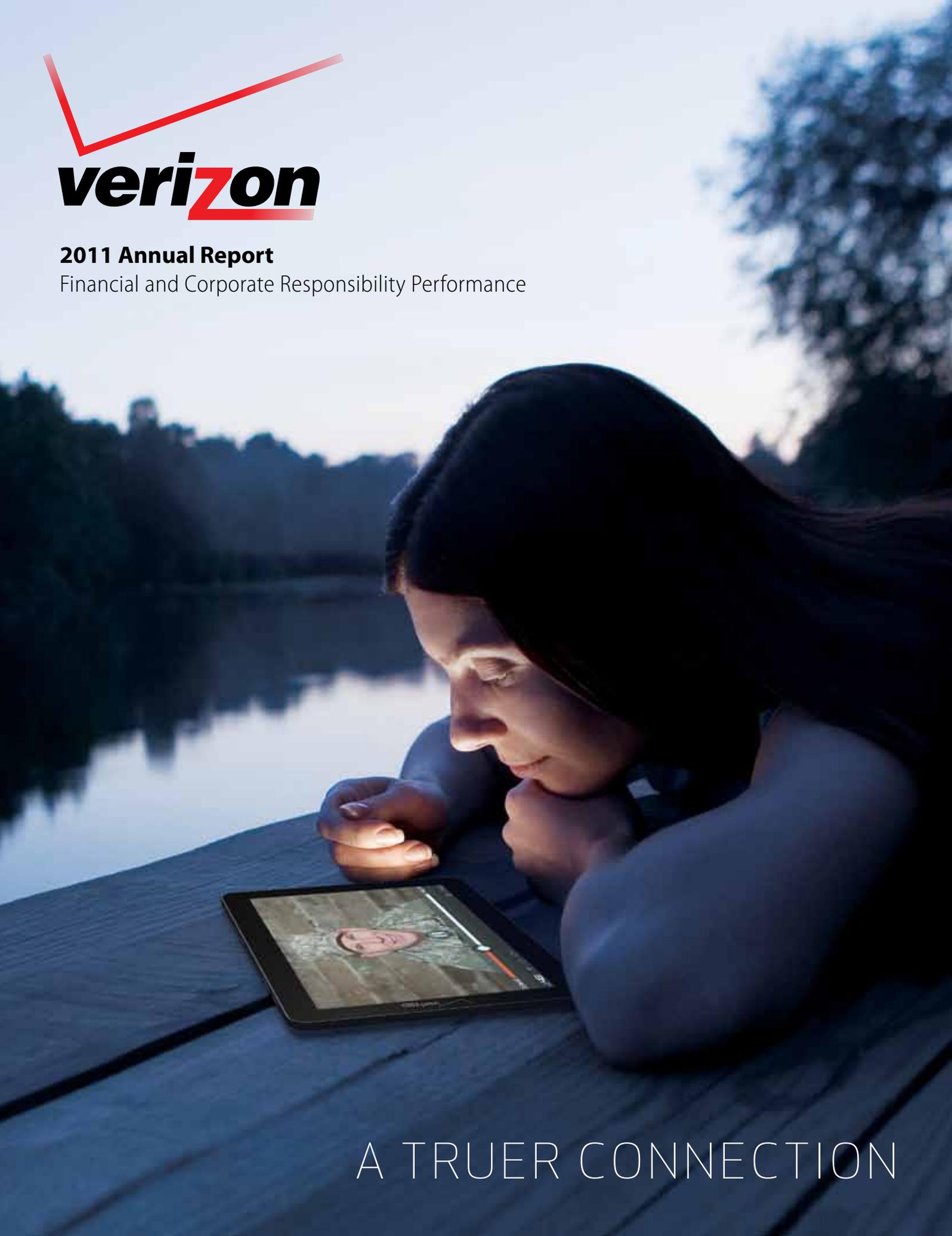




**2011 Annual Report**

Financial and Corporate Responsibility Performance

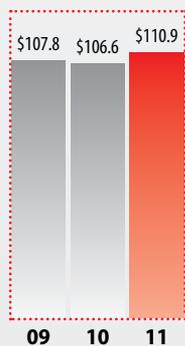


A TRUER CONNECTION

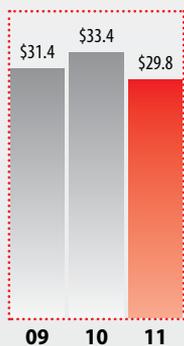
# FINANCIAL HIGHLIGHTS

(AS OF DECEMBER 31, 2011)

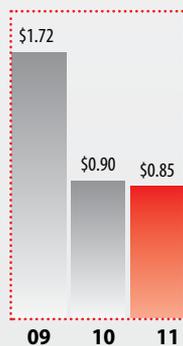
## CONSOLIDATED REVENUES (BILLIONS)



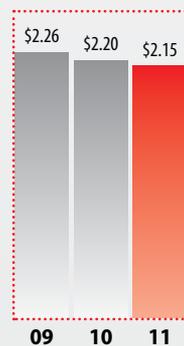
## OPERATING CASH FLOW (BILLIONS)



## REPORTED DILUTED EARNINGS PER SHARE



## ADJUSTED DILUTED EARNINGS PER SHARE (NON-GAAP)



## DIVIDENDS DECLARED PER SHARE



# CORPORATE HIGHLIGHTS

- \$13.5 billion in free cash flow (non-GAAP)
- 6.2% growth in adjusted revenues (non-GAAP)
- 18.2% total shareowner return
- 2.6% annual dividend increase
- 5.4 million new wireless connections
- 0.95% wireless postpaid churn
- 6.3% growth in wireless retail service revenue
- 21.0% growth in wireless data revenue
- 735,000 new FiOS Internet connections
- 701,000 new FiOS Video connections
- 20.1% growth in FiOS revenue
- 15.2% growth in enterprise strategic services revenue

Note: Prior-period amounts have been reclassified to reflect comparable results.

See [www.verizon.com/investor](http://www.verizon.com/investor) for reconciliations to generally accepted accounting principles (GAAP) for the non-GAAP financial measures included in this annual report. Reclassifications of prior period amounts have been made, where appropriate, to reflect comparable operating results for the divestiture of overlapping wireless properties in 105 operating markets in 24 states during the first half of 2010; the wireless deferred revenue adjustment that was disclosed in Verizon's Form 10-Q for the period ended June 30, 2010; and the spinoff to Frontier of local exchange and related landline assets in 14 states, effective on July 1, 2010.

In keeping with Verizon's commitment to protect the environment, this report was printed on paper certified by the Forest Stewardship Council (FSC). By selecting FSC-certified paper, Verizon is helping to make a difference by supporting responsible forest management practices.

## A TRUER CONNECTION

Every day, the people of **Verizon Communications** are working to build a truer connection to our customers and communities, and to the crucial needs of America and the world. Through this “shared success” strategy, we aim to create long-term value for our shareowners and leave a positive and lasting mark on society.

Reginald F. Lewis High School in Baltimore, MD, is visited weekly by Verizon's Mobile Learning Lab, where students use 4G LTE tablets and work with tutors from Morgan State University to prepare for the SAT exam.



# A TRUER CONNECTION



“We see expanding opportunities to build truer connections with our customers and communities by using our unique platforms to meet crucial needs across America and the world. Verizon will create new and more effective products, solutions and processes that will make us an even more valuable partner to our customers, communities and shareowners.”

**Lowell McAdam**  
Chairman and Chief Executive Officer  
Verizon Communications

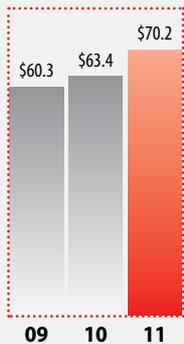
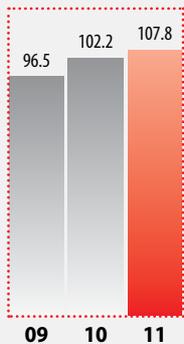
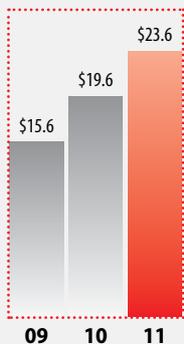
## Dear Shareowner,

The enduring source of Verizon’s value is the central role we play in an industry vital to the global economy and deeply embedded in the lives of our customers. Whether it’s through iconic products that improve people’s lives, creative strategies that open new markets and expand access to technology, collaborations that promote innovation or initiatives that apply our technology to urgent social issues, Verizon is the standard-bearer for the industry and a leader in delivering the benefits of our empowering technology to the world. We have extraordinary assets and a leadership team committed to thinking in the broadest sense about how to use our potential to solve problems and move the world forward.

As we look ahead, we are taking steps to use these great assets in big ways for big results — creating value for shareowners and showing the immense power of our industry to benefit society.

For Verizon, our most exciting growth opportunities occur where business and social interests intersect. You will read about both in this report, which for the first time

combines our annual report with highlights of our corporate responsibility initiatives. Under the rubric of “shared success,” we are using our technological and philanthropic resources to address the world’s unmet social and environmental needs. In the process, we’re fueling the social innovation that will open new markets, drive our growth and reinforce Verizon’s vital role in the digital world.

**WIRELESS REVENUE**  
(BILLIONS)**WIRELESS TOTAL CONNECTIONS**  
(MILLIONS)**WIRELESS DATA REVENUE**  
(BILLIONS)**2011 Results**

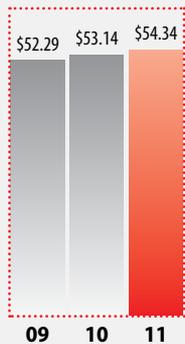
Our financial performance in 2011 testifies to Verizon's fundamental strength. Revenues totaled \$110.9 billion, up 6.2 percent on an adjusted basis, reflecting strong performance in wireless, video and enterprise strategic services. Revenues in the fourth quarter grew by 7.7 percent year over year, the highest since we formed Verizon 10 years ago. Cash flow from operating activities totaled \$29.8 billion for the year, enabling us to sustain the capital investment necessary to press our advantage of having the best networks in the industry and raise our dividend by 2.6 percent, the fifth consecutive annual increase, bringing our annual dividend to \$2.00 a share. All in all, Verizon's total return to shareowners for 2011 was 18.2 percent, as compared with 8.4 percent for the Dow Jones Industrial Average and 2.1 percent for the S&P 500.

The big news in wireless for 2011 was the rapid deployment of our fourth-generation wireless network, based on 4G LTE technology. Just over a year after its launch in December 2010, this industry-leading network reached 200 million people in 195 markets across the U.S. and now supports a rapidly developing ecosystem of devices and applications that take advantage of its superior coverage and speed. We're fueling this revolution with our two new Innovation Centers — one focused on devices and the other on applications — where we work with developers and entrepreneurs to tap the incredible potential of 4G LTE to enhance people's lives and address new markets. (See pages 8–9 for more detail.)

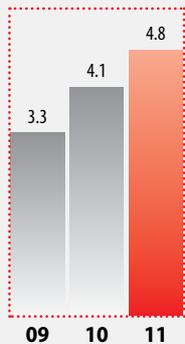
Verizon Wireless ended the year with a total of 107.8 million connections, including a growing number of machine-to-machine devices and mobile "hot spots" that reflect the emerging "Internet of Things," in which connectivity is embedded throughout the physical world. We added the iPhone to our robust product line-up, which also includes a growing number of 4G LTE devices that operate on the Android platform. All of this is driving smartphone penetration and fueling 21 percent annual growth in wireless data revenue. We are very proud of receiving the number-one ranking for customer satisfaction from a major consumer publication again this year and were excited to see that *PCWorld* put 4G LTE at the top of its "100 Best Products of 2011."

We continue to transform our consumer wireline business around video and broadband. Our all-fiber FiOS network now passes 16.5 million homes — about 60 percent of our wireline territory — and provides a high-quality platform for delivering broadband services, streaming video and other high-bandwidth services. FiOS now accounts for more than 60 percent of our consumer wireline revenues and helps make up for the decline in revenues from traditional services. As of the fourth quarter, we had 4.8 million FiOS Internet subscribers and 4.2 million FiOS Video subscribers. Our service continues to receive high ratings from J. D. Power and *PCMag.com*, and we are partnering with such industry leaders as Microsoft and Redbox to develop next-generation video services that will leverage this tremendous platform.

**WIRELESS RETAIL  
POSTPAID ARPU**



**FIOS INTERNET  
SUBSCRIBERS  
(MILLIONS)**



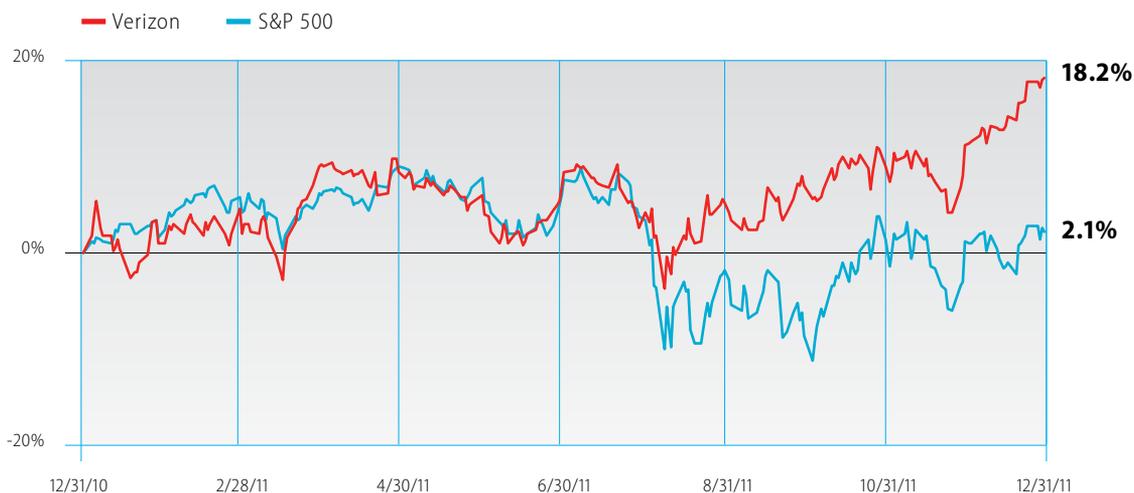
With a high-speed global Internet backbone and an extensive network of data centers and connection points around the world, Verizon has a strong foundation for providing advanced services and integrated industry solutions to multinational corporations. Revenues from enterprise strategic services grew by more than 15 percent in 2011 and now make up about 50 percent of our large business revenues. Most experts see “cloud services”—that is, storing digital information in networked servers so it can be delivered anywhere in the world to any device—as the next great computing platform for global businesses. In 2011, we made major strides to establish ourselves as a leader in cloud-based services by acquiring two companies, Terremark and CloudSwitch, which complement our existing expertise in managed security services and accelerate our global IT services strategy. We believe that no one is better positioned than Verizon to provide the integrated solutions enterprises are looking for, and we are very excited about the potential for growth going forward.

**2012 Strategy**

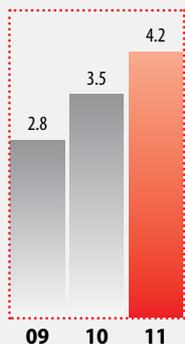
As our 2011 performance attests, Verizon’s assets give us a strong foundation for growth. In 2012 and beyond, we will build on our wireless broadband, FiOS and global Internet backbone networks by putting together unique, integrated solutions that can be delivered to any device, giving customers new ways to manage their digital lives, transforming how businesses operate and offering innovative approaches to society’s most pressing concerns.

This latest phase in Verizon’s transformation to a global solutions company has already begun. We will complete our nationwide build out of 4G LTE by mid-2013 and have announced our plans to purchase additional wireless spectrum that will increase our network’s availability and capacity. *(See page 13 for more information on our rural broadband initiative.)* Spectrum is rocket fuel for innovation in wireless, and we are excited about extending our already sizable lead in LTE by accelerating its benefits

**2011 Total Return**



**FIOS VIDEO SUBSCRIBERS (MILLIONS)**

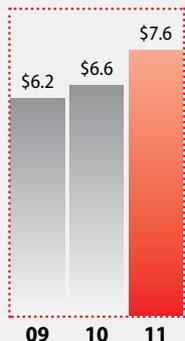


to the marketplace. Verizon Wireless also entered an agreement with four major U.S. cable companies to jointly market a “quadruple play” of services — wireless, video, voice and Internet — across the country. As part of that agreement, Verizon Wireless will be collaborating on product innovations — much as we’re doing today in the LTE space — that can be delivered to any device over LTE, FiOS or cable networks, creating integrated solutions to the challenges of customers’ complex digital lives.

customer service. This is a particular passion of mine, and our leadership team is committed to delivering measurable results that will improve both the bottom line and customer satisfaction.

As we look broadly at how technology is transforming business and society, we see expanding opportunities ahead for us to use our unique network platforms to make a difference in the world. Software-based solutions are beginning to revolutionize large swaths of the economy — from video and financial services to health care, energy and education — and wireless and cloud-based technologies are extending these benefits more widely as they bring more people and places into the digital economy.

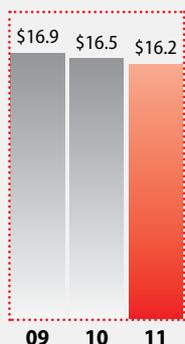
**VERIZON WIRELINE STRATEGIC SERVICES REVENUE (BILLIONS)**



Similarly, we’re improving our ability to be a strategic partner for large-business, government and wholesale customers. We have created a new Enterprise Solutions marketing and sales organization that brings our wireline, mobility and cloud capabilities together. Since acquiring MCI in 2006, Verizon has invested significantly in building the necessary infrastructure of advanced communications, cloud, security and mobility platforms to serve the business market, and we believe there’s not a company in the world that we can’t help be more effective in using information to solve business problems. Now we have the organizational infrastructure to match these physical assets, and we’re prepared to kick into a higher gear as a major solutions provider in the global marketplace.

Pursuing these new market opportunities is Verizon’s major strategic thrust and, as you will read in this report, the focus of our philanthropic and community activities. Already, we’re developing integrated video services that can be distributed to any screen across any network. We’re leveraging our expertise in security and systems integration to address the huge unmet need for technology solutions in the health care marketplace. We’re working with manufacturers and utility companies to embed machine-to-machine telematics in cars and utility grids, which offers a new way to attack the issue of energy conservation. And through our foundation, we’re using our philanthropic resources to address the needs of underserved populations and develop innovative technology solutions in areas like education, health care and energy management.

**CAPITAL EXPENDITURES (BILLIONS)**



We are also committed to making Verizon work better by battling bureaucracy, streamlining products and processes, and improving customer service. We have launched an extensive process improvement initiative based on the proven “Lean Six Sigma” methodology, which is designed to root out inefficiencies and fix broken processes that slow us down and impair

By putting our technology to work in solving the big challenges of business and society, Verizon becomes the disruptor in markets that will drive growth in the future. As we bring these new solutions to the marketplace, we will drive shareowner value by diversifying our revenues, leveraging our existing capital investment and broadening our global reach. Most of all, we will deepen our connection to our customers and stakeholders, proving ourselves an even more valuable partner in creating thriving, sustainable communities.

### **A Truer Connection**

I want to thank our employees, who continue to show their dedication to customers and — with their work to restore service after floods, hurricanes and fires — proved once again that, when it comes to responding to a crisis, nobody is better than Verizon. Being a good corporate citizen is at the heart of the Verizon Credo, and our employees' service to our communities — more than 674,000 volunteer hours dedicated in 2011 — is the best evidence of our commitment to making the world a better place than it was yesterday. That's why Verizon earned the No. 1 ranking in our industry in *Fortune* magazine's 2012 list of the World's Most Admired Companies.

I am also grateful to our Board of Directors for another year of strategic guidance and for their support in helping us make a smooth leadership transition in 2011.

Additionally, all shareowners owe a deep debt of gratitude to Ivan Seidenberg, who retired in 2011 as Verizon's chairman and chief executive officer after an extraordinary career. (See article on page 7.) His strategic vision defined Verizon as one of the world's great technology companies, and his personal integrity and pragmatic idealism inspired generations of Verizon leaders. I am proud to count myself among them.

As I look ahead to my first full year as Verizon's chief executive officer, I am confident in the foundation our company has built for success in this dynamic industry: namely, the best assets in the business and a culture based on strong values and a belief in the positive impact we can have on the world. Now, our focus will be to use all of these fantastic tools to deliver integrated solutions for customers and drive shareowner value. By leveraging all our capabilities, we'll become more global, more innovative and more integrated. And by constantly seeking to create a truer connection between our business interests and those of our customers and communities, we believe we can become an even bigger force for good in the world — and, in doing so, extend our legacy of growth and shareowner value creation for many years to come.



Lowell McAdam  
Chairman and Chief Executive Officer  
Verizon Communications



## IVAN SEIDENBERG'S VISION

In 1966, a 19-year old named Ivan Seidenberg joined New York Telephone as a cable splicer's assistant. By 1995, he had worked his way up the ladder to become the chief executive officer of NYNEX, one of the original regional Bell companies created by the break-up of AT&T. In 2011, he retired as chairman and chief executive officer of Verizon.

The communications business of 1995 looked very different from the industry we know today. The Internet, so ubiquitous now we take it for granted, barely existed. Cell phones were an expensive luxury. NYNEX was a \$13 billion company — almost all of it from analog voice service — coping with aging technology, a fledgling wireless business, a mountain of regulation and an uncertain future.

With this as a starting point, Seidenberg began to transform the company around the growth trends that would reshape the industry in the decades to come. Under his leadership, the company built an industry-leading wireless franchise, growing its subscriber base from fewer than 5 million in 1995 to almost 108 million connections by 2011. Through mergers and acquisitions involving Bell Atlantic, GTE, MCI, Alltel and others, he made us a national company with a growing global presence. Recognizing that superior network technology was the heart of the company's value proposition, he invested in fiber, wireless broadband and global Internet

networks. He also created the now-iconic Verizon brand that in 10 years' time has become one of the 20 most powerful brands in the world. In the process, Verizon grew to a \$111 billion technology powerhouse with a solid foundation in the growth markets of the future.

The mark of Seidenberg's leadership extends beyond Verizon. In recent years, he served as the head of the Business Roundtable, advocating for constructive engagement between the private and public sectors. He believed passionately in the positive impact Verizon's technology can have on the world and saw that delivering real benefits for society was the surest route to creating long-term shareowner value. Above all, he has been at all times a model of ethical, values-driven leadership.

On Seidenberg's retirement, longtime Verizon board member Sandra Moose noted, "I think it's safe to say, when it comes to having a profound, positive impact on a company — let alone an industry — few CEOs can match the career of Ivan Seidenberg." And speaking on behalf of Verizon employees, CEO Lowell McAdam summed up the legacy of Ivan Seidenberg's leadership: "Ivan would tell you that other people are responsible for building this business, but the truth is, when you look at Verizon today, you're looking at Ivan's vision. He's the architect. And we all have him to thank for the superb business we are now entrusted to run."

Verizon's booth at the 2012 International Consumer Electronics Show showcased innovation and opportunities made possible by harnessing the power of 4G LTE technology.

More than 60 partners from the 4G LTE ecosystem demonstrated products and solutions for businesses and consumers at our booth.

Booth demos featured 4G LTE products for entertainment, energy management, retail, health care, automotive and more.

# A TRUER CONNECTION THROUGH INNOVATIVE TECHNOLOGY

Innovation is at the heart of Verizon's strategy. Over the last ten years, we transformed our company around new growth markets — wireless, strategic services, video and broadband — that now make up three-quarters of our revenues. Today Verizon is transforming itself again around another innovation explosion being driven by the convergence of mobility, broadband and cloud technologies.

As these new capabilities erase the boundaries of geography, technology and time, customers want access to their digital information no matter where they are or what screen they have at hand. And as everything becomes digitally connected — homes, cars, buildings, streets and cities — smarter networks, devices and solutions are addressing some of society's most pressing issues.

At the hub of this wheel of innovation are Verizon's next-generation network technologies: fiber to the home, 4G LTE wireless, super-high-speed global backbones and high-capacity digital data centers. Our fiber-optic FiOS service is the fastest in the marketplace today, and its virtually unlimited capacities are ushering in the era of "big broadband" for homes and businesses. 4G LTE wireless turns smartphones into full-blown mobile computing platforms and opens the door to new mobile applications like streaming video, real-time health care

monitoring and transactional services. Super-fast backbone networks and cloud services are helping spread innovation around the globe.

These networks are a platform for innovation across the whole technology sector. The challenge now is to put all these capabilities to work to solve customers' problems and improve society.

### Creating an Innovation Industry Ecosystem

Innovation on this scale is a team sport, so Verizon is creating the environment for the best players to come together and collaborate around customer needs. Verizon's Innovation Program, with centers in San Francisco, CA, and Waltham, MA, supports more than 140 companies building nontraditional products and services using the 4G LTE network platform. These companies range from our largest suppliers to the smallest entrepreneurs and start-ups, each bringing its unique expertise to the challenge of creating devices and applications that will change the game for customers and expand the market for technology industries.

The LTE Innovation Center in Waltham provides state-of-the-art labs, on-site technical expertise from Verizon engineers and a replica of our 4G LTE network, offering innovators a space where they can hash out ideas, refine applications, and run tests on the network before bringing their products and services to market. This process has already resulted in a variety of

Verizon's LTE Innovation Center in Waltham, MA features state-of-the-art labs and on-site technical expertise from Verizon engineers to help forward-thinking companies develop and commercialize nontraditional wireless products and services.

The Center features a 20,000 square-foot showcase that includes wide-ranging innovations at every stage — from concept to commercial products.

Our goal is to help innovators develop the best and brightest solutions as efficiently as possible, so that we can provide truer connections between people, places and things.

new 4G LTE products from nearly 80 companies. We showcased dozens of these new products at the 2012 International Consumer Electronics Show, demonstrating the wide range of industries being transformed by this new age of mobility—including automotive, gaming, entertainment, health and wellness, home automation and more.

These product incubators have been so successful that Verizon Wireless will be pursuing a similar approach in its joint venture with cable companies, which we plan to launch in 2012. This new collaboration will marry the power of 4G LTE to high-speed fiber and cable broadband networks, enabling partners to develop new integrated products and services that will move seamlessly between mobile and fixed devices and knit together customers' digital lives.

#### **Machine-to-Machine — The Next Big Thing**

Some of the most exciting innovations coming out of our Innovation Program are designed for machine-to-machine (M2M) communications. Today, just about every new piece of consumer electronics has a built-in wireless component that allows it to be connected to the Internet. Soon, the same will be true of homes, office buildings, roads, bridges and transportation systems. As these connections become ubiquitous, objects will have the ability to communicate with each other, which

will dramatically change the way we manage our world. Whether it's tracking inventory, managing fleets or improving the way we consume energy, the information provided by M2M communications has the potential to usher in a new wave of productivity and efficiency.

But M2M isn't just about the machines. With the ability to collect and analyze data on a large scale in real time, customers will be able to harness digital intelligence to solve problems in whole new ways. Buildings will be able to optimize their own energy consumption. Cities will be able to analyze and manage traffic patterns. Refrigerators will be able to tell you when you're out of milk and doctors will be able to monitor patients' vital signs remotely, lowering costs and improving the quality of care.

The innovation cycle that drove Verizon's growth in the last decade will be exponentially faster in the decade ahead, and the rapidly growing universe of Internet and wireless users around the globe constitutes an enormous market for technology, especially for integrated solutions that help people manage their increasingly complex digital lives. By staying at the forefront of network technology and continually expanding our own capacity for innovation, Verizon will remain a vital partner in bringing the benefits of these technologies to the marketplace.



Terremark, a Verizon company, is helping enterprise and government executives realize the power and promise of the cloud with its global network of data centers and a comprehensive portfolio of secure solutions.

