

VERIZON COMMUNICATIONS INC

Form 10-Q

July 30, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2012

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

(State or other jurisdiction

of incorporation or organization)

140 West Street

New York, New York

(Address of principal executive offices)

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

23-2259884

(I.R.S. Employer Identification No.)

10007

(Zip Code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

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 No

At June 29, 2012, 2,848,876,875 shares of the registrant's common stock were outstanding, after deducting 118,733,244 shares held in treasury.

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Table of Contents**Part I - Financial Information****Item 1. Financial Statements****Condensed Consolidated Statements of Income**

Verizon Communications Inc. and Subsidiaries

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|--------------------------|-------------------------|--------------------------|
| (dollars in millions, except per share amounts) (unaudited) | 2012 | June 30, 2011 | 2012 | June 30, 2011 |
| Operating Revenues | \$ 28,552 | \$ 27,536 | \$ 56,794 | \$ 54,526 |
| Operating Expenses | | | | |
| Cost of services and sales (exclusive of items shown below) | 10,896 | 11,158 | 22,215 | 22,387 |
| Selling, general and administrative expense | 7,877 | 7,373 | 15,577 | 14,657 |
| Depreciation and amortization expense | 4,128 | 4,113 | 8,156 | 8,137 |
| Total Operating Expenses | 22,901 | 22,644 | 45,948 | 45,181 |
| Operating Income | 5,651 | 4,892 | 10,846 | 9,345 |
| Equity in earnings of unconsolidated businesses | 72 | 121 | 175 | 222 |
| Other income and (expense), net | 34 | 10 | 53 | 46 |
| Interest expense | (679) | (717) | (1,364) | (1,426) |
| Income Before Provision For Income Taxes | 5,078 | 4,306 | 9,710 | 8,187 |
| Provision for income taxes | (793) | (702) | (1,519) | (1,319) |
| Net Income | \$ 4,285 | \$ 3,604 | \$ 8,191 | \$ 6,868 |
| Net income attributable to noncontrolling interest | \$ 2,460 | \$ 1,995 | \$ 4,680 | \$ 3,820 |
| Net income attributable to Verizon | 1,825 | 1,609 | 3,511 | 3,048 |
| Net Income | \$ 4,285 | \$ 3,604 | \$ 8,191 | \$ 6,868 |
| Basic Earnings Per Common Share | | | | |
| Net income attributable to Verizon | \$.64 | \$.57 | \$ 1.23 | \$ 1.08 |
| Weighted-average shares outstanding (in millions) | 2,849 | 2,832 | 2,846 | 2,831 |
| Diluted Earnings Per Common Share | | | | |
| Net income attributable to Verizon | \$.64 | \$.57 | \$ 1.23 | \$ 1.07 |
| Weighted-average shares outstanding (in millions) | 2,858 | 2,838 | 2,854 | 2,837 |
| Dividends declared per common share | \$ 0.5000 | \$ 0.4875 | \$ 1.0000 | \$ 0.9750 |

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 | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | 2012 | June 30, 2011 | 2012 | June 30, 2011 |
| Net Income | \$ 4,285 | \$ 3,604 | \$ 8,191 | \$ 6,868 |
| Other comprehensive income, net of taxes | | | | |
| Foreign currency translation adjustments | (195) | 60 | (91) | 274 |
| Unrealized gain (loss) on cash flow hedges | (41) | (3) | (33) | 28 |
| Unrealized gain (loss) on marketable securities | (10) | (2) | 13 | (2) |
| Defined benefit pension and postretirement plans | (5) | 6 | (11) | 5 |
| Other comprehensive income (loss) attributable to Verizon | (251) | 61 | (122) | 305 |
| Other comprehensive loss attributable to noncontrolling interest | (8) | (2) | (5) | (4) |
| Total Comprehensive Income | \$ 4,026 | \$ 3,663 | \$ 8,064 | \$ 7,169 |
| Comprehensive income attributable to noncontrolling interest | \$ 2,452 | \$ 1,993 | \$ 4,675 | \$ 3,816 |
| Comprehensive income attributable to Verizon | 1,574 | 1,670 | 3,389 | 3,353 |
| Total Comprehensive Income | \$ 4,026 | \$ 3,663 | \$ 8,064 | \$ 7,169 |

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, 2012 | At December 31, 2011 |
|---|---------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 10,001 | \$ 13,362 |
| Short-term investments | 777 | 592 |
| Accounts receivable, net of allowances of \$717 and \$802 | 11,595 | 11,776 |
| Inventories | 856 | 940 |
| Prepaid expenses and other | 3,901 | 4,269 |
| Total current assets | 27,130 | 30,939 |
| Plant, property and equipment | 217,739 | 215,626 |
| Less accumulated depreciation | 129,844 | 127,192 |
| | 87,895 | 88,434 |
| Investments in unconsolidated businesses | 3,539 | 3,448 |
| Wireless licenses | 73,303 | 73,250 |
| Goodwill | 23,478 | 23,357 |
| Other intangible assets, net | 5,726 | 5,878 |
| Other assets | 5,001 | 5,155 |
| Total assets | \$ 226,072 | \$ 230,461 |
| Liabilities and Equity | | |
| Current liabilities | | |
| Debt maturing within one year | \$ 5,912 | \$ 4,849 |
| Accounts payable and accrued liabilities | 13,973 | 14,689 |
| Other | 6,468 | 11,223 |
| Total current liabilities | 26,353 | 30,761 |
| Long-term debt | 46,479 | 50,303 |
| Employee benefit obligations | 31,909 | 32,957 |
| Deferred income taxes | 25,649 | 25,060 |
| Other liabilities | 5,254 | 5,472 |
| 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 | 37,932 | 37,919 |
| Reinvested earnings | 1,845 | 1,179 |
| Accumulated other comprehensive income | 1,147 | 1,269 |

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| | | |
|--|-------------------|-------------------|
| Common stock in treasury, at cost | (4,438) | (5,002) |
| Deferred compensation employee stock ownership plans and other | 367 | 308 |
| Noncontrolling interest | 53,278 | 49,938 |
| Total equity | 90,428 | 85,908 |
| Total liabilities and equity | \$ 226,072 | \$ 230,461 |

See Notes to Condensed Consolidated Financial Statements

Table of Contents**Condensed Consolidated Statements of Cash Flows**

Verizon Communications Inc. and Subsidiaries

| (dollars in millions) (unaudited) | Six Months Ended June 30, | |
|--|----------------------------------|-------------|
| | 2012 | 2011 |
| Cash Flows from Operating Activities | | |
| Net Income | \$ 8,191 | \$ 6,868 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 8,156 | 8,137 |
| Employee retirement benefits | 751 | 726 |
| Deferred income taxes | 1,237 | 1,501 |
| Provision for uncollectible accounts | 521 | 498 |
| Equity in earnings of unconsolidated businesses, net of dividends received | (149) | (195) |
| Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses | (1,136) | (2,361) |
| Other, net | (2,300) | (2,382) |
| Net cash provided by operating activities | 15,271 | 12,792 |
| Cash Flows from Investing Activities | | |
| Capital expenditures (including capitalized software) | (7,430) | (8,918) |
| Acquisitions of licenses, investments and businesses, net of cash acquired | (242) | (1,668) |
| Net change in short-term investments | 21 | 47 |
| Other, net | 67 | 667 |
| Net cash used in investing activities | (7,584) | (9,872) |
| Cash Flows from Financing Activities | | |
| Proceeds from long-term borrowings | | 6,440 |
| Repayments of long-term borrowings and capital lease obligations | (1,891) | (7,356) |
| Increase (decrease) in short-term obligations, excluding current maturities | (887) | 1,012 |
| Dividends paid | (2,587) | (2,759) |
| Proceeds from sale of common stock | 210 | 122 |
| Special distribution to noncontrolling interest | (4,500) | |
| Other, net | (1,393) | (807) |
| Net cash used in financing activities | (11,048) | (3,348) |
| Decrease in cash and cash equivalents | (3,361) | (428) |
| Cash and cash equivalents, beginning of period | 13,362 | 6,668 |
| Cash and cash equivalents, end of period | \$ 10,001 | \$ 6,240 |

See Notes to Condensed Consolidated Financial Statements

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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 (SEC) 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, 2011. 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 prior year amounts to conform to the current year presentation.

Recently Adopted Accounting Standards

During the first quarter of 2012, we adopted the accounting standard update regarding the presentation of comprehensive income. This update 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. In connection with the adoption of this standard our condensed consolidated financial statements include a separate statement of comprehensive income.

During the first quarter of 2012, we adopted the accounting standard update regarding fair value measurement. This update 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. The adoption of this standard update did not have a significant impact on our condensed consolidated financial statements.

During the first quarter of 2012, we adopted the accounting standard update regarding testing of goodwill for impairment. 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. The adoption of this standard did not have a significant impact on our condensed consolidated financial statements.

Leasing Arrangements

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.

Earnings Per Common Share

There were a total of approximately 9 million and 8 million stock options and restricted stock units outstanding to purchase shares included in the computation of diluted earnings per common share for the three and six months ended June 30, 2012, respectively, and a total of approximately 6 million and 5 million stock options and restricted stock units outstanding to purchase shares included in the computation of diluted earnings per common share for the three and six months ended June 30, 2011, respectively. Outstanding options to purchase shares that

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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 three and six months ended June 30, 2012, and included 20 million weighted-average shares for the three and six months ended June 30, 2011.

