VERIZON COMMUNICATIONS INC
Form 10-Q
July 29, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-8606

Verizon Communications Inc.

(Exact name of registrant as specified in its charter)

Delaware	**23-2259884**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
140 West Street **New York, New York**	**10007**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

At June 30, 2014, 4,145,232,133 shares of the registrant s common stock were outstanding, after deducting 97,142,107 shares held in treasury.

Table of Contents

Table of Contents

Table of Contents

Part I - Financial Information

Item 1. Financial Statements

Condensed Consolidated Statements of Income

Verizon Communications Inc. and Subsidiaries

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in millions, except per share amounts) (unaudited)	**2014**	**2013**	**2014**	**2013**
Operating Revenues	$ 31,483	$ 29,786	$ 62,301	$ 59,206
Operating Expenses				
Cost of services and sales (exclusive of items shown below)	12,087	11,033	23,276	21,965
Selling, general and administrative expense	7,550	8,047	15,882	16,195
Depreciation and amortization expense	4,161	4,151	8,298	8,269
Total Operating Expenses	23,798	23,231	47,456	46,429
Operating Income	7,685	6,555	14,845	12,777
Equity in earnings (losses) of unconsolidated businesses	(43)	120	1,859	115
Other income and (expense), net	66	25	(828)	64
Interest expense	(1,164)	(514)	(2,378)	(1,051)
Income Before Provision For Income Taxes	6,544	6,186	13,498	11,905
Provision for income taxes	(2,220)	(988)	(3,188)	(1,852)
Net Income	$ 4,324	$ 5,198	$ 10,310	$ 10,053
Net income attributable to noncontrolling interests	$ 110	$ 2,952	$ 2,149	$ 5,855
Net income attributable to Verizon	4,214	2,246	8,161	4,198
Net Income	$ 4,324	$ 5,198	$ 10,310	$ 10,053
Basic Earnings Per Common Share				
Net income attributable to Verizon	$ 1.02	$ .78	$ 2.15	$ 1.46
Weighted-average shares outstanding (in millions)	4,147	2,865	3,789	2,866
Diluted Earnings Per Common Share				
Net income attributable to Verizon	$ 1.01	$ .78	$ 2.15	$ 1.46
Weighted-average shares outstanding (in millions)	4,153	2,872	3,795	2,873
Dividends declared per common share	$ 0.530	$ 0.515	$ 1.060	$ 1.030

See Notes to Condensed Consolidated Financial Statements

Table of Contents

Condensed Consolidated Statements of Comprehensive Income

Verizon Communications Inc. and Subsidiaries

(dollars in millions) (unaudited)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net Income	$ 4,324	$ 5,198	$ 10,310	$ 10,053
Other comprehensive loss, net of taxes				
Foreign currency translation adjustments	9	12	(940)	(136)
Unrealized loss on cash flow hedges	(81)	(12)	(164)	(18)
Unrealized gain (loss) on marketable securities	11	(26)	12	(15)
Defined benefit pension and postretirement plans	(41)	(36)	(78)	(72)
Other comprehensive loss attributable to Verizon	(102)	(62)	(1,170)	(241)
Other comprehensive loss attributable to noncontrolling interests		(3)	(23)	(15)
Total Comprehensive Income	$ 4,222	$ 5,133	$ 9,117	$ 9,797
Comprehensive income attributable to noncontrolling interests	$ 110	$ 2,949	$ 2,126	$ 5,840
Comprehensive income attributable to Verizon	4,112	2,184	6,991	3,957
Total Comprehensive Income	$ 4,222	$ 5,133	$ 9,117	$ 9,797

See Notes to Condensed Consolidated Financial Statements

Table of Contents

Condensed Consolidated Balance Sheets

Verizon Communications Inc. and Subsidiaries

(dollars in millions, except per share amounts) (unaudited)	At June 30, 2014	At December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 5,776	$ 53,528
Short-term investments	648	601
Accounts receivable, net of allowances of $628 and $645	12,966	12,439
Inventories	1,073	1,020
Prepaid expenses and other	2,424	3,406
Total current assets	22,887	70,994
Plant, property and equipment	227,475	220,865
Less accumulated depreciation	137,763	131,909
	89,712	88,956
Investments in unconsolidated businesses	852	3,432
Wireless licenses	75,270	75,747
Goodwill	24,663	24,634
Other intangible assets, net	5,781	5,800
Other assets	5,262	4,535
Total assets	$ 224,427	$ 274,098
Liabilities and Equity		
Current liabilities		
Debt maturing within one year	$ 2,283	$ 3,933
Accounts payable and accrued liabilities	16,521	16,453
Other	7,689	6,664
Total current liabilities	26,493	27,050
Long-term debt	107,696	89,658
Employee benefit obligations	26,342	27,682
Deferred income taxes	42,027	28,639
Other liabilities	5,857	5,653
Equity		
Series preferred stock ($.10 par value; none issued)		
Common stock ($.10 par value; 4,242,374,240 and 2,967,610,119 shares issued in each period, respectively)	424	297
Contributed capital	11,038	37,939
Reinvested earnings	5,551	1,782

