SELECTED FINANCIAL DATA

Results of Operations

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</thead>
<tbody>
<tr>
<td>Operating revenues</td>
<td>$120,550</td>
<td>$115,846</td>
<td>$110,875</td>
<td>$106,565</td>
<td>$107,808</td>
</tr>
<tr>
<td>Operating income</td>
<td>31,968</td>
<td>13,160</td>
<td>12,880</td>
<td>14,645</td>
<td>15,978</td>
</tr>
<tr>
<td>Net income attributable to Verizon</td>
<td>11,497</td>
<td>875</td>
<td>2,404</td>
<td>2,549</td>
<td>4,894</td>
</tr>
<tr>
<td>Per common share – basic</td>
<td>4.01</td>
<td>.31</td>
<td>.85</td>
<td>.90</td>
<td>1.72</td>
</tr>
<tr>
<td>Per common share – diluted</td>
<td>4.00</td>
<td>.31</td>
<td>.85</td>
<td>.90</td>
<td>1.72</td>
</tr>
<tr>
<td>Cash dividends declared per common share</td>
<td>2,090</td>
<td>2,030</td>
<td>1,975</td>
<td>1,925</td>
<td>1,870</td>
</tr>
<tr>
<td>Net income attributable to noncontrolling interests</td>
<td>12,050</td>
<td>9,682</td>
<td>7,794</td>
<td>7,668</td>
<td>6,707</td>
</tr>
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Financial Position

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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Total assets</td>
<td>$274,098</td>
<td>$225,222</td>
<td>$230,461</td>
<td>$220,005</td>
<td>$226,907</td>
</tr>
<tr>
<td>Debt maturing within one year</td>
<td>3,933</td>
<td>4,369</td>
<td>4,849</td>
<td>7,542</td>
<td>7,205</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>89,658</td>
<td>47,618</td>
<td>50,303</td>
<td>45,252</td>
<td>55,051</td>
</tr>
<tr>
<td>Employee benefit obligations</td>
<td>27,682</td>
<td>34,346</td>
<td>32,957</td>
<td>28,164</td>
<td>32,622</td>
</tr>
<tr>
<td>Noncontrolling interests</td>
<td>56,580</td>
<td>52,376</td>
<td>49,938</td>
<td>48,343</td>
<td>42,761</td>
</tr>
<tr>
<td>Equity attributable to Verizon</td>
<td>38,836</td>
<td>33,157</td>
<td>35,970</td>
<td>38,569</td>
<td>41,382</td>
</tr>
</tbody>
</table>

• Significant events affecting our historical earnings trends in 2011 through 2013 are described in “Other Items” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section.

• 2010 and 2009 data includes severance, pension and benefit charges, merger integration and acquisition costs, dispositions and other items. 2010 data also includes Medicare Part D Subsidy charges.

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, 2008 with dividends (including the value of each respective spin-off) being reinvested.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data Points in Dollars</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Verizon</td>
<td>100.0</td>
<td>103.8</td>
<td>127.9</td>
<td>151.3</td>
<td>171.2</td>
<td>202.8</td>
</tr>
<tr>
<td>S&amp;P 500 Telecom Services</td>
<td>100.0</td>
<td>108.9</td>
<td>129.6</td>
<td>137.8</td>
<td>163.0</td>
<td>181.4</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>100.0</td>
<td>126.5</td>
<td>145.5</td>
<td>148.6</td>
<td>172.3</td>
<td>228.0</td>
</tr>
</tbody>
</table>
On February 13, 2014, we introduced our More Everything® plans which replaced our Share Everything® plans and provide more value to our customers. These plans, which are available to both new and existing postpaid customers, feature domestic unlimited voice minutes, unlimited domestic and international text, video and picture messaging, cloud storage and a single data allowance that can be shared among up to 10 devices connected to the Verizon Wireless network. Customers with Verizon Edge, which provides a device payment plan option, also will receive discounted monthly access fees on More Everything plans. As of December 31, 2013, Share Everything accounts represented approximately 46% of our retail postpaid accounts, compared to approximately 23% as of December 31, 2012. Verizon Wireless offers shared data plans for business, with the More Everything plans for Small Business and the Nationwide Business Data Packages and Plans. In August 2013, we launched the new Verizon Edge device payment plan option which now allows customers to trade in their phone for a new phone after a minimum of thirty days, subject to certain conditions.

On September 2, 2013, Verizon entered into a stock purchase agreement (the Stock Purchase Agreement) with Vodafone Group Plc (Vodafone) and Vodafone 4 Limited (Seller), pursuant to which Verizon agreed to acquire Vodafone’s indirect 45% interest in Celco Partnership d/b/a Verizon Wireless (the Partnership, and such interest, the Vodafone Interest) for aggregate consideration of approximately $130 billion. On February 21, 2014, pursuant to the terms and subject to the conditions set forth in the Stock Purchase Agreement, Verizon acquired (the Wireless Transaction) from Seller all of the issued and outstanding capital stock (the Transferred Shares) of Vodafone Americas Finance 1 Inc., a subsidiary of Seller (VF1 Inc.), which indirectly through certain subsidiaries (together with VF1 Inc., the Purchased Entities) owned the Vodafone Interest. The consideration paid was primarily comprised of cash of approximately $58.89 billion and Verizon common stock with a value of approximately $60.15 billion. See “Acquisitions and Divestitures” for additional information.

In Wireline, during 2013 compared to 2012, revenues were positively impacted by higher revenues in Consumer retail driven by FiOS services. FiOS represented approximately 71% of Consumer retail revenue during 2013, compared to approximately 65% during 2012. As the penetration of FiOS products increases, we continue to seek ways to increase revenue and further realize operating and capital efficiencies as well as maximize profitability. As more applications are developed for this high-speed service, we expect that FiOS will become a hub for managing multiple home services that will eventually be part of the digital grid, including not just entertainment and communications, but also machine-to-machine communications, such as home monitoring, health monitoring, energy management and utilities management.

Also positively impacting Wireline’s revenues during 2013 was a 4.6% increase in Strategic services revenues, which represented 57% of total Global Enterprise revenues during 2013. However, total Global Enterprise and Global Wholesale revenues declined due to declines in Core customer premise equipment revenues and traditional voice revenues. The decline in Core customer premise equipment revenues is a result of our focus on improving our margins by continuing to de-emphasize sales of equipment that are not part of an overall enterprise solutions bundle. 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.

We are investing in innovative technology like wireless networks, high-speed fiber and cloud services to position ourselves at the center of the growth trends of the future. In addition to the Wireless Transaction, since the beginning of 2012 these investments have included acquisitions of wireless licenses of $4.9 billion. We also have invested $1.4 billion in acquisitions of investments and businesses, which we expect will permit us to offer enhanced machine-to-machine, video and cloud-based products and services.
By investing in our own capabilities, we are also investing in the markets we serve by providing our communities with an efficient, reliable infrastructure for competing in the information economy. We are committed to putting our customers first and being a responsible member of our communities. Guided by this commitment and by our core values of integrity, respect, performance excellence and accountability, we believe we are well-positioned to produce a long-term return for our shareholders, create meaningful work for ourselves and provide something of lasting value for society.

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 shareholders.

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.

Service and equipment pricing play an important role in the wireless competitive landscape. As the demand for wireless services continues to grow, wireless service providers are offering service plans that include unlimited voice minutes and text messages and a specific amount of data access in varying megabyte or gigabyte sizes or, in some cases, unlimited data usage. Wireless service providers are also offering price plans that decouple service pricing from equipment pricing and blur the traditional boundary between prepaid and postpaid plans. In addition, some wireless providers are offering a credit to new customers to reimburse early termination fees paid to their former wireless service provider, subject to certain limitations. We seek to compete in this area by offering our customers services and equipment that they will regard as the best available value for the price, as well as service plans that meet their wireless service needs.

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

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

Operating Revenue
We expect to experience service revenue growth in our Wireless segment in 2014, primarily as a result of continued growth in postpaid connections driven by increased sales of smartphones, tablets and other Internet devices. We expect that retail postpaid average revenue per account (ARPA) will continue to increase as connections migrate from basic phones to smartphones and from our 3G network to our 4G LTE network, and as the average number of connections per account increases, which we expect to be driven by our More 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 usage of innovative wireless smartphones, tablets and other Internet devices in addition to our pricing structure that will encourage customers to continue adding data-enabled devices onto existing accounts. We expect that continued emphasis on increasing smartphone penetration, including continuing to migrate customers from basic phones to smartphones and from 3G devices to 4G LTE devices, will positively impact our revenue.

We expect FiOS broadband and video penetration to positively impact our Mass Markets revenue and subscriber base. We also expect Strategic services revenues 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, although we have experienced decelerating revenue growth within our Strategic services business. We believe the trend in these growth areas as well as our offerings in telematics and video streaming will help offset the continuing decline in revenues in our Wireline segment related to retail voice connection losses as a result of 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 2014 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 2014 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 copper wire with fiber-optic cable which will not alter our capital program but should result in lower maintenance costs in the future. Capital expenditures were $16.6 billion in 2013 and $16.2 billion in 2012, 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 in 2014 to be in the range of approximately $16.5 billion to $17.0 billion and we also expect our capital expenditures as a percentage of revenue to decline in 2014 from 2013 levels.

Cash Flow from Operations

We create value for our shareowners by investing the cash flows generated by our business in opportunities and transactions that support continued profitable growth, thereby increasing customer satisfaction and usage of our products and services. In addition, we have used our cash flows to maintain and grow our dividend payout to shareowners. Verizon’s Board of Directors increased the Company’s quarterly dividend by 2.9% during 2013, making this the seventh consecutive year in which we have raised our dividend. After the closing of the Wireless Transaction, our Provision for income taxes is expected to increase due to our 100% ownership of Verizon Wireless. We also expect our cash taxes paid to increase due to our 100% ownership of Verizon Wireless, and to a much lesser degree, due to bonus depreciation not being extended beyond December 31, 2013. Additionally, our Interest expense is expected to increase as a result of the debt issued to finance the Wireless Transaction. As a result of these factors, we expect Cash Flows from Operations to be negatively impacted in 2014. Partially offsetting these negative impacts to Cash Flows from Operations will be the discontinuation of cash distributions from Verizon Wireless to Vodafone, which have historically reduced our Cash Flows from Financing Activities.