In 2011, Verizon acquired CloudSwitch, an innovative provider of cloud software technology that enables enterprises to more easily and securely move workloads between company data centers and the cloud.

## CLOUD SOLUTIONS FOR A CONNECTED WORLD

Smartphones accounted for one of every three wireless devices sold around the world in 2011. Tablet and smartphone sales now exceed those of personal computers. Fast fiber and wireless networks are making video an intrinsic part of everyday communication, and advances in cloud storage and Internet backbone speeds make media and software-based solutions available to any device, on a global scale.

The more consumers and businesses live and work in the digital realm, the more thoroughly it transforms business models, social patterns and customer expectations.

The transformation has taken hold so quickly that we almost take for granted the technology revolution that underlies it. The average home has multiple broadband devices and electronics, all animated by Internet networks. Our personal digital content — videos, music, books and photos — is accessible wherever we go. As we move from connected home to connected car to connected office, we're increasingly within reach of the Internet every minute of every day.

For businesses, new technologies offer a new way of organizing work and engaging with the marketplace. Small companies and entrepreneurs gain instant access to worldwide markets. Large organizations link employees, suppliers and customers around the world into an always-connected social enterprise. Computing capacity and business applications are avail-

able on demand from the cloud, making enterprises more efficient and flexible. And collaboration can happen on a worldwide scale, speeding the process of innovation and the dispersion of new technologies.

As one of the few companies that can deliver integrated solutions across all platforms and devices, Verizon is both creating these opportunities and helping manage the challenges that accompany this transformation.

### Managing in the Cloud Era

With the rise of the globally connected enterprise, businesses need intelligent applications that can run on multiple platforms. Mobile workforces require constant access to collaboration tools and back-end systems to be productive and competitive, and organizations also need to securely manage vast amounts of data and turn it into intelligence that leads to new products, services and revenue streams. With technology changing so quickly, enterprises are looking to minimize capital investment and accelerate innovation cycles. Cloud services also spread resources efficiently and reduce duplicative investments in equipment, making them a key tool in helping corporations find sustainable solutions to managing a global enterprise.

This is a new model for managing an enterprise. No wonder, then, that the market for cloud services is estimated to grow at close to 20 percent a year between now and 2020.



Browse more than 14,000 Verizon Flex View titles and feel the freedom and convenience of our go-everywhere, watch-anywhere, mobile entertainment technology.

Verizon's mobility solutions let you take FiOS with you whenever and wherever you go, so you can program your DVR remotely, access your Home Monitoring and Control system, or manage movies, music and photos all from your smartphone or tablet.

Verizon's cloud services allow businesses to move applications, processing and storage that previously existed on the customer's network into our securely managed network servers. These services allow users to access the same data and applications on any connected device, providing enriched, real-time information exactly when and where it's needed. We are a recognized leader in managed security, one of the key requirements of cloud-based solutions. In 2011, we acquired the recognized cloud leader, Terremark Worldwide Inc., which brings a global network of data centers and managed IT products to our portfolio of services. Also, we realigned our enterprise business to provide integrated mobile, cloud and wireline solutions to large business customers and — as we move forward — support the disruptive new business models emerging in markets like financial services, retail, energy management and health care.

### Video Everywhere

In the old days — say, five years ago — video was synonymous with "television." You watched it at a specific time, on a specific appliance, in a specific place. Video was a one-way medium, with someone else controlling its creation and distribution. Phones were for talking, the Internet for e-mailing, with separate devices required for each.

To see how thoroughly our assumptions about video have been transformed, just look around the average home on any given evening.

Someone is watching a high-definition movie on a big-screen TV in one room while someone else streams YouTube videos on a tablet in another. A teenager collaborates over the Internet on a video for a school presentation upstairs while his mother telecommutes via videoconference downstairs. We expect all of these experiences to be available on whatever screen we happen to have at hand. Video is increasingly a two-way medium, an expected part of communications. Increasingly, all of this integrated content is being delivered over the Internet, much of it in streaming form.

Verizon's high-capacity fiber and 4G LTE networks make us a leading player in this multi-screen universe, and we are developing innovative new services to address customers' expectations for anywhere, anytime content. For example, our Flex View video service gives FiOS customers the ability to view their content on-demand on a TV, PC, laptop, tablet or smartphone. They also have access to thousands of on-demand titles, which are stored in the cloud and can move seamlessly between devices.

Managing our increasingly complex digital lives still isn't as easy as it should be and — as networks become more powerful and as more personal digital content is stored in the cloud — integrated solutions to customer needs will be the future of media. Verizon will continue to be in the center of this innovation.

Verizon's Home Monitoring and Control service lets customers remotely access, control and monitor doors, thermostat controls and appliances using a smartphone, PC, FiOS TV or tablet.

FiOS Internet offers the fastest broadband speeds, enabling teleworkers to download large files quickly and conduct high-quality video conferences.

FiOS TV Parental Controls make it easy to ensure viewable programming is appropriate for all family members.

A remote medical monitoring system powered by Verizon's 4G LTE network uses a series of wireless sensors to monitor an elderly parent's activities and automatically calls for help if it detects a problem.

## A TRUER CONNECTION TO THE NEEDS OF OUR CUSTOMERS

Since the launch of the first dot.com website in 1985, the Internet has become the major platform for global commerce — the equivalent of the shipping lanes that facilitated world trade in the days of Magellan or the railroads that opened the West during the Industrial Revolution. Thanks to the global ecosystem created by advances in fiber and wireless technologies, the Internet now transports billions of dollars' worth of intellectual cargo, turns corporations into giant information processing machines and puts the tools of economic advancement within reach of everyone with a computer or a smartphone, wherever they are in the world.

On the most basic level, this increasingly widespread broadband infrastructure allows individuals to improve their quality of life in ways they never had before: managing home and work life, for example, or connecting to the almost infinite world of digital entertainment. More broadly, it connects people and communities to the knowledge work that is driving growth and wealth creation, regardless of geography. As a new generation of wireless broadband networks begins to link machines, buildings, factories and transportation systems into an "Internet of Things," a new wave of innovation is occurring with tremendous potential to address the big issues facing the global economy, including energy, poverty, education and health care.

Verizon is working, on our own and with partners, to extend the power of broadband and unleash its creative potential to open markets and solve problems in new ways.

### **Solutions for the Connected Home**

For more and more people, the home is becoming a vital hub on the digital grid.

It starts with a fiber-optic connection, which delivers high-speed Internet and high-definition video to the home and virtually erases the boundaries between home and work. It's augmented with 4G LTE wireless and a powerful new generation of tablets and smartphones, which give users the ability to control their digital universe, wherever they are. It's being transformed by the increasing number of home appliances and systems being linked to the Internet, and it's being integrated by sophisticated new solutions that empower users to make their homes more functional, efficient and sustainable.

Two-way high-definition video will empower telecommuters to collaborate with co-workers, people with disabilities to go to the office and college students to attend lectures without leaving home. In-home monitors connected wirelessly to doctors' offices will allow



Verizon's LTE for Rural America program expands our industry-leading 4G LTE wireless broadband service beyond our current coverage area, giving rural communities access to the very latest mobile broadband technology.

for real-time management of chronic health conditions. Home energy systems will be linked to utility companies to optimize energy usage.

Smart energy management will be one of the first tangible benefits of the connected home. For example, Verizon has introduced a Home Monitoring and Control service that allows customers to control their home thermostat, security systems and appliances from a smartphone, PC, FiOS TV or tablet. It also gives homeowners an unprecedented look at their energy consumption in near-real-time, putting the analytic tools previously available only to large institutions or utilities in the hands of the individual consumer—a huge advantage in making smart energy decisions and a big step toward a smart energy ecosystem that will create a more sustainable society.

#### **Bringing High-Speed Broadband to Rural America**

Broadband is a critical lifeline for those who live in the parts of the world where advanced network technologies are available. Being part of the digital grid is essential to a community's growth and to its citizens' chances for economic mobility. In the U.S., extending a fixed broadband solution across rural expanses is extremely expensive. That's why 4G LTE wireless networks are such an important part of the solution to the challenge of creating a broadband America.

Through its "LTE in Rural America" initiative, Verizon Wireless is expanding its industry-leading 4G LTE service into rural communities outside our coverage area through spectrum-sharing alliances with rural communications carriers across the country, who will build and operate 4G LTE networks in their areas.

As of January 2012, 15 rural carriers have announced their participation in the program, and we expect others to follow. So far these carriers have leased spectrum covering more than 2.7 million people and 90,000 square miles in rural communities across Kentucky, Oklahoma, Michigan, Wisconsin, Utah, North Carolina, Indiana, Idaho, Missouri, West Virginia and Iowa.

The rural carriers will benefit from Verizon's scale by using our technology and by roaming on Verizon's expanding 4G LTE network. This gives customers in rural communities the benefit of the latest mobile broadband technology sooner, while stimulating job creation both at the participating companies and throughout the chain of suppliers involved in building the network. Most of all, it will create more nodes on the global Internet ecosystem and accelerate the spread of broadband's economic benefits.

# A TRUER CONNECTION BETWEEN BUSINESS AND SOCIAL NEEDS

Verizon has always been a company built for the long term. We build networks that provide an infrastructure for economic growth. Our products are the glue for the relationships that make society possible. We invest in the human and intellectual capital that keeps our company strong and competitive, and throughout our long history our employees have contributed to the public good of the communities we serve.

Now a new technological era is creating fresh opportunities for us to deepen the connection between our business interests and those of the society. By reinventing our networks around mobility, broadband and global connectivity, we are expanding the innovative capacity of the economy, making possible entirely new business models and creative solutions for addressing the world's unmet environmental and social needs. We can now solve problems in ways not possible before, bringing the transformational power of technology and innovation to the most fundamental needs of our customers and communities.

This is, at its heart, a growth strategy — one that opens new markets for Verizon and creates sustainable long-term value for shareowners as well as stakeholders. In 2011, we formalized this strategy for creating business and social value under the mantle of “Shared Success,” a term that derives from the Verizon Credo (see pages 22-23).

Our Shared Success strategy has three broad goals, articulated below. In 2012, we are focused on deploying energy and health care solutions that generate new revenue for Verizon while increasing energy efficiency and improving health care quality for our customers and communities. We will develop measures to track both the business and social value of our efforts. With respect to business value, we will track market penetration and revenue growth in the energy and health care sectors. For social value, we will develop measures for increased awareness and efficiency for our energy solutions and for increased access, reduced costs and improved care in the health care sector.

Through this broad and deep commitment to Shared Success, we aim to integrate this approach throughout our business, bringing this ethic to bear on all our decisions — from the products we sell to the markets we enter, from the technology we develop to the grants we make in the community — in the belief that creating a healthy, sustainable society is the surest path to creating a healthy, sustainable business.

## Shared Solutions

Leverage the transformational power of our networks, technology and people to create long-term business value while addressing critical unmet needs of our communities in smart energy and health care.

## Shared Service / Philanthropy

Align our philanthropic assets domestically and internationally to deliver shared solutions in education, health care and sustainability to our communities.

## Shared Sustainability

Lead our industry by minimizing the environmental impact of our operations and supply chain and by facilitating the transition to a low-carbon, sustainable economy.

To view the Verizon Corporate Responsibility report online featuring additional content, go to [responsibility.verizon.com/2011](http://responsibility.verizon.com/2011).



“Our capabilities and technology have enormous potential to make the world a better place as we use these tools to find solutions to issues like health care, sustainability, smart grids and the like. We’re working hard to bring these efforts into the mainstream and leverage what we do best.”

**Lowell McAdam**

Chairman and Chief Executive Officer  
Verizon Communications

Verizon is working with WellPoint, Inc., on a digital initiative that uses high-quality, secure video conferencing through our 4G LTE network to help consumers take steps to live healthier.



## USING OUR TECHNOLOGY TO BUILD TRUER CONNECTIONS

The broadband revolution has upended business models across the economy, changing the way buyers connect with sellers, employers relate to workers and entrepreneurs reach new customers. Through our network investments and an ecosystem of innovation, Verizon has helped create this platform for growth and embed digital intelligence throughout the economy.

Now, these transformational models are moving beyond the business market. Widespread access to high-speed networks and cloud servers is stimulating entrepreneurial activity and bringing new network-based, software-driven solutions to such sectors as health care, energy management and education. These new approaches to age-old problems have great potential to change the delivery model for services, empower consumers to improve their quality of life and create more effective and efficient social institutions.

Verizon is focused on bringing new solutions and social innovation to the marketplace, expanding the market for our services and improving the lives of our customers and communities.

### Transforming Health Care

New technologies promise a fresh way to approach the challenge of providing affordable, accessible and quality health care for America.

Experts believe that widespread adoption of electronic medical records could reduce medical costs by as much as \$165 billion a year through efficiencies and improved health outcomes. More broadly, better use

of broadband, mobile and cloud technologies will deliver a whole new dimension of choice, convenience and control to the health care consumer. Patients will be able to access their medical histories, securely, whenever they like. Underserved communities in rural areas and inner cities will enjoy greater access to health care. Adult children will be able to care for their aging parents from far away, and doctors will be able to monitor their patients remotely.

Verizon is helping to address these critical needs.

For example, some 200,000 Americans die every year from treatable chronic diseases, many because they lack ready access to medical care due to barriers of distance, time or availability of doctors and nurses. Verizon is currently developing a suite of digital health care products to overcome these roadblocks, using our 4G LTE network, smartphones, tablets and advanced video technology to enable virtual visits between patients and health care providers.

In one such venture, Verizon Wireless is working with health insurance provider WellPoint, Inc., to change the model for delivering patient services. Thanks to the secure videoconferencing capabilities of our 4G LTE network, WellPoint subscribers will soon be able to consult via their smartphones and tablets with nurse managers who help them manage their chronic conditions. These virtual face-to-face consultations eliminate the need for travel for patients in rural areas and engage consumers more actively in the management of their own health — helping patients remain independent and reducing the cost of service for insurance providers.



Studies show that increasing student engagement with mobile learning devices such as tablets and smartphones brings improved academic achievement.

Verizon worked closely with Our Lady of Mt. Carmel School in Baltimore, MD, where teachers like Ryan Kloetzer use 4G LTE tablet computers to build excitement for learning science.

We are also working with entrepreneurial partners to help stimulate technological innovation in health care. Through our 4G LTE Innovation Center in Waltham, MA, a wide range of companies are developing new medical monitoring devices such as glucose meters, blood pressure monitors and pulse oximeters that can be deployed in patients' homes to feed constant, real-time data streams to our cloud network, so patients can be monitored by physicians from a distance. In addition, we are collaborating with Duke University to test and incubate innovative telehealth and biometric business initiatives that can be brought to market quickly and scaled across the health care system using our advanced wireless and fiber-optic networks.

### Bringing Technology Solutions to Education

Education is another market ripe for transformation through the strategic use of technology. Mobile broadband can spread scarce educational resources across a wide population. More broadly, putting smart technology solutions in the hands of students, teachers and parents has tremendous potential to change the educational culture—engaging students in their own learning, promoting family involvement and providing valuable hands-on experience with the tools of the digital economy.

This new educational model is coming to life in places such as Baltimore's Reginald F. Lewis High School, where Verizon is working with partners and educators to deliver education solutions that leverage our 4G LTE network. Working with Samsung, we provided 30 tablet computers that work over the 4G LTE network to be used in the teaching of Spanish,

along with software to manage classroom use and provide access to a wide range of online resources. We also provided training and worked with teachers to develop curricula and lesson plans that maximized these new technologies.

We're also taking this approach on the road using a customized school bus equipped with 4G LTE tablet computers and staffed by tutors who travel to high schools in Washington, DC, and Maryland to help students prepare for their SAT exams and to support other academic needs. One principal predicts that this innovative program, called the Verizon Mobile Learning Lab, will raise SAT scores by up to 500 points.

Longer term trials in rural Virginia's Mecklenburg County have gone so well that the school district purchased netbooks that connect to our 3G wireless network for every 9th and 10th grade student. A member of the county school board said Verizon's service and affordable computers offer local students many of the advantages found in suburban school districts, helping them to keep pace with their peers.

Computers by themselves don't change educational outcomes. But creating a whole ecosystem of learning—connected by broadband, enabled by smart devices and enriched by software-based solutions—can potentially transform education and enmesh Verizon even more deeply with our communities.

To view the Verizon Corporate Responsibility report online featuring additional content, go to [responsibility.verizon.com/2011](http://responsibility.verizon.com/2011).

Neurologist Andy Southerland, M.D., participates in a telemedicine encounter made possible by a Verizon Foundation grant to develop one of Virginia's first telehealth nursing curricula at the Department of Nursing at the University of Virginia-Wise.

Telehealth is emerging as a critical resource, enabling care to be provided to patients in rural locations by increasing access to specialty consultations.

## SOLVING CRITICAL SOCIAL ISSUES IN UNDERSERVED COMMUNITIES

The Verizon Foundation mobilizes our philanthropic resources — in 2011, \$66 million in grants and 674,000 volunteer hours — to address the needs of the communities we serve around the world. Our strategic focus is on using technology to solve critical social issues in the areas of education, health care and energy management. Increasingly, we are using our foundation as a laboratory for social innovation — supporting new approaches to community problems, breaking down barriers of cost and accessibility and helping to bring these technology-based solutions to underserved populations.

As the spread of broadband, mobile and cloud platforms makes high-speed Internet access widely available, the Verizon Foundation is working with innovative organizations to make sure these empowering technologies are put to good use in solving urgent problems and creating viable, vital communities.

### Removing Barriers to Rural Health Care

Telehealth is one way to bring medical professionals to locations that don't have easy or affordable access to hospitals and doctors' offices. Using our advanced high-speed broadband networks, doctors can consult with patients via interactive video conferencing or monitor patients' vital signs from remote locations. The result is efficient use of doctor and patient time, a reduction in hospital stays and less need for personal monitoring of the patient by hospital staff.

A project funded by the Verizon Foundation at the University of Virginia is a test case for the power of telehealth to transform the

health care system. There are health disparities in the rural regions of Virginia located far from the state's urban centers. Isolation, unemployment and poverty give the southwest part of Virginia the highest percentage of uninsured people in the state. Because of the lack of nearby affordable health care, this area has been an early incubator for technology-based solutions that use telehealth technologies and videoconferencing for doctor-patient consultations.

Working with the University of Virginia Office of Telemedicine and the Healthy Appalachia Institute, and funded by a major grant from the Verizon Foundation, the University of Virginia launched its first telehealth nursing program to train medical personnel at its Wise County campus on the use of emerging telehealth technologies to improve health care access and services.

Verizon has also partnered with the University of Virginia to provide high-speed Internet and wireless connectivity for telemedicine services at the Remote Area Medical clinic that is held in Wise County each year. In 2011, over 250 people from the university joined other volunteers to provide free medical, dental and vision services to more than 2,400 residents of rural Virginia.

Health care practitioners and educators across rural Virginia are showing the path to the future of health care — supplementing the increasingly sophisticated physical network with a human network of doctors, nurses and patients armed with the tools to drive better outcomes for their communities.

Verizon provided St. Philip's Academy in Newark, NJ, with a VGo telepresence robot to solve a variety of classroom challenges, including helping a homebound student stay involved with his teachers and peers while recovering from medical treatments.



The VGo robot was developed with support from the Verizon LTE Innovation Center.

### Making Education Accessible to Those Who Need It Most

Using technology to prepare students for success in the 21st century economy has long been a focus of the Verizon Foundation. For example, in partnership with some of the world's most reputable cultural and scientific institutions, we developed an educational website, Thinkfinity, to provide interactive learning materials for K-12 teachers and students. Today, Thinkfinity is one of the most visited sites of its kind.

As we go forward, content from our Thinkfinity partners will be a vital component of a more comprehensive strategy to use technology to change the model for education, becoming part of an integrated solution that combines its free content with smartphones and tablet computers for use by educators and students. By providing them with this new set of tools — and the training on how to use them for educational purposes — we believe we can be even more effective in empowering teachers and students to achieve measurable success.

Looking ahead, we believe our rapid deployment of 4G LTE mobile networks will be a game changer in education, as it is across the economy. As entrepreneurs and developers embed 4G LTE connections in a whole new category of mobile devices, the Verizon Foundation is working on a number of projects to adapt these new technologies in a variety of social environments.

One promising technology is known as “robotic telepresence.” A company called VGo — one of our collaborators at our LTE Innovation Center in Waltham, MA — manufactures small interactive robots enabled with

4G LTE connectivity. With the speed and coverage of 4G LTE, the VGo robot allows a person in one place to extend his or her presence to a distant location — moving independently throughout the whole environment and interacting face-to-face via real-time videoconferencing.

At St. Philip's Academy in Newark, NJ, this revolution has already begun. One of the Academy's students has been confined to his home while he recovers from cancer treatments. With the VGo robot, he can actually go to school, move from class to class, answer a teacher's question or talk with his classmates over lunch. The same technology could also be used to enable face-to-face meetings between teachers and parents, take students on educational tours of museums in distant cities or bring Nobel prize winners into the classroom for personal interaction.

The Verizon Foundation started a pilot program to place 15 VGo robots in institutions nationwide to explore their various uses, some of which could have broad social and commercial applications. We see this new, more personalized form of robotics having the potential to transform the retail shopping experience, allow more workers to telecommute and enable doctors to see patients many miles away.

Technology provides new ways of thinking about social issues and new tools for solving them. We're using philanthropy to plant the seeds of innovation and cultivate the creative thinking that will spread the benefits of technology broadly across society.

To view the Verizon Corporate Responsibility report online featuring additional content, go to [responsibility.verizon.com/2011](http://responsibility.verizon.com/2011).

Verizon is working with Duke Energy to provide the network that connects the digital meters, signs and media players used in "Envision: Charlotte," a program to make the commercial buildings in Charlotte's urban core more energy efficient.

Using data and graphic displays about energy consumption and other sustainability practices, "Envision: Charlotte" is driving sustainable behaviors that will help change the way we think about energy use and the environment.

## USING NETWORK TECHNOLOGY TO CREATE A SUSTAINABLE WORLD

Technology innovation is changing the conversation about how to create a sustainable society. In some ways, the changes are obvious: digital media replace books, CDs and newspapers; telecommuting and on-line commerce substitute for driving; videoconferencing reduces the need for business travel. But the real paradigm shift is just beginning to emerge, as new technologies — cloud storage, machine-to-machine telematics, wireless sensors — are incorporated into the energy grid, transforming it from a one-way system into a dynamic information-processing ecosystem. Experts believe that the widespread application of information and communications technology has the potential to double the nation's energy efficiency over the next 20 to 30 years.

Verizon is exploring how to use the power of technology innovation to make ourselves a more sustainable company and tackle the challenge of creating a greener society in new, more effective ways.

### Creating a Sustainable Company

Our first obligation is to manage our own environmental footprint responsibly, building sustainability into everything we do. By the end of 2011, about 7 percent of our vehicles ran on alternative fuel, putting us almost halfway to our goal of 15 percent by 2015. We also have programs to reduce engine idling times and vehicle weight. Together these initiatives have reduced our fuel consumption by 13 percent over 2010 levels. Through our aggressive network and real estate energy efficiency initiatives and conservation projects led by employee "green

teams" worldwide, we have reduced our carbon intensity by more than 30 percent over the past two years and are well on our way toward our goal of cutting our 2009 carbon intensity levels in half by 2020.

Beyond making our own operations more sustainable, we are also using our scale and technological know-how to introduce innovative energy solutions throughout our supply chain and network infrastructure. In 2011, we completed our largest ever installation of solar panels at two central offices on Long Island, NY. One of these locations is also home to one of the largest fuel cell plants in the world. We are also exploring geothermal heat-pump cooling systems for use at cell sites and are working with Cornell University to install and test one such system in upstate New York. As alternative energy technology advances, we expect efforts such as these to be critical factors in our drive toward sustainable operations.

Our product teams are working with suppliers to create more environmentally friendly consumer electronics. For example, in 2011 we introduced our fifth "green" mobile phone designed to meet strict standards for use of sustainable materials, and we are working with developers on next-generation set-top boxes that will use less energy. We have also taken the lead in introducing higher benchmarks for energy efficiency in network equipment across the whole communications industry. Starting in 2009, Verizon has required its suppliers to improve the energy efficiency of network components by 20 percent, which has quickly become accepted practice across the industry.

When studies showed that equipment used within our network consumed an increasingly large amount of energy, Todd Talbot, a Verizon engineer, worked with suppliers to create benchmarks for increased energy efficiency — causing a ripple effect across the industry.



### Toward a Smart Energy Ecosystem

Sustainability is also smart business for Verizon. We see a growing market for smart technologies that enable better energy management of homes, cars, office buildings and utility grids. We are partners with a number of utilities in their transition to remote meter management, increasingly using cloud-based solutions and “e-meters” that minimize utilities’ capital requirements. The machine-to-machine solutions and sensors being developed in our innovation labs are critical to the drive to modernize our transportation and electrical systems.

The real breakthrough of this digitization of the electrical grid is that it uses information to give users unprecedented control over how they consume and manage energy and unites producers and consumers of energy into a single, dynamic energy ecosystem.

We are beginning to glimpse this future already in Charlotte, NC, where Verizon is working with Duke Energy to create a more sustainable urban environment in a project known as “Envision: Charlotte.” We have connected the energy systems of 70 buildings in the city’s core via our 4G LTE wireless network and are displaying real-time data on energy consumption on interactive video kiosks throughout the city, along with suggestions about how to reduce energy use. Duke Energy estimates that the actions resulting from a better informed, motivated population will produce a 20 percent drop in power use by 2016.

We have also invested in Consert Inc., an energy innovator that provides utilities with an energy management solution powered by the Verizon wireless network. Consert installs smart meters that provide the electric utility with real-time energy usage information and puts sensors on energy-using devices such as water heaters and air conditioners that empower consumers to set, monitor and reduce their energy consumption. Trials in North Carolina and Texas resulted in a 17 percent energy savings. Smart meters and sensors also work in tandem and enable the utility to manage the grid during periods of peak demand to avoid brownouts and mitigate the need to build new power plants. By giving electric utilities greater control over their networks, we’re helping communities better manage their energy usage.

Just as we’re seeing in the communications business, innovation is transforming every touchpoint around the energy ecosystem, from the appliances in customers’ homes to the cars and roads in the transportation system to the power lines and generators in the electric infrastructure itself. Communications technology is making every part of this system smarter. And the bigger the role of communications in addressing our long-term energy challenges, the bigger the opportunity for Verizon to be part of the solution.

To view the Verizon Corporate Responsibility report online featuring additional content, go to [responsibility.verizon.com/2011](http://responsibility.verizon.com/2011).



Steven Ramirez, a sales representative at Verizon's FiOS store in Hempstead, NY, lives the Credo by focusing on his customers' needs.

*The Verizon Credo provides clear direction to our employees about how to execute and what it takes to be successful. It captures our culture in words and reminds us that integrity, customer needs, urgency and teamwork need to be the foundation of everything we do. It's our guide to being the best company for our employees, our customers, our shareowners and our community.*

## WHO WE ARE

**We have work because our customers value our high-quality communications services.**

We deliver superior customer experiences through our products and our actions. Everything we do we build on a strong network, systems and process foundation. The quality and reliability of the products we deliver are paramount. Customers pay us to provide them with services that they can rely on.

**We focus outward on the customer, not inward.**

**We make it easy for customers to do business with us, by listening, anticipating and responding to their needs.**

We know our products and can explain them to customers. We focus on fundamental execution. We are accountable and we follow through with a sense of urgency. We know that having the highest ethical standards is a competitive advantage.