Accumulated other comprehensive income	1,188	2,358
Common stock in treasury, at cost	(3,638)	(3,961)
Deferred compensation employee stock ownership plans and other	338	421
Noncontrolling interests	1,111	56,580
Total equity	16,012	95,416
Total liabilities and equity	$ 224,427	$ 274,098

See Notes to Condensed Consolidated Financial Statements

Table of Contents

Condensed Consolidated Statements of Cash Flows

Verizon Communications Inc. and Subsidiaries

	Six Months Ended June 30,	
(dollars in millions) (unaudited)	2014	2013
Cash Flows from Operating Activities		
Net Income	$ 10,310	$ 10,053
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	8,298	8,269
Employee retirement benefits	562	354
Deferred income taxes	253	1,812
Provision for uncollectible accounts	473	507
Equity in earnings of unconsolidated businesses, net of dividends received	(1,841)	(95)
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses	(847)	(1,660)
Other, net	(2,404)	(2,092)
Net cash provided by operating activities	14,804	17,148
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	(8,494)	(7,616)
Acquisitions of investments and businesses, net of cash acquired	(179)	(76)
Acquisitions of wireless licenses	(271)	(264)
Proceeds from dispositions of wireless licenses	2,367	
Other, net	231	121
Net cash used in investing activities	(6,346)	(7,835)
Cash Flows from Financing Activities		
Proceeds from long-term borrowings	20,245	499
Repayments of long-term borrowings and capital lease obligations	(11,317)	(2,330)
Increase (decrease) in short-term obligations, excluding current maturities	279	(432)
Dividends paid	(3,583)	(2,946)
Proceeds from sale of common stock	34	74
Purchase of common stock for treasury		(153)
Special distribution to noncontrolling interest		(3,150)
Acquisition of noncontrolling interest	(58,886)	
Other, net	(2,982)	(2,180)
Net cash used in financing activities	(56,210)	(10,618)
Decrease in cash and cash equivalents	(47,752)	(1,305)
Cash and cash equivalents, beginning of period	53,528	3,093
Cash and cash equivalents, end of period	$ 5,776	$ 1,788

See Notes to Condensed Consolidated Financial Statements

Notes to Condensed Consolidated Financial Statements

Verizon Communications Inc. and Subsidiaries

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared based upon Securities and Exchange Commission rules that permit reduced disclosure for interim periods. For a more complete discussion of significant accounting policies and certain other information, you should refer to the financial statements included in the Verizon Communications Inc. (Verizon or the Company) Annual Report on Form 10-K for the year ended December 31, 2013. These financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year. We have reclassified certain prior year amounts to conform to the current year presentation. Effective January 1, 2014, we have also reclassified the results of certain businesses, such as development stage businesses that support our strategic initiatives, from our Wireline segment to Corporate, eliminations and other. The impact of this reclassification was not material to our condensed consolidated financial statements.

Revenue Recognition

We offer new and existing customers the option to participate in Verizon Edge, a program that provides eligible wireless customers with the ability to pay for handsets under an equipment installment plan. Under the Verizon Edge program, customers have the right to upgrade their handset after a minimum of 30 days, subject to certain conditions, including making a stated portion of the required device payments, trading in their handset in good working condition and signing a new contract with Verizon. Upon upgrade, the outstanding balance of the equipment installment plan is exchanged for the used handset. This trade-in right is accounted for as a guarantee obligation.

Verizon Edge is a multiple-element arrangement typically consisting of the trade-in right, handset and monthly wireless service. At the inception of the arrangement, the amount allocable to the delivered units of accounting is limited to the amount that is not contingent upon the delivery of the monthly wireless service (the noncontingent amount). The full amount of the trade-in right s fair value (not an allocated value) will be recognized as the guarantee liability and the remaining allocable consideration will be allocated to the handset. The value of the guarantee liability effectively results in a reduction to revenue recognized for the sale of the handset. The guarantee liability is measured at fair value upon initial recognition based on assumptions lacking observable pricing inputs including the probability and timing of the customer upgrading to a new phone, the customer s estimated remaining installment balance at the time of trade-in and the estimated fair value of the phone at the time of trade-in and therefore is classified within Level 3 of the fair value hierarchy. When the customer trades-in their used phone, the handset received is recorded to inventory and measured as the difference between the remaining equipment installment plan balance at the time of trade-in and the guarantee liability. The guarantee liability may increase after initial recognition as a result of changes in facts or assumptions and we will account for any increase in the guarantee liability with a corresponding decrease to revenue. The subsequent derecognition of the guarantee liability occurs when the guarantor is released from risk, which will occur at the earlier of the time the trade-in right is exercised or expires.