Our goal is to use our cash to create long-term value for our shareholders. We will continue to look for investment opportunities that will help us to grow the business. We expect to use our cash to reduce our debt levels, pay dividends to our shareholders and, when appropriate, buy back shares of our outstanding common stock (see “Cash Flows from Financing Activities”) and invest in spectrum licenses (see “Cash Flows from Investing Activities”). During 2013, we purchased 3.50 million shares under our share buyback authorization. There were no repurchases of common stock during 2012 or 2011.

CONSOLIDATED RESULTS OF OPERATIONS

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

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

Consolidated Revenues

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</thead>
<tbody>
<tr>
<td>Wireless</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service revenue</td>
<td>69,033</td>
<td>63,733</td>
<td>59,157</td>
<td>5,300</td>
<td>8.3 %</td>
</tr>
<tr>
<td>Equipment and other</td>
<td>11,990</td>
<td>12,135</td>
<td>10,997</td>
<td>(145)</td>
<td>(1.2)</td>
</tr>
<tr>
<td>Total</td>
<td>81,023</td>
<td>75,868</td>
<td>70,154</td>
<td>5,155</td>
<td>6.8</td>
</tr>
<tr>
<td>Wireline</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mass Markets</td>
<td>17,328</td>
<td>16,702</td>
<td>16,337</td>
<td>626</td>
<td>3.7</td>
</tr>
<tr>
<td>Global Enterprise</td>
<td>14,703</td>
<td>15,299</td>
<td>15,622</td>
<td>(596)</td>
<td>(3.9)</td>
</tr>
<tr>
<td>Global Wholesale</td>
<td>6,714</td>
<td>7,240</td>
<td>7,973</td>
<td>(526)</td>
<td>(7.3)</td>
</tr>
<tr>
<td>Other</td>
<td>478</td>
<td>539</td>
<td>750</td>
<td>(61)</td>
<td>(11.3)</td>
</tr>
<tr>
<td>Total</td>
<td>39,223</td>
<td>39,780</td>
<td>40,682</td>
<td>(557)</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Corporate, eliminations and other</td>
<td>304</td>
<td>198</td>
<td>39</td>
<td>106</td>
<td>53.5</td>
</tr>
<tr>
<td>Consolidated Revenues</td>
<td>$120,550</td>
<td>$115,846</td>
<td>$110,875</td>
<td>$4,704</td>
<td>4.1</td>
</tr>
</tbody>
</table>

nm - not meaningful
MANAGEMENT’S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
continued

2013 Compared to 2012
The increase in consolidated revenues during 2013 compared to 2012 was primarily due to higher revenues at Wireless, as well as higher Mass Markets revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise at our Wireline segment. Partially offsetting these increases were lower Global Enterprise Core and Global Wholesale revenues at our Wireline segment.

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

Wireline’s revenues decreased $0.6 billion, or 1.4%, during 2013 compared to 2012 primarily driven by declines in Global Enterprise Core and Global Wholesale, partially offset by higher Mass Markets revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise.

Mass Markets revenues increased $0.6 billion, or 3.7%, during 2013 compared to 2012 due to the expansion of FiOS services (Voice, Internet and Video) as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues.

Global Enterprise revenues decreased $0.6 billion, or 3.9%, during 2013 compared to 2012 primarily due to a decline in Core customer premise equipment revenues and lower voice services and data networking revenues. This decrease was partially offset by growth in Strategic services revenues, primarily due to an increase in advanced services, such as contact center solutions, IP communications, and our cloud and data center offerings as well as revenue from a telematics services business that we acquired in the third quarter of 2012.

Global Wholesale revenues decreased $0.5 billion, or 7.3%, during 2013 compared to 2012 primarily due to a decline in traditional voice revenues as a result of decreased minutes of use (MOUs) and a decline in domestic wholesale connections, partially offset by continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities as well as Ethernet migrations from other core customers.

Other revenues decreased during 2013 compared to 2012 primarily due to reduced volumes outside of our network footprint.

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

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 smartphones. Retail postpaid connections per account increased during 2012 compared to 2011 primarily due to the increased use of tablets and other Internet devices. In 2012, the increase in retail postpaid connection net additions was primarily due to an increase in retail postpaid and prepaid connection gross additions and improvements in our retail connections churn rate. Higher retail postpaid connection gross additions during 2012 primarily reflect the launch of our Share Everything plans coupled with new device introductions during the second half of 2012.

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

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

Mass Markets revenues increased during 2012 compared to 2011 due to the expansion of FIOS services 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 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 outside of our network footprint.
Consolidated operating expenses decreased during 2013 primarily due to non-operational credits recorded in 2013 as well as non-operational charges recorded in 2012 (see “Other Items”). Consolidated operating expenses increased during 2012 primarily due to higher non-operational charges (see “Other Items”) as well as increased operating expenses at Wireless.

2013 Compared to 2012

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 provision, are allocated between Cost of services and sales and Selling, general and administrative expense.

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

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

Selling, general and administrative expense decreased during 2013 compared to 2012 primarily due to lower 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 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.

Depreciation and Amortization Expense
Depreciation and amortization expense decreased during 2012 compared to 2011 primarily due to higher non-operational charges (see “Other Items”) as well as higher sales commission expense and costs associated with regulatory fees at our Wireless segment.

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

### Year Ended December 31,

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gain on Spectrum License Transaction</td>
<td>$ (278)</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Severance, Pension and Benefit (Credits) Charges</td>
<td>$ (6,232)</td>
<td>$ 7,186</td>
<td>$ 5,954</td>
</tr>
<tr>
<td>Total non-operating (credits) charges included in operating expenses</td>
<td>$ (6,510)</td>
<td>$ 7,846</td>
<td>$ 5,954</td>
</tr>
</tbody>
</table>
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 from the calculation of Consolidated EBITDA. Management believes that this measure provides additional relevant and useful information to investors and other users of our financial data in evaluating the effectiveness of our operations and underlying business trends in a manner that is consistent with management's evaluation of business performance. See "Other Items" for additional details regarding these non-operational items.

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

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

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated Operating Income</td>
<td>$31,968</td>
<td>$13,160</td>
<td>$12,880</td>
</tr>
<tr>
<td>Add Depreciation and amortization expense</td>
<td>$16,606</td>
<td>$16,460</td>
<td>$16,496</td>
</tr>
<tr>
<td>Consolidated EBITDA</td>
<td>$48,574</td>
<td>$29,620</td>
<td>$29,376</td>
</tr>
<tr>
<td>Add (Less) Non-operating (credits) charges included in operating expenses</td>
<td>$(6,510)</td>
<td>$7,846</td>
<td>$5,954</td>
</tr>
<tr>
<td>Consolidated Adjusted EBITDA</td>
<td>$42,064</td>
<td>$37,466</td>
<td>$35,330</td>
</tr>
</tbody>
</table>

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

**Other Consolidated Results**

**Equity in Earnings of Unconsolidated Businesses**

Equity in earnings of unconsolidated businesses decreased $182 million, or 56.2% in 2013 compared to 2012 primarily due to lower earnings from operations at Vodafone Omnitel N.V. (Vodafone Omnitel). The decrease during 2013 was partially offset by an immaterial gain recorded by Verizon Wireless upon obtaining control of previously unconsolidated wireless partnerships, which were previously accounted for under the equity method and are now consolidated.

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

As part of the consideration of the Wireless Transaction, a subsidiary of Verizon sold its entire ownership interest in Vodafone Omnitel to a subsidiary of Vodafone on February 21, 2014.

**Other Income and (Expense), Net**

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>$64</td>
<td>$57</td>
<td>$68</td>
<td>$7</td>
<td>12.3%</td>
</tr>
<tr>
<td>Other, net</td>
<td>$230</td>
<td>$(1,073)</td>
<td>$(82)</td>
<td>843</td>
<td>(78.6%)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$(166)</td>
<td>$(1,016)</td>
<td>$(14)</td>
<td><strong>850</strong></td>
<td>(83.7%)</td>
</tr>
</tbody>
</table>

nm - not meaningful

Other income and (expense), net decreased during 2013 compared to 2012 primarily due to fees of $1.1 billion incurred in 2012 related to the early redemption of debt, partially offset by $0.2 billion of fees incurred during the fourth quarter of 2013 as a result of the termination of a bridge credit agreement upon the effectiveness of a term loan agreement (see “Other Items”). Other income and (expense), net increased during 2012 compared to 2011 primarily driven by higher fees of $1.1 billion related to the early redemption of debt (see “Other Items”).
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’s noncontrolling interest in the Verizon Wireless partnership within our income before the provision for income taxes. In 2013 and 2011, we recorded a tax provision on income before the provision for income taxes and when we included the income attributable to Vodafone’s noncontrolling interest in the Verizon Wireless partnership in our income before the provision for income taxes it resulted in our effective income tax rate being 13.7 percentage points lower during 2013 and 7.9 percentage points lower during 2011. In 2012, we recorded a tax provision on income before the provision for income taxes, which resulted in a negative effective income tax rate. In this circumstance, including the income attributable to Vodafone’s noncontrolling interest in the Verizon Wireless partnership in our income before the provision for income taxes resulted in our negative effective tax rate being 300.3 percentage points higher during 2012.

