and enhanced services, including broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice 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 around the world.

On July 1, 2014, our Wireline segment sold a non-strategic business (see "Acquisitions and Divestitures"). Accordingly, the historical Wireline results for these operations, which were not material to our consolidated financial statements or our segment results of operations, have been reclassified to Corporate, eliminations and other to reflect comparable segment operating results.

**Operating Revenues and Selected Operating Statistics**

(dollars in millions)

| | | | | Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014 vs. 2013** | | 2013 vs. 2012 | |
| Consumer retail | **$ 15,583** | $ 14,842 | $ 14,145 | **$ 741** | **5.0%** | $ 697 | 4.9% |
| Small business | **2,464** | 2,541 | 2,601 | **(77)** | **(3.0)** | (60) | (2.3) |
| Mass Markets | **18,047** | 17,383 | 16,746 | **664** | **3.8** | 637 | 3.8 |
| Strategic services | **8,326** | 8,140 | 7,737 | **186** | **2.3** | 403 | 5.2 |
| Core | **5,358** | 6,042 | 6,840 | **(684)** | **(11.3)** | (798) | (11.7) |
| Global Enterprise | **13,684** | 14,182 | 14,577 | **(498)** | **(3.5)** | (395) | (2.7) |
| Global Wholesale | **6,222** | 6,594 | 7,094 | **(372)** | **(5.6)** | (500) | (7.0) |
| Other | **476** | 465 | 528 | **11** | **2.4** | (63) | (11.9) |
| **Total Operating Revenues** | **$ 38,429** | $ 38,624 | $ 38,945 | **$ (195)** | **(0.5)** | $ (321) | (0.8) |
| Connections ('000):[1] | | | | | | | |
| Total voice connections | **19,795** | 21,085 | 22,503 | **(1,290)** | **(6.1)** | (1,418) | (6.3) |
| Total Broadband connections | **9,205** | 9,015 | 8,795 | **190** | **2.1** | 220 | 2.5 |
| FiOS Internet subscribers | **6,616** | 6,072 | 5,424 | **544** | **9.0** | 648 | 11.9 |
| FiOS Video subscribers | **5,649** | 5,262 | 4,726 | **387** | **7.4** | 536 | 11.3 |

[1] As of end of period

Wireline's revenues decreased $0.2 billion, or 0.5%, during 2014 compared to 2013 primarily driven by declines in Global Enterprise Core and Global Wholesale, partially offset by higher Consumer retail revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise.

### Mass Markets

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

*2014 Compared to 2013*

Mass Markets revenues increased $0.7 billion, or 3.8%, during 2014 compared to 2013 primarily due to the expansion of FiOS services (Voice, Internet and Video), including our FiOS Quantum offerings, as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues. FiOS represented approximately 76% of Consumer retail revenue during 2014 compared to approximately 71% during 2013.

During 2014, we grew our subscriber base by 0.5 million FiOS Internet subscribers and by 0.4 million FiOS Video subscribers, while also improving penetration rates within our FiOS service areas. As of December 31, 2014, we achieved penetration rates of 41.1% and 35.8% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 39.5% and 35.0% for FiOS Internet and FiOS Video, respectively, at December 31, 2013.

The increase in Mass Markets revenues was partially offset by the decline of local exchange revenues primarily due to a 5.5% decline in Consumer retail voice connections resulting primarily from competition and technology substitution with wireless, competing VoIP, and cable telephony 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 competition and a continuing shift to both IP and high-speed circuits.

*2013 Compared to 2012*

Mass Markets revenues increased $0.6 billion, or 3.8%, during 2013 compared to 2012 primarily due to the expansion of FiOS services (Voice, Internet and Video) as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues.

During 2013, we grew our subscriber base by 0.6 million FiOS Internet subscribers and by 0.5 million FiOS Video subscribers, while also consistently improving penetration rates within our FiOS service areas. As of December 31, 2013, we achieved penetration rates of 39.5% and 35.0% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 37.3% and 33.3% for FiOS Internet and FiOS Video, respectively, at December 31, 2012.

The increase in Mass Markets revenues, driven by FiOS services, was partially offset by the decline of local exchange revenues primarily due to a 5.2% 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 competition and a shift to both IP and high-speed circuits.

**Global Enterprise**

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

*2014 Compared to 2013*

Global Enterprise revenues decreased $0.5 billion, or 3.5%, during 2014 compared to 2013 primarily due to a $0.5 billion, or 11.9%, decline related to lower voice services and data networking revenues, which consist of traditional circuit-based services such as frame relay, private line and legacy voice and data services. These core services declined compared to 2013 as customers continued to migrate to next generation IP services. Also contributing to the decrease was the contraction of market rates due to competition and a decline in Core customer premise equipment revenues. This decrease was partially offset by an increase in Strategic services revenues of $0.2 billion, or 2.3%, primarily due to growth in our application services, such as our cloud and data center offerings and contact center solutions.

*2013 Compared to 2012*

Global Enterprise revenues decreased $0.4 billion, or 2.7%, during 2013 compared to 2012 primarily due to a $0.5 billion, or 27.1%, decline in Core customer premise equipment revenues as well as lower voice services and data networking revenues, which consist of traditional circuit-based services such as frame relay, private line and legacy voice and data services. These core services declined in 2013 compared to 2012 as our customer base continued to migrate to next generation IP services. The decline in customer premise equipment revenues reflected our focus on improving margins by continuing to de-emphasize sales of equipment that are not part of an overall enterprise solutions bundle. This decrease was partially offset by growth in Strategic services revenues, which increased $0.4 billion, or 5.2%, during 2013 compared to 2012 primarily due to growth in advanced services, such as contact center solutions, IP communications and our cloud and data center offerings, as well as revenue from a telematics services business that we acquired in the third quarter of 2012.

**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.

*2014 Compared to 2013*

Global Wholesale revenues decreased $0.4 billion, or 5.6%, during 2014 compared to 2013 primarily due to a decline in data revenues and traditional voice revenues. Data revenue declines were driven by the continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities. As a result of the customer migrations, at December 31, 2014, the number of core data circuits experienced a 14.2% decline compared to December 31, 2013. The traditional voice revenue declines are primarily due to a decrease in MOUs and the effect of technology substitution. During 2014, we also experienced a 6.2% decline in domestic wholesale connections. Also contributing to the decline in voice revenues is the continuing contraction of market rates due to competition.

*2013 Compared to 2012*

Global Wholesale revenues decreased $0.5 billion, or 7.0%, during 2013 compared to 2012 primarily due to a decline in traditional voice revenues as a result of decreased MOUs and a 5.2% decline in domestic wholesale connections. The traditional voice product reductions are primarily due to competitors de-emphasizing their local market initiatives coupled with the effect of technology substitution. Also contributing to the decline in voice revenues is 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 an 11.3% decline compared to the similar period in 2012.

**Operating Expenses**

| | | | | (dollars in millions) Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014 vs. 2013** | | 2013 vs. 2012 | |
| Cost of services and sales | **$ 21,332** | $ 21,396 | $ 21,657 | **$ (64)** | **(0.3)%** | $ (261) | (1.2)% |
| Selling, general and administrative expense | **8,180** | 8,571 | 8,860 | **(391)** | **(4.6)** | (289) | (3.3) |
| Depreciation and amortization expense | **7,882** | 8,327 | 8,424 | **(445)** | **(5.3)** | (97) | (1.2) |
| **Total Operating Expenses** | **$ 37,394** | $ 38,294 | $ 38,941 | **$ (900)** | **(2.4)** | $ (647) | (1.7) |

*Cost of Services and Sales*

Cost of services and sales decreased slightly during 2014 compared to 2013, primarily due to a decrease in employee costs as a result of reduced headcount and a decline in access costs driven by declines in overall wholesale long distance volumes, which was partially offset by an increase in content costs of $0.4 billion associated with continued FiOS subscriber growth and programming license fee increases.

Cost of services and sales decreased during 2013 compared to 2012, primarily due to a decrease in costs related to customer premise equipment which reflected our focus on improving margins by de-emphasizing sales of equipment that are not part of an overall enterprise solutions bundle, a decline in access costs resulting primarily from declines in overall wholesale long distance volumes and the net effect of storm-related insurance recoveries. These decreases were partially offset by higher content costs associated with continued FiOS subscriber growth and programming license fee increases.

*Selling, General and Administrative Expense*

Selling, general and administrative expense decreased during 2014 compared to 2013 primarily due to declines in employee costs as a result of reduced headcount, decreased advertising expense and lower transaction and property taxes.

Selling, general and administrative expense decreased during 2013 compared to 2012 primarily due to declines in employee costs, primarily as a result of reduced headcount, and declines in rent expenses, partially offset by higher transaction and property tax expenses.

*Depreciation and Amortization Expense*

Depreciation and amortization expense decreased during 2014 compared to 2013, as well as 2013 compared to 2012, due to decreases in net depreciable assets.

**Segment Operating Income and EBITDA**

| | | | | (dollars in millions) Increase/(Decrease) | | | |
|---|---|---|---|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014 vs. 2013** | | 2013 vs. 2012 | |
| **Segment Operating Income** | **$ 1,035** | $ 330 | $ 4 | **$ 705** | **nm** | $ 326 | nm |
| Add Depreciation and amortization expense | **7,882** | 8,327 | 8,424 | **(445)** | **(5.3)%** | (97) | (1.2)% |
| **Segment EBITDA** | **$ 8,917** | $ 8,657 | $ 8,428 | **$ 260** | **3.0** | $ 229 | 2.7 |
| **Segment operating income margin** | **2.7%** | 0.9% | – | | | | |
| **Segment EBITDA margin** | **23.2%** | 22.4% | 21.6% | | | | |

nm – not meaningful

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.

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

| (dollars in millions) | | | |
|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 |
| Severance, pension and benefit charges | **$ 189** | $ – | $ – |
| Impact of divested operations | **(12)** | (43) | (56) |
| Other costs | **137** | – | 56 |
| | **$ 314** | $ (43) | $ – |

## Other Items

### Severance, Pension and Benefit (Credits) Charges

During 2014, we recorded net pre-tax severance, pension and benefits charges of approximately $7.5 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 5.0% at December 31, 2013 to a weighted-average of 4.2% at December 31, 2014 ($5.2 billion), a change in mortality assumptions primarily driven by the use of updated actuarial tables (RP-2014 and MP-2014) issued by the Society of Actuaries in October 2014 ($1.8 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 7.25% and our actual return on assets of 10.5% ($0.6 billion). As part of this charge, we recorded severance costs of $0.5 billion under our existing separation plans.

During 2013, we recorded net pre-tax severance, pension and benefits credits of approximately $6.2 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 credits were primarily driven by an increase in our discount rate assumption used to determine the current year liabilities from a weighted-average of 4.2% at December 31, 2012 to a weighted-average of 5.0% at December 31, 2013 ($4.3 billion), lower than assumed retiree medical costs and other assumption adjustments ($1.4 billion) and the difference between our estimated return on assets of 7.5% at December 31, 2012 and our actual return on assets of 8.6% at December 31, 2013 ($0.5 billion).

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 (see "Employee Benefit Plan Funded Status and Contributions") as well as severance charges of $0.4 billion.

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 (credits) charges presented above.

### Early Debt Redemption and Other Costs

During March 2014, we recorded net debt redemption costs of $0.9 billion in connection with the early redemption of $1.25 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, and the purchase of the following notes pursuant to the Tender Offer: $0.7 billion of the then outstanding $1.5 billion aggregate principal amount of Verizon 6.10% Notes due 2018, $0.8 billion of the then outstanding $1.5 billion aggregate principal amount of Verizon 5.50% Notes due 2018, $0.6 billion of the then outstanding $1.3 billion aggregate principal amount of Verizon 8.75% Notes due 2018, $0.7 billion of the then outstanding $1.25 billion aggregate principal amount of Verizon 5.55% Notes due 2016, $0.4 billion of the then outstanding $0.75 billion aggregate principal amount of Verizon 5.50% Notes due 2017, $0.6 billion of the then outstanding $1.0 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, $0.2 billion of the then outstanding $0.3 billion aggregate principal amount of Alltel Corporation 7.00% Debentures due 2016 and $0.3 billion of the then outstanding $0.6 billion aggregate principal amount of GTE Corporation 6.84% Debentures due 2018.

See Note 8 to the consolidated financial statements for additional information regarding the Tender Offer.

During the fourth quarter of 2014, we recorded net debt redemption costs of $0.5 billion in connection with the early redemption of $0.5 billion aggregate principal amount of Verizon 4.90% Notes due 2015, $0.6 billion aggregate principal amount of Verizon 5.55% Notes due 2016, $1.3 billion aggregate principal amount of Verizon 3.00% Notes due 2016, $0.4 billion aggregate principal amount of Verizon 5.50% Notes due 2017, $0.7 billion aggregate principal amount of Verizon 8.75% Notes due 2018, $1.0 billion of the then outstanding $3.2 billion aggregate principal amount of Verizon 2.50% Notes due 2016, $0.1 billion aggregate principal amount Alltel Corporation 7.00% Debentures due 2016 and $0.4 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, as well as $0.3 billion of 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.

We recognize early debt redemption costs in Other income and (expense), net on our consolidated statements of income.

**Gain on Spectrum License Transactions**

During the second quarter of 2014, we completed license exchange transactions with T-Mobile USA Inc. (T-Mobile USA) to exchange certain AWS and Personal Communication Services (PCS) licenses. The exchange included a number of swaps that we expect will result in more efficient use of the AWS and PCS bands. As a result of these exchanges, we received $0.9 billion of AWS and PCS spectrum licenses at fair value and we recorded an immaterial gain.

During the second quarter of 2014, we completed transactions pursuant to two additional agreements with T-Mobile USA with respect to our remaining 700 MHz A block spectrum licenses. Under one agreement, we sold certain of these licenses to T-Mobile USA in exchange for cash consideration of approximately $2.4 billion, and under the second agreement we exchanged the remainder of our 700 MHz A block spectrum licenses as well as AWS and PCS spectrum licenses for AWS and PCS spectrum licenses. As a result, we received $1.6 billion of AWS and PCS spectrum licenses at fair value and we recorded a pre-tax gain of approximately $0.7 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2014.

During the third quarter of 2013, after receiving the required regulatory approvals, Verizon Wireless sold 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 sold certain lower 700 MHz B block spectrum licenses to an investment firm for a payment of $0.2 billion. As a result, we received $0.5 billion of AWS licenses at fair value and we recorded a pre-tax gain of approximately $0.3 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2013.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (see "Consolidated Results of Operations") excludes the gains on the spectrum license transactions described above.

**Wireless Transaction Costs**

As a result of the third-party indebtedness incurred to finance the Wireless Transaction, we incurred interest expense of $0.4 billion during 2014 (see "Consolidated Financial Condition"). This amount represents the interest expense incurred prior to the closing of the Wireless Transaction.

During 2013, as a result of the Wireless Transaction, we recorded costs of $0.9 billion primarily for interest expense of $0.7 billion related to the issuance of the new notes, as well as $0.2 billion in fees primarily in connection with the bridge credit agreement (see "Consolidated Financial Condition").

**Gain on Sale of Omnitel Interest**

As a result of the sale of the Omnitel Interest on February 21, 2014, which was part of the consideration for the Wireless Transaction, we recorded a gain of $1.9 billion in Equity in earnings of unconsolidated businesses on our consolidated statement of income during 2014.

**Impact of Divested Operations**

On July 1, 2014, we sold a non-strategic Wireline business, which provides communications solutions to a variety of government agencies.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (see "Consolidated Results of Operations") excludes the historical financial results of the divested operations described 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 following 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.

## Consolidated Financial Condition

| (dollars in millions) | | | |
|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 |
| **Cash Flows Provided By (Used In)** | | | |
| Operating activities | **$ 30,631** | $ 38,818 | $ 31,486 |
| Investing activities | **(15,856)** | (14,833) | (20,502) |
| Financing activities | **(57,705)** | 26,450 | (21,253) |
| **Increase (Decrease) In Cash and Cash Equivalents** | **$ (42,930)** | $ 50,435 | $ (10,269) |

We use the net cash generated from our operations to fund network expansion and modernization, service and repay external financing, pay dividends, invest in new businesses and, when appropriate, buy back shares of our outstanding common stock. 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. The cash portion of the purchase price for the Wireless Transaction was primarily funded by the incurrence of third-party indebtedness (see “Acquisitions and Divestitures”). 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 investments or 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. See “Market Risk” for additional information regarding our foreign currency risk management strategies.

Our available external financing arrangements include 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. We may also issue short-term debt through an active commercial paper program and have an $8.0 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 our Wireless segment. Net cash provided by operating activities during 2014 decreased by $8.2 billion compared to 2013 primarily due to a $3.7 billion increase in income tax payments due to the incremental pre-tax income attributable to Verizon included in Verizon’s income since the closing of the Wireless Transaction. Also contributing to the decrease was a $2.3 billion increase in interest payments primarily due to the incremental debt needed to fund the Wireless Transaction as well as a $1.5 billion increase in pension contributions. The decrease in Cash flows provided by operating activities was partially offset by an increase in earnings at our Wireless segment.

On February 21, 2014, we completed the Wireless Transaction which provides full access to the cash flows of Verizon Wireless. Having full access to all the cash flows from our wireless business gives us the ability to continue to invest in our networks and spectrum, meet evolving customer requirements for products and services and take advantage of new growth opportunities across our lines of business.

Net cash provided by operating activities during 2013 increased by $7.3 billion compared to 2012 primarily due to higher consolidated earnings, lower pension contributions and improved working capital levels. The increase in net cash provided by operating activities in 2013 was partially offset by net distributions of $0.3 billion received from Vodafone Omnitel in 2012.

### Cash Flows Used In Investing Activities

*Capital Expenditures*

Capital expenditures continue to be a 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, | 2014 | 2013 | 2012 |
|---|---|---|---|
| | | | (dollars in millions) |
| Wireless | **$ 10,515** | $ 9,425 | $ 8,857 |
| Wireline | **5,750** | 6,229 | 6,342 |
| Other | **926** | 950 | 976 |
| | **$ 17,191** | $ 16,604 | $ 16,175 |
| Total as a percentage of revenue | **13.5%** | 13.8% | 14.0% |

Capital expenditures increased at Wireless in 2014 compared to 2013 in order to increase the capacity of our 4G LTE network. Capital expenditures declined at Wireline as a result of decreased legacy spending requirements.

Capital expenditures increased at Wireless in 2013 compared to 2012 in order to substantially complete the build-out of our 4G LTE network. Capital expenditures declined at Wireline as a result of decreased legacy spending requirements and a decline in spending on our FiOS network.

*Acquisitions*

During 2014, 2013 and 2012, we invested $0.4 billion, $0.6 billion and $4.3 billion, respectively, in acquisitions of wireless licenses. During 2014, 2013 and 2012, we also invested $0.2 billion, $0.5 billion and $0.9 billion, respectively, in acquisitions of investments and businesses, net of cash acquired.

