

VERIZON COMMUNICATIONS INC  
Form 10-Q  
October 26, 2016  
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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 September 30, 2016

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)

**1095 Avenue of the Americas**

**New York, New York**  
(Address of principal executive offices)

**23-2259884**  
(I.R.S. Employer Identification No.)

**10036**  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  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 the 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 September 30, 2016, 4,076,633,952 shares of the registrant's common stock were outstanding, after deducting 165,740,288 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		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
(dollars in millions, except per share amounts) (unaudited)				
<b>Operating Revenues</b>				
Service revenues and other	\$ 26,813	\$ 28,866	\$ 81,858	\$ 85,840
Wireless equipment revenues	4,124	4,292	11,782	11,526
<b>Total Operating Revenues</b>	<b>30,937</b>	<b>33,158</b>	<b>93,640</b>	<b>97,366</b>
<b>Operating Expenses</b>				
Cost of services (exclusive of items shown below)	6,989	7,589	22,180	21,571
Wireless cost of equipment	5,240	5,716	14,882	16,279
Selling, general and administrative expense	8,226	8,309	25,601	24,222
Depreciation and amortization expense	3,942	4,009	11,941	11,978
<b>Total Operating Expenses</b>	<b>24,397</b>	<b>25,623</b>	<b>74,604</b>	<b>74,050</b>
<b>Operating Income</b>	<b>6,540</b>	<b>7,535</b>	<b>19,036</b>	<b>23,316</b>
Equity in losses of unconsolidated businesses	(23)	(18)	(63)	(70)
Other income and (expense), net	97	51	(1,697)	158
Interest expense	(1,038)	(1,202)	(3,239)	(3,742)
<b>Income Before Provision For Income Taxes</b>	<b>5,576</b>	<b>6,366</b>	<b>14,037</b>	<b>19,662</b>
Provision for income taxes	(1,829)	(2,195)	(5,029)	(6,800)
<b>Net Income</b>	<b>\$ 3,747</b>	<b>\$ 4,171</b>	<b>\$ 9,008</b>	<b>\$ 12,862</b>
Net income attributable to noncontrolling interests	\$ 127	\$ 133	\$ 376	\$ 374
Net income attributable to Verizon	3,620	4,038	8,632	12,488
<b>Net Income</b>	<b>\$ 3,747</b>	<b>\$ 4,171</b>	<b>\$ 9,008</b>	<b>\$ 12,862</b>
<b>Basic Earnings Per Common Share</b>				
Net income attributable to Verizon	\$ .89	\$ .99	\$ 2.12	\$ 3.05
Weighted-average shares outstanding (in millions)	4,079	4,072	4,080	4,089
<b>Diluted Earnings Per Common Share</b>				
Net income attributable to Verizon	\$ .89	\$ .99	\$ 2.11	\$ 3.05
Weighted-average shares outstanding (in millions)	4,086	4,078	4,086	4,095
Dividends declared per common share	\$ 0.5775	\$ 0.5650	\$ 1.7075	\$ 1.6650

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>Net Income</b>	\$ 3,747	\$ 4,171	\$ 9,008	\$ 12,862
<b>Other comprehensive income (loss), net of taxes</b>				
Foreign currency translation adjustments	(78)	(74)	(23)	(161)
Unrealized gain (loss) on cash flow hedges	147	(90)	(58)	(196)
Unrealized loss on marketable securities	(19)	(13)	(35)	(22)
Defined benefit pension and postretirement plans	(139)	(44)	2,324	(132)
Other comprehensive income (loss) attributable to Verizon	(89)	(221)	2,208	(511)
<b>Total Comprehensive Income</b>	\$ 3,658	\$ 3,950	\$ 11,216	\$ 12,351
Comprehensive income attributable to noncontrolling interests	\$ 127	\$ 133	\$ 376	\$ 374
Comprehensive income attributable to Verizon	3,531	3,817	10,840	11,977
<b>Total Comprehensive Income</b>	\$ 3,658	\$ 3,950	\$ 11,216	\$ 12,351

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 September 30, 2016	At December 31, 2015
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 6,441	\$ 4,470
Short-term investments		350
Accounts receivable, net of allowances of \$800 and \$882	14,832	13,457
Inventories	1,318	1,252
Assets held for sale		792
Prepaid expenses and other	3,030	2,034
<b>Total current assets</b>	<b>25,621</b>	<b>22,355</b>
Plant, property and equipment	228,909	220,163
Less accumulated depreciation	145,495	136,622
Plant, property and equipment, net	83,414	83,541
Investments in unconsolidated businesses	1,119	796
Wireless licenses	87,407	86,575
Goodwill	25,970	25,331
Other intangible assets, net	7,692	7,592
Non-current assets held for sale		10,267
Other assets	8,275	7,718
<b>Total assets</b>	<b>\$ 239,498</b>	<b>\$ 244,175</b>
<b>Liabilities and Equity</b>		
Current liabilities		
Debt maturing within one year	\$ 3,852	\$ 6,489
Accounts payable and accrued liabilities	18,002	19,362
Liabilities related to assets held for sale		463
Other	8,444	8,738
<b>Total current liabilities</b>	<b>30,298</b>	<b>35,052</b>
Long-term debt	102,739	103,240
Employee benefit obligations	28,285	29,957
Deferred income taxes	44,617	45,484
Non-current liabilities related to assets held for sale		959
Other liabilities	11,576	11,641
Equity		
Series preferred stock (\$.10 par value; none issued)		

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Common stock (\$.10 par value; 4,242,374,240 shares issued in each period)	424	424
Contributed capital	11,179	11,196
Reinvested earnings	12,918	11,246
Accumulated other comprehensive income	2,758	550
Common stock in treasury, at cost	(7,264)	(7,416)
Deferred compensation employee stock ownership plans and other	445	428
Noncontrolling interests	1,523	1,414
<b>Total equity</b>	<b>21,983</b>	<b>17,842</b>
<b>Total liabilities and equity</b>	<b>\$ 239,498</b>	<b>\$ 244,175</b>

See Notes to Condensed Consolidated Financial Statements



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

Verizon Communications Inc. and Subsidiaries

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
(dollars in millions) (unaudited)	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 9,008	\$ 12,862
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	11,941	11,978
Employee retirement benefits	4,531	1,184
Deferred income taxes	(2,331)	890
Provision for uncollectible accounts	963	1,136
Equity in losses of unconsolidated businesses, net of dividends received	94	98
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses	(4,010)	1,443
Other, net	(2,567)	(1,165)
Net cash provided by operating activities	17,629	28,426
<b>Cash Flows from Investing Activities</b>		
Capital expenditures (including capitalized software)	(11,398)	(12,540)
Acquisitions of businesses, net of cash acquired	(963)	(3,205)
Acquisitions of wireless licenses	(410)	(9,811)
Proceeds from dispositions of businesses	9,882	
Other, net	350	960
Net cash used in investing activities	(2,539)	(24,596)
<b>Cash Flows from Financing Activities</b>		
Proceeds from long-term borrowings	8,152	6,497
Proceeds from asset-backed long-term borrowings	2,594	
Repayments of long-term borrowings and capital lease obligations	(14,510)	(7,168)
Decrease in short-term obligations, excluding current maturities	(120)	(305)
Dividends paid	(6,908)	(6,373)
Proceeds from sale of common stock	3	31
Purchase of common stock for treasury		(5,134)
Other, net	(2,330)	1,899
Net cash used in financing activities	(13,119)	(10,553)
Increase (decrease) in cash and cash equivalents	1,971	(6,723)
Cash and cash equivalents, beginning of period	4,470	10,598
Cash and cash equivalents, end of period	\$ 6,441	\$ 3,875



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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 for the year ended December 31, 2015 of Verizon Communications Inc. (Verizon or the Company) included in its Current Report on Form 8-K dated July 29, 2016. These financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown, including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year. We have reclassified certain prior year amounts to conform to the current year presentation.

**Earnings Per Common Share**

There were a total of approximately 7 million and 6 million outstanding dilutive securities, primarily consisting of restricted stock units, included in the computation of diluted earnings per common share for the three and nine months ended September 30, 2016, respectively. There were a total of approximately 6 million outstanding dilutive securities, primarily consisting of restricted stock units, included in the computation of diluted earnings per common share for the three and nine months ended September 30, 2015, respectively. There were no outstanding options to purchase shares that would have been anti-dilutive for the three and nine months ended September 30, 2016 and 2015, respectively.

**Recently Adopted Accounting Standards**

During the first quarter of 2016, we adopted the accounting standard update related to the simplification of the accounting for measurement-period adjustments in business combinations. This standard update requires an acquirer to recognize measurement-period adjustments in the reporting period in which the adjustments are determined and to record the effects on earnings of any changes resulting from the change in provisional amounts, calculated as if the accounting had been completed at the acquisition date. The prospective adoption of this standard update did not have a significant impact on our condensed consolidated financial statements.

During the first quarter of 2016, we adopted the accounting standard update related to disclosures for investments in certain entities that calculate net asset value per share. This standard update removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The standard update limits the required disclosures to investments for which the entity has elected to measure the fair value using the practical expedient. The retrospective adoption of this standard update did not have a significant impact on our condensed consolidated financial statements.

During the first quarter of 2016, we adopted the accounting standard update related to the simplification of the presentation of debt issuance costs. This standard update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. During the first quarter of 2016, we also adopted the accounting standard update related to the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. This standard adds SEC paragraphs pursuant to an SEC Staff Announcement that the SEC staff would not object to an entity deferring and presenting debt issuance costs associated with a line-of-credit arrangement as an asset and subsequently amortizing the costs ratably over the term of the arrangement. We applied the amendments in these accounting standard updates retrospectively to all periods presented. The adoption of these standard updates did not have a significant impact on our condensed consolidated financial statements.

During the first quarter of 2016, we adopted the accounting standard update related to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The standard requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The prospective adoption of this standard update did not have an impact on our condensed consolidated financial statements.

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During the second quarter of 2016, we prospectively changed our method for determining the date at which we remeasure plan assets and obligations as a result of a significant event during an interim period in accordance with Accounting Standards Update (ASU) 2015-04, *Compensation - Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*. As a practical expedient, we elected to remeasure defined benefit plan assets and obligations using the month-end that is closest to the date of the significant event.

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### **Recently Issued Accounting Standards**

In August 2016, the accounting standard update related to the classification of certain cash receipts and cash payments was issued. This standard update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this update are effective as of the first quarter of 2018; however, early adoption is permitted. We are currently evaluating the impact that this standard update will have on our condensed consolidated financial statements.

In June 2016, the standard update related to the measurement of credit losses on financial instruments was issued. This standard update requires financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. This standard update is effective as of the first quarter of 2020; however, early adoption is permitted. We are currently evaluating the impact that this standard update will have on our condensed consolidated financial statements.

In March 2016, the accounting standard update related to employee share-based payment accounting was issued. This standard update intends to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This standard update is effective as of the first quarter of 2017; however, early adoption is permitted. The adoption of this standard update is not expected to have a significant impact on our condensed consolidated financial statements.

In February 2016, the accounting standard update related to leases was issued. This standard update intends to increase transparency and improve comparability by requiring entities to recognize assets and liabilities on the balance sheet for all leases, with certain exceptions. In addition, through improved disclosure requirements, the standard update will enable users of financial statements to further understand the amount, timing, and uncertainty of cash flows arising from leases. This standard update is effective as of the first quarter of 2019; however, early adoption is permitted. We are currently evaluating the impact that this standard update will have on our condensed consolidated financial statements.

