SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA


(dollars in millions, except per share amounts)

Results of Operations

Operating revenues $ 115,846  $ 110,875  $ 106,565  $ 107,808  $ 97,354
Operating income 13,160  12,880  14,645  15,978  2,612
Net income (loss) attributable to Verizon 875  2,404  2,549  4,894  (2,193)
  Per common share – basic .31  .85  .90  1.72  (77)
  Per common share – diluted .31  .85  .90  1.72  (77)
Cash dividends declared per common share 2,030  1,975  1,925  1.870  1.780
Net income attributable to noncontrolling interest 9,682  7,794  7,668  6,707  6,155

Financial Position

Total assets $ 225,222  $ 230,461  $ 220,005  $ 226,907  $ 202,185
Debt maturing within one year 4,369  4,849  7,542  7,205  4,993
Long-term debt 47,618  50,303  45,252  55,051  46,959
Employee benefit obligations 34,346  32,957  28,164  32,622  32,512
Noncontrolling interest 52,376  49,938  48,343  42,761  37,199
Equity attributable to Verizon 33,157  35,970  38,569  41,382  41,592

• Significant events affecting our historical earnings trends in 2010 through 2012 are described in “Other Items” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section.

• 2009 and 2008 data includes severance, pension and benefit charges, merger integration and acquisition costs, dispositions and other items.

Stock Performance Graph

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

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

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

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

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

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

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

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

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

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

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

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

• In 2012, we completed separate transactions with SpectrumCo, LLC (SpectrumCo) and Cox TMI Wireless, LLC to acquire Advanced Wireless Service (AWS) spectrum. We also completed a series of purchase and exchange transactions for AWS and PCS licenses and a 700 megahertz (MHz) lower A block license. In addition, during January 2013, we agreed to sell a portion of our 700 MHz B block licenses, which upon receipt of regulatory approval, will result in the completion of our previously announced open sale process for all of our 700 MHz lower A and B block spectrum licenses. These transactions will allow us to meet the continued demand for wireless services.

• On June 1, 2012, we agreed to acquire HUGHES Telematics for approximately $12 per share in cash for a total acquisition price of $0.6 billion and we completed the acquisition on July 26, 2012. The acquisition has accelerated our ability to bring more telematics offerings to market for existing and new HUGHES Telematics and Verizon customers.

• In February 2012, we entered into a venture with Redbox Automated Retail, LLC, a subsidiary of Coinstar, Inc., to offer customers nationwide access to media rentals through online and mobile content streaming as well as physical media rentals through Redbox kiosks. In December 2012, the venture introduced its product portfolio, which includes subscription services, under the name Redbox Instant by Verizon.
During 2012, we purchased a single premium group annuity contract accountability, we believe we are well-positioned to produce a long-term and by our core values of integrity, respect, performance excellence and economy. We are committed to putting our customers first and being a have an efficient, reliable infrastructure for competing in the information also investing in the markets we serve by making sure our communities growth trends of the future. By investing in our own capabilities, we are fiber and cloud services has positioned Verizon at the center of the • In 2011, we acquired Terremark Worldwide Inc. (Terremark), a global provider of information technology infrastructure and cloud services. This acquisition enhanced our competitive position in managed hosting and cloud services offerings to business and government customers globally and is contributing to our growth in revenues. Additionally, in 2011, we acquired a provider of cloud software technology, which has further enhanced our offerings of cloud services. We expect our provisioning of cloud services to be instrumental to our future growth as it allows us to meet the evolving demands of our customers. Investing in innovative technology like wireless networks, high-speed fiber and cloud services has positioned Verizon at the center of the growth trends of the future. By investing in our own capabilities, we are also investing in the markets we serve by making sure our communities have an efficient, reliable infrastructure for competing in the information economy. We are committed to putting our customers first and being a responsible member of our communities. Guided by this commitment and by our core values of integrity, respect, performance excellence and accountability, we believe we are well-positioned to produce a long-term return for our shareowners, create meaningful work for ourselves and provide something of lasting value for society. During 2012, we purchased a single premium group annuity contract from The Prudential Insurance Company of America and Prudential Financial Inc.

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

Trends

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

Connection and Operating Trends

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

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

Despite this challenging environment, we expect that we will continue to grow key aspects of our wireline business by providing superior network reliability, offering innovative product bundles that include high-speed Internet access, digital television and local and long distance voice services, offering more robust IP products and service, and accelerating our cloud computing strategy. We will also continue to focus on cost efficiencies to attempt to offset adverse impacts from unfavorable economic conditions and intense competitive pressure.

Operating Revenue

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

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

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

Operating Costs and Expenses

We anticipate our overall wireless operating costs will increase as a result of the expected increase in the volume of smartphone sales, which will result in higher equipment and sales commission costs. In addition, we expect content costs for our FiOS video services to continue to increase. However, we expect to achieve certain cost efficiencies in 2013 and beyond as data traffic continues to migrate to our lower-cost 4G LTE network and as we continue to streamline our business processes with a focus on improving productivity and increasing profitability.
Capital Expenditures
Our 2013 capital program includes capital to fund advanced networks and services, including 4G LTE and FiOS, the continued expansion of our core networks, including our IP and data center enhancements, maintenance and support for our legacy voice networks and other expenditures to drive operating efficiencies. The level and the timing of the Company’s capital expenditures within these broad categories can vary significantly as a result of a variety of factors outside our control, including, for example, material weather events. We are replacing damaged copper wire with fiber-optic cable which will not alter our capital program but should result in lower maintenance costs. Capital expenditures were approximately $16 billion in 2012 and 2011, respectively. We believe that we have significant discretion over the amount and timing of our capital expenditures on a Company-wide basis as we are not subject to any agreement that would require significant capital expenditures on a designated schedule or upon the occurrence of designated events. We expect capital expenditures as a percentage of revenue to decline in 2013 from levels in 2012.