Verizon completed the acquisition of Vodafone’s 45% indirect ownership interest in Verizon Wireless on February 21, 2014. Our provision for income taxes and effective income tax rate subsequent to the closing will reflect the change in Verizon’s ownership interest in Verizon Wireless. Our provision for income taxes and effective income tax rate will increase subsequent to the closing due to the inclusion of the provision for income taxes previously attributable to Vodafone’s ownership interest. The effective income tax rate for 2013 was 19.6% compared to (6.7)% for 2012. The increase in the effective income tax rate and provision for income taxes was primarily due to higher income before income taxes as a result of severance, pension and benefit credits recorded during 2013 compared to lower income before income taxes as a result of severance, pension and benefit charges as well as early debt redemption costs recorded during 2012.

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

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.
SEGMENT RESULTS OF OPERATIONS

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

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

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

Wireless

Our 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 Wireless provides wireless communications services across one of the most extensive wireless networks in the United States. As of December 31, 2013, Verizon owned a controlling 55% interest in Verizon Wireless and Vodafone owned the remaining 45%. On February 21, 2014, the Wireless Transaction was completed, and Verizon acquired 100% ownership of Verizon Wireless.

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

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

Operating Revenues and Selected Operating Statistics

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail service</td>
<td>$ 66,334</td>
<td>$ 61,440</td>
<td>$ 56,660</td>
<td>$ 4,894</td>
<td>8.0%</td>
</tr>
<tr>
<td>Other service</td>
<td>2,699</td>
<td>2,293</td>
<td>2,497</td>
<td>406</td>
<td>17.7%</td>
</tr>
<tr>
<td>Service revenue</td>
<td>69,033</td>
<td>63,733</td>
<td>59,157</td>
<td>5,300</td>
<td>8.3%</td>
</tr>
<tr>
<td>Equipment and other</td>
<td>11,990</td>
<td>12,135</td>
<td>10,997</td>
<td>(145)</td>
<td>(1.2)%</td>
</tr>
<tr>
<td>Total Operating Revenues</td>
<td>$ 81,023</td>
<td>$ 75,868</td>
<td>$ 70,154</td>
<td>$ 5,155</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

Connections ('000)(1)

| Retail connections | 102,799 | 98,230 | 92,167 | 4,569 | 4.7% | 6,063 | 6.6% |
| Retail postpaid connections | 96,752 | 92,530 | 87,382 | 4,222 | 4.6% | 5,148 | 5.9% |

Net additions in period ('000)(2)

| Retail connections | 4,472 | 5,917 | 4,624 | (1,445) | (24.4)% | 1,293 | 28.0% |
| Retail postpaid connections | 4,118 | 5,024 | 4,252 | (906) | (18.0)% | 772 | 18.2% |

Churn Rate:

| Retail connections | 1.27% | 1.19% | 1.26% |
| Retail postpaid connections | 0.97% | 0.91% | 0.95% |

Account Statistics:

| Retail postpaid ARPA | $ 153.93 | $ 144.04 | $ 134.51 | $ 9.89 | 6.9% | $ 9.53 | 7.1% |
| Retail postpaid accounts ('000)(3) | 35,083 | 35,057 | 34,561 | 26 | 0.1% | 496 | 1.4% |
| Retail postpaid connections per account(4) | 2.76 | 2.64 | 2.53 | 0.12 | 4.5% | 0.11 | 4.3% |

(1) As of end of period
(2) Excluding acquisitions and adjustments
2013 Compared to 2012
The increase in Wireless’ total operating revenues of $5.2 billion, or 6.8%, during 2013 compared to 2012 was primarily the result of growth in service revenue.

Accounts and Connections
Retail (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 Share Everything plans and corporate accounts, as well as legacy single connection plans and family plans. 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 connections is terminated.

Retail connections under an account may include smartphones, basic phones, tablets and other Internet devices, as well as Home Phone Connect and Home Fusion. We expect to continue to experience retail connection growth based on the strength of our product offerings and network service quality. Retail postpaid connection net additions decreased during 2013 compared to 2012 primarily due to an increase in our retail postpaid connection churn rate, partially offset by an increase in retail postpaid connection gross additions.

Retail Postpaid Connections per Account
Retail postpaid connections per account is calculated by dividing the total number of retail postpaid connections by the number of retail postpaid accounts as of the end of the period. Retail postpaid connections per account increased 4.5% as of December 31, 2012 compared to December 31, 2011 primarily due to the increased penetration of tablets and other Internet devices.

Service Revenue
Service revenue increased $5.3 billion, or 8.3%, during 2013 compared to 2012 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of smartphones, tablets and other Internet devices through our Share Everything plans. The penetration of smartphones was driven by the activation of smartphones by new customers as well as existing customers migrating from basic phones to smartphones.

The increase in retail postpaid ARPA (the average revenue per account from retail postpaid accounts) during 2013 compared to 2012 was primarily driven by increases in smartphone penetration and retail postpaid connections per account. As of December 31, 2013, we experienced a 4.5% increase in retail postpaid connections per account compared to 2012, with smartphones representing 70% of our retail postpaid phone base as of December 31, 2013 compared to 58% as of December 31, 2012. The increased penetration in retail postpaid connections per account is primarily due to increases in Internet data devices, which represented 10.7% of our retail postpaid connection base as of December 31, 2013 compared to 9.3% as of December 31, 2012, primarily due to activations of tablets and other Internet devices. Additionally, during 2013, postpaid smartphone activations represented 86% of phones activated compared to 77% during 2012.

Other service revenue increased during 2013 compared to 2012 due to growth in wholesale connections, partially offset by a decrease in revenue related to third party roaming.

Equipment and Other Revenue
Equipment and other revenue increased during 2013 compared to 2012 as a decline in regulatory fees was partially offset by an increase in revenue related to upgrade fees.

2012 Compared to 2011
The increase in 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 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 reflected 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 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 smartphones. This increased penetration also contributed to the increase in our retail postpaid ARPA.

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% 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 was 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.
Cost of Services and Sales
Cost of services and sales decreased during 2013 compared to 2012 primarily due to a decrease in cost of equipment sales of $0.4 billion, which was partially due to a decline in postpaid upgrades, decreased data roaming, a decline in cost of data services and a decrease in network connection costs due to the deployment of Ethernet backhaul facilities primarily targeted at sites upgrading to 4G LTE, partially offset by an increase in cost of network services.

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.

Selling, General and Administrative Expense
Selling, general and administrative expense increased during 2013 compared to 2012 primarily due to higher sales commission expense in our indirect channel. Indirect sales commission expense increased $1.1 billion during 2013 compared to 2012 primarily as a result of increases in indirect gross additions and upgrades, as well as the average commission per unit, as the mix of units continues to shift toward smartphones and more customers activate data services.

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 continued to shift toward smartphones and more customers activated data services.

Depreciation and Amortization Expense
The increase in depreciation and amortization expense during 2013 compared to 2012 was primarily driven by an increase in net depreciable assets. Depreciation and amortization expense was essentially unchanged during 2012 compared to 2011.

### Operating Expenses

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2013 vs. 2012</th>
<th>2012 vs. 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of services and sales</td>
<td>$23,648</td>
<td>$24,490</td>
<td>$24,086</td>
<td>$(842)</td>
<td>3.4%</td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>$23,176</td>
<td>$21,650</td>
<td>$19,579</td>
<td>$1,526</td>
<td>7.0%</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>$8,202</td>
<td>$7,960</td>
<td>$7,962</td>
<td>$242</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$55,026</td>
<td>$54,100</td>
<td>$51,627</td>
<td>$926</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

### Segment Operating Income and EBITDA

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2013 vs. 2012</th>
<th>2012 vs. 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment Operating Income</td>
<td>$25,997</td>
<td>$21,768</td>
<td>$18,527</td>
<td>$4,229</td>
<td>19.4%</td>
</tr>
<tr>
<td>Add Depreciation and amortization expense</td>
<td>$8,202</td>
<td>$7,960</td>
<td>$7,962</td>
<td>$242</td>
<td>3.0%</td>
</tr>
<tr>
<td>Segment EBITDA</td>
<td>$34,199</td>
<td>$29,728</td>
<td>$26,489</td>
<td>$4,471</td>
<td>15.0%</td>
</tr>
<tr>
<td>Segment operating income margin</td>
<td>32.1%</td>
<td>28.7%</td>
<td>26.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment EBITDA service margin</td>
<td>49.5%</td>
<td>46.6%</td>
<td>44.8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

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

<table>
<thead>
<tr>
<th>(dollars in millions)</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
</table>
| Gain on spectrum license transaction | $(278) | - | $-
| Severance, pension and benefit (credits) charges | $(61) | 37 | 76 |
| Total | $(339) | 37 | 76 |
Our Wireline segment provides voice, data and video communications products and enhanced services including broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice services. We provide these products and services to consumers in the United States, as well as to carriers, businesses and government customers both in the United States and in over 150 other countries around the world.

Operating Revenues and Selected Operating Statistics

<table>
<thead>
<tr>
<th>Connections ('000)</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total voice connections</td>
<td>21,085</td>
<td>22,503</td>
<td>24,137</td>
<td>(1,418)</td>
</tr>
<tr>
<td>Total Broadband connections</td>
<td>9,015</td>
<td>8,795</td>
<td>8,670</td>
<td>220</td>
</tr>
<tr>
<td>FiOS Internet subscribers</td>
<td>6,072</td>
<td>5,424</td>
<td>4,817</td>
<td>648</td>
</tr>
<tr>
<td>FiOS Video subscribers</td>
<td>5,262</td>
<td>4,726</td>
<td>4,173</td>
<td>536</td>
</tr>
<tr>
<td><strong>Total Operating Revenues</strong></td>
<td><strong>39,223</strong></td>
<td><strong>39,780</strong></td>
<td><strong>40,682</strong></td>
<td><strong>(557)</strong></td>
</tr>
</tbody>
</table>

(1) As of end of period

Wireline’s revenues decreased $0.6 billion, or 1.4%, during 2013 compared to 2012 primarily driven by declines in Global Enterprise Core and Global Wholesale, partially offset by higher Consumer retail revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise.