**We know teamwork enables us to serve our customers better and faster. We embrace diversity and personal development not only because it's the right thing to do, but also because it's smart business.**

We are driven not by ego but by accomplishments. We keep our commitments to each other and our customers. Our word is our contract. We respect and trust one another, communicating openly, candidly and directly since any other way is unfair and a waste



Jennifer Gibbings is a senior project manager and content strategist at the Verizon LTE Innovation Center, where she manages the technology demonstrations that showcase our collaborative solutions and commitment to innovation.

of time. We voice our opinion and exercise constructive dissent, and then rally around the agreed-upon action with our full support. Any one of us can deliver a view or idea to anyone else, and listen to and value another's view regardless of title or level. Ideas live and die on their merits rather than where they were invented.

**We believe integrity is at the core of who we are. It establishes the trust that is critical to the relationships we have.**

We are committed to do the right thing and follow sound business practices in dealing with our customers, suppliers, owners and competitors. Our competitors are not enemies; they are challengers who drive us to improve. We are good corporate citizens and share our success with the community to make the world in which we work better than it was yesterday.

**We know that bigness is not our strength, best is our strength.**

Bureaucracy is an enemy. We fight every day to stay "small" and keep bureaucracy out. We are more agile than companies a fraction of our size, because we act fast and take risks every day. We see crisis and change as opportunities, not threats. We run to a crisis, not away. Change energizes us. We work hard, take action and take personal accountability for getting things done. Our actions produce measurable results.

**Everything we do is built on the strong foundation of our corporate values.**

We work 24x7 because our customers depend on us 24x7. We know our best was good for today. Tomorrow we'll do better.

# CORPORATE RESPONSIBILITY KEY PERFORMANCE INDICATORS

## COMMUNITY

### VERIZON FOUNDATION 2011 PHILANTHROPIC INVESTMENTS

(\$ in millions)	
Education and Literacy	\$ 26
Volunteerism (Including Matching Gifts)	17
Domestic Violence Prevention	10
Civic and Community Support	9
Health Care and Accessibility	3
Internet Safety	1
<b>Total Philanthropic Investment</b>	<b>\$ 66</b>

### EMPLOYEE HOURS VOLUNTEERED PER YEAR

09	702,618
10	733,806
11	674,207

### INVESTING IN OUR COMMUNITIES

(\$ in billions)			
	2011	2010	2009
Capital Investment	\$ 16.2	\$ 16.5	\$ 16.9
Income and Other Taxes Paid, Net of Refunds	3.9	3.7	3.6
Salaries and Wages	15.4	15.3	16.2
Purchases from Diverse Suppliers	3.8	3.8	3.8
Dividends to Shareowners	5.6	5.4	5.3
Pension and Other Retirement Payments <sup>(1)</sup>	4.3	3.7	4.3

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

(1) Benefit payments are made from employee benefit trusts and not Verizon's general corporate assets. The trusts are periodically funded by Verizon and by investment returns.

To view our complete set of Corporate Responsibility Key Performance Indicators online, go to [responsibility.verizon.com/2011](http://responsibility.verizon.com/2011).

## SUSTAINABILITY

### VERIZON'S CARBON EFFICIENCY

#### CO<sub>2</sub> / TERABYTE (MONTHLY AVERAGE)

09	0.092	baseline
10	0.077	15.75% improvement from baseline
11	0.064	30.4% improvement from baseline

In 2010, we developed a new metric that shows the carbon emissions that result from moving a terabyte of information across our networks. Efficiency is improved by reducing the absolute amount of energy and by moving more information with the same unit of energy. In this way, we can adequately assess how we are becoming more energy efficient, even as our business expands.

### VERIZON'S 2011 CO<sub>2</sub> EMISSIONS PROFILE

	CO <sub>2</sub> (metric tons)	% emissions
Vehicle Fuels	381,413	6.76%
Building and Other Fuels	199,859	3.54%
Electricity	5,061,414	89.79%
Total	5,642,686	100%

### VERIZON'S ALTERNATIVE-FUEL VEHICLES

	2011 Active	2010 Active
Total	2,569	1,902

### HOPELINE

	2011	2010	2009
Phones Collected	1,043,000	1,102,000	1,100,000
Cash Donated from HopeLine Funds	\$ 4,206,000	\$ 2,179,000	\$ 1,587,000

## SELECTED FINANCIAL DATA

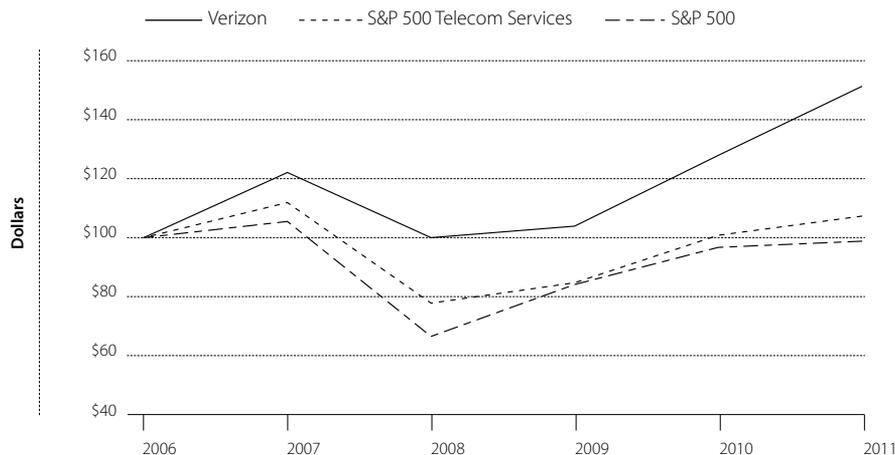
(dollars in millions, except per share amounts)

	2011	2010	2009	2008	2007
<b>Results of Operations</b>					
Operating revenues	\$ 110,875	\$ 106,565	\$ 107,808	\$ 97,354	\$ 93,469
Operating income	12,880	14,645	15,978	2,612	17,816
Income (loss) before discontinued operations and extraordinary item attributable to Verizon	2,404	2,549	4,894	(2,193)	7,201
Per common share – basic	.85	.90	1.72	(.77)	2.48
Per common share – diluted	.85	.90	1.72	(.77)	2.48
Net income (loss) attributable to Verizon	2,404	2,549	4,894	(2,193)	7,212
Per common share – basic	.85	.90	1.72	(.77)	2.49
Per common share – diluted	.85	.90	1.72	(.77)	2.49
Cash dividends declared per common share	1.975	1.925	1.870	1.780	1.670
Net income attributable to noncontrolling interest	7,794	7,668	6,707	6,155	5,053
<b>Financial Position</b>					
Total assets	\$ 230,461	\$ 220,005	\$ 226,907	\$ 202,185	\$ 186,942
Debt maturing within one year	4,849	7,542	7,205	4,993	2,954
Long-term debt	50,303	45,252	55,051	46,959	28,203
Employee benefit obligations	32,957	28,164	32,622	32,512	29,960
Noncontrolling interest	49,938	48,343	42,761	37,199	32,266
Equity attributable to Verizon	35,970	38,569	41,382	41,592	50,580

- Significant events affecting our historical earnings trends in 2009 through 2011 are described in "Other Items" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section.
- 2008 and 2007 data includes sales of businesses, severance, pension and benefit charges, merger integration costs, and other items.

**Stock Performance Graph**

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



Data Points in Dollars	At December 31,					
	2006	2007	2008	2009	2010	2011
Verizon	100.0	122.1	100.0	103.9	127.9	151.3
S&P 500 Telecom Services	100.0	111.9	77.8	84.7	100.8	107.3
S&P 500	100.0	105.5	66.5	84.1	96.7	98.8

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, 2006 with dividends (including the value of each respective spin-off) being reinvested.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## OVERVIEW

Verizon Communications Inc. (Verizon, or the Company) is a holding company that, acting through its subsidiaries is one of the world's leading providers of communications, information and entertainment products and services to consumers, businesses and governmental agencies with a presence in over 150 countries around the world. Our offerings, designed to meet customers' demand for speed, mobility, security and control, include voice, data and video services on our wireless and wireline networks. We have two reportable segments, Verizon Wireless and Wireline. Our wireless business, operating as Verizon Wireless, provides voice and data services and equipment sales across the United States using one of the most extensive and reliable wireless networks. Our wireline business provides consumer, business and government customers with communications products and services, including voice, broadband data and video services, network access, long distance and other communications products and services, and also owns and operates one of the most expansive end-to-end global IP networks. We have a highly skilled, diverse and dedicated workforce of approximately 193,900 employees as of December 31, 2011.

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

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

- In our Wireless business, in 2011, strong customer and data services growth primarily driven by strong demand for smartphones and internet data devices resulted in revenue growth of 10.6% from 2010. At December 31, 2011, smartphones represented nearly 44% of our retail postpaid phone base, driving a 21% annual growth in data revenue, which accounts for 40% of Verizon Wireless' total service revenue.

In 2010, we launched our fourth-generation (4G) Long-Term Evolution technology (LTE) mobile broadband network in 38 major markets, and as of January 19, 2012, we have deployed 4G LTE in 195 markets covering more than 200 million people throughout the country. We expect to deploy 4G LTE in virtually all of our current 3G network footprint by mid-2013. Our 4G LTE network is the fastest of its kind in the United States with speeds up to ten times faster than those of 3G broadband. As a result of our investment in 4G LTE and the shift to more data-centric devices, we expect to achieve both capacity improvements as well as a reduced cost per megabyte, which will allow us to hold or slightly improve our margins.

- In Wireline, during 2011 compared to 2010, revenues were positively impacted by a 15.2% increase in strategic services revenue, which represented 48.7% of total Global Enterprise revenues at the end of 2011, as well as the expansion of consumer and small business FiOS services, which represented 51% of Mass Markets revenue at the end of 2011. To compensate for the shrinking market for traditional voice service, we continue to build the Wireline segment around data, video and advanced business services — areas where demand for reliable high-speed connections is growing. As more applications are developed for this high-speed service, we expect that FiOS will become a hub for

managing a multitude of home services that will eventually be part of the digital grid, including not just entertainment and communications, but also machine-to-machine communications, such as home monitoring, home health care, energy management services and utilities.

In 2011, we acquired Terremark Worldwide Inc. (Terremark), a global provider of information technology infrastructure and cloud services. This acquisition enhanced our competitive position in managed hosting and cloud services offerings to business and government customers globally and is contributing to our growth in revenues. Additionally, in 2011 we acquired a provider of cloud software technology, which has further enhanced our offerings of cloud services. We expect our provisioning of cloud services to be instrumental to our future growth as it allows us to meet the evolving demands of our customers.

In December 2011, we entered into agreements to acquire Advanced Wireless Services (AWS) spectrum licenses held by SpectrumCo, LLC and Cox TMI Wireless. The aggregate value of these transactions is approximately \$3.9 billion. The consummation of each of these transactions is subject to various conditions, including approval by the Federal Communications Commission (FCC) and review by the Department of Justice (DOJ). These spectrum acquisitions are expected to close in 2012.

In December 2011, we entered into commercial agreements with affiliates of Comcast Corporation, Time Warner Cable, Bright House Networks and Cox Communications Inc. (the cable companies). Through these agreements, the cable companies and Verizon Wireless became agents to sell one another's products and services and, over time, the cable companies will have the option, subject to the terms and conditions of the agreements, to sell Verizon Wireless service on a wholesale basis. In addition, the cable companies (other than Cox Communications Inc.) and Verizon Wireless have formed a technology innovation joint venture for the development of technology and intellectual property to better integrate wireline and wireless products and services. These commercial agreements and the formation of the joint venture are currently under review by the DOJ.

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

On December 31, 2011, Chief Executive Officer Lowell C. McAdam assumed the role of Chairman of the Board of Directors, thereby completing the succession plan that was put in place by our Board of Directors.

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.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## **Trends**

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

### *Connection and Operating Trends*

In our Wireless segment, we expect to continue to attract and maintain the loyalty of high-quality retail postpaid customers, capitalizing on customer 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 accelerate as we continue to 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 customers, 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 data services, offering innovative wireless devices for both consumer and business customers and increasing the number of ways that our customers can connect with our network and services.

In recent years, we have experienced continuing access line losses in our Wireline segment as customers have disconnected both primary and secondary lines and switched to alternative technologies such as wireless, VoIP and cable for voice and data services. We expect to continue to experience access line losses as customers continue to switch to alternate technologies. In the third quarter of 2011, we experienced a decline in our Wireline margin due to storm-related and work stoppage events that occurred in the quarter. However, we reduced our FiOS installation backlog caused by the storm-related events, and we expect to continue improving margins in the Wireline segment in 2012.

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

### *Operating Revenue*

We expect to experience service revenue growth in our Verizon Wireless segment in 2012 primarily as a result of the growth of our postpaid customer base as well as continued data revenue growth driven by increased penetration of data services resulting from increased sales of smartphones and other data-capable devices. We expect that retail postpaid average revenue per user (ARPU) will continue to increase as an increasing proportion of our customers use smartphone devices with bundled voice and data service plans. However, we expect both retail postpaid ARPU and retail postpaid data ARPU growth to be adversely impacted by the ongoing declines in our average voice revenue per user, an expected decline in revenues from text messaging and an increase in the sale of lower priced packages for internet data devices, such as tablets, USB modems or Jetpacks, formerly known as "Mobile Hotspots." In addition, we have experienced ARPU dilution as a result of customers optimizing the value of their data packages for internet data devices,

and we expect this trend to continue. We expect that our future service revenue growth will be substantially derived from data revenue growth as we continue to expand the penetration of our wireless data offerings and increase our sales and usage of innovative wireless smartphones and other data-capable devices.

During 2011, we experienced a significant increase in Wireless equipment and other revenue as a result of sales of new smartphone devices, including Apple's iPhone 4 and 4S and our 4G LTE-capable devices. We expect that continued emphasis on increasing smartphone penetration will positively impact equipment revenue as these devices typically carry higher price points than basic phones.

We expect FiOS broadband and video penetration to positively impact our Mass Markets revenue and subscriber base but to continue to experience declining revenues in our Wireline segment primarily due to access line losses as a result of wireless substitution, along with a continued decline in our legacy wholesale and enterprise markets. However, we also expect continued growth of strategic services revenue as we derive additional revenues from cloud, security and other solutions-based services and customers continue to migrate their services to Private IP and other strategic networking services.

### *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 video services to continue to increase. However, we expect to continue to achieve other operating cost efficiencies through a number of cost savings initiatives to help control our overall operating costs. In addition, we continue to improve our processes across all business lines with a focus on improving productivity, which we expect will continue to contribute positively to our profitability.

### *Capital Expenditures*

Our 2012 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 amount 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 not subject to any agreement that would constrain our ability to control our capital expenditures by requiring material capital expenditures on a designated schedule or upon the occurrence of designated events. Capital expenditures in 2011 were \$16.2 billion, as compared to \$16.5 billion in 2010. We believe that we have significant discretion over the amount and timing of our capital expenditures on a company-wide basis.

### *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 2.6% during 2011, making this the fifth consecutive year in which we have raised our dividend.

Our goal is to use our cash to create long-term value for our shareholders. We will continue to look for investment opportunities that will help us to grow the business. When appropriate, we will also use our cash to reduce our debt levels and buy back shares of our outstanding common stock,

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

and Verizon Wireless may make distributions to its partners (see "Cash Flows from Financing Activities-Other, net").

## *Other*

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

We continue to be actively involved in labor negotiations with our unions. Many of our union-represented employees are currently working under an agreement indefinitely extending the contracts that expired in August 2011, with either the Company or the unions having the right to terminate the contract extension after providing seven days notice. The terms of any new contract will affect our future obligations to our employees for compensation and benefits.

## 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, which we operate and manage as strategic business units and organize by products and services. Our segments are Verizon Wireless and Wireline. In "Segment Results of Operations," we review the performance of our two reportable segments.

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

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

Years Ended December 31,	(dollars in millions)		
	2011	2010	2009
<b>Impact of Divested Operations</b>			
Operating revenues	\$ -	\$ 2,407	\$ 5,297
Cost of services and sales	-	574	1,288
Selling, general and administrative expense	-	665	1,356
Depreciation and amortization expense	-	413	884

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## Consolidated Revenues

Years Ended December 31,	2011	2010	2009	2011 vs. 2010		Increase/(Decrease)	
						2010 vs. 2009	
(dollars in millions)							
Verizon Wireless							
Service revenue	\$ 59,157	\$ 55,629	\$ 52,046	\$ 3,528	6.3 %	\$ 3,583	6.9 %
Equipment and other	10,997	7,778	8,279	3,219	41.4	(501)	(6.1)
Total	70,154	63,407	60,325	6,747	10.6	3,082	5.1
Wireline							
Mass Markets	16,337	16,256	16,115	81	0.5	141	0.9
Global Enterprise	15,622	15,316	15,289	306	2.0	27	0.2
Global Wholesale	7,973	8,746	9,533	(773)	(8.8)	(787)	(8.3)
Other	750	909	1,514	(159)	(17.5)	(605)	(40.0)
Total	40,682	41,227	42,451	(545)	(1.3)	(1,224)	(2.9)
Corporate, eliminations and other	39	1,931	5,032	(1,892)	(98.0)	(3,101)	(61.6)
<b>Consolidated Revenues</b>	<b>\$ 110,875</b>	<b>\$ 106,565</b>	<b>\$ 107,808</b>	<b>\$ 4,310</b>	<b>4.0</b>	<b>\$ (1,243)</b>	<b>(1.2)</b>

### 2011 Compared to 2010

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

The increase in Verizon Wireless' revenues during 2011 compared to 2010 was primarily due to growth in both service and equipment revenue. Service revenue increased during 2011 compared to 2010 primarily due to an increase in total connections since January 1, 2011, as well as continued growth in our data revenue, partially offset by a decline in voice revenue.

Total wireless data revenue was \$23.6 billion and accounted for 40.0% of service revenue during 2011 compared to \$19.6 billion and 35.1% during 2010. Total data revenue continues to increase as a result of the increased penetration of data offerings, in particular for smartphone data service plans which provide our customers with access to web and e-mail via their wireless device. We have also experienced growth in data revenues for internet data devices such as tablets, USB modems and Jetpacks which also require service plans allowing access to data services. Voice revenue decreased as a result of continued declines in retail postpaid voice ARPU due to the ongoing impact of our retail customers seeking to optimize the value of our voice minute bundles, partially offset by an increase in the number of customers.

Equipment and other revenue increased during 2011 compared to 2010 due to an increase in the sales volume for smartphones to new and upgrading customers. Partially offsetting these increases was a decrease in the sales volume for basic phones in both periods.

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

of the revenues of Terremark, and in Mass Markets, primarily due to the expansion of FiOS services (Voice, Internet and Video), partially offset by the decline of local exchange revenues.

### 2010 Compared to 2009

The decrease in Consolidated revenues during 2010 compared to 2009 was primarily due to the impact of divested operations and declines in revenues at our Wireline segment resulting from switched access line losses and decreased MOUs in traditional voice products, partially offset by higher revenues in our growth markets.

The increase in Verizon Wireless' revenues during 2010 compared to 2009 was primarily due to growth in service revenue. Service revenue increased during 2010 compared to 2009 primarily due to an increase in total customers since January 1, 2010, as well as continued growth in our data ARPU, partially offset by a decline in voice ARPU.

Total wireless data revenue was \$19.6 billion and accounted for 35.1% of service revenue during 2010, compared to \$15.6 billion and 29.9% during 2009. Total data revenue increased as a result of the increased penetration of data offerings, in particular for web and e-mail services resulting in part from increased sales of smartphone and other data-capable devices. Voice revenue decreased as a result of continued declines in our voice ARPU, partially offset by an increase in the number of customers.

Equipment and other revenue decreased during 2010 compared to 2009 due to a decrease in the number of equipment units sold, which resulted from a decrease in customer gross additions.

The decrease in Wireline's revenues during 2010 compared to 2009 was primarily due to lower Global Wholesale and Other revenue, partially offset by an increase in Mass Markets revenue. The decrease in Global Wholesale revenues during 2010 compared to 2009 was primarily due to decreased MOUs in traditional voice products, increases in voice termination pricing on certain international routes, which negatively impacted volume, and continued rate compression due to competition in the marketplace. The decrease in Other revenue during 2010 compared to 2009 was primarily due to reduced business volumes, including former MCI mass market customer losses. The increase in Mass Markets revenue during 2010 compared to 2009 was primarily driven by the expansion of FiOS services (Voice, Internet and Video), partially offset by the decline of local exchange revenues principally as a result of a decline in switched access lines. Global Enterprise revenues during 2010 compared to 2009 were essentially unchanged as higher customer premise equipment and strategic networking revenues were offset by lower local services and traditional circuit-based revenues.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## Consolidated Operating Expenses

Years Ended December 31,	2011	2010	2009	2011 vs. 2010		(dollars in millions) Increase/(Decrease)	
						2010 vs. 2009	
Cost of services and sales	\$ 45,875	\$ 44,149	\$ 44,579	\$ 1,726	3.9 %	\$ (430)	(1.0)%
Selling, general and administrative expense	35,624	31,366	30,717	4,258	13.6	649	2.1
Depreciation and amortization expense	16,496	16,405	16,534	91	0.6	(129)	(0.8)
<b>Consolidated Operating Expenses</b>	<b>\$ 97,995</b>	<b>\$ 91,920</b>	<b>\$ 91,830</b>	<b>\$ 6,075</b>	<b>6.6</b>	<b>\$ 90</b>	<b>0.1</b>

Consolidated operating expenses increased during 2011 and 2010 primarily due to higher severance, pension and benefit charges (see "Other Items") as well as increased operating expenses at Verizon Wireless. The changes in consolidated operating expenses during 2011 and 2010 were also favorably impacted by divested operations.

### 2011 Compared to 2010

#### 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, contracted services, network access and transport costs, wireless equipment costs, customer provisioning costs, computer systems support, costs to support our outsourcing contracts and technical facilities and contributions to the Universal Service Fund. Aggregate customer care costs, which include billing and service provisioning, are allocated between Cost of services and sales and Selling, general and administrative expense.

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

#### Selling, General and Administrative Expense

Selling, general and administrative expense 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; professional service fees; and rent and utilities for administrative space.

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

#### Depreciation and Amortization Expense

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

### 2010 Compared to 2009

#### Cost of Services and Sales

Cost of services and sales decreased during 2010 compared to 2009 primarily due to the impact of divested operations, lower headcount and productivity improvements at our Wireline and Verizon Wireless segments, partially offset by higher severance, pension and benefit charges during 2010 and other non-operational charges noted in the table below as well as higher customer premise equipment and content costs. In addition, lower access costs at Wireline were primarily driven by management actions to reduce exposure to unprofitable international wholesale routes. Our FiOS Video and Internet cost of acquisition per addition also decreased in 2010 compared to 2009. Wireless network costs increased as a result of an increase in local interconnection cost and increases in roaming costs.

#### Selling, General and Administrative Expense

Selling, general and administrative expense increased during 2010 compared to 2009 primarily due to higher severance, pension and benefit charges, which primarily included a pension and postretirement benefit plan remeasurement loss in 2010 compared to a remeasurement gain in 2009, as well as the charges in connection with an agreement reached with certain unions on temporary enhancements. In addition, the increase in Selling, general and administrative expense reflected higher sales commission expense at our Verizon Wireless segment in our indirect channel as a result of increases in both the average commission per unit, as the mix of units continues to shift toward data devices and more customers activate data service, and contract renewals in connection with equipment upgrades. Partially offsetting the increase was the impact of divested operations and the impact of cost reduction initiatives in our Wireline segment. Selling, general and administrative expense during 2010 was also impacted by lower access line spin-off and merger integration related charges noted in the table below.

#### Depreciation and Amortization Expense

Depreciation and amortization expense decreased during 2010 compared to 2009. The decrease was primarily due to the impact of divested operations, partially offset by additions to the depreciable asset base. Depreciation and amortization expense during 2010 was also impacted by lower non-operational charges noted in the table below.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## Non-operational Charges

Non-operational charges included in operating expenses were as follows:

Years Ended December 31,	(dollars in millions)		
	2011	2010	2009
<b>Severance, Pension and Benefit Charges</b>			
Cost of services and sales	\$ -	\$ 1,723	\$ 1,443
Selling, general and administrative expense	<b>5,954</b>	1,331	(3)
	<b>5,954</b>	3,054	1,440
<b>Merger Integration and Acquisition Related Charges</b>			
Cost of services and sales	-	376	195
Selling, general and administrative expense	-	389	442
Depreciation and amortization expense	-	102	317
	-	867	954
<b>Access Line Spin-off Related Charges</b>			
Cost of services and sales	-	42	38
Selling, general and administrative expense	-	365	415
	-	407	453
<b>Total non-operating charges included in operating expenses</b>	<b>\$ 5,954</b>	\$ 4,328	\$ 2,847

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

### Consolidated Operating Income and EBITDA

Consolidated earnings before interest, taxes, depreciation and amortization expenses (Consolidated EBITDA) and Consolidated Adjusted EBITDA, which are presented below, are non-GAAP measures and do not purport to be alternatives to operating income as a measure of operating performance. Management believes that these measures are useful to investors and other users of our financial information in evaluating operating profitability on a more variable cost basis as they exclude the depreciation and amortization expense related primarily

to capital expenditures and acquisitions that occurred in prior years, as well as in evaluating operating performance in relation to our competitors. Consolidated EBITDA is calculated by adding back interest, taxes, depreciation and amortization expense, equity in earnings of unconsolidated businesses and other income and (expense), net to net income. Consolidated Adjusted EBITDA is calculated by excluding the effect of non-operational items and the impact of divested operations from the calculation of Consolidated EBITDA.

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

Years Ended December 31,	(dollars in millions)		
	2011	2010	2009
<b>Consolidated Operating Income</b>	<b>\$ 12,880</b>	\$ 14,645	\$ 15,978
Add Depreciation and amortization expense	<b>16,496</b>	16,405	16,534
<b>Consolidated EBITDA</b>	<b>29,376</b>	31,050	32,512
Add Non-operating charges included in operating expenses <sup>(1)</sup>	<b>5,954</b>	4,226	2,530
Add Deferred revenue adjustment	-	268	-
Less Impact of divested operations <sup>(1)</sup>	-	(1,168)	(2,653)
<b>Consolidated Adjusted EBITDA</b>	<b>\$ 35,330</b>	\$ 34,376	\$ 32,389

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

## Other Consolidated Results

### Equity in Earnings of Unconsolidated Businesses

Equity in earnings of unconsolidated businesses decreased \$64 million, or 12.6%, in 2011 compared to 2010 and \$45 million, or 8.1%, in 2010 compared to 2009 primarily due to changes in earnings from operations at Vodafone Omnitel N.V. and the related foreign exchange gains and losses due to movements of the Euro against the U.S. dollar.

### Other Income and (Expense), Net

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

Years Ended December 31,				(dollars in millions)			
	2011	2010	2009	2011 vs. 2010	Increase/(Decrease) 2010 vs. 2009		
Interest income	\$ 68	\$ 92	\$ 75	\$ (24)	(26.1)%	\$ 17	22.7 %
Foreign exchange gains (losses), net	(9)	5	-	(14)	nm	5	-
Other, net	(73)	(43)	16	(30)	69.8	(59)	nm
<b>Total</b>	<b>\$ (14)</b>	\$ 54	\$ 91	<b>\$ (68)</b>	<b>nm</b>	<b>\$ (37)</b>	<b>(40.7)</b>

nm - not meaningful

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

Other income and (expense), net decreased during 2010 compared to 2009 primarily due to fees incurred during the third quarter of 2010 related to the early extinguishment of debt. Partially offsetting the decrease was higher distributions from investments and foreign exchange gains at our international wireline operations.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## Interest Expense

(dollars in millions)

Years Ended December 31,	2011	2010	2009	2011 vs. 2010		Increase/(Decrease) 2010 vs. 2009	
Total interest costs on debt balances	\$ 3,269	\$ 3,487	\$ 4,029	\$ (218)	(6.3)%	\$ (542)	(13.5)%
Less capitalized interest costs	442	964	927	(522)	(54.1)	37	4.0
<b>Total</b>	<b>\$ 2,827</b>	<b>\$ 2,523</b>	<b>\$ 3,102</b>	<b>\$ 304</b>	<b>12.0</b>	<b>\$ (579)</b>	<b>(18.7)</b>
Average debt outstanding	\$ 55,629	\$ 57,278	\$ 64,039				
Effective interest rate	5.9 %	6.1 %	6.3 %				

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

Total interest costs on debt balances decreased during 2010 compared to 2009 primarily due to a \$6.8 billion decline in average debt. Interest costs during 2009 included fees related to the bridge facility that was entered into and utilized to complete the acquisition of Alltel Corporation (Alltel), which contributed to the higher effective interest rate.