In May 2014, the accounting standard update related to the recognition of revenue from contracts with customers was issued. This standard update clarifies the principles for recognizing revenue and develops a common revenue standard for generally accepted accounting principles in the United States (U.S. GAAP) and International Financial Reporting Standards. The standard update also amends current guidance for the recognition of costs to obtain and fulfill contracts with customers requiring that all incremental costs of obtaining and direct costs of fulfilling contracts with customers be deferred and recognized over the expected customer life. The standard update intends to provide a more robust framework for addressing revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; and provide more useful information to users of financial statements through improved disclosure requirements. Upon adoption of this standard update, we expect that the allocation and timing of revenue recognition as well as timing of recognition of certain contract costs will be impacted. In August 2015, an accounting standard update was issued that delayed the effective date of this standard until the first quarter of 2018.

There are two adoption methods available for implementation of the standard update related to the recognition of revenue from contracts with customers. Under one method, the guidance is applied retrospectively to contracts for each reporting period presented, subject to allowable practical expedients. Under the other method, the guidance is applied only to the most current period presented, recognizing the cumulative effect of the change as an adjustment to the beginning balance of retained earnings, and also requires additional disclosures comparing the results to the previous guidance. We are currently evaluating these adoption methods and the impact that this standard update will have on our condensed consolidated financial statements.

We have established a cross-functional coordinated implementation team to implement the standard update related to the recognition of revenue from contracts with customers. We have identified and are in the process of implementing changes to our systems, processes and internal controls to meet the standard update's reporting and disclosure requirements.

## **2. Acquisitions and Divestitures**

### **Wireless**

#### **Spectrum License Transactions**

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During the fourth quarter of 2015, we entered into a license exchange agreement with affiliates of AT&T Inc. (AT&T) to exchange certain Advanced Wireless Services (AWS) and Personal Communication Services (PCS) spectrum licenses. This non-cash exchange was completed in March 2016. As a result, we received \$0.4 billion of AWS and PCS spectrum licenses at fair value and recorded a pre-tax gain of \$0.1 billion in Selling, general and administrative expense on our condensed consolidated statement of income for the nine months ended September 30, 2016.

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During the first quarter of 2016, we entered into a license exchange agreement with affiliates of Sprint Corporation, which provides for the exchange of certain AWS and PCS spectrum licenses. This non-cash exchange was completed in September 2016. As a result, we received \$0.3 billion of AWS and PCS spectrum licenses at fair value and recorded an immaterial gain in Selling, general and administrative expense on our condensed consolidated statement of income for the nine months ended September 30, 2016.

During the fourth quarter of 2016, we entered into a license exchange agreement with affiliates of AT&T to exchange certain AWS and PCS spectrum licenses. This non-cash exchange is subject to customary closing conditions and is expected to be completed in the first half of 2017. Upon completion of this transaction, we expect to record a gain which will be determined upon the closing of the transaction.

During the three and nine months ended September 30, 2016, we acquired various other wireless licenses for cash consideration that was not significant.

## **Wireline**

### **Access Line Sale**

On February 5, 2015, we entered into a definitive agreement with Frontier Communications Corporation (Frontier) pursuant to which Verizon agreed to sell its local exchange business and related landline activities in California, Florida and Texas, including Fios Internet and video customers, switched and special access lines and high-speed Internet service and long distance voice accounts in these three states for approximately \$10.5 billion (approximately \$7.3 billion net of income taxes), subject to certain adjustments and including the assumption of \$0.6 billion of indebtedness from Verizon by Frontier. The transaction, which includes the acquisition by Frontier of the equity interests of Verizon's incumbent local exchange carriers (ILECs) in California, Florida and Texas, did not involve any assets or liabilities of Verizon Wireless. The transaction closed on April 1, 2016.

The transaction resulted in Frontier acquiring approximately 3.3 million voice connections, 1.6 million Fios Internet subscribers, 1.2 million Fios video subscribers and the related ILEC businesses from Verizon. For the nine months ended September 30, 2016, these businesses generated revenues of approximately \$1.3 billion and operating income of \$0.7 billion for Verizon. For the three and nine months ended September 30, 2015, these businesses generated revenues of \$1.3 billion and \$4.0 billion, respectively, and operating income of \$0.7 billion and \$2.1 billion, respectively. The operating results of these businesses are excluded from our Wireline segment for all periods presented to reflect comparable segment operating results consistent with the information regularly reviewed by our chief operating decision maker.

During April 2016, Verizon used the net cash proceeds received of \$9.9 billion to reduce its consolidated indebtedness (see Note 4). The assets and liabilities that were sold were included in Verizon's continuing operations and classified as assets held for sale and liabilities related to assets held for sale on our condensed consolidated balance sheets through the completion of the transaction on April 1, 2016. As a result of the closing of the transaction, we derecognized plant, property, and equipment of \$9.0 billion, goodwill of \$1.3 billion, \$0.7 billion of defined benefit pension and other postretirement benefit plan obligations and \$0.6 billion of indebtedness assumed by Frontier.

We recorded a pre-tax gain of approximately \$1.0 billion in Selling, general and administrative expense on our condensed consolidated statement of income for nine months ended September 30, 2016. The pre-tax gain included a \$0.5 billion pension and postretirement benefit curtailment gain due to the elimination of the accrual of pension and other postretirement benefits for some or all future services of a significant number of employees covered by three of our defined benefit pension plans and one of our other postretirement benefit plans.

### **XO Holdings**

On February 20, 2016, Verizon entered into a purchase agreement to acquire XO Holdings' wireline business which owns and operates one of the largest fiber-based IP and Ethernet networks outside of Verizon's footprint for approximately \$1.8 billion, subject to adjustment. The transaction is targeted to close by the end of the first quarter of 2017, subject to regulatory approvals. Separately, Verizon entered into an agreement to lease certain wireless spectrum from XO Holdings and has an option, exercisable under certain circumstances, to buy the XO Holdings' entity that owns its wireless spectrum.

**Table of Contents****Other****Acquisition of AOL Inc.**

On May 12, 2015, we entered into an Agreement and Plan of Merger (the Merger Agreement) with AOL Inc. (AOL) pursuant to which we commenced a tender offer to acquire all of the outstanding shares of common stock of AOL at a price of \$50.00 per share, net to the seller in cash, without interest and less any applicable withholding taxes.

On June 23, 2015, we completed the tender offer and merger, and AOL became a wholly-owned subsidiary of Verizon. The aggregate cash consideration paid by Verizon at the closing of these transactions was approximately \$3.8 billion. Holders of approximately 6.6 million shares exercised appraisal rights under Delaware law. If they had not exercised these rights, Verizon would have paid an additional \$330 million for such shares at the closing.

AOL is a leader in the digital content and advertising platform space. Verizon has been investing in emerging technology that taps into the market shift to digital content and advertising. AOL's business model aligns with this approach, and we believe that its combination of owned and operated content properties plus a digital advertising platform enhances our ability to further develop future revenue streams.

The acquisition of AOL has been accounted for as a business combination. The identification of the assets acquired and liabilities assumed are finalized.

The fair values of the assets acquired and liabilities assumed were determined using the income, cost and market approaches. The fair value measurements were primarily based on significant inputs that are not observable in the market and thus represent a Level 3 measurement as defined in Accounting Standards Codification (ASC) 820, other than long-term debt assumed in the acquisition. The income approach was primarily used to value the intangible assets, consisting primarily of acquired technology and customer relationships. The income approach indicates value for an asset based on the present value of cash flow projected to be generated by the asset. Projected cash flow is discounted at a required rate of return that reflects the relative risk of achieving the cash flow and the time value of money. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used, as appropriate, for plant, property and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation.

The following table summarizes the consideration to AOL's shareholders and the identification of the assets acquired, including cash acquired of \$0.5 billion, and liabilities assumed as of the close of the acquisition, as well as the fair value at the acquisition date of AOL's noncontrolling interests:

(dollars in millions)	<b>As of June 23, 2015</b>
Cash payment to AOL's equity holders	\$ 3,764
Estimated liabilities to be paid <sup>(1)</sup>	377
<b>Total consideration</b>	<b>\$ 4,141</b>
<b>Assets acquired:</b>	
Goodwill	\$ 1,938
Intangible assets subject to amortization	2,504
Other	1,551
<b>Total assets acquired</b>	<b>5,993</b>
<b>Liabilities assumed:</b>	
Total liabilities assumed	1,851
<b>Net assets acquired:</b>	<b>4,142</b>
Noncontrolling interest	(1)



Total consideration	\$	4,141
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<sup>(1)</sup> During the nine months ended September 30, 2016, we made cash payments of \$179 million in respect of acquisition-date estimated liabilities to be paid. As of September 30, 2016, the remaining balance of estimated liabilities to be paid was \$198 million.

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Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the fair value of the net assets acquired. The goodwill recorded as a result of the AOL transaction represents future economic benefits we expect to achieve as a result of combining the operations of AOL and Verizon as well as assets acquired that could not be individually identified and separately recognized. The goodwill related to this acquisition is included within Corporate and other.

### **Acquisition of Yahoo! Inc. s Operating Business**

On July 23, 2016, we entered into a stock purchase agreement (the Purchase Agreement) with Yahoo! Inc. (Yahoo). Pursuant to the Purchase Agreement, upon the terms and subject to the conditions thereof, we will acquire the stock of one or more subsidiaries of Yahoo holding all of Yahoo s operating business, for approximately \$4.83 billion in cash, subject to certain adjustments (the Transaction). Prior to the closing of the Transaction, pursuant to a reorganization agreement, Yahoo will transfer all of the assets and liabilities constituting Yahoo s operating business to the subsidiaries to be acquired in the Transaction. The assets to be acquired will not include Yahoo s cash, its ownership interests in Alibaba, Yahoo! Japan and certain other investments, certain undeveloped land recently divested by Yahoo or certain non-core intellectual property. We will receive for our benefit and that of our current and certain future affiliates a non-exclusive, worldwide, perpetual, royalty-free license to all of Yahoo s intellectual property that is not being conveyed with the business.

Yahoo employees who transfer to Verizon will have any unvested Yahoo restricted stock units that they hold converted into cash-settleable Verizon restricted stock units, which will have the same vesting schedule as their Yahoo restricted stock units. The value of those outstanding restricted stock units on the date of signing was approximately \$1.1 billion.

The Transaction is subject to customary regulatory approvals and closing conditions, including the approval of Yahoo s stockholders.

On September 22, 2016, Yahoo announced that it had confirmed that a copy of certain information associated with at least 500 million user accounts was stolen from its network in late 2014. This could result in a material adverse effect under the terms of our agreement. We are continuing to evaluate the impacts of this event on the transaction.

### **Other**

On July 29, 2016, Verizon acquired Telogis, Inc., a global, cloud-based mobile enterprise management software business for \$0.9 billion of cash consideration. Upon closing, we recorded \$0.6 billion of goodwill that is included within Corporate and other.

On July 30, 2016, we entered into an agreement (the Transaction Agreement) to acquire Fleetmatics Group PLC, a public limited company incorporated in Ireland (Fleetmatics). Fleetmatics is a leading global provider of fleet and mobile workforce management solutions. Under the terms of the Transaction Agreement, we will acquire Fleetmatics pursuant to a scheme of arrangement under the Irish Companies Act 2014 for \$60.00 per ordinary share in cash, representing a value of approximately \$2.4 billion. The acquisition is subject to customary regulatory approvals and closing conditions, including the approval of Fleetmatics s shareholders and the sanction of the scheme of arrangement by the Irish High Court. Approval from Fleetmatics s shareholders has been obtained. We expect this transaction to close in the fourth quarter of 2016.