Leasing Arrangements

At each reporting period, we monitor the credit quality of the various lessees in our portfolios. Regarding the leveraged lease portfolio, we use external credit reports 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.

Earnings Per Common Share

There were a total of approximately 6 million outstanding dilutive securities, primarily consisting of restricted stock units, included in the computation of diluted earnings per common share for the three and six months ended June 30, 2014, respectively. There were a total of approximately 7 million outstanding dilutive securities, primarily consisting of restricted stock units, included in the computation of diluted earnings per common share for the three and six months ended June 30, 2013, respectively. There were no outstanding options to purchase shares that would have been anti-dilutive for the three months ended June 30, 2014 and 2013, respectively. Outstanding options to purchase shares that were not included in the computation of diluted earnings per common share, because to do so would have been anti-dilutive for the period, were not significant for the six months ended June 30, 2014 and 2013, respectively.

Recently Adopted Accounting Standards

During the first quarter of 2014, we adopted the accounting standard update relating to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The standard update provides that a liability related to an unrecognized tax benefit should be offset against same jurisdiction deferred tax assets for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The adoption of this standard update did not have a significant impact on our condensed consolidated financial statements.

Recent Accounting Standards

In April 2014, the accounting standard update related to the reporting of discontinued operations and disclosures of disposals of components of an entity was issued. This standard update changes the criteria for reporting discontinued operations and enhances convergence of the reporting requirements for discontinued operations. As a result of this standard update, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity s operations and financial results. This standard update is effective as of the first quarter of 2015, however, earlier adoption is permitted.

In May 2014, the accounting standard update related to the recognition of revenue from contracts with customers was issued. This standard update clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards. The standard update intends to provide a more robust framework for addressing revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; and provide more useful information to users of financial statements through improved disclosure requirements. Upon adoption of this standard update, we expect that the allocation and timing of revenue recognition will be impacted. We expect to adopt this standard update during the first quarter of 2017. We are currently evaluating the impact that this standard update will have on our condensed consolidated financial statements.

In June 2014, the accounting standard update related to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period was issued. The standard update resolves the diverse accounting treatment for these share-based payments by requiring that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. We will adopt this standard update during the first quarter of 2016. We are currently evaluating the impact that this standard update will have on our condensed consolidated financial statements.

2. Acquisitions and Divestitures

Wireless

Wireless Transaction

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

On February 21, 2014, pursuant to the terms and subject to the conditions set forth in the Stock Purchase Agreement, Verizon acquired (the Wireless Transaction) from Seller all of the issued and outstanding capital stock (the Transferred Shares) of Vodafone Americas Finance 1 Inc., a subsidiary of Seller (VF1 Inc.), which indirectly through certain subsidiaries (together with VF1 Inc., the Purchased Entities) owned the Vodafone Interest. In consideration for the Transferred Shares, upon completion of the Wireless Transaction, Verizon (i) paid approximately $58.89 billion in cash, (ii) issued approximately 1.27 billion shares of Verizon s common stock, par value $0.10 per share (the Stock Consideration), which was valued at approximately $61.3 billion at the closing of the Wireless Transaction, (iii) issued senior unsecured Verizon notes in an aggregate principal amount of $5.0 billion (the Verizon Notes), (iv) sold Verizon s indirectly owned 23.1% interest in Vodafone Omnitel N.V. (Omnitel, and such interest, the Omnitel Interest), valued at $3.5 billion and (v) provided other consideration, which included the assumption of preferred stock valued at approximately $1.7 billion. The total cash paid to Vodafone and the other costs of the Wireless Transaction, including financing, legal and bank fees, were financed through the incurrence of third-party indebtedness. See Note 4 for additional information.

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

Omnitel Transaction

On February 21, 2014, Verizon and Vodafone also consummated the sale of the Omnitel Interest (the Omnitel Transaction) by a subsidiary of Verizon to a subsidiary of Vodafone in connection with the Wireless Transaction pursuant to a separate share purchase agreement. As a result, during the six months ended June 30, 2014, we recognized a pre-tax gain of $1.9 billion on the disposal of the Omnitel interest in Equity in earnings (losses) of unconsolidated businesses on our condensed consolidated statement of income.

Verizon Notes

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

Other Consideration

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

Deferred Tax Liabilities

Certain deferred taxes directly attributable to the Wireless Transaction have been calculated based on an analysis of taxes attributable to the difference between the tax basis of the investment in the noncontrolling interest that is assumed compared to Verizon s book basis. As a result, Verizon recorded a deferred tax liability of approximately $13.5 billion.