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

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

Other
We do not currently expect that legislative efforts relating to climate control will have a material adverse impact on our consolidated financial results or financial condition. We believe there may be opportunities for companies to increase their use of communications services, including those we provide, in order to minimize the environmental impact of their businesses.
MANAGEMENT’S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Consolidated Revenues

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2012 vs. 2011</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year</td>
<td>Year</td>
<td>Year</td>
<td>2012</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>vs. 2011</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(dollars in millions)</td>
<td></td>
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Verizon Wireless

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
<th>2012 vs. 2011</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service revenue</td>
<td>$ 63,733</td>
<td>$ 59,157</td>
<td>$ 55,629</td>
<td>$ 4,576</td>
<td>7.7 %</td>
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<tr>
<td></td>
<td>$ 63,733</td>
<td>$ 59,157</td>
<td>$ 55,629</td>
<td>$ 4,576</td>
<td>$ 3,528</td>
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<tr>
<td>Equipment and other</td>
<td>12,135</td>
<td>10,997</td>
<td>7,778</td>
<td>1,138</td>
<td>10.3 %</td>
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<td>12,135</td>
<td>10,997</td>
<td>7,778</td>
<td>1,138</td>
<td>$ 3,219</td>
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<td>Total</td>
<td>75,868</td>
<td>70,154</td>
<td>63,407</td>
<td>5,714</td>
<td>8.1 %</td>
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<td></td>
<td>75,868</td>
<td>70,154</td>
<td>63,407</td>
<td>5,714</td>
<td>$ 6,747</td>
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Wireline

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<tr>
<th></th>
<th>2012</th>
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<th>2010</th>
<th>2012 vs. 2011</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mass Markets</td>
<td>16,702</td>
<td>16,337</td>
<td>16,256</td>
<td>365</td>
<td>2.2 %</td>
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<tr>
<td></td>
<td>16,702</td>
<td>16,337</td>
<td>16,256</td>
<td>365</td>
<td>81</td>
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<tr>
<td>Global Enterprise</td>
<td>15,299</td>
<td>15,622</td>
<td>15,316</td>
<td>(323)</td>
<td>(1.1)</td>
</tr>
<tr>
<td></td>
<td>15,299</td>
<td>15,622</td>
<td>15,316</td>
<td>(323)</td>
<td>306</td>
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<tr>
<td>Global Wholesale</td>
<td>7,240</td>
<td>7,973</td>
<td>8,746</td>
<td>(733)</td>
<td>(9.2)</td>
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<tr>
<td></td>
<td>7,240</td>
<td>7,973</td>
<td>8,746</td>
<td>(733)</td>
<td>(773)</td>
</tr>
<tr>
<td>Other</td>
<td>539</td>
<td>750</td>
<td>909</td>
<td>(211)</td>
<td>(28.1)</td>
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<tr>
<td></td>
<td>539</td>
<td>750</td>
<td>909</td>
<td>(211)</td>
<td>(159)</td>
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<tr>
<td>Total</td>
<td>39,780</td>
<td>40,982</td>
<td>41,227</td>
<td>(902)</td>
<td>(2.2)</td>
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<td></td>
<td>39,780</td>
<td>40,982</td>
<td>41,227</td>
<td>(902)</td>
<td>(545)</td>
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<td>Corporate, eliminations and other</td>
<td>198</td>
<td>39</td>
<td>1,931</td>
<td>159 nm</td>
<td>159 nm</td>
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<tr>
<td>Consolidated Revenues</td>
<td>$ 115,846</td>
<td>$ 110,875</td>
<td>$ 106,565</td>
<td>$ 4,971</td>
<td>4.5 %</td>
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<tr>
<td></td>
<td>$ 115,846</td>
<td>$ 110,875</td>
<td>$ 106,565</td>
<td>$ 4,971</td>
<td>$ 4,310</td>
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2012 Compared to 2011

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

Verizon Wireless’ revenues increased during 2012 compared to 2011 due to growth in both service and equipment and other revenue. Service revenue increased during 2012 compared to 2011 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections of 5.1 million in 2012, as well as the continued increase in penetration of higher priced smartphones. Retail postpaid connections per account increased during 2012 compared to 2011 primarily due to the increased use of tablets and other Internet devices. In 2012, the increase in retail postpaid connection net additions was primarily due to an increase in retail prepaid and prepaid connection gross additions and improvements in our retail connections churn rate. Higher retail postpaid connection gross additions during 2012 primarily reflect the launch of our Share Everything plans coupled with new device introductions during the second half of 2012.