On September 12, 2016, Verizon announced an agreement to acquire a leading provider of Internet of Things (IoT) solutions for smart communities for cash consideration that is not significant. The transaction was completed in October 2016.

During the nine months ended September 30, 2016, we acquired various other businesses and investments for cash consideration that was not significant.

## **3. Wireless Licenses, Goodwill and Other Intangible Assets**

### **Wireless Licenses**

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

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(dollars in millions)

Balance at January 1, 2016	\$ 86,575
Acquisitions (Note 2)	26
Capitalized interest on wireless licenses	384
Reclassifications, adjustments and other	422
<b>Balance at September 30, 2016</b>	<b>\$ 87,407</b>

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Reclassifications, adjustments and other includes the exchanges of wireless licenses in 2016 (see Note 2 for additional details).

At September 30, 2016, approximately \$10.4 billion of wireless licenses were under development for commercial service for which we were capitalizing interest costs.

The average remaining renewal period for our wireless licenses portfolio was 5.2 years as of September 30, 2016.

**Goodwill**

Changes in the carrying amount of Goodwill are as follows:

(dollars in millions)	<b>Wireless</b>	<b>Wireline</b>	<b>Other</b>	<b>Total</b>
Balance at January 1, 2016	\$ 18,393	\$ 4,331	\$ 2,607	\$ 25,331
Acquisitions (Note 2)			641	641
Reclassifications, adjustments and other		(113)	111	(2)
<b>Balance at September 30, 2016</b>	<b>\$ 18,393</b>	<b>\$ 4,218</b>	<b>\$ 3,359</b>	<b>\$ 25,970</b>

We recognized goodwill of \$0.6 billion in Corporate and other as a result of an acquisition in the third quarter of 2016 (see Note 2 for additional details). During the second quarter of 2016, we allocated \$0.1 billion of Goodwill on a relative fair value basis from Wireline to Corporate and other as a result of the reclassification of our vehicle original equipment manufacturer (OEM) and Networkfleet businesses (see Note 10 for additional details).

**Other Intangible Assets**

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

(dollars in millions)	<b>At September 30, 2016</b>			At December 31, 2015		
	<b>Gross Amount</b>	<b>Accumulated Amortization</b>	<b>Net Amount</b>	Gross Amount	Accumulated Amortization	Net Amount
Customer lists (6 to 14 years)	\$ 3,963	\$ (2,355)	\$ 1,608	\$ 4,139	\$ (2,365)	\$ 1,774
Non-network internal-use software (3 to 8 years)	15,530	(10,593)	4,937	14,542	(9,620)	4,922
Other (5 to 25 years)	1,688	(541)	1,147	1,346	(450)	896
<b>Total</b>	<b>\$ 21,181</b>	<b>\$ (13,489)</b>	<b>\$ 7,692</b>	<b>\$ 20,027</b>	<b>\$ (12,435)</b>	<b>\$ 7,592</b>

The amortization expense for Other intangible assets was as follows:

(dollars in millions)	<b>Three Months Ended September 30,</b>	<b>Nine Months Ended September 30,</b>
2016	\$ 419	\$ 1,255
2015	438	1,247

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

Years (dollars in millions)

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Remainder of 2016	\$ 416
2017	1,505
2018	1,327
2019	1,121
2020	892

**Table of Contents****4. Debt**

Changes to debt during the nine months ended September 30, 2016 are as follows:

(dollars in millions)	<b>Debt Maturing within One Year</b>	<b>Long-term Debt</b>	<b>Total</b>
Balance at January 1, 2016	\$ 6,489	\$ 103,240	\$ 109,729
Proceeds from borrowings		8,152	8,152
Proceeds from asset-backed borrowings		2,594	2,594
Repayments of borrowings and capital leases obligations	(6,110)	(8,400)	(14,510)
Decrease in short-term obligations, excluding current maturities	(120)		(120)
Reclassifications of long-term debt	3,412	(3,412)	
Other	181	565	746
<b>Balance at September 30, 2016</b>	<b>\$ 3,852</b>	<b>\$ 102,739</b>	<b>\$ 106,591</b>

*April Tender Offers*

On March 4, 2016, we announced the commencement of three concurrent, but separate, tender offers (the April Tender Offers) to purchase for cash (1) any and all of the series of notes listed below in the Group 1 Any and All Offer, (2) any and all of the series of notes listed below in the Group 2 Any and All Offer and (3) up to \$5.5 billion aggregate purchase price, excluding accrued and unpaid interest and any fees or commissions, of the series of notes listed below in the Group 3 Offer.

The April Tender Offers for each series of notes were conditioned upon the closing of the sale of our local exchange business and related landline activities in California, Florida and Texas to Frontier and the receipt of at least \$9.5 billion of the purchase price cash at closing (the Sale Condition). The Sale Condition was satisfied and the April Tender Offers were settled on April 4, 2016, resulting in the notes listed below being repurchased and cancelled for \$10.2 billion, inclusive of accrued interest of \$0.1 billion.

The table below lists the series of notes included in the Group 1 Any and All Offer:

(dollars in millions, except for Purchase Price)	<b>Interest Rate</b>	<b>Maturity</b>	<b>Principal Amount Outstanding</b>	<b>Purchase Price<sup>(1)</sup></b>	<b>Principal Amount Purchased</b>
Verizon Communications Inc.	2.50%	2016	\$ 2,182	\$ 1,007.60	\$ 1,272
	2.00%	2016	1,250	1,007.20	731
	6.35%	2019	1,750	1,133.32	970
					\$ 2,973

<sup>(1)</sup> Per \$1,000 principal amount of notes tendered and not withdrawn prior to early expiration.

The table below lists the series of notes included in the Group 2 Any and All Offer:

(dollars in millions, except for Purchase Price)	<b>Interest Rate</b>	<b>Maturity</b>	<b>Principal Amount Outstanding</b>	<b>Purchase Price<sup>(1)</sup></b>	<b>Principal Amount Purchased</b>
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Verizon Delaware LLC	8.375%	2019	\$ 15	\$ 1,182.11	\$ 15
	8.625%	2031	15	1,365.39	5
Verizon Maryland LLC	8.00%	2029	50	1,301.32	22
	8.30%	2031	100	1,347.26	76
	5.125%	2033	350	1,012.50	171
Verizon New England Inc.	7.875%	2029	349	1,261.63	176
Verizon New Jersey Inc.	8.00%	2022	200	1,238.65	54
	7.85%	2029	149	1,311.32	63
Verizon New York Inc.	6.50%	2028	100	1,151.71	28
	7.375%	2032	500	1,201.92	256
Verizon Pennsylvania LLC	6.00%	2028	125	1,110.47	57
	8.35%	2030	175	1,324.10	127
	8.75%	2031	125	1,356.47	72
Verizon Virginia LLC	7.875%	2022	100	1,227.79	43
	8.375%	2029	100	1,319.78	81

\$ 1,246

<sup>(1)</sup> Per \$1,000 principal amount of notes tendered and not withdrawn prior to early expiration.

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The table below lists the series of notes included in the Group 3 Offer:

(dollars in millions, except for Purchase Price)	Interest		Principal	Purchase	Principal
	Rate	Maturity	Amount	Price <sup>(1)</sup>	Amount
Verizon Communications Inc.	8.95%	2039	\$ 353	\$ 1,506.50	\$ 63
	7.75%	2032	251	1,315.19	33
	7.35%	2039	480	1,293.50	68
	7.75%	2030	1,206	1,377.92	276
	6.55%	2043	6,585	1,291.74	2,340
	6.40%	2033	2,196	1,220.28	466
	6.90%	2038	477	1,243.29	92
	6.25%	2037	750	1,167.66	114
	6.40%	2038	866	1,176.52	116
	5.85%	2035	1,500	1,144.68	250
	6.00%	2041	1,000	1,164.56	
	5.15%	2023	8,517	1,152.83	
Alltel Corporation	7.875%	2032	452	1,322.92	115
	6.80%	2029	235	1,252.93	47
GTE Corporation	6.94%	2028	800	1,261.35	237
	8.75%	2021	300	1,307.34	93
					\$ 4,310

<sup>(1)</sup> Per \$1,000 principal amount of notes  
*April Early Debt Redemption*

On April 8, 2016, we redeemed in whole the following series of outstanding notes which were called for redemption on April 5, 2016 (collectively, April Early Debt Redemption): \$0.9 billion aggregate principal amount of Verizon Communications 2.50% Notes due 2016 at 100.8% of the principal amount of such notes, \$0.5 billion aggregate principal amount of Verizon Communications 2.00% Notes due 2016 at 100.8% of the principal amount of such notes, and \$0.8 billion aggregate principal amount of Verizon Communications 6.35% Notes due 2019 at 113.5% of the principal amount of such notes. These notes were repurchased and cancelled for \$2.3 billion, inclusive of an immaterial amount of accrued interest.

*Debt Issuances*

During August 2016, we issued \$6.2 billion aggregate principal amount of fixed and floating rate notes. The issuance of these Notes resulted in cash proceeds of approximately \$6.1 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The issuance consisted of the following series of notes: \$0.4 billion aggregate principal amount of Verizon Communications Floating Rate Notes due 2019, \$1.0 billion aggregate principal amount of Verizon Communications 1.375% Notes due 2019, \$1.0 billion aggregate principal amount of Verizon Communications 1.750% Notes due 2021, \$2.3 billion aggregate principal amount of Verizon Communications 2.625% Notes due 2026, and \$1.5 billion aggregate principal amount of Verizon Communications 4.125% Notes due 2046. The floating rate notes bear interest at a rate equal to the three-month London



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Interbank Offered Rate (LIBOR) plus 0.370%, which rate will be reset quarterly. The net proceeds were used for general corporate purposes, including to repay at maturity on September 15, 2016, \$2.3 billion aggregate principal amount of our floating rate notes, plus accrued interest on the notes.

During September 2016, we issued \$2.1 billion aggregate principal amount of 4.20% Notes due 2046. The issuance of these Notes resulted in cash proceeds of approximately \$2.0 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The net proceeds were used to redeem in whole \$0.9 billion aggregate principal amount of Verizon Communications 4.80% Notes due 2044 at 100% of the principal amount of such notes, plus any accrued and unpaid interest to the date of redemption, for an immaterial loss. Proceeds not used for the redemption of these notes were used for general corporate purposes.

### *Asset-Backed Debt*

As of September 30, 2016, the carrying value of our asset-backed debt was \$2.6 billion. Our asset-backed debt includes notes (the Asset-Backed Notes) issued to third-party investors (Investors) and loans (the ABS Financing Facility) received from banks and their conduit facilities (collectively, the Banks). Our consolidated asset-backed securitization bankruptcy remote legal entities (each, an ABS Entity or collectively, the ABS Entities) issue the debt or are otherwise party to the transaction documentation in connection with our asset-backed debt transactions. Under the terms of our asset-backed debt, we transfer device payment plan agreement receivables from Cellco Partnership and certain other affiliates of Verizon (collectively, the Originators) to one of the ABS Entities, which in turn transfers such receivables to another ABS Entity that issues the debt. Verizon entities retain the equity interests in the ABS Entities, which represent the rights to all funds not needed to make required payments on the asset-backed debt and other related payments and expenses.