Recent Accounting Standards

In December 2011, the accounting standard update relating to disclosures about offsetting assets and liabilities was amended to require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Disclosures of the amounts of certain instruments subject to

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enforceable master netting arrangements or similar agreements would be required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. We will adopt this standard update during the first quarter of 2013. We are currently evaluating the impact that this standard update will have on our consolidated financial statements.

2. Acquisitions and Other

Verizon Wireless

On June 25, 2012, Verizon Wireless entered into a license exchange agreement with a subsidiary of T-Mobile USA, Inc. (T-Mobile) pursuant to which the parties agreed to exchange a significant amount of Advanced Wireless Services (AWS) spectrum. The transaction is contingent upon the closing of Verizon Wireless purchases of spectrum from SpectrumCo, LLC (SpectrumCo), Cox TMI Wireless (Cox) and Leap Wireless and is subject to approval by the Federal Communications Commission (FCC), which is expected to occur in 2012, as well as other customary closing conditions. The exchange includes a number of intra-market spectrum swaps that will result in more efficient use of the AWS band for both companies, and will also give both companies additional spectrum depth in specific markets to meet Long Term Evolution (LTE) capacity needs and enable LTE expansion. The exchange will result in an overall net transfer of spectrum from Verizon Wireless to T-Mobile and a cash payment from T-Mobile to Verizon Wireless.

On April 18, 2012, we announced plans to conduct an open sale process for all of our 700 megahertz (MHz) A and B spectrum licenses in order to rationalize our spectrum holdings. We acquired these licenses as part of the FCC Auction 73 in 2008. The sale of these licenses is contingent upon the close of the purchase of the AWS licenses from SpectrumCo, Cox and Leap Wireless described below.

In December 2011, we entered into agreements to acquire AWS spectrum licenses held by SpectrumCo and Cox, respectively. The aggregate value of these transactions was 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 and the FCC.

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. These transactions are expected to close in 2012.

During the three and six months ended June 30, 2012 and 2011, we acquired various wireless licenses and markets for cash consideration that was not significant.

Wireline

On June 1, 2012, Verizon agreed to acquire HUGHES Telematics, Inc. for approximately \$0.6 billion in cash, and the acquisition was completed on July 26, 2012. As a result of the transaction, HUGHES Telematics became a wholly-owned subsidiary of Verizon. The debt obligations of HUGHES Telematics, which were approximately \$0.1 billion as of the date of acquisition, were repaid by Verizon during July 2012. Had this acquisition been consummated on January 1, 2012 or 2011, the results of the acquired operations of HUGHES Telematics would not have had a significant impact on the consolidated results of operations of Verizon. The acquisition is expected to accelerate our ability to bring more telematics offerings to market for existing and new HUGHES Telematics and Verizon customers.

In February 2012, Verizon entered into a joint venture with Coinstar, Inc. A subsidiary of Verizon holds a 65% majority ownership share in the joint venture and a subsidiary of Coinstar, Inc., holds a 35% ownership share. The joint venture is controlled by Verizon and therefore is being

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consolidated for reporting purposes. The joint venture will offer access to media rentals through online and mobile content streaming from Verizon to consumers across the country as well as physical media rentals through Redbox kiosks. The joint venture plans to introduce its subscription services in the fourth quarter of 2012. The initial funding related to the formation of the joint venture was not significant to Verizon.

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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.

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, 2012 | \$ 73,250 |
| Acquisitions (Note 2) | 25 |
| Capitalized interest on wireless licenses | 33 |
| Reclassifications, adjustments and other | (5) |
| Balance at June 30, 2012 | \$ 73,303 |

During the six months ended June 30, 2012, approximately \$0.8 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) | | Verizon | | |
| | | Wireless | Wireline | Total |
| Balance at January 1, 2012 | \$ 17,963 | \$ 5,394 | | \$ 23,357 |
| Acquisitions (Note 2) | 105 | | | 105 |
| Reclassifications, adjustments and other | | | 16 | 16 |
| Balance at June 30, 2012 | \$ 18,068 | \$ 5,410 | | \$ 23,478 |

Other Intangible Assets

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

| | | | | | | |
|--------------------------------|-------------------------|-------------------------------------|-----------------------|-----------------------------|-------------------------------------|-----------------------|
| | At June 30, 2012 | | | At December 31, 2011 | | |
| (dollars in millions) | Gross Amount | Accumulated Amortization | Net Amount | Gross Amount | Accumulated Amortization | Net Amount |
| Customer lists (6 to 13 years) | \$ 3,385 | \$ (2,115) | \$ 1,270 | \$ 3,529 | \$ (2,052) | \$ 1,477 |
| | 10,004 | (5,882) | 4,122 | 9,536 | (5,487) | 4,049 |

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Non-network internal-use
software (3 to 7 years)

| | | | | | | |
|-----------------------|-----|-------|-----|-----|-------|-----|
| Other (2 to 25 years) | 572 | (238) | 334 | 561 | (209) | 352 |
|-----------------------|-----|-------|-----|-----|-------|-----|

| | | | | | | |
|--------------|-----------|------------|----------|-----------|------------|----------|
| Total | \$ 13,961 | \$ (8,235) | \$ 5,726 | \$ 13,626 | \$ (7,748) | \$ 5,878 |
|--------------|-----------|------------|----------|-----------|------------|----------|

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The amortization expense for Other intangible assets was as follows:

| (dollars in millions) | Three Months Ended June 30, | Six Months Ended June 30, |
|-----------------------|--|--------------------------------------|
| 2012 | \$ 367 | \$ 728 |
| 2011 | 374 | 744 |

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

| Years | (dollars in millions) |
|-------|-----------------------|
| 2012 | \$ 1,408 |
| 2013 | 1,219 |
| 2014 | 905 |
| 2015 | 714 |
| 2016 | 510 |

4. Debt

Changes to debt during the six months ended June 30, 2012 are as follows:

| (dollars in millions) | Debt Maturing within One Year | Long-term Debt | Total |
|--|--|---------------------------|------------------|
| Balance at January 1, 2012 | \$ 4,849 | \$ 50,303 | \$ 55,152 |
| Repayments of long-term borrowings and capital lease obligations | (1,891) | | (1,891) |
| Decrease in short-term obligations, excluding current maturities | (887) | | (887) |
| Reclassifications of long-term debt | 3,700 | (3,700) | |
| Other | 141 | (124) | 17 |
| Balance at June 30, 2012 | \$ 5,912 | \$ 46,479 | \$ 52,391 |

During January 2012, \$1.0 billion of 5.875% Verizon New Jersey Inc. Debentures matured and were repaid. During February 2012, \$0.8 billion of 5.25% Verizon Wireless Notes matured and were repaid.

During July 2012, \$0.8 billion of 7.0% Verizon Wireless Notes matured and were repaid.

Guarantees

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries. As of June 30, 2012, \$5.4 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 June 30, 2012, \$1.7 billion principal amount of these obligations remain outstanding.

Debt Covenants

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

Credit Facility

As of June 30, 2012, the unused borrowing capacity under a \$6.2 billion three-year credit facility, maturing on October 15, 2014, with a group of major financial institutions was approximately \$6.1 billion.

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The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2012:

| (dollars in millions) | Level 1 ⁽¹⁾ | Level 2 ⁽²⁾ | Level 3 ⁽³⁾ | Total |
|-----------------------------|------------------------|------------------------|------------------------|-----------------|
| Assets: | | | | |
| Short-term investments: | | | | |
| Equity securities | \$ 279 | \$ | \$ | \$ 279 |
| Fixed income securities | 230 | 268 | | 498 |
| Other current assets: | | | | |
| Interest rate swaps | | 24 | | 24 |
| Other assets: | | | | |
| Fixed income securities | | 819 | | 819 |
| Interest rate swaps | | 633 | | 633 |
| Cross currency swaps | | 82 | | 82 |
| Total | \$ 509 | \$ 1,826 | \$ | \$ 2,335 |
| Liabilities: | | | | |
| Other Liabilities: | | | | |
| Forward interest rate swaps | \$ | \$ 23 | \$ | \$ 23 |
| Cross currency swaps | | 20 | | 20 |
| Total | \$ | \$ 43 | \$ | \$ 43 |

⁽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 the six months ended June 30, 2012.

Fair Value of Short-term and Long-term Debt

The fair value of our debt is determined using various methods, including quoted market 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, 2012 | | At December 31, 2011 | |
|---|----------------------------|-------------------|-----------------------------|-------------------|
| (dollars in millions) | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Short- and long-term debt, excluding capital leases | \$ 52,084 | \$ 62,170 | \$ 54,800 | \$ 64,485 |

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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 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 income and recognized in earnings when the hedged item is recognized in earnings.

Interest Rate Swaps

We have entered into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. We principally receive fixed rates and pay variable rates based on the London Interbank Offered Rate, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on our condensed 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, primarily included in Other assets and Long-term debt, was \$0.7 billion and \$0.6 billion at June 30, 2012 and December 31, 2011, respectively. As of June 30, 2012, 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 the three months ended June 30, 2012, we entered into forward interest rate swaps with a total notional value of \$1.0 billion. We have designated these contracts as cash flow hedges.