Spectrum License Transactions

During the second quarter of 2014, we completed license exchange transactions with T-Mobile USA, Inc. (T-Mobile USA) to exchange certain Advanced Wireless Services (AWS) and Personal Communication Services (PCS) licenses. The exchange included a number of swaps that we expect will result in more efficient use of the AWS and PCS bands. As a result of these exchanges, we received $0.9 billion of AWS and PCS spectrum licenses at fair value and we recorded an immaterial gain.

During the second quarter of 2014, we completed transactions pursuant to two additional agreements with T-Mobile USA with respect to our remaining 700 MHz A block spectrum licenses. Under one agreement, we sold certain of these licenses to T-Mobile USA in exchange for cash consideration of approximately $2.4 billion, and under the second agreement we exchanged the remainder of our 700 MHz A block spectrum licenses as well as AWS and PCS spectrum licenses for AWS and PCS spectrum licenses. As a result, we received $1.6 billion of AWS and PCS spectrum licenses at fair value and we recorded a pre-tax gain of approximately $0.7 billion in Selling, general and administrative expense on our condensed consolidated statements of income for the three and six months ended June 30, 2014.

Table of Contents

During the three and six months ended June 30, 2014, we acquired various other wireless licenses and markets for cash consideration that was not significant.

Wireline

During July 2014, Verizon sold a non-strategic Wireline business for cash consideration that was not significant.

Other

During February 2014, Verizon acquired a business dedicated to the development of Internet Protocol (IP) television for cash consideration that was not significant. The transaction is expected to accelerate the availability of next-generation video services.

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, 2014	$ 75,747
Acquisitions (Note 2)	141
Dispositions (Note 2)	(1,978)
Capitalized interest on wireless licenses	138
Reclassifications, adjustments and other	1,222
Balance at June 30, 2014	$ 75,270

Reclassifications, adjustments and other includes the exchanges of wireless licenses in 2014. See Note 2 for additional details.

At June 30, 2014, approximately $4.3 billion of Wireless licenses were under development for commercial service for which we were capitalizing interest costs.

Goodwill

Changes in the carrying amount of Goodwill are as follows:

(dollars in millions)	Wireless	Wireline	Total
Balance at January 1, 2014	$ 18,376	$ 6,258	$ 24,634
Acquisitions and other (Note 2)	15	14	29
Balance at June 30, 2014	$ 18,391	$ 6,272	$ 24,663

Other Intangible Assets

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

	At June 30, 2014			At December 31, 2013		
(dollars in millions)	**Gross Amount**	**Accumulated Amortization**	**Net Amount**	Gross Amount	Accumulated Amortization	Net Amount
Customer lists (5 to 13 years)	$ 3,635	$ (2,798)	$ 837	$ 3,639	$ (2,660)	$ 979
Non-network internal-use software (3 to 7 years)	12,507	(7,896)	4,611	11,770	(7,317)	4,453
Other (2 to 25 years)	664	(331)	333	691	(323)	368
Total	$ 16,806	$ (11,025)	$ 5,781	$ 16,100	$ (10,300)	$ 5,800

Table of Contents

The amortization expense for Other intangible assets was as follows:

(dollars in millions)	Three Months Ended June 30,	Six Months Ended June 30,
2014	$ 393	$ 787
2013	399	785

The estimated future amortization expense for Other intangible assets is as follows:

Years	(dollars in millions)
Remainder of 2014	$ 772
2015	1,328
2016	1,093
2017	907
2018	742

4. Debt

Changes to debt during the six months ended June 30, 2014 are as follows:

(dollars in millions)	Debt Maturing within One Year	Long-term Debt	Total
Balance at January 1, 2014	$ 3,933	$ 89,658	$ 93,591
Proceeds from long-term borrowings		20,245	20,245
Verizon Notes		5,000	5,000
Preferred Stock		1,650	1,650
Repayments of long-term borrowings and capital leases obligations	(2,516)	(8,801)	(11,317)
Increase in short-term obligations, excluding current maturities	279		279
Reclassifications of long-term debt	565	(565)	
Other	22	509	531
Balance at June 30, 2014	$ 2,283	$ 107,696	$ 109,979

During February 2014, we issued 1.75 billion aggregate principal amount of 2.375% Notes due 2022, 1.25 billion aggregate principal amount of 3.25% Notes due 2026 and £0.85 billion aggregate principal amount of 4.75% Notes due 2034. The issuance of these Notes resulted in cash proceeds of approximately $5.4 billion, net of discounts and issuance costs. The net proceeds were used, in part, to finance the Wireless Transaction. Net proceeds not used to finance the Wireless Transaction were used for general corporate purposes. Also, during February 2014, we issued $0.5 billion aggregate principal amount of 5.90% Notes due 2054 resulting in cash proceeds of approximately $0.5 billion, net of discounts and issuance costs. The net proceeds were used for general corporate purposes.