## Provision for Income Taxes

(dollars in millions)

Years Ended December 31,	2011	2010	2009	2011 vs. 2010		Increase/(Decrease) 2010 vs. 2009	
<b>Provision for income taxes</b>	<b>\$ 285</b>	<b>\$ 2,467</b>	<b>\$ 1,919</b>	<b>\$ (2,182)</b>	<b>(88.4)%</b>	<b>\$ 548</b>	<b>28.6 %</b>
<b>Effective income tax rate</b>	<b>2.7 %</b>	<b>19.4 %</b>	<b>14.2 %</b>				

The effective income tax rate is calculated by dividing the provision for income taxes by income before the provision for income taxes. Our effective income tax rate is significantly lower than the statutory federal income tax rate for all years presented due to the inclusion of income attributable to Vodafone Group Plc's (Vodafone) noncontrolling interest in the Verizon Wireless partnership within our income before the provision for income taxes, which resulted in our effective income tax rate being 7.9, 29.8 and 14.0 percentage points lower during 2011, 2010 and 2009, respectively.

The effective income tax rate in 2011 decreased to 2.7% from 19.4% in 2010. This decrease was primarily driven by lower income before provision for income taxes as a result of higher pension and benefit charges recorded in 2011 as well as tax benefits from state valuation allowance reversals in 2011. The decrease was also due to a one-time, non-cash income tax charge of \$1.0 billion recorded during the three months ended March 31, 2010 as a result of the enactment of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively the Health Care Act). Under the Health Care Act, beginning in 2013, Verizon

and other companies that receive a subsidy under Medicare Part D to provide retiree prescription drug coverage will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage to the extent of the subsidy received. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in Verizon's financial statements, this change in law required Verizon to reduce the value of the related tax benefits recognized in its financial statements in the period during which the Health Care Act was enacted.

The effective income tax rate in 2010 increased to 19.4% from 14.2% in 2009. The increase was primarily driven by a one-time, non-cash income tax charge of \$1.0 billion for the Health Care Act described above. The increase was partially offset primarily by higher earnings attributable to Vodafone's noncontrolling interest in the Verizon Wireless partnership.

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

## Net Income Attributable to Noncontrolling Interest

(dollars in millions)

Years Ended December 31,	2011	2010	2009	2011 vs. 2010		Increase/(Decrease) 2010 vs. 2009	
<b>Net income attributable to noncontrolling interest</b>	<b>\$ 7,794</b>	<b>\$ 7,668</b>	<b>\$ 6,707</b>	<b>\$ 126</b>	<b>1.6 %</b>	<b>\$ 961</b>	<b>14.3 %</b>

The increases in Net income attributable to noncontrolling interest during 2011 compared to 2010, and 2010 compared to 2009 were due to higher earnings in our Verizon Wireless segment, which has a 45% noncontrolling partnership interest attributable to Vodafone.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## SEGMENT RESULTS OF OPERATIONS

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

Segment 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 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. Segment EBITDA is calculated by adding back depreciation and amortization expense to segment operating income.

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

### Verizon Wireless

Our Verizon Wireless segment, primarily comprised of Cellco Partnership doing business as Verizon Wireless, is a joint venture formed in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone. Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%. Verizon Wireless provides wireless voice and data services across one of the most extensive wireless networks in the United States and has the largest 3G and 4G LTE networks of any U.S. wireless service provider.

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

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

### Operating Revenue and Selected Operating Statistics

(dollars in millions, except ARPU)

Years Ended December 31,	2011	2010	2009	2011 vs. 2010		Increase/(Decrease)	
						2010 vs. 2009	
Retail service	\$ 56,660	\$ 53,308	\$ 50,760	\$ 3,352	6.3 %	\$ 2,548	5.0 %
Other service	2,497	2,321	1,286	176	7.6	1,035	80.5
Service revenue	59,157	55,629	52,046	3,528	6.3	3,583	6.9
Equipment and other	10,997	7,778	8,279	3,219	41.4	(501)	(6.1)
<b>Total Operating Revenue</b>	<b>\$ 70,154</b>	<b>\$ 63,407</b>	<b>\$ 60,325</b>	<b>\$ 6,747</b>	<b>10.6</b>	<b>\$ 3,082</b>	<b>5.1</b>
Connections ('000): <sup>(1)</sup>							
Total connections <sup>(2)</sup>	107,798	102,246	96,495	5,552	5.4	5,751	6.0
Retail customers	92,167	87,535	85,445	4,632	5.3	2,090	2.4
Retail postpaid customers	87,382	83,125	80,495	4,257	5.1	2,630	3.3
Net additions in period ('000): <sup>(3)</sup>							
Total connections <sup>(2)</sup>	5,419	5,517	4,935	(98)	(1.8)	582	11.8
Retail customers	4,624	1,977	4,369	2,647	133.9	(2,392)	(54.7)
Retail postpaid customers	4,252	2,529	3,987	1,723	68.1	(1,458)	(36.6)
Churn Rate:							
Retail customers	1.26 %	1.38 %	1.41 %				
Retail postpaid customers	0.95 %	1.02 %	1.07 %				
ARPU:							
Retail service	\$ 52.69	\$ 51.51	\$ 50.85	\$ 1.18	2.3	\$ 0.66	1.3
Retail postpaid	54.34	53.14	52.29	1.20	2.3	0.85	1.6
Retail postpaid data	21.70	18.78	15.75	2.92	15.5	3.03	19.2

(1) As of end of period.

(2) The number of Total connections for 2011 reflects a reduction of 869,000 Wholesale and Other Connections from previously reported numbers.

(3) Excluding acquisitions and adjustments.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## 2011 Compared to 2010

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

### *Connections*

Total connections increased during 2011 compared to 2010 primarily due to an increase in retail postpaid customer gross additions as well as ongoing improvements in our retail customer churn rate, both of which we believe were primarily the result of the strength of the devices in our product portfolio, including the Apple iPhone 4 and 4S and our line-up of 3G and 4G Android and other 4G LTE capable devices, as well as the reliability of our network, partially offset by a year-over-year decline in net additions from wholesale and other connections.

Total connections represent the total of our retail customers and wholesale and other connections. Wholesale and other connections include customers from our reseller channel as well as connections from non-traditional wireless-enabled devices, such as those used to support vehicle tracking, telematics services and machine-to-machine connections.

Retail (non-wholesale) customers are customers directly served and managed by Verizon Wireless that use its branded services. Retail postpaid customers represent individual lines of service for which a customer pays in advance a monthly access charge in return for a monthly voice and/or data service allowance, and use of any services beyond the allowances is billed in arrears. Churn is the rate at which customers disconnect individual lines of service. We expect to continue to experience retail customer growth based on the strength of our product offerings and network service quality.

### *Service revenue*

Service revenue increased during 2011 compared to 2010 primarily due to the above-mentioned increase in total connections during the year, as well as continued growth in data revenue, partially offset by a decline in voice revenue.

Total data revenue was \$23.6 billion and accounted for 40.0% of service revenue during 2011 compared to \$19.6 billion and 35.1% during 2010. Total data revenue continues to increase as a result of the increased penetration of our data offerings, in particular for higher-tier data service plans which provide our customers with access to web and e-mail via their wireless device. We have also experienced growth in data revenues from the use of internet data devices such as tablets, USB modems and Jetpacks. Voice revenue decreased as a result of continued declines in retail postpaid voice ARPU, as discussed below, partially offset by an increase in the number of customers. We expect that total service revenue and total data revenue will continue to grow as we grow our customer base and increase the penetration of our data offerings as a larger proportion of our customers use smartphones and other data-capable devices.

The increases in retail service ARPU (the average revenue per user per month from retail customers) and retail postpaid ARPU (the average revenue per user per month from retail postpaid customers) during 2011 compared to 2010 were due to a continued increase in our retail postpaid data ARPU, offset by a decline in our retail postpaid voice ARPU. Retail postpaid data ARPU increased as a result of continued growth in the proportion of our customer base using smartphones, which grew to 43.5% of our retail postpaid customers as of December 31, 2011 compared to 28.1% at December 31, 2010. However, both retail postpaid ARPU and retail postpaid data ARPU growth were adversely impacted by the growing proportion of our customers using internet data devices and customers optimizing the value of their data packages for these devices. Internet data devices represented 8.1% of our retail postpaid customer base as of December 31, 2011 compared to 7.0% at December 31, 2010. In addition, our retail postpaid voice ARPU was \$32.64 during 2011, representing a decline of \$1.72, or 5.0%, compared to 2010 primarily due to

the ongoing impact of our retail customers seeking to optimize the value of our voice minute bundles.

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

### *Equipment and Other Revenue*

Equipment and other revenue increased during 2011 compared to 2010 due to an increase in the sales volume of smartphones to new and upgrading customers. Partially offsetting these increases was a decrease in the sales volume for basic phones in both periods.

## 2010 Compared to 2009

The increase in Verizon Wireless' total operating revenue during 2010 compared to 2009 was primarily due to growth in service revenue.

### *Connections*

Total connections increased during 2010 compared to 2009 due to the increase during the year in customer net additions from our reseller channel as a result of the marketplace shift in customer activations during the first half of the year toward unlimited prepaid offerings of the type being sold by a number of resellers, as well as connections from non-traditional wireless-enabled devices, partially offset by the decline in retail customer net additions. The decline in retail customer net additions during 2010 compared to 2009 was due to a decrease in retail customer gross additions, as well as an increase in churn for our retail prepaid base in part due to the marketplace shift in customer activations mentioned above.

Customers from acquisitions and adjustments at December 31, 2010 included approximately 106,000 net customers, after conforming adjustments, that we acquired in a transaction with AT&T. Customers from acquisitions at December 31, 2009 included approximately 11.4 million total customer net additions, after conforming adjustments and the impact of required divestitures, which resulted from our acquisition of Alltel in January 2009 (see "Acquisitions and Divestitures").

### *Service revenue*

Service revenue increased during 2010 compared to 2009 primarily due to an increase in total customers since January 1, 2010, as well as continued growth in our data ARPU, partially offset by a decline in voice ARPU.

Total data revenue was \$19.6 billion and accounted for 35.1% of service revenue during 2010 compared to \$15.6 billion and 29.9% during 2009. Total data revenue increased as a result of the increased penetration of our data offerings, in particular for web and e-mail services resulting in part from increased sales of smartphone and other data-capable devices. Voice revenue decreased as a result of continued declines in our voice ARPU, as discussed below, partially offset by an increase in the number of customers.

The decline in service ARPU during 2010 compared to 2009 was due to a continued reduction in voice revenue per customer and the impact of changes in our customer mix as a result of increased reseller customer net additions, partially offset by an increase in retail postpaid data ARPU. Total retail postpaid voice ARPU declined \$2.18, or 6.0%, due to the ongoing impact of customers seeking to optimize the value of our voice minute bundles. Total retail postpaid data ARPU increased as a result of continued growth and penetration of our data offerings resulting in part from the above mentioned increase in sales of our smartphones and other data-capable devices. Retail service ARPU, the average revenue per user from retail customers, increased during 2010 due to increases in our penetration of data offerings which more than offset declines in our voice revenues.

### *Equipment and Other Revenue*

Equipment and other revenue decreased during 2010 compared to 2009 due to a decrease in the number of equipment units sold as a result of a decrease in customer gross additions.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## Operating Expenses

(dollars in millions)

Years Ended December 31,	2011	2010	2009	2011 vs. 2010		Increase/(Decrease) 2010 vs. 2009	
Cost of services and sales	\$ 24,086	\$ 19,245	\$ 19,348	\$ 4,841	25.2 %	\$ (103)	(0.5)%
Selling, general and administrative expense	19,579	18,082	17,309	1,497	8.3	773	4.5
Depreciation and amortization expense	7,962	7,356	7,030	606	8.2	326	4.6
<b>Total Operating Expenses</b>	<b>\$ 51,627</b>	<b>\$ 44,683</b>	<b>\$ 43,687</b>	<b>\$ 6,944</b>	<b>15.5</b>	<b>\$ 996</b>	<b>2.3</b>

### Cost of Services and Sales

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

Cost of services and sales decreased during 2010 compared to 2009 due to a decrease in the cost of equipment sales, partially offset by an increase in cost of services. Cost of equipment sales decreased by \$0.6 billion primarily due to both a decrease in retail customer gross additions and cost reduction initiatives, partially offset by an increase in the average cost per unit. Cost of services increased due to higher wireless network costs driven by increases in local interconnection cost as a result of both higher capacity needs from increases in data usage as well as costs incurred to transition to Ethernet facilities used to support the 4G LTE network. In addition, the increase in costs of services was impacted by higher roaming costs as a result of increased international roaming volumes, data roaming and roaming costs incurred in the markets divested during 2010, partially offset by synergies from moving traffic to our own network. Also contributing to higher wireless network costs during 2010 compared to 2009 was an increase in operating lease expense related to our network cell sites.

### Selling, General and Administrative Expense

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

Selling, general and administrative expense increased during 2010 compared to 2009 primarily due to an increase in sales commission expense in our indirect channel, as well as increases in other general and administrative expenses, partially offset by a decrease in advertising and promotional costs. Indirect sales commission expense increased \$0.8 billion during 2010 compared to 2009 as a result of increases in both the average commission per unit, as the mix of units continues to shift toward data devices and more customers activate data service, and in contract renewals in connection with equipment upgrades. Other general and administrative expenses such as billing and data processing charges, non-income taxes, and bad debt expense increased primarily as a result of the growth of our customer base. Advertising and promotional costs decreased \$0.2 billion during 2010 compared to 2009 primarily due to reductions in media spending.

### Depreciation and Amortization Expense

The changes in depreciation and amortization expense during 2011 and 2010 compared to the preceding year were primarily driven by growth in depreciable assets.

## Segment Operating Income and EBITDA

(dollars in millions)

Years Ended December 31,	2011	2010	2009	2011 vs. 2010		Increase/(Decrease) 2010 vs. 2009	
<b>Segment Operating Income</b>	<b>\$ 18,527</b>	\$ 18,724	\$ 16,638	\$ (197)	(1.1)%	\$ 2,086	12.5 %
Add Depreciation and amortization expense	7,962	7,356	7,030	606	8.2	326	4.6
<b>Segment EBITDA</b>	<b>\$ 26,489</b>	\$ 26,080	\$ 23,668	<b>\$ 409</b>	<b>1.6</b>	<b>\$ 2,412</b>	<b>10.2</b>
<b>Segment operating income margin</b>	<b>26.4 %</b>	29.5 %	27.6 %				
<b>Segment EBITDA service margin</b>	<b>44.8 %</b>	46.9 %	45.5 %				

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

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

(dollars in millions)

Years Ended December 31,	2011	2010	2009
Merger integration and acquisition related charges	\$ -	\$ 867	\$ 954
Severance, pension and benefit charges	76	-	-
Impact of divested operations	-	(348)	(789)
Deferred revenue adjustment	-	235	(78)
	<b>\$ 76</b>	<b>\$ 754</b>	<b>\$ 87</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## Wireline

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

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

### Operating Revenues and Selected Operating Statistics

Years Ended December 31,	2011	2010	2009	(dollars in millions)			
				2011 vs. 2010		Increase/(Decrease) 2010 vs. 2009	
Consumer retail	\$ 13,606	\$ 13,419	\$ 13,202	\$ 187	1.4 %	\$ 217	1.6 %
Small business	2,731	2,837	2,913	(106)	(3.7)	(76)	(2.6)
Mass Markets	16,337	16,256	16,115	81	0.5	141	0.9
Strategic services	7,607	6,602	6,195	1,005	15.2	407	6.6
Other	8,015	8,714	9,094	(699)	(8.0)	(380)	(4.2)
Global Enterprise	15,622	15,316	15,289	306	2.0	27	0.2
Global Wholesale	7,973	8,746	9,533	(773)	(8.8)	(787)	(8.3)
Other	750	909	1,514	(159)	(17.5)	(605)	(40.0)
<b>Total Operating Revenues</b>	<b>\$ 40,682</b>	<b>\$ 41,227</b>	<b>\$ 42,451</b>	<b>\$ (545)</b>	<b>(1.3)</b>	<b>\$ (1,224)</b>	<b>(2.9)</b>
<b>Connections ('000):<sup>(1)</sup></b>							
Total voice connections	24,137	26,001	28,323	(1,864)	(7.2)	(2,322)	(8.2)
Total Broadband connections	8,670	8,392	8,160	278	3.3	232	2.8
FiOS Internet subscribers	4,817	4,082	3,286	735	18.0	796	24.2
FiOS Video subscribers	4,173	3,472	2,750	701	20.2	722	26.3

(1) As of end of period.

Wireline's revenues decreased during 2011 compared to 2010 primarily driven by declines in Global Wholesale and Other Global Enterprise revenues, largely as a result of declines in voice connections and in traditional voice and data services provided to business customers, partially offset by increased revenues from our growth markets as well as the impact of the revenues of Terremark.

#### Mass Markets

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

#### 2011 Compared to 2010

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

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

Mass Markets revenues were negatively impacted by the decline of local exchange revenues primarily due to a 7.2% decline in total voice connections resulting primarily from competition and technology substitution. Total voice connections include traditional switched access lines in ser-

vice as well as FiOS digital voice connections. The majority of the decline in total voice connections was sustained in the residential retail market, which experienced a 7.3% voice connection loss primarily due to substituting traditional landline services with wireless, VoIP, broadband and cable services. There was also a 5.3% decline in small business retail voice connections, primarily reflecting challenging economic conditions, competition and a shift to both IP and high-speed circuits.

#### 2010 Compared to 2009

The increase in Mass Markets revenue during 2010 compared to 2009 was primarily driven by the expansion of consumer and small business FiOS services (Voice, Internet and Video), which are typically sold in bundles, partially offset by the decline of local exchange revenues principally as a result of a decline in switched access lines as of December 31, 2010 compared to December 31, 2009, primarily as a result of competition and technology substitution. The majority of the decrease was sustained in the residential retail market, which experienced a 9.0% access line loss primarily due to substituting traditional landline services with wireless, VoIP, broadband and cable services. Also contributing to the decrease was a decline of nearly 5.0% in small business retail access lines, primarily reflecting economic conditions, competition and a shift to both IP and high-speed circuits.

As of December 31, 2010, we achieved penetration rates of 31.9% and 28.0% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 28.3% and 24.7% for FiOS Internet and FiOS Video, respectively, at December 31, 2009.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## **Global Enterprise**

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

### *2011 Compared to 2010*

Global Enterprise revenues increased during 2011 compared to 2010 primarily driven by higher strategic services revenues, in part due to the inclusion of the revenues of Terremark, partially offset by lower local services and traditional circuit-based revenues and decreased revenues from the sale of customer premise equipment. Strategic services revenue increased \$1.0 billion, or 15.2%, during 2011 compared to 2010 primarily due to growth in advanced services, such as managed network, call center, IP communications and our cloud offerings. Strategic services continue to be Global Enterprise's fastest growing suite of offerings. Traditional circuit-based services such as frame relay, private line and ATM services declined compared to the similar period last year as our customer base continues to migrate to next generation IP services. The decline in customer premise equipment revenues reflects our focus on improving margins by de-emphasizing sales of equipment that are not a part of an overall enterprise solutions bundle.

### *2010 Compared to 2009*

Global Enterprise revenues were essentially unchanged during 2010 compared to 2009. Higher customer premise equipment and strategic networking revenues were offset by lower local services and traditional circuit-based revenues. Long distance revenues declined due to the negative effects of the continuing global economic conditions and competitive rate pressures. In addition to increased customer premise equipment revenues, strategic enterprise services revenue increased \$0.4 billion, or 6.3%, during 2010 compared to 2009 primarily due to higher information technology, security solution and strategic networking revenues. Strategic enterprise services continue to be Global Enterprise's fastest growing suite of offerings. Traditional circuit-based services such as frame relay, private line and ATM services declined in 2010 compared to 2009 as our customer base continued its migration to next generation IP services.

## **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.

### *2011 Compared to 2010*

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

### *2010 Compared to 2009*

The decrease in Global Wholesale revenues during 2010 compared to 2009 was primarily due to decreased MOUs in traditional voice products, primarily as a result of increases in voice termination pricing on certain international routes, which negatively impacted volume, and continued rate compression due to competition in the marketplace. Switched access and interexchange wholesale MOUs declined primarily as a result of wireless substitution and connection losses. Domestic wholesale connections declined by 9.0% as of December 31, 2010 compared to December 31, 2009 due to the continued impact of competitors deemphasizing their local market initiatives coupled with the impact of technology substitution, as well as the continued level of economic pressure. Voice and local loop services declined during 2010 compared to 2009. Continuing demand for high-capacity, high-speed digital services was partially offset by lower demand for older, low-speed data products and services. As of December 31, 2010, customer demand, as measured in DS1 and DS3 circuits, for high-capacity and high-speed digital data services increased 4.6% compared to 2009.

## **Other**

Other revenues include such services as local exchange and long distance services from former MCI mass market customers, operator services, card services and supply sales. The decrease in revenues from other services during 2011 and 2010 was primarily due to reduced business volumes, including former MCI mass market customer losses.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## Operating Expenses

(dollars in millions)

Years Ended December 31,	2011	2010	2009	2011 vs. 2010		Increase/(Decrease)	
						2010 vs. 2009	
Cost of services and sales	\$ 22,158	\$ 22,618	\$ 22,693	\$ (460)	(2.0)%	\$ (75)	(0.3)%
Selling, general and administrative expense	9,107	9,372	9,947	(265)	(2.8)	(575)	(5.8)
Depreciation and amortization expense	8,458	8,469	8,238	(11)	(0.1)	231	2.8
<b>Total Operating Expenses</b>	<b>\$ 39,723</b>	<b>\$ 40,459</b>	<b>\$ 40,878</b>	<b>\$ (736)</b>	<b>(1.8)</b>	<b>\$ (419)</b>	<b>(1.0)</b>

### Cost of Services and Sales

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

Cost of services and sales were essentially unchanged during 2010 compared to 2009. Decreases were primarily due to lower costs associated with compensation and installation expenses as a result of lower headcount and productivity improvements, as well as lower access costs driven mainly by management actions to reduce exposure to unprofitable international wholesale routes and declines in overall wholesale long distance volumes. In addition, our FiOS Video and Internet cost of acquisition per addition also decreased in 2010 compared to 2009. These declines were partially offset by higher customer premise equipment costs and content costs associated with continued FiOS subscriber growth.

### Selling, General and Administrative Expense

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

Selling, general and administrative expense decreased during 2010 compared to 2009 primarily due to the decline in compensation expense as a result of lower headcount and cost reduction initiatives, partially offset by higher gains on sales of assets in 2009.

### Depreciation and Amortization Expense

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

Depreciation and amortization expense increased during 2010 compared to 2009 due to growth in depreciable assets.

## Segment Operating Income and EBITDA

(dollars in millions)

Years Ended December 31,	2011	2010	2009	2011 vs. 2010		Increase/(Decrease)	
						2010 vs. 2009	
<b>Segment Operating Income</b>	\$ 959	\$ 768	\$ 1,573	\$ 191	24.9 %	\$ (805)	(51.2)%
Add Depreciation and amortization expense	8,458	8,469	8,238	(11)	(0.1)	231	2.8
<b>Segment EBITDA</b>	<b>\$ 9,417</b>	<b>\$ 9,237</b>	<b>\$ 9,811</b>	<b>\$ 180</b>	<b>1.9</b>	<b>\$ (574)</b>	<b>(5.9)</b>
<b>Segment operating income margin</b>	<b>2.4 %</b>	1.9 %	3.7 %				
<b>Segment EBITDA margin</b>	<b>23.1 %</b>	22.4 %	23.1 %				

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

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

(dollars in millions)

Years Ended December 31,	2011	2010	2009
Severance, pension and other benefit charges	\$ -	\$ 2,237	\$ 2,253
Access line spin-off related charges	-	79	51
Impact of divested operations	-	(408)	(980)
	<b>\$ -</b>	<b>\$ 1,908</b>	<b>\$ 1,324</b>

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## OTHER ITEMS

### Severance, Pension and Benefit Charges

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

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

During 2009, we recorded net pre-tax severance, pension and benefits charges of \$1.4 billion. These charges were primarily comprised of pension and postretirement curtailment losses and special termination benefits of \$1.9 billion; \$0.9 billion for workforce reductions of approximately 17,600 employees, 4,200 of whom were separated during late 2009 and the remainder in 2010; and remeasurement gains of \$1.4 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.

### Merger Integration and Acquisition Related Charges

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

During 2009, we recorded pre-tax merger integration and acquisition related charges of \$1.2 billion. These charges primarily related to the Alltel acquisition and were comprised of trade name amortization, re-branding initiatives and handset conversions. The charges during 2009 were also comprised of transaction fees and costs associated with the acquisition, including fees related to the credit facility that was entered into and utilized to complete the acquisition.

### Dispositions

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

During 2010 and 2009, we recorded pre-tax charges of \$0.5 billion and \$0.2 billion, respectively, primarily for costs incurred related to network, non-network software and other activities to enable the divested markets in the transaction with Frontier to operate on a stand-alone basis subsequent to the closing of the transaction; professional advisory and legal fees in connection with this transaction; and fees related to the early extinguishment of debt from the use of proceeds from the transaction. During 2009, we also recorded pre-tax charges of \$0.2 billion for costs incurred related to our Wireline cost reduction initiatives (See "Acquisitions and Divestitures").

#### *Alltel Divestiture Markets*

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

### Medicare Part D Subsidy Charges

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

### Other

#### *Debt Redemption 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.

#### *Deferred Revenue*

Corporate, eliminations and other during the periods presented include a non-cash adjustment of \$0.2 billion and (\$0.1 billion) in 2010 and 2009, respectively, primarily to adjust wireless data revenues. This adjustment was recorded to properly defer previously recognized wireless data revenues that were earned and recognized in future periods. The adjustment was recorded during 2010, which reduced Net income (loss) attributable to Verizon by approximately \$0.1 billion. Consolidated revenues in 2009 were not affected as the amounts involved were not material to our consolidated financial statements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## CONSOLIDATED FINANCIAL CONDITION

Years Ended December 31,	(dollars in millions)		
	2011	2010	2009
<b>Cash Flows Provided By (Used In)</b>			
Operating activities	\$ 29,780	\$ 33,363	\$ 31,390
Investing activities	(17,250)	(15,054)	(23,156)
Financing activities	(5,836)	(13,650)	(16,007)
<b>Increase (Decrease) In Cash and Cash Equivalents</b>	<b>\$ 6,694</b>	<b>\$ 4,659</b>	<b>\$ (7,773)</b>

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

The volatility in world debt and equity markets has not had a significant impact on our ability to access external financing. Our available external financing arrangements include the issuance of commercial paper, credit available under credit facilities and other bank lines of credit, vendor financing arrangements, issuances of registered debt or equity securities and privately-placed capital market securities. As of December 31, 2011, we had a shelf registration available for the issuance of debt or equity securities with an aggregate offering price of up to \$3.15 billion.