Cross Currency Swaps

Verizon Wireless previously entered into cross currency swaps designated as cash flow hedges to exchange approximately \$1.6 billion of British Pound Sterling and Euro-denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses. A portion of the gains and losses recognized in Other comprehensive income is reclassified to Other income and (expense), net to offset the related pretax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps, included in Other assets and Other liabilities, was approximately \$0.1 billion and \$20 million, respectively at June 30, 2012. The fair value of the outstanding swaps included in Other assets was approximately \$0.1 billion at December 31, 2011. During the three and six months ended June 30, 2012, a pretax loss of \$0.1 billion and \$16 million, respectively, was recognized in Other comprehensive income. During the three and six months ended June 30, 2011, a pretax gain of \$36 million and \$0.1 billion, respectively, was recognized in Other comprehensive income.

Table of Contents**6. 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 were classified as liability awards because the RSUs were paid in cash upon vesting. 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. 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, beginning of year | 19,836 | 27,614 |
| Granted | 5,630 | 8,492 |
| Payments | (7,348) | (8,499) |
| Cancelled/Forfeited | (62) | (64) |
| Outstanding, June 30, 2012 | 18,056 | 27,543 |

As of June 30, 2012, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately \$0.7 billion and is expected to be recognized over approximately two years.

The RSUs granted in 2012 and classified as equity awards have a weighted-average grant date fair value of \$38.67 per unit.

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:

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| (shares in thousands) | Stock Options | Weighted-Average Exercise Price |
|-----------------------------------|----------------------|--|
| Outstanding, beginning of year | 27,819 | \$ 41.24 |
| Exercised | (5,089) | 35.30 |
| Cancelled/Forfeited | (17,032) | 45.17 |
| Outstanding, June 30, 2012 | 5,698 | 34.80 |

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All stock options outstanding at June 30, 2012 were exercisable.

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 June 30, 2012, all VARs were fully vested. We have not granted new VARs since 2004.

The following table summarizes the Value Appreciation Rights activity:

| (shares in thousands) | Value Appreciation Rights | Weighted-Average Grant-Date Fair Value |
|-----------------------------------|------------------------------|--|
| Outstanding, beginning of year | 8,214 | \$ 12.39 |
| Exercised | (2,152) | 9.82 |
| Cancelled/Forfeited | (6) | 13.50 |
| Outstanding, June 30, 2012 | 6,056 | 13.30 |

7. 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.

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, | 2012 | 2011 | 2012 | 2011 |
| Service cost | \$ 90 | \$ 76 | \$ 93 | \$ 75 |
| Amortization of prior service cost (credit) | (1) | 18 | (9) | (14) |
| Subtotal | 89 | 94 | 84 | 61 |
| Expected return on plan assets | (443) | (494) | (42) | (41) |
| Interest cost | 362 | 398 | 326 | 355 |
| Subtotal | 8 | (2) | 368 | 375 |
| Remeasurement loss, net | | (20) | | |
| Net periodic benefit (income) cost | \$ 8 | \$ (22) | \$ 368 | \$ 375 |

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| (dollars in millions) | Pension | | Health Care and Life | |
|---|----------------|----------------|-----------------------------|---------------|
| Six Months Ended June 30, | 2012 | 2011 | 2012 | 2011 |
| Service cost | \$ 179 | \$ 153 | \$ 185 | \$ 150 |
| Amortization of prior service cost (credit) | (2) | 36 | (18) | (28) |
| Subtotal | 177 | 189 | 167 | 122 |
| Expected return on plan assets | (885) | (988) | (85) | (82) |
| Interest cost | 724 | 795 | 653 | 710 |
| Subtotal | 16 | (4) | 735 | 750 |
| Remeasurement loss, net | | (20) | | |
| Net periodic benefit (income) cost | \$ 16 | \$ (24) | \$ 735 | \$ 750 |

Table of Contents**Severance Payments**

During the three and six months ended June 30, 2012, we paid severance benefits of \$0.2 billion and \$0.3 billion, respectively. At June 30, 2012, we had a remaining severance liability of \$0.8 billion, a portion of which includes future contractual payments to employees separated as of June 30, 2012.

Employer Contributions

During the three months ended June 30, 2012, we contributed \$0.2 billion to our qualified pension trusts and \$0.4 billion to our other postretirement benefit plans. During the six months ended June 30, 2012, we contributed \$0.6 billion to our qualified pension trusts, \$0.1 billion to our nonqualified pension plans and \$0.8 billion to our other postretirement benefit plans. There have been no material changes to the estimated qualified and nonqualified pension contributions in 2012 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, 2011.

8. Equity and Accumulated Other Comprehensive Income**Equity**

Changes in the components of Total equity were as follows:

| | Six Months Ended | | |
|---------------------------------|--|------------------------------------|-------------------------|
| | June 30, 2012 | | |
| (dollars in millions) | Attributable to Verizon | Noncontrolling Interest | Total Equity |
| Balance at beginning of period | \$ 35,970 | \$ 49,938 | \$ 85,908 |
| Net income | 3,511 | 4,680 | 8,191 |
| Other comprehensive income | (122) | (5) | (127) |
| Comprehensive income | 3,389 | 4,675 | 8,064 |
| Contributed capital | 13 | | 13 |
| Dividends declared | (2,845) | | (2,845) |
| Common stock in treasury | 564 | | 564 |
| Distributions and other | 59 | (1,335) | (1,276) |
| Balance at end of period | \$ 37,150 | \$ 53,278 | \$ 90,428 |

Noncontrolling interests included in our condensed consolidated financial statements primarily consist of Vodafone Group Plc's (Vodafone) 45% ownership interest in Verizon Wireless.

Special Distribution

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. During January 2012, Vodafone received a cash payment of

\$4.5 billion and the remainder of the distribution was received by Verizon.

Table of Contents**Accumulated Other Comprehensive Income**

The components of Accumulated other comprehensive income were as follows:

| (dollars in millions) | At June 30, 2012 | At December 31, 2011 |
|--|---------------------|-------------------------|
| Foreign currency translation adjustments | \$ 633 | \$ 724 |
| Net unrealized gain on cash flow hedges | 123 | 156 |
| Unrealized gain on marketable securities | 85 | 72 |
| Defined benefit pension and postretirement plans | 306 | 317 |
| Accumulated Other Comprehensive Income | \$ 1,147 | \$ 1,269 |

Foreign Currency Translation Adjustments

The change in Foreign currency translation adjustments for the three and six months ended June 30, 2012 and 2011 was primarily related to our investment in Vodafone Omnitel and was driven by movements of the U.S. dollar against various other currencies, primarily the Euro, in which we have operations.

9. 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.

Our segments and their principal activities consist of the following:

| Segment | Description |
|-------------------------|---|
| Verizon Wireless | 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. |
| Wireline | Wireline 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. |

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

| (dollars in millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------------------------------|--|-------------|--------------------------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| External Operating Revenues | | | | |
| Verizon Wireless | | | | |
| Retail service | \$ 15,215 | \$ 14,004 | \$ 30,087 | \$ 27,663 |
| Other service | 544 | 689 | 1,068 | 1,326 |
| Service revenue | 15,759 | 14,693 | 31,155 | 28,989 |
| Equipment | 1,766 | 1,750 | 3,601 | 3,437 |
| Other | 1,030 | 823 | 2,049 | 1,700 |
| Total Verizon Wireless | 18,555 | 17,266 | 36,805 | 34,126 |
| Wireline | | | | |
| Consumer retail | 3,478 | 3,394 | 6,919 | 6,777 |
| Small business | 664 | 680 | 1,323 | 1,372 |
| Mass Markets | 4,142 | 4,074 | 8,242 | 8,149 |
| Strategic services | 1,983 | 1,900 | 3,952 | 3,665 |
| Core | 1,837 | 2,057 | 3,719 | 4,111 |
| Global Enterprise | 3,820 | 3,957 | 7,671 | 7,776 |
| Global Wholesale | 1,562 | 1,730 | 3,154 | 3,470 |
| Other | 130 | 172 | 253 | 373 |
| Total Wireline | 9,654 | 9,933 | 19,320 | 19,768 |
| Total segments | 28,209 | 27,199 | 56,125 | 53,894 |
| Corporate, eliminations and other | 343 | 337 | 669 | 632 |
| Total consolidated reported | \$ 28,552 | \$ 27,536 | \$ 56,794 | \$ 54,526 |
| Intersegment Revenues | | | | |
| Verizon Wireless | \$ 22 | \$ 27 | \$ 45 | \$ 48 |
| Wireline | 277 | 314 | 556 | 626 |
| Total segments | 299 | 341 | 601 | 674 |
| Corporate, eliminations and other | (299) | (341) | (601) | (674) |
| Total consolidated reported | \$ | \$ | \$ | \$ |
| Total Operating Revenues | | | | |
| Verizon Wireless | \$ 18,577 | \$ 17,293 | \$ 36,850 | \$ 34,174 |
| Wireline | 9,931 | 10,247 | 19,876 | 20,394 |
| Total segments | 28,508 | 27,540 | 56,726 | 54,568 |
| Corporate, eliminations and other | 44 | (4) | 68 | (42) |

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| | | | | | |
|-------------------------|----------|-----------|-----------|-----------|-----------|
| Total consolidated | reported | \$ 28,552 | \$ 27,536 | \$ 56,794 | \$ 54,526 |
| Operating Income | | | | | |
| Verizon Wireless | | \$ 5,713 | \$ 4,692 | \$ 10,930 | \$ 9,043 |
| Wireline | | 188 | 318 | 345 | 606 |
| Total segments | | 5,901 | 5,010 | 11,275 | 9,649 |
| Reconciling items | | (250) | (118) | (429) | (304) |
| Total consolidated | reported | \$ 5,651 | \$ 4,892 | \$ 10,846 | \$ 9,345 |

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| (dollars in millions) | At June 30, 2012 | At December 31, 2011 |
|-----------------------------|---------------------|-------------------------|
| Assets | | |
| Verizon Wireless | \$ 143,708 | \$ 147,378 |
| Wireline | 86,855 | 86,185 |
| Total segments | 230,563 | 233,563 |
| Reconciling items | (4,491) | (3,102) |
| Total consolidated reported | \$ 226,072 | \$ 230,461 |

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

| (dollars in millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------|------------------------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Total segment operating income | \$ 5,901 | \$ 5,010 | \$ 11,275 | \$ 9,649 |
| Corporate, eliminations and other | (250) | (118) | (429) | (304) |
| Total consolidated operating income | 5,651 | 4,892 | 10,846 | 9,345 |
| Equity in earnings of unconsolidated businesses | 72 | 121 | 175 | 222 |
| Other income and (expense), net | 34 | 10 | 53 | 46 |
| Interest expense | (679) | (717) | (1,364) | (1,426) |
| Income Before Provision For Income Taxes | \$ 5,078 | \$ 4,306 | \$ 9,710 | \$ 8,187 |

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 three and six months ended June 30, 2012 and 2011.