Our asset-backed debt is secured by the transferred device payment plan agreement receivables and future collections on such receivables. The device payment plan agreement receivables transferred to the ABS Entities and related assets, consisting primarily of restricted cash, will only be available for payment of asset-backed debt and expenses related thereto, payments to the Originators in respect of additional transfers of device payment plan agreement receivables, and other obligations arising from our asset-backed debt transactions, and will not be available to pay other obligations or claims of Verizon's creditors until the associated asset-backed debt and other obligations are satisfied. The Investors or Banks, as applicable, which hold our asset-backed debt have legal recourse to the assets securing the debt and do not have any recourse to Verizon with respect to the payment of principal and interest on the debt. Under a parent support agreement, Verizon has agreed to guarantee certain of the payment obligations of Cellco Partnership and the Originators to the ABS Entities.

Cash collections on the device payment plan agreement receivables are required at certain specified times to be placed into segregated accounts. Deposits to the segregated accounts are considered restricted cash and are included in Prepaid expenses and other and Other assets on our condensed consolidated balance sheets.

Proceeds from our asset-backed debt transactions, deposits to the segregated accounts and payments to the Originators in respect of additional transfers of device payment plan agreement receivables are reflected in Cash flows from financing activities in our condensed consolidated statements of cash flows. Repayments of our asset-backed debt and related interest payments made from the segregated accounts are non-cash activities and therefore not reflected within Cash flows from financing activities in our condensed consolidated statements of cash flows. The asset-backed debt issued and the assets securing this debt are included on our condensed consolidated balance sheets.

### *Asset-Backed Notes*

In July 2016, we issued \$1.2 billion aggregate principal amount of senior and junior asset-backed notes through an ABS Entity, of which \$1.1 billion of notes were sold to Investors. The senior asset-backed notes have an expected weighted average life of about 2.5 years and bear interest at 1.42% per annum. The junior asset-backed notes have an expected weighted average life of about 3.2 years and bear interest at a weighted-average rate of 1.53%. Under the terms of the asset-backed notes, there is a two year revolving period during which we may transfer additional receivables to the ABS Entity.

**Table of Contents***ABS Financing Facility*

During the third quarter of 2016, we entered into a device payment plan agreement financing facility with a number of financial institutions. Under the terms of the ABS Financing Facility, such counterparties made advances under asset-backed loans backed by device payment plan agreement receivables for proceeds of \$1.5 billion, and we have the option of requesting an additional \$1.5 billion of committed funding. These loans have an expected weighted average life of about 2.6 years and bear interest at floating rates. There is a two year revolving period, which may be extended, during which we may transfer additional receivables to the ABS Entity. Subject to certain conditions, we may also remove receivables from the ABS Entity. We may prepay the outstanding amounts of the loans without penalty, but in certain cases, with breakage costs. As of September 30, 2016, outstanding borrowings under the ABS Financing Facility were \$1.5 billion.

*Variable Interest Entities*

The ABS Entities meet the definition of a variable interest entity (VIE) for which we have determined that we have both the power to direct the activities of the entity that most significantly impact the entity's performance and the obligation to absorb losses or the right to receive benefits of the entity. Therefore the assets, liabilities and activities of the ABS Entities are consolidated in our financial results and are included in amounts presented on the face of our condensed consolidated balance sheets.

The assets and liabilities related to our asset-backed debt arrangements included on our condensed consolidated balance sheets were as follows:

(dollars in millions)	September 30, 2016	December 31, 2015
<b>Assets</b>		
Account receivable, net	\$ 1,733	\$
Prepaid expenses and other	71	
Other assets	1,296	
<b>Liabilities</b>		
Long-term debt	2,595	
See Note 5 for more information on device payment plan agreement receivables used to secure asset-backed debt.		

*Credit Facility*

On September 23, 2016, we amended our \$8.0 billion credit facility to increase the availability to \$9.0 billion and extend the maturity to September 23, 2020. As of September 30, 2016, the unused borrowing capacity under our \$9.0 billion credit facility was approximately \$8.9 billion.

*Additional Financing Activities (Non-Cash Transaction)*

During the nine months ended September 30, 2016, we financed, primarily through vendor financing arrangements, the purchase of approximately \$0.4 billion of long-lived assets, consisting primarily of network equipment. At September 30, 2016, \$1.1 billion relating to vendor financing arrangements, including those entered into in prior years, remained outstanding. These purchases are non-cash financing activities and therefore not reflected within Capital expenditures on our condensed consolidated statements of cash flows.

*Early Debt Redemptions*

During the second quarter of 2016, we recorded a net pre-tax loss on early debt redemption of \$1.8 billion in connection with the April Tender Offers and the April Early Debt Redemption.

We recognize early debt redemption costs in Other income and (expense), net on our condensed consolidated statements of income.

*Guarantees*

We guarantee the debentures of our operating telephone company subsidiaries. As of September 30, 2016, \$1.2 billion aggregate principal amount of these obligations remained 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.

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As a result of the closing of the Frontier transaction, as of April 1, 2016, GTE Southwest Inc., Verizon California Inc. and Verizon Florida LLC are no longer wholly-owned subsidiaries of Verizon, and the guarantees of \$0.6 billion aggregate principal amount of debentures and first mortgage bonds of those entities have terminated pursuant to their terms.

We also guarantee the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003. As of September 30, 2016, \$1.1 billion aggregate principal amount of these obligations were outstanding.

**5. Wireless Device Payment Plans**

Under the Verizon device payment program, our eligible wireless customers purchase wireless devices under a device payment plan agreement. Customers that activate service on devices purchased under the device payment program pay lower service fees as compared to those under our fixed-term service plans, and their device payment plan charge is included on their standard wireless monthly bill.

**Wireless Device Payment Plan Agreement Receivables**

The following table displays device payment plan agreement receivables, net, that continue to be recognized in our condensed consolidated balance sheets:

(dollars in millions)	At September 30, 2016	At December 31, 2015
Device payment plan agreement receivables, gross	\$ 7,735	\$ 3,720
Unamortized imputed interest	(332)	(142)
Device payment plan agreement receivables, net of unamortized imputed interest	7,403	3,578
Allowance for credit losses	(601)	(444)
<b>Device payment plan agreement receivables, net</b>	<b>\$ 6,802</b>	<b>\$ 3,134</b>
<b>Classified on our condensed consolidated balance sheets:</b>		
Accounts receivable, net	\$ 4,000	\$ 1,979
Other assets	2,802	1,155
<b>Device payment plan agreement receivables, net</b>	<b>\$ 6,802</b>	<b>\$ 3,134</b>

Included in our device payment plan agreement receivables, net at September 30, 2016 are net device payment plan agreement receivables of \$3.0 billion that have been transferred to ABS Entities and continue to be reported in our condensed consolidated financial statements.

At the time of the sale of a device, we impute risk adjusted interest on the device payment plan agreement receivables. We record the imputed interest as a reduction to the related accounts receivable. Interest income, which is included within Service revenues and other on our condensed consolidated statements of income, is recognized over the financed device payment term.

When originating device payment plan agreements, we use internal and external data sources to create a credit risk score to measure the credit quality of a customer and to determine eligibility for the device payment program. If a customer is either new to Verizon Wireless or has less than 210 days of customer tenure with Verizon Wireless (a new customer), the credit decision process relies more heavily on external data sources. If the customer has 210 days or more of customer tenure with Verizon Wireless (an existing customer), the credit decision process relies on internal data sources. Verizon Wireless experience has been that the payment attributes of longer tenured customers are highly predictive when considering their ability to pay in the future. External data sources include obtaining a credit report from a national consumer credit reporting agency, if available. Verizon Wireless uses its internal data and/or credit data obtained from the credit reporting agencies to create a

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custom credit risk score. The custom credit risk score is generated automatically (except with respect to a small number of applications where the information needs manual intervention) from the applicant's credit data using Verizon Wireless' proprietary custom credit models, which are empirically derived, demonstrably and statistically sound. The credit risk score measures the likelihood that the potential customer will become severely delinquent and be disconnected for non-payment. For a small portion of new customer applications, a traditional credit report is not available from one of the national credit reporting agencies because the potential customer does not have sufficient credit history. In those instances, alternate credit data is used for the risk assessment.

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Based on the custom credit risk score, we assign each customer to a credit class, each of which has a specified required down payment percentage and specified credit limits. Device payment plan agreement receivables originated from customers assigned to credit classes requiring no down payment represent the lowest risk. Device payment plan agreement receivables originated from customers assigned to credit classes requiring a down payment represent a higher risk.

Subsequent to origination, Verizon Wireless monitors delinquency and write-off experience as key credit quality indicators for its portfolio of device payment plan agreements and fixed-term service plans. The extent of our collection efforts with respect to a particular customer are based on the results of proprietary custom empirically derived internal behavioral scoring models which analyze the customer's past performance to predict the likelihood of the customer falling further delinquent. These customer scoring models assess a number of variables, including origination characteristics, customer account history and payment patterns. Based on the score derived from these models, accounts are grouped by risk category to determine the collection strategy to be applied to such accounts. We continuously monitor collection performance results and the credit quality of our device payment plan agreement receivables based on a variety of metrics, including aging. Verizon Wireless considers an account to be delinquent and in default status if there are unpaid charges remaining on the account on the day after the bill's due date.

The balance and aging of the device payment plan agreement receivables on a gross basis was as follows:

(dollars in millions)	<b>At September 30, 2016</b>	At December 31, 2015
Unbilled	\$ 7,261	\$ 3,420
Billed:		
Current	375	227
Past due	99	73
<b>Device payment plan agreement receivables, gross</b>	<b>\$ 7,735</b>	<b>\$ 3,720</b>

Activity in the allowance for credit losses for the device payment plan agreement receivables was as follows:

(dollars in millions)	
Balance at January 1, 2016	\$ 444
Bad debt expense	437
Write-offs	(347)
Allowance related to receivables sold	59
Other	8
<b>Balance at September 30, 2016</b>	<b>\$ 601</b>

Customers that entered into device payment plan agreements prior to May 31, 2015 have the right to upgrade their device, subject to certain conditions, including making a stated portion of the required device payment plan agreement payments and trading in their device in good working order. Generally, customers entering into device payment plan agreements on or after June 1, 2015 are required to repay all amounts due under their device payment plan agreements before being eligible to upgrade their device. However, on select devices, certain marketing promotions have been revocably offered to customers to upgrade to a new device after paying down a certain specified portion of the required device payment plan agreement amount as well as trading in their device in good working order. When a customer enters into a device payment plan agreement with the right to upgrade to a new device or for a device that is subject to an upgrade promotion, we may record a guarantee liability in accordance with our accounting policy. The gross guarantee liability related to the upgrade program, which was \$0.1 billion at September 30, 2016 and approximately \$0.2 billion at December 31, 2015, is included in Other current liabilities on our condensed consolidated balance sheets.

**Sales of Wireless Device Payment Plan Agreement Receivables**

During 2015 and 2016, we established programs pursuant to a Receivables Purchase Agreement, or RPA, to sell from time to time, on an uncommitted basis, eligible device payment plan agreement receivables to a group of primarily relationship banks (Purchasers) on both a

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revolving (Revolving Program) and non-revolving (Non-Revolving Program) basis. The receivables sold under the RPA are no longer considered assets of Verizon. The outstanding portfolio of device payment plan agreement receivables derecognized from our condensed consolidated balance sheet, but which we continue to service, was \$6.4 billion at September 30, 2016. As of September 30, 2016, the total portfolio of device payment plan agreement receivables, including derecognized device payment plan agreement receivables, that we are servicing was \$14.1 billion.