Mass Markets

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

2013 Compared to 2012

Mass Markets revenues increased $0.6 billion, or 3.7%, during 2013 compared to 2012 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.

During 2013, we grew our subscriber base by 0.6 million FiOS Internet subscribers and by 0.5 million FiOS Video subscribers, while also consistently improving penetration rates within our FiOS service areas. As of December 31, 2013, we achieved penetration rates of 39.5% and 35.0% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 37.3% and 33.3% for FiOS Internet and FiOS Video, respectively, at December 31, 2012.

The increase in Mass Markets revenues, driven by FiOS services, was partially offset by the decline of local exchange revenues primarily due to a 5.2% decline in Consumer retail voice connections resulting primarily from competition and technology substitution with wireless, VoIP, broadband and cable services. Total voice connections include traditional switched access lines in service as well as FiOS digital voice connections. There was also a decline in Small business retail voice connections, primarily reflecting competition and a shift to both IP and high-speed circuits.
Global Enterprise
Global Enterprise offers Strategic services 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.

2013 Compared to 2012
Global Enterprise revenues decreased $0.6 billion, or 3.9%, during 2013 compared to 2012 primarily due to a $0.5 billion, or 27.1%, decline in Core customer premise equipment revenues as well as lower voice services and data networking revenues, which consist of traditional circuit-based services such as frame relay, private line and Asynchronous Transfer Mode (ATM) services. These core services declined in 2013 compared to 2012 as our customer base continued to migrate to next generation IP services. The decline in customer premise equipment revenues reflected our focus on improving margins by continuing to de-emphasize sales of equipment that are not part of an overall enterprise solutions bundle. The decline is also due to lower revenue from public sector customers. This decrease was partially offset by growth in Strategic services revenues, which increased $0.4 billion, or 4.6%, during 2013 compared to 2012 primarily due to growth in advanced services, such as contact center solutions, IP communications and our cloud and data center offerings, as well as revenue from a telematics services business that we acquired in the third quarter of 2012.

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 declined compared to the similar period in 2011 as our customer base continued to migrate to next generation IP services. The decline in customer premise equipment revenues reflected our focus on improving margins by continuing to de-emphasize sales of equipment that are not part of an overall enterprise solutions bundle. This decrease was partially offset by higher Strategic services revenues. Strategic services revenues increased 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
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.

2013 Compared to 2012
Global Wholesale revenues decreased $0.5 billion, or 7.3%, during 2013 compared to 2012 primarily due to a decline in traditional voice revenues as a result of decreased MOUs and a 5.2% decline in domestic wholesale connections. The traditional voice product reductions are primarily due to competitors de-emphasizing their local market initiatives coupled with the effect of technology substitution. Also contributing to the decline in voice revenues is the continuing contraction of market rates due to competition. Partially offsetting the overall decrease in wholesale revenue was a continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities as well as Ethernet migrations from other core customers. As a result of these factors, the number of core data circuits experienced an 11.3% decline compared to the similar period in 2012.

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 de-emphasizing 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 these factors, the number of core data circuits experienced a 9.6% decline compared to the similar period in 2011.

Other
Other revenues include such services as local exchange and long distance services outside of our network footprint and operator services which are no longer being marketed. The decrease in revenues from other services during 2013 and 2012 was primarily due to reduced volumes outside of our network footprint.
Operating Expenses

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of services and sales</td>
<td>$21,928</td>
<td>$22,413</td>
<td>$22,158</td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>$8,595</td>
<td>8,883</td>
<td>9,107</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>$8,327</td>
<td>8,424</td>
<td>8,458</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$38,850</td>
<td>$39,720</td>
<td>$39,723</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2013 vs. 2012</th>
<th>2012 vs. 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of services and sales</td>
<td>$(485) (2.2)%</td>
<td>$255 1.2%</td>
</tr>
<tr>
<td>Selling, general and administrative expense</td>
<td>$(288) 3.2%</td>
<td>(224) 2.5%</td>
</tr>
<tr>
<td>Depreciation and amortization expense</td>
<td>$(97) 1.2%</td>
<td>(34) 0.4%</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>$(870) 2.2%</td>
<td>$(3) 0%</td>
</tr>
</tbody>
</table>

Cost of Services and Sales
Cost of services and sales decreased during 2013 compared to 2012, primarily due to a decrease in costs related to customer premise equipment which reflected our focus on improving margins by de-emphasizing sales of equipment that are not part of an overall enterprise solutions bundle, a decline in access costs resulting primarily from declines in overall wholesale long distance volumes and the net effect of storm-related insurance recoveries. These decreases were partially offset by higher content costs associated with continued FiOS subscriber growth and vendor rate increases.

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 reflected our focus on improving margins by de-emphasizing sales of equipment that are not part of an overall enterprise solutions bundle.

Selling, General and Administrative Expense
Selling, general and administrative expense decreased during 2013 compared to 2012 primarily due to declines in employee costs, primarily as a result of reduced headcount, and declines in rent expenses, partially offset by higher transaction and property tax expenses.

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.

Depreciation and Amortization Expense
Depreciation and amortization expense decreased during 2013 compared to 2012, as well as 2012 compared to 2011, due to decreases in net depreciable assets, partially offset by an increase in amortization expense related to non-network software.

Segment Operating Income and EBITDA

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Segment Operating Income</td>
<td>$373</td>
<td>$60</td>
<td>$959</td>
<td>$313</td>
<td>(93.7)%</td>
</tr>
<tr>
<td>Add Depreciation and amortization expense</td>
<td>8,327</td>
<td>8,424</td>
<td>8,458</td>
<td>(97)</td>
<td>(34)</td>
</tr>
<tr>
<td>Segment EBITDA</td>
<td>$8,700</td>
<td>$8,484</td>
<td>$9,417</td>
<td>$216</td>
<td>2.5%</td>
</tr>
<tr>
<td>Segment operating income margin</td>
<td>1.0%</td>
<td>0.2%</td>
<td>2.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Segment EBITDA margin</td>
<td>22.2%</td>
<td>21.3%</td>
<td>23.1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

nm - not meaningful

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

During 2012, $0.1 billion of non-recurring or non-operational items were excluded from Wireline’s Operating income.
Gain on Spectrum License Transaction

During the third quarter of 2013, after receiving the required regulatory approvals, Verizon Wireless sold 39 lower 700 MHz B block spectrum licenses to AT&T in exchange for a payment of $1.9 billion and the transfer by AT&T to Verizon Wireless of AWS (10 MHz) licenses in certain markets in the western United States. Verizon Wireless also sold certain lower 700 MHz B block spectrum licenses to an investment firm for a payment of $0.2 billion. As a result, we received $0.5 billion of AWS licenses at fair value and we recorded a pre-tax gain of approximately $0.3 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2013.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See “Consolidated Results of Operations”) excludes the gain on the spectrum license transaction described above.

Wireless Transaction Costs

During 2013, as a result of the Wireless Transaction, we recorded costs of $0.9 billion primarily for interest expense of $0.7 billion related to the issuance of the new notes, as well as $0.2 billion in fees primarily in connection with the bridge credit agreement (see “Consolidated Financial Condition”).

Severance, Pension and Benefit (Credits) Charges

During 2013, we recorded net pre-tax severance, pension and benefits credits of approximately $6.2 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 credits were primarily driven by an increase in our discount rate assumption used to determine the current year liabilities from a weighted-average of 4.2% at December 31, 2012 to a weighted-average of 5.0% at December 31, 2013 ($4.3 billion), lower than assumed retiree medical costs and other assumption adjustments ($1.4 billion) and the difference between our estimated return on assets of 7.5% at December 31, 2012 and our actual return on assets of 5.0% at December 31, 2013 ($0.5 billion).

During 2012, we recorded net pre-tax severance, pension and benefits charges of approximately $7.2 billion primarily for our pension and 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 a weighted-average of 5% at December 31, 2011 to a weighted-average of 4.2% at December 31, 2012 ($5.3 billion) and revisions to the retirement assumptions for participants and other assumption adjustments, partially offset by the difference between our estimated return on assets of 7.5% and our actual return on assets of 10% ($0.7 billion). As part of this charge, we also recorded $1.0 billion related to the annuitization of pension liabilities (see “Employee Benefit Plan Funded Status and Contributions”) as well as severance charges of $0.4 billion primarily for approximately 4,000 management employees.

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

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

Early Debt Redemption and Other Costs

During 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.

Litigation Settlements

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

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

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating activities</td>
<td>$ 38,818</td>
<td>$ 31,486</td>
<td>$ 29,780</td>
</tr>
<tr>
<td>Investing activities</td>
<td>(14,833)</td>
<td>(20,502)</td>
<td>(17,250)</td>
</tr>
<tr>
<td>Financing activities</td>
<td>26,450</td>
<td>21,253</td>
<td>5,836</td>
</tr>
<tr>
<td>Increase (Decrease) in Cash and Cash Equivalents</td>
<td>$ 50,435</td>
<td>$ (10,269)</td>
<td>$ 6,694</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. The cash portion of the purchase price for the Wireless Transaction was primarily funded by the incurrence of third-party indebtedness, including the issuance of $49.0 billion aggregate principal amount of fixed and floating rate notes and other indebtedness (see “Acquisitions and Divestitures”). We expect that our capital spending requirements will continue to be financed primarily through internally generated funds. Debt or equity financing may be needed to fund additional investments or development activities or to maintain an appropriate capital structure to ensure our financial flexibility. Our cash and cash equivalents are primarily held domestically in diversified accounts and are invested to maintain principal and liquidity. Accordingly, we do not have significant exposure to foreign currency fluctuations.