10. Commitments and Contingencies

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

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.

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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

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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, while Verizon worked with its vendors, Cisco and Ericsson, to redesign its VOD system. The redesign was completed by May 2012. After ActiveVideo alleged that the redesigned system continues to infringe its patents, Verizon sought and secured a stay of the injunction from the court of appeals. Verizon's appeal of the district court's rulings is pending.

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.

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Item 2. 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 Internet Protocol (IP) networks. We have a highly skilled, diverse and dedicated workforce of approximately 188,200 employees as of June 30, 2012.

In recent years Verizon has embarked upon a strategic transformation as advances in technology have changed the ways that our customers interact in their personal and professional lives and that businesses operate. To meet the changing needs of our customers and 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, during the three months ended June 30, 2012 compared to the similar period in 2011, strong customer and data services growth driven by strong demand for smartphones and Internet data devices resulted in revenue growth of 7.4%. At June 30, 2012, smartphones represented 49.7% of our retail postpaid phone base, driving an 18.5% increase in data revenue as compared to the similar period in 2011. Data revenue accounted for 43.6% of Verizon Wireless' service revenue during the three months ended June 30, 2012.

In 2010, we launched our fourth-generation (4G) Long-Term Evolution (LTE) technology mobile broadband network, and as of July 18, 2012, we have deployed 4G LTE in 337 markets covering more than 230 million people throughout the country, which is nearly 75% of the United States population. We expect to deploy 4G LTE in virtually our entire current third-generation (3G) network footprint by mid-2013. Our 4G LTE network has speeds up to ten times faster than those of 3G broadband. As a result of our investment in 4G LTE, we expect to achieve both capacity improvements as well as reduced costs per megabyte.

In Wireline, during the three months ended June 30, 2012 compared to the similar period in 2011, revenues were positively impacted by higher revenues in Consumer retail driven by FiOS services. This represented approximately 65% of Consumer retail revenue during the three months ended June 30, 2012, as compared to approximately 57% during the similar period in 2011. As the FiOS product matures, we continue to seek ways to increase incremental revenue and further realize operating and capital efficiencies as well as to maximize profitability. As more applications are developed for this high-speed service, we expect that FiOS will become a hub for managing multiple home services that will eventually be part of the digital grid, including not just entertainment and communications, but also machine-to-machine communications, such as home monitoring, home health care, energy management services and utilities.

Also positively impacting Wireline's revenues during the three months ended June 30, 2012 was a 4.4% increase in strategic services revenue, which represented 52% of total Global Enterprise revenues. Enterprise and wholesale customers continue to be adversely affected by the economy, resulting in delayed decision-making regarding spending, particularly on information technology. 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.

On June 25, 2012, Verizon Wireless entered into a license exchange agreement with a subsidiary of T-Mobile USA, Inc. (T-Mobile) pursuant to which the parties agreed to exchange a significant amount of Advanced Wireless Services (AWS) spectrum. The transaction is contingent upon the closing of Verizon Wireless' purchases of spectrum from SpectrumCo, LLC (Spectrum Co), Cox TMI Wireless (Cox) and Leap Wireless and is subject to approval by the Federal Communications Commission (FCC), which is expected to occur in 2012, as well as other customary

closing conditions. The exchange includes a number of intra-market spectrum swaps that will result in more efficient use of the AWS band for both companies, and will also give both companies additional spectrum depth in specific markets to meet LTE capacity needs and enable LTE expansion. The exchange will result in an overall net transfer of spectrum from Verizon Wireless to T-Mobile and a cash payment from T-Mobile to Verizon Wireless.

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On April 18, 2012, we announced plans to conduct an open sale process for all of our 700 megahertz (MHz) A and B spectrum licenses in order to rationalize our spectrum holdings. We acquired these licenses as part of the FCC Auction 73 in 2008. The sale of these licenses is contingent upon the close of the purchase of the AWS licenses from SpectrumCo, Cox and Leap Wireless described below.

In December 2011, we entered into agreements to acquire AWS spectrum licenses held by Spectrum Co and Cox, respectively. The aggregate value of these transactions was 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 and the FCC.

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. These transactions are expected to close in 2012.

On June 1, 2012, Verizon agreed to acquire HUGHES Telematics, Inc. for approximately \$0.6 billion in cash, and the acquisition was completed on July 26, 2012. As a result of the transaction, HUGHES Telematics became a wholly-owned subsidiary of Verizon. The debt obligations of HUGHES Telematics, which were approximately \$0.1 billion as of the date of acquisition, were repaid by Verizon during July 2012. Had this acquisition been consummated on January 1, 2012 or 2011, the results of the acquired operations of HUGHES Telematics would not have had a significant impact on the consolidated results of operations of Verizon. The acquisition is expected to accelerate our ability to bring more telematics offerings to market for existing and new HUGHES Telematics and Verizon customers.

In February 2012, Verizon entered into a joint venture with Coinstar, Inc., which will offer access to media rentals through online and mobile content streaming from Verizon to consumers across the country as well as physical media rentals through Redbox kiosks.

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.

Trends

There have been no significant changes to the information related to trends affecting our business that was disclosed in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011 except to the extent described above.

Table of Contents**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.

Consolidated Revenues

| (dollars in millions) | Three Months Ended June 30, | | Increase/ (Decrease) | | Six Months Ended June 30, | | Increase/ (Decrease) | |
|-----------------------------------|--------------------------------|------------------|-------------------------|--------------|------------------------------|------------------|-------------------------|--------------|
| | 2012 | 2011 | | | 2012 | 2011 | | |
| Verizon Wireless | | | | | | | | |
| Service revenue | \$ 15,776 | \$ 14,707 | \$ 1,069 | 7.3 % | \$ 31,186 | \$ 29,018 | \$ 2,168 | 7.5 % |
| Equipment and other | 2,801 | 2,586 | 215 | 8.3 | 5,664 | 5,156 | 508 | 9.9 |
| Total | 18,577 | 17,293 | 1,284 | 7.4 | 36,850 | 34,174 | 2,676 | 7.8 |
| Wireline | | | | | | | | |
| Mass Markets | 4,145 | 4,076 | 69 | 1.7 | 8,248 | 8,154 | 94 | 1.2 |
| Global Enterprise | 3,820 | 3,956 | (136) | (3.4) | 7,672 | 7,772 | (100) | (1.3) |
| Global Wholesale | 1,827 | 2,030 | (203) | (10.0) | 3,688 | 4,072 | (384) | (9.4) |
| Other | 139 | 185 | (46) | (24.9) | 268 | 396 | (128) | (32.3) |
| Total | 9,931 | 10,247 | (316) | (3.1) | 19,876 | 20,394 | (518) | (2.5) |
| Corporate, eliminations and other | 44 | (4) | 48 | nm | 68 | (42) | 110 | nm |
| Consolidated Revenues | \$ 28,552 | \$ 27,536 | \$ 1,016 | 3.7 | \$ 56,794 | \$ 54,526 | \$ 2,268 | 4.2 |

nm not meaningful

The increase in consolidated revenues during the three and six months ended June 30, 2012 compared to the similar periods in 2011 was primarily due to higher revenues at Verizon Wireless, as well as higher revenues in Consumer retail driven by FiOS services and increased revenues from strategic services at our Wireline segment. Partially offsetting these increases were lower Global Wholesale, Global Enterprise Core and Other revenues at our Wireline segment.

Verizon Wireless revenues increased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 due to growth in both service and equipment and other revenue. Service revenue increased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to an increase in retail customers since July 1, 2011, as well as continued growth in data revenue. Retail customer net additions decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011, partially offset by an increase in prepaid gross additions and improvements in our retail customer churn rates in both periods.

Total wireless data revenue was \$6.9 billion and accounted for 43.6% of service revenue during the three months ended June 30, 2012 compared to \$5.8 billion and 39.5% during the similar period in 2011. Total wireless data revenue was \$13.5 billion and accounted for 43.3% of service revenue during the six months ended June 30, 2012 compared to \$11.3 billion and 38.8% during the similar period in 2011. Total wireless data revenue continues to be driven by demand for web and e-mail services due to an increase in smartphone penetration in addition to strong growth in our tablet and Jetpack customer base.