Table of Contents

On March 10, 2014, we announced the commencement of a tender offer (the Tender Offer) to purchase for cash any and all of the series of notes listed in the following table:

(dollars in millions, except for Purchase Price)	Interest Rate	Maturity	Principal Amount Outstanding	Purchase Price (1)	Principal Amount Purchased
Verizon Communications	6.10%	2018	$ 1,500	$ 1,170.07	$ 748
	5.50%	2018	1,500	1,146.91	763
	8.75%	2018	1,300	1,288.35	564
	5.55%	2016	1,250	1,093.62	652
	5.50%	2017	750	1,133.22	353
Cellco Partnership and Verizon Wireless Capital LLC	8.50%	2018	1,000	1,279.63	619
Alltel Corporation	7.00%	2016	300	1,125.26	157
GTE Corporation	6.84%	2018	600	1,196.85	266
					$ 4,122

(1) Per $1,000 principal amount of notes

The Tender Offer for each series of notes was subject to a financing condition, which was either satisfied or waived with respect to all series. The Tender Offer expired on March 17, 2014 and settled on March 19, 2014. In addition to the purchase price, any accrued and unpaid interest on the purchased notes was paid to the date of purchase. During March 2014, we recorded early debt redemption costs in connection with the Tender Offer (see Early Debt Redemption).

During March 2014, we issued $4.5 billion aggregate principal amount of fixed and floating rate notes resulting in cash proceeds of approximately $4.5 billion, net of discounts and issuance costs. The issuances consisted of the following: $0.5 billion aggregate principal amount Floating Rate Notes due 2019 that bear interest at a rate equal to three-month LIBOR plus 0.77% which rate will be reset quarterly, $0.5 billion aggregate principal amount of 2.55% Notes due 2019, $1.0 billion aggregate principal amount of 3.45% Notes due 2021, $1.25 billion aggregate principal amount of 4.15% Notes due 2024 and $1.25 billion aggregate principal amount of 5.05% Notes due 2034. During March 2014, the net proceeds were used to purchase notes in the Tender Offer described above.

During March 2014, Verizon Wireless redeemed $1.25 billion aggregate principal amount of the Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018 at 127.135% of the principal amount of such notes, plus accrued and unpaid interest (see Early Debt Redemption). Also, during March 2014, $1.0 billion of LIBOR plus 0.61% Verizon Communications Notes and $1.5 billion of 1.95% Verizon Communications Notes matured and were repaid.

May Exchange Offer

On May 29, 2014, we announced the commencement of a private exchange offer (the May Exchange Offer) to exchange up to all Cellco Partnership and Verizon Wireless Capital LLC s £0.6 billion outstanding aggregate principal amount of 8.875% Notes due December 18, 2018 (the Old Notes) for Verizon s new sterling-denominated Notes due 2024 (the New Notes) and an amount of cash. This exchange offer has been accounted for as a modification of debt. In connection with the May Exchange Offer, which expired on June 25, 2014, we issued £0.7 billion aggregate principal of New Notes and made a cash payment of £22 million in exchange for £0.6 billion aggregate principal amount of tendered Old Notes. The New Notes bear interest at a rate of 4.073% per annum.

Concurrent with the issuance of the New Notes, we entered into cross currency swaps to fix our future interest and principal payments in U.S. dollars (see Note 6).

Term Loan Agreement

During February 2014, we drew $6.6 billion pursuant to a term loan agreement with a group of major financial institutions to finance, in part, the Wireless Transaction. $3.3 billion of the loans under the term loan agreement have a maturity of three years (the 3-Year Loans) and $3.3 billion of the loans under the term loan agreement have a maturity of five years (the 5-Year Loans). The 5-Year Loans provide for the partial amortization of principal during the last two years that they are outstanding. Loans under the term loan agreement bear interest at floating rates. The term loan agreement contains certain negative covenants, including a negative pledge covenant, a merger or similar transaction covenant and an accounting changes covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. In addition, the term loan agreement requires us to maintain a leverage ratio (as defined in the term loan agreement) not in excess of 3.50:1.00, until our credit ratings are equal to or higher than A3 and A- at Moody s Investors Service and Standard & Poor s Ratings Services, respectively.

During June 2014, we issued $3.3 billion aggregate principal amount of fixed and floating rate notes resulting in cash proceeds of approximately $3.3 billion, net of discounts and issuance costs. The issuances consisted of the following: $1.3 billion aggregate principal amount of Floating Rate Notes due 2017 that will bear interest at a rate equal to three-month LIBOR plus 0.40% which will be reset quarterly and $2.0 billion aggregate principal amount of 1.35% Notes due 2017. We used the net proceeds from the offering of these notes to repay the 3-year Loans on June 12, 2014.