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

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

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

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

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

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

2011 Compared to 2010

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

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

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

The decrease in Wireline’s revenues during 2011 compared to 2010 was primarily driven by declines in Global Wholesale, and Global Enterprise Core and Other revenues. The decrease in Global Wholesale revenues was primarily due to a $0.4 billion decline in international voice revenues as a result of decreased MOUs in traditional voice products as a result of increases in voice termination pricing on certain international routes. Global Enterprise Core revenues declined primarily due to lower customer premise equipment revenues, reflecting our focus on improving margins by de-emphasizing sales of equipment that are not a part of an overall enterprise solutions bundle, as well as customers migrating to next generation IP services. Other Wireline revenue also decreased primarily as a result of former MCI mass market customer losses. These revenue declines were partially offset by continued revenue growth in Global Enterprise Strategic services, in part due to the inclusion of the revenues of Terremark, and in Mass Markets, primarily due to the expansion of FiOS services (Voice, Internet and Video), partially offset by the decline of local exchange revenues.
Consolidated operating expenses increased during 2012 and 2011 primarily due to higher non-operational charges (see "Other Items") as well as increased operating expenses at Verizon Wireless. The changes in consolidated operating expenses during 2011 were also favorably impacted by divested operations.

2012 Compared to 2011

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

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

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

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

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

2011 Compared to 2010

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

Selling, General and Administrative Expense
Selling, general and administrative expense increased during 2011 compared to 2010 primarily due to higher severance, pension and benefit charges and costs caused by storm-related events as well as higher sales commission expense at our Verizon Wireless segment. Partially offsetting the increase was the absence of merger integration and acquisition related charges and access line spin-off charges during 2011 and a decrease in compensation expense at our Wireline segment.

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

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

### Consolidated Operating Expenses

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</thead>
<tbody>
<tr>
<td>Total non-operating charges included in operating expenses</td>
<td>$ 7,846</td>
<td>$ 5,954</td>
<td>$ 4,328</td>
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</tbody>
</table>

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

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

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

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

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

(1) Excludes non-operating charges included in Depreciation and amortization expense.

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

Other Consolidated Results

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

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

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</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest income</strong></td>
<td>$57</td>
<td>$68</td>
<td>$92</td>
<td>$11</td>
<td>(16.2)%</td>
<td>(26.1)%</td>
</tr>
<tr>
<td><strong>Foreign exchange gains (losses), net</strong></td>
<td>(1)</td>
<td>(9)</td>
<td>5</td>
<td>8</td>
<td>(88.9)</td>
<td>(14)</td>
</tr>
<tr>
<td><strong>Other, net</strong></td>
<td>(1,072)</td>
<td>(73)</td>
<td>(43)</td>
<td>(999)</td>
<td>nm</td>
<td>(30)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ (1,016)</td>
<td>$ (14)</td>
<td>$ 54</td>
<td>$1,002</td>
<td>nm</td>
<td>$ (68)</td>
</tr>
</tbody>
</table>

nm - not meaningful

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

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

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

## Net Income Attributable to Noncontrolling Interest

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<thead>
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</thead>
<tbody>
<tr>
<td>Net income attributable to noncontrolling interest</td>
<td>$ 9,682</td>
<td>$ 7,794</td>
<td>$ 7,668</td>
<td>$ 1,888</td>
<td>24.2 %</td>
</tr>
</tbody>
</table>

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

## Provision (Benefit) for Income Taxes

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</tr>
</thead>
<tbody>
<tr>
<td>Provision (Benefit) for income taxes</td>
<td>$ (660)</td>
<td>$ 285</td>
<td>$ 2,467</td>
<td>$ (945)</td>
<td>nm</td>
</tr>
<tr>
<td>Effective income tax rate</td>
<td>(6.7)%</td>
<td>2.7%</td>
<td>19.4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

nm - not meaningful

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

The effective income tax rate in 2011 decreased to 7.9 percentage points lower during 2011 and 2010 compared to 2010 primarily due to a $1.6 billion decrease in average debt (see “Consolidated Financial Condition”) and a lower effective interest rate. Capitalized interest costs were lower in 2011 primarily due to our ongoing deployment of the 4G LTE network.

## Provision (Benefit) for Income Taxes

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Total interest costs on debt balances</td>
<td>$ 2,977</td>
<td>$ 3,269</td>
<td>$ 3,487</td>
<td>$ (292)</td>
<td>(8.9)%</td>
</tr>
<tr>
<td>Less Capitalized interest costs</td>
<td>406</td>
<td>442</td>
<td>964</td>
<td>(36)</td>
<td>(8.1)%</td>
</tr>
<tr>
<td>Total</td>
<td>$ 2,571</td>
<td>$ 2,827</td>
<td>$ 2,523</td>
<td>$ (256)</td>
<td>(9.1)%</td>
</tr>
<tr>
<td>Average debt outstanding</td>
<td>$ 52,949</td>
<td>$ 55,629</td>
<td>$ 57,278</td>
<td>5.6%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Effective interest rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

## Interest Expense

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</thead>
<tbody>
<tr>
<td>Provision (Benefit) for income taxes</td>
<td>$ (660)</td>
<td>$ 285</td>
<td>$ 2,467</td>
<td>$ (945)</td>
<td>nm</td>
</tr>
<tr>
<td>Effective income tax rate</td>
<td>(6.7)%</td>
<td>2.7%</td>
<td>19.4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SEGMENT RESULTS OF OPERATIONS