On January 29, 2015, the FCC completed an auction of 65 MHz of spectrum, which it identified as the AWS-3 band. Verizon participated in that auction, and was the high bidder on 181 spectrum licenses, for which we will pay approximately $10.4 billion. During the fourth quarter of 2014, we made a deposit of $0.9 billion related to our participation in this auction. On February 13, 2015, we made a down payment of $1.2 billion for these spectrum licenses. Verizon has submitted an application for these licenses and must complete payment for them in the first quarter of 2015. During January 2015, we entered into a term loan agreement with a major financial institution, pursuant to which we expect to borrow $6.5 billion to pay for the spectrum licenses. The proceeds from the Tower Monetization Transaction, which we expect to receive in the first half of 2015, will be used to repay the majority of the term loan outstanding. See Note 2 to the consolidated financial statements for additional information regarding the Tower Monetization Transaction and Note 8 to the consolidated financial statements for additional information regarding the term loan agreement.

In February 2014, Verizon acquired a business dedicated to the development of IP television for cash consideration that was not significant.

During the fourth quarter of 2013, Verizon acquired an industry leader in content delivery networks for $0.4 billion. Additionally, we acquired a technology company for cash consideration that was not significant.

During 2012, we paid approximately $4.3 billion 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 Note 2 to the consolidated financial statements for additional information.

*Dispositions*

During 2014, we received proceeds of $2.4 billion related to spectrum license transactions and $0.1 billion related to the disposition of a non-strategic Wireline business. See Note 2 to the consolidated financial statements for additional information.

During 2013, we completed the sale of 700 MHz lower B block spectrum licenses and as a result, we received proceeds of $2.1 billion.

During 2012, we received $0.4 billion 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.

*Other, net*

For the year ended December 31, 2014, Other, net included the deposit of $0.9 billion related to our participation in the FCC auction of spectrum in the AWS-3 band.

**Cash Flows Provided by (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 2014, 2013 and 2012, net cash provided by (used in) financing activities was $(57.7) billion, $26.5 billion and $(21.3) billion, respectively.

**2014**

During 2014, our net cash used in financing activities of $57.7 billion was primarily driven by:

- $58.9 billion used to partially fund the Wireless Transaction (see Note 2 to the consolidated financial statements);
- $17.7 billion used for repayments of long-term borrowings and capital lease obligations; and
- $7.8 billion used for dividend payments.

These uses of cash were partially offset by proceeds from long-term borrowings of $31.0 billion.

*Proceeds from and Repayments of Long-Term Borrowings*

As of December 31, 2014, our total debt increased to $113.3 billion as compared to $93.6 billion at December 31, 2013 primarily as a result of additional debt issued to finance the Wireless Transaction. Since the substantial majority of our total debt portfolio consists of fixed rate indebtedness, changes in interest rates do not have a material effect on our interest payments. Throughout 2014, we accessed the capital markets to optimize the maturity schedule of our debt portfolio and take advantage of lower interest rates, thereby reducing our effective interest rate to 4.9% from 5.2% in 2013. See Note 8 to the consolidated financial statements for additional details regarding our debt activity.

At December 31, 2014, approximately $9.6 billion or 8.5% of the aggregate principal amount of our total debt portfolio consisted of foreign denominated debt, primarily the Euro and British Pound Sterling. We have entered into cross currency swaps in order to fix our future interest and principal payments in U.S. dollars and mitigate the impact of foreign currency transaction gains or losses. See "Market Risk" for additional information.

See "Other Items" for additional information related to the early debt redemption costs incurred in 2014.

*Dividends*

The Verizon Board of Directors assesses the level of our dividend payments on a periodic basis taking into account such factors as long-term growth opportunities, internal cash requirements and the expectations of our shareowners. During the third quarter of 2014, the Board increased our quarterly dividend payment 3.8% to $.55 per share from $.53 per share in the same period of 2013. This is the eighth consecutive year that Verizon's Board of Directors has approved a quarterly dividend increase.

As in prior periods, dividend payments were a significant use of capital resources. During 2014, we paid $7.8 billion in dividends compared to $5.9 billion in 2013. The increase is primarily due to the issuance of approximately 1.27 billion additional shares of common stock as a result of the Wireless Transaction.

**2013**

During 2013, our net cash provided by financing activities of $26.5 billion was primarily driven by proceeds from long-term borrowings of $49.2 billion to fund the Wireless Transaction. This source of cash was partially offset by:

- $8.2 billion used for repayments of long-term borrowings and capital lease obligations;
- $5.9 billion used for dividend payments; and
- $3.2 billion used for a special distribution to a noncontrolling interest.

*Proceeds from and Repayments of Long-Term Borrowings*

As of December 31, 2013, our total debt increased to $93.6 billion as compared to $52.0 billion at December 31, 2012 primarily as a result of additional debt issued to finance the Wireless Transaction. Since the substantial majority of our total debt portfolio consists of fixed rate indebtedness, changes in interest rates do not have a material effect on our interest payments. See Note 8 to the consolidated financial statements for additional details regarding our debt activity.

*Dividends*

During the third quarter of 2013, the Board increased our quarterly dividend payment 2.9% to $.53 per share from $.515 per share in the same period of 2012. As in prior periods, dividend payments were a significant use of capital resources.

*Special Distributions*

In May 2013, the Board of Representatives of Verizon Wireless declared a distribution to its owners, which was paid in the second quarter of 2013 in proportion to their partnership interests on the payment date, in the aggregate amount of $7.0 billion. As a result, Vodafone received a cash payment of $3.15 billion and the remainder of the distribution was received by Verizon.

*Other, net*

The change in Other, net financing activities during 2013 compared to 2012 was primarily driven by higher distributions to Vodafone, which owned a 45% noncontrolling interest in Verizon Wireless as of December 31, 2013.

**2012**

During 2012, our net cash used in financing activities of $21.3 billion was primarily driven by:

- $8.3 billion used for a special distribution to a noncontrolling interest;
- $6.4 billion used for repayments of long-term borrowings and capital lease obligations; and
- $5.2 billion used for dividend payments.

These uses of cash were partially offset by proceeds from long-term borrowings of $4.5 billion.

*Proceeds from and Repayments of Long-Term Borrowings*

As of December 31, 2012, our total debt decreased to $52.0 billion as compared to $55.2 billion at December 31, 2011 primarily as a result of the repayment of long-term borrowings. Since the substantial majority of our total debt portfolio consists of fixed rate indebtedness, changes in interest rates do not have a material effect on our interest payments.

See “Other Items” for additional information related to the early debt redemption costs incurred in 2012.

*Other, net*

The change in Other, net financing activities during 2012 compared to 2011 was primarily driven by higher distributions to Vodafone, and higher early debt redemption costs (see “Other Items”).

*Dividends*

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. As in prior periods, dividend payments were a significant use of capital resources.

*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.

**Credit Facilities**

On July 31, 2014, we amended our $6.2 billion credit facility to increase the availability to $8.0 billion and extend the maturity to July 31, 2018. At the same time, we terminated our $2.0 billion 364-day revolving credit agreement. As of December 31, 2014, the unused borrowing capacity under this credit facility was approximately $7.9 billion. 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 for the issuance of letters of credit and for general corporate purposes.

**Common Stock**

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans, including 18.2 million, 6.9 million and 24.6 million common shares issued from Treasury stock during 2014, 2013 and 2012, respectively, which had aggregate values of $0.7 billion, $0.3 billion and $1.0 billion, respectively.

As a result of the Wireless Transaction, in February 2014, Verizon issued approximately 1.27 billion shares.

On March 7, 2014, the Verizon Board of Directors approved a share buyback program, which authorizes the repurchase of up to 100 million shares of Verizon common stock terminating no later than the close of business on February 28, 2017. The program permits Verizon to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs. The Board also determined that no additional shares were to be purchased under the prior program. During 2013, we repurchased $0.2 billion of our common stock under our previous share buyback program. There were no repurchases of common stock during 2014 or 2012.

In addition to the previously authorized three-year share buyback program, in February 2015, the Verizon Board of Directors authorized Verizon to enter into an accelerated share repurchase (ASR) agreement to repurchase $5.0 billion of the Company's common stock. The total number of shares that Verizon will repurchase under the ASR agreement will be based generally upon the volume-weighted average share price of Verizon's common stock during the term of the transaction. On February 10, 2015, in exchange for an up-front payment totaling $5.0 billion, Verizon received an initial delivery of 86.2 million shares having a value of approximately $4.25 billion. Final settlement of the transaction under the ASR agreement, including delivery of the remaining shares, if any, that Verizon is entitled to receive, is scheduled to occur in the second quarter of 2015.

**Credit Ratings**

Verizon's credit ratings did not change in 2014.

During the third quarter of 2013, Verizon's credit ratings were downgraded by Moody's Investors Service (Moody's), Standard & Poor's Ratings Services (Standard & Poor's) and Fitch Ratings (Fitch) as a result of Verizon's announcement of the agreement to acquire Vodafone's 45% noncontrolling interest in Verizon Wireless for approximately $130 billion including the incurrence of third-party indebtedness to fund the cash portion of the purchase price for the Wireless Transaction. Moody's downgraded Verizon's long-term debt ratings one notch from A3 to Baa1, while Standard & Poor's lowered its corporate credit rating and senior unsecured debt rating one notch from A- to BBB+ and Fitch lowered its long-term issuer default rating and senior unsecured debt rating one notch from A to A-.

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. Additionally, our term loan credit agreements require us to maintain a leverage ratio (as such term is defined in those agreements) not in excess of 3.50:1.00 until our credit ratings are equal to or higher than A3 and A-. See Note 8 to the consolidated financial statements for additional details related to our term loan credit agreement.

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, 2014 totaled $10.6 billion, a $42.9 billion decrease compared to Cash and cash equivalents at December 31, 2013 primarily as a result of the cash payment made to Vodafone as part of the completion of the Wireless Transaction. Our Cash and cash equivalents at December 31, 2013 totaled $53.5 billion, a $50.4 billion increase compared to Cash and cash equivalents at December 31, 2012 primarily as a result of the issuance of $49.0 billion aggregate principal amount of fixed and floating rate notes.

### 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:

| | | | (dollars in millions) |
|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 |
| Net cash provided by operating activities | **$ 30,631** | $ 38,818 | $ 31,486 |
| Less Capital expenditures (including capitalized software) | **17,191** | 16,604 | 16,175 |
| **Free cash flow** | **$ 13,440** | $ 22,214 | $ 15,311 |

The changes in free cash flow during 2014, 2013 and 2012 were a result of the factors described in connection with net cash provided by operating activities and capital expenditures. On February 21, 2014, we completed the Wireless Transaction which provides full access to the cash flows of Verizon Wireless. The completion of the Wireless Transaction resulted in an increase in income tax payments as well as an increase in interest payments, which reduced our net cash provided by operating activities (see "Cash Flows Provided by Operating Activities").

## 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 2014 and 2013, contributions to our qualified pension plans were $1.5 billion and not material, respectively. During 2012, we contributed $0.9 billion to our qualified pension plans, excluding the pension annuitization discussed above. We also contributed $0.1 billion, $0.1 billion and $0.2 billion to our nonqualified pension plans in 2014, 2013 and 2012, respectively.

In an effort to reduce the risk of our portfolio strategy and better align assets with liabilities, we have adopted a liability driven pension strategy that seeks to better match cash flows from investments with projected benefit payments. We expect that the strategy will 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, however, we also expect the strategy to result in lower asset returns. Based on this strategy and the funded status of the plans at December 31, 2014, we expect the minimum required qualified pension plan contribution in 2015 to be $0.7 billion. Nonqualified pension contributions are estimated to be approximately $0.1 billion in 2015.

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 $0.7 billion, $1.4 billion and $1.5 billion to our other postretirement benefit plans in 2014, 2013 and 2012, respectively. Contributions to our other postretirement benefit plans are estimated to be approximately $0.8 billion in 2015.

## Leasing Arrangements

See Note 7 to the consolidated financial statements for a discussion of leasing arrangements.

## 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, 2014. Additional detail about these items is included in the notes to the consolidated financial statements.

(dollars in millions)

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Long-term debt[1] | $ 112,417 | $ 2,239 | $ 9,807 | $ 12,524 | $ 87,847 |
| Capital lease obligations[2] | 516 | 158 | 218 | 93 | 47 |
| Total long-term debt, including current maturities | 112,933 | 2,397 | 10,025 | 12,617 | 87,894 |
| Interest on long-term debt[1] | 87,501 | 5,178 | 10,081 | 9,504 | 62,738 |
| Operating leases[2] | 14,403 | 2,499 | 4,205 | 3,029 | 4,670 |
| Purchase obligations[3] | 20,991 | 8,421 | 8,503 | 2,544 | 1,523 |
| Other long-term liabilities[4] | 2,084 | 1,425 | 659 | – | – |
| Total contractual obligations | $ 237,912 | $ 19,920 | $ 33,473 | $ 27,694 | $ 156,825 |

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

(2) See Note 7 to the consolidated financial statements.

(3) The purchase obligations reflected above are primarily commitments to purchase programming and network services, equipment, software, handsets and peripherals, 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 17 to the consolidated financial statements).

(4) Other long-term liabilities include estimated postretirement benefit and qualified pension plan contributions (see Note 12 to the consolidated financial statements).

We are not able to make a reliable estimate of when the unrecognized tax benefits balance of $1.8 billion and related interest and penalties will be settled with the respective taxing authorities until issues or examinations are further developed (see Note 13 to the consolidated financial statements).

## Guarantees

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries as well as the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003 (see Note 8 to the consolidated financial statements).

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 17 to the consolidated financial statements).

As of December 31, 2014, 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 17 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. At December 31, 2014, we posted collateral of approximately $0.6 billion related to derivative contracts under collateral exchange arrangements. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote. As such, we do not expect that our results of operations or financial condition 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, 2014, approximately 86% 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, of approximately $0.2 billion. The interest rates on substantially all of 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, 2014 and 2013. 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)

| Long-term debt and related derivatives | Fair Value | Fair Value assuming + 100 basis point shift | Fair Value assuming - 100 basis point shift |
|---|---|---|---|
| **At December 31, 2014** | **$ 126,139** | **$ 115,695** | **$ 138,420** |
| At December 31, 2013 | 103,103 | 95,497 | 111,910 |

*Interest Rate Swaps*

We enter 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 LIBOR, 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.

During the second quarter of 2013, interest rate swaps with a notional value of $1.25 billion matured and the impact to our consolidated financial statements was not material. During the third quarter of 2013, we entered into interest rate swaps with a total notional value of $1.8 billion. At December 31, 2014 and 2013, the fair value of these interest rate swaps was not material. At December 31, 2014, the total notional amount of these interest rate swaps was $1.8 billion. The ineffective portion of these interest rate swaps was not material at December 31, 2014 and 2013.

*Forward Interest Rate Swaps*

In order to manage our exposure to future interest rate changes, during the fourth quarter of 2013, we entered into forward interest rate swaps with a notional value of $2.0 billion. In March 2014, we settled these forward interest rate swaps and the pre-tax gain was not material. During 2014, we entered into forward interest rate swaps with a total notional value of $4.8 billion. We designated these contracts as cash flow hedges. During the fourth quarter of 2014, we settled $2.8 billion of forward interest rate swaps and the pre-tax loss was not material. The fair value of these contracts was $0.2 billion, which was included within Other liabilities on our consolidated balance sheet, at December 31, 2014 and was not material at December 31, 2013.

## 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, 2014, our primary translation exposure was to the British Pound Sterling and the Euro.

*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. In June 2014, we settled $0.8 billion of these cross currency swaps and the gains with respect to these swaps were not material.

During the first quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $5.4 billion of Euro and British Pound Sterling denominated debt into U.S. dollars. During the second quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $1.2 billion of British Pound Sterling denominated debt into U.S. dollars. During the fourth quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $3.0 billion of Euro denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars. Each of these cross currency swaps was entered into in order 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 pre-tax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was $0.6 billion, which was primarily included within Other liabilities on our consolidated balance sheet, at December 31, 2014 and was not material at December 31, 2013. During 2014 and 2013, a pre-tax loss of $0.1 billion and an immaterial pre-tax gain, respectively, were recognized in Other comprehensive income with respect to these swaps.

## Critical Accounting Estimates and Recently Issued 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 indicate 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 $75.3 billion as of December 31, 2014. 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. In 2014 and 2013, we performed a qualitative impairment assessment to determine whether it is more likely than not that the fair value of our wireless licenses was less than the carrying amount. As part of our assessment we considered several qualitative factors including the business enterprise value of Wireless, macroeconomic conditions (including changes in interest rates and discount rates), industry and market considerations (including industry revenue and EBITDA margin projections), the projected financial performance of Wireless, as well as other factors. Based on our assessment in 2014 and 2013, we qualitatively concluded that it was more likely than not that the fair value of our wireless licenses significantly exceeded their carrying value and therefore, did not result in an impairment.

  In 2012, our quantitative impairment test consisted 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 was less than the aggregated carrying amount of the wireless licenses then an impairment charge would have been recognized. Our annual quantitative impairment test for 2012 indicated that the fair value significantly exceeded the carrying value and, therefore, did not result in an impairment.

  In 2012, using a quantitative assessment, we estimated 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 were 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 considered 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 represented our estimate of the weighted-average cost of capital (WACC), or expected return, that a marketplace participant would have required as of the valuation date. We developed 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 incorporated our estimate of the expected return a marketplace participant would have required 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 represented our estimate of the marketplace's long-term growth rate.

*Goodwill*

At December 31, 2014, the balance of our goodwill was approximately $24.6 billion, of which $18.4 billion was in our Wireless segment and $6.2 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, Wireless and Wireline, are deemed to be our reporting units for purposes of goodwill impairment testing. The fair value of Wireless significantly exceeded its carrying value and the fair value of Wireline exceeded its carrying value. Accordingly, our annual impairment tests for 2014, 2013 and 2012 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, 2014, 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, 2014 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, 2014*** |
|---|---|---|
| Pension plans discount rate | +0.50 | $ (1,375) |
| | -0.50 | 1,526 |
| Rate of return on pension plan assets | +1.00 | (163) |
| | -1.00 | 163 |
| Postretirement plans discount rate | +0.50 | (1,838) |
| | -0.50 | 2,081 |
| Rate of return on postretirement plan assets | +1.00 | (29) |
| | -1.00 | 29 |
| Health care trend rates | +1.00 | 3,760 |
| | -1.00 | (3,023) |

* In determining its pension and other postretirement obligation, the Company used a weighted-average discount rate of 4.2%. 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, 2014. 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 2014 depreciation expense of $2.7 billion and that a one-year decrease would result in an increase of approximately $5.2 billion in our 2014 depreciation expense.

## Recently Issued Accounting Standards

See Note 1 to the consolidated financial statements for a discussion of recently issued accounting standard updates not yet adopted as of December 31, 2014.

## Acquisitions and Divestitures

### Wireless

### Wireless Transaction

On February 21, 2014, we completed the Wireless Transaction for aggregate consideration of approximately $130 billion. The consideration paid was primarily comprised of cash of approximately $58.89 billion, Verizon common stock with a value of approximately $61.3 billion and other consideration.