Verizon Notes

During February 2014, in connection with the Wireless Transaction, we issued $5.0 billion aggregate principal amount of floating rate notes to Vodafone. These notes were issued in two separate series, with $2.5 billion due February 21, 2022 and $2.5 billion due February 21, 2025. The Verizon Notes bear interest at a floating rate, which will be reset quarterly, with interest payable quarterly in arrears, beginning May 21, 2014 (see Note 2). The eight-year Verizon Notes bear interest at a floating rate equal to three-month LIBOR, plus 1.222%, and the eleven-year Verizon Notes bear interest at a floating rate equal to three-month LIBOR, plus 1.372%.

Preferred Stock

As a result of the Wireless Transaction, we assumed long-term obligations with respect to 5.143% Class D and Class E cumulative Preferred Stock issued by one of the Purchased Entities. Both the Class D shares (825,000 shares outstanding) and Class E shares (825,000 shares outstanding) are mandatorily redeemable in April 2020 at $1,000 per share plus any accrued and unpaid dividends. Dividends accrue at 5.143% per annum and will be treated as interest expense. Both the Class D and Class E shares have been classified as liability instruments and were recorded at fair value as determined at the closing of the Wireless Transaction.

Other Credit Facilities

As of June 30, 2014, the unused borrowing capacity under our $6.2 billion credit facility was approximately $6.1 billion and the unused borrowing capacity under our $2.0 billion 364-day revolving credit agreement was $2.0 billion.

Early Debt Redemption

During March 2014, we recorded net debt redemption costs of $0.9 billion in connection with the early redemption of $1.25 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, and the purchase of the following in the Tender Offer: $0.7 billion of the then outstanding $1.5 billion aggregate principal amount of Verizon 6.10% Notes due 2018, $0.8 billion of the then outstanding $1.5 billion aggregate principal amount of Verizon 5.50% Notes due 2018, $0.6 billion of the then outstanding $1.3 billion aggregate principal amount of Verizon 8.75% Notes due 2018, $0.7 billion of the then outstanding $1.25 billion aggregate principal amount of Verizon 5.55% Notes due 2016, $0.4 billion of the then outstanding $0.75 billion aggregate principal amount of Verizon 5.50% Notes due 2017, $0.6 billion of the then outstanding $1.0 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, $0.2 billion of the then outstanding $0.3 billion aggregate principal amount of Alltel Corporation 7.00% Debentures due 2016 and $0.3 billion of the then outstanding $0.6 billion aggregate principal amount of GTE Corporation 6.84% Debentures due 2018.

We recognized these costs in Other income and (expense), net on our condensed consolidated statement of income during the six months ended June 30, 2014.

Guarantees

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries. As of June 30, 2014, $3.1 billion aggregate 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 June 30, 2014, $1.4 billion aggregate principal amount of these obligations remain outstanding.

Table of Contents

Debt Covenants

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

5. Wireless Equipment Installment Plans

We offer new and existing customers the option to participate in Verizon Edge, a program that provides eligible wireless customers with the ability to pay for their handset over a period of time (an equipment installment plan) and the right to upgrade their handset after a minimum of 30 days, subject to certain conditions, including making a stated portion of the required device payments, trading in their handset in good working condition and signing a new contract with Verizon. At June 30, 2014, the guarantee liability related to this program was approximately $0.5 billion.

At the time of sale, we impute risk adjusted interest on the receivables associated with Verizon Edge. We record the imputed interest as a reduction to the related accounts receivable. Interest income is recognized over the financed installment term.

We assess the collectability of our Verizon Edge receivables based upon a variety of factors, including the credit quality of the customer base, payment trends and other qualitative factors. The current portion of our receivables related to Verizon Edge included in Accounts receivable, net was $0.9 billion at June 30, 2014 and was not material at December 31, 2013. The long-term portion of the equipment installment plan receivables included in Other assets was $0.6 billion at June 30, 2014 and was not material at December 31, 2013.

The credit profiles of our customers with a Verizon Edge plan are similar to those of our customers with a traditional subsidized plan. Certain customers with a credit profile which carries a higher risk are required to make a down payment for equipment financed through Verizon Edge.

6. Fair Value Measurements

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

(dollars in millions)	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]	Total
Assets:				
Short-term investments:				
Equity securities	$ 399	$	$	$ 399
Fixed income securities		249		249
Other assets:				
Fixed income securities		900		900
Cross currency swaps and other		170		170
Interest rate swaps		45		45
Total	$ 399	$ 1,364	$	$ 1,763
Liabilities:				
Other liabilities:				
Forward interest rate swaps and other	$	$ 65	$	$ 65
Total	$	$ 65	$	$ 65

[1] quoted prices in active markets for identical assets or liabilities
[2] observable inputs other than quoted prices in active markets for identical assets and liabilities
[3] no observable pricing inputs in the market

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

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

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

Table of Contents

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 the six months ended June 30, 2014.