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Equipment and other revenue increased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to an increase in regulatory fees as well as a fee charged to existing customers that upgrade their devices, partially offset by a decrease in sales of equipment in the three months ended June 30, 2012 compared to the similar period in 2011.

Wireline revenues decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily driven by declines in Global Wholesale, Global Enterprise Core and Other revenues, partially offset by higher revenues in Consumer retail driven by FiOS services and increased revenues from strategic services.

Mass Markets revenues increased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 due to the expansion of FiOS services (Voice, Internet and Video), partially offset by the continued decline of local exchange revenues. The decrease in local exchange revenues was primarily due to a decline in Consumer retail and small business retail voice connections, primarily reflecting challenging economic conditions, competition and technology substitution.

Global Enterprise revenues decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily driven by lower local services and traditional circuit-based revenues as well as a decline in customer premise equipment revenues, partially offset by higher strategic services revenues, primarily due to growth in advanced services, such as managed network, call center, IP communications as well as our cloud and data center offerings.

Global Wholesale revenues decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to a decline in traditional voice revenues as a result of decreased minutes of use (MOUs) and a decline in domestic wholesale connections, partially offset by continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities as well as Ethernet migration from other core customers.

Other revenues decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to reduced business volumes, including former MCI mass market customer losses.

Consolidated Operating Expenses

| (dollars in millions) | Three Months Ended June 30, | | Increase/ (Decrease) | | Six Months Ended June 30, | | Increase/ (Decrease) | |
|---|--------------------------------|------------------|-------------------------|------------|------------------------------|------------------|-------------------------|------------|
| | 2012 | 2011 | | | 2012 | 2011 | | |
| Cost of services and sales | \$ 10,896 | \$ 11,158 | \$ (262) | (2.3)% | \$ 22,215 | \$ 22,387 | \$ (172) | (0.8)% |
| Selling, general and administrative expense | 7,877 | 7,373 | 504 | 6.8 | 15,577 | 14,657 | 920 | 6.3 |
| Depreciation and amortization expense | 4,128 | 4,113 | 15 | 0.4 | 8,156 | 8,137 | 19 | 0.2 |
| Consolidated Operating Expenses | \$ 22,901 | \$ 22,644 | \$ 257 | 1.1 | \$ 45,948 | \$ 45,181 | \$ 767 | 1.7 |

Cost of Services and Sales

Cost of services and sales decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to a decline in costs for wireless data services and applications and a decrease in connection costs at our Verizon Wireless segment. In addition, the decrease during the three months ended June 30, 2012, was also due to a decline in sales of equipment. Partially offsetting the decrease were increased expenses related to higher content costs associated with continued FiOS subscriber growth and vendor rate increases, increased rent expense as well as increased expenses related to our cloud and data center offerings within our Wireline segment.

Selling, General and Administrative Expense

Selling, general and administrative expense increased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to higher sales commission expense and costs associated with regulatory fees at our Verizon Wireless segment. In addition, the increase was also impacted by higher benefit-related costs.

Table of Contents*Depreciation and Amortization Expense*

Depreciation and amortization expense increased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily driven by growth in depreciable assets at our Verizon Wireless segment, partially offset by a decrease in depreciable assets at our Wireline segment and changes in the estimated useful lives of certain asset classes at Verizon Wireless.

Consolidated Operating Income and EBITDA

Consolidated earnings before interest, taxes, depreciation and amortization expenses (Consolidated 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. 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.

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

| (dollars in millions) | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------------|------------------|------------------|
| | 2012 | June 30, 2011 | 2012 | June 30, 2011 |
| Consolidated Operating Income | \$ 5,651 | \$ 4,892 | \$ 10,846 | \$ 9,345 |
| Add Depreciation and amortization expense | 4,128 | 4,113 | 8,156 | 8,137 |
| Consolidated EBITDA | \$ 9,779 | \$ 9,005 | \$ 19,002 | \$ 17,482 |

The changes in the table above during the three and six months ended June 30, 2012 compared to the similar periods in 2011 were a result of the factors described in connection with operating revenues and operating expenses above.

Table of Contents**Other Consolidated Results***Equity in Earnings of Unconsolidated Businesses*

Equity in earnings of unconsolidated businesses decreased \$49 million, or 40.5%, and \$47 million, or 21.2%, during the three and six months ended June 30, 2012, respectively, compared to the similar periods in 2011. The decrease during both periods was primarily due to lower earnings from operations at Vodafone Omnitel N.V. and, to a lesser extent the devaluation of the Euro against the U.S. dollar.

Other Income and (Expense), Net

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

| (dollars in millions) | Three Months Ended June 30, | | Increase/ (Decrease) | Six Months Ended June 30, | | Increase/ (Decrease) | | |
|--------------------------------------|--------------------------------|--------------|-------------------------|------------------------------|--------------|-------------------------|-------------|-------------|
| | 2012 | 2011 | | 2012 | 2011 | | | |
| Interest income | \$ 15 | \$ 16 | \$ (1) | (6.3)% | \$ 30 | \$ 35 | \$ (5) | (14.3)% |
| Foreign exchange gains (losses), net | 9 | (11) | 20 | nm | 7 | (23) | 30 | nm |
| Other, net | 10 | 5 | 5 | nm | 16 | 34 | (18) | (52.9) |
| Total | \$ 34 | \$ 10 | \$ 24 | nm | \$ 53 | \$ 46 | \$ 7 | 15.2 |

nm not meaningful

Interest Expense

| (dollars in millions) | Three Months Ended June 30, | | Increase/ (Decrease) | Six Months Ended June 30, | | Increase/ (Decrease) | | |
|---------------------------------------|--------------------------------|---------------|-------------------------|------------------------------|-----------------|-------------------------|----------------|--------------|
| | 2012 | 2011 | | 2012 | 2011 | | | |
| Total interest costs on debt balances | \$ 744 | \$ 835 | \$ (91) | (10.9)% | \$ 1,497 | \$ 1,657 | \$ (160) | (9.7)% |
| Less capitalized interest costs | 65 | 118 | (53) | (44.9) | 133 | 231 | (98) | (42.4) |
| Total | \$ 679 | \$ 717 | \$ (38) | (5.3) | \$ 1,364 | \$ 1,426 | \$ (62) | (4.3) |

| | | | | |
|--------------------------|-----------|-----------|-----------|-----------|
| Average debt outstanding | \$ 52,230 | \$ 57,016 | \$ 52,555 | \$ 55,903 |
| Effective interest rate | 5.7% | 5.9% | 5.7% | 5.9% |

Total interest costs on debt balances decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to a \$4.8 billion and \$3.3 billion decrease in average debt, respectively (see Consolidated Financial Condition), and a lower effective interest rate in both periods. Capitalized interest costs were lower in 2012 primarily due to our ongoing deployment of the 4G LTE network.

Table of Contents*Provision for Income Taxes*

| (dollars in millions) | Three Months Ended June 30, | | Increase/ (Decrease) | Six Months Ended June 30, | | Increase/ (Decrease) |
|-----------------------------------|--------------------------------|--------|-------------------------|------------------------------|----------|-------------------------|
| | 2012 | 2011 | | 2012 | 2011 | |
| Provision for income taxes | \$ 793 | \$ 702 | \$ 91 13.0 % | \$ 1,519 | \$ 1,319 | \$ 200 15.2 % |
| Effective income tax rate | 15.6% | 16.3% | | 15.6% | 16.1% | |

The effective income tax rate is calculated by dividing the provision for income taxes by income before the provision for income taxes. Our annual effective income tax rate is significantly lower than the statutory federal income tax rate 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 14.7 and 14.1 percentage points lower during the three months ended June 30, 2012 and 2011, respectively, and 14.6 and 14.1 percentage points lower during the six months ended June 30, 2012 and 2011, respectively.

The increase in the provision for income taxes during the three and six months ended June 30, 2012 compared to the similar periods in 2011 is primarily due to higher income before income taxes, partially offset by the favorable resolution of various international tax matters. The effective income tax rates for the three and six months ended June 30, 2012, compared to the similar periods in 2011, decreased primarily due to the favorable resolution of various international income tax matters in the current periods.

Unrecognized Tax Benefits

Unrecognized tax benefits were \$3.0 billion at June 30, 2012 and \$3.1 billion at December 31, 2011. Interest and penalties related to unrecognized tax benefits were \$0.4 billion (after-tax) at June 30, 2012 and \$0.5 billion (after-tax) at December 31, 2011.

As a large taxpayer, we are under audit by the Internal Revenue Service and multiple state and foreign jurisdictions on numerous open tax positions. Significant tax litigation and appeals are ongoing in Canada 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.

Net Income Attributable to Noncontrolling Interest

| (dollars in millions) | Three Months Ended June 30, | | Increase/ (Decrease) | Six Months Ended June 30, | | Increase/ (Decrease) |
|---|--------------------------------|----------|-------------------------|------------------------------|----------|-------------------------|
| | 2012 | 2011 | | 2012 | 2011 | |
| Net income attributable to noncontrolling interest | \$ 2,460 | \$ 1,995 | \$ 465 23.3 % | \$ 4,680 | \$ 3,820 | \$ 860 22.5 % |

The increase in Net income attributable to noncontrolling interest during the three and six months ended June 30, 2012 compared to the similar periods in 2011 was due to higher earnings in our Verizon Wireless segment, which has a 45% noncontrolling partnership interest attributable to Vodafone.