*Omnitel Transaction*

On February 21, 2014, Verizon and Vodafone also consummated the sale of the Omnitel Interest (the Omnitel Transaction) by a subsidiary of Verizon to a subsidiary of Vodafone in connection with the Wireless Transaction pursuant to a separate share purchase agreement. As a result, during 2014, we recognized a pre-tax gain of $1.9 billion on the disposal of the Omnitel interest.

See Note 2 to the consolidated financial statements for additional information regarding the Wireless Transaction.

### Spectrum License Transactions

On January 29, 2015, the FCC completed an auction of 65 MHz of spectrum, which it identified as the AWS-3 band. Verizon participated in that auction, and was the high bidder on 181 spectrum licenses, for which we will pay approximately $10.4 billion. During the fourth quarter of 2014, we made a deposit of $0.9 billion related to our participation in this auction. On February 13, 2015, we made a down payment of $1.2 billion for these spectrum licenses. Verizon has submitted an application for these licenses and must complete payment for them in the first quarter of 2015.

From time to time, we enter into agreements to buy, sell or exchange spectrum licenses. We believe these spectrum license transactions have allowed us to continue to enhance the reliability of our network while also resulting in a more efficient use of spectrum. See Note 2 to the consolidated financial statements for additional details regarding our spectrum license transactions.

### Tower Monetization Transaction

On February 5, 2015, we announced an agreement with American Tower pursuant to which American Tower will have the exclusive right to lease, acquire or otherwise operate and manage many of our wireless towers for an upfront payment of $5.1 billion, which also includes payment for the sale of 165 towers. See Note 2 to the consolidated financial statements for additional information.

### Wireline

During July 2014, Verizon sold a non-strategic Wireline business for cash consideration that was not significant. Additionally, during July 2012, we acquired HUGHES Telematics for approximately $12 per share in cash for a total acquisition price of $0.6 billion. The acquisition has accelerated our ability to bring more telematics offerings to market for existing and new customers. See Note 2 to the consolidated financial statements for additional information.

On February 5, 2015, we announced that we have entered into a definitive agreement with Frontier pursuant to which Verizon will sell its local exchange business and related landline activities in California, Florida, and Texas, including FiOS Internet and Video customers, switched and special access lines and high-speed Internet service and long distance voice accounts in these three states for approximately $10.5 billion. See Note 2 to the consolidated financial statements for additional information.

**Other**

During the fourth quarter of 2014, Redbox Instant by Verizon, a venture between Verizon and Redbox Automated Retail, LLC (Redbox), a wholly-owned subsidiary of Outerwall Inc., ceased providing service to its customers. In accordance with an agreement between the parties, Redbox withdrew from the venture on October 20, 2014 and Verizon wound down and dissolved the venture during the fourth quarter of 2014. As a result of the termination of the venture, we recorded a pre-tax loss of $0.1 billion in the fourth quarter of 2014.

During February 2014, Verizon acquired a business dedicated to the development of IP television for cash consideration that was not significant.

During the fourth quarter of 2013, Verizon acquired an industry leader in content delivery networks for $0.4 billion.

See Note 2 to the consolidated financial statements for additional information.

## 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 and in other filings with the Securities and Exchange Commission (SEC), 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;
- the effects of competition in the markets in which we operate;
- material changes in technology or technology substitution;
- disruption of our key suppliers' provisioning of products or services;
- changes in the regulatory environment 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 acts of war or significant litigation and any resulting financial impact not covered by insurance;
- our high level of indebtedness;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets affecting the cost, including interest rates, and/or availability of further financing;
- 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 investment returns on plan assets;
- changes in tax laws or treaties, or in their interpretation;
- changes in 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; 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 in 2013.

Management has assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2014. Based on this assessment, we believe that the internal control over financial reporting of the company is effective as of December 31, 2014. 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/ Anthony T. Skiadas

**Anthony T. Skiadas**
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, 2014, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (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, 2014, 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, 2014 and 2013, 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, 2014 and our report dated February 23, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

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

February 23, 2015

## Report of Independent Registered Public Accounting Firm

**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, 2014 and 2013, 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, 2014. 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, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

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

February 23, 2015

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

(dollars in millions, except per share amounts)

| Years Ended December 31, | 2014 | 2013 | 2012 |
|---|---|---|---|
| **Operating Revenues** | **$ 127,079** | $ 120,550 | $ 115,846 |
| **Operating Expenses** | | | |
| Cost of services and sales (exclusive of items shown below) | **49,931** | 44,887 | 46,275 |
| Selling, general and administrative expense | **41,016** | 27,089 | 39,951 |
| Depreciation and amortization expense | **16,533** | 16,606 | 16,460 |
| **Total Operating Expenses** | **107,480** | 88,582 | 102,686 |
| **Operating Income** | **19,599** | 31,968 | 13,160 |
| Equity in earnings of unconsolidated businesses | **1,780** | 142 | 324 |
| Other income and (expense), net | **(1,194)** | (166) | (1,016) |
| Interest expense | **(4,915)** | (2,667) | (2,571) |
| **Income Before (Provision) Benefit For Income Taxes** | **15,270** | 29,277 | 9,897 |
| (Provision) Benefit for income taxes | **(3,314)** | (5,730) | 660 |
| **Net Income** | **$ 11,956** | $ 23,547 | $ 10,557 |
| **Net income attributable to noncontrolling interests** | **$ 2,331** | $ 12,050 | $ 9,682 |
| **Net income attributable to Verizon** | **9,625** | 11,497 | 875 |
| **Net Income** | **$ 11,956** | $ 23,547 | $ 10,557 |
| **Basic Earnings Per Common Share** | | | |
| Net income attributable to Verizon | **$ 2.42** | $ 4.01 | $ .31 |
| Weighted-average shares outstanding (in millions) | **3,974** | 2,866 | 2,853 |
| **Diluted Earnings Per Common Share** | | | |
| Net income attributable to Verizon | **$ 2.42** | $ 4.00 | $ .31 |
| Weighted-average shares outstanding (in millions) | **3,981** | 2,874 | 2,862 |

See Notes to Consolidated Financial Statements

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

| | | | (dollars in millions) |
|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 |
| **Net Income** | **$ 11,956** | $ 23,547 | $ 10,557 |
| **Other Comprehensive Income, net of taxes** | | | |
| Foreign currency translation adjustments | **(1,199)** | 60 | 69 |
| Unrealized gain (loss) on cash flow hedges | **(197)** | 25 | (68) |
| Unrealized gain (loss) on marketable securities | **(5)** | 16 | 29 |
| Defined benefit pension and postretirement plans | **154** | 22 | 936 |
| Other comprehensive income (loss) attributable to Verizon | **(1,247)** | 123 | 966 |
| Other comprehensive income (loss) attributable to noncontrolling interests | **(23)** | (15) | 10 |
| **Total Comprehensive Income** | **$ 10,686** | $ 23,655 | $ 11,533 |
| Comprehensive income attributable to noncontrolling interests | **2,308** | 12,035 | 9,692 |
| Comprehensive income attributable to Verizon | **8,378** | 11,620 | 1,841 |
| **Total Comprehensive Income** | **$ 10,686** | $ 23,655 | $ 11,533 |

See Notes to Consolidated Financial Statements

## Consolidated Balance Sheets Verizon Communications Inc. and Subsidiaries

(dollars in millions, except per share amounts)

| At December 31, | 2014 | 2013 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 10,598** | $ 53,528 |
| Short-term investments | **555** | 601 |
| Accounts receivable, net of allowances of $739 and $645 | **13,993** | 12,439 |
| Inventories | **1,153** | 1,020 |
| Prepaid expenses and other | **3,324** | 3,406 |
| Total current assets | **29,623** | 70,994 |
| | | |
| Plant, property and equipment | **230,508** | 220,865 |
| Less accumulated depreciation | **140,561** | 131,909 |
| | **89,947** | 88,956 |
| | | |
| Investments in unconsolidated businesses | **802** | 3,432 |
| Wireless licenses | **75,341** | 75,747 |
| Goodwill | **24,639** | 24,634 |
| Other intangible assets, net | **5,728** | 5,800 |
| Other assets | **6,628** | 4,535 |
| Total assets | **$ 232,708** | $ 274,098 |
| | | |
| **Liabilities and Equity** | | |
| Current liabilities | | |
| Debt maturing within one year | **$ 2,735** | $ 3,933 |
| Accounts payable and accrued liabilities | **16,680** | 16,453 |
| Other | **8,649** | 6,664 |
| Total current liabilities | **28,064** | 27,050 |
| | | |
| Long-term debt | **110,536** | 89,658 |
| Employee benefit obligations | **33,280** | 27,682 |
| Deferred income taxes | **41,578** | 28,639 |
| Other liabilities | **5,574** | 5,653 |
| | | |
| Equity | | |
| Series preferred stock ($.10 par value; none issued) | **–** | – |
| Common stock ($.10 par value; 4,242,374,240 and 2,967,610,119 shares issued in each period, respectively) | **424** | 297 |
| Contributed capital | **11,155** | 37,939 |
| Reinvested earnings | **2,447** | 1,782 |
| Accumulated other comprehensive income | **1,111** | 2,358 |
| Common stock in treasury, at cost | **(3,263)** | (3,961) |
| Deferred compensation – employee stock ownership plans and other | **424** | 421 |
| Noncontrolling interests | **1,378** | 56,580 |
| Total equity | **13,676** | 95,416 |
| Total liabilities and equity | **$ 232,708** | $ 274,098 |

See Notes to Consolidated Financial Statements

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

(dollars in millions)

| Years Ended December 31, | **2014** | 2013 | 2012 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Net Income | **$ 11,956** | $ 23,547 | $ 10,557 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization expense | **16,533** | 16,606 | 16,460 |
| Employee retirement benefits | **8,130** | (5,052) | 8,198 |
| Deferred income taxes | **(92)** | 5,785 | (952) |
| Provision for uncollectible accounts | **1,095** | 993 | 972 |
| Equity in earnings of unconsolidated businesses, net of dividends received | **(1,743)** | (102) | 77 |
| Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses | | | |
| Accounts receivable | **(2,745)** | (843) | (1,717) |
| Inventories | **(132)** | 56 | (136) |
| Other assets | **(695)** | (143) | 306 |
| Accounts payable and accrued liabilities | **1,412** | 925 | 1,144 |
| Other, net | **(3,088)** | (2,954) | (3,423) |
| Net cash provided by operating activities | **30,631** | 38,818 | 31,486 |
| | | | |
| **Cash Flows from Investing Activities** | | | |
| Capital expenditures (including capitalized software) | **(17,191)** | (16,604) | (16,175) |
| Acquisitions of investments and businesses, net of cash acquired | **(182)** | (494) | (913) |
| Acquisitions of wireless licenses | **(354)** | (580) | (4,298) |
| Proceeds from dispositions of wireless licenses | **2,367** | 2,111 | 363 |
| Proceeds from dispositions of businesses | **120** | – | – |
| Other, net | **(616)** | 734 | 521 |
| Net cash used in investing activities | **(15,856)** | (14,833) | (20,502) |
| | | | |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from long-term borrowings | **30,967** | 49,166 | 4,489 |
| Repayments of long-term borrowings and capital lease obligations | **(17,669)** | (8,163) | (6,403) |
| Decrease in short-term obligations, excluding current maturities | **(475)** | (142) | (1,437) |
| Dividends paid | **(7,803)** | (5,936) | (5,230) |
| Proceeds from sale of common stock | **34** | 85 | 315 |
| Purchase of common stock for treasury | **–** | (153) | – |
| Special distribution to noncontrolling interest | **–** | (3,150) | (8,325) |
| Acquisition of noncontrolling interest | **(58,886)** | – | – |
| Other, net | **(3,873)** | (5,257) | (4,662) |
| Net cash provided by (used in) financing activities | **(57,705)** | 26,450 | (21,253) |
| Increase (decrease) in cash and cash equivalents | **(42,930)** | 50,435 | (10,269) |
| Cash and cash equivalents, beginning of period | **53,528** | 3,093 | 13,362 |
| Cash and cash equivalents, end of period | **$ 10,598** | $ 53,528 | $ 3,093 |

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, | **2014** | | 2013 | | 2012 | |
|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | Shares | Amount | Shares | Amount |
| **Common Stock** | | | | | | |
| Balance at beginning of year | **2,967,610** | **$ 297** | 2,967,610 | $ 297 | 2,967,610 | $ 297 |
| Common shares issued (Note 2) | **1,274,764** | **127** | – | – | – | – |
| Balance at end of year | **4,242,374** | **424** | 2,967,610 | 297 | 2,967,610 | 297 |
| **Contributed Capital** | | | | | | |
| Balance at beginning of year | | **37,939** | | 37,990 | | 37,919 |
| Acquisition of noncontrolling interest (Note 2) | | **(26,898)** | | – | | – |
| Other | | **114** | | (51) | | 71 |
| Balance at end of year | | **11,155** | | 37,939 | | 37,990 |
| **Reinvested Earnings (Accumulated Deficit)** | | | | | | |
| Balance at beginning of year | | **1,782** | | (3,734) | | 1,179 |
| Net income attributable to Verizon | | **9,625** | | 11,497 | | 875 |
| Dividends declared ($2.16, $2.09, $2.03) per share | | **(8,960)** | | (5,981) | | (5,788) |
| Balance at end of year | | **2,447** | | 1,782 | | (3,734) |
| **Accumulated Other Comprehensive Income** | | | | | | |
| Balance at beginning of year attributable to Verizon | | **2,358** | | 2,235 | | 1,269 |
| Foreign currency translation adjustments | | **(1,199)** | | 60 | | 69 |
| Unrealized gains (losses) on cash flow hedges | | **(197)** | | 25 | | (68) |
| Unrealized gains (losses) on marketable securities | | **(5)** | | 16 | | 29 |
| Defined benefit pension and postretirement plans | | **154** | | 22 | | 936 |
| Other comprehensive income (loss) | | **(1,247)** | | 123 | | 966 |
| Balance at end of year attributable to Verizon | | **1,111** | | 2,358 | | 2,235 |
| **Treasury Stock** | | | | | | |
| Balance at beginning of year | **(105,610)** | **(3,961)** | (109,041) | (4,071) | (133,594) | (5,002) |
| Shares purchased | **–** | **–** | (3,500) | (153) | – | – |
| Employee plans (Note 16) | **14,132** | **541** | 6,835 | 260 | 11,434 | 433 |
| Shareowner plans (Note 16) | **4,105** | **157** | 96 | 3 | 13,119 | 498 |
| Other | **(37)** | **–** | – | – | – | – |
| Balance at end of year | **(87,410)** | **(3,263)** | (105,610) | (3,961) | (109,041) | (4,071) |
| **Deferred Compensation-ESOPs and Other** | | | | | | |
| Balance at beginning of year | | **421** | | 440 | | 308 |
| Restricted stock equity grant | | **166** | | 152 | | 196 |
| Amortization | | **(163)** | | (171) | | (64) |
| Balance at end of year | | **424** | | 421 | | 440 |
| **Noncontrolling Interests** | | | | | | |
| Balance at beginning of year | | **56,580** | | 52,376 | | 49,938 |
| Acquisition of noncontrolling interest (Note 2) | | **(55,960)** | | – | | – |
| Net income attributable to noncontrolling interests | | **2,331** | | 12,050 | | 9,682 |
| Other comprehensive income (loss) | | **(23)** | | (15) | | 10 |
| Total comprehensive income (loss) | | **2,308** | | 12,035 | | 9,692 |
| Distributions and other | | **(1,550)** | | (7,831) | | (7,254) |
| Balance at end of year | | **1,378** | | 56,580 | | 52,376 |
| **Total Equity** | | **$ 13,676** | | $ 95,416 | | $ 85,533 |

See Notes to Consolidated Financial Statements

## 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 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 around the world. We have two reportable segments, Wireless and Wireline. For further information concerning our business segments, see Note 14.

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

The Wireline segment provides voice, data and video communications products and enhanced services, including broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice 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 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 interests are 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.

### 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 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.

*Wireless*

Our 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 generally 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 generally subsidize the cost of wireless devices for plans under our traditional subsidy model. The amount of this subsidy is generally contingent on the arrangement and terms selected by the customer. In multiple deliverable arrangements which involve the sale of equipment and a service contract, the equipment revenue is recognized up to the amount collected when the wireless device is sold.

In addition to the traditional subsidy model for equipment sales, we offer new and existing customers the option to participate in Verizon Edge, a program that provides eligible wireless customers with the ability to pay for handsets under an equipment installment plan. Under the Verizon Edge program, customers have the right to upgrade their handset after a minimum of 30 days, subject to certain conditions, including making a stated portion of the required device payments, trading in their handset in good working condition and signing a new contract with Verizon. Upon upgrade, the outstanding balance of the equipment installment plan is exchanged for the used handset. This trade-in right is accounted for as a guarantee obligation.

Verizon Edge is a multiple-element arrangement typically consisting of the trade-in right, handset and monthly wireless service. At the inception of the arrangement, the amount allocable to the delivered units of accounting is limited to the amount that is not contingent upon the delivery of the monthly wireless service (the noncontingent amount). The full amount of the trade-in right's fair value (not an allocated value) will be recognized as the guarantee liability and the remaining allocable consideration will be allocated to the handset. The value of the guarantee liability effectively results in a reduction to revenue recognized for the sale of the handset. The guarantee liability is measured at fair value upon initial recognition based on assumptions lacking observable pricing inputs including the probability and timing of the customer upgrading to a new phone, the customer's estimated remaining installment balance at the time of trade-in and the estimated fair value of the phone at the time of trade-in and therefore is classified within Level 3 of the fair value hierarchy. When the customer trades-in their used phone, the handset received is recorded to inventory and measured as the difference between the remaining equipment installment plan balance at the time of trade-in and the guarantee liability. As a result of changes in the Verizon Edge program during 2014, and corresponding changes in related assumptions, the guarantee liability associated with Verizon Edge agreements under the current program is not material. The guarantee liability may increase after initial recognition as a result of changes in facts or assumptions and we will account for any increase in the guarantee liability with a corresponding decrease to revenue. The subsequent derecognition of the guarantee liability occurs when the guarantor is released from risk, which will occur at the earlier of the time the trade-in right is exercised or expires.

*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 16).

**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 7 million, 8 million and 9 million outstanding dilutive securities, primarily consisting of restricted stock units, included in the computation of diluted earnings per common share for the years ended December 31, 2014, 2013 and 2012, 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 years ended December 31, 2014, 2013 and 2012, respectively.

On January 28, 2014, at a special meeting of our shareholders, we received shareholder approval to increase our authorized shares of common stock by 2 billion shares to an aggregate of 6.25 billion authorized shares of common stock. On February 4, 2014, this authorization became effective. On February 21, 2014, we issued approximately 1.27 billion shares of common stock upon completing the acquisition of Vodafone Group Plc's indirect 45% interest in Cellco Partnership d/b/a Verizon Wireless. See Note 2 for additional information.