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

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

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

Verizon Wireless

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

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

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

Operating Revenues and Selected Operating Statistics

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Retail service</td>
<td>$ 61,440</td>
<td>$ 56,660</td>
<td>$ 53,308</td>
<td>$ 4,780 8.4%</td>
<td>$ 3,352 6.3%</td>
</tr>
<tr>
<td>Other service</td>
<td>2,293</td>
<td>2,497</td>
<td>2,321</td>
<td>(204) 8.2%</td>
<td>176 7.6%</td>
</tr>
<tr>
<td>Service revenue</td>
<td>63,733</td>
<td>59,157</td>
<td>55,629</td>
<td>4,576 7.7%</td>
<td>3,528 6.3%</td>
</tr>
<tr>
<td>Equipment and other</td>
<td>12,135</td>
<td>10,997</td>
<td>7,778</td>
<td>1,138 10.3%</td>
<td>3,219 41.4%</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>$ 75,868</td>
<td>$ 70,154</td>
<td>$ 63,407</td>
<td>$ 5,714 8.1%</td>
<td>$ 6,747 10.6%</td>
</tr>
</tbody>
</table>

Connections ('000)\(^{(1)}\)

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</thead>
<tbody>
<tr>
<td>Retail connections</td>
<td>98,230</td>
<td>92,167</td>
<td>87,535</td>
<td>6,063 6.6%</td>
<td>4,632 5.3%</td>
</tr>
<tr>
<td>Retail postpaid connections</td>
<td>92,530</td>
<td>87,382</td>
<td>83,125</td>
<td>5,148 5.9%</td>
<td>4,257 5.1%</td>
</tr>
</tbody>
</table>
| Net additions in period ('000)\(^{(2)}\)

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Retail connections</td>
<td>5,917</td>
<td>4,624</td>
<td>1,977</td>
<td>1,293 28.0%</td>
<td>2,647 nm</td>
</tr>
<tr>
<td>Retail postpaid connections</td>
<td>5,024</td>
<td>4,252</td>
<td>2,529</td>
<td>772 18.2%</td>
<td>1,723 68.1%</td>
</tr>
</tbody>
</table>

Churn Rate:

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Retail connections</td>
<td>1.19%</td>
<td>1.26%</td>
<td>1.38%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail postpaid connections</td>
<td>0.91%</td>
<td>0.95%</td>
<td>1.02%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Account Statistics:

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>Retail postpaid ARPA</td>
<td>$ 144.04</td>
<td>$ 134.51</td>
<td>$ 125.75</td>
<td>$ 9.53 7.1%</td>
<td>$ 8.76 7.0%</td>
</tr>
<tr>
<td>Retail postpaid accounts ('000)(^{(3)})</td>
<td>35,057</td>
<td>34,561</td>
<td>34,268</td>
<td>496 1.4%</td>
<td>293 0.9%</td>
</tr>
<tr>
<td>Retail postpaid connections per account(^{(4)})</td>
<td>2.64</td>
<td>2.53</td>
<td>2.43</td>
<td>0.11 4.3%</td>
<td>0.10 4.1%</td>
</tr>
</tbody>
</table>

\(^{(1)}\) As of end of period

\(^{(2)}\) Excluding acquisitions and adjustments

nm - not meaningful
2012 Compared to 2011
The increase in Verizon Wireless’ total operating revenues during 2012 compared to 2011 was the result of growth in both service and equipment and other revenue.

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

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

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

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

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

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

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

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

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

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

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

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

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

Equipment and Other Revenue
Equipment and other revenue increased during 2011 compared to 2010 due to an increase in the sales volume of smartphones to new and upgrading customers.
Cost of Services and Sales
Cost of services and sales increased during 2012 compared to 2011 primarily due to $0.7 billion in higher cost of equipment sales, which was driven by increased sales of higher cost smartphones, increased cost of network services and increased data roaming, partially offset by a decrease in cost for data services, a decrease in network connection costs due to the ongoing deployment of Ethernet backhaul facilities primarily targeted at sites upgrading to 4G LTE and a decrease in the cost of long distance.

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

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

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

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

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

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<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Cost of services and sales</td>
<td>$24,490</td>
<td>$24,086</td>
<td>$19,245</td>
<td>$404</td>
<td>1.7%</td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>21,650</td>
<td>19,579</td>
<td>18,082</td>
<td>2,071</td>
<td>10.6</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>7,960</td>
<td>7,962</td>
<td>7,356</td>
<td>(2)</td>
<td>–</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$54,100</td>
<td>$51,627</td>
<td>$44,683</td>
<td>$2,473</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Segment Operating Income and EBITDA

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</tr>
</thead>
<tbody>
<tr>
<td>Segment Operating Income</td>
<td>$21,768</td>
<td>$18,527</td>
<td>$18,724</td>
<td>$3,241</td>
<td>17.5%</td>
</tr>
<tr>
<td>Add Depreciation and amortization expense</td>
<td>7,960</td>
<td>7,962</td>
<td>7,356</td>
<td>(2)</td>
<td>–</td>
</tr>
<tr>
<td>Segment EBITDA</td>
<td>$29,728</td>
<td>$26,489</td>
<td>$26,080</td>
<td>$3,239</td>
<td>12.2</td>
</tr>
<tr>
<td>Segment operating income margin</td>
<td>28.7%</td>
<td>26.4%</td>
<td>29.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment EBITDA service margin</td>
<td>46.6%</td>
<td>44.8%</td>
<td>46.9%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merger integration and acquisition related charges</td>
<td>$ –</td>
<td>$ –</td>
<td>$867</td>
</tr>
<tr>
<td>Severance, pension and benefit charges</td>
<td>37</td>
<td>76</td>
<td>–</td>
</tr>
<tr>
<td>Impact of divested operations</td>
<td>–</td>
<td>–</td>
<td>(348)</td>
</tr>
<tr>
<td>Deferred revenue adjustment</td>
<td>–</td>
<td>–</td>
<td>235</td>
</tr>
<tr>
<td>Total</td>
<td>$37</td>
<td>$76</td>
<td>$754</td>
</tr>
</tbody>
</table>
MANAGEMENT’S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Wireline