Fair Value of Short-term and Long-term Debt

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

	At June 30, 2014		At December 31, 2013	
(dollars in millions)	**Carrying Amount**	**Fair Value**	Carrying Amount	Fair Value
Short- and long-term debt, excluding capital leases	$ 109,568	$ 123,701	$ 93,298	$ 103,527

Derivative Instruments

We enter into derivative transactions to manage our exposure to fluctuations in foreign currency exchange rates, interest rates, and 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 swap agreements, commodity swap and forward 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 condensed consolidated balance sheets. 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 loss and recognized in earnings when the hedged item is recognized in earnings.

Interest Rate Swaps

We enter into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. We principally receive fixed rates and pay variable rates based on LIBOR, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on our condensed consolidated balance sheets as assets and liabilities. The fair value of these contracts was not material at June 30, 2014 and December 31, 2013, respectively. As of June 30, 2014, the total notional amount of the interest rate swaps was $1.8 billion. The ineffective portion of these interest rate swaps was not material for the three and six months ended June 30, 2014, respectively.

Forward Interest Rate Swaps

In order to manage our exposure to future interest rate changes, during the fourth quarter of 2013, we entered into forward interest rate swaps with a total notional value of $2.0 billion. We designated these contracts as cash flow hedges. In March 2014, we settled these forward interest rate swaps and the pre-tax gain was not material. During the first and second quarters of 2014, we entered into forward interest rate swaps with total notional values of $0.9 billion and $3.1 billion, respectively. We designated these contracts as cash flow hedges.

During July 2014, we entered into forward interest rate swaps with a total notional value of $0.8 billion. We designated these contracts as cash flow hedges.

Cross Currency Swaps

During the first quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $5.4 billion of Euro and British Pound Sterling denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses.

During the second quarter of 2014, in connection with the May Exchange Offer, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $1.2 billion of British Pound Sterling denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses.

Verizon Wireless previously entered into cross currency swaps designated as cash flow hedges to exchange approximately $1.6 billion of British Pound Sterling and Euro-denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the effect of foreign currency transaction gains or losses. In June 2014, we settled $0.8 billion of these cross currency swaps as part of the Exchange Offer and the gains with respect to these swaps were not material.

A portion of the gains and losses recognized in Other comprehensive income (loss) was reclassified to Other income and (expense), net to offset the related pre-tax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was $0.2 billion at June 30, 2014 and was not material at December 31, 2013. During the three and six months ended June 30, 2014, an immaterial pre-tax loss and an immaterial pre-tax gain, respectively, were recognized in Other comprehensive income (loss). During the three and six months ended June 30, 2013, an immaterial pre-tax gain and a pre-tax loss of $0.1 billion, respectively, were recognized in Other comprehensive income (loss).

7. Stock-Based Compensation

Verizon Communications Long-Term Incentive Plan

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

Restricted Stock Units

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

Performance Stock Units

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

The following table summarizes the Restricted Stock Unit and Performance Stock Unit activity:

(shares in thousands)	**Restricted Stock Units**	**Performance Stock Units**
Outstanding, January 1, 2014	16,193	23,724
Granted	4,780	6,792
Payments	(6,134)	(9,153)
Cancelled/Forfeited	(159)	(181)
Outstanding, June 30, 2014	14,680	21,182

As of June 30, 2014, unrecognized compensation expense related to the unvested portion of outstanding RSUs and PSUs was approximately $0.6 billion and is expected to be recognized over approximately two years.

The RSUs granted in 2014 have a weighted-average grant date fair value of $47.15 per unit.

8. 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

Table of Contents

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

Net Periodic Benefit Cost

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

(dollars in millions)	Pension		Health Care and Life	
Three Months Ended June 30,	**2014**	**2013**	**2014**	**2013**
Service cost	$ 82	$ 98	$ 64	$ 79
Amortization of prior service cost (credit)	(2)	2	(64)	(61)
Expected return on plan assets	(295)	(311)	(40)	(36)
Interest cost	259	251	277	274
Remeasurement gain, net		(237)		
Net periodic benefit (income) cost	$ 44	$ (197)	$ 237	$ 256

(dollars in millions)	Pension		Health Care and Life	
Six Months Ended June 30,	**2014**	**2013**	**2014**	**2013**
Service cost	$ 163	$ 197	$ 129	$ 159
Amortization of prior service cost (credit)	(4)	3	(127)	(123)
Expected return on plan assets	(590)	(622)	(81)	(72)
Interest cost	518	501	554	548
Remeasurement gain, net		(237)		
Net periodic benefit (income) cost	$ 87	$ (158)	$ 475	$ 512

Pension Remeasurement

During the three and six months ended June 30, 2013, we recorded net pre-tax pension remeasurement credits of approximately $0.2 billion, in accordance with our accounting policy to recognize actuarial gains and losses in the period in which they occur. The pension remeasurement credits relate to settlements for employees who received lump-sum distributions. The credits were primarily driven by an approximately 75 basis point increase in our discount rate assumption used to determine the current year liabilities of one of our pension plans. The change in discount rate resulted in a gain of $0.3 billion, partially offset by a loss resulting from the difference between our expected return on assets assumption of 7.5% at December 31, 2012 and our annualized actual return on assets of 7.2% at June 30, 2013, as well as other losses ($0.1 billion). Our weighted-average discount rate assumption increased from 4.2% at December 31, 2012 to 5.0% at June 30, 2013.