**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 wireline and wireless operations, we determined that changes were necessary to the remaining estimated useful lives of certain assets as a result of technology upgrades, enhancements, and planned retirements. These changes resulted in an increase in depreciation expense of $0.6 billion in 2014. 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 or more frequently if impairment indicators are present. 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). License renewals 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. In 2014 and 2013, we performed a qualitative assessment to determine whether it is more likely than not that the fair value of our wireless licenses was less than the carrying amount. As part of our assessment, we considered several qualitative factors including the business enterprise value of Wireless, macroeconomic conditions (including changes in interest rates and discount rates), industry and market considerations (including industry revenue and EBITDA (Earnings before interest, taxes, depreciation and amortization) margin projections), the projected financial performance of Wireless, as well as other factors. The most recent quantitative assessment of our wireless licenses occurred in 2012. Our quantitative assessment consisted of comparing the estimated fair value of our wireless licenses to the aggregated carrying amount as of the test date. Using the quantitative assessment, we evaluated 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 estimated 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 11 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, 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. 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 12).

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, 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 (loss) and recognized in earnings when the hedged item is recognized in earnings.

**Recently Adopted Accounting Standards**

During the first quarter of 2014, we adopted the accounting standard update relating to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The standard update provides that a liability related to an unrecognized tax benefit should be offset against same jurisdiction deferred tax assets for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The adoption of this standard update did not have a significant impact on our consolidated financial statements.

**Recently Issued Accounting Standards**

In April 2014, the accounting standard update related to the reporting of discontinued operations and disclosures of disposals of components of an entity was issued. This standard update changes the criteria for reporting discontinued operations and enhances convergence of the reporting requirements for discontinued operations. As a result of this standard update, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. We will adopt this standard update during the first quarter of 2015. We are currently evaluating the impact that this standard update will have on our consolidated financial statements.

In May 2014, the accounting standard update related to the recognition of revenue from contracts with customers was issued. This standard update clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and International Financial Reporting Standards. The standard update intends to provide a more robust framework for addressing revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; and provide more useful information to users of financial statements through improved disclosure requirements. Upon adoption of this standard update, we expect that the allocation and timing of revenue recognition will be impacted. We expect to adopt this standard update during the first quarter of 2017.

There are two adoption methods available for implementation of the standard update related to the recognition of revenue from contracts with customers. Under one method, the guidance is applied retrospectively to contracts for each reporting period presented, subject to allowable practical expedients. Under the other method, the guidance is applied to contracts not completed as of the date of initial application, recognizing the cumulative effect of the change as an adjustment to the beginning balance of retained earnings, and also requires additional disclosures comparing the results to the previous guidance. We are currently evaluating these adoption methods and the impact that this standard update will have on our consolidated financial statements.

In June 2014, the accounting standard update related to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period was issued. The standard update resolves the diverse accounting treatment for these share-based payments by requiring that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. We will adopt this standard update during the first quarter of 2016. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

In January 2015, the accounting standard update related to the reporting of extraordinary and unusual items was issued. This standard update eliminates the concept of extraordinary items from U.S. GAAP as part of an initiative to reduce complexity in accounting standards while maintaining or improving the usefulness of the information provided to the users of the financial statements. The presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and expanded to include items that are both unusual in nature and infrequent in occurrence. This standard update is effective as of the first quarter of 2016; however, earlier adoption is permitted.

## Note 2

## Acquisitions and Divestitures

**Wireless**

**Wireless Transaction**

On September 2, 2013, Verizon entered into a stock purchase agreement (the Stock Purchase Agreement) with Vodafone Group Plc (Vodafone) and Vodafone 4 Limited (Seller), pursuant to which Verizon agreed to acquire Vodafone's indirect 45% interest in Cellco Partnership d/b/a Verizon Wireless (the Partnership, and such interest, the Vodafone Interest) for aggregate consideration of approximately $130 billion.

On February 21, 2014, pursuant to the terms and subject to the conditions set forth in the Stock Purchase Agreement, Verizon acquired (the Wireless Transaction) from Seller all of the issued and outstanding capital stock (the Transferred Shares) of Vodafone Americas Finance 1 Inc., a subsidiary of Seller (VF1 Inc.), which indirectly through certain subsidiaries (together with VF1 Inc., the Purchased Entities) owned the Vodafone Interest. In consideration for the Transferred Shares, upon completion of the Wireless Transaction, Verizon (i) paid approximately $58.89 billion in cash, (ii) issued approximately 1.27 billion shares of Verizon's common stock, par value $0.10 per share (the Stock Consideration), which was valued at approximately $61.3 billion at the closing of the Wireless Transaction, (iii) issued senior unsecured Verizon notes in an aggregate principal amount of $5.0 billion (the Verizon Notes), (iv) sold Verizon's indirectly owned 23.1% interest in Vodafone Omnitel N.V. (Omnitel, and such interest, the Omnitel Interest), valued at $3.5 billion and (v) provided other consideration, which included the assumption of preferred stock valued at approximately $1.7 billion. The total cash paid to Vodafone and the other costs of the Wireless Transaction, including financing, legal and bank fees, were financed through the incurrence of third-party indebtedness. See Note 8 for additional information.

In accordance with the accounting standard on consolidation, a change in a parent's ownership interest while the parent retains a controlling financial interest in its subsidiary is accounted for as an equity transaction and remeasurement of assets and liabilities of previously controlled and consolidated subsidiaries is not permitted. As a result, we accounted for the Wireless Transaction by adjusting the carrying amount of the noncontrolling interest to reflect the change in Verizon's ownership interest in the Partnership. Any difference between the fair value of the consideration paid and the amount by which the noncontrolling interest is adjusted has been recognized in equity attributable to Verizon.

*Omnitel Transaction*

On February 21, 2014, Verizon and Vodafone also consummated the sale of the Omnitel Interest (the Omnitel Transaction) by a subsidiary of Verizon to a subsidiary of Vodafone in connection with the Wireless Transaction pursuant to a separate share purchase agreement. As a result, during 2014, we recognized a pre-tax gain of $1.9 billion on the disposal of the Omnitel interest in Equity in earnings of unconsolidated businesses on our consolidated statement of income.

*Verizon Notes (Non-Cash Transaction)*

The Verizon Notes were issued pursuant to Verizon's existing indenture. The Verizon Notes were issued in two separate series, with $2.5 billion due February 21, 2022 (the eight-year Verizon Notes) and $2.5 billion due February 21, 2025 (the eleven-year Verizon Notes). The Verizon Notes bear interest at a floating rate, which will be reset quarterly, with interest payable quarterly in arrears, beginning May 21, 2014. The eight-year Verizon notes bear interest at a floating rate equal to three-month London Interbank Offered Rate (LIBOR), plus 1.222%, and the eleven-year Verizon notes bear interest at a floating rate equal to three-month LIBOR, plus 1.372%. The indenture that governs the Verizon Notes contains certain negative covenants, including a negative pledge covenant and a merger or similar transaction covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. An event of default for either series of the Verizon Notes may result in acceleration of the entire principal amount of all debt securities of that series. Beginning two years after the closing of the Wireless Transaction, Verizon may redeem all or any portion of the outstanding Verizon Notes held by Vodafone or any of its affiliates for a redemption price of 100% of the principal amount plus accrued and unpaid interest. The Verizon Notes may only be transferred by Vodafone to third parties in specified amounts during specified periods, commencing January 1, 2017. Any Verizon Notes held by third parties will not be redeemable by Verizon prior to their maturity dates. Verizon has agreed to file a registration statement with respect to the Verizon Notes at least three months prior to the Verizon Notes becoming transferable.

*Other Consideration (Non-Cash Transaction)*

Included in the other consideration provided to Vodafone is the indirect assumption of long-term obligations with respect to 5.143% Class D and Class E cumulative preferred stock (Preferred Stock) issued by one of the Purchased Entities. Both the Class D shares (825,000 shares outstanding) and Class E shares (825,000 shares outstanding) are mandatorily redeemable in April 2020 at $1,000 per share plus any accrued and unpaid dividends. Dividends accrue at 5.143% per annum and will be treated as interest expense. Both the Class D and Class E shares have been classified as liability instruments and were recorded at fair value as determined at the closing of the Wireless Transaction.

*Deferred Tax Liabilities*

Certain deferred taxes directly attributable to the Wireless Transaction have been calculated based on an analysis of taxes attributable to the difference between the tax basis of the investment in the noncontrolling interest that is assumed compared to Verizon's book basis. As a result, Verizon recorded a deferred tax liability of approximately $13.5 billion.

**Spectrum License Transactions**

Since 2012, we have entered into several strategic spectrum transactions including:

- 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 4G LTE capacity:
    - Verizon Wireless acquired Advanced Wireless Services (AWS) spectrum in separate transactions with SpectrumCo and Cox TMI Wireless, LLC for which it paid an aggregate of $3.9 billion. 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 USA). As a result of these transactions, Verizon Wireless received an aggregate $2.6 billion of AWS and Personal Communication Services (PCS) licenses at fair value and net cash proceeds of $0.2 billion, transferred certain AWS licenses to T-Mobile USA and a 700 megahertz (MHz) lower A block license to Leap Wireless, and recorded an immaterial gain.

- During the first quarter of 2013, we completed license exchange transactions with T-Mobile License LLC and Cricket License Company, LLC, a subsidiary of Leap Wireless, to exchange certain AWS licenses. These non-cash exchanges included a number of intra-market swaps that we expect will enable Verizon Wireless to make more efficient use of the AWS band. As a result of these exchanges, we received an aggregate $0.5 billion of AWS licenses at fair value and recorded an immaterial gain.
- During the third quarter of 2013, after receiving the required regulatory approvals, Verizon Wireless sold 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 sold certain lower 700 MHz B block spectrum licenses to an investment firm for a payment of $0.2 billion. As a result, we received $0.5 billion of AWS licenses at fair value and we recorded a pre-tax gain of approximately $0.3 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2013.
- During the second quarter of 2014, we completed license exchange transactions with T-Mobile USA to exchange certain AWS and PCS licenses. The exchange included a number of swaps that we expect will result in more efficient use of the AWS and PCS bands. As a result of these exchanges, we received $0.9 billion of AWS and PCS spectrum licenses at fair value and we recorded an immaterial gain.
- During the second quarter of 2014, we completed transactions pursuant to two additional agreements with T-Mobile USA with respect to our remaining 700 MHz A block spectrum licenses. Under one agreement, we sold certain of these licenses to T-Mobile USA in exchange for cash consideration of approximately $2.4 billion, and under the second agreement we exchanged the remainder of our 700 MHz A block spectrum licenses as well as AWS and PCS spectrum licenses for AWS and PCS spectrum licenses. As a result, we received $1.6 billion of AWS and PCS spectrum licenses at fair value and we recorded a pre-tax gain of approximately $0.7 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2014.
- During the third quarter of 2014, we entered into a license exchange agreement with affiliates of AT&T Inc. to exchange certain AWS and PCS spectrum licenses. This non-cash exchange was completed in January 2015 at which time we recorded an immaterial gain.
- On January 29, 2015, the FCC completed an auction of 65 MHz of spectrum, which it identified as the AWS-3 band. Verizon participated in that auction, and was the high bidder on 181 spectrum licenses, for which we will pay approximately $10.4 billion. During the fourth quarter of 2014, we made a deposit of $0.9 billion related to our participation in this auction. On February 13, 2015, we made a down payment of $1.2 billion for these spectrum licenses. Verizon has submitted an application for these licenses and must complete payment for them in the first quarter of 2015.

### Tower Monetization Transaction

On February 5, 2015, we announced an agreement with American Tower Corporation (American Tower) pursuant to which American Tower will have the exclusive rights to lease and operate over 11,300 of our wireless towers for an upfront payment of $5.0 billion. Under the terms of the leases, American Tower will have exclusive rights to lease and operate the towers over an average term of approximately 28 years. As part of this transaction, we will also sell 165 towers for $0.1 billion. We will sublease capacity on the towers from American Tower for a minimum of 10 years at current market rates, with options to renew. As the leases expire, American Tower will have fixed-price purchase options to acquire these towers based on their anticipated fair market values at the end of the lease terms. We plan to account for the upfront payment primarily as prepaid rent and a portion as a financing obligation. This transaction, which is subject to customary closing conditions, is expected to close during the first half of 2015.

### Other

During 2014 and 2013, we acquired various other wireless licenses and markets for cash consideration that was not significant. Additionally, during 2013, we obtained control of previously unconsolidated wireless partnerships, which were previously accounted for under the equity method and are now consolidated, which resulted in an immaterial gain. In 2013, we recorded $0.2 billion of goodwill as a result of these transactions.

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.

## Wireline

### Access Line Sale

On February 5, 2015, we announced that we have entered into a definitive agreement with Frontier Communications Corporation (Frontier) pursuant to which Verizon will sell its local exchange business and related landline activities in California, Florida, and Texas, including FiOS Internet and Video customers, switched and special access lines and high-speed Internet service and long distance voice accounts in these three states for approximately $10.5 billion. The transaction, which includes the acquisition by Frontier of the equity interests of Verizon's incumbent local exchange carriers (ILECs) in California, Florida and Texas, does not involve any assets or liabilities of Verizon Wireless. The assets and liabilities that will be sold are currently included in Verizon's continuing operations. As part of the transaction, Frontier will assume $0.6 billion of indebtedness from Verizon. The transaction is subject to the satisfaction of certain closing conditions including, among others, receipt of state and federal telecommunications regulatory approvals, and we expect this transaction to close during the first half of 2016.

The transaction will result in Frontier acquiring approximately 1.5 million FiOS Internet subscribers, 1.2 million FiOS Video subscribers and the related ILEC businesses from Verizon. This business generated revenues of approximately $5.4 billion, excluding revenue with affiliates, for Verizon in 2013, which is the most recent year for which audited stand-alone financial statements are currently available.

**HUGHES Telematics, Inc.**

During July 2012, we acquired HUGHES Telematics, Inc. (HUGHES Telematics) for approximately $12 per share in cash for a total acquisition price of $0.6 billion. 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, 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 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.

**Other**

On July 1, 2014, we sold a non-strategic Wireline business, which provides communications solutions to a variety of government agencies for net cash proceeds of $0.1 billion and recorded an immaterial gain.

**Other**

On October 7, 2014, Redbox Instant by Verizon, a venture between Verizon and Redbox Automated Retail, LLC (Redbox), a wholly-owned subsidiary of Outerwall Inc., ceased providing service to its customers. In accordance with an agreement between the parties, Redbox withdrew from the venture on October 20, 2014 and Verizon wound down and dissolved the venture during the fourth quarter of 2014. As a result of the termination of the venture, we recorded a pre-tax loss of $0.1 billion in the fourth quarter of 2014.

During February 2014, Verizon acquired a business dedicated to the development of Internet Protocol (IP) television for cash consideration that was not significant.

During the fourth quarter of 2013, Verizon acquired an industry leader in content delivery networks for $0.4 billion. Upon closing, we recorded $0.3 billion of goodwill. Additionally, we acquired a technology company for cash consideration that was not significant. The consolidated financial statements include the results of the operations of each of these acquisitions from the date each acquisition closed.

## 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, 2013 | $ 77,744 |
| Acquisitions (Note 2) | 579 |
| Dispositions (Note 2) | (2,361) |
| Capitalized interest on wireless licenses | 566 |
| Reclassifications, adjustments and other | (781) |
| Balance at December 31, 2013 | $ 75,747 |
| Acquisitions (Note 2) | **444** |
| Dispositions (Note 2) | **(1,978)** |
| Capitalized interest on wireless licenses | **167** |
| Reclassifications, adjustments and other | **961** |
| **Balance at December 31, 2014** | **$ 75,341** |

Reclassifications, adjustments and other includes the exchanges of wireless licenses in 2014 and 2013 as well as $0.3 and $0.9 billion of Wireless licenses that are classified as held for sale and included in Prepaid expenses and other on our consolidated balance sheets at December 31, 2014 and 2013, respectively. See Note 2 for additional details.

At December 31, 2014 and 2013, approximately $0.4 billion and $7.7 billion, respectively, of wireless licenses were under development for commercial service for which we were capitalizing interest costs. The decline is primarily due to the deployment of AWS licenses for commercial service during 2014.

The average remaining renewal period of our wireless license portfolio was 4.7 years as of December 31, 2014. See Note 1 for additional details.

**Goodwill**

Changes in the carrying amount of Goodwill are as follows:

| (dollars in millions) | Wireless | Wireline | Total |
|---|---|---|---|
| Balance at January 1, 2013 | $ 18,172 | $ 5,967 | $ 24,139 |
| Acquisitions (Note 2) | 204 | 291 | 495 |
| Balance at December 31, 2013 | $ 18,376 | $ 6,258 | $ 24,634 |
| Acquisitions (Note 2) | **15** | **40** | **55** |
| Dispositions (Note 2) | **–** | **(38)** | **(38)** |
| Reclassifications, adjustments and other | **(1)** | **(11)** | **(12)** |
| **Balance at December 31, 2014** | **$ 18,390** | **$ 6,249** | **$ 24,639** |

The increase in Goodwill at Wireless at December 31, 2013 was primarily due to obtaining control of previously unconsolidated wireless partnerships, which were previously accounted for under the equity method and are now consolidated. This resulted in an immaterial gain recorded during the year ended December 31, 2013. The increase in Goodwill at Wireline at December 31, 2013 was primarily due to the acquisition of a provider of content delivery networks.

**Other Intangible Assets**

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

| | **2014** | | | 2013 (dollars in millions) | | |
|---|---|---|---|---|---|---|
| At December 31, | **Gross Amount** | **Accumulated Amortization** | **Net Amount** | Gross Amount | Accumulated Amortization | Net Amount |
| Customer lists (5 to 13 years) | **$ 3,618** | **$ (2,924)** | **$ 694** | $ 3,639 | $ (2,660) | $ 979 |
| Non-network internal-use software (3 to 7 years) | **13,194** | **(8,462)** | **4,732** | 11,770 | (7,317) | 4,453 |
| Other (2 to 25 years) | **670** | **(368)** | **302** | 691 | (323) | 368 |
| Total | **$ 17,482** | **$ (11,754)** | **$ 5,728** | $ 16,100 | $ (10,300) | $ 5,800 |

The amortization expense for Other intangible assets was as follows:

| **Years** | (dollars in millions) |
|---|---|
| **2014** | **$ 1,567** |
| 2013 | 1,587 |
| 2012 | 1,540 |

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

| **Years** | (dollars in millions) |
|---|---|
| 2015 | $ 1,428 |
| 2016 | 1,193 |
| 2017 | 1,008 |
| 2018 | 843 |
| 2019 | 613 |

## 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) | 2014 | 2013 |
|---|---|---|---|
| | | (dollars in millions) | |
| Land | – | $ 763 | $ 819 |
| Buildings and equipment | 15-45 | 25,209 | 23,857 |
| Central office and other network equipment | 3-15 | 129,619 | 121,594 |
| Cable, poles and conduit | 11-50 | 54,797 | 55,240 |
| Leasehold improvements | 5-20 | 6,374 | 5,877 |
| Work in progress | – | 4,580 | 4,176 |
| Furniture, vehicles and other | 3-20 | 9,166 | 9,302 |
| | | 230,508 | 220,865 |
| Less accumulated depreciation | | 140,561 | 131,909 |
| Total | | $ 89,947 | $ 88,956 |

## Note 5

### Investments in Unconsolidated Businesses

Our investments in unconsolidated businesses are comprised of the following:

| At December 31, | Ownership | 2014 | 2013 |
|---|---|---|---|
| | | (dollars in millions) | |
| **Equity Investees** | | | |
| Vodafone Omnitel[1] | – | $ – | $ 2,511 |
| Other | Various | 677 | 818 |
| Total equity investees | | 677 | 3,329 |
| | | | |
| **Cost Investees** | Various | 125 | 103 |
| Total investments in unconsolidated businesses | | $ 802 | $ 3,432 |

(1) Prior to the completion of the Wireless Transaction on February 21, 2014, Verizon held a 23.1% ownership interest in Vodafone Omnitel.