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

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

Operating Revenues and Selected Operating Statistics (dollars in millions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Connections ('000)'(1)</strong>*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total voice connections</td>
<td>22,503</td>
<td>24,137</td>
<td>26,001</td>
<td>(1,634) (6.8)</td>
<td>(1,864) (7.2)</td>
</tr>
<tr>
<td>Total Broadband connections</td>
<td>8,795</td>
<td>8,670</td>
<td>8,392</td>
<td>125 1.4</td>
<td>278 3.3</td>
</tr>
<tr>
<td>FIOS Internet subscribers</td>
<td>5,424</td>
<td>4,817</td>
<td>4,082</td>
<td>607 12.6</td>
<td>735 18.0</td>
</tr>
<tr>
<td>FIOS Video subscribers</td>
<td>4,726</td>
<td>4,173</td>
<td>3,472</td>
<td>553 13.3</td>
<td>701 20.2</td>
</tr>
</tbody>
</table>

(1) As of end of period

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

**Mass Markets**

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

**2012 Compared to 2011**

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

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

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

**2011 Compared to 2010**

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

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

Mass Markets revenues were negatively impacted by the decline of local exchange revenues primarily due to a 7.2% decline in total voice connections, which resulted primarily from competition and technology substitution. Total voice connections include traditional switched access lines in service as well as FiOS digital voice connections. The majority of the decline in total voice connections was sustained in the residential retail market, which experienced a 7.3% voice connection loss primarily due to substituting traditional landline services with wireless, VoIP, broadband and cable services. There was also a 5.3% decline in small business retail voice connections, primarily reflecting challenging economic conditions, competition and a shift to both IP and high-speed circuits.
Global Enterprise
Global Enterprise offers Strategic services including network products and solutions, advanced communications services, and other core communications services to medium and large business customers, multinational corporations and state and federal government customers.

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

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

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

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

2011 Compared to 2010
The decrease in Global Wholesale revenues during 2011 compared to 2010 was primarily due to a $0.4 billion decline in international voice revenues as a result of decreased MOUs in traditional voice products as a result of increases in voice termination pricing on certain international routes, which negatively impacted volume, and continued rate compression due to competition in the marketplace. Switched access and interexchange wholesale MOUs declined primarily as a result of wireless substitution and connection losses. Domestic wholesale connections as of December 31, 2011 declined 8.3% from December 31, 2010 due to the continued impact of competitors deemphasizing their local market initiatives coupled with the impact of technology substitution. Voice and local loop services declined during 2011 compared to 2010. Partially offsetting the overall decrease in Global Wholesale revenue was a continuing demand for high-speed digital data services primarily due to fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities. As a result of the upgrading customers, the number of DS1/DS3 circuits experienced a 9.5% decline compared to the similar period in 2010.

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of services and sales</td>
<td>$22,413</td>
<td>$22,158</td>
<td>$22,618</td>
<td>$255</td>
<td>1.2%</td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>8,883</td>
<td>9,107</td>
<td>9,372</td>
<td>(224)</td>
<td>(2.5)%</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>8,424</td>
<td>8,458</td>
<td>8,469</td>
<td>(34)</td>
<td>(0.4)%</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$39,720</td>
<td>$39,723</td>
<td>$40,459</td>
<td>$3</td>
<td>–</td>
</tr>
</tbody>
</table>

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

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

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

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

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

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

Segment Operating Income and EBITDA

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment Operating Income</td>
<td>$60</td>
<td>$959</td>
<td>$768</td>
<td>(899)</td>
<td>(93.7)%</td>
</tr>
<tr>
<td>Add Depreciation and amortization expense</td>
<td>8,424</td>
<td>8,458</td>
<td>8,469</td>
<td>(34)</td>
<td>(0.4)%</td>
</tr>
<tr>
<td>Segment EBITDA</td>
<td>$8,484</td>
<td>$9,417</td>
<td>$9,237</td>
<td>(933)</td>
<td>(9.9)%</td>
</tr>
<tr>
<td>Segment operating income margin</td>
<td>0.2%</td>
<td>2.4%</td>
<td>1.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment EBITDA margin</td>
<td>21.3%</td>
<td>23.1%</td>
<td>22.4%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Severance, pension and benefit charges</td>
<td>$–</td>
<td>$–</td>
<td>$2,237</td>
</tr>
<tr>
<td>Access line spin-off related charges</td>
<td>$–</td>
<td>$–</td>
<td>$79</td>
</tr>
<tr>
<td>Impact of divested operations</td>
<td>$–</td>
<td>$–</td>
<td>(408)</td>
</tr>
<tr>
<td>Other costs</td>
<td>56</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>$56</td>
<td>–</td>
<td>$1,908</td>
</tr>
</tbody>
</table>
## Severance, Pension and Benefit Charges