The volatility in world debt and equity markets has not had a significant effect on our ability to access external financing. Our available external financing arrangements include credit available under credit facilities and other bank lines of credit, vendor financing arrangements, issuances of registered debt or equity securities and privately-placed capital market securities. We may also issue short-term debt through an active commercial paper program and have a $6.2 billion credit facility to support such commercial paper issuances. In addition, during 2013, we entered into a $2.0 billion 364-day revolving credit agreement.

Cash Flows Provided By Operating Activities

Our primary source of funds continues to be cash generated from operations, primarily from our Wireless segment. Net cash provided by operating activities during 2013 increased by $7.3 billion compared to 2012 primarily due to higher consolidated earnings, lower pension contributions and improved working capital levels. The increase in net cash provided by operating activities in 2013 was partially offset by net distributions of $0.3 billion received from Vodafone Omnitel in 2012.

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.

Cash Flows Used In Investing Activities

Capital Expenditures

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

Capital expenditures, including capitalized software, were as follows:

<table>
<thead>
<tr>
<th>Years Ended December 31,</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wireless</td>
<td>$ 9,425</td>
<td>$ 8,857</td>
<td>$ 8,973</td>
</tr>
<tr>
<td>Wireline</td>
<td>6,229</td>
<td>6,342</td>
<td>6,399</td>
</tr>
<tr>
<td>Other</td>
<td>950</td>
<td>976</td>
<td>872</td>
</tr>
<tr>
<td>Total as a percentage of revenue</td>
<td>13.8%</td>
<td>14.0%</td>
<td>14.7%</td>
</tr>
</tbody>
</table>

Capital expenditures increased at Wireless in 2013 compared to 2012 in order to substantially complete the build-out of our 4G LTE network. Capital expenditures declined at Wireline as a result of decreased legacy spending requirements and a decline in spending on our FiOS network.

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

Acquisitions

During 2013, 2012 and 2011, we invested $0.6 billion, $4.3 billion and $0.2 billion, respectively, in acquisitions of wireless licenses. During 2013, 2012 and 2011, we also invested $0.5 billion, $0.9 billion and $1.8 billion, respectively, in acquisitions of investments and businesses, net of cash acquired.

During the fourth quarter of 2013, Verizon acquired an industry leader in content delivery networks for $0.4 billion. We expect the acquisition will increase our ability to meet the growing demand for online digital media content. Additionally, we acquired a technology and television cloud company for cash consideration that was not significant. In February 2014, Verizon acquired a business dedicated to the development of cloud television products and services for cash consideration that was not significant.

During 2012, we paid approximately $4.3 billion to acquire wireless licenses primarily to meet future LTE capacity needs and enable LTE expansion. Additionally, during 2012, we acquired HUGHES Telematics, a provider of telematics services, for $0.6 billion. See "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" 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.

Disposals

During 2013, we completed the sale of 700 MHz lower B block spectrum licenses and as a result, we received proceeds of $2.1 billion. Additionally, on January 6, 2014, we announced agreements with T-Mobile USA, Inc. (T-Mobile USA) pursuant to which we will dispose of our remaining 700 MHz A block spectrum licenses, and as a result of these agreements we expect to receive cash consideration of approximately $2.4 billion and additional spectrum. See "Acquisitions and Divestitures" for additional information.
During 2012, we received $0.4 billion related to the sale of some of our 700 MHz lower A and B block spectrum licenses. We acquired these licenses as part of Federal Communications Commission (FCC) Auction 73 in 2008.

Other, net

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

Cash Flows Provided by (Used In) Financing Activities

We seek to maintain a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. During 2013, 2012 and 2011, net cash provided by (used in) financing activities was $26.5 billion, $(21.3) billion and $(5.8) billion, respectively.

2013

During March 2013, we issued $0.5 billion aggregate principal amount of floating rate Notes due 2015 in a private placement resulting in cash proceeds of approximately $0.5 billion, net of discounts and issuance costs. The proceeds were used for the repayment of commercial paper.

During April 2013, $1.25 billion of 5.25% Verizon Communications Notes matured and were repaid. During May 2013, $0.1 billion of 7.0% Verizon New York Inc. Debentures matured and were repaid. During June 2013, $0.5 billion of 4.375% Verizon Communications Notes and $0.1 billion of 7.0% Verizon New York Inc. Debentures matured and were repaid. In addition, during June 2013, we redeemed $0.25 billion of 7.15% Verizon Maryland LLC Debentures due May 2023 at a redemption price of 100% of the principal amount of the debentures.

During September 2013, in connection with the Wireless Transaction, we issued $49.0 billion aggregate principal amount of fixed and floating rate notes resulting in cash proceeds of approximately $48.7 billion, net of discounts and issuance costs. The issuances consisted of the following: $2.25 billion aggregate principal amount of floating rate Notes due 2016 that bear interest at a rate equal to three-month London Interbank Offered Rate (LIBOR) plus 1.53% which rate will be reset quarterly, $1.75 billion aggregate principal amount of floating rate Notes due 2018 that bear interest at a rate equal to three-month LIBOR plus 1.75% which rate will be reset quarterly, $4.25 billion aggregate principal amount of 2.50% Notes due 2016, $4.75 billion aggregate principal amount of 3.65% Notes due 2018, $4.0 billion aggregate principal amount of 4.50% Notes due 2020, $11.0 billion aggregate principal amount of 5.15% Notes due 2023, $6.0 billion aggregate principal amount of 6.40% Notes due 2033 and $15.0 billion aggregate principal amount of 6.55% Notes due 2043 (collectively, the new notes). The proceeds of the new notes were used to finance, in part, the Wireless Transaction and to pay related fees and expenses. As a result of the issuance of the new notes, we incurred interest expense related to the Wireless Transaction of $0.7 billion during 2013.

During October 2013, $0.3 billion of 4.75% Verizon New England Inc. Debentures matured and were repaid.

During November 2013, $1.25 billion of 7.375% Verizon Wireless Notes and $0.2 billion of 6.5% Verizon Wireless Notes matured and were repaid.

During November 2013, Verizon Wireless redeemed $3.5 billion of 5.55% Notes due February 1, 2014 at a redemption price of 101% of the principal amount of the notes and $0.3 billion of 6.70% Verizon New York Inc. Debentures due November 2023 at a redemption price of 100% of the principal amount of the debentures.

During December 2013, we redeemed $0.2 billion of 7.0% Verizon New York Inc. Debentures due December 2033 at a redemption price of 100% of the principal amount of the debentures and $20 million of 7.0% Verizon Delaware LLC Debentures due December 2023 at a redemption price of 100% of the principal amount of the debentures. Any accrued and unpaid interest was paid to the date of redemption.

In addition, during 2013 we utilized $0.2 billion under fixed rate vendor financing facilities.

During February 2014, we issued €1.75 billion aggregate principal amount of 2.375% Notes due 2022, €1.25 billion aggregate principal amount of 3.25% Notes due 2026 and £0.85 billion aggregate principal amount of 4.75% Notes due 2034. The issuance of these Notes resulted in cash proceeds of approximately $5.4 billion, net of discounts and issuance costs.

The net proceeds were used, in part, to finance the Wireless Transaction. Any net proceeds not used to finance the Wireless Transaction will be used for general corporate purposes. Also, during February 2014, we issued $0.5 billion aggregate principal amount of 5.9% Retail Notes due 2054 resulting in cash proceeds of approximately $0.5 billion, net of discounts and issuance costs. The proceeds will be used for general corporate purposes.

Verizon Notes

During February 2014, in connection with the Wireless Transaction, we issued $5.0 billion aggregate principal amount of floating rate notes. The Verizon Notes were issued in two separate series, with $2.5 billion due February 21, 2022 and $2.5 billion due February 21, 2025. The Verizon Notes bear interest at a floating rate, which will be reset quarterly, with interest payable quarterly in arrears, beginning May 21, 2014 (see “Acquisitions and Divestitures”). The eight-year Verizon notes bear interest at a floating rate equal to three-month LIBOR, plus 1.222%, and the eleven-year Verizon notes bear interest at a floating rate equal to three-month LIBOR, plus 1.372%.

Term Loan Agreement

During October 2013, we entered into a term loan agreement with a group of major financial institutions pursuant to which we drew $6.6 billion in February 2014 to finance, in part, the Wireless Transaction and to pay transaction costs. Half of any loans under the term loan agreement have a maturity of three years and the other half have a maturity of five years (the 5-Year Loans). The 5-Year Loans provide for the partial amortization of principal during the last two years that they are outstanding. Loans under the term loan agreement bear interest at floating rates. The term loan agreement contains certain negative covenants, including a negative pledge covenant, a merger or similar transaction covenant and an accounting changes covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. In addition, the term loan agreement requires us to maintain a leverage ratio (as defined in the term loan agreement) not in excess of 3.50:1.00, until our credit ratings reach a certain level.

Bridge Credit Agreement

During September 2013, we entered into a $61.0 billion bridge credit agreement with a group of major financial institutions. The credit agreement provided us with the ability to borrow up to $61.0 billion to finance, in part, the Wireless Transaction and to pay related transaction costs. Following the September 2013 issuance of notes, borrowing availability under the bridge credit agreement was reduced to $12.0 billion. Following the effectiveness of the term loan agreement in October 2013, the bridge credit agreement was terminated in accordance with its terms and as such, the related fees of $0.2 billion were recognized in Other income and (expense), net during the fourth quarter of 2013.