Dividends and repatriations of foreign earnings received from these investees were not significant in 2014 and 2013 and $0.4 billion in 2012. See Note 13 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. As part of the consideration of the Wireless Transaction, a subsidiary of Verizon sold its entire ownership interest in Vodafone Omnitel to a subsidiary of Vodafone on February 21, 2014. See Note 2 for additional information. At December 31, 2013, our investment in Vodafone Omnitel included goodwill of $1.1 billion.

*Other Equity Investees*

The remaining investments include wireless partnerships in the U.S., limited partnership investments in entities that invest in affordable housing projects and other smaller domestic and international investments.

**Summarized Financial Information**

Summarized financial information for our equity investees is as follows:

*Balance Sheet*

| At December 31, | (dollars in millions) 2013 |
|---|---|
| Current assets | $ 3,983 |
| Noncurrent assets | 7,748 |
| Total assets | $ 11,731 |
| Current liabilities | $ 4,692 |
| Noncurrent liabilities | 5 |
| Equity | 7,034 |
| Total liabilities and equity | $ 11,731 |

*Income Statement*

| Years Ended December 31, | (dollars in millions) 2013 | 2012 |
|---|---|---|
| Net revenue | $ 8,984 | $ 10,825 |
| Operating income | 1,632 | 2,823 |
| Net income | 925 | 1,679 |

The financial information for our equity method investees in 2014, including Vodafone Omnitel through the closing of the Wireless Transaction in February 2014, was not significant and therefore is not reflected in the tables above.

## Note 6

## Noncontrolling Interests

Noncontrolling interests in equity of subsidiaries were as follows:

| At December 31, | (dollars in millions) **2014** | 2013 |
|---|---|---|
| Verizon Wireless | **$ –** | $ 55,465 |
| Wireless partnerships and other | **1,378** | 1,115 |
| | **$ 1,378** | $ 56,580 |

*Wireless Joint Venture*

Our Wireless segment is primarily comprised of Cellco Partnership doing business as Verizon Wireless (Verizon Wireless). Cellco Partnership was formed as a joint venture in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone. On February 21, 2014, Verizon completed the Wireless Transaction and acquired 100% ownership of Verizon Wireless. See Note 2 for additional information.

*Special Distributions*

In May 2013, the Board of Representatives of Verizon Wireless declared a distribution to its owners, which was paid in the second quarter of 2013 in proportion to their partnership interests on the payment date, in the aggregate amount of $7.0 billion. As a result, Vodafone received a cash payment of $3.15 billion and the remainder of the distribution was received by Verizon.

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 36 years as of December 31, 2014. 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 U.S. 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 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:

(dollars in millions)

| At December 31, | | **2014** | | | 2013 | |
|---|---|---|---|---|---|---|
| | **Leveraged Leases** | **Direct Finance Leases** | **Total** | Leveraged Leases | Direct Finance Leases | Total |
| Minimum lease payments receivable | **$ 1,095** | **$ 8** | **$ 1,103** | $ 1,069 | $ 16 | $ 1,085 |
| Estimated residual value | **600** | **2** | **602** | 780 | 5 | 785 |
| Unearned income | **(535)** | **(2)** | **(537)** | (589) | (4) | (593) |
| Total | **$ 1,160** | **$ 8** | **$ 1,168** | $ 1,260 | $ 17 | $ 1,277 |
| Allowance for doubtful accounts | | | **(78)** | | | (90) |
| Finance lease receivables, net | | | **$ 1,090** | | | $ 1,187 |
| Prepaid expenses and other | | | **$ 4** | | | $ 5 |
| Other assets | | | **1,086** | | | 1,182 |
| | | | **$ 1,090** | | | $ 1,187 |

Accumulated deferred taxes arising from leveraged leases, which are included in Deferred income taxes, amounted to $0.9 billion at December 31, 2014 and $1.0 billion at December 31, 2013.

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, 2014, are as follows:

| | | (dollars in millions) |
|---|---|---|
| Years | Capital Leases | Operating Leases |
| 2015 | $ 46 | $ 196 |
| 2016 | 115 | 168 |
| 2017 | 39 | 76 |
| 2018 | 57 | 51 |
| 2019 | 44 | 19 |
| Thereafter | 802 | 20 |
| Total | $ 1,103 | $ 530 |

**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 $2.7 billion in 2014, $2.6 billion in 2013 and $2.5 billion in 2012, respectively.

On February 5, 2015, we announced an agreement with American Tower pursuant to which American Tower will have the exclusive rights to lease and operate over 11,300 of our wireless towers for an upfront payment of $5.0 billion. We will sublease capacity on the towers from American Tower for a minimum of 10 years at current market rates, with options to renew. Under this agreement, we expect to make minimum future lease payments of approximately $2.8 billion. See Note 2 for additional information.

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:

| | | (dollars in millions) |
|---|---|---|
| At December 31, | **2014** | 2013 |
| Capital leases | **$ 319** | $ 353 |
| Less accumulated amortization | **171** | 188 |
| Total | **$ 148** | $ 165 |

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2014, are as follows:

| | | (dollars in millions) |
|---|---|---|
| Years | Capital Leases | Operating Leases |
| 2015 | $ 181 | $ 2,499 |
| 2016 | 137 | 2,245 |
| 2017 | 113 | 1,960 |
| 2018 | 68 | 1,660 |
| 2019 | 39 | 1,369 |
| Thereafter | 60 | 4,670 |
| Total minimum rental commitments | 598 | $ 14,403 |
| Less interest and executory costs | 82 | |
| Present value of minimum lease payments | 516 | |
| Less current installments | 158 | |
| **Long-term obligation at December 31, 2014** | **$ 358** | |

## Note 8

### Debt

Changes to debt during 2014 are as follows:

(dollars in millions)

| | Debt Maturing within One Year | Long-term Debt | Total |
|---|---|---|---|
| Balance at January 1, 2014 | $ 3,933 | $ 89,658 | $ 93,591 |
| Proceeds from long-term borrowings | – | 30,967 | 30,967 |
| Verizon Notes | – | 5,000 | 5,000 |
| Preferred Stock (Mandatorily Redeemable) | – | 1,650 | 1,650 |
| Repayments of long-term borrowings and capital leases obligations | (4,022) | (13,647) | (17,669) |
| Decrease in short-term obligations, excluding current maturities | (475) | – | (475) |
| Reclassifications of long-term debt | 2,739 | (2,739) | – |
| Other | 560 | (353) | 207 |
| **Balance at December 31, 2014** | $ 2,735 | $ 110,536 | $ 113,271 |

Debt maturing within one year is as follows:

(dollars in millions)

| At December 31, | 2014 | 2013 |
|---|---|---|
| Long-term debt maturing within one year | $ 2,397 | $ 3,486 |
| Short-term notes payable | 319 | – |
| Commercial paper and other | 19 | 447 |
| Total debt maturing within one year | $ 2,735 | $ 3,933 |

The weighted-average interest rate for our commercial paper outstanding was 0.4% and 0.2% at December 31, 2014 and 2013, respectively.

### Credit Facilities

On July 31, 2014, we amended our $6.2 billion credit facility to increase the availability to $8.0 billion and extend the maturity to July 31, 2018. At the same time, we terminated our $2.0 billion 364-day revolving credit agreement. As of December 31, 2014, the unused borrowing capacity under this credit facility was approximately $7.9 billion. 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 for the issuance of letters of credit and for general corporate purposes.

### Long-Term Debt

Outstanding long-term debt obligations are as follows:

| | | | (dollars in millions) | |
|---|---|---|---|---|
| At December 31, | **Interest Rates %** | **Maturities** | **2014** | 2013 |
| Verizon Communications–notes payable and other | **0.30 – 3.85** | **2015 – 2042** | **$ 27,617** | $ 20,416 |
| | **4.15 – 5.50** | **2018 – 2054** | **40,701** | 20,226 |
| | **5.85 – 6.90** | **2018 – 2054** | **24,341** | 31,965 |
| | **7.35 – 8.95** | **2018 – 2039** | **2,264** | 5,023 |
| | **Floating** | **2015 – 2025** | **14,600** | 5,500 |
| Verizon Wireless–notes payable and other | **8.75 – 8.88** | **2015 – 2018** | **676** | 3,931 |
| Verizon Wireless–Alltel assumed notes | **6.80 – 7.88** | **2029 – 2032** | **686** | 1,300 |
| Telephone subsidiaries—debentures | **5.13 – 6.86** | **2027 – 2033** | **1,075** | 1,075 |
| | **7.38 – 7.88** | **2022 – 2032** | **1,099** | 1,099 |
| | **8.00 – 8.75** | **2019 – 2031** | **880** | 880 |
| Other subsidiaries—debentures and other | **6.84 – 8.75** | **2018 – 2028** | **1,432** | 1,700 |
| Capital lease obligations (average rate of 4.0% and 8.1% in 2014 and 2013, respectively) | | | **516** | 293 |
| Unamortized discount, net of premium | | | **(2,954)** | (264) |
| Total long-term debt, including current maturities | | | **112,933** | 93,144 |
| Less long-term debt maturing within one year | | | **2,397** | 3,486 |
| Total long-term debt | | | **$ 110,536** | $ 89,658 |

<u>2014</u>

During February 2014, we issued €1.75 billion aggregate principal amount of 2.375% Notes due 2022, €1.25 billion aggregate principal amount of 3.25% Notes due 2026 and £0.85 billion aggregate principal amount of 4.75% Notes due 2034. The issuance of these Notes resulted in cash proceeds of approximately $5.4 billion, net of discounts and issuance costs. The net proceeds were used, in part, to finance the Wireless Transaction. Net proceeds not used to finance the Wireless Transaction were used for general corporate purposes. Also, during February 2014, we issued $0.5 billion aggregate principal amount of 5.90% Notes due 2054 resulting in cash proceeds of approximately $0.5 billion, net of discounts and issuance costs. The net proceeds were used for general corporate purposes.

During March 2014, we issued $4.5 billion aggregate principal amount of fixed and floating rate notes resulting in cash proceeds of approximately $4.5 billion, net of discounts and issuance costs. The issuances consisted of the following: $0.5 billion aggregate principal amount Floating Rate Notes due 2019 that bear interest at a rate equal to three-month LIBOR plus 0.77% which rate will be reset quarterly, $0.5 billion aggregate principal amount of 2.55% Notes due 2019, $1.0 billion aggregate principal amount of 3.45% Notes due 2021, $1.25 billion aggregate principal amount of 4.15% Notes due 2024 and $1.25 billion aggregate principal amount of 5.05% Notes due 2034. During March 2014, the net proceeds were used to purchase notes in the Tender Offer described below.

Also, during March 2014, $1.0 billion of LIBOR plus 0.61% Verizon Communications Notes and $1.5 billion of 1.95% Verizon Communications Notes matured and were repaid.

During September 2014, we issued $0.9 billion aggregate principal amount of 4.8% Notes due 2044. The issuance of these Notes resulted in cash proceeds of approximately $0.9 billion, net of discounts and issuance costs. The net proceeds were used for general corporate purposes. Also, during September 2014, we redeemed $0.8 billion aggregate principal amount of Verizon 1.25% Notes due November 2014 and recorded an immaterial amount of early debt redemption costs.

During October 2014, we issued $6.5 billion aggregate principal amount of fixed rate notes. The issuance of these notes resulted in cash proceeds of approximately $6.4 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The issuance consisted of the following: $1.5 billion aggregate principal amount of 3.00% Notes due 2021, $2.5 billion aggregate principal amount of 3.50% Notes due 2024, and $2.5 billion aggregate principal amount of 4.40% Notes due 2034. The net proceeds from the issuance was used to redeem (i) in whole the following series of outstanding notes which were called for early redemption in November 2014 (collectively, November Early Debt Redemption): $0.5 billion aggregate principal amount of Verizon Communications 4.90% Notes due 2015 at 103.7% of the principal amount of such notes, $0.6 billion aggregate principal amount of Verizon Communications 5.55% Notes due 2016 at 106.3% of the principal amount of such notes, $1.3 billion aggregate principal amount of Verizon Communications 3.00% Notes due 2016 at 103.4% of the principal amount of such notes, $0.4 billion aggregate principal amount of Verizon Communications 5.50% Notes due 2017 at 110.5% of the principal amount of such notes, $0.7 billion aggregate principal amount of Verizon Communications 8.75% Notes due 2018 at 125.2% of the principal amount of such notes, $0.1 billion aggregate principal amount of Alltel Corporation 7.00% Debentures due 2016 at 108.7% of the principal amount of such notes and $0.4 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018 at 124.5% of the principal amount of such notes; and (ii) $1.0 billion aggregate principal amount of Verizon Communications 2.50% Notes due 2016 at 103.0% of the principal amount of such notes. Proceeds not used for the redemption of these notes will be used for general corporate purposes. Any accrued and unpaid interest was paid to the date of redemption (see "Early Debt Redemption and Other Costs").

During December 2014, we issued €1.4 billion aggregate principal amount of 1.625% Notes due 2024 and €1.0 billion aggregate principal amount of 2.625% Notes due 2031. The issuance of these Notes resulted in cash proceeds of approximately $3.0 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The net proceeds were used for general corporate purposes.

*Verizon Notes (Non-Cash Transaction)*

During February 2014, in connection with the Wireless Transaction, we issued $5.0 billion aggregate principal amount of floating rate notes. The Verizon Notes were issued in two separate series, with $2.5 billion due February 21, 2022 and $2.5 billion due February 21, 2025. The Verizon Notes bear interest at a floating rate, which will be reset quarterly, with interest payable quarterly in arrears, beginning May 21, 2014 (see Note 2). The eight-year Verizon notes bear interest at a floating rate equal to three-month LIBOR, plus 1.222%, and the eleven-year Verizon notes bear interest at a floating rate equal to three-month LIBOR, plus 1.372%.

*Preferred Stock (Non-Cash Transaction)*

As a result of the Wireless Transaction, we assumed long-term obligations with respect to 5.143% Class D and Class E cumulative Preferred Stock issued by one of the Purchased Entities. Both the Class D shares (825,000 shares outstanding) and Class E shares (825,000 shares outstanding) are mandatorily redeemable in April 2020 at $1,000 per share plus any accrued and unpaid dividends. Dividends accrue at 5.143% per annum and will be treated as interest expense. Both the Class D and Class E shares have been classified as liability instruments and were recorded at fair value as determined at the closing of the Wireless Transaction.

*Term Loan Agreements*

During February 2014, we drew $6.6 billion pursuant to a term loan agreement, which was entered into during October 2013, with a group of major financial institutions to finance, in part, the Wireless Transaction. $3.3 billion of the loans under the term loan agreement had a maturity of three years (the 3-Year Loans) and $3.3 billion of the loans under the term loan agreement had a maturity of five years (the 5-Year Loans). The 5-Year Loans provide for the partial amortization of principal during the last two years that they are outstanding. Loans under the term loan agreement bear interest at floating rates. The term loan agreement contains certain negative covenants, including a negative pledge covenant, a merger or similar transaction covenant and an accounting changes covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. In addition, the term loan agreement requires us to maintain a leverage ratio (as defined in the term loan agreement) not in excess of 3.50:1.00, until our credit ratings are equal to or higher than A3 and A- at Moody's Investors Service and Standard & Poor's Ratings Services, respectively.

During June 2014, we issued $3.3 billion aggregate principal amount of fixed and floating rate notes resulting in cash proceeds of approximately $3.3 billion, net of discounts and issuance costs. The issuances consisted of the following: $1.3 billion aggregate principal amount of Floating Rate Notes due 2017 that will bear interest at a rate equal to three-month LIBOR plus 0.40% which will be reset quarterly and $2.0 billion aggregate principal amount of 1.35% Notes due 2017. We used the net proceeds from the offering of these notes to repay the 3-Year Loans on June 12, 2014.

During July 2014, we amended the term loan agreement, settled the outstanding $3.3 billion of 5-Year Loans and borrowed $3.3 billion of new loans. The new loans mature in July 2019, bear interest at a lower interest rate and require lower amortization payments in 2017 and 2018. In connection with the transaction, which primarily settled on a net basis, we recorded approximately $0.5 billion of proceeds from long-term borrowings and of repayments of long-term borrowings, respectively.

During January 2015, we entered into a term loan agreement with a major financial institution, pursuant to which we can borrow up to $6.5 billion for general corporate purposes, including the acquisition of spectrum licenses. Borrowings under the term loan agreement mature in March 2016, with a partial mandatory prepayment required in June 2015. The term loan agreement contains certain negative covenants, including a negative pledge covenant, a merger or similar transaction covenant and an accounting changes covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. In addition, the term loan agreement requires us to maintain a leverage ratio (as defined in the term loan agreement) not in excess of 3.50:1.00, until our credit ratings are equal to or higher than A3 and A- at Moody's Investors Service and Standard & Poor's Ratings Services, respectively.

*Tender Offer*

On March 10, 2014, we announced the commencement of a tender offer (the Tender Offer) to purchase for cash any and all of the series of notes listed in the following table:

| (dollars in millions, except for Purchase Price) | Interest Rate | Maturity | Principal Amount Outstanding | Purchase Price [1] | Principal Amount Purchased |
|---|---|---|---|---|---|
| Verizon Communications | 6.10% | 2018 | $ 1,500 | $1,170.07 | $ 748 |
| | 5.50% | 2018 | 1,500 | 1,146.91 | 763 |
| | 8.75% | 2018 | 1,300 | 1,288.35 | 564 |
| | 5.55% | 2016 | 1,250 | 1,093.62 | 652 |
| | 5.50% | 2017 | 750 | 1,133.22 | 353 |
| Cellco Partnership and Verizon Wireless Capital LLC | 8.50% | 2018 | 1,000 | 1,279.63 | 619 |
| Alltel Corporation | 7.00% | 2016 | 300 | 1,125.26 | 157 |
| GTE Corporation | 6.84% | 2018 | 600 | 1,196.85 | 266 |
| | | | | | $ 4,122 |

(1) Per $1,000 principal amount of notes

The Tender Offer for each series of notes was subject to a financing condition, which was either satisfied or waived with respect to all series. The Tender Offer expired on March 17, 2014 and settled on March 19, 2014. In addition to the purchase price, any accrued and unpaid interest on the purchased notes was paid to the date of purchase. During March 2014, we recorded early debt redemption costs in connection with the Tender Offer (see “Early Debt Redemption and Other Costs”).