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Segment Results of Operations

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

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

Verizon Wireless Segment EBITDA service margin, also presented below, is calculated by dividing Verizon Wireless Segment EBITDA by Verizon Wireless service revenues. Verizon Wireless Segment EBITDA service margin utilizes service revenues rather than total revenues. Service revenues primarily exclude equipment revenues in order to reflect the impact of providing service to the wireless customer base on an ongoing basis. Verizon Wireline EBITDA margin is calculated by dividing Wireline EBITDA by total Wireline revenues.

Table of Contents**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.

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.

Operating Revenues and Selected Operating Statistics

| (dollars in millions, except ARPU) | Three Months Ended June 30, | | Increase/ (Decrease) | | Six Months Ended June 30, | | Increase/ (Decrease) | |
|------------------------------------|--------------------------------|------------------|-------------------------|------------|------------------------------|------------------|-------------------------|------------|
| | 2012 | 2011 | | | 2012 | 2011 | | |
| Retail service | \$ 15,230 | \$ 14,019 | \$ 1,211 | 8.6% | \$ 30,116 | \$ 27,693 | \$ 2,423 | 8.7% |
| Other service | 546 | 688 | (142) | (20.6) | 1,070 | 1,325 | (255) | (19.2) |
| Service revenue | 15,776 | 14,707 | 1,069 | 7.3 | 31,186 | 29,018 | 2,168 | 7.5 |
| Equipment and other | 2,801 | 2,586 | 215 | 8.3 | 5,664 | 5,156 | 508 | 9.9 |
| Total Operating Revenues | \$ 18,577 | \$ 17,293 | \$ 1,284 | 7.4 | \$ 36,850 | \$ 34,174 | \$ 2,676 | 7.8 |

Customers ('000)⁽¹⁾

| | | | | |
|---------------------------|--------|--------|-------|-----|
| Retail customers | 94,154 | 89,735 | 4,419 | 4.9 |
| Retail postpaid customers | 88,838 | 85,290 | 3,548 | 4.2 |

Net additions in period ('000)⁽²⁾

| | | | | | | | | |
|---------------------------|-------|-------|-------|--------|-------|-------|-------|--------|
| Retail customers | 1,178 | 1,318 | (140) | (10.6) | 1,912 | 2,197 | (285) | (13.0) |
| Retail postpaid customers | 888 | 1,257 | (369) | (29.4) | 1,389 | 2,163 | (774) | (35.8) |

Churn Rate:

| | | | | |
|---------------------------|-------|-------|-------|-------|
| Retail customers | 1.11% | 1.22% | 1.18% | 1.28% |
| Retail postpaid customers | 0.84% | 0.89% | 0.90% | 0.95% |

ARPU:

| | | | | | | | | |
|----------------------|----------|----------|---------|------|----------|----------|---------|------|
| Retail service | \$ 54.29 | \$ 52.49 | \$ 1.80 | 3.4 | \$ 53.98 | \$ 52.18 | \$ 1.80 | 3.4 |
| Retail postpaid | 56.13 | 54.12 | 2.01 | 3.7 | 55.78 | 53.82 | 1.96 | 3.6 |
| Retail postpaid data | 24.53 | 21.26 | 3.27 | 15.4 | 24.16 | 20.89 | 3.27 | 15.7 |

⁽¹⁾ As of end of period

⁽²⁾ Excluding acquisitions and adjustments

The increase in Verizon Wireless total operating revenues during the three and six months ended June 30, 2012 compared to the similar periods in 2011 was the result of growth in both service and equipment and other revenue.

Customers

Retail (non-wholesale) customers are customers directly served and managed by Verizon Wireless that use its branded services. 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.

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Retail customer net additions decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to a decrease in retail postpaid customer gross additions, partially offset by an increase in prepaid gross additions and improvements in our retail customer churn rates in both periods. In the three and six months ended June 30, 2012, the decline in postpaid gross additions primarily reflects the timing of new device launches in 2012. In the six months ended June 30, 2012, the decline was also due to the timing of the iPhone launch in 2011.

Table of Contents*Service Revenue*

Service revenue increased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to an increase in retail customers since July 1, 2011, as well as continued growth in data revenue.

Total data revenue was \$6.9 billion and accounted for 43.6% of service revenue during the three months ended June 30, 2012 compared to \$5.8 billion and 39.5% during the similar period in 2011. Total data revenue was \$13.5 billion and accounted for 43.3% of service revenue during the six months ended June 30, 2012 compared to \$11.3 billion and 38.8% during the similar period in 2011. Total wireless data revenue growth continues to be driven by demand for web and email services due to an increase in smartphone penetration in addition to strong growth in our tablet and Jetpack customer base. We expect that total service revenue will continue to grow as we increase smartphone penetration.

The increase 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) for the three and six months ended June 30, 2012 compared to the similar periods in 2011 was due to a continued increase in our retail postpaid data ARPU, partially 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 49.7% of our retail postpaid customer phone base as of June 30, 2012 compared to 35.9% at June 30, 2011. 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 8.5% of our retail postpaid customer base as of June 30, 2012 compared to 7.5% as of June 30, 2011. This represents retail postpaid internet data device growth of approximately 18.5% to 7.5 million devices as of June 30, 2012 as compared to June 30, 2011. In addition, our retail postpaid voice ARPU was \$31.60 during the three months ended June 30, 2012, representing a decline of \$1.26, or 3.8%, compared to the similar period in 2011 and was \$31.62 during the six months ended June 30, 2012, representing a decline of \$1.31, or 4.0%, compared to the similar period in 2011 primarily due to the ongoing impact of our retail customers seeking to optimize the value of our voice minute bundles.

Other service revenue decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 as a result of a decrease in third party roaming revenue.

Equipment and Other Revenue

Equipment and other revenue increased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to an increase in regulatory fees as well as a fee charged to existing customers that upgrade their devices, partially offset by a decrease in sales of equipment in the three months ended June 30, 2012 compared to the similar period in 2011.

Operating Expenses

| (dollars in millions) | Three Months Ended | | | | Six Months Ended | | | |
|---|--------------------|------------------|---------------|-------------------------|------------------|------------------|---------------|-------------------------|
| | 2012 | June 30, 2011 | | Increase/ (Decrease) | 2012 | June 30, 2011 | | Increase/ (Decrease) |
| Cost of services and sales | \$ 5,558 | \$ 5,829 | \$ (271) | (4.6)% | \$ 11,468 | \$ 11,709 | \$ (241) | (2.1)% |
| Selling, general and administrative expense | 5,295 | 4,794 | 501 | 10.5 | 10,523 | 9,545 | 978 | 10.2 |
| Depreciation and amortization expense | 2,011 | 1,978 | 33 | 1.7 | 3,929 | 3,877 | 52 | 1.3 |
| Total Operating Expenses | \$ 12,864 | \$ 12,601 | \$ 263 | 2.1 | \$ 25,920 | \$ 25,131 | \$ 789 | 3.1 |

Cost of Services and Sales

Cost of services and sales decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to a decline in costs for data services and applications, primarily *VZ Mail*, as well as a decrease in connection costs due to the ongoing deployment of the Ethernet backhaul initiative. In addition, the decrease during the three months ended June 30, 2012, was also due to a decline in sales of equipment. This decrease was partially offset by higher roaming cost during the three and six months ended June 30, 2012.

Table of Contents*Selling, General and Administrative Expense*

Selling, general and administrative expense increased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to higher sales commission expense in our indirect channel as well as costs associated with regulatory fees. Indirect sales commission expense increased \$0.1 billion and \$0.4 billion, during the three and six months ended June 30, 2012, respectively, compared to the similar periods in 2011 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.

Depreciation and Amortization Expense

Depreciation and amortization expense increased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily driven by growth in depreciable assets, partially offset by changes in the estimated useful lives of certain asset classes.

Segment Operating Income and EBITDA

| (dollars in millions) | Three Months Ended | | | | Six Months Ended | | | |
|---|--------------------|------------------|-------------------------|--------|------------------|------------------|-------------------------|--------|
| | 2012 | June 30, 2011 | Increase/ (Decrease) | | 2012 | June 30, 2011 | Increase/ (Decrease) | |
| Segment Operating Income | \$ 5,713 | \$ 4,692 | \$ 1,021 | 21.8 % | \$ 10,930 | \$ 9,043 | \$ 1,887 | 20.9 % |
| Add Depreciation and amortization expense | 2,011 | 1,978 | 33 | 1.7 | 3,929 | 3,877 | 52 | 1.3 |
| Segment EBITDA | \$ 7,724 | \$ 6,670 | \$ 1,054 | 15.8 | \$ 14,859 | \$ 12,920 | \$ 1,939 | 15.0 |
| Segment operating income margin | 30.8% | 27.1% | | | 29.7% | 26.5% | | |
| Segment EBITDA service margin | 49.0% | 45.4% | | | 47.6% | 44.5% | | |

The changes in the table above during the three and six months ended June 30, 2012 compared to the similar periods in 2011 were primarily a result of the factors described in connection with operating revenues and operating expenses above.

Table of Contents**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 consumer 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.