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Under the Non-Revolving Program, we transfer the eligible receivables to wholly-owned subsidiaries that are bankruptcy remote special purpose entities (Sellers). The Sellers then sell the receivables to the Purchasers for upfront cash proceeds and additional consideration upon settlement of the receivables (the deferred purchase price). Under the Revolving Program, we sell eligible device payment plan agreement receivables on a revolving basis, subject to a maximum funding limit, to the Purchasers. Sales of eligible receivables by the Sellers, once initiated, generally occur and are settled on a monthly basis. Customer payments made towards receivables sold under the Revolving Program will be available to purchase additional eligible device payment plan agreement receivables originated during the revolving period. We elected to end the revolving period in July 2016.

We continue to bill and collect on the receivables in exchange for a monthly servicing fee, which is not material. Eligible receivables under the RPA excluded device payment plan agreements where a new customer was required to provide a down payment. The sales of receivables under the RPA did not have a material impact on our condensed consolidated statements of income. The cash proceeds received from the Purchasers are recorded within Cash flows provided by operating activities on our condensed consolidated statements of cash flows.

There were no sales of device payment plan agreement receivables during the three months ended September 30, 2016. During the nine months ended September 30, 2016, we sold \$3.3 billion of receivables, net of allowances and imputed interest. We received cash proceeds from new transfers of \$2.0 billion and cash proceeds from reinvested collections of \$0.9 billion, and recorded a deferred purchase price of \$0.4 billion.

During the three and nine months ended September 30, 2015, we sold \$2.4 billion and \$6.1 billion, respectively, of receivables, net of allowances and imputed interest, and received cash proceeds from new transfers of \$2.0 billion and \$4.5 billion, respectively. Additionally, during the three and nine months ended September 30, 2015, we recorded a deferred purchase price of \$0.4 billion and \$1.7 billion, respectively.

*Deferred Purchase Price*

Under the RPA, the deferred purchase price was initially recorded at fair value, based on the remaining device payment amounts expected to be collected, adjusted, as applicable, for the time value of money and by the timing and estimated value of the device trade-in in connection with upgrades. The estimated value of the device trade-in considers prices expected to be offered to us by independent third parties. This estimate contemplates changes in value after the launch of a device. The fair value measurements are considered to be Level 3 measurements within the fair value hierarchy. The collection of the deferred purchase price is contingent on collections from customers. To date, we have collected \$0.5 billion which was returned as deferred purchase price and recorded within Cash flows provided by operating activities on our condensed consolidated statements of cash flows. At September 30, 2016, our deferred purchase price receivable, which is held by the Sellers, was comprised of \$1.2 billion included within Prepaid expenses and other and \$1.0 billion included within Other assets in our condensed consolidated balance sheets. At December 31, 2015, our deferred purchase price receivable was \$2.2 billion, which was included within Other assets in our condensed consolidated balance sheets.

*Variable Interest Entities*

Under the RPA, the Sellers' sole business consists of the acquisition of the receivables from Celco Partnership and certain other affiliates of Verizon and the resale of the receivables to the Purchasers. The assets of the Sellers are not available to be used to satisfy obligations of any Verizon entities other than the Sellers. We determined that the Sellers are VIEs as they lack sufficient equity to finance their activities. Given that we have the power to direct the activities of the Sellers that most significantly impact the Sellers' economic performance, we are deemed to be the primary beneficiary of the Sellers. As a result, we consolidate the assets and liabilities of the Sellers into our condensed consolidated financial statements.

*Continuing Involvement*

Verizon has continuing involvement with the sold receivables as it services the receivables. We continue to service the customer and their related receivables on behalf of the Purchasers, including facilitating customer payment collection, in exchange for a monthly servicing fee. While servicing the receivables, the same policies and procedures are applied to the sold receivables that apply to owned receivables, and we continue to maintain normal relationships with our customers. The credit quality of the customers we continue to service is consistent throughout the periods presented. To date, we have collected and remitted approximately \$5.7 billion, net of fees. To date, cash proceeds received, net of remittances, were \$4.4 billion. During the nine months ended September 30, 2016, credit losses on receivables sold were \$0.1 billion.

In addition, we have continuing involvement related to the sold receivables as we may be responsible for absorbing additional credit losses pursuant to the agreements. The Company's maximum exposure to loss related to the involvement with the Sellers is limited to the amount of the deferred purchase price, which was \$2.2 billion as of September 30, 2016. The maximum exposure to loss represents an estimated loss that



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would be incurred under severe, hypothetical circumstances whereby the Company would not receive the portion of the proceeds withheld by the Purchasers. As we believe the probability of these circumstances occurring is remote, the maximum exposure to loss is not an indication of the Company's expected loss.

**Table of Contents****6. Fair Value Measurements**

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of September 30, 2016:

(dollars in millions)	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
<b>Assets:</b>				
Other assets:				
Equity securities	\$ 126	\$	\$	\$ 126
Fixed income securities	15	605		620
Interest rate swaps		420		420
Net investment hedge		6		6
Interest rate cap		3		3
<b>Total</b>	\$ 141	\$ 1,034	\$	\$ 1,175
<b>Liabilities:</b>				
Other liabilities:				
Interest rate swaps	\$	\$ 2	\$	\$ 2
Net investment hedge		1		1
Cross currency swaps		1,536		1,536
<b>Total</b>	\$	\$ 1,539	\$	\$ 1,539

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2015:

(dollars in millions)	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
<b>Assets:</b>				
Short-term investments:				
Equity securities	\$ 265	\$	\$	\$ 265
Fixed income securities		85		85
Other current assets:				
Fixed income securities	250			250
Other assets:				
Fixed income securities		928		928
Interest rate swaps		128		128
Net investment hedges		13		13
Cross currency swaps		1		1
<b>Total</b>	\$ 515	\$ 1,155	\$	\$ 1,670
<b>Liabilities:</b>				
Other liabilities:				
Interest rate swaps	\$	\$ 19	\$	\$ 19
Cross currency swaps		1,638		1,638
Forward interest rate swaps		24		24
<b>Total</b>	\$	\$ 1,681	\$	\$ 1,681

- (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

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

Fixed income securities consist primarily of investments in municipal bonds as well as U.S. Treasury securities. We use quoted prices in active markets for our U.S. Treasury securities, 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 resulting in these debt securities being classified as Level 2.

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

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 nine months ended September 30, 2016.

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

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

(dollars in millions)	At September 30, 2016		At December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short- and long-term debt, excluding capital leases	\$ 105,628	\$ 122,520	\$ 108,772	\$ 118,216

**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, interest rate locks and interest rate caps. We do not hold derivatives for trading purposes. We posted collateral of approximately \$0.2 billion and \$0.1 billion related to derivative contracts under collateral exchange arrangements at September 30, 2016 and December 31, 2015, respectively, which was recorded as Prepaid expenses and other on our condensed consolidated balance sheets. During 2015, we paid an immaterial amount of cash to enter into amendments to certain collateral exchange arrangements. These amendments suspend cash collateral posting for a specified period of time by both counterparties.

We measure all derivatives at fair value and recognize them as either assets or liabilities on our condensed consolidated balance sheets. Changes in the fair values of derivative instruments not qualifying as hedges or any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in Other comprehensive income (loss) and recognized in earnings when the hedged item is recognized in earnings. Changes in the fair value of the effective portion of net investment hedges of certain of our foreign operations are reported in Other comprehensive income (loss) as part of the cumulative translation adjustment and partially offset the impact of foreign currency changes on the value of our net investment.

*Interest Rate Swaps*

We enter into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. We principally receive fixed rates and pay variable rates based on LIBOR, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. During the third quarter of 2016, we entered into interest rate swaps with a total notional value of \$1.1 billion. During the third quarter of 2016, we settled \$0.9 billion notional amount of interest rate swaps. The ineffective portion of these interest rate swaps was not material for the three and nine months ended September 30, 2016 and 2015, respectively.



**Table of Contents***Forward Interest Rate Swaps*

In order to manage our exposure to future interest rate changes, we have entered into forward interest rate swaps. We designated these contracts as cash flow hedges. During the first quarter of 2016, we entered into forward interest rate swaps with a total notional value of \$1.3 billion. During the third quarter of 2016, we settled \$2.0 billion notional amount of these forward interest rate swaps. During the three and nine months ended September 30, 2016, pre-tax losses of an immaterial amount and \$0.2 billion, respectively, were recognized in Other comprehensive income (loss). During the three and nine months ended September 30, 2015, pre-tax gains of \$0.2 billion, respectively, were recognized in Other comprehensive income (loss).

*Cross Currency Swaps*

We enter into cross currency swaps to exchange British Pound Sterling and Euro-denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the effect of foreign currency transaction gains or losses. These swaps are designated as cash flow hedges. During the second quarter of 2016, we settled \$0.1 billion of these cross currency swaps upon redemption of the related debt. A portion of the gains and losses recognized in Other comprehensive income (loss) was reclassified to Other income and (expense), net to offset the related pre-tax foreign currency transaction gain or loss on the underlying debt obligations. During the three and nine months ended September 30, 2016, pre-tax gains of \$0.3 billion and \$0.1 billion, respectively, were recognized in Other comprehensive income (loss). During the three and nine months ended September 30, 2015, pre-tax losses of \$0.2 billion and \$0.9 billion, respectively, were recognized in Other comprehensive income (loss).

*Net Investment Hedges*

We enter into foreign currency forward contracts that are designated as net investment hedges to mitigate foreign exchange exposure related to non-U.S. dollar net investments in certain foreign subsidiaries against changes in foreign exchange rates.

*Interest Rate Caps*

We enter into interest rate caps to mitigate our interest exposure on our ABS Financing Facility against changes in interest rates. We have not applied hedge accounting to these interest rate caps. During the third quarter of 2016, we entered into interest rate caps with a notional value of \$1.5 billion.

The following table sets forth the notional amounts of our outstanding derivative instruments:

(dollars in millions)	At September 30, 2016 Notional Amount	At December 31, 2015 Notional Amount
Interest rate swaps	\$ 7,850	\$ 7,620
Forward interest rate swaps		750
Cross currency swaps	9,606	9,675
Net investment hedge	864	864
Interest rate caps	1,540	

**7. Stock-Based Compensation***Verizon Communications Long-Term Incentive Plan*

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

*Restricted Stock Units*

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

**Table of Contents***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 granted and cancelled activity for the PSU award includes adjustments for the performance goals achieved.

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

(shares in thousands)	<b>Restricted Stock Units</b>	<b>Performance Stock Units</b>
Outstanding, January 1, 2016	13,903	17,203
Granted	4,044	6,124
Payments	(4,736)	(4,702)
Cancelled/Forfeited	(94)	(131)
Adjustments		170
<b>Outstanding, September 30, 2016</b>	<b>13,117</b>	<b>18,664</b>

As of September 30, 2016, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately \$0.4 billion and is expected to be recognized over approximately two years.

The RSUs granted in 2016 have a weighted-average grant date fair value of \$51.90 per unit.

**8. Employee Benefits**

We maintain non-contributory defined benefit pension plans for many of our employees. In addition, we maintain postretirement health care and life insurance plans for certain 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, operating expenses include pension and benefit related credits and/or charges based on actuarial assumptions, including projected discount rates and an estimated return on plan assets. These estimates are updated in the fourth quarter or upon a remeasurement event to reflect actual return on plan assets and updated actuarial assumptions. The adjustment will be recognized in our consolidated statement of income during the fourth quarter or upon a remeasurement event pursuant to our accounting policy for the recognition of actuarial gains and losses.