2012

During January 2012, $1.0 billion of 5.875% Verizon New Jersey Inc. Debentures matured and were repaid. During February 2012, $0.8 billion of 5.25% Verizon Wireless Notes matured and were repaid. During July 2012, $0.8 billion of 7.0% Verizon Wireless Notes matured and were repaid. In addition, during 2012 we utilized $0.2 billion under fixed rate vendor financing facilities.
On November 2, 2012, we announced the commencement of a tender offer (the Tender Offer) to purchase for cash any and all of the outstanding $1.25 billion aggregate principal amount of 8.95% Verizon Communications Notes due 2039. In the Tender Offer that was completed November 9, 2012, $0.9 billion aggregate principal amount of the notes was purchased and $0.35 billion principal amount of the notes remained outstanding. Any accrued and unpaid interest on the principal purchased was paid to the date of purchase.

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

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

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

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

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

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

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

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

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

Special Distributions
In May 2013, the Board of Representatives of Verizon Wireless declared a distribution to its owners, which was paid in the second quarter of 2013 in proportion to their partnership interests on the payment date, in the aggregate amount of $7.0 billion. As a result, Vodafone received a cash payment of $3.15 billion and the remainder of the distribution was received by Verizon.

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

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

Other, net
The change in Other, net financing activities during 2013 compared to 2012 was primarily driven by higher distributions to Vodafone, which owned a 45% noncontrolling interest in Verizon Wireless as of December 31, 2013. The change in Other, net financing activities during 2012 compared to 2011 was primarily driven by higher distributions to Vodafone, and higher early debt redemption costs (see “Other Items”).

Dividends
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 2013, the Board increased our quarterly dividend payment 2.9% to $0.53 per share from $0.515 per share in the same period of 2012. This is the seventh consecutive year that Verizon’s Board of Directors has approved a quarterly dividend increase. 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. 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 2013, we paid $5.9 billion in dividends compared to $5.2 billion in 2012 and $5.6 billion in 2011. As in prior periods, dividend payments were a significant use of capital resources. While the dividends declared per common share increased in 2012 compared to 2011, the total amount of cash dividends paid decreased during 2012 compared to the prior year as a portion of the dividends was satisfied through the issuance of common shares from Treasury stock (see “Common Stock”).

Credit Facilities
On August 13, 2013, we amended our $6.2 billion credit facility with a group of major financial institutions to extend the maturity date to August 12, 2017. As of December 31, 2013, the unused borrowing capacity under this credit facility was approximately $6.1 billion. The credit facility does not require us to comply with financial covenants or maintain specified credit ratings, and it permits us to borrow even if our business has incurred a material adverse change. We use the credit facility to support the issuance of commercial paper, for the issuance of letters of credit and for general corporate purposes.

During October 2013, we entered into a $2.0 billion 364-day revolving credit agreement with a group of major financial institutions. Although effective as of October 2013, we could not draw on this revolving credit agreement prior to the completion of the Wireless Transaction. We may use borrowings under the 364-day credit agreement for general corporate purposes. The 364-day revolving credit agreement contains certain negative covenants, including a negative pledge covenant, a merger or similar transaction covenant and an accounting changes covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. In addition, this agreement requires us to maintain a leverage ratio (as defined in the agreement) not in excess of 3.50:1.00, until our credit ratings reach a certain level.
Common Stock
Common stock has been used from time to time to satisfy some of the funded requirements of employee and shareowner plans, including 24.6 million common shares issued from Treasury stock during 2012, related to dividend payments, which had an aggregate value of $1.0 billion. On February 3, 2011, the Board of Directors replaced the previously authorized share buyback program with a new program for the repurchase of up to 100 million common shares terminating no later than the close of business on February 28, 2014. The Board also determined that no additional shares were to be purchased under the prior program. During 2013, we repurchased $0.2 billion of our common stock under this program. There were no repurchases of common stock during 2012 or 2011.

As a result of the Wireless Transaction, Verizon issued approximately 1.27 billion shares.

Credit Ratings
During the third quarter of 2013, Verizon’s credit ratings were downgraded by Moody’s Investors Service (Moody’s), Standard & Poor’s Ratings Services (Standard & Poor’s) and Fitch Ratings (Fitch) as a result of Verizon’s announcement of the agreement to acquire Vodafone’s 45% noncontrolling interest in Verizon Wireless for approximately $130 billion including the incurrence of third-party indebtedness to fund the cash portion of the purchase price for the Wireless Transaction. Moody’s downgraded Verizon’s long-term debt ratings one notch from A3 to Baa1, while Standard & Poor’s lowered its corporate credit rating and senior unsecured debt rating one notch from A- to BBB+. Fitch lowered its long-term issuer default rating and senior unsecured debt rating one notch from A- to A-.

Although the ratings downgrade is not expected to significantly impact our access to capital, it could increase both the cost of refinancing 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. Additionally, the term loan credit agreement and the 364-day revolving credit agreement require us to maintain a leverage ratio (as such term is defined in those agreements) not in excess of 3.50:1.00 until our credit ratings are equal to or higher than A3 and A-.

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, 2013 totaled $53.5 billion, a $5.04 billion increase compared to Cash and cash equivalents at December 31, 2012 primarily as a result of the issuance of $49.0 billion aggregate principal amount of fixed and floating rate notes.

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 as a result of the factors described in connection with our cash flows provided by operating activities, cash flows used in investing activities and cash flows used in financing activities.

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>2013</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net cash provided by operating activities</td>
<td>$38,818</td>
<td>$31,486</td>
<td>$29,780</td>
</tr>
<tr>
<td>Less Capital expenditures (including capitalized software)</td>
<td>16,604</td>
<td>16,175</td>
<td>16,244</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>$22,214</td>
<td>$15,311</td>
<td>$13,536</td>
</tr>
</tbody>
</table>

The changes in free cash flow during 2013, 2012 and 2011 were a result of the factors described in connection with net cash provided by operating activities and capital expenditures.

Employee Benefit Plan Funded Status and Contributions

Pension Annuitzation
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 2013, contributions to our qualified pension plans were not material. 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. We also contributed $0.1 billion, $0.2 billion and $0.1 billion to our nonqualified pension plans in 2013, 2012 and 2011, respectively.

In an effort to reduce the risk of our portfolio strategy and better align assets with liabilities, we have adopted a liability driven pension strategy that seeks to better match cash flows from investments with projected benefit payments. We expect that the strategy will reduce the likelihood that assets will decline at a time when liabilities increase (referred to as liability hedging), with the goal to reduce the risk of underfunding to the plan and its participants and beneficiaries. However, we also expect the strategy to result in lower asset returns. Based on this strategy and the funded status of the plans at December 31, 2013, we expect the minimum required qualified pension plan contribution in 2014 to be $1.2 billion. Nonqualified pension contributions are estimated to be approximately $0.2 billion in 2014.
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 $1.4 billion, $1.5 billion and $1.4 billion to our other postretirement benefit plans in 2013, 2012 and 2011, respectively. Contributions to our other postretirement benefit plans are estimated to be approximately $1.4 billion in 2014.

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 37 years as of December 31, 2013. In addition, we lease space on certain of our cell towers to other wireless carriers. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which is secured by a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with U.S. GAAP. All recourse debt is reflected in our consolidated balance sheets.

We also guarantee the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003. As of December 31, 2013, $1.7 billion principal amount of these obligations remained outstanding (see Note 8 to the consolidated financial statements). As of December 31, 2013 letters of credit totaling approximately $0.1 billion were outstanding (see Note 16 to the consolidated financial statements).

We are not able to make a reliable estimate of when the unrecognized tax benefits balance of $2.1 billion and related interest and penalties will be settled with the respective taxing authorities until issues or examinations are further developed (see Note 12 to the consolidated financial statements).

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, 2013, $3.1 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, which will occur, among other things, if the operating telephone company is no longer a wholly-owned subsidiary of Verizon.

### Off Balance Sheet Arrangements and Contractual Obligations

#### Contractual Obligations and Commercial Commitments

The following table provides a summary of our contractual obligations and commercial commitments at December 31, 2013. Additional detail about these items is included in the notes to the consolidated financial statements.

<table>
<thead>
<tr>
<th>Contractual Obligations</th>
<th>Payments Due By Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>Less than 1 year</td>
</tr>
<tr>
<td></td>
<td>1–3 years</td>
</tr>
<tr>
<td></td>
<td>3–5 years</td>
</tr>
<tr>
<td></td>
<td>More than 5 years</td>
</tr>
<tr>
<td>Long-term debt(^{(1)})</td>
<td>$ 92,851</td>
</tr>
<tr>
<td>Capital lease obligations(^{(2)})</td>
<td>293</td>
</tr>
<tr>
<td>Total long-term debt, including current maturities</td>
<td>93,144</td>
</tr>
<tr>
<td>Interest on long-term debt(^{(3)})</td>
<td>74,938</td>
</tr>
<tr>
<td>Operating leases(^{(4)})</td>
<td>12,190</td>
</tr>
<tr>
<td>Purchase obligations(^{(4)})</td>
<td>33,440</td>
</tr>
<tr>
<td>Other long-term liabilities(^{(4)})</td>
<td>4,404</td>
</tr>
<tr>
<td>Total contractual obligations</td>
<td>$ 218,116</td>
</tr>
</tbody>
</table>

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

(2) See Note 7 to the consolidated financial statements.

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

(4) Other long-term liabilities include estimated postretirement benefit and qualified pension plan contributions (see Note 11 to the consolidated financial statements). We are not able to make a reliable estimate of when the unrecognized tax benefits balance of $2.1 billion and related interest and penalties will be settled with the respective taxing authorities until issues or examinations are further developed (see Note 12 to the consolidated financial statements).
We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes, foreign currency exchange rate fluctuations, changes in investment, equity and commodity prices and changes in corporate tax rates. We employ risk management strategies, which may include the use of a variety of derivatives including cross currency swaps, foreign currency and prepaid forwards and collars, interest rate swap agreements, commodity swap and forward agreements and interest rate locks. We do not hold derivatives for trading purposes.