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

### Cash Flows Provided By Operating Activities

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

Net cash provided by operating activities during 2010 increased by \$2.0 billion compared to 2009 primarily due to higher operating cash flows at Verizon Wireless, changes in working capital related in part to management of inventory and the timing of tax payments. Partially offsetting these increases were lower operating cash flows at Wireline, as well as a lower net distribution from Vodafone Omnitel.

### 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. We are directing our capital spending primarily toward higher growth markets.

Capital expenditures, including capitalized software, were as follows:

Years Ended December 31,	(dollars in millions)		
	2011	2010	2009
Verizon Wireless	\$ 8,973	\$ 8,438	\$ 7,152
Wireline	6,399	7,269	8,892
Other	872	751	828
	<b>\$ 16,244</b>	<b>\$ 16,458</b>	<b>\$ 16,872</b>
Total as a percentage of revenue	<b>14.7%</b>	15.4%	15.7%

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

#### Acquisitions

During 2011, 2010 and 2009, we invested \$2.0 billion, \$1.4 billion and \$6.0 billion, respectively, in acquisitions of licenses, investments and businesses.

- During April 2011, we paid approximately \$1.4 billion for the equity of Terremark, which was partially offset by \$0.1 billion of cash acquired (see "Acquisitions and Divestitures"). See "Cash Flows From Financing Activities" below regarding the debt obligations of Terremark that were repaid during May 2011. In addition, during 2011, we acquired various wireless licenses and markets as well as a provider of cloud software technology for cash consideration that was not significant.
- On August 23, 2010, Verizon Wireless acquired the net assets and related customers of six operating markets in Louisiana and Mississippi in a transaction with AT&T Inc. for cash consideration of \$0.2 billion.
- On January 9, 2009, Verizon Wireless paid approximately \$5.9 billion for the equity of Alltel, which was partially offset by \$1.0 billion of cash acquired at closing. See "Cash Flows From Financing Activities" below regarding the debt obligations assumed in connection with the acquisition of Alltel.

#### Dispositions

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

#### Other, net

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## Cash Flows From 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 2011, 2010 and 2009, net cash used in financing activities was \$5.8 billion, \$13.7 billion and \$16.0 billion, respectively.

### 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 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 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.

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.

### 2010

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

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

### 2009

During 2009, Verizon issued \$1.8 billion of 6.35% Notes due 2019 and \$1.0 billion of 7.35% Notes due 2039, resulting in cash proceeds of \$2.7 billion, net of discounts and issuance costs, which was used to reduce our commercial paper borrowings, repay maturing debt and for general corporate purposes. In January 2009, Verizon utilized a \$0.2 billion floating rate vendor financing facility. During 2009, we redeemed \$0.1 billion of 6.8% Verizon New Jersey Inc. Debentures, \$0.3 billion of 6.7% and \$0.2 billion of 5.5% Verizon California Inc. Debentures and \$0.2 billion of 5.875% Verizon New England Inc. Debentures. In April 2009, \$0.5 billion of 7.51% GTE Corporation Debentures matured and were repaid. In addition, during 2009, \$0.5 billion floating rate Notes due 2009 and \$0.1 billion of 8.23% Verizon Notes matured and were repaid.

During 2009, Verizon Wireless raised capital to fund the acquisition of Alltel.

- On January 9, 2009, Verizon Wireless borrowed \$12.4 billion under a \$17.0 billion credit facility (Bridge Facility) in order to complete the acquisition of Alltel and repay a portion of the approximately \$24 billion of Alltel debt assumed. Verizon Wireless used cash generated from operations and the net proceeds from the sale of the notes in private placements issued in February 2009, May 2009 and June 2009, which are described below to repay the borrowings under the Bridge Facility. The Bridge Facility and the commitments under the Bridge Facility have been terminated.
- In February 2009, Verizon Wireless and Verizon Wireless Capital LLC co-issued \$4.3 billion aggregate principal amount of three and five-year fixed rate notes in a private placement resulting in cash proceeds of \$4.2 billion, net of discounts and issuance costs.
- In May 2009, Verizon Wireless and Verizon Wireless Capital LLC co-issued \$4.0 billion aggregate principal amount of two-year fixed and floating rate notes in a private placement resulting in cash proceeds of approximately \$4.0 billion, net of discounts and issuance costs.
- In June 2009, Verizon Wireless issued \$1.0 billion aggregate principal amount of floating rate notes due 2011. As described above, during 2010 these notes were repaid.
- In August 2009, Verizon Wireless repaid \$0.4 billion of borrowings that were outstanding under the Three-Year Term Loan Facility, reducing the outstanding borrowings under this facility to \$4.0 billion as of December 31, 2009. As described above, during 2010 this facility was repaid in full.

During November 2009, Verizon Wireless and Verizon Wireless Capital LLC, completed an exchange offer to exchange the privately placed notes issued in November 2008, and February and May 2009, for new notes with similar terms.

### Other, net

The change in Other, net financing activities during 2011 compared to the prior year was primarily driven by lower distributions to Vodafone, which owns a 45% noncontrolling interest in Verizon Wireless. The change in Other, net financing activities during 2010 compared to 2009 was primarily driven by higher distributions to Vodafone.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

In July 2011, the Board of Representatives of Verizon Wireless declared a distribution to its owners, payable on January 31, 2012 in proportion to their partnership interests on that date, in the aggregate amount of \$10 billion. As a result, during January 2012, Vodafone Group Plc received a cash payment of \$4.5 billion and the remainder of the distribution was received by Verizon.

## Dividends

During 2011, we paid \$5.6 billion in dividends compared to \$5.4 billion in 2010 and \$5.3 billion in 2009. As in prior periods, dividend payments were a significant use of capital resources. 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 2011, the Board increased our quarterly dividend payment 2.6% to \$.50 per share from \$.4875 per share in the same period of 2010. This is the fifth consecutive year that Verizon's Board of Directors has approved a quarterly dividend increase. During the third quarter of 2010, the Board increased our quarterly dividend payment 2.6% to \$.4875 per share from \$.475 per share in the same period of 2009. During the third quarter of 2009, the Board increased our dividend payments 3.3%.

## Credit Facility

As of December 31, 2011, the unused borrowing capacity under a \$6.2 billion three-year credit facility with a group of major financial institutions was approximately \$6.1 billion. On April 15, 2011, we amended this facility primarily to reduce fees and borrowing costs and extend the maturity date to October 15, 2014. 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.

Verizon's ratio of net debt to Consolidated Adjusted EBITDA was 1.2x at December 31, 2011 and 1.3x at December 31, 2010. Consolidated Adjusted EBITDA excludes the effects of non-operational items (see "Other Items").

## Common Stock

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans. On February 3, 2011, the Board of Directors replaced the current 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 the first quarter of 2009, we entered into a privately negotiated prepaid forward agreement for 14 million shares of Verizon common stock at a cost of approximately \$0.4 billion. We terminated the prepaid forward agreement with respect to 5 million of the shares during the fourth quarter of 2009 and 9 million of the shares in the first quarter of 2010, which resulted in the delivery of those shares to Verizon.

There were no repurchases of common stock during 2011, 2010 or 2009.

## Credit Ratings

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

Although a one-level ratings downgrade would not be expected to significantly impact our access to capital, it could increase both the cost of refinancing existing debt and the cost of financing any new capital

requirements. Securities ratings assigned by rating organizations are expressions of opinion and are not recommendations to buy, sell, or hold securities. A securities rating is subject to revision or withdrawal at any time by the assigning rating organization. Each rating should be evaluated independently of any other rating.

## Covenants

Our credit agreements contain covenants that are typical for large, investment grade companies. These covenants include requirements to pay interest and principal in a timely fashion, pay taxes, maintain insurance with responsible and reputable insurance companies, preserve our corporate existence, keep appropriate books and records of financial transactions, maintain our properties, provide financial and other reports to our lenders, limit pledging and disposition of assets and mergers and consolidations, and other similar covenants.

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

## Increase (Decrease) In Cash and Cash Equivalents

Our Cash and cash equivalents at December 31, 2011 totaled \$13.4 billion, a \$6.7 billion increase compared to Cash and cash equivalents at December 31, 2010 for the reasons discussed above. Our Cash and cash equivalents at December 31, 2010 totaled \$6.7 billion, a \$4.7 billion increase compared to Cash and cash equivalents at December 31, 2009 for the reasons discussed above.

As of December 31, 2011, Verizon Wireless cash and cash equivalents and debt outstanding totaled \$12.3 billion and \$11.6 billion, respectively.

## Free Cash Flow

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

Years Ended December 31,	(dollars in millions)		
	2011	2010	2009
Net cash provided by operating activities	\$ 29,780	\$ 33,363	\$ 31,390
Less Capital expenditures (including capitalized software)	16,244	16,458	16,872
<b>Free cash flow</b>	<b>\$ 13,536</b>	<b>\$ 16,905</b>	<b>\$ 14,518</b>

The changes in free cash flow during 2011, 2010 and 2009 were a result of the factors described in connection with net cash provided by operating activities and capital expenditures above.

## Employee Benefit Plan Funded Status and Contributions

We operate numerous qualified and nonqualified pension plans and other postretirement benefit plans. These plans primarily relate to our domestic business units. During 2011 and 2009, we contributed \$0.4 billion and \$0.2 billion, respectively, to our qualified pension plans. During 2010, contributions to our qualified pension plans were not significant. We also contributed \$0.1 billion to our nonqualified pension plans in 2011, 2010 and 2009, respectively.

In an effort to reduce the risk of our portfolio strategy and better align assets with liabilities, we are shifting our strategy to one that is more liability driven, where cash flows from investments better match projected benefit payments but result in lower asset returns. We intend to

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

reduce the likelihood that assets will decline at a time when liabilities increase (referred to as liability hedging), with the goal to reduce the risk of underfunding to the plan and its participants and beneficiaries. Based on the revised strategy and the funded status of the plans at December 31, 2011, we expect to make a minimum required qualified pension plan contribution of \$1.3 billion in 2012. Nonqualified pension contributions are estimated to be approximately \$0.2 billion in 2012.

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, \$1.2 billion and \$1.6 billion to our other postretirement benefit plans in 2011, 2010 and 2009, respectively. Contributions to our other postretirement benefit plans are estimated to be approximately \$1.5 billion in 2012.

## Leasing Arrangements

We are the lessor in leveraged and direct financing lease agreements for commercial aircraft and power generating facilities, which comprise the majority of our leasing portfolio along with telecommunications equipment, real estate property and other equipment. These leases have remaining terms of up to 39 years as of December 31, 2011. In addition, we lease space on certain of our cell towers to other wireless carriers. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which is secured by a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with GAAP. All recourse debt is reflected in our consolidated balance sheets.

## Off Balance Sheet Arrangements and Contractual Obligations

### Contractual Obligations and Commercial Commitments

The following table provides a summary of our contractual obligations and commercial commitments at December 31, 2011. Additional detail about these items is included in the notes to the consolidated financial statements.

	Payments Due By Period				
	Total	Less than 1 year	1–3 years	3–5 years	More than 5 years
<b>Contractual Obligations</b>					
Long-term debt <sup>(1)</sup>	\$ 52,866	\$ 2,848	\$ 12,320	\$ 5,252	\$ 32,446
Capital lease obligations <sup>(2)</sup>	352	67	117	75	93
Total long-term debt, including current maturities	53,218	2,915	12,437	5,327	32,539
Interest on long-term debt <sup>(1)</sup>	36,353	2,993	5,327	4,667	23,366
Operating leases <sup>(2)</sup>	12,389	2,004	3,337	2,302	4,746
Purchase obligations <sup>(3)</sup>	51,120	22,829	24,560	3,124	607
Income tax audit settlements <sup>(4)</sup>	163	163	–	–	–
Other long-term liabilities <sup>(5)</sup>	3,219	3,219	–	–	–
Total contractual obligations	\$ 156,462	\$ 34,123	\$ 45,661	\$ 15,420	\$ 61,258

(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 for which we are contractually committed. 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) Income tax audit settlements include gross unrecognized tax benefits of \$0.1 billion and related gross interest and penalties of \$0.1 billion as determined under the accounting standard relating to the uncertainty in income taxes. We are not able to make a reliable estimate of when the unrecognized tax benefits balance of \$3.0 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).

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

## Guarantees

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

During 2011, we guaranteed the debentures and first mortgage bonds of our operating telephone company subsidiaries. As of December 31, 2011, \$6.4 billion principal amount of these obligations remain outstanding.

Each guarantee will remain in place for the life of the obligation unless terminated pursuant to its terms, including the operating telephone company no longer being a wholly-owned subsidiary of Verizon. We also guarantee the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003. As of December 31, 2011, \$1.7 billion principal amount of these obligations remain outstanding (see Note 8 to the consolidated financial statements).

As of December 31, 2011 letters of credit totaling approximately \$0.1 billion, which were executed in the normal course of business and support several financing arrangements and payment obligations to third parties, were outstanding (see Note 16 to the consolidated financial statements).

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## MARKET RISK

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes, foreign currency exchange rate fluctuations, changes in investment, equity and commodity prices and changes in corporate tax rates. We employ risk management strategies, which may include the use of a variety of derivatives including cross currency swaps, foreign currency and prepaid forwards and collars, interest rate and commodity swap 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, 2011, more than three-fourths in 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, 2011 and 2010. 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.

	Fair Value	(dollars in millions)	
		Fair Value assuming + 100 basis point shift	Fair Value assuming - 100 basis point shift
At December 31, 2011			
Long-term debt and related derivatives	\$ 61,870	\$ 58,117	\$ 66,326
At December 31, 2010			
Long-term debt and related derivatives	\$ 58,591	\$ 55,427	\$ 62,247

### 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. Changes in the fair value of the interest rate swaps due to changes in interest rates are recorded to Interest expense, which are offset by changes in the fair value of the debt. The fair value of these contracts was \$0.6 billion at December 31, 2011 and \$0.3 billion at December 31, 2010 and is primarily included in Other assets and Long-term debt. As of December 31, 2011, the total notional amount of these interest rate swaps was \$7.0 billion.

### Foreign Currency Translation

The functional currency for our foreign operations is primarily the local currency. The translation of income statement and balance sheet amounts of our foreign operations into U.S. dollars is recorded as cumulative translation adjustments, which are included in Accumulated other comprehensive loss in our consolidated balance sheets. Gains and losses on foreign currency transactions are recorded in the consolidated statements of income in Other income and (expense), net. At December 31, 2011, our primary translation exposure was to the British Pound Sterling, the Euro and the Australian Dollar.

### Cross Currency Swaps

During 2008, Verizon Wireless entered into cross currency swaps designated as cash flow hedges to exchange approximately \$2.4 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 mitigate the impact of foreign currency transaction gains or losses. During December 2011, we repaid \$0.9 billion upon maturity for the €0.7 billion of 7.625% Verizon Wireless Notes. The settlement of the related cross currency swap did not have a material impact on our financial statements. The fair value of the outstanding swaps, primarily included in Other assets, was approximately \$0.1 billion at December 31, 2011 and December 31, 2010, respectively. During 2011, the pretax loss recognized in Other comprehensive income was not significant. During 2010, a pretax loss of \$0.2 billion was recognized in Other comprehensive income. A portion of these gains and losses recognized in Other comprehensive income was reclassified to Other income and (expense), net to offset the related pretax foreign currency transaction gain or loss on the underlying debt obligations.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## CRITICAL ACCOUNTING ESTIMATES AND RECENT ACCOUNTING STANDARDS

### Critical Accounting Estimates

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

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

#### Wireless Licenses

The carrying value of our wireless licenses was approximately \$73.3 billion as of December 31, 2011. We aggregate our wireless licenses into one single unit of accounting, as we utilize our wireless licenses on an integrated basis as part of our nationwide wireless network. Our wireless licenses provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communication services. There are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses. Our impairment test consists of comparing the estimated fair value of our wireless licenses to the aggregated carrying amount as of the test date. If the estimated fair value of our wireless licenses is less than the aggregated carrying amount of the wireless licenses then an impairment charge is recognized. Our annual impairment tests for 2011, 2010 and 2009 indicated that the fair value significantly exceeded the carrying value and, therefore, did not result in an impairment.

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

#### Goodwill

At December 31, 2011, the balance of our goodwill was approximately \$23.4 billion, of which \$18.0 billion was in our Wireless segment and \$5.4 billion was in our Wireline segment. Determining whether an impairment has occurred requires the determination of fair value of each respective reporting unit. Our operating segments, Verizon Wireless and Wireline, are deemed to be our reporting units for purposes of goodwill impairment testing. The fair value of Verizon Wireless and Wireline exceeded their carrying value. Accordingly, our annual impairment tests for 2011, 2010 and 2009 did not result in an impairment.

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

- We maintain benefit plans for most of our employees, including, for certain employees, pension and other postretirement benefit plans. At December 31, 2011, 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, 2011 and for the year then ended pertaining to Verizon's pension and postretirement benefit plans is provided in the table below.

(dollars in millions)	Percentage point change	Increase (decrease) at December 31, 2011*
Pension plans discount rate	+0.50	\$ (1,525)
	-0.50	1,682
Rate of return on pension plan assets	+1.00	(247)
	-1.00	247
Postretirement plans discount rate	+0.50	(1,654)
	-0.50	1,855
Rate of return on postretirement plan assets	+1.00	(27)
	-1.00	27
Health care trend rates	+1.00	3,422
	-1.00	(2,768)

\* In determining its pension and other postretirement obligation, the Company used a 5.0% discount rate. 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, 2011. 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).

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

- Our current and deferred income taxes, and associated valuation allowances, are impacted by events and transactions arising in the normal course of business as well as in connection with the adoption of new accounting standards, changes in tax laws and rates, acquisitions and dispositions of businesses and non-recurring items. As a global commercial enterprise, our income tax rate and the classification of income taxes can be affected by many factors, including estimates of the timing and realization of deferred income tax assets and the timing and amount of income tax payments. We account for tax benefits taken or expected to be taken in our tax returns in accordance with the accounting standard relating to the uncertainty in income taxes, which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. We review and adjust our liability for unrecognized tax benefits based on our best judgment given the facts, circumstances, and information available at each reporting date. To the extent that the final outcome of these tax positions is different than the amounts recorded, such differences may impact income tax expense and actual tax payments. We recognize any interest and penalties accrued related to unrecognized tax benefits in income tax expense. Actual tax payments may materially differ from estimated liabilities as a result of changes in tax laws as well as unanticipated transactions impacting related income tax balances.
- Our Plant, property and equipment balance represents a significant component of our consolidated assets. We record plant, property and equipment at cost. Depreciation expense on our local telephone operations is principally based on the composite group remaining life method and straight-line composite rates, which provides for the recognition of the cost of the remaining net investment in local telephone plant, less anticipated net salvage value, over the remaining asset lives. An increase or decrease of 50 basis points to the composite rates of this class of assets would result in an increase or decrease of approximately \$0.6 billion to depreciation expense based on year-end plant balances at December 31, 2011. We depreciate other 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 that we depreciate on a straight line basis would result in a decrease to our 2011 depreciation expense of \$1.2 billion and that a one-year decrease would result in an increase of approximately \$1.6 billion in our 2011 depreciation expense.

### Recent Accounting Standards

During May 2011, an accounting standard update regarding fair value measurement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. This standard update also changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. We will adopt this standard update during the first quarter of 2012. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

In June 2011, an accounting standard update regarding the presentation of comprehensive income was issued to increase the prominence of items reported in other comprehensive income. The update requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate, but consecutive statements. This standard update is effective during the first quarter of 2012. The adoption of this standard is not expected to have a significant impact on our consolidated financial statements.

In September 2011, an accounting standard update regarding testing of goodwill for impairment was issued. This standard update gives companies the option to perform a qualitative assessment to first assess whether the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. This standard update is effective during the first quarter of 2012. The adoption of this standard is not expected to have a significant impact on our consolidated financial statements.

### ACQUISITIONS AND DIVESTITURES

#### Terremark Worldwide, Inc.

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

#### Telephone Access Line Spin-off

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

#### Alltel Divestiture Markets

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

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

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

## OTHER FACTORS THAT MAY AFFECT FUTURE RESULTS

### Regulatory and Competitive Trends

#### Competition and Regulation

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

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

#### FCC Regulation

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

#### Broadband

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

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

#### Video

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

#### Interstate Access Charges and Intercarrier Compensation

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

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

#### Universal Service

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

#### Unbundling of Network Elements

Under Section 251 of the Telecommunications Act of 1996, incumbent local exchange carriers are required to provide competing carriers with access to components of their network on an unbundled basis, known as UNEs, where certain statutory standards are satisfied. The FCC has

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

adopted rules defining the network elements that must be made available, including criteria for determining whether high-capacity loops, transport or dark fiber transport must be unbundled in individual wire centers. The Telecommunications Act of 1996 also adopted a cost-based pricing standard for these UNEs, which the FCC interpreted as allowing it to impose a pricing standard known as "total element long run incremental cost" or "TELRIC."

## *Wireless Services*

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

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

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

The Communications Act imposes restrictions on foreign ownership of U.S. wireless systems. The FCC has approved the interest that Vodafone Group Plc holds, through various of its subsidiaries, in Verizon Wireless. The FCC may need to approve any increase in Vodafone's interest or the acquisition of an ownership interest by other foreign entities. In addition, as part of the FCC's approval of Vodafone's ownership interest, Verizon Wireless, Verizon and Vodafone entered into an agreement with the

U.S. Department of Defense, Department of Justice and Federal Bureau of Investigation which imposes national security and law enforcement-related obligations on the ways in which Verizon Wireless stores information and otherwise conducts its business.

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

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

The FCC is also conducting several proceedings to explore making additional spectrum available for licensed and/or unlicensed use. These proceedings could increase radio interference to Verizon Wireless' operations from other spectrum users and could impact the ways in which it uses spectrum, the capacity of that spectrum to carry traffic, and the value of that spectrum.

## **State Regulation and Local Approvals**

### *Telephone Operations*

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

### *Video*

Companies that provide cable service over a cable system are typically subject to state and/or local cable television rules and regulations. As noted above, cable operators generally must obtain a local cable franchise from each local unit of government prior to providing cable service in that local area. Some states have enacted legislation that enables cable operators to apply for, and obtain, a single cable franchise at the

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

state, rather than local, level. To date, Verizon has applied for and received state-issued franchises in California, Florida, New Jersey, Texas and the unincorporated areas of Delaware. We also have obtained authorization from the state commission in Rhode Island to provide cable service in certain areas in that state, have obtained required state commission approvals for our local franchises in New York, and will need to obtain additional state commission approvals in these states to provide cable service in additional areas. Virginia law provides us the option of entering a given franchise area using state standards if local franchise negotiations are unsuccessful.

## *Wireless Services*

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

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

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

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## **Environmental Matters**

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

## **CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

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

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

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

## REPORT OF MANAGEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management has assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2011. Based on this assessment, we believe that the internal control over financial reporting of the company is effective as of December 31, 2011. In connection with this assessment, there were no material weaknesses in the company's internal control over financial reporting identified by management.

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



**Lowell C. McAdam**  
Chairman and Chief Executive Officer



**Francis J. Shammo**  
Executive Vice President and Chief Financial Officer



**Robert J. Barish**  
Senior Vice President and Controller

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

We have audited Verizon Communications Inc. and subsidiaries' (Verizon) internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Verizon's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING  
FIRM ON FINANCIAL STATEMENTS

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

In our opinion, Verizon maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Verizon as of December 31, 2011 and 2010, and the related consolidated statements of income, cash flows and changes in equity for each of the three years in the period ended December 31, 2011 of Verizon and our report dated February 24, 2012 expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script.

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

February 24, 2012

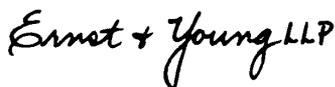
**To The Board of Directors and Shareowners of Verizon  
Communications Inc.:**

We have audited the accompanying consolidated balance sheets of Verizon Communications Inc. and subsidiaries (Verizon) as of December 31, 2011 and 2010, and the related consolidated statements of income, cash flows and changes in equity for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of Verizon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Verizon at December 31, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Verizon's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2012 expressed an unqualified opinion thereon.

The logo for Ernst & Young LLP, featuring the company name in a stylized, cursive script.