Operating Revenues and Selected Operating Statistics

| (dollars in millions) | Three Months Ended | | | | Six Months Ended | | | |
|---------------------------------|--------------------|------------------|-----------------|--------------|------------------|------------------|-----------------|--------------|
| | June 30, | | Increase/ | | June 30, | | Increase/ | |
| | 2012 | 2011 | (Decrease) | | 2012 | 2011 | (Decrease) | |
| Consumer retail | \$ 3,478 | \$ 3,394 | \$ 84 | 2.5% | \$ 6,919 | \$ 6,777 | \$ 142 | 2.1% |
| Small business | 667 | 682 | (15) | (2.2) | 1,329 | 1,377 | (48) | (3.5) |
| Mass Markets | 4,145 | 4,076 | 69 | 1.7 | 8,248 | 8,154 | 94 | 1.2 |
| Strategic services | 1,983 | 1,900 | 83 | 4.4 | 3,952 | 3,665 | 287 | 7.8 |
| Core | 1,837 | 2,056 | (219) | (10.7) | 3,720 | 4,107 | (387) | (9.4) |
| Global Enterprise | 3,820 | 3,956 | (136) | (3.4) | 7,672 | 7,772 | (100) | (1.3) |
| Global Wholesale | 1,827 | 2,030 | (203) | (10.0) | 3,688 | 4,072 | (384) | (9.4) |
| Other | 139 | 185 | (46) | (24.9) | 268 | 396 | (128) | (32.3) |
| Total Operating Revenues | \$ 9,931 | \$ 10,247 | \$ (316) | (3.1) | \$ 19,876 | \$ 20,394 | \$ (518) | (2.5) |

Connections ('000)⁽¹⁾

| | | | | |
|-----------------------------|--------|--------|---------|-------|
| Total voice connections | 23,278 | 24,997 | (1,719) | (6.9) |
| Total Broadband connections | 8,776 | 8,552 | 224 | 2.6 |
| FiOS Internet subscribers | 5,144 | 4,478 | 666 | 14.9 |
| FiOS Video subscribers | 4,473 | 3,848 | 625 | 16.2 |

⁽¹⁾ As of end of period

Wireline s revenues decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily driven by declines in Global Wholesale, Global Enterprise Core and Other revenues, partially offset by higher revenues in Consumer retail driven by FiOS services and increased revenues from Strategic services.

Mass Markets

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

Mass Markets revenues increased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 due to the expansion of FiOS services (Voice, Internet and Video), partially offset by the continued decline of local exchange revenues.

We continued to grow our subscriber base and consistently improved penetration rates within our FiOS service areas in the six months ended June 30, 2012. Revenue from FiOS services represented 64.8% and 63.9% of Consumer retail revenue during the three and six months ended June 30, 2012, respectively, compared to 56.7% and 55.6% in the similar periods in 2011. As of June 30, 2012, we achieved penetration rates of 36.6% and 32.6% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 33.9% and 29.9% for FiOS Internet and FiOS Video, respectively, at June 30, 2011.

Mass Markets revenues were negatively impacted by the decline of local exchange revenues primarily due to a 6.6% decline in Consumer retail voice connections resulting primarily from competition and technology substitution with wireless, VoIP, broadband and cable services. There

was also a 5.6% decline in small business retail voice connections, primarily reflecting challenging economic conditions, competition and a shift to both IP and high-speed circuits.

Table of Contents*Global Enterprise*

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

Global Enterprise revenues decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to lower local services and traditional circuit-based revenues as well as a decline in customer premise equipment revenues. Traditional circuit-based services such as frame relay, private line and Asynchronous Transfer Mode services declined compared to the similar periods 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 part of an overall enterprise solutions bundle. This decrease was partially offset by higher strategic services revenues. Strategic services revenue increased \$0.1 billion, or 4.4%, and \$0.3 billion, or 7.8%, respectively, during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to growth in advanced services, such as managed network, call center, IP communications as well as our cloud and data center offerings.

Global Wholesale

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

Global Wholesale revenues decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to a decline in traditional voice revenues as a result of decreased MOUs and a 5.8% decline in domestic wholesale connections as of June 30, 2012 compared to June 30, 2011. The traditional voice product reductions are due to the continued impact of competitors deemphasizing their local market initiatives coupled with the impact of technology substitution. Also contributing to the decline in MOUs were increases in voice termination pricing on certain international routes, which negatively impacted volume, and continued rate compression due to competition in the marketplace. Partially offsetting the overall decrease in wholesale revenue was a continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities as well as Ethernet migration from other core customers. As a result of the upgrading customers, the number of core data circuits experienced a 13.3% decline as compared to the similar periods in 2011. We expect Global Wholesale revenue to continue to decline approximately 10% prospectively per quarter as compared to the similar periods in the prior year, as we believe that the continued decline in core products will be partially offset by growth in Ethernet and IP services.

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 the three and six months ended June 30, 2012 compared to the similar periods in 2011 was primarily due to reduced volumes, including former MCI mass market customer losses.

Operating Expenses

| (dollars in millions) | Three Months Ended | | | | Six Months Ended | | | |
|---|--------------------|------------------|-------------------------|--------------|------------------|------------------|-------------------------|--------------|
| | 2012 | June 30, 2011 | Increase/ (Decrease) | | 2012 | June 30, 2011 | Increase/ (Decrease) | |
| Cost of services and sales | \$ 5,500 | \$ 5,504 | \$ (4) | (0.1)% | \$ 11,072 | \$ 10,966 | \$ 106 | 1.0% |
| Selling, general and administrative expense | 2,141 | 2,308 | (167) | (7.2) | 4,267 | 4,598 | (331) | (7.2) |
| Depreciation and amortization expense | 2,102 | 2,117 | (15) | (0.7) | 4,192 | 4,224 | (32) | (0.8) |
| Total Operating Expenses | \$ 9,743 | \$ 9,929 | \$ (186) | (1.9) | \$ 19,531 | \$ 19,788 | \$ (257) | (1.3) |

Cost of Services and Sales

During the three months ended June 30, 2012, Cost of services and sales was essentially unchanged compared to the similar period in 2011. Access costs decreased primarily from management actions to reduce exposure to unprofitable international wholesale routes and declines in overall wholesale long distance volumes, as well as a decline in cost of services and sales related to customer premise equipment, which reflects

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our focus on improving margins by de-emphasizing sales of equipment that are not part of an overall enterprise solutions bundle. These decreases were offset by higher content costs associated with continued FiOS subscriber growth and vendor rate increases, increased rent expense as well as increased expenses related to our cloud and data center offerings.

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Cost of services and sales increased during the six months ended June 30, 2012 compared to the similar period in 2011. The increase in Cost of sales and service was due to higher content costs associated with continued FiOS subscriber growth and vendor rate increases, increased rent expense as well as increased expenses related to our cloud and data center offerings. The increase was partially offset by a decrease in costs related to customer premise equipment, as well as 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 decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 primarily due to lower allocations related to centralized administrative functions, and to a lesser extent, lower property and transaction tax expenses. The decrease in Selling, general and administrative expense was partially offset by higher benefit-related costs.

Depreciation and Amortization Expense

Depreciation and amortization expense decreased during the three and six months ended June 30, 2012 compared to the similar periods in 2011 due to a decrease in net depreciable assets, primarily as a result of asset retirements.

Segment Operating Income and EBITDA

| (dollars in millions) | Three Months Ended June 30, | | Increase/ (Decrease) | | Six Months Ended June 30, | | Increase/ (Decrease) | |
|---|--------------------------------|----------|-------------------------|---------|------------------------------|----------|-------------------------|---------|
| | 2012 | 2011 | | | 2012 | 2011 | | |
| Segment Operating Income | \$ 188 | \$ 318 | \$ (130) | (40.9)% | \$ 345 | \$ 606 | \$ (261) | (43.1)% |
| Add Depreciation and amortization expense | 2,102 | 2,117 | (15) | (0.7) | 4,192 | 4,224 | (32) | (0.8) |
| Segment EBITDA | \$ 2,290 | \$ 2,435 | \$ (145) | (6.0) | \$ 4,537 | \$ 4,830 | \$ (293) | (6.1) |
| Segment operating income margin | 1.9% | 3.1% | | | 1.7% | 3.0% | | |
| Segment EBITDA margin | 23.1% | 23.8% | | | 22.8% | 23.7% | | |

The changes in the table above during the three and six months ended June 30, 2012 compared to the similar periods in 2011 were primarily a result of the factors described in connection with operating revenues and operating expenses above.

Table of Contents**Consolidated Financial Condition**

| (dollars in millions) | Six Months Ended | | Change |
|--|-------------------|------------------|-------------------|
| | 2012 | June 30, 2011 | |
| Cash Flows Provided By (Used In) | | | |
| Operating activities | \$ 15,271 | \$ 12,792 | \$ 2,479 |
| Investing activities | (7,584) | (9,872) | 2,288 |
| Financing activities | (11,048) | (3,348) | (7,700) |
| Decrease In Cash and Cash Equivalents | \$ (3,361) | \$ (428) | \$ (2,933) |

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. We currently have a shelf registration available for the issuance of debt or equity securities with an aggregate offering price of up to \$10 billion. We may also issue short-term debt through an active commercial paper program and have a \$6.2 billion credit facility to support such commercial paper issuances.

Cash Flows Provided By Operating Activities

Our primary source of funds continues to be cash generated from operations. Net cash provided by operating activities during the six months ended June 30, 2012 increased by \$2.5 billion compared to the similar period in 2011 primarily due to higher consolidated earnings, as well as improved working capital levels, including improved collections in 2012.