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

### Interest Rate Risk

We are exposed to changes in interest rates, primarily on our short-term debt and the portion of long-term debt that carries floating interest rates. As of December 31, 2013, approximately 92% of the aggregate principal amount of our total debt portfolio consisted of fixed rate indebtedness, including the effect of interest rate swap agreements designated as hedges. The impact of a 100 basis point change in interest rates affecting our floating rate debt would result in a change in annual interest expense, including our interest rate swap agreements that are designated as hedges, of approximately $0.1 billion. 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, 2013 and 2012. 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>Derivatives</th>
<th>Fair Value at December 31, 2013</th>
<th>Fair Value at December 31, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long-term debt and related derivatives</strong></td>
<td><strong>$103,103</strong></td>
<td><strong>$61,045</strong></td>
</tr>
<tr>
<td><strong>Fair Value assuming +100 basis point shift</strong></td>
<td><strong>$95,497</strong></td>
<td><strong>$56,929</strong></td>
</tr>
<tr>
<td><strong>Fair Value assuming -100 basis point shift</strong></td>
<td><strong>$111,910</strong></td>
<td><strong>$65,747</strong></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 LIBOR, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on our consolidated balance sheets as assets and liabilities.

During 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 was recognized into earnings as a reduction of Interest expense over the remaining lives of the underlying debt obligations. During the second quarter of 2013, interest rate swaps with a notional value of $1.25 billion matured and the impact to our consolidated financial statements was not material. During the third quarter of 2013, we entered into interest rate swaps with a total notional value of $1.8 billion. At December 31, 2013 and 2012, the fair value of these interest rate swaps was not material. At December 31, 2013, the total notional amount of these interest rate swaps was $1.8 billion. The ineffective portion of these interest rate swaps was not material at December 31, 2013.

**Forward Interest Rate Swaps**

In order to manage our exposure to future interest rate changes, during the fourth quarter of 2013, we entered into forward interest rate swaps with a notional value of $2.0 billion. We designated these contracts as cash flow hedges. The fair value of these contracts was not material at December 31, 2013.

**Foreign Currency Translation**

The functional currency for our foreign operations is primarily the local currency. The translation of income statement and balance sheet amounts of our foreign operations into U.S. dollars is recorded as a cumulative translation adjustment, 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. During 2013, our primary translation exposure was to the British Pound Sterling, the Euro, 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 pre-tax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was not material at December 31, 2013 or December 31, 2012. During 2013 and 2012 the gains with respect to these swaps were not material.

During February 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $5.4 billion of Euro and British Pound Sterling denominated debt into U.S. dollars 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 summary of the critical accounting estimates used in preparing our financial statements is as follows:

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

**Wireless Licenses**

The carrying value of our wireless licenses was approximately $75.7 billion as of December 31, 2013. We aggregate our wireless licenses into one single unit of accounting, as we utilize our wireless licenses on an integrated basis as part of our nationwide wireless network. Our wireless licenses provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communication services. There are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses. In 2013, we performed a qualitative impairment assessment to determine whether it is more likely than not that the fair value of our wireless licenses was less than the carrying amount. As part of our assessment we considered several qualitative factors including the business enterprise value of Wireless, macroeconomic conditions (including changes in interest rates and discount rates), industry and market considerations (including industry revenue and EBITDA margin projections), the projected financial performance of Wireless, as well as other factors. Based on our assessment in 2013, we qualitatively concluded that it was more likely than not that the fair value of our wireless licenses significantly exceeded their carrying value and therefore, did not result in an impairment.

In 2012 and 2011, our quantitative impairment test consisted of comparing the estimated fair value of our wireless licenses to the aggregated carrying amount as of the test date. If the estimated fair value of our wireless licenses was less than the aggregated carrying amount of the wireless licenses then an impairment charge would have been recognized. Our annual quantitative impairment tests for 2012 and 2011 indicated that the fair value significantly exceeded the carrying value and, therefore, did not result in an impairment.

In 2012 and 2011, using a quantitative assessment, we estimated the fair value of our wireless licenses using a direct income based valuation approach. This approach uses a discounted cash flow analysis to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. As a result we were required to make significant estimates about future cash flows specifically associated with our wireless licenses, an appropriate discount rate based on the risk associated with those estimated cash flows and assumed terminal value and growth rates. We considered current and expected future economic conditions, current and expected availability of wireless network technology and infrastructure and related equipment and the costs thereof as well as other relevant factors in estimating future cash flows. The discount rate represented our estimate of the weighted-average cost of capital (WACC), or expected return, that a marketplace participant would have required as of the valuation date. We developed the discount rate based on our consideration of the cost of debt and equity of a group of guideline companies as of the valuation date. Accordingly, our discount rate incorporated our estimate of the expected return a marketplace participant would have required as of the valuation date, including the risk premium associated with the current and expected economic conditions as of the valuation date. The terminal value growth rate represented our estimate of the marketplace’s long-term growth rate.

**Goodwill**

At December 31, 2013, the balance of our goodwill was approximately $24.6 billion, of which $18.4 billion was in our Wireless segment and $6.2 billion was in our Wireline segment. Determining whether an impairment has occurred requires the determination of fair value of each respective reporting unit. Our operating segments, Wireless and Wireline, are deemed to be our reporting units for purposes of goodwill impairment testing. The fair value of Wireless significantly exceeded its carrying value and the fair value of Wireline exceeded its carrying value. Accordingly, our annual impairment tests for 2013, 2012 and 2011 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.

**Critical Accounting Estimates**

CRITICAL ACCOUNTING ESTIMATES AND RECENT ACCOUNTING STANDARDS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

continued
• We maintain benefit plans for most of our employees, including, for certain employees, pension and other postretirement benefit plans. At December 31, 2013, 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, 2013 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, 2013*</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 5.0%. 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, 2013. The bonds selected had maturities that coincided with the time periods during which benefits payments are expected to occur, were non-callable and available in sufficient quantities to ensure marketability (at least $0.3 billion par outstanding).

• Our current and deferred income taxes, and associated valuation allowances, are impacted by events and transactions arising in the normal course of business as well as in connection with the adoption of new accounting standards, changes in tax laws and rates, acquisitions and dispositions of businesses and non-recurring items. As a global commercial enterprise, our income tax rate and the classification of income taxes can be affected by many factors, including estimates of the timing and realization of deferred income tax assets and the timing and amount of income tax payments. We account for tax benefits taken or expected to be taken in our tax returns in accordance with the accounting standard relating to the uncertainty in income taxes, which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. We review and adjust our liability for unrecognized tax benefits based on our best judgment given the facts, circumstances, and information available at each reporting date. To the extent that the final outcome of these tax positions is different than the amounts recorded, such differences may impact income tax expense and actual tax payments. We recognize any interest and penalties accruing related to unrecognized tax benefits in income tax expense. Actual tax payments may materially differ from estimated liabilities as a result of changes in tax laws as well as unanticipated transactions impacting related income tax balances.

• Our Plant, property and equipment balance represents a significant component of our consolidated assets. We record plant, property and equipment at cost. We depreciate plant, property and equipment on a straight-line basis over the estimated useful life of the assets. We expect that a one-year increase in estimated useful lives of our plant, property and equipment would result in a decrease to our 2013 depreciation expense of $1.8 billion and that a one-year decrease would result in an increase of approximately $2.1 billion in our 2013 depreciation expense.

Recent Accounting Standards

In July 2013, the accounting standard update relating to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists was issued. The standard update provides that a liability related to an unrecognized tax benefit should be offset against same jurisdiction deferred tax assets for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. We will adopt this standard update during the first quarter of 2014. We are currently evaluating the consolidated balance sheet impact related to this standard update.
MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

ACQUISITIONS AND DIVERSTURES

**Wireless**

**Wireless Transaction**

On September 2, 2013, Verizon entered into a stock purchase agreement (the Stock Purchase Agreement) with Vodafone and Vodafone 4 Limited (Seller), pursuant to which Verizon agreed to acquire Vodafone’s indirect 45% interest in Cellicom Partnership d/b/a Verizon Wireless (the Partnership, and such interest, the Vodafone Interest) for aggregate consideration of approximately $130 billion.

On February 21, 2014, pursuant to the terms and subject to the conditions set forth in the Stock Purchase Agreement, Verizon acquired the Wireless Transaction from Seller all of the issued and outstanding capital stock (the Transferred Shares) of Vodafone Americas Finance 1 Inc., a subsidiary of Seller (VF1 Inc.), which indirectly through certain subsidiaries (together with VF1 Inc., the Purchased Entities) owned the Vodafone Interest. In consideration for the Transferred Shares, upon completion of the Wireless Transaction, Verizon (i) paid approximately $58.89 billion in cash, (ii) issued approximately $60.15 billion of Verizon’s common stock, par value $0.10 per share (the Stock Consideration), (iii) issued senior unsecured Verizon notes in an aggregate principal amount of $50.0 billion (the Verizon Notes), (iv) sold Verizon’s indirectly owned 23.1% interest in Vodafone Omnitel N.V. (Omnitel, and such interest, the Omnitel Interest), valued at $3.5 billion and (v) provided other consideration of approximately $2.5 billion. As a result of the Wireless Transaction, Verizon issued approximately 1.27 billion shares. The total cash paid to Vodafone and the other costs of the Wireless Transaction, including financing, legal and bank fees, were financed through the incurrence of third-party indebtedness (see “Consolidated Financial Condition”).

In accordance with the accounting standard on consolidation, a change in a parent’s ownership interest while the parent retains a controlling financial interest in its subsidiary is accounted for as an equity transaction and remeasurement of assets and liabilities of previously controlled and consolidated subsidiaries is not permitted. As a result, we will account for the Wireless Transaction by adjusting the carrying amount of the non-controlling interest to reflect the change in Verizon’s ownership interest in Verizon Wireless. Any difference between the fair value of the consideration paid and the amount by which the noncontrolling interest is adjusted will be recognized in equity attributable to Verizon.