*May Exchange Offer*

On May 29, 2014, we announced the commencement of a private exchange offer (the May Exchange Offer) to exchange up to all Cellco Partnership and Verizon Wireless Capital LLC’s £0.6 billion outstanding aggregate principal amount of 8.875% Notes due 2018 (the 2018 Old Notes) for Verizon’s new sterling-denominated Notes due 2024 (the New Notes) and an amount of cash. This exchange offer has been accounted for as a modification of debt. In connection with the May Exchange Offer, which expired on June 25, 2014, we issued £0.7 billion aggregate principal of New Notes and made a cash payment of £22 million in exchange for £0.6 billion aggregate principal amount of tendered 2018 Old Notes. The New Notes bear interest at a rate of 4.073% per annum.

Concurrent with the issuance of the New Notes, we entered into cross currency swaps to fix our future interest and principal payments in U.S. dollars (see Note 10).

*July Exchange Offers*

On July 23, 2014, we announced the commencement of eleven separate private offers to exchange (the July Exchange Offers) specified series of outstanding Notes issued by Verizon and Alltel Corporation (collectively, the Old Notes) for new Notes to be issued by Verizon. The July Exchange Offers have been accounted for as a modification of debt. On August 21, 2014, Verizon issued $3.3 billion aggregate principal amount of 2.625% Notes due 2020 (the 2020 New Notes), $4.5 billion aggregate principal amount of 4.862% Notes due 2046 (the 2046 New Notes) and $5.5 billion aggregate principal amount of 5.012% Notes due 2054 (the 2054 New Notes) in satisfaction of the exchange offer consideration on tendered Old Notes (not including accrued and unpaid interest on the Old Notes). The following tables list the series of Old Notes included in the July Exchange Offers and the principal amount of each such series accepted by Verizon for exchange.

The table below lists the series of Old Notes included in the July Exchange Offers for the 2020 New Notes:

| (dollars in millions) | Interest Rate | Maturity | Principal Amount Outstanding | Principal Amount Accepted For Exchange |
|---|---|---|---|---|
| Verizon Communications | 3.65% | 2018 | $ 4,750 | $ 2,052 |
| | 2.50% | 2016 | 4,250 | 1,068 |
| | | | | $ 3,120 |

The table below lists the series of Old Notes included in the July Exchange Offers for the 2046 New Notes:

| (dollars in millions) | Interest Rate | Maturity | Principal Amount Outstanding | Principal Amount Accepted For Exchange |
|---|---|---|---|---|
| Verizon Communications | 6.40% | 2033 | $ 6,000 | $ 1,645 |
| | 7.75% | 2030 | 2,000 | 794 |
| | 7.35% | 2039 | 1,000 | 520 |
| | 7.75% | 2032 | 400 | 149 |
| Alltel Corporation | 7.875% | 2032 | 700 | 248 |
| | 6.80% | 2029 | 300 | 65 |
| | | | | $ 3,421 |

The table below lists the series of Old Notes included in the July Exchange Offers for the 2054 New Notes:

| (dollars in millions) | Interest Rate | Maturity | Principal Amount Outstanding | Principal Amount Accepted For Exchange |
|---|---|---|---|---|
| Verizon Communications | 6.55% | 2043 | $ 15,000 | $ 4,330 |
| | 6.40% | 2038 | 1,750 | – |
| | 6.90% | 2038 | 1,250 | – |
| | | | | $ 4,330 |

2013

During March 2013, we issued $0.5 billion aggregate principal amount of floating rate Notes due 2015 in a private placement resulting in cash proceeds of approximately $0.5 billion, net of discounts and issuance costs. The proceeds were used for the repayment of commercial paper.

During April 2013, $1.25 billion of 5.25% Verizon Communications Notes matured and were repaid. In addition, during June 2013, $0.5 billion of 4.375% Verizon Communications Notes matured and were repaid.

During September 2013, in connection with the Wireless Transaction, we issued $49.0 billion aggregate principal amount of fixed and floating rate notes resulting in cash proceeds of approximately $48.7 billion, net of discounts and issuance costs. The issuances consisted of the following: $2.25 billion aggregate principal amount of floating rate Notes due 2016 that bear interest at a rate equal to three-month LIBOR plus 1.53% which rate will be reset quarterly, $1.75 billion aggregate principal amount of floating rate Notes due 2018 that bear interest at a rate equal to three-month LIBOR plus 1.75% which rate will be reset quarterly, $4.25 billion aggregate principal amount of 2.50% Notes due 2016, $4.75 billion aggregate principal amount of 3.65% Notes due 2018, $4.0 billion aggregate principal amount of 4.50% Notes due 2020, $11.0 billion aggregate principal amount of 5.15% Notes due 2023, $6.0 billion aggregate principal amount of 6.40% Notes due 2033 and $15.0 billion aggregate principal amount of 6.55% Notes due 2043 (collectively, the new notes). The proceeds of the new notes were used to finance, in part, the Wireless Transaction and to pay related fees and expenses. As a result of the issuance of the new notes, we incurred interest expense related to the Wireless Transaction of $0.7 billion during 2013.

*Bridge Credit Agreement*

During September 2013, we entered into a $61.0 billion bridge credit agreement with a group of major financial institutions. The credit agreement provided us with the ability to borrow up to $61.0 billion to finance, in part, the Wireless Transaction and to pay related transaction costs. Following the September 2013 issuance of notes, borrowing availability under the bridge credit agreement was reduced to $12.0 billion. Following the effectiveness of the term loan agreement in October 2013, the bridge credit agreement was terminated in accordance with its terms and as such, the related fees of $0.2 billion were recognized in Other income and (expense), net during the fourth quarter of 2013.

**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.

<u>2014</u>

In addition to the retirements of debt securities in connection with the Tender Offer, the May Exchange Offer, the July Exchange Offers and the November Early Debt Redemption, as noted above, during March 2014, Verizon Wireless redeemed $1.25 billion aggregate principal amount of the Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018 at 127.135% of the principal amount of such notes, plus accrued and unpaid interest (see “Early Debt Redemption and Other Costs”).

<u>2013</u>

During November 2013, $1.25 billion of 7.375% Verizon Wireless Notes and $0.2 billion of 6.50% Verizon Wireless Notes matured and were repaid. Also during November 2013, Verizon Wireless redeemed $3.5 billion of 5.55% Notes, due February 1, 2014 at a redemption price of 101% of the principal amount of the notes. Any accrued and unpaid interest was paid to the date of redemption.

**Telephone and Other Subsidiary Debt**

<u>2014</u>

During 2014, a series of notes held by GTE Corporation were included in the Tender Offer described above.

<u>2013</u>

During May 2013, $0.1 billion of 7.0% Verizon New York Inc. Debentures matured and were repaid. During June 2013, $0.1 billion of 7.0% Verizon New York Inc. Debentures matured and were repaid. In addition, during June 2013, we redeemed $0.25 billion of 7.15% Verizon Maryland LLC Debentures, due May 2023 at a redemption price of 100% of the principal amount of the debentures. During October 2013, $0.3 billion of 4.75% Verizon New England Inc. Debentures matured and were repaid. During November 2013, we redeemed $0.3 billion of 6.70% Verizon New York Inc. Debentures, due November 2023 at a redemption price of 100% of the principal amount of the debentures. During December 2013, we redeemed $0.2 billion of 7.0% Verizon New York Inc. Debentures, due December 2033 at a redemption price of 100% of the principal amount of the debentures and $20 million of 7.0% Verizon Delaware LLC Debentures, due December 2023 at a redemption price of 100% of the principal amount of the debentures. Any accrued and unpaid interest was paid to the date of redemption.

**Early Debt Redemption and Other Costs**

During March 2014, we recorded net debt redemption costs of $0.9 billion in connection with the early redemption of $1.25 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, and the purchase of the following notes pursuant to the Tender Offer: $0.7 billion of the then outstanding $1.5 billion aggregate principal amount of Verizon 6.10% Notes due 2018, $0.8 billion of the then outstanding $1.5 billion aggregate principal amount of Verizon 5.50% Notes due 2018, $0.6 billion of the then outstanding $1.3 billion aggregate principal amount of Verizon 8.75% Notes due 2018, $0.7 billion of the then outstanding $1.25 billion aggregate principal amount of Verizon 5.55% Notes due 2016, $0.4 billion of the then outstanding $0.75 billion aggregate principal amount of Verizon 5.50% Notes due 2017, $0.6 billion of the then outstanding $1.0 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, $0.2 billion of the then outstanding $0.3 billion aggregate principal amount of Alltel Corporation 7.00% Debentures due 2016 and $0.3 billion of the then outstanding $0.6 billion aggregate principal amount of GTE Corporation 6.84% Debentures due 2018.

During the fourth quarter of 2014, we recorded net debt redemption costs of $0.5 billion in connection with the early redemption of $0.5 billion aggregate principal amount of Verizon 4.90% Notes due 2015, $0.6 billion aggregate principal amount of Verizon 5.55% Notes due 2016, $1.3 billion aggregate principal amount of Verizon 3.00% Notes due 2016, $0.4 billion aggregate principal amount of Verizon 5.50% Notes due 2017, $0.7 billion aggregate principal amount of Verizon 8.75% Notes due 2018, $1.0 billion of the then outstanding $3.2 billion aggregate principal amount of Verizon 2.50% Notes due 2016, $0.1 billion aggregate principal amount Alltel Corporation 7.00% Debentures due 2016 and $0.4 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, as well as $0.3 billion of other costs.

We recognize early debt redemption costs in Other income and (expense), net on our consolidated statements of income.

**Additional Financing Activities (Non-Cash Transaction)**

During 2014 and 2013, we financed, primarily through vendor financing arrangements, the purchase of approximately $0.7 billion and $0.1 billion, respectively, of long-lived assets, consisting primarily of network equipment. At December 31, 2014, $0.7 billion of these financing arrangements remained outstanding. These purchases are non-cash financing activities and therefore not reflected within Capital expenditures on our consolidated statements of cash flows.

**Guarantees**

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries. As of December 31, 2014, $3.1 billion aggregate principal amount of these obligations remained 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, 2014, $1.4 billion aggregate principal amount of these obligations remain outstanding.

**Debt Covenants**

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

**Maturities of Long-Term Debt**

Maturities of long-term debt outstanding at December 31, 2014 are as follows:

| **Years** | (dollars in millions) |
|---|---|
| 2015 | $ 2,397 |
| 2016 | 6,114 |
| 2017 | 3,911 |
| 2018 | 6,529 |
| 2019 | 6,088 |
| Thereafter | 87,894 |

## Note 9

## Wireless Equipment Installment Plans

We offer new and existing customers the option to participate in Verizon Edge, a program that provides eligible wireless customers with the ability to pay for their handset over a period of time (an equipment installment plan) and the right to upgrade their handset after a minimum of 30 days, subject to certain conditions, including making a stated portion of the required device payments, trading in their handset in good working condition and signing a new contract with Verizon. The gross guarantee liability related to this program, which was approximately $0.7 billion at December 31, 2014 and was not material at December 31, 2013, was primarily included in Other current liabilities on our consolidated balance sheets.

At the time of sale, we impute risk adjusted interest on the receivables associated with Verizon Edge. We record the imputed interest as a reduction to the related accounts receivable. Interest income, which is included within Other income and (expense), net on our consolidated statements of income, is recognized over the financed installment term.

We assess the collectability of our Verizon Edge receivables based upon a variety of factors, including the credit quality of the customer base, payment trends and other qualitative factors. The current portion of our receivables related to Verizon Edge included in Accounts receivable was $2.3 billion at December 31, 2014 and was not material at December 31, 2013. The long-term portion of the equipment installment plan receivables included in Other assets was $1.2 billion at December 31, 2014 and was not material at December 31, 2013.

The credit profiles of our customers with a Verizon Edge plan are similar to those of our customers with a traditional subsidized plan. Customers with a credit profile which carries a higher risk are required to make a down payment for equipment financed through Verizon Edge.

## Note 10

## Fair Value Measurements and Financial Instruments

### Recurring Fair Value Measurements

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

(dollars in millions)

| | Level 1[(1)] | Level 2[(2)] | Level 3[(3)] | Total |
|---|---|---|---|---|
| **Assets:** | | | | |
| Short-term investments: | | | | |
| Equity securities | $ 295 | $ – | $ – | $ 295 |
| Fixed income securities | – | 260 | – | 260 |
| Other assets: | | | | |
| Fixed income securities | 250 | 893 | – | 1,143 |
| Interest rate swaps | – | 72 | – | 72 |
| Cross currency swaps | – | 6 | – | 6 |
| **Total** | $ 545 | $ 1,231 | $ – | $ 1,776 |
| **Liabilities:** | | | | |
| Other current liabilities: | | | | |
| Cross currency swaps and other | $ – | $ 74 | $ – | $ 74 |
| Other liabilities: | | | | |
| Forward interest rate swaps | – | 216 | – | 216 |
| Cross currency swaps | – | 528 | – | 528 |
| **Total** | $ – | $ 818 | $ – | $ 818 |

(1) quoted prices in active markets for identical assets or liabilities
(2) observable inputs other than quoted prices in active markets for identical assets and liabilities
(3) 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 as well as U.S. Treasury securities. We use quoted prices in active markets for our U.S. Treasury securities, therefore these securities are classified as Level 1. For all other fixed income securities that do not have quoted prices in active markets, 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. Our derivative instruments are recorded on a gross basis.

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 2014.

*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:

(dollars in millions)

| At December 31, | **2014** | | 2013 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | Carrying Amount | Fair Value |
| Short- and long-term debt, excluding capital leases | **$ 112,755** | **$ 126,549** | $ 93,298 | $ 103,527 |

**Derivative Instruments**

*Interest Rate Swaps*

We enter 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 LIBOR, 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.

During the second quarter of 2013, interest rate swaps with a notional value of $1.25 billion matured and the impact to our consolidated financial statements was not material. During the third quarter of 2013, we entered into interest rate swaps with a total notional value of $1.8 billion. At December 31, 2014 and 2013, the fair value of these interest rate swaps was not material. At December 31, 2014, the total notional amount of these interest rate swaps was $1.8 billion. The ineffective portion of these interest rate swaps was not material at December 31, 2014 and 2013.

*Forward Interest Rate Swaps*

In order to manage our exposure to future interest rate changes, during the fourth quarter of 2013, we entered into forward interest rate swaps with a notional value of $2.0 billion. In March 2014, we settled these forward interest rate swaps and the pre-tax gain was not material. During 2014, we entered into forward interest rate swaps with a total notional value of $4.8 billion. We designated these contracts as cash flow hedges. During the fourth quarter of 2014, we settled $2.8 billion of forward interest rate swaps and the pre-tax loss was not material. The fair value of these contracts was $0.2 billion, which was included within Other liabilities on our consolidated balance sheet, at December 31, 2014 and was not material at December 31, 2013.

*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. In June 2014, we settled $0.8 billion of these cross currency swaps and the gains with respect to these swaps were not material.

During the first quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $5.4 billion of Euro and British Pound Sterling denominated debt into U.S. dollars. During the second quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $1.2 billion of British Pound Sterling denominated debt into U.S. dollars. During the fourth quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $3.0 billion of Euro denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars. Each of these cross currency swaps was entered into in order 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 pre-tax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was $0.6 billion, which was primarily included within Other liabilities on our consolidated balance sheet, at December 31, 2014 and was not material at December 31, 2013. During 2014 and 2013, a pre-tax loss of $0.1 billion and an immaterial pre-tax gain, respectively, were recognized in Other comprehensive income with respect to these swaps.

### 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 with whom we have negotiated derivatives agreements (ISDA master agreement) and credit support annex agreements which provide rules for collateral exchange. We generally apply collateralized arrangements with our counterparties for uncleared derivatives to mitigate credit risk. At December 31, 2014, we posted collateral of approximately $0.6 billion related to derivative contracts under collateral exchange arrangements, which were recorded as Prepaid expenses and other in our consolidated balance sheet. At December 31, 2013, we held an immaterial amount of collateral related to derivative contracts under collateral exchange arrangements, which were recorded as Accounts payable and accrued liabilities in our consolidated balance sheet. We may enter into swaps on an uncollateralized basis in certain circumstances. 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.

### Nonrecurring Fair Value Measurements

The Company measures certain assets and liabilities at fair value on a nonrecurring basis. During the fourth quarter of 2014, certain long-lived assets met the criteria to be classified as held for sale. At that time, the fair value of these long-lived assets was measured, resulting in expected disposal losses of $0.1 billion. The fair value of these assets held for sale was measured with the assistance of third-party appraisals and other estimates of fair value, which used market approach techniques as part of the analysis. The fair value measurement was categorized as Level 3, as significant unobservable inputs were used in the valuation. The expected disposal losses, which represented the difference between the fair value less cost to sell and the carrying amount of the assets held for sale, were included in Selling, general and administrative expenses.

## Note 11

## 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 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) | Restricted Stock Units | Performance Stock Units |
|---|---|---|
| Outstanding January 1, 2012 | 19,836 | 27,614 |
| Granted | 6,350 | 20,537 |
| Payments | (7,369) | (8,499) |
| Cancelled/Forfeited | (148) | (189) |
| Outstanding December 31, 2012 | 18,669 | 39,463 |
| Granted | 4,950 | 7,470 |
| Payments | (7,246) | (22,703) |
| Cancelled/Forfeited | (180) | (506) |
| Outstanding December 31, 2013 | 16,193 | 23,724 |
| **Granted** | **5,278** | **7,359** |
| **Payments** | **(6,202)** | **(9,153)** |
| **Cancelled/Forfeited** | **(262)** | **(1,964)** |
| **Outstanding December 31, 2014** | **15,007** | **19,966** |

As of December 31, 2014, 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 2014 and 2013 have weighted-average grant date fair values of $47.23 and $47.96 per unit, respectively. During 2014, 2013 and 2012, we paid $0.6 billion, $1.1 billion and $0.6 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) provided compensation opportunities to eligible employees of Verizon Wireless (the Partnership). Under the Wireless Plan, Value Appreciation Rights (VARs) were granted to eligible employees. We have not granted new VARs since 2004. As of December 31, 2014, there are no VARs that remain outstanding.

*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 $0.3 billion, $0.4 billion and $0.7 billion for 2014, 2013 and 2012, 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. As of December 31, 2014, there are no stock options that remain outstanding.