**Net Periodic Cost**

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

(dollars in millions)	<b>Pension</b>		<b>Health Care and Life</b>	
<b>Three Months Ended September 30,</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Service cost	\$ 82	\$ 93	\$ 40	\$ 81
Amortization of prior service cost (credit)	10	(1)	(235)	(72)
Expected return on plan assets	(257)	(317)	(13)	(25)
Interest cost	162	242	162	280



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Remeasurement loss, net	555	342		
Net periodic benefit (income) cost	\$ 552	\$ 359	\$ (46)	\$ 264
Termination benefits	4			
Total	\$ 556	\$ 359	\$ (46)	\$ 264

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(dollars in millions)

Nine Months Ended September 30,	Pension		Health Care and Life	
	2016	2015	2016	2015
Service cost	\$ 238	\$ 280	\$ 153	\$ 243
Amortization of prior service cost (credit)	12	(3)	(421)	(215)
Expected return on plan assets	(785)	(952)	(41)	(76)
Interest cost	518	727	583	838
Remeasurement loss, net	1,977	342	2,293	
Net periodic benefit (income) cost	\$ 1,960	\$ 394	\$ 2,567	\$ 790
Termination benefits	4			
Total	\$ 1,964	\$ 394	\$ 2,567	\$ 790

**Changes in Accounting for Benefit Plans**

Effective January 1, 2016, we changed the method we use to estimate the interest component of net periodic benefit cost for pension and other postretirement benefits. Historically, we estimated the interest cost component utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. We have elected to utilize a full yield curve approach in the estimation of interest cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We have made this change to provide a more precise measurement of interest cost by improving the correlation between projected benefit cash flows to the corresponding spot yield curve rates. We have accounted for this change as a change in accounting estimate and accordingly will account for it prospectively.

For the three and nine months ended September 30, 2016, the impact of this change was a reduction of the interest cost component of net periodic benefit cost and an increase to operating income of approximately \$0.1 billion and \$0.3 billion, respectively. The use of the full yield curve approach does not impact how we measure our total benefit obligations at December 31 or our annual net periodic benefit cost as any change in the interest cost component is completely offset by the actuarial gain or loss measured at year end which is immediately recognized in our consolidated statements of income. Accordingly, this change in estimate will not impact our income from continuing operations, net income or earnings per share as measured on an annual basis.

**2016 Collective Bargaining Negotiations**

In the collective bargaining agreements ratified in June 2016, Verizon's annual postretirement benefit obligation for retiree healthcare remains capped at the levels established by the previous contracts ratified in 2012. Effective January 2016, prior to reaching these new collective bargaining agreements, certain retirees began to pay for the costs of retiree healthcare in accordance with the provisions relating to caps in the previous contracts. In reaching new collective bargaining agreements in 2016, there is a mutual understanding that the substantive postretirement benefit plans provide that Verizon's annual postretirement benefit obligation for retiree healthcare is capped and, accordingly, we began accounting for the contractual healthcare caps in June 2016. We also adopted changes to our defined benefit pension plans and other postretirement benefit plans to reflect the agreed upon terms and conditions of the collective bargaining agreements. The impact is a reduction in our postretirement benefit plan obligations of approximately \$5.1 billion and an increase in our defined benefit pension plan obligations of approximately \$0.4 billion, which have been recorded as a net increase to Accumulated other comprehensive income of \$2.9 billion (net of taxes of \$1.8 billion) during the nine months ended September 30, 2016. The amount recorded in Accumulated other comprehensive income will be reclassified to net periodic benefit cost on a straight-line basis over the average remaining service period of the respective plans' participants which, on a weighted-average basis, is 12.2 years for defined benefit pension plans and 7.8 years for other postretirement benefit plans. The above noted reclassification will result in a decrease to net periodic benefit cost and an increase to pre-tax income of approximately \$0.4 billion for the seven months ended December 31, 2016, of which \$0.2 billion has been reclassified to net periodic cost during the three and nine months ended September 30, 2016.

**Severance, Pension and Benefit Charges (Credits)**

During the nine months ended September 30, 2016, we recorded a net pre-tax curtailment gain of \$0.5 billion due to the elimination of the accrual of benefits for some or all future services of a significant number of employees covered by three of our defined benefit pension plans and one of our other postretirement benefit plans (see Note 2 for additional details).

During the three months ended September 30, 2016, we recorded net pre-tax severance, pension and benefit charges of approximately \$0.8 billion primarily for our pension plans in accordance with our accounting policy to recognize actuarial gains and losses in the period in which

they occur. The pension remeasurement charges of \$0.6 billion primarily related to settlements

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for employees who received lump-sum distributions in five of our defined benefit pension plans. The charges were primarily driven by a decrease in our discount rate assumption of \$0.8 billion used to determine the current year liabilities of our pension plans, partially offset by the difference between our expected return on assets of 7.0% and our annualized actual return on assets of 11.0% at August 31, 2016 (\$0.2 billion). Our weighted average discount rate assumption was 3.61% at August 31, 2016. As part of this charge, we recorded severance costs of \$0.2 billion under our existing separation plans.

During the three months ended June 30, 2016, we recorded net pre-tax pension and benefit rereasurement charges of approximately \$3.6 billion in accordance with our accounting policy to recognize actuarial gains and losses in the period in which they occur. These charges were comprised of a net pre-tax pension and benefit rereasurement charge of \$0.8 billion measured as of April 1, 2016 related to curtailments in three of our defined benefit pension plans and one of our other postretirement benefit plans, a net pre-tax pension and benefit rereasurement charge of \$2.7 billion measured as of May 31, 2016 in two defined benefit pension plans and three other postretirement benefit plans as a result of our accounting for the contractual healthcare caps and bargained for changes, and a net pre-tax pension and benefit rereasurement charge of \$0.1 billion measured as of May 31, 2016 related to settlements for employees who received lump-sum distributions in three of Verizon's defined benefit pension plans. The pension and benefit rereasurement charges were primarily driven by a decrease in our discount rate assumption used to determine the current year liabilities of our pension and other postretirement benefit plans (\$2.7 billion) and updated healthcare cost trend rate assumptions (\$0.9 billion). Our weighted-average discount rate assumption decreased from 4.60% at December 31, 2015 to 3.99% at May 31, 2016.

During the three months ended March 31, 2016, we also recorded a net pre-tax pension and benefit rereasurement charge of \$0.2 billion related to settlements for employees who received lump-sum distributions in one of Verizon's defined benefit pension plans.

During the three and nine months ended September 30, 2015, we recorded net pre-tax pension rereasurement charges of approximately \$0.3 billion, in accordance with our accounting policy to recognize actuarial gains and losses in the period in which they occur. The pension rereasurement charges relate to settlements for employees who received lump-sum distributions in four of Verizon's seven defined benefit pension plans. The pension rereasurement charges from the impacted plans were primarily driven by a \$0.7 billion loss resulting from the difference between our expected return on assets assumption of 7.25% at December 31, 2014 and our annualized actual return on assets of 1.96% at September 30, 2015, as well as other losses of \$0.1 billion. These losses were partially offset by a gain of \$0.5 billion resulting from an increase in our discount rate assumption used to determine the current year liabilities of our pension plans. Our weighted-average discount rate assumption increased from 4.2% at December 31, 2014 to 4.5% at September 30, 2015.

### **Severance Payments**

During the three and nine months ended September 30, 2016, we paid severance benefits of \$0.1 billion and \$0.4 billion, respectively. At September 30, 2016, we had a remaining severance liability of \$0.6 billion, a portion of which includes future contractual payments to employees separated as of September 30, 2016.

### **Employer Contributions**

During the three and nine months ended September 30, 2016, we contributed \$0.2 billion and \$0.9 billion, respectively, to our other postretirement benefit plans. During the three and nine months ended September 30, 2016, we contributed \$0.5 billion and \$0.8 billion, respectively, to our qualified pension plans, which included \$0.2 billion of discretionary contributions. The contributions to our nonqualified pension plans were \$0.1 billion during the three and nine months ended September 30, 2016. There have been no material changes with respect to the qualified and nonqualified pension contributions in 2016 as previously disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2015 included in our Current Report on Form 8-K dated July 29, 2016.

**Table of Contents****9. Equity and Accumulated Other Comprehensive Income****Equity**

Changes in the components of Total equity were as follows:

(dollars in millions)	Attributable to Verizon	Noncontrolling Interests	Total Equity
Balance at January 1, 2016	\$ 16,428	\$ 1,414	\$ 17,842
Net income	8,632	376	9,008
Other comprehensive income	2,208		2,208
Comprehensive income	10,840	376	11,216
Contributed capital	(17)		(17)
Dividends declared	(6,960)		(6,960)
Common stock in treasury	152		152
Distributions and other	17	(267)	(250)
<b>Balance at September 30, 2016</b>	<b>\$ 20,460</b>	<b>\$ 1,523</b>	<b>\$ 21,983</b>

*Common Stock*

Verizon did not repurchase any shares of Verizon common stock through its previously authorized share buyback program during the nine months ended September 30, 2016. At September 30, 2016, the maximum number of shares that could be purchased by or on behalf of Verizon under our share buyback program was 97.2 million.

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans, including 3.5 million common shares issued from Treasury stock during the nine months ended September 30, 2016.

**Accumulated Other Comprehensive Income**

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

(dollars in millions)	Foreign currency translation adjustments	Unrealized loss on cash hedges	Unrealized loss on marketable securities	Defined benefit Unrealized pension and postretirement plans	Total
Balance at January 1, 2016	\$ (554)	\$ (278)	\$ 101	\$ 1,281	\$ 550
Other comprehensive income (loss)	(23)	(91)	8	2,902	2,796
Amounts reclassified to net income		33	(43)	(578)	(588)
Net other comprehensive income (loss)	(23)	(58)	(35)	2,324	2,208

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<b>Balance at September 30, 2016</b>	\$	(577)	\$	(336)	\$	66	\$	3,605	\$	2,758
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The amounts presented above in net other comprehensive income (loss) are net of taxes which are not significant except as noted below. For the nine months ended September 30, 2016, the amounts reclassified to net income related to defined benefit pension and postretirement plans in the table above are included in Cost of services and Selling, general and administrative expense on our condensed consolidated statements of income. For the nine months ended September 30, 2016, the amounts reclassified to net income related to unrealized loss on marketable securities in the table above are included in Other income and (expense), net on our condensed consolidated statements of income. For the nine months ended September 30, 2016, the amounts reclassified to net income related to unrealized loss on cash flow hedges in the table above are included in Other income and (expense), net and Interest expense on our condensed consolidated statements of income.

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*Defined Benefit Pension and Postretirement Plans*

The change in defined benefit and postretirement plans for the nine months ended September 30, 2016 of \$4.7 billion (\$2.9 billion net of taxes) was due to the change in prior service credit as a result of our accounting for contractual healthcare caps and bargained for changes (see Note 8 for additional detail).

Reclassification adjustments on defined benefit pension and postretirement plans for the nine months ended September 30, 2016 include the reclassification to Selling, general and administrative expense of a pre-tax pension and postretirement benefit curtailment gain of \$0.5 billion (\$0.3 billion net of taxes) due to the transfer of employees to Frontier, which caused the elimination of a significant amount of future service in three of our defined benefit pension plans and one of our other postretirement benefit plans requiring us to recognize a portion of the prior service credits (see Note 2 for additional detail).

**10. Segment Information**

**Reportable Segments**

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

Corporate and other includes the operations of AOL and related businesses, unallocated corporate expenses, the results of other insignificant businesses, such as our vehicle OEM and Networkfleet businesses and investments in unconsolidated businesses accounted for on an equity method basis, pension and other employee benefit related costs and lease financing. Corporate and other also includes the historical results of divested operations and other adjustments and gains and losses that are not allocated in assessing segment performance due to their non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results as these items are included in the chief operating decision maker's assessment of segment performance.