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

February 24, 2012

## CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31,	(dollars in millions, except per share amounts)		
	2011	2010	2009
<b>Operating Revenues</b>	<b>\$ 110,875</b>	\$ 106,565	\$ 107,808
<b>Operating Expenses</b>			
Cost of services and sales (exclusive of items shown below)	45,875	44,149	44,579
Selling, general and administrative expense	35,624	31,366	30,717
Depreciation and amortization expense	16,496	16,405	16,534
<b>Total Operating Expenses</b>	<b>97,995</b>	91,920	91,830
<b>Operating Income</b>	<b>12,880</b>	14,645	15,978
Equity in earnings of unconsolidated businesses	444	508	553
Other income and (expense), net	(14)	54	91
Interest expense	(2,827)	(2,523)	(3,102)
<b>Income Before Provision For Income Taxes</b>	<b>10,483</b>	12,684	13,520
Provision for income taxes	(285)	(2,467)	(1,919)
<b>Net Income</b>	<b>\$ 10,198</b>	\$ 10,217	\$ 11,601
<b>Net income attributable to noncontrolling interest</b>	<b>\$ 7,794</b>	\$ 7,668	\$ 6,707
<b>Net income attributable to Verizon</b>	<b>2,404</b>	2,549	4,894
<b>Net Income</b>	<b>\$ 10,198</b>	\$ 10,217	\$ 11,601
<b>Basic Earnings Per Common Share</b>			
Net income attributable to Verizon	\$ .85	\$ .90	\$ 1.72
Weighted-average shares outstanding (in millions)	2,833	2,830	2,841
<b>Diluted Earnings Per Common Share</b>			
Net income attributable to Verizon	\$ .85	\$ .90	\$ 1.72
Weighted-average shares outstanding (in millions)	2,839	2,833	2,841

See Notes to Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEETS

(dollars in millions, except per share amounts)

At December 31,	2011	2010
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 13,362	\$ 6,668
Short-term investments	592	545
Accounts receivable, net of allowances of \$802 and \$876	11,776	11,781
Inventories	940	1,131
Prepaid expenses and other	4,269	2,223
Total current assets	<u>30,939</u>	<u>22,348</u>
Plant, property and equipment	215,626	211,655
Less accumulated depreciation	127,192	123,944
	<u>88,434</u>	<u>87,711</u>
Investments in unconsolidated businesses	3,448	3,497
Wireless licenses	73,250	72,996
Goodwill	23,357	21,988
Other intangible assets, net	5,878	5,830
Other assets	5,155	5,635
Total assets	<u>\$ 230,461</u>	<u>\$ 220,005</u>
<b>Liabilities and Equity</b>		
Current liabilities		
Debt maturing within one year	\$ 4,849	\$ 7,542
Accounts payable and accrued liabilities	14,689	15,702
Other	11,223	7,353
Total current liabilities	<u>30,761</u>	<u>30,597</u>
Long-term debt	50,303	45,252
Employee benefit obligations	32,957	28,164
Deferred income taxes	25,060	22,818
Other liabilities	5,472	6,262
Equity		
Series preferred stock (\$.10 par value; none issued)	-	-
Common stock (\$.10 par value; 2,967,610,119 shares issued in both periods)	297	297
Contributed capital	37,919	37,922
Reinvested earnings	1,179	4,368
Accumulated other comprehensive income	1,269	1,049
Common stock in treasury, at cost	(5,002)	(5,267)
Deferred compensation – employee stock ownership plans and other	308	200
Noncontrolling interest	49,938	48,343
Total equity	<u>85,908</u>	<u>86,912</u>
Total liabilities and equity	<u>\$ 230,461</u>	<u>\$ 220,005</u>

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2011	2010	(dollars in millions) 2009
<b>Cash Flows from Operating Activities</b>			
Net Income	\$ 10,198	\$ 10,217	\$ 11,601
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	16,496	16,405	16,534
Employee retirement benefits	7,426	3,988	2,964
Deferred income taxes	(223)	3,233	2,093
Provision for uncollectible accounts	1,026	1,246	1,306
Equity in earnings of unconsolidated businesses, net of dividends received	36	2	389
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses			
Accounts receivable	(966)	(859)	(1,393)
Inventories	208	299	235
Other assets	86	(313)	(102)
Accounts payable and accrued liabilities	(1,607)	1,075	(1,251)
Other, net	(2,900)	(1,930)	(986)
Net cash provided by operating activities	<u>29,780</u>	<u>33,363</u>	<u>31,390</u>
<b>Cash Flows from Investing Activities</b>			
Capital expenditures (including capitalized software)	(16,244)	(16,458)	(16,872)
Acquisitions of licenses, investments and businesses, net of cash acquired	(2,018)	(1,438)	(5,958)
Proceeds from dispositions	-	2,594	-
Net change in short-term investments	35	(3)	84
Other, net	977	251	(410)
Net cash used in investing activities	<u>(17,250)</u>	<u>(15,054)</u>	<u>(23,156)</u>
<b>Cash Flows from Financing Activities</b>			
Proceeds from long-term borrowings	11,060	-	12,040
Repayments of long-term borrowings and capital lease obligations	(11,805)	(8,136)	(19,260)
Increase (decrease) in short-term obligations, excluding current maturities	1,928	(1,097)	(1,652)
Dividends paid	(5,555)	(5,412)	(5,271)
Proceeds from sale of common stock	241	-	-
Proceeds from access line spin-off	-	3,083	-
Other, net	(1,705)	(2,088)	(1,864)
Net cash used in financing activities	<u>(5,836)</u>	<u>(13,650)</u>	<u>(16,007)</u>
Increase (decrease) in cash and cash equivalents	6,694	4,659	(7,773)
Cash and cash equivalents, beginning of period	6,668	2,009	9,782
Cash and cash equivalents, end of period	<u>\$ 13,362</u>	<u>\$ 6,668</u>	<u>\$ 2,009</u>

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

Years Ended December 31,	2011		2010		2009	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Common Stock</b>						
Balance at beginning of year	2,967,610	\$ 297	2,967,610	\$ 297	2,967,610	\$ 297
Balance at end of year	2,967,610	297	2,967,610	297	2,967,610	297
<b>Contributed Capital</b>						
Balance at beginning of year		37,922		40,108		40,291
Access line spin-off		–		(2,184)		–
Other		(3)		(2)		(183)
Balance at end of year		37,919		37,922		40,108
<b>Reinvested Earnings</b>						
Balance at beginning of year		4,368		7,260		7,676
Net income attributable to Verizon		2,404		2,549		4,894
Dividends declared (\$1.975, \$1.925, \$1.87) per share		(5,593)		(5,441)		(5,310)
Balance at end of year		1,179		4,368		7,260
<b>Accumulated Other Comprehensive Income (Loss)</b>						
Balance at beginning of year attributable to Verizon		1,049		(1,372)		(1,912)
Spin-off of local exchange businesses and related landline activities (Note 2)		–		23		–
Adjusted balance at beginning of year		1,049		(1,349)		(1,912)
Foreign currency translation adjustments		(119)		(171)		78
Unrealized gains on cash flow hedges		30		89		87
Unrealized gains (losses) on marketable securities		(7)		29		87
Defined benefit pension and postretirement plans		316		2,451		288
Other comprehensive income		220		2,398		540
Balance at end of year attributable to Verizon		1,269		1,049		(1,372)
<b>Treasury Stock</b>						
Balance at beginning of year	(140,587)	(5,267)	(131,942)	(5,000)	(127,090)	(4,839)
Other (Note 10)	–	–	(9,000)	(280)	(5,000)	(166)
Employee plans	6,982	265	347	13	142	5
Shareowner plans	11	–	8	–	6	–
Balance at end of year	(133,594)	(5,002)	(140,587)	(5,267)	(131,942)	(5,000)
<b>Deferred Compensation-ESOPs and Other</b>						
Balance at beginning of year		200		89		79
Restricted stock equity grant		146		97		–
Amortization		(38)		14		10
Balance at end of year		308		200		89
<b>Noncontrolling Interest</b>						
Balance at beginning of year		48,343		42,761		37,199
Net income attributable to noncontrolling interest		7,794		7,668		6,707
Other comprehensive income (loss)		1		(35)		103
Total comprehensive income		7,795		7,633		6,810
Distributions and other		(6,200)		(2,051)		(1,248)
Balance at end of year		49,938		48,343		42,761
<b>Total Equity</b>		<b>\$ 85,908</b>		<b>\$ 86,912</b>		<b>\$ 84,143</b>
<b>Comprehensive Income</b>						
Net income		\$ 10,198		\$ 10,217		\$ 11,601
Other comprehensive income		221		2,363		643
<b>Total Comprehensive Income</b>		<b>\$ 10,419</b>		<b>\$ 12,580</b>		<b>\$ 12,244</b>
Comprehensive income attributable to noncontrolling interest		\$ 7,795		\$ 7,633		\$ 6,810
Comprehensive income attributable to Verizon		2,624		4,947		5,434
<b>Total Comprehensive Income</b>		<b>\$ 10,419</b>		<b>\$ 12,580</b>		<b>\$ 12,244</b>

See Notes to Consolidated Financial Statements

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1

### DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Description of Business

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

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

The Wireline segment provides customers with voice services, including long distance, broadband video and data, IP network services, network access and other services. We provide these products and services to consumers and small businesses in the U.S., as well as to businesses, government customers and carriers both in the U.S. and in over 150 other countries around the world.

#### Consolidation

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

#### Basis of Presentation

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

Corporate, eliminations and other during the periods presented include a non-cash adjustment of \$0.2 billion and (\$0.1 billion) in 2010 and 2009, respectively, primarily to adjust wireless data revenues. This adjustment was recorded to properly defer previously recognized wireless data revenues that were earned and recognized in future periods. The adjustment was recorded during 2010, which reduced Net income attributable to Verizon by approximately \$0.1 billion. Consolidated revenues in 2009 were not affected as the amounts involved were not material to our consolidated financial statements.

#### Use of Estimates

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

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

#### Revenue Recognition

##### *Multiple Deliverable Arrangements*

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

On January 1, 2011, we prospectively adopted the accounting standard updates regarding revenue recognition for multiple deliverable arrangements, and arrangements that include software elements. These updates require a vendor to allocate revenue in an arrangement using its best estimate of selling price if neither vendor specific objective evidence (VSOE) nor third party evidence (TPE) of selling price exists. The residual method of revenue allocation is no longer permissible. These accounting standard updates do not change our units of accounting for bundled arrangements, nor do they materially change how we allocate arrangement consideration to our various products and services. Accordingly, the adoption of these standard updates did not have a significant impact on our consolidated financial statements. Additionally, we do not currently foresee any changes to our products, services or pricing practices that will have a significant effect on our consolidated financial statements in periods after the initial adoption, although this could change.

##### *Verizon Wireless*

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

Wireless bundled service plans primarily consist of wireless voice and data services. The bundling of a voice plan with a text messaging plan ("Talk & Text"), for example, creates a multiple deliverable arrangement consisting of a voice component and a data component in the form of text messaging. For these arrangements, revenue is allocated to each deliverable using a relative selling price method. Under this method, arrangement consideration is allocated to each separate deliverable based on our standalone selling price for each product or service, up to

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

the amount that is not contingent upon providing additional services. For equipment sales, we currently subsidize the cost of wireless devices. The amount of this subsidy is generally contingent on the arrangement and terms selected by the customer. The equipment revenue is recognized up to the amount collected when the wireless device is sold.

### *Wireline*

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

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

When we bundle equipment with maintenance and monitoring services, we recognize equipment revenue when the equipment is installed in accordance with contractual specifications and ready for the customer's use. The maintenance and monitoring services are recognized monthly over the term of the contract as we provide the services. Long-term contracts for network installation are accounted for using the percentage of completion method. We use the completed contract method if we cannot estimate the costs with a reasonable degree of reliability.

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

We report taxes imposed by governmental authorities on revenue-producing transactions between us and our customers on a net basis.

### **Discontinued Operations, Assets Held for Sale, and Sales of Businesses and Investments**

We classify as discontinued operations for all periods presented any component of our business that we hold for sale that has operations and cash flows that are clearly distinguishable operationally and for financial reporting purposes.

### **Maintenance and Repairs**

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

### **Advertising Costs**

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

### **Earnings Per Common Share**

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

There were a total of approximately 6 million and 3 million stock options and restricted stock units outstanding to purchase shares included in the computation of diluted earnings per common share for the years ended December 31, 2011 and December 31, 2010, respectively. Dilutive stock options outstanding to purchase shares included in the computation of diluted earnings per common share for the year ended December 31, 2009 were not significant. Outstanding options to purchase shares that were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive for the period, included approximately 19 million, 73 million and 112 million weighted-average shares for the years ended December 31, 2011, 2010 and 2009, respectively.

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

### **Cash and Cash Equivalents**

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

### **Marketable Securities**

We have investments in marketable securities, which are considered "available-for-sale" under the provisions of the accounting standard for certain debt and equity securities, and are included in the accompanying consolidated balance sheets in Short-term investments, Investments in unconsolidated businesses or Other assets. We continually evaluate our investments in marketable securities for impairment due to declines in market value considered to be other-than-temporary. That evaluation includes, in addition to persistent, declining stock prices, general economic and company-specific evaluations. In the event of a determination that a decline in market value is other-than-temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established.

### **Inventories**

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

### **Plant and Depreciation**

We record plant, property and equipment at cost. Our local telephone operations' depreciation expense is principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in local telephone plant, less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates. Plant, property and equipment of other wireline and wireless operations are generally depreciated on a straight-line basis.

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

When we replace, retire or otherwise dispose of depreciable plant used in our local telephone network, we deduct the carrying amount of such plant from the respective accounts and charge it to accumulated depreciation. When the depreciable assets of our other wireline and wireless

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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

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

In connection with our ongoing review of the estimated remaining average useful lives of plant, property and equipment at our local telephone operations, we determined that there were no changes necessary to average useful lives for 2011 and 2010. We determined effective January 1, 2009 that the average useful lives of fiber cable (not including undersea cable) would be increased to 25 years from 20 to 25 years and the average useful lives of copper cable would be changed to 15 years from 13 to 18 years. These changes to average useful lives did not have a significant impact on depreciation expense. In connection with our ongoing review of the estimated remaining average useful lives of plant, property and equipment at our wireless operations, we determined that changes were necessary to the remaining estimated useful lives as a result of technology upgrades, enhancements, and planned retirements. These changes resulted in an increase in depreciation expense of \$0.4 billion in 2011, and \$0.3 billion in 2010 and 2009, respectively. While the timing and extent of current deployment plans are subject to ongoing analysis and modification, we believe the current estimates of useful lives are reasonable.

### **Computer Software Costs**

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

### **Goodwill and Other Intangible Assets**

#### *Goodwill*

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Impairment testing for goodwill is performed annually in the fourth fiscal quarter or more frequently if indications of potential impairment exist. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. We have determined that in our case, the reporting units are our operating segments since that is the lowest level at which discrete, reliable financial and cash flow information is regularly reviewed by our chief operating decision maker. Step one compares the fair value of the reporting unit (calculated using a market approach and/or a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment is recognized.

#### *Intangible Assets Not Subject to Amortization*

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

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

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

#### *Intangible Assets Subject to Amortization*

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

### Fair Value Measurements

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities
- Level 3 – No observable pricing inputs in the market

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

### Income Taxes

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

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

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

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

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

### Stock-Based Compensation

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

### Foreign Currency Translation

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

### Employee Benefit Plans

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

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

### Derivative Instruments

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

### Recent Accounting Standards

During May 2011, an accounting standard update regarding fair value measurement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. This standard update also changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. We will adopt this standard update during the first quarter of 2012. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

In June 2011, an accounting standard update regarding the presentation of comprehensive income was issued to increase the prominence of items reported in other comprehensive income. The update requires that all nonowner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate, but consecutive statements. This standard update is effective during the first quarter of 2012. The adoption of this standard is not expected to have a significant impact on our consolidated financial statements.

In September 2011, an accounting standard update regarding testing of goodwill for impairment was issued. This standard update gives companies the option to perform a qualitative assessment to first assess whether the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of the reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. This standard update is effective during the first quarter of 2012. The adoption of this standard is not expected to have a significant impact on our consolidated financial statements.

### NOTE 2

#### ACQUISITIONS AND DIVESTITURES

##### Terremark Worldwide, Inc.

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

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

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

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

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

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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

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

During 2010 and 2009, we recorded pre-tax charges of \$0.5 billion and \$0.2 billion, respectively, primarily for costs incurred related to network, non-network software and other activities to enable the divested markets in the transaction with Frontier to operate on a stand-alone basis subsequent to the closing of the transaction; professional advisory and legal fees in connection with this transaction; and fees related to the early extinguishment of debt from the use of proceeds from the transaction. During 2009, we also recorded pre-tax charges of \$0.2 billion for costs incurred related to our Wireline cost reduction initiatives.

### **Alltel Divestiture Markets**

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

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

### **Other**

In December 2011, we entered into agreements to acquire Advanced Wireless Services (AWS) spectrum licenses held by SpectrumCo, LLC and Cox TMI Wireless, respectively. The aggregate value of these transactions is approximately \$3.9 billion. The consummation of each of these transactions is subject to various conditions, including approval by the FCC and review by the Department of Justice (DOJ). These spectrum acquisitions are expected to close in 2012.

In December 2011, we entered into commercial agreements with affiliates of Comcast Corporation, Time Warner Cable, Bright House Networks and Cox Communications Inc. (the cable companies). Through these agreements, the cable companies and Verizon Wireless became agents to sell one another's products and services and, over time, the cable companies will have the option, subject to the terms and conditions of the agreements, of selling Verizon Wireless service on a wholesale basis. In addition, the cable companies (other than Cox Communications Inc.) and Verizon Wireless have formed a technology innovation joint venture for the development of technology and intellectual property to better integrate wireline and wireless products and services. These commercial agreements and the formation of the joint venture are currently under review by the DOJ.

In February 2012, a new joint venture between Verizon and Coinstar, Inc. was announced. At the outset, Verizon will hold a 65% majority ownership share and Redbox Automated Retail, LLC, a subsidiary of Coinstar, Inc. will hold a 35% ownership share. The joint venture will be consolidated by Verizon for reporting purposes. The joint venture will offer access to physical media rentals through Redbox kiosks and online and mobile content streaming from Verizon to consumers across the country. The

joint venture plans to introduce its product portfolio, which will include subscription services, in mid-2012. The initial funding related to the formation of the joint venture is not significant to Verizon.

During 2011, we also entered into agreements with a subsidiary of Leap Wireless, and with Savary Island Wireless, which is majority-owned by Leap Wireless, for the purchase of certain of their AWS and PCS licenses in exchange for cash and our 700 MHz A block license in Chicago. The consummation of each of these transactions is subject to customary closing conditions, including approval by the FCC.

During 2011, we acquired other various wireless licenses and markets and a provider of cloud software technology for cash consideration that was not significant.

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

### *Merger Integration and Acquisition Related Charges*

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

During 2009, we recorded pre-tax merger integration and acquisition related charges of \$1.2 billion. These charges primarily related to the Alltel acquisition and were comprised of trade name amortization, re-branding initiatives and handset conversions. The charges during 2009 were also comprised of transaction fees and costs associated with the acquisition, including fees related to the credit facility that was entered into and utilized to complete the acquisition.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

## NOTE 3

### WIRELESS LICENSES, GOODWILL AND OTHER INTANGIBLE ASSETS

#### Wireless Licenses

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

	(dollars in millions)
Balance at January 1, 2010	\$ 72,067
Acquisitions (Note 2)	178
Capitalized interest on wireless licenses	748
Reclassifications, adjustments and other	3
Balance at December 31, 2010	\$ 72,996
Acquisitions (Note 2)	<b>58</b>
Capitalized interest on wireless licenses	<b>196</b>
<b>Balance at December 31, 2011</b>	<b>\$ 73,250</b>

During the years ended December 31, 2011 and 2010, approximately \$2.2 billion and \$12.2 billion, respectively, of wireless licenses were under development for commercial service for which we were capitalizing interest costs. In December 2010, a substantial portion of these licenses were placed in service in connection with our deployment of fourth-generation Long-Term Evolution technology services. See Note 2 regarding the December 2011 agreement to acquire spectrum licenses.

The average remaining renewal period of our wireless license portfolio was 6.4 years as of December 31, 2011 (see Note 1, Goodwill and Other Intangible Assets – *Intangible Assets Not Subject to Amortization*).

#### Goodwill

Changes in the carrying amount of Goodwill are as follows:

	(dollars in millions)		
	Verizon Wireless	Wireline	Total
Balance at January 1, 2010	\$ 17,738	\$ 4,734	\$ 22,472
Acquisitions (Note 2)	131	–	131
Dispositions (Note 2)	–	(614)	(614)
Reclassifications, adjustments and other	–	(1)	(1)
Balance at December 31, 2010	\$ 17,869	\$ 4,119	\$ 21,988
Acquisitions (Note 2)	<b>94</b>	<b>1,275</b>	<b>1,369</b>
<b>Balance at December 31, 2011</b>	<b>\$ 17,963</b>	<b>\$ 5,394</b>	<b>\$ 23,357</b>

#### Other Intangible Assets

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

	2011			2010		
At December 31,	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Customer lists (6 to 13 years)	\$ 3,529	\$ (2,052)	\$ 1,477	\$ 3,150	\$ (1,551)	\$ 1,599
Non-network internal-use software (3 to 7 years)	9,536	(5,487)	4,049	8,446	(4,614)	3,832
Other (2 to 25 years)	561	(209)	352	885	(486)	399
Total	<b>\$ 13,626</b>	<b>\$ (7,748)</b>	<b>\$ 5,878</b>	\$ 12,481	\$ (6,651)	\$ 5,830

Customer lists and Other at December 31, 2011 include \$0.4 billion related to the Terremark acquisition (see Note 2).

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

The amortization expense for Other intangible assets was as follows:

Years	(dollars in millions)	Years	(dollars in millions)
<b>2011</b>	<b>\$ 1,505</b>	2012	\$ 1,363
2010	1,812	2013	1,193
2009	1,970	2014	884
		2015	695
		2016	491

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

### NOTE 4

#### PLANT, PROPERTY AND EQUIPMENT

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

At December 31,	Lives (years)	(dollars in millions)	
		2011	2010
Land	–	\$ 862	\$ 865
Buildings and equipment	15–45	21,969	21,064
Central office and other network equipment	3–15	107,322	102,547
Cable, poles and conduit	11–50	67,190	67,539
Leasehold improvements	5–20	5,030	4,816
Work in progress	–	3,417	4,375
Furniture, vehicles and other	3–12	9,836	10,449
		<b>215,626</b>	211,655
Less accumulated depreciation		<b>127,192</b>	123,944
Total		<b>\$ 88,434</b>	\$ 87,711

### NOTE 5

#### INVESTMENTS IN UNCONSOLIDATED BUSINESSES

Our investments in unconsolidated businesses are comprised of the following:

At December 31,	Ownership	(dollars in millions)	
		2011	2010
<b>Equity Investees</b>			
Vodafone Omnitel	23.1%	\$ 2,083	\$ 2,002
Other	Various	1,320	1,471
Total equity investees		<b>3,403</b>	3,473
<b>Cost Investees</b>			
	Various	45	24
Total investments in unconsolidated businesses		<b>\$ 3,448</b>	\$ 3,497

Dividends and repatriations of foreign earnings received from these investees amounted to \$0.5 billion in 2011, \$0.5 billion in 2010 and \$0.9 billion in 2009. See Note 12 regarding undistributed earnings of our foreign subsidiaries.

#### Equity Method Investments

##### Vodafone Omnitel

Vodafone Omnitel N.V. (Vodafone Omnitel) is one of the largest wireless communications companies in Italy. At December 31, 2011 and 2010, our investment in Vodafone Omnitel included goodwill of \$1.0 billion and \$1.1 billion, respectively.

##### Other Equity Investees

We have limited partnership investments in entities that invest in affordable housing projects, for which we provide funding as a limited partner and receive tax deductions and tax credits based on our partnership interests. At December 31, 2011 and 2010, we had equity investments in these partnerships of \$1.1 billion and \$1.2 billion, respectively. We adjust the carrying value of these investments for any losses incurred by the limited partnerships through earnings.

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

### Summarized Financial Information

Summarized financial information for our equity investees is as follows:

#### Balance Sheet

At December 31,	(dollars in millions)	
	2011	2010
Current Assets	\$ 3,720	\$ 3,620
Noncurrent Assets	8,469	7,568
Total Assets	<b>\$ 12,189</b>	\$ 11,188
Current liabilities	\$ 6,123	\$ 5,509
Noncurrent liabilities	8	8
Equity	6,058	5,671
Total liabilities and equity	<b>\$ 12,189</b>	\$ 11,188

#### Income Statement

Years Ended December 31,	(dollars in millions)		
	2011	2010	2009
Net revenue	\$ 12,668	\$ 12,356	\$ 12,903
Operating income	4,021	4,156	4,313
Net income	2,451	2,563	2,717

### NOTE 6

#### NONCONTROLLING INTEREST

Noncontrolling interests in equity of subsidiaries were as follows:

At December 31,	(dollars in millions)	
	2011	2010
Noncontrolling interests in consolidated subsidiaries:		
Verizon Wireless	\$ 49,165	\$ 47,557
Wireless partnerships	773	786
	<b>\$ 49,938</b>	\$ 48,343

#### Wireless Joint Venture

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

In July 2011, the Board of Representatives of Verizon Wireless declared a distribution to its owners, payable on January 31, 2012 in proportion to their partnership interests on that date, in the aggregate amount of \$10 billion. As a result, during January 2012, Vodafone Group Plc received a cash payment of \$4.5 billion and the remainder of the distribution was received by Verizon.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

## NOTE 7

### LEASING ARRANGEMENTS

#### As Lessor

We are the lessor in leveraged and direct financing lease agreements for commercial aircraft and power generating facilities, which comprise the majority of our leasing portfolio along with telecommunications equipment, real estate property and other equipment. These leases have remaining terms of up to 39 years as of December 31, 2011. In addition, we lease space on certain of our cell towers to other wireless carriers. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which is secured by a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with GAAP. All recourse debt is reflected in our consolidated balance sheets.

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

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

At December 31,	2011			2010		
	Leveraged Leases	Direct Finance Leases	Total	Leveraged Leases	Direct Finance Leases	Total
Minimum lease payments receivable	\$ 1,610	\$ 119	\$ 1,729	\$ 2,360	\$ 155	\$ 2,515
Estimated residual value	1,202	9	1,211	1,305	7	1,312
Unearned income	(874)	(19)	(893)	(1,140)	(20)	(1,160)
Total	<u>\$ 1,938</u>	<u>\$ 109</u>	<u>\$ 2,047</u>	<u>\$ 2,525</u>	<u>\$ 142</u>	<u>\$ 2,667</u>
Allowance for doubtful accounts			(137)			(152)
Finance lease receivables, net			<u>\$ 1,910</u>			<u>\$ 2,515</u>
Prepaid expenses and other			\$ 46			\$ 59
Other assets			1,864			2,456
			<u>\$ 1,910</u>			<u>\$ 2,515</u>

Accumulated deferred taxes arising from leveraged leases, which are included in Deferred income taxes, amounted to \$1.6 billion at December 31, 2011 and \$2.0 billion at December 31, 2010.

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

Years Ended December 31,	2011	2010	2009
Pretax income	\$ 61	\$ 74	\$ 83
Income tax expense	24	32	34

The future minimum lease payments to be received from noncancelable capital leases (direct financing and leveraged leases), net of nonrecourse loan payments related to leveraged leases and allowances for doubtful accounts, along with expected receipts relating to operating leases for the periods shown at December 31, 2011, are as follows:

Years	Capital Leases	Operating Leases
2012	\$ 130	\$ 171
2013	115	157
2014	94	140
2015	67	119
2016	148	95
Thereafter	1,175	102
Total	<u>\$ 1,729</u>	<u>\$ 784</u>

#### As Lessee

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense under operating leases amounted to \$2.5 billion in 2011, 2010 and 2009, respectively.

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

At December 31,	2011	2010
Capital leases	\$ 362	\$ 321
Less accumulated amortization	132	130
Total	<u>\$ 230</u>	<u>\$ 191</u>

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2011, are as follows:

Years	Capital Leases	Operating Leases
2012	\$ 92	\$ 2,004
2013	88	1,779
2014	66	1,558
2015	53	1,298
2016	47	1,004
Thereafter	130	4,746
Total minimum rental commitments	476	<u>\$ 12,389</u>
Less interest and executory costs	124	
Present value of minimum lease payments	352	
Less current installments	66	
<b>Long-term obligation at December 31, 2011</b>	<b><u>\$ 286</u></b>	

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

## NOTE 8

### DEBT

Changes to debt during 2011 are as follows:

	(dollars in millions)		
	Debt Maturing within One Year	Long-term Debt	Total
Balance at January 1, 2011	\$ 7,542	\$ 45,252	\$ 52,794
Proceeds from long-term borrowings	-	11,060	11,060
Repayments of long-term borrowings and capital leases obligations	(11,805)	-	(11,805)
Increase in short-term obligations, excluding current maturities	1,928	-	1,928
Reclassifications of long-term debt	6,100	(6,100)	-
Debt acquired (Note 2)	748	-	748
Other	336	91	427
<b>Balance at December 31, 2011</b>	<b>\$ 4,849</b>	<b>\$ 50,303</b>	<b>\$ 55,152</b>

Debt maturing within one year is as follows:

	(dollars in millions)	
At December 31,	2011	2010
Long-term debt maturing within one year	\$ 2,915	\$ 7,542
Commercial paper	1,934	-
Total debt maturing within one year	<b>\$ 4,849</b>	<b>\$ 7,542</b>

The weighted average interest rate for our commercial paper outstanding at December 31, 2011 was 0.40%.

### Credit Facility

As of December 31, 2011, the unused borrowing capacity under a \$6.2 billion three-year credit facility with a group of major financial institutions was approximately \$6.1 billion. On April 15, 2011, we amended this facility primarily to reduce fees and borrowing costs and extend the maturity date to October 15, 2014.