Cash Flows Used In Investing Activities*Capital Expenditures*

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

Capital expenditures, including capitalized software, were as follows:

| (dollars in millions) | Six Months Ended | |
|-----------------------|------------------|------------------|
| | 2012 | June 30, 2011 |
| Verizon Wireless | \$ 3,933 | \$ 5,402 |
| Wireline | 3,133 | 3,150 |
| Other | 364 | 366 |

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\$ 7,430 \$ 8,918

| | | |
|----------------------------------|-------|-------|
| Total as a percentage of revenue | 13.1% | 16.4% |
|----------------------------------|-------|-------|

The decrease in capital expenditures during the six months ended June 30, 2012 compared to the similar period in 2011 was primarily due to increased investment in the capacity of our wireless EV-DO network during 2011.

Acquisitions

During April 2011, we paid approximately \$1.4 billion for the equity of Terremark Worldwide, Inc. (Terremark), which was partially offset by \$0.1 billion of cash acquired (see *Acquisitions*).

Other, net

During the six months ended June 30, 2011, Other, net primarily included proceeds related to the sales of long-term investments, which were not significant to our condensed consolidated statements of income.

Table of Contents**Cash Flows Used In Financing Activities**

During the six months ended June 30, 2012 and 2011, net cash used in financing activities was \$11.0 billion and \$3.3 billion, respectively.

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. In addition, during the six months ended June 30, 2012 we paid \$2.6 billion in dividends and reduced short-term borrowings by approximately \$0.9 billion.

During July 2012, \$0.8 billion of 7.0% Verizon Wireless Notes matured and were repaid.

Special Distribution

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. During January 2012, Vodafone received a cash payment of \$4.5 billion and the remainder of the distribution was received by Verizon.

Credit Facility and Shelf Registration

As of June 30, 2012, the unused borrowing capacity under a \$6.2 billion three-year credit facility, maturing on October 15, 2014, with a group of major financial institutions was approximately \$6.1 billion. The credit facility does not require us to comply with financial covenants or maintain specified credit ratings, and it permits us to borrow even if our business has incurred a material adverse change. We use the credit facility to support the issuance of commercial paper, for the issuance of letters of credit and for general corporate purposes.

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.

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.

Decrease In Cash and Cash Equivalents

Our Cash and cash equivalents at June 30, 2012 totaled \$10.0 billion, a \$3.4 billion decrease compared to Cash and cash equivalents at December 31, 2011 for the reasons discussed above.

Free Cash Flow

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

| (dollars in millions) | Six Months Ended | | |
|--|-------------------------|-------------|---------------|
| | June 30, | | |
| | 2012 | 2011 | Change |
| Net cash provided by operating activities | \$ 15,271 | \$ 12,792 | \$ 2,479 |
| Less Capital expenditures (including capitalized software) | 7,430 | 8,918 | (1,488) |

| | | | |
|-----------------------|----------|----------|----------|
| Free cash flow | \$ 7,841 | \$ 3,874 | \$ 3,967 |
|-----------------------|----------|----------|----------|

The change in free cash flow during the six months ended June 30, 2012 compared to the similar period in 2011 was a result of the factors described in connection with net cash provided by operating activities and capital expenditures above.

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Market Risk

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

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

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 are recorded as cumulative translation adjustments, which are included in Accumulated other comprehensive income in our condensed consolidated balance sheets. Gains and losses on foreign currency transactions are recorded in the condensed consolidated statements of income in Other income and (expense), net. At June 30, 2012, our primary foreign currency exposure was to the British Pound Sterling, the Euro, the Indian Rupee and the Australian Dollar.

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 June 30, 2012, 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.

Interest Rate Swaps

We have entered into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. We principally receive fixed rates and pay variable rates based on the London Interbank Offered Rate, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on our condensed 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, primarily included in Other assets and Long-term debt, was \$0.7 billion and \$0.6 billion at June 30, 2012 and December 31, 2011, respectively. As of June 30, 2012, 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 the three months ended June 30, 2012, we entered into forward interest rate swaps with a total notional value of \$1.0 billion. We have designated these contracts as cash flow hedges.

Cross Currency Swaps

Verizon Wireless previously entered into cross currency swaps designated as cash flow hedges to exchange approximately \$1.6 billion of British Pound Sterling and Euro-denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses. A portion of the gains and losses recognized in Other comprehensive income is reclassified to Other income and (expense), net to offset the related pretax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps, included in Other assets and Other liabilities, was approximately \$0.1 billion and \$20 million, respectively at June 30, 2012. The fair value of the outstanding swaps included in Other assets was approximately \$0.1 billion at December 31, 2011. During the three and six months ended June 30, 2012, a pretax loss of \$0.1 billion and \$16 million, respectively, was recognized in Other comprehensive income. During the three and six months ended June 30, 2011, a pretax gain of \$36 million and \$0.1 billion, respectively, was recognized in Other comprehensive income.

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Acquisitions

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.

Other Factors That May Affect Future Results

Regulatory and Competitive Trends

There have been no material changes to Regulatory and Competitive Trends 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, 2011.

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.

Recent Accounting Standards

In December 2011, the accounting standard update relating to disclosures about offsetting assets and liabilities was amended to require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. Disclosures of the amounts of certain instruments subject to enforceable master netting arrangements or similar agreements would be required, irrespective of whether the entity has elected to offset those instruments in the statement of financial position. We will adopt this standard update during the first quarter of 2013. We are currently evaluating the impact that this standard update will have on our consolidated financial statements.

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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.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information relating to market risk is included in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations under the caption Market Risk.

Item 4. Controls and Procedures

Our chief executive officer and chief financial officer have evaluated the effectiveness of the registrant's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934), as of the end of the period covered by this quarterly report. Based on this evaluation, our chief executive officer and chief financial officer have concluded that the registrant's disclosure controls and procedures were effective as of June 30, 2012.

There were no changes in the registrant's internal control over financial reporting during the second quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the registrant's internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

Verizon and a number of other telecommunications companies, have been the subject of multiple class action suits concerning their alleged participation in intelligence-gathering activities allegedly carried out by the federal government, at the direction of the President of the United States, as part of the government's post-September 11 program to prevent terrorist attacks. Plaintiffs generally allege that Verizon has participated by permitting the government to gain access to the content of its subscribers' telephone calls and/or records concerning those calls and that such action violates federal and/or state constitutional and statutory law. Relief sought in the cases includes injunctive relief, attorneys fees, and statutory and punitive damages. On August 9, 2006, the Judicial Panel on Multidistrict Litigation (Panel) ordered that these actions be transferred, consolidated and coordinated in the U.S. District Court for the Northern District of California. The Panel subsequently ordered that a number of tag along actions also be transferred to the Northern District of California. Verizon believes that these lawsuits are without merit. On July 10, 2008, the President signed into law the FISA Amendments Act of 2008, which provides for dismissal of these suits by the court based on submission by the Attorney General of the United States of a specified certification. On September 19, 2008, the Attorney General made such a submission in the consolidated proceedings. Based on this submission, the court ordered dismissal of the complaints on June 3, 2009. Plaintiffs appealed this dismissal, and by decision issued December 29, 2011, the United States Court of Appeals for the Ninth Circuit affirmed the dismissal. On March 28, 2012, plaintiffs petitioned the United States Supreme Court to review the decision of the Court of Appeals. The Supreme Court has not yet acted on the petition.

On September 15, 2010, the U.S. Bank National Association (U.S. Bank), as Litigation Trustee for the Idearc Inc. Litigation Trust (Litigation Trust), filed suit in U.S. District Court for the Northern District of Texas against Verizon and certain subsidiaries challenging the November 2006 spin-off of Verizon's former directories business then known as Idearc Inc. U.S. Bank, which represents a group of creditors who filed claims in the Idearc Inc. bankruptcy proceedings, alleges that Idearc Inc. was insolvent at the time of the spin-off or became insolvent shortly thereafter. The Litigation Trust seeks over \$9 billion in damages. Discovery in the case is underway, with a trial set for October 2012.

On October 25, 2011, a Litigation Trust created during the bankruptcy proceedings of FairPoint Communications, Inc. filed a complaint in state court in Mecklenburg County, North Carolina, against Verizon and other related entities, including Verizon Wireless. The complaint claims that FairPoint's acquisition of Verizon's landline operations in Maine, New Hampshire and Vermont in March 2008 was structured and carried out in a way that left FairPoint insolvent or led to its insolvency shortly thereafter and ultimately to its October 2009 bankruptcy. The Litigation Trust seeks approximately \$2 billion in damages. Verizon removed the case to the United States District Court for the Western District of North Carolina in November 2011. In June 2012, the Litigation Trust filed a Second Amended Complaint that dropped all claims against Verizon Wireless. Motion to dismiss briefing and discovery are ongoing and a trial date is set for May 2013.

Item 1A. Risk Factors

There have been no material changes to our risk factors as previously disclosed in Part I, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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Verizon did not repurchase any shares of Verizon common stock during the three months ended June 30, 2012. At June 30, 2012, the maximum number of shares that could be purchased by or on behalf of Verizon under our share buyback program was 100 million.

Table of Contents**Item 6. Exhibits**

| Exhibit Number | Description |
|-------------------|---|
| 12 | Computation of Ratio of Earnings to Fixed Charges. |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document. |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document. |
| 101.LAB | XBRL Taxonomy Label Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |

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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VERIZON COMMUNICATIONS INC.

Date: July 30, 2012

By /s/ Robert J. Barish
Robert J. Barish
Senior Vice President and Controller
(Principal Accounting Officer)

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Exhibit Index

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