**Omnitel Transaction**

On February 21, 2014, Verizon and Vodafone also implemented the sale of the Omnitel Interest (the Omnitel Transaction) by a subsidiary of Verizon to a subsidiary of Vodafone in connection with the Wireless Transaction pursuant to a separate share purchase agreement. We will recognize a gain on the disposal of the Omnitel interest in the first quarter of 2014.

**Verizon Notes**

The Verizon Notes were issued pursuant to Verizon’s existing indenture. The Verizon Notes were issued in two separate series, with $2.5 billion due February 21, 2022 and $2.5 billion due February 21, 2025. The Verizon Notes bear interest at a floating rate, which will be reset quarterly, with interest payable quarterly in arrears, beginning May 21, 2014. The eight-year Verizon Notes bear interest at a floating rate equal to three-month LIBOR, plus 1.222%, and the eleven-year Verizon notes bear interest at a floating rate equal to three-month LIBOR, plus 1.372%. The indenture that governs the Verizon Notes contains certain negative covenants, including a negative pledge covenant and a merger or similar transaction covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. An event of default for either series of the Verizon Notes may result in acceleration of the entire principal amount of all debt securities of that series. Beginning two years after the closing of the Wireless Transaction, Verizon may redeem all or any portion of the outstanding Verizon Notes held by Vodafone or any of its affiliates for a redemption price of 100% of the principal amount plus accrued and unpaid interest. The Verizon Notes may only be transferred by Vodafone to third parties in specified amounts during specified periods, commencing January 1, 2017. The Verizon Notes held by third parties will not be redeemable. Verizon has agreed to file a registration statement with respect to the Verizon Notes at least three months prior to the Verizon Notes becoming transferable.

**Other Consideration**

Included in the other consideration paid to Vodafone is the indirect assumption of long-term obligations with respect to 5.143% Class D and Class E cumulative preferred stock issued by one of the Purchased Entities. Both the Class D (825,000 shares outstanding) and Class E shares (825,000 shares outstanding) are mandatorily redeemable in April 2020 at $1,000 per share plus any accrued and unpaid dividends. Dividends accrue at 5.143% per annum and will be treated as interest expense. Both the Class D and Class E shares will be classified as liability instruments and will be recorded at fair value as determined at the closing of the Wireless Transaction.

**Spectrum License Transactions**

Since 2012, we have entered into several strategic spectrum transactions including:

- During the third quarter of 2012, after receiving the required regulatory approvals, Verizon Wireless completed the following previously announced transactions in which we acquired wireless spectrum that will be used to deploy additional 4G LTE capacity:
  - Verizon Wireless acquired AWS spectrum in separate transactions with SpectrumCo and Cox TM1 Wireless, LLC for which it paid an aggregate of $3.9 billion at the time of the closings. Verizon Wireless has also recorded a liability of $0.4 billion related to a three-year service obligation to SpectrumCo’s members pursuant to commercial agreements executed concurrently with the SpectrumCo transaction.
  - Verizon Wireless completed license purchase and exchange transactions with Leap Wireless, Savary Island Wireless, which is majority owned by Leap Wireless, and a subsidiary of T-Mobile USA. 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 USA and a 700 megahertz (MHz) lower A block license to Leap Wireless, and recorded an immaterial gain.

- During the first quarter of 2013, we completed license exchange transactions with T-Mobile License LLC and Cricket License Company, LLC, a subsidiary of Leap Wireless, to exchange certain Advanced Wireless Services (AWS) licenses. These non-cash exchanges include a number of intra-market swaps that we expect will enable Verizon Wireless to make more efficient use of the AWS band. As a result of these exchanges, we received an aggregate $0.5 billion of AWS licenses at fair value and recorded an immaterial gain.

- During the third quarter of 2013, after receiving the required regulatory approvals, Verizon Wireless sold 39 lower 700 MHz B block spectrum licenses to AT&T in exchange for a payment of $1.9 billion and the
transfer by AT&T to Verizon Wireless of AWS (10 MHz) licenses in certain markets in the western United States. Verizon Wireless also sold certain lower 700 MHz B block spectrum licenses to an investment firm for a payment of $0.2 billion. As a result, we received $0.5 billion of AWS licenses at fair value and we recorded a pre-tax gain of approximately $0.3 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2013.

During the fourth quarter of 2013, we entered into license exchange agreements with T-Mobile USA to exchange certain AWS and PCS licenses. These non-cash exchanges, which are subject to approval by the FCC and other customary closing conditions, are expected to close in the first half of 2014. The exchange includes a number of swaps that we expect will result in more efficient use of the AWS and PCS bands. As a result of these agreements, $0.9 billion of Wireless licenses are classified as held for sale and included in Prepaid expenses and other on our consolidated balance sheet at December 31, 2013. Upon completion of the transaction, we expect to record an immaterial gain.

Subsequent to the transaction with T-Mobile USA in the fourth quarter of 2013, on January 6, 2014, we announced two agreements with T-Mobile USA with respect to our remaining 700 MHz A block spectrum licenses. Under one agreement, we will sell certain of these licenses to T-Mobile USA in exchange for cash consideration of approximately $2.4 billion, and under the second agreement we will exchange the remainder of these licenses for AWS and PCS spectrum licenses. These transactions are subject to the approval of the FCC as well as other customary closing conditions. These transactions are expected to close in the middle of 2014.

Other
During 2013, we acquired various other wireless licenses and markets for cash consideration that was not significant. Additionally, we obtained control of previously unconsolidated wireless partnerships, which were previously accounted for under the equity method and are now consolidated, which resulted in an immaterial gain. We recorded $0.2 billion of goodwill as a result of these transactions.

HUGHES Telematics, Inc.
During July 2012, we acquired HUGHES Telematics for approximately $12 per share in cash for a total acquisition price of $0.6 billion. As a result of the transaction, HUGHES Telematics became a wholly-owned subsidiary of Verizon. The consolidated financial statements include the results of HUGHES Telematics’ operations from the date the acquisition closed. Upon closing, we recorded approximately $0.6 billion of goodwill, $0.1 billion of other intangibles, and assumed the debt obligations of HUGHES Telematics, which were approximately $0.1 billion as of the date of acquisition, and which were repaid by Verizon. Had this acquisition been completed on January 1, 2012 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 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 tender offer followed by 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.

Other
During the fourth quarter of 2013, Verizon acquired an industry leader in content delivery networks for $0.4 billion. We expect the acquisition will increase our ability to meet the growing demand for online digital media content. Upon closing, we recorded $0.3 billion of goodwill. Additionally, we acquired a technology and television cloud company for cash consideration that was not significant. The consolidated financial statements include the results of the operations of each of these acquisitions from the date each acquisition closed.

On January 21, 2014, Verizon announced an agreement to acquire a business dedicated to the development of cloud television products and services for cash consideration that was not significant. The transaction, which was completed in February 2014, is expected to accelerate the availability of next-generation video services.

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued
OTHER FACTORS THAT MAY AFFECT FUTURE RESULTS

Regulatory and Competitive Trends

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

FCC Regulation

Broadband
Verizon offers many different broadband and Internet access services. The FCC has adopted a series of orders that impose lesser regulatory requirements on broadband services than apply to older voice and slower data services. For example certain facility unbundling requirements that apply to narrowband facilities of traditional telephone companies do not apply to broadband facilities. In addition, the FCC concluded that both wireline and wireless broadband Internet access services qualify as largely deregulated information services. Our broadband Internet access services are subject to various attempts to impose so-called “network neutrality” rules, some of which were affirmed and others vacated on appeal in early 2014. Verizon has been and remains committed to the open Internet which provides consumers with competitive choices and unblocked access to lawful websites and content when, where, and how they want. This will not change in light of the court’s decision. Our commitment applies to broadband Internet access services provided over both our wireline and wireless networks and can be found on our website at http://responsibility.verizon.com/broadband-commitment.

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

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

Wireless Services
The FCC regulates several aspects of Verizon Wireless’ operations. Generally, the FCC has jurisdiction over the construction, operation, acquisition, and transfer of wireless communications systems. And all wireless services require use of radio frequency spectrum, the assignment and distribution of which is subject to FCC oversight. Verizon Wireless anticipates that it will need additional spectrum to meet future demand. It can meet spectrum needs by purchasing licenses or leasing spectrum from others, or by participating in a competitive bidding process for new spectrum from the FCC. Both processes are subject to certain reviews, approvals, and potential conditions.

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

The Communications Act imposes restrictions on foreign ownership of U.S. wireless systems. The FCC has approved the foreign ownership in Verizon that has resulted from the Wireless Transaction. In addition, Verizon Wireless, Verizon and Vodafone entered into an agreement with the federal government that imposes national security and law enforcement-related obligations on the ways in which Verizon Wireless stores information and otherwise conducts its business.

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

Universal Service
The Communications Act charges the FCC with ensuring that certain groups and areas have access to communications services, including rural and other high-cost areas, low income subscribers, schools and
During the remediation at this or any other site requiring remediation, the 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.

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.

State Regulation and Local Regulation

Wireline Services

State public utility commissions regulate Verizon's telephone operations with respect to certain telecommunication intrastate matters. Verizon operates as an "incumbent local exchange carrier" in 14 states. These incumbent operations are subject to various levels of pricing flexibility and other state oversight and requirements. Verizon also has other wireline operations that are more lightly regulated. In addition, as a video services operator in many states, Verizon has been required to obtain a cable franchise from local government entities, or in some cases a statewide franchise, and to comply with certain one-time and ongoing obligations as a result.

Wireless Services

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

For more information, please refer to the financial statements and notes in the separate financial statement section of this annual report.