## Note 12

## 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 credits and/or 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 and 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 | |
|---|---|---|---|---|
| At December 31, | **2014** | 2013 | **2014** | 2013 |
| **Change in Benefit Obligations** | | | | |
| Beginning of year | **$ 23,032** | $ 26,773 | **$ 23,042** | $ 26,844 |
| Service cost | **327** | 395 | **258** | 318 |
| Interest cost | **1,035** | 1,002 | **1,107** | 1,095 |
| Plan amendments | **(89)** | (149) | **(412)** | (119) |
| Actuarial (gain) loss, net | **2,977** | (2,327) | **4,645** | (3,576) |
| Benefits paid | **(1,566)** | (1,777) | **(1,543)** | (1,520) |
| Curtailment and termination benefits | **11** | 4 | **–** | – |
| Settlements paid | **(407)** | (889) | **–** | – |
| End of year | **$ 25,320** | $ 23,032 | **$ 27,097** | $ 23,042 |
| **Change in Plan Assets** | | | | |
| Beginning of year | **$ 17,111** | $ 18,282 | **$ 3,053** | $ 2,657 |
| Actual return on plan assets | **1,778** | 1,388 | **193** | 556 |
| Company contributions | **1,632** | 107 | **732** | 1,360 |
| Benefits paid | **(1,566)** | (1,777) | **(1,543)** | (1,520) |
| Settlements paid | **(407)** | (889) | **–** | – |
| End of year | **$ 18,548** | $ 17,111 | **$ 2,435** | $ 3,053 |
| **Funded Status** | | | | |
| End of year | **$ (6,772)** | $ (5,921) | **$ (24,662)** | $ (19,989) |

(dollars in millions)

| | Pension | | Health Care and Life | |
|---|---|---|---|---|
| At December 31, | **2014** | 2013 | **2014** | 2013 |
| **Amounts recognized on the balance sheet** | | | | |
| Noncurrent assets | **$ 337** | $ 339 | **$ –** | $ – |
| Current liabilities | **(122)** | (137) | **(528)** | (710) |
| Noncurrent liabilities | **(6,987)** | (6,123) | **(24,134)** | (19,279) |
| Total | **$ (6,772)** | $ (5,921) | **$ (24,662)** | $ (19,989) |
| **Amounts recognized in Accumulated Other Comprehensive Income (Pre-tax)** | | | | |
| Prior Service Benefit (Cost) | **$ (56)** | $ 25 | **$ (2,280)** | $ (2,120) |
| Total | **$ (56)** | $ 25 | **$ (2,280)** | $ (2,120) |

Beginning in 2013, as a result of federal health care reform, Verizon no longer files for the Retiree Drug Subsidy (RDS) and instead contracts with a Medicare Part D plan on a group basis to provide prescription drug benefits to Medicare eligible retirees.

The accumulated benefit obligation for all defined benefit pension plans was $25.3 billion and $22.9 billion at December 31, 2014 and 2013, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets follows:

| (dollars in millions) | | |
|---|---|---|
| At December 31, | **2014** | 2013 |
| Projected benefit obligation | **$ 24,919** | $ 22,610 |
| Accumulated benefit obligation | **24,851** | 22,492 |
| Fair value of plan assets | **17,810** | 16,350 |

**Net Periodic Cost**

The following table summarizes the benefit (income) cost related to our pension and postretirement health care and life insurance plans:

| (dollars in millions) | **Pension** | | | **Health Care and Life** | | |
|---|---|---|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 | **2014** | 2013 | 2012 |
| Service cost | **$ 327** | $ 395 | $ 358 | **$ 258** | $ 318 | $ 359 |
| Amortization of prior service cost (credit) | **(8)** | 6 | (1) | **(253)** | (247) | (89) |
| Expected return on plan assets | **(1,181)** | (1,245) | (1,795) | **(161)** | (143) | (171) |
| Interest cost | **1,035** | 1,002 | 1,449 | **1,107** | 1,095 | 1,284 |
| Remeasurement (gain) loss, net | **2,380** | (2,470) | 5,542 | **4,615** | (3,989) | 1,262 |
| Net periodic benefit (income) cost | **2,553** | (2,312) | 5,553 | **5,566** | (2,966) | 2,645 |
| Curtailment and termination benefits | **11** | 4 | – | **–** | – | – |
| Total | **$ 2,564** | $(2,308) | $ 5,553 | **$ 5,566** | $ (2,966) | $ 2,645 |

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** | |
|---|---|---|---|---|
| At December 31, | **2014** | 2013 | **2014** | 2013 |
| Prior service cost | **$ (89)** | $ (149) | **$ (413)** | $ (119) |
| Reversal of amortization items | | | | |
| Prior service cost | **8** | (6) | **253** | 247 |
| **Total recognized in other comprehensive (income) loss (pre-tax)** | **$ (81)** | $ (155) | **$ (160)** | $ 128 |

The estimated prior service cost for the defined benefit pension plans that will be amortized from Accumulated other comprehensive income (loss) into net periodic benefit (income) 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 into net periodic benefit (income) cost over the next fiscal year is $0.3 billion.

**Assumptions**

The weighted-average assumptions used in determining benefit obligations follow:

| | **Pension** | | **Health Care and Life** | |
|---|---|---|---|---|
| At December 31, | **2014** | 2013 | **2014** | 2013 |
| 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 | | |
|---|---|---|---|---|---|---|
| At December 31, | **2014** | 2013 | 2012 | **2014** | 2013 | 2012 |
| Discount Rate | **5.00%** | 4.20% | 5.00% | **5.00%** | 4.20% | 5.00% |
| Expected return on plan assets | **7.25** | 7.50 | 7.50 | **5.50** | 5.60 | 7.00 |
| Rate of compensation increases | **3.00** | 3.00 | 3.00 | **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:

| | Health Care and Life | | |
|---|---|---|---|
| At December 31, | **2014** | 2013 | 2012 |
| Healthcare cost trend rate assumed for next year | **6.50%** | 6.50% | 7.00% |
| Rate to which cost trend rate gradually declines | **4.75** | 4.75 | 5.00 |
| Year the rate reaches the level it is assumed to remain thereafter | **2022** | 2020 | 2016 |

A one-percentage point change in the assumed health care cost trend rate would have the following effects:

| | (dollars in millions) | |
|---|---|---|
| One-Percentage Point | **Increase** | **Decrease** |
| Effect on 2014 service and interest cost | $ 193 | $ (155) |
| Effect on postretirement benefit obligation as of December 31, 2014 | 3,760 | (3,023) |

**Plan Assets**

The company's overall investment strategy is to achieve a mix of assets which allows us to meet projected benefit payments while taking into consideration risk and return. While target allocation percentages will vary over time, 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 (where cash flows from investments better match projected benefit payments, typically longer duration fixed income). This allocation will shift as funded status improves to a higher allocation of liability hedging assets. Target policies will be revisited periodically to ensure they are in line with fund objectives. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors. Due to our diversification and risk 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, 2014 are as follows:

(dollars in millions)

| Asset Category | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash and cash equivalents | **$ 1,983** | **$ 1,814** | **$ 169** | **$ –** |
| Equity securities | **4,339** | **2,952** | **1,277** | **110** |
| Fixed income securities | | | | |
| U.S. Treasuries and agencies | **1,257** | **830** | **427** | **–** |
| Corporate bonds | **2,882** | **264** | **2,506** | **112** |
| International bonds | **582** | **39** | **524** | **19** |
| Other | **3** | **–** | **3** | **–** |
| Real estate | **1,792** | **–** | **–** | **1,792** |
| Other | | | | |
| Private equity | **3,748** | **–** | **204** | **3,544** |
| Hedge funds | **1,962** | **–** | **1,164** | **798** |
| **Total** | **$ 18,548** | **$ 5,899** | **$ 6,274** | **$ 6,375** |

The fair values for the pension plans by asset category at December 31, 2013 are as follows:

(dollars in millions)

| Asset Category | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Cash and cash equivalents | $ 968 | $ 881 | $ 87 | $ – |
| Equity securities | 4,200 | 3,300 | 900 | – |
| Fixed income securities | | | | |
| U.S. Treasuries and agencies | 1,097 | 691 | 406 | – |
| Corporate bonds | 2,953 | 212 | 2,579 | 162 |
| International bonds | 364 | 51 | 313 | – |
| Other | 3 | – | 3 | – |
| Real estate | 1,784 | – | – | 1,784 |
| Other | | | | |
| Private equity | 3,942 | – | – | 3,942 |
| Hedge funds | 1,800 | – | 604 | 1,196 |
| Total | $ 17,111 | $ 5,135 | $ 4,892 | $ 7,084 |

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:

(dollars in millions)

| | Equity Securities | Corporate Bonds | International Bonds | Real Estate | Private Equity | Hedge Funds | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2013 | $ – | $ 196 | $ – | $ 2,018 | $ 5,039 | $ 558 | $ 7,811 |
| Actual gain on plan assets | – | 12 | – | 81 | 674 | 84 | 851 |
| Purchases and sales | – | (13) | – | (315) | (1,732) | (124) | (2,184) |
| Transfers in (out) | – | (33) | – | – | (39) | 678 | 606 |
| Balance at December 31, 2013 | $ – | $ 162 | $ – | $ 1,784 | $ 3,942 | $ 1,196 | $ 7,084 |
| **Actual gain (loss) on plan assets** | **(1)** | **5** | **–** | **42** | **73** | **33** | **152** |
| **Purchases and sales** | **106** | **(50)** | **8** | **(34)** | **(471)** | **144** | **(297)** |
| **Transfers in (out)** | **5** | **(5)** | **11** | **–** | **–** | **(575)** | **(564)** |
| **Balance at December 31, 2014** | **$ 110** | **$ 112** | **$ 19** | **$ 1,792** | **$ 3,544** | **$ 798** | **$ 6,375** |

*Health Care and Life Plans*

The fair values for the other postretirement benefit plans by asset category at December 31, 2014 are as follows:

(dollars in millions)

| **Asset Category** | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| Cash and cash equivalents | **$ 208** | **$ 6** | **$ 202** | **$ –** |
| Equity securities | **1,434** | **1,172** | **262** | **–** |
| Fixed income securities | | | | |
| U.S. Treasuries and agencies | **105** | **98** | **7** | **–** |
| Corporate bonds | **461** | **119** | **296** | **46** |
| International bonds | **111** | **14** | **97** | **–** |
| Other | **116** | **–** | **116** | **–** |
| **Total** | **$ 2,435** | **$ 1,409** | **$ 980** | **$ 46** |

The fair values for the other postretirement benefit plans by asset category at December 31, 2013 are as follows:

(dollars in millions)

| **Asset Category** | **Total** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|
| Cash and cash equivalents | $ 237 | $ 12 | $ 225 | $ – |
| Equity securities | 2,178 | 1,324 | 854 | – |
| Fixed income securities | | | | |
| U.S. Treasuries and agencies | 121 | 94 | 27 | – |
| Corporate bonds | 252 | 45 | 207 | – |
| International bonds | 104 | 18 | 86 | – |
| Other | 161 | 40 | 121 | – |
| Total | $ 3,053 | $ 1,533 | $ 1,520 | $ – |

The following is a reconciliation of the beginning and ending balance of the other postretirement benefit plans assets that are measured at fair value using significant unobservable inputs:

| | Corporate Bonds | Total |
|---|---|---|
| Balance at December 31, 2013 | $ – | $ – |
| **Actual gain on plan assets** | **1** | **1** |
| **Purchases and sales** | **45** | **45** |
| **Balance at December 31, 2014** | **$ 46** | **$ 46** |

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.

**Employer Contributions**

In 2014, we contributed $1.5 billion to our qualified pension plans, $0.1 billion to our nonqualified pension plans and $0.7 billion to our other postretirement benefit plans. We anticipate a minimum contribution of $0.7 billion to our qualified pension plans in 2015. Nonqualified pension plans contributions are estimated to be $0.1 billion and contributions to our other postretirement benefit plans are estimated to be $0.8 billion in 2015.

**Estimated Future Benefit Payments**

The benefit payments to retirees are expected to be paid as follows:

(dollars in millions)

| Year | Pension Benefits | Health Care and Life |
|---|---|---|
| 2015 | $ 2,855 | $ 1,481 |
| 2016 | 2,024 | 1,456 |
| 2017 | 1,937 | 1,452 |
| 2018 | 1,427 | 1,436 |
| 2019 | 1,396 | 1,398 |
| 2020-2024 | 6,890 | 6,996 |

**Savings Plan and Employee Stock Ownership Plans**

We maintain four leveraged employee stock ownership plans (ESOP). 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, 2014, the number of allocated shares of common stock in this ESOP was 61 million. There were no unallocated shares of common stock in this ESOP at December 31, 2014. All leveraged ESOP shares are included in earnings per share computations.

Total savings plan costs were $0.9 billion in 2014, $1.0 billion in 2013 and $0.7 billion in 2012.

**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:

(dollars in millions)

| Year | Beginning of Year | Charged to Expense | Payments | Other | End of Year |
|---|---|---|---|---|---|
| 2012 | $ 1,113 | $ 396 | $ (531) | $ 32 | $ 1,010 |
| 2013 | 1,010 | 134 | (381) | (6) | 757 |
| **2014** | **757** | **531** | **(406)** | **(7)** | **875** |

*Severance, Pension and Benefit (Credits) Charges*

During 2014, we recorded net pre-tax severance, pension and benefits charges of approximately $7.5 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 5.0% at December 31, 2013 to a weighted-average of 4.2% at December 31, 2014 ($5.2 billion), a change in mortality assumptions primarily driven by the use of updated actuarial tables (RP-2014 and MP-2014) issued by the Society of Actuaries in October 2014 ($1.8 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 7.25% and our actual return on assets of 10.5% ($0.6 billion). As part of this charge, we recorded severance costs of $0.5 billion under our existing separation plans.

During 2013, we recorded net pre-tax severance, pension and benefits credits of approximately $6.2 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 credits were primarily driven by an increase in our discount rate assumption used to determine the current year liabilities from a weighted-average of 4.2% at December 31, 2012 to a weighted-average of 5.0% at December 31, 2013 ($4.3 billion), lower than assumed retiree medical costs and other assumption adjustments ($1.4 billion) and the difference between our estimated return on assets of 7.5% at December 31, 2012 and our actual return on assets of 8.6% at December 31, 2013 ($0.5 billion).

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.

## Note 13

## Taxes

The components of income before (provision) benefit for income taxes are as follows:

| (dollars in millions) | | | |
|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 |
| Domestic | **$ 12,992** | $ 28,833 | $ 9,316 |
| Foreign | **2,278** | 444 | 581 |
| Total | **$ 15,270** | $ 29,277 | $ 9,897 |

The components of the provision (benefit) for income taxes are as follows:

| (dollars in millions) | | | |
|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 |
| Current | | | |
| Federal | **$ 2,657** | $ (197) | $ 223 |
| Foreign | **81** | (59) | (45) |
| State and Local | **668** | 201 | 114 |
| Total | **3,406** | (55) | 292 |
| Deferred | | | |
| Federal | **(51)** | 5,060 | (559) |
| Foreign | **(9)** | 8 | 10 |
| State and Local | **(32)** | 717 | (403) |
| Total | **(92)** | 5,785 | (952) |
| Total income tax provision (benefit) | **$ 3,314** | $ 5,730 | $ (660) |

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, | **2014** | 2013 | 2012 |
|---|---|---|---|
| Statutory federal income tax rate | **35.0%** | 35.0% | 35.0% |
| State and local income tax rate, net of federal tax benefits | **2.7** | 2.1 | (1.9) |
| Affordable housing credit | **(1.0)** | (0.6) | (1.9) |
| Employee benefits including ESOP dividend | **(0.7)** | (0.4) | (1.1) |
| Disposition of Omnitel Interest | **(5.9)** | – | – |
| Noncontrolling interests | **(5.0)** | (14.3) | (33.7) |
| Other, net | **(3.4)** | (2.2) | (3.1) |
| Effective income tax rate | **21.7%** | 19.6% | (6.7)% |

The effective income tax rate for 2014 was 21.7% compared to 19.6% for 2013. The increase in the effective income tax rate was primarily due to additional income taxes on the incremental income from the Wireless Transaction completed on February 21, 2014 and was partially offset by the utilization of certain tax credits in connection with the Omnitel Transaction in 2014 and the effective income tax rate impact of lower income before income taxes due to severance, pension and benefit charges recorded in 2014 compared to severance, pension and benefit credits recorded in 2013. The decrease in the provision for income taxes was primarily due to lower income before income taxes due to severance, pension and benefit charges recorded in 2014 compared to severance, pension and benefit credits recorded in 2013.

The effective income tax rate for 2013 was 19.6% compared to (6.7)% for 2012. The increase in the effective income tax rate and provision for income taxes was primarily due to higher income before income taxes as a result of severance, pension and benefit credits recorded during 2013 compared to lower income before income taxes as a result of severance, pension and benefit charges as well as early debt redemption costs recorded during 2012.

The amounts of cash taxes paid are as follows:

| | | (dollars in millions) | |
|---|---|---|---|
| Years Ended December 31, | **2014** | 2013 | 2012 |
| Income taxes, net of amounts refunded | **$ 4,093** | $ 422 | $ 351 |
| Employment taxes | **1,290** | 1,282 | 1,308 |
| Property and other taxes | **1,797** | 2,082 | 1,727 |
| Total | **$ 7,180** | $ 3,786 | $ 3,386 |

Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. The presentation of significant components of deferred tax assets and liabilities is updated to reflect the Wireless Transaction. Significant components of deferred tax assets and liabilities are as follows:

| | | (dollars in millions) |
|---|---|---|
| At December 31, | **2014** | 2013 |
| Employee benefits | **$ 13,350** | $ 10,413 |
| Tax loss and credit carry forwards | **2,255** | 2,912 |
| Other – assets | **2,247** | 1,783 |
| | **17,852** | 15,108 |
| Valuation allowances | **(1,841)** | (1,685) |
| Deferred tax assets | **16,011** | 13,423 |
| | | |
| Spectrum and other intangible amortization | **28,283** | 18,280 |
| Depreciation | **23,423** | 18,913 |
| Other – liabilities | **5,754** | 4,315 |
| Deferred tax liabilities | **57,460** | 41,508 |
| Net deferred tax liability | **$ 41,449** | $ 28,085 |

At December 31, 2014, undistributed earnings of our foreign subsidiaries indefinitely invested outside the United States amounted to approximately $1.3 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 represent 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, 2014, we had net after-tax loss and credit carry forwards for income tax purposes of approximately $2.3 billion. Of these net after-tax loss and credit carry forwards, approximately $1.8 billion will expire between 2015 and 2034 and approximately $0.5 billion may be carried forward indefinitely.

During 2014, the valuation allowance increased approximately $0.2 billion. The balance of the valuation allowance at December 31, 2014 and the 2014 activity is primarily related to state and foreign tax losses.