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

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

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

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

## Early Debt Redemption and Other Costs

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

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

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

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

## Litigation Settlements

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

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

## Merger Integration Charges

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

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

## Dispositions

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

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

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

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

**Deferred Revenue Charges**

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

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

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### Consolidated Financial Condition

**Cash Flows Provided By (Used In)**

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities</td>
<td>$31,486</td>
<td>$29,780</td>
<td>$33,363</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(20,502)</td>
<td>(17,250)</td>
<td>(15,054)</td>
</tr>
<tr>
<td>Financing activities</td>
<td>(21,253)</td>
<td>(5,836)</td>
<td>(13,650)</td>
</tr>
<tr>
<td>Increase (Decrease) In Cash and Cash Equivalents</td>
<td>$(10,269)</td>
<td>$6,694</td>
<td>$4,659</td>
</tr>
</tbody>
</table>

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

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

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

**Cash Flows Provided By Operating Activities**

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

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

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**Alltel Divestiture Markets**

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

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See “Consolidated Results of Operations”) excludes the access line spin-off and Alltel Divestiture Markets charges presented above.
During 2012, we received cash consideration that was not significant
dispositions
• of long-term investments, which were not significant to our consolidated
During 2011, Other, net primarily included proceeds related to the sales
of long-term investments, which were not significant to our consolidated
statements of income.

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

Capital expenditures, including capitalized software, were as follows:

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Verizon Wireless</td>
<td>$8,857</td>
<td>$8,973</td>
<td>$8,438</td>
</tr>
<tr>
<td>Wireline</td>
<td>6,342</td>
<td>6,399</td>
<td>7,269</td>
</tr>
<tr>
<td>Other</td>
<td>976</td>
<td>872</td>
<td>751</td>
</tr>
<tr>
<td>Total</td>
<td>$16,244</td>
<td>$16,458</td>
<td></td>
</tr>
</tbody>
</table>

Total as a percentage of revenue

14.0% 14.7% 15.4%

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

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

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

• During 2012, we paid approximately $3.9 billion net to acquire wireless
 licenses primarily to meet future LTE capacity needs and enable LTE
 expansion. Additionally, during 2012, we acquired HUGHES Telematics,
a provider of telematics services, for $0.6 billion. See “Acquisitions and
Divestitures” for additional details.

• During April 2011, we paid approximately $1.4 billion for the equity of
Terremark, which was partially offset by $0.1 billion of cash acquired
(see “Acquisitions and Divestitures”). See “Cash Flows From Financing
Activities” below regarding the debt obligations of Terremark that were
repaid during May 2011. In addition, during 2011, we acquired various
wireless licenses and markets as well as a provider of cloud software
technology for cash consideration that was not significant.

• On August 23, 2010, Verizon Wireless acquired the net assets and
related customers of six operating markets in Louisiana and Mississippi
in a transaction with AT&T Inc. for cash consideration of $0.2 billion.

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

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

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

Cash Flows Used In Financing Activities
We seek to maintain a mix of fixed and variable rate debt to lower bor-
rowing costs within reasonable risk parameters and to protect against
earnings and cash flow volatility resulting from changes in market condi-
tions. During 2012, 2011 and 2010, net cash used in financing activities
was $21.3 billion, $5.8 billion and $13.7 billion, respectively.

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

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

During November 2012, we issued $4.5 billion aggregate principal
amount of fixed rate notes at varying maturities resulting in cash pro-
ceeds of approximately $4.47 billion, net of discounts and issuance costs.
The net proceeds were used for general corporate purposes, for the
Tender Offer, and to redeem $0.7 billion of $2.0 billion of 8.75% Verizon
Communications Notes due 2018, $1.0 billion of 4.625% Verizon Virginia
LLC Debentures, Series A due 2013 and $0.75 billion of 4.35% Verizon
Communications Notes due 2013.

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

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

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

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

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

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

During November 2011, we issued $4.6 billion aggregate principal
amount of fixed rate notes at varying maturities resulting in cash pro-
ceeds of approximately $4.55 billion, net of discounts and issuance costs.
During November 2011, the net proceeds were used to redeem $1.6 bil-
lion aggregate principal amount of Verizon Communications notes and
$1.9 billion aggregate principal amount of telephone subsidiary debt.
The remaining net proceeds were used for the repayment of commercial

37
paper and other general corporate purposes. See "Other Items" regarding the early debt redemption costs incurred in connection with the aforementioned redemptions.

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

2010

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

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

Special Distributions

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

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

Other, net

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

Dividends

The Verizon Board of Directors determines the appropriateness of the level of our dividend payments on a periodic basis by considering such factors as long-term growth opportunities, internal cash requirements and the expectations of our shareowners. During the third quarter of 2012, the Board increased our quarterly dividend payment 3.0% to $0.515 per share from $0.50 per share in the same period of 2011. This is the ninth consecutive year that Verizon’s Board of Directors has approved a quarterly dividend increase. During the third quarter of 2011, the Board increased our quarterly dividend payment 2.6% to $0.50 per share from $0.4875 per share in the same period of 2010. During the third quarter of 2010, the Board increased our quarterly dividend payment 2.6% to $0.4875 per share from $0.475 per share in the same period of 2009.