Severance Payments

During the three and six months ended June 30, 2014, we paid severance benefits of $0.1 billion and $0.3 billion, respectively. At June 30, 2014, we had a remaining severance liability of $0.5 billion, a portion of which includes future contractual payments to employees separated as of June 30, 2014.

Employer Contributions

During the three and six months ended June 30, 2014, we contributed $0.4 billion and $0.9 billion, respectively, to our other postretirement benefit plans. During the three and six months ended June 30, 2014, we contributed $0.6 billion and $0.8 billion, respectively, to our qualified pension plans. The contributions to our nonqualified pension plans were not material during the three and six months ended June 30, 2014. There have been no material changes with respect to the qualified and nonqualified pension contributions in 2014 as previously disclosed in Part II. Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2013.

Table of Contents

9. Equity and Accumulated Other Comprehensive Income

Equity

Changes in the components of Total equity were as follows:

(dollars in millions)	Attributable to Verizon	Noncontrolling Interests	Total Equity
Balance at January 1, 2014	$ 38,836	$ 56,580	$ 95,416
Net income	8,161	2,149	10,310
Other comprehensive loss	(1,170)	(23)	(1,193)
Comprehensive income	6,991	2,126	9,117
Issuance of common stock	127		127
Contributed capital	(26,901)		(26,901)
Dividends declared	(4,392)		(4,392)
Common stock in treasury	323		323
Purchase of noncontrolling interest		(55,960)	(55,960)
Distributions and other	(83)	(1,635)	(1,718)
Balance at June 30, 2014	$ 14,901	$ 1,111	$ 16,012

The changes in Common stock, Contributed capital and Purchase of noncontrolling interest are primarily due to the completion of the Wireless Transaction on February 21, 2014. See Note 2 for additional information.

Prior to the closing of the Wireless Transaction, noncontrolling interests included in our condensed consolidated financial statements primarily consisted of Vodafone s 45% ownership interest in Verizon Wireless. The noncontrolling interests that remain after the completion of the Wireless Transaction primarily relate to wireless partnership entities.

Common Stock

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

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans, including 3.9 million common shares issued from Treasury stock during the six months ended June 30, 2014, which had an aggregate value of $0.2 billion.

Accumulated Other Comprehensive Income

The changes in the balances of Accumulated other comprehensive income by component are as follows:

(dollars in millions)	Foreign currency translation adjustments	Unrealized loss on cash	Unrealized gain on marketable securities	Defined benefit pension and postretirement plans	Total

			flow hedges							
Balance at January 1, 2014	$	853	$	113	$	117	$	1,275	$	2,358
Other comprehensive income (loss)		(29)		(21)		22				(28)
Amounts reclassified to net income		(911)		(143)		(10)		(78)		(1,142)
Net other comprehensive income (loss)		(940)		(164)		12		(78)		(1,170)
Balance at June 30, 2014	$	(87)	$	(51)	$	129	$	1,197	$	1,188

The amounts presented above in net other comprehensive income (loss) are net of taxes and noncontrolling interests, which are not significant. For the six months ended June 30, 2014, the amounts reclassified to net income related to foreign currency translation adjustments are included in Equity in earnings (losses) of unconsolidated businesses on our condensed consolidated

Table of Contents

statement of income and are a result of the completion of the Omnitel Transaction. See Note 2 for additional details. For the six months ended June 30, 2014, the amounts reclassified to net income related to defined benefit pension and postretirement plans are included in Cost of services and sales and Selling, general and administrative expense on our condensed consolidated statements of income. For the six months ended June 30, 2014, all other amounts reclassified to net income are included in Other income and (expense), net on our condensed consolidated statements of income.

10. 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 other adjustments and gains and losses that are not allocated in assessing segment performance due to their non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results as these items are included in the chief operating decision maker s assessment of segment performance. Effective January 1, 2014, we have also reclassified the results of certain businesses, such as development stage businesses that support our strategic initiatives, from our Wireline segment to Corporate, eliminations and other. The impact of this reclassification was not material to our condensed consolidated financial statements or our segment results of operations.

Our segments and their principal activities consist of the following:

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

Table of Contents

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(dollars in millions)	**2014**	**2013**	**2014**	**2013**
External Operating Revenues				
Wireless				