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

On April 1, 2016, we completed the sale of our local exchange business and related landline activities in California, Florida and Texas to Frontier (see Note 2). Accordingly, the corresponding Wireline results for these operations have been reclassified to Corporate and other for all comparative periods presented consistent with the information regularly reviewed by our chief operating decision maker.

In addition, Corporate and other includes the results of our vehicle OEM and Networkfleet businesses for all periods presented, which were reclassified from our Wireline segment effective April 1, 2016. The impact of this reclassification was not material to our condensed consolidated financial statements or our segment results of operations.

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

Our reportable segments and their principal activities consist of the following:

<b>Segment</b>	<b>Description</b>
<b>Wireless</b>	Wireless communications products and services include wireless voice and data services and equipment sales, which are provided to consumer, business and government customers across the United States.
<b>Wireline</b>	Wireline's voice, data and video communications products and enhanced services include broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice

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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 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		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>External Operating Revenues</b>				
Wireless				
Service revenue	\$ 16,647	\$ 17,580	\$ 50,108	\$ 53,146
Equipment	4,124	4,292	11,782	11,526
Other	1,249	1,108	3,661	3,196
Total Wireless	22,020	22,980	65,551	67,868
Wireline				
Consumer retail	3,174	3,168	9,519	9,470
Small business	411	434	1,241	1,320
Mass Markets	3,585	3,602	10,760	10,790
Global Enterprise	2,886	2,987	8,748	9,040
Global Wholesale	1,009	1,046	3,071	3,209
Other	78	87	248	256
Total Wireline	7,558	7,722	22,827	23,295
Total reportable segments	\$ 29,578	\$ 30,702	\$ 88,378	\$ 91,163
<b>Intersegment Revenues</b>				
Wireless	\$ 81	\$ 25	\$ 258	\$ 78
Wireline	229	245	706	735
Total reportable segments	\$ 310	\$ 270	\$ 964	\$ 813
<b>Total Operating Revenues</b>				
Wireless	\$ 22,101	\$ 23,005	\$ 65,809	\$ 67,946
Wireline	7,787	7,967	23,533	24,030
Total reportable segments	\$ 29,888	\$ 30,972	\$ 89,342	\$ 91,976
<b>Operating Income (Loss)</b>				
Wireless	\$ 7,647	\$ 7,668	\$ 23,544	\$ 23,174
Wireline	156	(109)	(374)	(528)
Total reportable segments	\$ 7,803	\$ 7,559	\$ 23,170	\$ 22,646

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	At September 30,	At December 31,
(dollars in millions)	2016	2015
<b>Assets</b>		
Wireless	\$ 204,409	\$ 185,405
Wireline	63,586	78,305
Total reportable segments	267,995	263,710
Corporate and other	208,837	205,476
Eliminations	(237,334)	(225,011)
Total consolidated reported	\$ 239,498	\$ 244,175

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

	Three Months Ended		Nine Months Ended	
(dollars in millions)	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Total reportable segment operating revenues	\$ 29,888	\$ 30,972	\$ 89,342	\$ 91,976
Corporate and other	1,403	1,170	4,078	2,259
Eliminations	(354)	(291)	(1,060)	(845)
Impact of divested operations		1,307	1,280	3,976
Total consolidated operating revenues	\$ 30,937	\$ 33,158	\$ 93,640	\$ 97,366

Fios revenues are included within our Wireline segment and amounted to approximately \$2.8 billion and \$8.3 billion, respectively, for the three and nine months ended September 30, 2016. Fios revenues amounted to approximately \$2.7 billion and \$8.0 billion, respectively, for the three and nine months ended September 30, 2015.

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

	Three Months Ended		Nine Months Ended	
(dollars in millions)	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Total reportable segment operating income	\$ 7,803	\$ 7,559	\$ 23,170	\$ 22,646
Corporate and other	(466)	(399)	(1,432)	(1,097)
Severance, pension and benefit charges (Note 8)	(797)	(342)	(4,512)	(342)
Gain on access line sale (Note 2)			1,007	
Gain on spectrum license transaction (Note 2)			142	
Impact of divested operations		717	661	2,109
Total consolidated operating income	6,540	7,535	19,036	23,316
Equity in losses of unconsolidated businesses	(23)	(18)	(63)	(70)
Other income and (expense), net	97	51	(1,697)	158
Interest expense	(1,038)	(1,202)	(3,239)	(3,742)
Income Before Provision For Income Taxes	\$ 5,576	\$ 6,366	\$ 14,037	\$ 19,662

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No single customer accounted for more than 10% of our total operating revenues during the three and nine months ended September 30, 2016 and 2015.

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**11. 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 matter 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.

Reserves have been established to cover environmental matters relating to discontinued businesses and past telecommunications activities. These reserves include funds to address contamination at the site of a former Sylvania facility in Hicksville, NY, which had processed nuclear fuel rods in the 1950s and 1960s. In September 2005, the Army Corps of Engineers (ACE) accepted the site into its Formerly Utilized Sites Remedial Action Program. As a result, the ACE has taken primary responsibility for addressing the contamination at the site. An adjustment to the reserves may be made after a cost allocation is conducted with respect to the past and future expenses of all of the parties. Adjustments to the environmental reserve may also be made based upon the actual conditions found at other sites requiring remediation.

Verizon is currently involved in approximately 40 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 have sold products and seek injunctive relief as well. These cases have progressed to various stages and a small number may go to trial in the coming 12 months if they are not otherwise resolved.

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 around the world, we offer voice, data and video services and solutions on our wireless and wireline networks that are designed to meet customers' demand for mobility, reliable network connectivity, security and control. We have two reportable segments, Wireless and Wireline. Our wireless business, operating as Verizon Wireless, provides voice and data services and equipment sales across the United States (U.S.) using one of the most extensive and reliable wireless networks. Our wireline business provides consumer, business and government customers with communications products and enhanced services, including broadband data and video, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice 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 162,000 employees as of September 30, 2016.

To compete effectively in today's dynamic marketplace, we are focused on transforming around the capabilities of our high-performing networks with a goal of future growth based on delivering what customers want and need in the new digital world. Our three tier strategy is to lead at the network connectivity level in the markets we serve, develop new business models through global platforms in video and Internet of Things (IoT) and create certain opportunities in applications and content for incremental monetization. Our strategy requires significant capital investments primarily to acquire wireless spectrum, put the spectrum into service, provide additional capacity for growth in our networks, invest in the fiber optic network that supports our businesses, maintain our networks and develop and maintain significant advanced information technology systems and data system capabilities. We believe that steady and consistent investments in our networks and platforms will drive innovative products and services and fuel our growth. Our network leadership will continue to be the hallmark of our brand, and provide the fundamental strength at the connectivity, platform and solutions layers upon which we build our competitive advantage.

#### ***Strategic Transactions***

During the nine months ended September 30, 2016, we announced several strategic transactions.

##### ***Acquisition of Yahoo! Inc.***

On July 23, 2016, we entered into a stock purchase agreement (the Purchase Agreement) with Yahoo! Inc. (Yahoo). Pursuant to the Purchase Agreement, upon the terms and subject to the conditions thereof, we will acquire the stock of one or more subsidiaries of Yahoo holding all of Yahoo's operating business, for approximately \$4.83 billion in cash, subject to certain adjustments (the Transaction). The Transaction is subject to customary regulatory approvals and closing conditions, including the approval of Yahoo's stockholders.

We believe that our acquisition of Yahoo's operating business will help us become a major competitor in mobile media. Yahoo's operations will provide us with a valuable portfolio of online content, mobile applications and viewers. Additionally, our acquisition of Yahoo's operating business will expand our analytics and ad tech capabilities which we expect will enhance both our competitive position in the mobile media marketplace and value proposition to advertisers.

On September 22, 2016, Yahoo announced that it had confirmed that a copy of certain information associated with at least 500 million user accounts was stolen from its network in late 2014. This could result in a material adverse effect under the terms of our agreement. We are continuing to evaluate the impacts of this event on the transaction.

##### ***IoT and Telematics***

We are also building our growth capabilities in the emerging IoT market by developing business models to monetize usage on our network at the connectivity and platform layers. On July 30, 2016, we entered into a definitive agreement to acquire Fleetmatics Groups PLC (Fleetmatics), a leading global provider of fleet and mobile workforce management solutions. The acquisition is subject to customary regulatory approvals and closing conditions, including the approval of Fleetmatics' shareholders and the sanction of the scheme of arrangement by the Irish High Court. Approval from Fleetmatics' shareholders has been obtained. We expect this transaction to close in the fourth quarter of 2016. In July 2016, we also closed on the acquisition of Telogis, Inc. For the three months ended September 30, 2016, we recognized IoT revenues of \$0.2 billion, a 36% increase compared to the prior year period.



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### *Network Evolution*

In April 2016, we announced our One Fiber initiative for the city of Boston. This initiative will create a single fiber-optic network platform capable of supporting wireless and wireline technologies and multiple projects. In February 2016, we also entered into a purchase agreement to acquire XO Holdings' wireline business, which owns and operates one of the largest fiber-based IP and Ethernet networks outside of Verizon's footprint, for approximately \$1.8 billion, subject to adjustment. The transaction is subject to customary regulatory approvals and is targeted to close by the end of the first quarter of 2017.

### *Access Line Sale*

On February 5, 2015, we entered into a definitive agreement with Frontier Communications Corporation (Frontier) pursuant to which Verizon agreed to sell its local exchange business and related landline activities in California, Florida and Texas, including Fios Internet and video customers, switched and special access lines and high-speed Internet service and long distance voice accounts in these three states for approximately \$10.5 billion (approximately \$7.3 billion net of income taxes), subject to certain adjustments and including the assumption of \$0.6 billion of indebtedness from Verizon by Frontier. The transaction, which includes the acquisition by Frontier of the equity interests of Verizon's incumbent local exchange carriers (ILECs) in California, Florida and Texas, did not involve any assets or liabilities of Verizon Wireless. The transaction closed on April 1, 2016.

The transaction resulted in Frontier acquiring approximately 3.3 million voice connections, 1.6 million Fios Internet subscribers, 1.2 million Fios video subscribers and the related ILEC businesses from Verizon. Approximately 9,300 Verizon employees who served customers in California, Florida and Texas continued employment with Frontier. The operating results of these businesses, collectively, are excluded from our Wireline segment for all periods presented to reflect comparable segment operating results consistent with the information regularly reviewed by our chief operating decision maker.

### ***Business Overview***

#### *Wireless*

In our Wireless business, revenues decreased 3.9% during the three months ended September 30, 2016, compared to the similar period in 2015 as a result of a 5.2% decline in service revenue and a 3.9% decrease in equipment revenue. We continue to manage through revenue transformation while growing high-quality retail postpaid connections. At September 30, 2016, retail postpaid connections were 3.0% higher than at September 30, 2015. The decline in service revenue was driven by customer migration to plans with lower service fees (unsubsidized service pricing) as compared to those under fixed-term service plans. At September 30, 2016, approximately 60% of our retail postpaid phone connections were on unsubsidized service pricing compared to approximately 33% at September 30, 2015. The decrease in equipment revenue was driven by a decline in overall sales volume, partially offset by an increase in device sales under the Verizon device payment program. During the three months ended September 30, 2016 and 2015, the percentage of phone activations under the Verizon device payment program was approximately 70% and 58%, respectively.