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

Credit Facility

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

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

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

Common Stock

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

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

Credit Ratings

The debt securities of Verizon Communications and its subsidiaries continue to be accorded high ratings by the three primary rating agencies. Although a one-level ratings downgrade would not be expected to significantly impact our access to capital, it could increase both the cost of refinancing existing debt and the cost of financing any new capital requirements. Securities ratings assigned by rating organizations are expressions of opinion and are not recommendations to buy, sell, or hold securities. A securities rating is subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.
Covenants
Our credit agreements contain covenants that are typical for large, investment grade companies. These covenants include requirements to pay interest and principal in a timely fashion, pay taxes, maintain insurance with responsible and reputable insurance companies, preserve our corporate existence, keep appropriate books and records of financial transactions, maintain our properties, provide financial and other reports to our lenders, limit pledging and disposition of assets and mergers and consolidations, and other similar covenants.

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

Increase (Decrease) In Cash and Cash Equivalents

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

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

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

<table>
<thead>
<tr>
<th>Years Ended December 31</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>$ 31,486</td>
<td>$ 29,780</td>
<td>$ 33,363</td>
</tr>
<tr>
<td>Less Capital expenditures (including capitalized software)</td>
<td>16,175</td>
<td>16,244</td>
<td>16,458</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td><strong>$ 15,311</strong></td>
<td><strong>$ 13,536</strong></td>
<td><strong>$ 16,905</strong></td>
</tr>
</tbody>
</table>

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

Employee Benefit Plan Funded Status and Contributions

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

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

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

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

In an effort to reduce the risk of our portfolio strategy and better align assets with liabilities, we have shifted our strategy to one that is more liability driven, where cash flows from investments better match projected benefit payments but result in lower asset returns. We intend to reduce the likelihood that assets will decline at a time when liabilities increase (referred to as liability hedging), with the goal to reduce the risk of underfunding to the plan and its participants and beneficiaries. Based on the revised strategy and the funded status of the plans at December 31, 2012, we expect the minimum required qualified pension plan contribution in 2013 to be immaterial. Nonqualified pension contributions are estimated to be approximately $0.1 billion in 2013.

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

Leasing Arrangements

We are the lessor in leveraged and direct financing lease agreements for commercial aircraft and power generating facilities, which comprise the majority of our leasing portfolio along with telecommunications equipment, commercial real estate property and other equipment. These leases have remaining terms of up to 38 years as of December 31, 2012. In addition, we lease space on certain of our cell towers to other wireless carriers. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which is secured by a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with GAAP. All recourse debt is reflected in our consolidated balance sheets.
We also guarantee the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003. As of December 31, 2012, $1.7 billion principal amount of these obligations remain outstanding (see Note 8 to the consolidated financial statements).

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

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

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

Guarantees

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

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

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

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

Interest Rate Risk

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

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

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>Fair Value</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>assuming</td>
<td>assuming</td>
</tr>
<tr>
<td></td>
<td>+ 100 basis point shift</td>
<td>- 100 basis point shift</td>
</tr>
<tr>
<td>Long-term debt and related derivatives</td>
<td>$ 61,045</td>
<td>$ 56,929</td>
</tr>
<tr>
<td>At December 31, 2012</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term debt and related derivatives</td>
<td>$ 61,870</td>
<td>$ 58,117</td>
</tr>
<tr>
<td>At December 31, 2011</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Interest Rate Swaps

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

Foreign Currency Translation

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

Cross Currency Swaps

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

Critical Accounting Estimates

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

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

Wireless Licenses

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

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

Goodwill

At December 31, 2012, the balance of our goodwill was approximately $24.1 billion, of which $18.2 billion was in our Verizon Wireless segment and $5.9 billion was in our Wireline segment. Determining whether an impairment has occurred requires the determination of fair value of each respective reporting unit. Our operating segments, Verizon Wireless and Wireline, are deemed to be our reporting units for purposes of goodwill impairment testing. The fair value of Verizon Wireless significantly exceeded its carrying value and the fair value of Wireline exceeded its carrying value. Accordingly, our annual impairment tests for 2012, 2011 and 2010 did not result in an impairment.

The fair value of the reporting unit is calculated using a market approach and a discounted cash flow method. The market approach includes the use of comparative multiples to corroborate discounted cash flow results. The discounted cash flow method is based on the present value of two components—projected cash flows and a terminal value. The terminal value represents the expected normalized future cash flows of the reporting unit beyond the cash flows from the discrete projection period. The fair value of the reporting unit is calculated based on the sum of the present value of the cash flows from the discrete period and the present value of the terminal value. The estimated cash flows are discounted using a rate that represents our WACC.
• We maintain benefit plans for most of our employees, including, for certain employees, pension and other postretirement benefit plans. At December 31, 2012, in the aggregate, pension plan benefit obligations exceeded the fair value of pension plan assets, which will result in higher future pension plan expense. Other postretirement benefit plans have larger benefit obligations than plan assets, resulting in expense. Significant benefit plan assumptions, including the discount rate used, the long-term rate of return on plan assets and health care trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations. A sensitivity analysis of the impact of changes in these assumptions on the benefit obligations and expense (income) recorded, as well as on the funded status due to an increase or a decrease in the actual versus expected return on plan assets as of December 31, 2012 and for the year then ended pertaining to Verizon’s pension and postretirement benefit plans is provided in the table below.