### Long-Term Debt

Outstanding long-term debt obligations are as follows:

	(dollars in millions)			
At December 31,	Interest Rates %	Maturities	2011	2010
Verizon Communications – notes payable and other	1.25 – 3.50	2013 – 2021	\$ 6,900	\$ -
	4.35 – 5.50	2013 – 2041	7,832	6,062
	5.55 – 6.90	2016 – 2041	11,043	10,441
	7.35 – 8.95	2018 – 2039	6,642	7,677
	Floating	2014	1,000	-
Verizon Wireless – notes payable and other	5.25 – 5.55	2012 – 2014	4,250	7,000
	7.38 – 8.88	2013 – 2018	5,081	5,975
	Floating	-	-	1,250
Verizon Wireless – Alltel assumed notes	6.50 – 7.88	2012 – 2032	2,315	2,315
Telephone subsidiaries – debentures	4.63 – 7.00	2012 – 2033	4,045	7,937
	7.15 – 7.88	2012 – 2032	1,449	1,449
	8.00 – 8.75	2019 – 2031	880	880
Other subsidiaries – debentures and other	6.84 – 8.75	2018 – 2028	1,700	1,700
Capital lease obligations (average rates of 6.3% and 6.8%, respectively)			352	332
Unamortized discount, net of premium			(271)	(224)
Total long-term debt, including current maturities			<b>53,218</b>	52,794
Less long-term debt maturing within one year			<b>2,915</b>	7,542
Total long-term debt			<b>\$ 50,303</b>	<b>\$ 45,252</b>

### Verizon Communications – Notes Payable and Other 2011

During March 2011, we issued \$6.25 billion aggregate principal amount of fixed and floating rate notes resulting in cash proceeds of approximately \$6.19 billion, net of discounts and issuance costs. The issuances consisted of the following: \$1.0 billion of Notes due 2014 that bear interest at a rate equal to three-month London Interbank Offered Rate (LIBOR) plus

0.61%, \$1.5 billion of 1.95% Notes due 2014, \$1.25 billion of 3.00% Notes due 2016, \$1.5 billion of 4.60% Notes due 2021 and \$1.0 billion of 6.00% Notes due 2041. The net proceeds were used for the repayment of commercial paper and other general corporate purposes, as well as for the redemption of certain telephone subsidiary debt during April 2011 (see "Telephone and Other Subsidiary Debt" below).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *continued*

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

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

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

### 2010

During July 2010, Verizon received approximately \$3.1 billion in cash in connection with the completion of the spin-off and merger of Spinco (see Note 2). This special cash payment was subsequently used to redeem \$2.0 billion of 7.25% Verizon Communications Notes due December 2010 at a redemption price of 102.7% of the principal amount of the notes, plus accrued and unpaid interest through the date of redemption, as well as other short-term borrowings. In addition, during 2010 Verizon repaid \$0.2 billion of floating rate vendor financing debt.

### Verizon Wireless – Notes Payable and Other

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

### 2011

During May 2011, \$4.0 billion aggregate principal amount of Verizon Wireless two-year fixed and floating rate notes matured and were repaid. During December 2011, we repaid \$0.9 billion upon maturity for the €0.7 billion of 7.625% Verizon Wireless Notes and the related cross currency swap was settled (see Note 9).

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

### 2010

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

### Telephone and Other Subsidiary Debt

#### 2011

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

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

During January 2012, \$1.0 billion of 5.875% Verizon New Jersey Inc. Debentures matured and were repaid.

#### 2010

During 2010, \$0.3 billion of 6.125% and \$0.2 billion of 8.625% Verizon New York Inc. Debentures, \$0.2 billion of 6.375% Verizon North Inc. Debentures and \$0.2 billion of 6.3% Verizon Northwest Inc. Debentures matured and were repaid.

### Debt Redemption Costs

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

### Guarantees

On June 24, 2011, we guaranteed the debentures and first mortgage bonds of our operating telephone company subsidiaries. As of December 31, 2011, \$6.4 billion principal amount of these obligations remain outstanding. Each guarantee will remain in place for the life of the obligation unless terminated pursuant to its terms, including the operating telephone company no longer being a wholly-owned subsidiary of Verizon.

We also guarantee the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003. As of December 31, 2011, \$1.7 billion principal amount of these obligations remain outstanding.

### Debt Covenants

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

### Maturities of Long-Term Debt

Maturities of long-term debt outstanding at December 31, 2011 are as follows:

Years	(dollars in millions)
2012	\$ 2,915
2013	5,637
2014	6,800
2015	1,186
2016	4,141
Thereafter	32,539

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

## NOTE 9

### FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

The following table presents the balances of assets measured at fair value on a recurring basis as of December 31, 2011:

	(dollars in millions)			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
<b>Assets:</b>				
Short-term investments:				
Equity securities	\$ 259	\$ –	\$ –	\$ 259
Fixed income securities	2	331	–	333
Other Current Assets:				
Forward contracts	–	1	–	1
Other Assets:				
Fixed income securities	220	763	–	983
Interest rate swaps	–	625	–	625
Cross currency swaps	–	77	–	77
<b>Total</b>	<b>\$ 481</b>	<b>\$ 1,797</b>	<b>\$ –</b>	<b>\$ 2,278</b>

(1) quoted prices in active markets for identical assets or liabilities

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

(3) no observable pricing inputs in the market

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

Fixed income securities consist primarily of investments in U.S. Treasuries and agencies, as well as municipal bonds. We use quoted prices in active markets for our U.S. Treasury securities, and therefore these securities are classified as Level 1. For all other fixed income securities that do not have quoted prices in active markets, we use alternative matrix pricing as a practical expedient resulting in these debt securities being classified as Level 2.

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

We recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during 2011.

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

The fair value of our short-term and long-term debt, excluding capital leases, which is determined based on market quotes for similar terms and maturities or future cash flows discounted at current rates, was as follows:

At December 31,	(dollars in millions)			
	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short- and long-term debt, excluding capital leases	\$ 54,800	\$ 64,485	\$ 52,462	\$ 59,020

#### Derivatives

##### 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. Changes in the fair value of the interest rate swaps due to changes in interest rates are recorded to Interest expense, which are offset by changes in the fair value of the debt. The fair value of

these contracts was \$0.6 billion at December 31, 2011 and \$0.3 billion at December 31, 2010 and is primarily included in Other assets and Long-term debt. As of December 31, 2011, the total notional amount of these interest rate swaps was \$7.0 billion.

##### Forward Interest Rate Swaps

In order to manage our exposure to future interest rate changes, during 2010, we entered into forward interest rate swaps with a total notional value of \$1.4 billion. We designated these contracts as cash flow hedges. The fair value of these contracts was \$0.1 billion at December 31, 2010 and the contracts were included in Other assets. In 2011, we terminated these forward interest rate swaps.

##### Cross Currency Swaps

During 2008, Verizon Wireless entered into cross currency swaps designated as cash flow hedges to exchange approximately \$2.4 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 mitigate the impact of foreign currency transaction gains or losses. During December 2011, we repaid \$0.9 billion upon maturity for the €0.7 billion of 7.625% Verizon Wireless Notes. The settlement of the related cross currency swap did not have a material impact on our financial statements. The fair value of the outstanding swaps, primarily included in Other assets, was approximately \$0.1 billion at December 31, 2011 and December 31, 2010, respectively. During 2011, the pretax loss recognized in Other comprehensive income was not significant. During 2010, a pretax loss of \$0.2 billion was recognized in Other comprehensive income. A portion of these gains and losses recognized in Other comprehensive income was reclassified to Other income and (expense), net to offset the related pretax foreign currency transaction gain or loss on the underlying debt obligations.

##### Prepaid Forward Agreement

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

#### Concentrations of Credit Risk

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

**NOTE 10**

STOCK-BASED COMPENSATION

*Verizon Communications Long-Term Incentive Plan*

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

*Restricted Stock Units*

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

*Performance Stock Units*

The Plan also provides for grants of Performance Stock Units (PSUs) that generally vest at the end of the third year after the grant. The Human Resources Committee of the Board of Directors determines the number of PSUs a participant earns based on the extent to which the corresponding goal has been achieved over the three-year performance cycle. The PSUs are classified as liability awards because the PSU awards are paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the price of Verizon common stock as well as performance relative to the targets. Dividend equivalent units are also paid to participants at the time that the PSU award is determined and paid, and in the same proportion as the PSU award.

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

(shares in thousands)	<b>Restricted Stock Units</b>	<b>Performance Stock Units</b>
Outstanding January 1, 2009	21,820	33,214
Granted	7,101	14,079
Payments	(9,357)	(17,141)
Cancelled/Forfeited	(121)	(257)
Outstanding December 31, 2009	19,443	29,895
Granted	8,422	17,311
Payments	(6,788)	(14,364)
Cancelled/Forfeited	(154)	(462)
Outstanding December 31, 2010	20,923	32,380
<b>Granted</b>	<b>6,667</b>	<b>10,348</b>
<b>Payments</b>	<b>(7,600)</b>	<b>(12,137)</b>
<b>Cancelled/Forfeited</b>	<b>(154)</b>	<b>(2,977)</b>
<b>Outstanding December 31, 2011</b>	<b>19,836</b>	<b>27,614</b>

As of December 31, 2011, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately \$0.4 billion and is expected to be recognized over approximately two years.

The RSUs granted in 2011 and 2010, and classified as equity awards, have weighted average grant date fair values of \$36.38 and \$28.63 per unit, respectively. During 2011, 2010 and 2009, we paid \$0.7 billion, \$0.7 billion and \$0.9 billion, respectively, to settle RSUs and PSUs classified as liability awards.

*Verizon Wireless' Long-Term Incentive Plan*

The Verizon Wireless Long-Term Incentive Plan (the Wireless Plan) provides compensation opportunities to eligible employees of Verizon Wireless (the Partnership). Under the Wireless Plan, Value Appreciation Rights (VARs) were granted to eligible employees. As of December 31, 2011, all VARs were fully vested. We have not granted new VARs since 2004.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

The following table summarizes the assumptions used in the Black-Scholes model during 2011:

	Ranges
Risk-free rate	0.05% – 0.57%
Expected term (in years)	0.02 – 1.50
Expected volatility	29.47% – 48.30%

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

The following table summarizes the Value Appreciation Rights activity:

(shares in thousands)	VARs	Weighted-Average Grant-Date Fair Value
Outstanding rights, January 1, 2009	28,244	\$ 16.54
Exercised	(11,442)	16.53
Cancelled/Forfeited	(211)	17.63
Outstanding rights, December 31, 2009	16,591	16.54
Exercised	(4,947)	24.47
Cancelled/Forfeited	(75)	22.72
Outstanding rights, December 31, 2010	11,569	13.11
<b>Exercised</b>	<b>(3,303)</b>	<b>14.87</b>
<b>Cancelled/Forfeited</b>	<b>(52)</b>	<b>14.74</b>
<b>Outstanding rights, December 31, 2011</b>	<b>8,214</b>	<b>12.39</b>

During 2011, 2010 and 2009, we paid \$0.1 billion, \$0.1 billion and \$0.2 billion, respectively, to settle VARs classified as liability awards.

### Stock-Based Compensation Expense

After-tax compensation expense for stock-based compensation related to RSUs, PSUs, and VARs described above included in net income attributable to Verizon was \$0.5 billion, \$0.5 billion and \$0.5 billion for 2011, 2010 and 2009, respectively.

### Stock Options

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

The following table summarizes Verizon's stock option activity:

(shares in thousands)	Stock Options	Weighted-Average Exercise Price
Outstanding, January 1, 2009	140,158	\$ 45.86
Exercised	(2)	25.32
Cancelled/Forfeited	(32,391)	50.31
Outstanding, December 31, 2009	107,765	44.52
Exercised	(372)	34.51
Cancelled/Forfeited	(50,549)	44.90
Outstanding, December 31, 2010	56,844	44.25
<b>Exercised</b>	<b>(7,104)</b>	<b>35.00</b>
<b>Cancelled/Forfeited</b>	<b>(21,921)</b>	<b>51.06</b>
<b>Outstanding, December 31, 2011</b>	<b>27,819</b>	<b>41.24</b>

All stock options outstanding at December 31, 2011, 2010 and 2009 were exercisable.

The following table summarizes information about Verizon's stock options outstanding as of December 31, 2011:

Range of Exercise Prices	Stock Options (in thousands)	Weighted-Average Remaining Life (years)	Weighted-Average Exercise Price
\$ 20.00–29.99	24	0.7	\$ 27.66
30.00–39.99	10,791	1.6	35.02
40.00–49.99	17,004	0.1	45.21
<b>Total</b>	<b>27,819</b>	<b>0.7</b>	<b>41.24</b>

The total intrinsic value was approximately \$0.1 billion for stock options outstanding as of December 31, 2011. The total intrinsic value of stock options exercised and the associated tax benefits were not significant in 2011, 2010 and 2009. The amount of cash received from the exercise of stock options was \$0.2 billion in 2011 and not significant in 2010 and 2009. There was no stock option expense for 2011, 2010 and 2009.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

## NOTE 11

### EMPLOYEE BENEFITS

We maintain non-contributory defined benefit pension plans for many of our employees. In addition, we maintain postretirement health care and life insurance plans for our retirees and their dependents, which are both contributory and non-contributory, and include a limit on our share of the cost for certain recent and future retirees. In accordance with our accounting policy for pension and other postretirement benefits, actuarial gains and losses are recognized in operating results in the year in which they occur. These gains and losses are measured annually as of December 31 or upon a remeasurement event.

#### Pension and Other Postretirement Benefits

Pension and other postretirement benefits for many of our employees are subject to collective bargaining agreements. Modifications in benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans. The following tables summarize benefit costs, as well as the benefit obligations, plan assets, funded status and rate assumptions associated with pension and postretirement health care and life insurance benefit plans.

#### Obligations and Funded Status

At December 31,	(dollars in millions)			
	Pension		Health Care and Life	
	2011	2010	2011	2010
<b>Change in Benefit Obligations</b>				
Beginning of year	\$ 29,217	\$ 31,818	\$ 25,718	\$ 27,337
Service cost	307	353	299	305
Interest cost	1,590	1,797	1,421	1,639
Plan amendments	(485)	(212)	–	(2,580)
Actuarial loss, net	3,360	748	1,687	826
Benefits paid	(2,564)	(1,996)	(1,756)	(1,675)
Termination benefits	–	687	–	–
Curtailement loss, net	–	61	–	132
Acquisitions and divestitures, net	–	(581)	–	(266)
Settlements paid	(843)	(3,458)	–	–
End of Year	\$ 30,582	\$ 29,217	\$ 27,369	\$ 25,718
<b>Change in Plan Assets</b>				
Beginning of year	\$ 25,814	\$ 28,592	\$ 2,945	\$ 3,091
Actual return on plan assets	1,191	3,089	63	319
Company contributions	512	138	1,376	1,210
Benefits paid	(2,564)	(1,996)	(1,756)	(1,675)
Settlements paid	(843)	(3,458)	–	–
Acquisitions and divestitures, net	–	(551)	–	–
End of year	\$ 24,110	\$ 25,814	\$ 2,628	\$ 2,945
<b>Funded Status</b>				
End of year	\$ (6,472)	\$ (3,403)	\$ (24,741)	\$ (22,773)

At December 31,	(dollars in millions)			
	Pension		Health Care and Life	
	2011	2010	2011	2010
<b>Amounts recognized on the balance sheet</b>				
Noncurrent assets	\$ 289	\$ 398	\$ –	\$ –
Current liabilities	(195)	(146)	(735)	(581)
Noncurrent liabilities	(6,566)	(3,655)	(24,006)	(22,192)
Total	\$ (6,472)	\$ (3,403)	\$ (24,741)	\$ (22,773)

#### Amounts recognized in Accumulated Other Comprehensive Income (Pretax)

Prior Service Cost	\$ (3)	\$ 554	\$ (510)	\$ (567)
Total	\$ (3)	\$ 554	\$ (510)	\$ (567)

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

Beginning in 2013, as a result of federal health care reform, Verizon will no longer file for the Retiree Drug Subsidy (RDS) and will instead contract with a Medicare Part D plan on a group basis to provide prescription drug benefits to Medicare eligible retirees. This change to our Medicare Part D strategy resulted in the adoption of plan amendments during the fourth quarter of 2010 which will allow the company to be eligible for greater Medicare Part D plan subsidies over time.

The accumulated benefit obligation for all defined benefit pension plans was \$30.3 billion and \$28.5 billion at December 31, 2011 and 2010, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets follows:

At December 31,	(dollars in millions)	
	2011	2010
Projected benefit obligation	\$ 29,643	\$ 28,329
Accumulated benefit obligation	29,436	27,752
Fair value of plan assets	22,916	24,529

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

### Net Periodic Cost

The following table summarizes the benefit (income) cost related to our pension and postretirement health care and life insurance plans:

Years Ended December 31,	Pension			Health Care and Life		
	2011	2010	2009	2011	2010	2009
Service cost	\$ 307	\$ 353	\$ 384	\$ 299	\$ 305	\$ 311
Amortization of prior service cost (credit)	72	109	112	(57)	375	401
Subtotal	379	462	496	242	680	712
Expected return on plan assets	(1,976)	(2,176)	(2,216)	(163)	(252)	(205)
Interest cost	1,590	1,797	1,924	1,421	1,639	1,766
Subtotal	(7)	83	204	1,500	2,067	2,273
Remeasurement (gain) loss, net	4,146	(166)	(515)	1,787	758	(901)
Net periodic benefit (income) cost	4,139	(83)	(311)	3,287	2,825	1,372
Curtailed and termination benefits	-	860	1,371	-	386	532
Total	\$ 4,139	\$ 777	\$ 1,060	\$ 3,287	\$ 3,211	\$ 1,904

Other pre-tax changes in plan assets and benefit obligations recognized in other comprehensive (income) loss are as follows:

At December 31,	Pension		Health Care and Life	
	2011	2010	2011	2010
Prior service cost	\$ (485)	\$ (336)	\$ -	\$ (2,859)
Reversal of amortization items				
Prior service cost	(72)	(109)	57	(375)
<b>Total recognized in other comprehensive (income) loss (pretax)</b>	<b>\$ (557)</b>	<b>\$ (445)</b>	<b>\$ 57</b>	<b>\$ (3,234)</b>

The estimated prior service cost for the defined benefit pension plans and the defined benefit postretirement plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is not significant.

### Assumptions

The weighted-average assumptions used in determining benefit obligations follow:

At December 31,	Pension		Health Care and Life	
	2011	2010	2011	2010
Discount Rate	5.00%	5.75%	5.00%	5.75%
Rate of compensation increases	3.00	3.00	N/A	N/A

The weighted-average assumptions used in determining net periodic cost follow:

At December 31,	Pension			Health Care and Life		
	2011	2010	2009	2011	2010	2009
Discount Rate	5.75%	6.25%	6.75%	5.75%	6.25%	6.75%
Expected return on plan assets	8.00	8.50	8.50	6.00	8.25	8.25
Rate of compensation increases	3.00	4.00	4.00	N/A	N/A	N/A

In order to project the long-term target investment return for the total portfolio, estimates are prepared for the total return of each major asset class over the subsequent 10-year period, or longer. Those estimates are based on a combination of factors including the current market interest rates and valuation levels, consensus earnings expectations, historical long-term risk premiums and value-added. To determine the aggregate return for the pension trust, the projected return of each individual asset class is then weighted according to the allocation to that investment area in the trust's long-term asset allocation policy.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

The assumed health care cost trend rates follow:

At December 31,	Health Care and Life		
	2011	2010	2009
Healthcare cost trend rate assumed for next year	7.50%	7.75%	8.00%
Rate to which cost trend rate gradually declines	5.00	5.00	5.00
Year the rate reaches the level it is assumed to remain thereafter	2016	2016	2014

A one percentage point change in the assumed health care cost trend rate would have the following effects:

One-Percentage Point	(dollars in millions)	
	Increase	Decrease
Effect on 2011 service and interest cost	\$ 199	\$ (163)
Effect on postretirement benefit obligation as of December 31, 2011	3,422	(2,768)

### Plan Assets

Historically, our portfolio strategy emphasized a long-term equity orientation, significant global diversification, and the use of both public and private investments. In an effort to reduce the risk of our portfolio strategy and better align assets with liabilities, we are shifting our strategy to one that is more liability driven, where cash flows from investments better match projected benefit payments but result in lower asset returns. We intend to reduce the likelihood that assets will decline at a time when liabilities increase (referred to as liability hedging), with the goal to reduce the risk of underfunding to the plan and its participants and beneficiaries. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors. Our diversification and risk control processes serve to minimize the concentration of risk.

While target allocation percentages will vary over time, the company's overall investment strategy is to achieve a mix of assets, which allows us to meet projected benefits payments while taking into consideration risk and return. The initial target allocation for plan assets is designed so that 70% of the assets have the objective of achieving a return in excess of the growth in liabilities (comprised of public equities, private equities, real estate, hedge funds and emerging debt) and 30% of the assets are invested as liability hedging assets (typically longer duration fixed income). This allocation will shift as funded status improves to a higher allocation to liability hedging assets. Target policies will be revisited periodically to ensure they are in line with fund objectives. There are no significant concentrations of risk, in terms of sector, industry, geography or company names.

Pension and healthcare and life plans assets do not include significant amounts of Verizon common stock.

### Pension Plans

The fair values for the pension plans by asset category at December 31, 2011 are as follows:

Asset Category	(dollars in millions)			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 1,215	\$ 1,184	\$ 31	\$ -
Equity securities	6,829	5,704	1,125	-
Fixed income securities				
U.S. Treasuries and agencies	1,796	1,239	557	-
Corporate bonds	2,140	65	1,886	189
International bonds	1,163	158	1,005	-
Other	359	-	359	-
Real estate	2,158	-	-	2,158
Other				
Private equity	6,109	-	54	6,055
Hedge funds	2,341	-	1,679	662
<b>Total</b>	<b>\$ 24,110</b>	<b>\$ 8,350</b>	<b>\$ 6,696</b>	<b>\$ 9,064</b>

The fair values for the pension plans by asset category at December 31, 2010 are as follows:

Asset Category	(dollars in millions)			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 2,175	\$ 2,126	\$ 49	\$ -
Equity securities	10,158	9,052	1,106	-
Fixed income securities				
U.S. Treasuries and agencies	599	141	458	-
Corporate bonds	1,615	233	1,202	180
International bonds	910	20	890	-
Other	502	-	502	-
Real estate	1,769	-	-	1,769
Other				
Private equity	5,889	-	40	5,849
Hedge funds	2,197	-	1,481	716
<b>Total</b>	<b>\$ 25,814</b>	<b>\$ 11,572</b>	<b>\$ 5,728</b>	<b>\$ 8,514</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

The following is a reconciliation of the beginning and ending balance of pension plan assets that are measured at fair value using significant unobservable inputs:

	Corporate Bonds	Real Estate	Private Equity	Hedge Funds	Total
Balance at January 1, 2010	\$ 137	\$ 1,541	\$ 5,336	\$ –	\$ 7,014
Actual gain (loss) on plan assets	3	(49)	518	24	496
Purchases and sales	37	294	(5)	109	435
Transfers in and/or out	3	(17)	–	583	569
Balance at December 31, 2010	\$ 180	\$ 1,769	\$ 5,849	\$ 716	\$ 8,514
<b>Actual gain (loss) on plan assets</b>	<b>(4)</b>	<b>258</b>	<b>477</b>	<b>(4)</b>	<b>727</b>
<b>Purchases and sales</b>	<b>48</b>	<b>43</b>	<b>(203)</b>	<b>(50)</b>	<b>(162)</b>
<b>Transfers in and/or out</b>	<b>(35)</b>	<b>88</b>	<b>(68)</b>	<b>–</b>	<b>(15)</b>
<b>Balance at December 31, 2011</b>	<b>\$ 189</b>	<b>\$ 2,158</b>	<b>\$ 6,055</b>	<b>\$ 662</b>	<b>\$ 9,064</b>

### Health Care and Life Plans

The fair values for the other postretirement benefit plans by asset category at December 31, 2011 are as follows:

Asset Category	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 281	\$ 22	\$ 259	\$ –
Equity securities	1,695	951	744	–
Fixed income securities				
U.S. Treasuries and agencies	85	58	27	–
Corporate bonds	119	26	93	–
International bonds	192	67	125	–
Other	210	–	210	–
Other	46	–	46	–
<b>Total</b>	<b>\$ 2,628</b>	<b>\$ 1,124</b>	<b>\$ 1,504</b>	<b>\$ –</b>

The fair values for the other postretirement benefit plans by asset category at December 31, 2010 are as follows:

Asset Category	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 394	\$ 21	\$ 373	\$ –
Equity securities	1,919	1,202	717	–
Fixed income securities				
U.S. Treasuries and agencies	80	47	33	–
Corporate bonds	173	58	115	–
International bonds	125	8	117	–
Other	198	–	198	–
Other	56	–	56	–
<b>Total</b>	<b>\$ 2,945</b>	<b>\$ 1,336</b>	<b>\$ 1,609</b>	<b>\$ –</b>

The following are general descriptions of asset categories, as well as the valuation methodologies and inputs used to determine the fair value of each major category of assets.

Cash and cash equivalents include short-term investment funds, primarily in diversified portfolios of investment grade money market instruments and are valued using quoted market prices or other valuation methods, and thus are classified within Level 1 or Level 2.

Equity securities are investments in common stock of domestic and international corporations in a variety of industry sectors, and are valued primarily using quoted market prices or other valuation methods, and thus are classified within Level 1 or Level 2.

Fixed income securities include U.S. Treasuries and agencies, debt obligations of foreign governments and domestic and foreign corporations. Fixed income also includes investments in collateralized mortgage obligations, mortgage backed securities and interest rate swaps. The fair value of fixed income securities is based on observable prices for identical or comparable assets, adjusted using benchmark curves, sector grouping, matrix pricing, broker/dealer quotes and issuer spreads, and thus is classified within Level 1 or Level 2.

Real estate investments include those in limited partnerships that invest in various commercial and residential real estate projects both domestically and internationally. The fair values of real estate assets are typically determined by using income and/or cost approaches or a comparable sales approach, taking into consideration discount and capitalization rates, financial conditions, local market conditions and the status of the capital markets, and thus are classified within Level 3.

Private equity investments include those in limited partnerships that invest in operating companies that are not publicly traded on a stock exchange. Investment strategies in private equity include leveraged buy-outs, venture capital, distressed investments and investments in natural resources. These investments are valued using inputs such as trading multiples of comparable public securities, merger and acquisition activity and pricing data from the most recent equity financing taking into consideration illiquidity, and thus are classified within Level 3.

Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. The fair values of hedge funds are estimated using net asset value per share (NAV) of the investments. Verizon has the ability to redeem these investments at NAV within the near term and thus are classified within Level 2. Investments that cannot be redeemed in the near term are classified within Level 3.

### Cash Flows

In 2011, we contributed \$0.4 billion to our qualified pension plans, \$0.1 billion to our nonqualified pension plans and \$1.4 billion to our other postretirement benefit plans. During January 2012, we contributed approximately \$0.1 billion to our qualified pension plans. We expect to make additional qualified pension plan contributions of \$1.2 billion during the remainder of 2012. We anticipate approximately \$0.2 billion in contributions to our non-qualified pension plans and \$1.5 billion to our other postretirement benefit plans in 2012.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

### Estimated Future Benefit Payments

The benefit payments to retirees are expected to be paid as follows:

(dollars in millions)

Year	Pension Benefits	Health Care and Life	Medicare
		Prior to Medicare Prescription Drug Subsidy	Prescription Drug Subsidy
2012	\$ 2,514	\$ 1,944	\$ 104
2013	2,308	1,805	–
2014	2,256	1,792	–
2015	2,233	1,743	–
2016	2,208	1,702	–
2017–2021	10,537	7,747	–

### Savings Plan and Employee Stock Ownership Plans

We maintain four leveraged employee stock ownership plans (ESOP). Only one plan currently has unallocated shares. We match a certain percentage of eligible employee contributions to the savings plans with shares of our common stock from this ESOP. At December 31, 2011, the number of unallocated and allocated shares of common stock in this ESOP was 1 million and 65 million, respectively. All leveraged ESOP shares are included in earnings per share computations.

Total savings plan costs were \$0.7 billion in 2011, 2010 and 2009.