*Unrecognized Tax Benefits*

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

| | | | (dollars in millions) |
|---|---|---|---|
| | **2014** | 2013 | 2012 |
| Balance at January 1, | **$ 2,130** | $ 2,943 | $ 3,078 |
| Additions based on tax positions related to the current year | **80** | 116 | 131 |
| Additions for tax positions of prior years | **627** | 250 | 92 |
| Reductions for tax positions of prior years | **(278)** | (801) | (415) |
| Settlements | **(239)** | (210) | 100 |
| Lapses of statutes of limitations | **(497)** | (168) | (43) |
| Balance at December 31, | **$ 1,823** | $ 2,130 | $ 2,943 |

Included in the total unrecognized tax benefits at December 31, 2014, 2013 and 2012 is $1.3 billion, $1.4 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) |
|---|---|
| **2014** | **$ 92** |
| 2013 | 33 |
| 2012 | 82 |

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) |
|---|---|
| **2014** | **$ 169** |
| 2013 | 274 |

The decrease in unrecognized tax benefits was primarily due to the resolution of issues with the Internal Revenue Service (IRS) involving tax years 2007 through 2009, and was partially offset by an increase in unrecognized tax benefits related to the Wireless Transaction. The uncertain tax benefits related to the Wireless Transaction concern pre-acquisition tax controversies and are the subject of an indemnity from Vodafone for which a corresponding indemnity asset has been established.

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 IRS and multiple state and foreign jurisdictions for various open tax years. The IRS is currently examining the Company’s U.S. income tax returns for tax years 2010-2012 and Cellco Partnership’s U.S. income tax returns for tax years 2012-2013. Significant tax controversies are ongoing in Massachusetts for tax years as early as 2001. The amount of the liability for unrecognized tax benefits will change in the next twelve months due to the expiration of the statute of limitations in various jurisdictions and it is reasonably possible that various current tax examinations will conclude or require reevaluations of the Company’s tax positions during this period. An estimate of the range of the possible change cannot be made until these tax matters are further developed or resolved.

## Note 14

### 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, 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. Effective January 1, 2014, we have also reclassified the results of certain businesses, such as development stage businesses that support our strategic initiatives, from our Wireline segment to Corporate, eliminations and other. The impact of this reclassification was not material to our consolidated financial statements or our segment results of operations.

On July 1, 2014, our Wireline segment sold a non-strategic business (see Note 2). Accordingly, the historical Wireline results for these operations have been reclassified to Corporate, eliminations and other to reflect comparable segment operating results.

The reconciliation of segment operating revenues and expenses to consolidated operating revenues and expenses below also includes those items of a 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-operational nature.

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 |
|---|---|
| **Wireless** | 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. |
| **Wireline** | Wireline's voice, data and video communications products and enhanced services include broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice 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 around the world. |

The following table provides operating financial information for our two reportable segments:

| 2014 | Wireless | Wireline | (dollars in millions) Total Segments |
|---|---|---|---|
| External Operating Revenues | | | |
| Retail service | $ 69,451 | $ – | $ 69,451 |
| Other service | 3,104 | – | 3,104 |
| Service revenue | 72,555 | – | 72,555 |
| Equipment | 10,957 | – | 10,957 |
| Other | 4,021 | – | 4,021 |
| Consumer retail | – | 15,583 | 15,583 |
| Small business | – | 2,464 | 2,464 |
| Mass Markets | – | 18,047 | 18,047 |
| Strategic services | – | 8,318 | 8,318 |
| Core | – | 5,355 | 5,355 |
| Global Enterprise | – | 13,673 | 13,673 |
| Global Wholesale | – | 5,240 | 5,240 |
| Other | – | 462 | 462 |
| Intersegment revenues | 113 | 1,007 | 1,120 |
| Total operating revenues | 87,646 | 38,429 | 126,075 |
| Cost of services and sales | 28,825 | 21,332 | 50,157 |
| Selling, general and administrative expense | 23,602 | 8,180 | 31,782 |
| Depreciation and amortization expense | 8,459 | 7,882 | 16,341 |
| Total operating expenses | 60,886 | 37,394 | 98,280 |
| Operating income | $ 26,760 | $ 1,035 | $ 27,795 |
| Assets | $ 160,385 | $ 76,673 | $ 237,058 |
| Plant, property and equipment, net | 38,276 | 50,318 | 88,594 |
| Capital expenditures | 10,515 | 5,750 | 16,265 |

| 2013 | Wireless | Wireline | Total Segments |
|---|---|---|---|
| | | | (dollars in millions) |
| External Operating Revenues | | | |
| Retail service | $ 66,282 | $ – | $ 66,282 |
| Other service | 2,691 | – | 2,691 |
| Service revenue | 68,973 | – | 68,973 |
| Equipment | 8,096 | – | 8,096 |
| Other | 3,851 | – | 3,851 |
| Consumer retail | – | 14,842 | 14,842 |
| Small business | – | 2,537 | 2,537 |
| Mass Markets | – | 17,379 | 17,379 |
| Strategic services | – | 8,129 | 8,129 |
| Core | – | 6,028 | 6,028 |
| Global Enterprise | – | 14,157 | 14,157 |
| Global Wholesale | – | 5,583 | 5,583 |
| Other | – | 442 | 442 |
| Intersegment revenues | 103 | 1,063 | 1,166 |
| Total operating revenues | 81,023 | 38,624 | 119,647 |
| Cost of services and sales | 23,648 | 21,396 | 45,044 |
| Selling, general and administrative expense | 23,176 | 8,571 | 31,747 |
| Depreciation and amortization expense | 8,202 | 8,327 | 16,529 |
| Total operating expenses | 55,026 | 38,294 | 93,320 |
| Operating income | $ 25,997 | $ 330 | $ 26,327 |
| Assets | $ 146,429 | $ 84,573 | $ 231,002 |
| Plant, property and equipment, net | 35,932 | 51,885 | 87,817 |
| Capital expenditures | 9,425 | 6,229 | 15,654 |

(dollars in millions)

| 2012 | Wireless | Wireline | 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 | – | 14,145 | 14,145 |
| Small business | – | 2,589 | 2,589 |
| Mass Markets | – | 16,734 | 16,734 |
| Strategic services | – | 7,737 | 7,737 |
| Core | – | 6,833 | 6,833 |
| Global Enterprise | – | 14,570 | 14,570 |
| Global Wholesale | – | 6,031 | 6,031 |
| Other | – | 498 | 498 |
| Intersegment revenues | 89 | 1,112 | 1,201 |
| Total operating revenues | 75,868 | 38,945 | 114,813 |
| Cost of services and sales | 24,490 | 21,657 | 46,147 |
| Selling, general and administrative expense | 21,650 | 8,860 | 30,510 |
| Depreciation and amortization expense | 7,960 | 8,424 | 16,384 |
| Total operating expenses | 54,100 | 38,941 | 93,041 |
| Operating income | $ 21,768 | $ 4 | $ 21,772 |
| 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 |

**Reconciliation to Consolidated Financial Information**

A reconciliation of the segment operating revenues to consolidated operating revenues is as follows:

| Years Ended December 31, | **2014** | 2013 | (dollars in millions) 2012 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Total reportable segments | **$ 126,075** | $ 119,647 | $ 114,813 |
| Reconciling items: | | | |
| Impact of divested operations (Note 2) | **256** | 599 | 835 |
| Corporate, eliminations and other | **748** | 304 | 198 |
| Consolidated operating revenues | **$ 127,079** | $ 120,550 | $ 115,846 |

A reconciliation of the total of the reportable segments' operating income to consolidated Income before (provision) benefit for income taxes is as follows:

| Years Ended December 31, | **2014** | 2013 | (dollars in millions) 2012 |
|---|---|---|---|
| **Operating Income** | | | |
| Total segment operating income | **$ 27,795** | $ 26,327 | $ 21,772 |
| Severance, pension and benefit credits (charges) (Note 12) | **(7,507)** | 6,232 | (7,186) |
| Gain on spectrum license transactions (Note 2) | **707** | 278 | – |
| Litigation settlements (Note 17) | **–** | – | (384) |
| Impact of divested operations (Note 2) | **12** | 43 | 56 |
| Other costs | **(334)** | – | (276) |
| Corporate, eliminations and other | **(1,074)** | (912) | (822) |
| Consolidated operating income | **19,599** | 31,968 | 13,160 |
| Equity in earnings of unconsolidated businesses | **1,780** | 142 | 324 |
| Other income and (expense), net | **(1,194)** | (166) | (1,016) |
| Interest expense | **(4,915)** | (2,667) | (2,571) |
| Income Before (Provision) Benefit for Income Taxes | **$ 15,270** | $ 29,277 | $ 9,897 |

A reconciliation of the total of the reportable segments' assets to consolidated assets is as follows:

| At December 31, | **2014** | (dollars in millions) 2013 |
|---|---|---|
| **Assets** | | |
| Total reportable segments | **$ 237,058** | $ 231,002 |
| Corporate, eliminations and other | **(4,350)** | 43,096 |
| Total consolidated | **$ 232,708** | $ 274,098 |

Corporate, eliminations and other at December 31, 2013 is primarily comprised of cash and cash equivalents which were used to complete the Wireless Transaction on February 21, 2014.

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, 2014, 2013 and 2012. International operating revenues and long-lived assets are not significant.

## Note 15

## Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income. Significant changes in the components of Other comprehensive income, net of provision for income taxes are described below.

### Accumulated Other Comprehensive Income

The changes in the balances of Accumulated other comprehensive income by component are as follows:

| (dollars in millions) | Foreign currency translation adjustments | Unrealized loss on cash flow hedges | Unrealized loss on marketable securities | Defined benefit pension and postretirement plans | Total |
|---|---|---|---|---|---|
| Balance at January 1, 2014 | $ 853 | $ 113 | $ 117 | $ 1,275 | $ 2,358 |
| Other comprehensive income (loss) | **(288)** | **(89)** | **14** | **–** | **(363)** |
| Amounts reclassified to net income | **(911)** | **(108)** | **(19)** | **154** | **(884)** |
| Net other comprehensive income (loss) | **(1,199)** | **(197)** | **(5)** | **154** | **(1,247)** |
| **Balance at December 31, 2014** | **$ (346)** | **$ (84)** | **$ 112** | **$ 1,429** | **$ 1,111** |

The amounts presented above in net other comprehensive income (loss) are net of taxes and noncontrolling interests, which are not significant. For the year ended December 31, 2014, the amounts reclassified to net income related to foreign currency translation adjustments are included in Equity in earnings of unconsolidated businesses on our consolidated statement of income and are a result of the completion of the Omnitel transaction. See Note 2 for additional details. For the year ended December 31, 2014, the amounts reclassified to net income related to defined benefit pension and postretirement plans in the table above are included in Cost of services and sales and Selling, general and administrative expense on our consolidated statement of income. For the year ended December 31, 2014, all other amounts reclassified to net income in the table above are included in Other income and (expense), net on our consolidated statement of income.

*Foreign Currency Translation Adjustments*

The change in Foreign currency translation adjustments during 2014 was primarily a result of the completion of the Omnitel transaction. The change in Foreign currency translation adjustments during 2013 and 2012 was primarily related to our investment in Vodafone Omnitel N.V. which was driven by the movements of the U.S. dollar against the Euro.

*Net Unrealized Gains (Losses) on Cash Flow Hedges*

During 2014, 2013 and 2012, Unrealized gains (losses) on cash flow hedges included in Other comprehensive income (loss) attributable to noncontrolling interests, primarily reflect activity related to cross currency swaps (see Note 10). Reclassification adjustments for gains (losses) realized in net income were not significant.

*Net Unrealized Gains (Losses) on Marketable Securities*

During 2014, 2013 and 2012, 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 at December 31, 2014 and 2013, respectively, was not significant.

## Note 16

## Additional Financial Information

The tables that follow provide additional financial information related to our consolidated financial statements:

**Income Statement Information**

| | | | |
|---|---|---|---|
| | | | (dollars in millions) |
| Years Ended December 31, | **2014** | 2013 | 2012 |
| Depreciation expense | **$ 14,966** | $ 15,019 | $ 14,920 |
| Interest costs on debt balances | **5,291** | 3,421 | 2,977 |
| Capitalized interest costs | **(376)** | (754) | (406) |
| Advertising expense | **2,526** | 2,438 | 2,381 |

**Balance Sheet Information**

| | | |
|---|---|---|
| | | (dollars in millions) |
| At December 31, | **2014** | 2013 |
| *Accounts Payable and Accrued Liabilities* | | |
| Accounts payable | **$ 5,598** | $ 4,954 |
| Accrued expenses | **4,016** | 3,954 |
| Accrued vacation, salaries and wages | **4,131** | 4,790 |
| Interest payable | **1,478** | 1,199 |
| Taxes payable | **1,457** | 1,556 |
| | **$ 16,680** | $ 16,453 |
| *Other Current Liabilities* | | |
| Advance billings and customer deposits | **$ 3,125** | $ 2,829 |
| Dividends payable | **2,307** | 1,539 |
| Other | **3,217** | 2,296 |
| | **$ 8,649** | $ 6,664 |

**Cash Flow Information**

| | | | |
|---|---|---|---|
| | | | (dollars in millions) |
| Years Ended December 31, | **2014** | 2013 | 2012 |
| *Cash Paid* | | | |
| Interest, net of amounts capitalized | **$ 4,429** | $ 2,122 | $ 1,971 |

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans, including 18.2 million common shares issued from Treasury stock during the year ended December 31, 2014, which had an aggregate value of $0.7 billion.

In addition to the previously authorized three-year share buyback program, in February 2015, the Verizon Board of Directors authorized Verizon to enter into an accelerated share repurchase (ASR) agreement to repurchase $5.0 billion of the Company's common stock. The total number of shares that Verizon will repurchase under the ASR agreement will be based generally upon the volume-weighted average share price of Verizon's common stock during the term of the transaction. On February 10, 2015, in exchange for an up-front payment totaling $5.0 billion, Verizon received an initial delivery of 86.2 million shares having a value of approximately $4.25 billion. Final settlement of the transaction under the ASR agreement, including delivery of the remaining shares, if any, that Verizon is entitled to receive, is scheduled to occur in the second quarter of 2015.

## Note 17

### 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.

Reserves have been established to cover environmental matters relating to discontinued businesses and past telecommunications activities. These reserves include funds to address contamination at the site of a former Sylvania facility in Hicksville NY, which had processed nuclear fuel rods in the 1950s and 1960s. In September 2005, the Army Corps of Engineers (ACE) accepted the site into its Formerly Utilized Sites Remedial Action Program. As a result, the ACE has taken primary responsibility for addressing the contamination at the site. An adjustment to the reserves may be made after a cost allocation is conducted with respect to the past and future expenses of all of the parties. Adjustments to the environmental reserve may also be made based upon the actual conditions found at other sites requiring remediation.

Verizon is currently involved in approximately 70 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 have sold products and seek injunctive relief as well. These cases have progressed to various stages 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 following 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, 2014, 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 programming and network services, equipment, software, handsets and peripherals, and marketing activities, which will be used or sold in the ordinary course of business, from a variety of suppliers totaling $21.0 billion. Of this total amount, $8.4 billion is attributable to 2015, $8.5 billion is attributable to 2016 through 2017, $2.5 billion is attributable to 2018 through 2019 and $1.6 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 2014 totaled approximately $21.0 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, 2014, 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 18

### Quarterly Financial Information (Unaudited)

(dollars in millions, except per share amounts)

| Quarter Ended | Operating Revenues | Operating Income (Loss) | Net Income (Loss) attributable to Verizon[1] Amount | Per Share-Basic | Per Share-Diluted | Net Income (Loss) |
|---|---|---|---|---|---|---|
| **2014** | | | | | | |
| March 31 | **$ 30,818** | **$ 7,160** | **$ 3,947** | **$ 1.15** | **$ 1.15** | **$ 5,986** |
| June 30 | **31,483** | **7,685** | **4,214** | **1.02** | **1.01** | **4,324** |
| September 30 | **31,586** | **6,890** | **3,695** | **.89** | **.89** | **3,794** |
| December 31 | **33,192** | **(2,136)** | **(2,231)** | **(.54)** | **(.54)** | **(2,148)** |
| 2013 | | | | | | |
| March 31 | $ 29,420 | $ 6,222 | $ 1,952 | $ .68 | $ .68 | $ 4,855 |
| June 30 | 29,786 | 6,555 | 2,246 | .78 | .78 | 5,198 |
| September 30 | 30,279 | 7,128 | 2,232 | .78 | .78 | 5,578 |
| December 31 | 31,065 | 12,063 | 5,067 | 1.77 | 1.76 | 7,916 |

- Results of operations for the first quarter of 2014 include after-tax-credits attributable to Verizon of $1.9 billion related to the sale of its entire ownership interest in Vodafone Omnitel, as well as after-tax costs attributable to Verizon of $0.6 billion related to early debt redemptions and $0.3 billion related to the Wireless Transaction.
- Results of operations for the second quarter of 2014 include after-tax credits attributable to Verizon of $0.4 billion related to a gain on spectrum license transactions.
- Results of operations for the fourth quarter of 2014 include after-tax charges attributable to Verizon of $4.7 billion related to severance, pension and benefit charges, as well as after-tax costs attributable to Verizon of $0.5 billion related to early debt redemption and other costs.
- Results of operations for the second quarter of 2013 include after-tax credits attributable to Verizon of $0.1 billion related to a pension remeasurement.
- Results of operations for the third quarter of 2013 include immaterial after-tax credits attributable to Verizon related to a gain on a spectrum license transaction, as well as immaterial after-tax costs attributable to Verizon related to the Wireless Transaction.
- Results of operations for the fourth quarter of 2013 include after-tax credits attributable to Verizon of $3.7 billion related to severance, pension and benefit credits, as well as after-tax costs attributable to Verizon of $0.5 billion related to the Wireless Transaction.

[1] 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.

**EXHIBIT 21**

**Verizon Communications Inc. and Subsidiaries**
Principal Subsidiaries of Registrant at December 31, 2014

| **Name** | **State of Incorporation / Organization** |
|---|---|
| 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 LLC. | Virginia |
| Bell Atlantic Mobile Systems LLC. | Delaware |
| Cellco Partnership (d/b/a Verizon Wireless) | Delaware |
| GTE Corporation | New York |
| GTE Wireless Incorporated | Delaware |
| MCI Communications Corporation | Delaware |
| Verizon Americas Inc. | Delaware |
| JV PartnerCo, LLC. | Delaware |
| Verizon Business Global LLC. | Delaware |
| Cranberry Properties LLC. | Delaware |

**EXHIBIT 23**

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 23, 2015, with respect to the consolidated financial statements of Verizon and the effectiveness of internal control over financial reporting of Verizon, included in the 2014 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 23, 2015, 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 23, 2015, 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, 2014: 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. 333-182749; Form S-3, No. 333-190954; Form S-8, No. 333-200398 and Form S-4, No. 333-200907.

/s/ Ernst & Young LLP

Ernst & Young LLP
New York, New York

February 23, 2015

**EXHIBIT 31.1**

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 23, 2015

/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 23, 2015

/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, 2014 (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 23, 2015

/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, 2014 (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 23, 2015

/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.