<table>
<thead>
<tr>
<th>Percentage point change</th>
<th>Increase (decrease) at December 31, 2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension plans discount rate</td>
<td>+0.50</td>
</tr>
<tr>
<td></td>
<td>-0.50</td>
</tr>
<tr>
<td>Rate of return on pension plan assets</td>
<td>+1.00</td>
</tr>
<tr>
<td></td>
<td>-1.00</td>
</tr>
<tr>
<td>Postretirement plans discount rate</td>
<td>+0.50</td>
</tr>
<tr>
<td></td>
<td>-0.50</td>
</tr>
<tr>
<td>Rate of return on postretirement plan assets</td>
<td>+1.00</td>
</tr>
<tr>
<td></td>
<td>-1.00</td>
</tr>
<tr>
<td>Health care trend rates</td>
<td>+1.00</td>
</tr>
<tr>
<td></td>
<td>-1.00</td>
</tr>
</tbody>
</table>

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

• Our Plant, property and equipment balance represents a significant component of our consolidated assets. We record plant, property and equipment at cost. We depreciate plant, property and equipment on a straight-line basis over the estimated useful life of the assets. We expect that a one-year increase in estimated useful lives of our plant, property and equipment would result in a decrease to our 2012 depreciation expense of $1.5 billion and that a one-year decrease would result in an increase of approximately $1.8 billion in our 2012 depreciation expense.

Recent Accounting Standards

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

In February 2013, the accounting standard update regarding reclassifications out of accumulated other comprehensive income was issued. This standard update requires companies to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in our consolidated statements of income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. We will adopt this standard in the first quarter of 2013. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.
Spectrum Licenses
During the third quarter of 2012, after receiving the required regulatory approvals, Verizon Wireless completed the following previously announced transactions in which we acquired wireless spectrum that will be used to deploy additional fourth-generation (4G) Long Term Evolution (LTE) capacity:

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

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

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

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

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

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

See Note 2 to the consolidated financial statements for additional information relating to the above acquisitions and divestitures.
The FCC previously adopted a series of orders that impose lesser regulatory requirements on broadband services and facilities than apply to narrowband or traditional telephone services. With respect to wireline facilities, the FCC determined that certain unbundling requirements that apply to narrowband facilities of local exchange carriers do not apply to broadband facilities such as fiber to the premise loops and packet switches. With respect to services, the FCC concluded that both wireline and wireless broadband Internet access services qualify as largely deregulated information services. Separately, certain of our wireline broadband services sold primarily to larger business customers were largely deregulated when our forbearance petition was granted. The latter relief has been upheld on appeal, but is subject to a continuing challenge before the FCC.

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

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

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

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

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

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

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

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

The FCC has also imposed specific mandates on carriers that operate wireless communications systems, which increase Verizon Wireless’ costs. These mandates include requirements that Verizon Wireless: (i) meet specific construction and geographic coverage requirements during the license term; (ii) meet technical operating standards that, among other things, limit the radio frequency radiation from mobile devices and antennas; (iii) deploy “Enhanced 911” wireless services that provide the wireless caller’s number, location and other information to a state or local public safety agency that handles 911 calls; (iv) provide roaming services to other wireless service providers; and (v) comply with regulations for the construction of transmitters and towers that, among other things, restrict siting of towers in environmentally sensitive locations and in places where the towers would affect a site listed or eligible for listing on the National Register of Historic Places. Changes to these mandates could require Verizon Wireless to make changes to operations or increase its costs of compliance. In its November 4, 2008 order approving Verizon Wireless’ acquisition of Alltel, the FCC adopted conditions that impose additional requirements on Verizon Wireless in its provision of Enhanced 911 services and roaming services. Subsequently, in its August 23, 2012 order approving Verizon Wireless’ acquisition of various spectrum licenses from several cable companies and wireless carriers, the FCC adopted conditions obligating Verizon Wireless to meet specified buildout milestones for the acquired spectrum and to offer data roaming arrangements.

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

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

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

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

State Regulation and Local Approvals

Telephone Operations
State public utility commissions regulate our telephone operations with respect to certain telecommunications intrastate matters. Our competitive local exchange carrier and long distance operations are lightly regulated the same as other similarly situated carriers. Our incumbent local exchange operations (California, Connecticut, Delaware, the District of Columbia, Florida, Maryland, Massachusetts, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, Texas and Virginia) are subject to various levels of pricing flexibility, deregulation, detariffing, and service quality standards. None of the states are subject to earnings regulation.
Video
Companies that provide cable service over a cable system are typically subject to state and/or local cable television rules and regulations. As noted above, cable operators generally must obtain a local cable franchise from each local unit of government prior to providing cable service in that local area. Some states have enacted legislation that enables cable operators to apply for, and obtain, a single cable franchise at the state, rather than local, level. To date, Verizon has applied for and received state-issued franchises in California, Florida, New Jersey, Texas and the state, rather than local, level. To date, Verizon has applied for and received state-issued franchises in California, Florida, New Jersey, Texas and the unincorporated areas of Delaware. We also have obtained authorization from the state commission in Rhode Island to provide cable service in certain areas in that state, have obtained required state commission approvals for our local franchises in New York, and will need to obtain additional state commission approvals in these states to provide cable service in additional areas. Virginia law provides us the option of entering a given franchise area using state standards if local franchise negotiations are unsuccessful.

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

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

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

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