### Severance Benefits

The following table provides an analysis of our actuarially determined severance liability recorded in accordance with the accounting standard regarding employers' accounting for postemployment benefits:

(dollars in millions)

Year	Beginning of Year	Charged to Expense	Payments	Other	End of Year
2009	\$ 1,104	\$ 950	\$ (522)	\$ 106	\$ 1,638
2010	1,638	1,217	(1,307)	21	1,569
<b>2011</b>	<b>1,569</b>	<b>32</b>	<b>(474)</b>	<b>(14)</b>	<b>1,113</b>

#### Severance, Pension and Benefit Charges

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

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

During 2009, we recorded net pre-tax severance, pension and benefits charges of \$1.4 billion. These charges were primarily comprised of pension and postretirement curtailment losses and special termination benefits of \$1.9 billion; \$0.9 billion for workforce reductions of approximately 17,600 employees, 4,200 of whom were separated during late 2009 and the remainder in 2010; and rereasurement gains of \$1.4 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.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

## NOTE 12

### TAXES

The components of income before provision for income taxes are as follows:

Years Ended December 31,	(dollars in millions)		
	2011	2010	2009
Domestic	\$ 9,724	\$ 11,921	\$ 12,625
Foreign	759	763	895
Total	<b>\$ 10,483</b>	<b>\$ 12,684</b>	<b>\$ 13,520</b>

The components of the provision for income taxes are as follows:

Years Ended December 31,	(dollars in millions)		
	2011	2010	2009
Current			
Federal	\$ 193	\$ (705)	\$ (611)
Foreign	25	(19)	73
State and Local	290	(42)	364
Total	<b>508</b>	<b>(766)</b>	<b>(174)</b>
Deferred			
Federal	276	2,945	1,616
Foreign	(38)	(24)	(35)
State and Local	(455)	316	518
Total	<b>(217)</b>	<b>3,237</b>	<b>2,099</b>
Investment tax credits	(6)	(4)	(6)
Total income tax provision	<b>\$ 285</b>	<b>\$ 2,467</b>	<b>\$ 1,919</b>

The following table shows the principal reasons for the difference between the effective income tax rate and the statutory federal income tax rate:

Years Ended December 31,	2011	2010	2009
Statutory federal income tax rate	<b>35.0%</b>	35.0%	35.0%
State and local income tax rate, net of federal tax benefits	<b>(1.0)</b>	1.4	1.5
Affordable housing credit	<b>(1.8)</b>	(1.3)	(1.0)
Employee benefits including ESOP dividend	<b>(1.4)</b>	(1.2)	(1.6)
Medicare Part D subsidy charge	-	6.9	-
Equity in earnings from unconsolidated businesses	<b>(1.9)</b>	(1.6)	(1.6)
Noncontrolling interest	<b>(23.0)</b>	(19.5)	(16.0)
Other, net	<b>(3.2)</b>	(0.3)	(2.1)
Effective income tax rate	<b>2.7%</b>	19.4%	14.2%

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

The effective income tax rate in 2010 increased to 19.4% from 14.2% in 2009. The increase was primarily driven by a one-time, non-cash income tax charge of \$1.0 billion for the Health Care Act described above. The increase was partially offset primarily by higher earnings attributable to Vodafone's noncontrolling interest in the Verizon Wireless partnership.

The amounts of cash taxes paid are as follows:

Years Ended December 31,	(dollars in millions)		
	2011	2010	2009
Income taxes, net of amounts refunded	\$ 762	\$ 430	\$ 158
Employment taxes	1,231	1,296	1,349
Property and other taxes	1,883	1,963	2,065
Total	<b>\$ 3,876</b>	<b>\$ 3,689</b>	<b>\$ 3,572</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Significant components of deferred tax assets and liabilities are as follows:

At December 31,	(dollars in millions)	
	2011	2010
Employee benefits	\$ 13,119	\$ 11,499
Tax loss and credit carry forwards	5,170	3,907
Uncollectible accounts receivable	224	248
Other – assets	952	951
	<b>19,465</b>	16,605
Valuation allowances	(2,376)	(3,421)
Deferred tax assets	<b>17,089</b>	13,184
Former MCI intercompany accounts receivable basis difference	1,435	1,489
Depreciation	13,743	11,758
Leasing activity	1,569	1,980
Wireless joint venture including wireless licenses	21,778	19,514
Other – liabilities	1,233	1,152
Deferred tax liabilities	<b>39,758</b>	35,893
Net deferred tax liability	<b>\$ 22,669</b>	\$ 22,709

At December 31, 2011, undistributed earnings of our foreign subsidiaries indefinitely invested outside of the United States amounted to approximately \$1.5 billion. The majority of Verizon's cash flow is generated from domestic operations and we are not dependent on foreign cash or earnings to meet our funding requirements. Furthermore, a portion of these undistributed earnings represent amounts that legally must be kept in reserve and are unavailable for distribution. As a result, we have not provided deferred taxes on these undistributed earnings because we intend that they will remain indefinitely invested outside of the United States. Determination of the amount of unrecognized deferred taxes related to these undistributed earnings is not practical.

At December 31, 2011, we had net after tax loss and credit carry forwards for income tax purposes of approximately \$5.1 billion. Of these net after tax loss and credit carry forwards, approximately \$4.4 billion will expire between 2012 and 2031 and approximately \$0.7 billion may be carried forward indefinitely. The amount of net after tax loss and credit carry forwards reflected as a deferred tax asset above has been reduced by approximately \$0.1 billion and \$0.6 billion at December 31, 2011 and 2010, respectively, due to federal and state tax law limitations on utilization of net operating losses.

During 2011, the valuation allowance decreased approximately \$1.0 billion. The balance of the valuation allowance at December 31, 2011 and the 2011 activity is primarily related to state and foreign tax losses and credit carry forwards.

### Unrecognized Tax Benefits

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	(dollars in millions)		
	2011	2010	2009
Balance at January 1,	\$ 3,242	\$ 3,400	\$ 2,622
Additions based on tax positions related to the current year	111	231	288
Additions for tax positions of prior years	456	476	1,128
Reductions for tax positions of prior years	(644)	(569)	(477)
Settlements	(56)	(256)	(27)
Lapses of statutes of limitations	(31)	(40)	(134)
<b>Balance at December 31,</b>	<b>\$ 3,078</b>	\$ 3,242	\$ 3,400

Included in the total unrecognized tax benefits at December 31, 2011, 2010 and 2009 is \$2.2 billion, \$2.1 billion and \$2.1 billion, respectively, that if recognized, would favorably affect the effective income tax rate.

We recognized the following net after tax benefits related to interest and penalties in the provision for income taxes:

Years Ended December 31,	(dollars in millions)
2011	\$ 60
2010	29
2009	14

The after-tax accruals for the payment of interest and penalties in the consolidated balance sheets are as follows:

At December 31,	(dollars in millions)
2011	\$ 470
2010	527

Verizon and/or its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state, local and foreign jurisdictions. As a large taxpayer, we are under audit by the Internal Revenue Service (IRS) and multiple state and foreign jurisdictions on numerous open tax positions. The IRS completed its examination of the Company's U.S. income tax returns for tax years 2004 through 2006 in the third quarter of 2011 and we filed a protest with respect to certain tax adjustments proposed by the IRS. In 2011, we also settled income tax audits in Italy and Massachusetts. Significant tax examinations and litigation are also ongoing in New York, Canada, and Australia for tax years as early as 2002. It is reasonably possible that the amount of the liability for unrecognized tax benefits could change by a significant amount during the next twelve-month period. An estimate of the range of the possible change cannot be made until issues are further developed or examinations close.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

## NOTE 13

### SEGMENT INFORMATION

#### Reportable Segments

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

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

The reconciliation of segment operating revenues and expenses to consolidated operating revenues and expenses below also includes those items of a non-recurring or non-operational nature. We exclude from segment results the effects of certain items that management does not consider in assessing segment performance, primarily because of their non-recurring or non-operational nature.

In order to comply with regulatory conditions related to the acquisition of Alltel in January 2009, Verizon Wireless divested overlapping properties in 105 operating markets in 24 states during the first half of 2010. In addition, on July 1, 2010, certain of Verizon's local exchange business and related activities in 14 states were spun off (see Note 2). Accordingly, the historical Verizon Wireless and Wireline results for these operations have been reclassified to Corporate and Other to reflect comparable segment operating results.

We have adjusted prior-period consolidated and segment information, where applicable, to conform to current year presentation.

Our segments and their principal activities consist of the following:

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

The following table provides operating financial information for our two reportable segments:

	(dollars in millions)		
2011	Verizon Wireless	Wireline	Total Segments
External Operating Revenues			
Retail service	\$ 56,601	\$ -	\$ 56,601
Other service	2,497	-	2,497
Service revenue	59,098	-	59,098
Equipment	7,446	-	7,446
Other	3,517	-	3,517
Consumer retail	-	13,605	13,605
Small business	-	2,720	2,720
Mass Markets	-	16,325	16,325
Strategic services	-	7,607	7,607
Other	-	8,014	8,014
Global Enterprise	-	15,621	15,621
Global Wholesale	-	6,795	6,795
Other	-	704	704
Intersegment revenues	93	1,237	1,330
Total operating revenues	70,154	40,682	110,836
Cost of services and sales	24,086	22,158	46,244
Selling, general and administrative expense	19,579	9,107	28,686
Depreciation and amortization expense	7,962	8,458	16,420
Total operating expenses	51,627	39,723	91,350
Operating income	\$ 18,527	\$ 959	\$ 19,486
Assets	\$ 147,378	\$ 86,185	\$ 233,563
Plant, property and equipment, net	33,451	54,149	87,600
Capital expenditures	8,973	6,399	15,372

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

	(dollars in millions)		
2010	Verizon Wireless	Wireline	Total Segments
<b>External Operating Revenues</b>			
Retail service	\$ 53,267	\$ –	\$ 53,267
Other service	2,321	–	2,321
Service revenue	55,588	–	55,588
<b>Equipment</b>			
Other	4,412	–	4,412
	3,341	–	3,341
Consumer retail	–	13,419	13,419
Small business	–	2,828	2,828
Mass Markets	–	16,247	16,247
Strategic services	–	6,602	6,602
Other	–	8,712	8,712
Global Enterprise	–	15,314	15,314
Global Wholesale	–	7,526	7,526
Other	–	858	858
Intersegment revenues	66	1,282	1,348
Total operating revenues	63,407	41,227	104,634
Cost of services and sales	19,245	22,618	41,863
Selling, general and administrative expense	18,082	9,372	27,454
Depreciation and amortization expense	7,356	8,469	15,825
Total operating expenses	44,683	40,459	85,142
Operating income	\$ 18,724	\$ 768	\$ 19,492
Assets	\$ 138,863	\$ 83,849	\$ 222,712
Plant, property and equipment, net	32,253	54,594	86,847
Capital expenditures	8,438	7,269	15,707
<b>2009</b>			
	Verizon Wireless	Wireline	Total Segments
<b>External Operating Revenues</b>			
Retail service	\$ 50,688	\$ –	\$ 50,688
Other service	1,287	–	1,287
Service revenue	51,975	–	51,975
<b>Equipment</b>			
Other	4,837	–	4,837
	3,413	–	3,413
Consumer retail	–	13,205	13,205
Small business	–	2,904	2,904
Mass Markets	–	16,109	16,109
Strategic services	–	6,191	6,191
Other	–	9,097	9,097
Global Enterprise	–	15,288	15,288
Global Wholesale	–	8,336	8,336
Other	–	1,443	1,443
Intersegment revenues	100	1,275	1,375
Total operating revenues	60,325	42,451	102,776
Cost of services and sales	19,348	22,693	42,041
Selling, general and administrative expense	17,309	9,947	27,256
Depreciation and amortization expense	7,030	8,238	15,268
Total operating expenses	43,687	40,878	84,565
Operating income	\$ 16,638	\$ 1,573	\$ 18,211
Assets	\$ 135,162	\$ 91,778	\$ 226,940
Plant, property and equipment, net	30,849	59,373	90,222
Capital expenditures	7,152	8,892	16,044

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

### Reconciliation to Consolidated Financial Information

A reconciliation of the segment operating revenues to consolidated operating revenues is as follows:

Years Ended December 31,	2011	2010	(dollars in millions) 2009
<b>Operating Revenues</b>			
Total reportable segments	\$ 110,836	\$ 104,634	\$ 102,776
Reconciling items:			
Deferred revenue adjustment (see Note 1)	–	(235)	78
Impact of divested operations	–	2,407	5,297
Corporate, eliminations and other	39	(241)	(343)
Consolidated operating revenues	<u>\$ 110,875</u>	<u>\$ 106,565</u>	<u>\$ 107,808</u>

A reconciliation of the total of the reportable segments' operating income to consolidated Income before provision for income taxes is as follows:

Years Ended December 31,	2011	2010	(dollars in millions) 2009
<b>Operating Income</b>			
Total segment operating income	\$ 19,486	\$ 19,492	\$ 18,211
Merger integration and acquisition related charges (see Note 2)	–	(867)	(954)
Access line spin-off related charges (see Note 2)	–	(407)	(453)
Severance, pension and benefit charges (see Note 11)	(5,954)	(3,054)	(1,440)
Deferred revenue adjustment (see Note 1)	–	(235)	78
Impact of divested operations (see Note 2)	–	755	1,769
Corporate, eliminations and other	(652)	(1,039)	(1,233)
Consolidated operating income	<u>12,880</u>	<u>14,645</u>	<u>15,978</u>
Equity in earnings of unconsolidated businesses	444	508	553
Other income and (expense), net	(14)	54	91
Interest expense	(2,827)	(2,523)	(3,102)
Income Before Provision for Income Taxes	<u>\$ 10,483</u>	<u>\$ 12,684</u>	<u>\$ 13,520</u>

A reconciliation of the total of the reportable segments' assets to consolidated assets is as follows:

At December 31,	2011	2010	(dollars in millions)
<b>Assets</b>			
Total reportable segments	\$ 233,563	\$ 222,712	
Corporate, eliminations and other	(3,102)	(2,707)	
Total consolidated	<u>\$ 230,461</u>	<u>\$ 220,005</u>	

We generally account for intersegment sales of products and services and asset transfers at current market prices. No single customer accounted for more than 10% of our total operating revenues during the years ended December 31, 2011, 2010 and 2009. International operating revenues and long-lived assets are not significant.

**NOTE 14**

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other gains and losses affecting equity that, under GAAP, are excluded from net income. Significant changes in the components of Other comprehensive income, net of provision for income taxes are described below.

*Foreign Currency Translation Adjustments*

The change in Foreign currency translation adjustments during 2011, 2010 and 2009 was primarily related to our investment in Vodafone Omnitel and was driven by the movements of the U.S. dollar against various other currencies, primarily the Euro, in which we have operations.

*Net Unrealized Gains on Cash Flow Hedges*

During 2011, 2010 and 2009, Unrealized gains on cash flow hedges included in Other comprehensive income attributable to noncontrolling interest, primarily reflect activity related to a cross currency swap (see Note 9). Reclassification adjustments for gains (losses) realized in net income were not significant.

*Net Unrealized Gains (Losses) on Marketable Securities*

During 2011, 2010 and 2009, reclassification adjustments on marketable securities for gains (losses) realized in net income were not significant.

*Defined Benefit Pension and Postretirement Plans*

The change in Defined benefit pension and postretirement plans of \$0.3 billion, net of taxes of \$0.2 billion at December 31, 2011 was attributable to the change in prior service cost.

The change in Defined benefit pension and postretirement plans of \$2.5 billion, net of taxes of \$1.2 billion at December 31, 2010 was attributable to the change in prior service cost. The change was impacted by a change to our Medicare Part D strategy, resulting in the adoption of plan amendments during the fourth quarter of 2010, which will allow the company to be eligible for greater Medicare Part D plan subsidies over time and was also impacted by the curtailment losses associated with the voluntary incentive program for union-represented employees recorded in the second quarter of 2010 (see Note 11).

**Accumulated Other Comprehensive Income**

The components of Accumulated other comprehensive income were as follows:

At December 31,	(dollars in millions)	
	2011	2010
Foreign currency translation adjustments	\$ 724	\$ 843
Net unrealized gain on cash flow hedges	156	126
Unrealized gain on marketable securities	72	79
Defined benefit pension and postretirement plans	317	1
Accumulated Other Comprehensive Income	<u>\$ 1,269</u>	<u>\$ 1,049</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

## NOTE 15

### ADDITIONAL FINANCIAL INFORMATION

The tables that follow provide additional financial information related to our consolidated financial statements:

#### Income Statement Information

Years Ended December 31,	2011	2010	(dollars in millions) 2009
Depreciation expense	\$ 14,991	\$ 14,593	\$ 14,564
Interest costs on debt balances	3,269	3,487	4,029
Capitalized interest costs	(442)	(964)	(927)
Advertising expense	2,523	2,451	3,020

#### Balance Sheet Information

At December 31,	2011	(dollars in millions) 2010
<i>Accounts Payable and Accrued Liabilities</i>		
Accounts payable	\$ 4,194	\$ 3,936
Accrued expenses	3,786	4,110
Accrued vacation, salaries and wages	4,857	5,686
Interest payable	774	813
Taxes payable	1,078	1,157
	<b>\$ 14,689</b>	<b>\$ 15,702</b>
<i>Other Current Liabilities</i>		
Advance billings and customer deposits	\$ 3,290	\$ 3,091
Dividends payable	5,940	1,402
Other	1,993	2,860
	<b>\$ 11,223</b>	<b>\$ 7,353</b>

#### Cash Flow Information

Years Ended December 31,	2011	2010	(dollars in millions) 2009
<i>Cash Paid</i>			
Interest, net of amounts capitalized	\$ 2,629	\$ 2,433	\$ 2,573

**NOTE 16**

## COMMITMENTS AND CONTINGENCIES

In the ordinary course of business Verizon is involved in various commercial litigation and regulatory proceedings at the state and federal level. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In none of the currently pending matters, including the Hicksville and ActiveVideo Networks Inc. (ActiveVideo) matters described below, is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) uncertain damage theories and demands; (2) a less than complete factual record; (3) uncertainty concerning legal theories and their resolution by courts or regulators; and (4) the unpredictable nature of the opposing party and its demands. We continuously monitor these proceedings as they develop and adjust any accrual or disclosure as needed. We do not expect that the ultimate resolution of any pending regulatory or legal matter in future periods, including the Hicksville and ActiveVideo matters, will have a material effect on our financial condition, but it could have a material effect on our results of operations for a given reporting period.

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

Verizon is currently involved in approximately 50 federal district court actions alleging that Verizon is infringing various patents. Most of these cases are brought by non-practicing entities and effectively seek only monetary damages; a small number are brought by companies that sell products and seek injunctive relief as well. These cases have progressed to various degrees and a small number may go to trial in the coming 12 months if they are not otherwise resolved. In August 2011, a jury found that Verizon is infringing four ActiveVideo patents related to Verizon's FiOS TV video-on-demand service (VOD), and entered a verdict for ActiveVideo for \$115 million, which the court subsequently increased by

\$24 million. The jury, however, rejected ActiveVideo's claim that Verizon had willfully infringed its patents and the court stayed execution of the payments to ActiveVideo. Verizon was also later enjoined from continuing to use two of these allegedly infringed ActiveVideo patents and ordered to pay ActiveVideo approximately \$11 million per month from August 2011 to May 2012. The court deferred the onset of the injunction until May 2012, and the orders to make payments to ActiveVideo were stayed. Verizon has filed appeals addressing these rulings and is working with its vendors, Cisco and Ericsson, to redesign its VOD system.

In connection with the execution of agreements for the sales of businesses and investments, Verizon ordinarily provides representations and warranties to the purchasers pertaining to a variety of nonfinancial matters, such as ownership of the securities being sold, as well as indemnity from certain financial losses. From time to time, counterparties may make claims under these provisions, and Verizon will seek to defend against those claims and resolve them in the ordinary course of business.

Subsequent to the sale of Verizon Information Services Canada in 2004, we continue to provide a guarantee to publish directories, which was issued when the directory business was purchased in 2001 and had a 30-year term (before extensions). The preexisting guarantee continues, without modification, despite the subsequent sale of Verizon Information Services Canada and the spin-off of our domestic print and Internet yellow pages directories business. The possible financial impact of the guarantee, which is not expected to be adverse, cannot be reasonably estimated as a variety of the potential outcomes available under the guarantee result in costs and revenues or benefits that may offset each other. We do not believe performance under the guarantee is likely.

As of December 31, 2011, letters of credit totaling approximately \$0.1 billion, which were executed in the normal course of business and support several financing arrangements and payment obligations to third parties, were outstanding.

We have several commitments primarily to purchase handsets and peripherals, equipment, software, programming and network services, and marketing activities, which will be used or sold in the ordinary course of business, from a variety of suppliers totaling \$51.1 billion. Of this total amount, we expect to purchase \$22.8 billion in 2012, \$24.6 billion in 2013 through 2014, \$3.1 billion in 2015 through 2016 and \$0.6 billion thereafter. These amounts do not represent our entire anticipated purchases in the future, but represent only those items for which we are contractually committed. Our commitments are generally determined based on the noncancelable quantities or termination amounts. Purchases against our commitments for 2011 totaled approximately \$13 billion. Since the commitments to purchase programming services from television networks and broadcast stations have no minimum volume requirement, we estimated our obligation based on number of subscribers at December 31, 2011, and applicable rates stipulated in the contracts in effect at that time. We also purchase products and services as needed with no firm commitment.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

## NOTE 17

### QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(dollars in millions, except per share amounts)

Quarter Ended	Operating Revenues	Operating Income (Loss)	Net Income (Loss) attributable to Verizon <sup>(1)</sup>			Net Income (Loss)
			Amount	Per Share-Basic	Per Share-Diluted	
<b>2011</b>						
March 31	\$ 26,990	\$ 4,453	\$ 1,439	\$ .51	\$ .51	\$ 3,264
June 30	27,536	4,892	1,609	.57	.57	3,604
September 30	27,913	4,647	1,379	.49	.49	3,542
December 31	28,436	(1,112)	(2,023)	(.71)	(.71)	(212)
<b>2010</b>						
March 31	\$ 26,913	\$ 4,441	\$ 443	\$ .16	\$ .16	\$ 2,318
June 30	26,773	410	(1,192)	(.42)	(.42)	553
September 30	26,484	3,383	659	.23	.23	2,698
December 31	26,395	6,411	2,639	.93	.93	4,648

- Results of operations for the third quarter of 2011 include after-tax charges attributable to Verizon of \$0.2 billion related to severance, pension and benefit charges.
- Results of operations for the fourth quarter of 2011 include after-tax charges attributable to Verizon of \$3.5 billion related to severance, pension and benefit charges and costs related to the early redemption of debt.
- Results of operations for the first quarter of 2010 include after-tax charges attributable to Verizon of \$1.1 billion related to Medicare Part D subsidy, access line spin-off charges, merger integration and acquisition costs, and severance, pension and benefit charges.
- Results of operations for the second quarter of 2010 include after-tax charges attributable to Verizon of \$2.8 billion related to severance, pension and benefit charges, merger integration and acquisition costs, access line spin-off charges, and a one-time non-cash adjustment to wireless data revenues.
- Results of operations for the third quarter of 2010 include after-tax charges attributable to Verizon of \$0.9 billion primarily related to severance, pension and benefit charges, access line spin-off charges, and merger integration costs.
- Results of operations for the fourth quarter of 2010 include net after-tax gain attributable to Verizon of \$1.1 billion related to severance, pension and benefit charges and merger integration and acquisition costs.

(1) Net income (loss) attributable to Verizon per common share is computed independently for each quarter and the sum of the quarters may not equal the annual amount.

## BOARD OF DIRECTORS

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and *Chairman, President and Chief Executive Officer*  
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*Channel*  
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**M. Frances Keeth**

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**Joseph Neubauer**

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*Former Chief Accountant*  
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**Clarence Otis, Jr.**

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*Visiting Professor and Lecturer*  
Woodrow Wilson School of Public and  
International Affairs, Princeton University  
and *Non-Resident Senior Fellow*  
The Brookings Institution

**Rodney E. Slater**

*Partner*  
Patton Boggs LLP

**John W. Snow\***

*President*  
JWS Associates, LLC

\* John W. Snow will retire from the Board in May 2012.

## CORPORATE OFFICERS AND EXECUTIVE LEADERSHIP

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**Roger Gurnani**

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**Holyce E. Hess Groos**

*Senior Vice President – Operational Excellence*  
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**William L. Horton, Jr.**

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**Daniel S. Mead**

*Executive Vice President and*  
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**Randal S. Milch**

*Executive Vice President and*  
*General Counsel*

**W. Robert Mudge**

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**Marc C. Reed**

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**Shane A. Sanders**

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*Senior Vice President and Treasurer*

**John G. Stratton**

*Executive Vice President and President –*  
*Verizon Enterprise*

**Thomas J. Tauke**

*Executive Vice President –*  
*Public Affairs, Policy and Communications*

# INVESTOR INFORMATION

## Stock Transfer Agent and Registrar

Questions or requests for assistance regarding changes to or transfers of your registered stock ownership should be directed to our Transfer Agent, Computershare Trust Company, N.A. at:

Verizon Communications Shareowner Services  
c/o Computershare  
P.O. Box 43078  
Providence, RI 02940-3078  
Phone: 800 631-2355  
Website: [www.computershare.com/verizon](http://www.computershare.com/verizon)  
Email: [verizon@computershare.com](mailto:verizon@computershare.com)

Persons outside the U.S. may call: 781 575-3994

Persons using a telecommunications device for the deaf (TDD) may call: 800 952-9245

## Shareowner Services

Please contact our Transfer Agent regarding information on the following services:

**Online Account Access** — Registered shareowners can view account information online at: [www.computershare.com/verizon](http://www.computershare.com/verizon)

Click on "Create Login" to register.

**Direct Dividend Deposit Service** — Verizon offers an electronic funds transfer service to registered shareowners wishing to deposit dividends directly into savings or checking accounts on dividend payment dates.

**Direct Invest Stock Purchase and Ownership Plan** — Verizon offers a direct stock purchase and share ownership plan. The plan allows current and new investors to purchase common stock and to reinvest the dividends toward the purchase of additional shares.

**Electronic Delivery** — Verizon is acting to conserve natural resources in a variety of ways. We are proud to offer shareowners an opportunity to be environmentally responsible. By receiving links to proxy, annual report and shareowner materials online, you can help Verizon reduce the amount of materials we print and mail. As a thank you for choosing electronic delivery, Verizon will plant a tree on your behalf. It's fast and easy, and you can change your electronic delivery options at any time. Sign up at [www.eTree.com/verizon](http://www.eTree.com/verizon)

## Investor Services

**Investor Website** — Get company information and news on our investor website — [www.verizon.com/investor](http://www.verizon.com/investor)

**Email Alerts** — Get the latest investor information delivered directly to you. Subscribe to Email alerts at our investor website.

## Stock Market Information

Shareowners of record at December 31, 2011: 705,202

Verizon (ticker symbol: VZ) is listed on the New York Stock Exchange, the NASDAQ Global Select Market and also on the London Stock Exchange.

## Dividend Information

At its September 2011 meeting, the Board of Directors increased our quarterly dividend 2.6 percent. On an annual basis, this increased Verizon's dividend to \$2.00 per share. Dividends have been paid since 1984.

## Form 10-K

To receive a printed copy of the 2011 Annual Report on Form 10-K, which is filed with the Securities and Exchange Commission, contact Investor Relations:

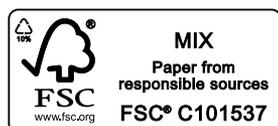
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Investor Relations  
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## Corporate Governance

Verizon's Corporate Governance Guidelines are available on our investor website — [www.verizon.com/investor](http://www.verizon.com/investor)

If you would prefer to receive a printed copy by mail, please contact the Assistant Corporate Secretary:

Verizon Communications Inc.  
Assistant Corporate Secretary  
140 West Street, 29th Floor  
New York, NY 10007



This book is printed on responsibly forested paper containing 10% recycled post-consumer waste fiber, which resulted in the following savings compared to paper with no recycled content:

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140 West Street  
New York, New York 10007  
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