We are focusing our wireless capital spending on adding capacity and density to our fourth generation (4G) Long Term Evolution (LTE) network. Approximately 94% of our total data traffic in September 2016 was carried on our 4G LTE network. We are investing in the densification of our network by utilizing small cell technology, in-building solutions and distributed antenna solutions. Densification enables us to add capacity to manage mobile video consumption and demand for IoT, as well as position us for future fifth-generation (5G) technology. We are committed to developing and deploying 5G wireless technology and we are working with key partners to ensure the aggressive pace of innovation, standards development and appropriate requirements for this next generation of wireless technology.

#### *Wireline*

In our Wireline business, revenues declined 2.3% during the three months ended September 30, 2016, compared to the similar period in 2015, primarily due to revenue declines in Global Enterprise and Global Wholesale resulting from lower voice services and data networking revenues. To compensate for the shrinking market for traditional voice service, we continue to build our Wireline segment around data, video and advanced business services areas where demand for reliable high-speed connections is growing. We continue to experience revenue increases in Consumer retail driven by Fios. During the three months ended September 30, 2016, Fios represented approximately 82% of Consumer retail revenue compared to approximately 79% during the similar period in 2015.





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*Capital Expenditures and Investments*

We continue to invest in our wireless network, high-speed fiber and other advanced technologies to position ourselves at the center of growth trends for the future. During the nine months ended September 30, 2016, these investments included \$11.4 billion for capital expenditures. We believe that our investments aimed at expanding our portfolio of products and services will provide our customers with an even more efficient, reliable infrastructure for competing in the information economy.

*Trends*

In our Wireless segment, total operating revenues and service revenue continue to be negatively impacted by customer migrations to unsubsidized service pricing, and we expect this trend to continue through the remainder of 2016. As a result of an increase in activations under the Verizon device payment program, we also expect a decrease in our overall wireless operating costs compared to the prior year period.

Except to the extent described above, there have been no significant changes to the information related to trends affecting our business that was disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2015 included in our Current Report on Form 8-K dated July 29, 2016.

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

Corporate and other includes the operations of AOL Inc. (AOL) and related businesses, unallocated corporate expenses, the results of other insignificant businesses, such as our vehicle original equipment manufacturer (OEM) and Networkfleet businesses and investments in unconsolidated businesses accounted for on an equity method basis, pension and other employee benefit related costs and lease financing. Corporate and other also includes the historical results of divested operations and other adjustments and gains and losses that are not allocated in assessing segment performance due to their non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results as these items are included in the chief operating decision maker's assessment of segment performance. We believe that this presentation assists users of our financial statements in better understanding our results of operations and trends from period to period.

On April 1, 2016, we completed the sale of our local exchange business and related landline activities in California, Florida and Texas to Frontier. Accordingly, the results of operations related to this divestiture are included within Corporate and other for all periods presented to reflect comparable segment operating results consistent with the information regularly reviewed by our chief operating decision maker, as follows:

	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
(dollars in millions)	2016	2015	2016	2015	
<b>Impact of Divested Operations</b>					
Operating revenues	\$	\$	1,307	\$ 1,280	\$ 3,976
Cost of services			466	482	1,374
Selling, general and administrative expense			124	137	405
Depreciation and amortization expense					88

In addition, Corporate and other includes the results of our vehicle OEM and Networkfleet businesses for all periods presented, which were reclassified from our Wireline segment effective April 1, 2016. The impact of this reclassification was not material to our condensed consolidated financial statements or our segment results of operations.

**Consolidated Revenues**

	Three Months Ended				Nine Months Ended			
	September 30,		Increase/		September 30,		Increase/	
(dollars in millions)	2016	2015	(Decrease)		2016	2015	(Decrease)	
<b>Wireless</b>								
Service	\$ 16,684	\$ 17,598	\$ (914)	(5.2)%	\$ 50,234	\$ 53,201	\$ (2,967)	(5.6)%
Equipment	4,124	4,292	(168)	(3.9)	11,782	11,526	256	2.2
Other	1,293	1,115	178	16.0	3,793	3,219	574	17.8
<b>Total</b>	<b>22,101</b>	<b>23,005</b>	<b>(904)</b>	<b>(3.9)</b>	<b>65,809</b>	<b>67,946</b>	<b>(2,137)</b>	<b>(3.1)</b>
<b>Wireline</b>								
Mass Markets	3,585	3,602	(17)	(0.5)	10,760	10,790	(30)	(0.3)
Global Enterprise	2,886	2,988	(102)	(3.4)	8,749	9,042	(293)	(3.2)
Global Wholesale	1,239	1,289	(50)	(3.9)	3,778	3,938	(160)	(4.1)
Other	77	88	(11)	(12.5)	246	260	(14)	(5.4)
<b>Total</b>	<b>7,787</b>	<b>7,967</b>	<b>(180)</b>	<b>(2.3)</b>	<b>23,533</b>	<b>24,030</b>	<b>(497)</b>	<b>(2.1)</b>

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Corporate and other	1,403	2,477	(1,074)	(43.4)	5,358	6,235	(877)	(14.1)
Eliminations	(354)	(291)	(63)	21.6	(1,060)	(845)	(215)	25.4
<b>Consolidated Revenues</b>	<b>\$ 30,937</b>	<b>\$ 33,158</b>	<b>\$ (2,221)</b>	<b>(6.7)</b>	<b>\$ 93,640</b>	<b>\$ 97,366</b>	<b>\$ (3,726)</b>	<b>(3.8)</b>

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The decrease in consolidated revenues during the three and nine months ended September 30, 2016, compared to the similar period in 2015, was primarily due to declines in revenues at our Wireless and Wireline segments, as well as declines in revenues within Corporate and other.

Wireless revenues decreased \$0.9 billion, or 3.9%, and \$2.1 billion, or 3.1%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily as a result of declines in service and equipment revenues for the three months ended September 30, 2016 and a decline in service revenue partially offset by increases in equipment and other revenues for the nine months ended September 30, 2016. Service revenue, which does not include recurring device payment plan billings related to the Verizon device payment program, decreased by \$0.9 billion, or 5.2%, and \$3.0 billion, or 5.6%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily driven by customer migration to plans with unsubsidized service pricing. Equipment revenue decreased by \$0.2 billion, or 3.9%, during the three months ended September 30, 2016, compared to the similar period in 2015, as a result of a decline in overall sales volume, partially offset by an increase in device sales under the Verizon device payment program. Equipment revenue increased \$0.3 billion, or 2.2%, during the nine months ended September 30, 2016, compared to the similar period in 2015, as a result of an increase in device sales, primarily smartphones, under the Verizon device payment program, partially offset by a decline in device sales under the traditional fixed-term service plans as well as a decline in overall sales volume.

Wireline revenues decreased \$0.2 billion, or 2.3%, and \$0.5 billion, or 2.1%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily as a result of declines in Global Enterprise and Global Wholesale. Wireline revenues during the nine months ended September 30, 2016 were also partially impacted by a reduction in Fios marketing activities during the union work stoppage that commenced April 13, 2016 and ended on June 1, 2016. Fios revenues were \$2.8 billion and \$8.3 billion during the three and nine months ended September 30, 2016, respectively, compared to \$2.7 billion and \$8.0 billion during the three and nine months ended September 30, 2015, respectively. Global Enterprise revenues decreased \$0.1 billion, or 3.4%, and \$0.3 billion, or 3.2%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, due to declines in traditional data and advanced networking solutions, Cloud and IT services and voice communications services. Global Wholesale revenues decreased \$0.1 billion, or 3.9%, and \$0.2 billion, or 4.1%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily due to declines in data revenues and traditional voice revenues driven by the effect of technology substitution as well as continuing contraction of market rates due to competition.

Corporate and other revenues decreased \$1.1 billion, or 43.4%, and \$0.9 billion, or 14.1%, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily as a result of the sale of our local exchange business and related landline activities in California, Florida and Texas that was completed on April 1, 2016. During the three months ended September 30, 2016, this decrease was partially offset by advertising revenue growth from programmatic platforms in AOL and related businesses. During the nine months ended September 30, 2016, this decrease was partially offset by the inclusion of the revenues of AOL from the date of acquisition on June 23, 2015.

**Consolidated Operating Expenses**

(dollars in millions)	Three Months Ended		Increase/ (Decrease)		Nine Months Ended		Increase/ (Decrease)	
	September 30, 2016	September 30, 2015			September 30, 2016	September 30, 2015		
Cost of services	\$ 6,989	\$ 7,589	\$ (600)	(7.9)%	\$ 22,180	\$ 21,571	\$ 609	2.8%
Wireless cost of equipment	5,240	5,716	(476)	(8.3)	14,882	16,279	(1,397)	(8.6)
Selling, general and administrative expense	8,226	8,309	(83)	(1.0)	25,601	24,222	1,379	5.7
Depreciation and amortization expense	3,942	4,009	(67)	(1.7)	11,941	11,978	(37)	(0.3)
<b>Consolidated Operating Expenses</b>	<b>\$ 24,397</b>	<b>\$ 25,623</b>	<b>\$ (1,226)</b>	<b>(4.8)</b>	<b>\$ 74,604</b>	<b>\$ 74,050</b>	<b>\$ 554</b>	<b>0.7</b>

*Cost of Services*

Cost of services decreased \$0.6 billion, or 7.9%, during the three months ended September 30, 2016, compared to the similar period in 2015, primarily due to the sale of our local exchange business and related landline activities in California, Florida and Texas on April 1, 2016, a decline in net pension and postretirement benefit cost as well as a decline in access costs at our Wireline segment, partially offset by an increase in traffic acquisition costs at AOL and related businesses. Cost of services



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increased \$0.6 billion, or 2.8%, during the nine months ended September 30, 2016, compared to the similar period in 2015, primarily due to an increase in costs as a result of the acquisition of AOL on June 23, 2015, the launch of go90 in the third quarter of 2015, and \$0.4 billion of incremental costs incurred as a result of the union work stoppage that commenced on April 13, 2016 and ended on June 1, 2016. Partially offsetting these increases was a decline in cost of service as a result of the sale of our local exchange business and related landline activities in California, Florida and Texas on April 1, 2016.

*Wireless Cost of Equipment*

Wireless cost of equipment decreased \$0.5 billion, or 8.3%, and \$1.4 billion, or 8.6%, respectively, at our Wireless segment during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily as a result of a decline in the number of smartphone units sold as well as a decrease in the average cost per unit for smartphones, driven by a shift to lower priced units in the mix of devices sold.

*Selling, General and Administrative Expense*

Selling, general and administrative expense increased \$1.4 billion, or 5.7%, during the nine months ended September 30, 2016, compared to the similar period in 2015, primarily due to an increase in severance, pension and benefit rereasurement charges (see Other Items ), an increase in costs as a result of the acquisition of AOL on June 23, 2015, and the launch of go90 in the third quarter of 2015, partially offset by a gain on and decline in costs as a result of the sale of our local exchange business and related landline activities in California, Florida and Texas on April 1, 2016 (see Other Items ), declines in sales commission expense at our Wireless segment and declines in employee-related costs at our Wireline Segment.

*Non-operational Credits (Charges)*

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

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
(dollars in millions)				
<b>Severance, pension and benefit charges</b>	\$ (797)	\$ (342)	\$ (4,512)	\$ (342)
<b>Gain on access line sale</b>			1,007	
<b>Gain on spectrum license transaction</b>			142	

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

*Consolidated Operating Income and EBITDA*

Consolidated earnings before interest, taxes, depreciation and amortization expenses (Consolidated EBITDA) and Consolidated Adjusted EBITDA, which are presented below, are non-GAAP financial measures and do not purport to be alternatives to operating income as a measure of operating performance. We believe these measures are useful to management, investors and other users of our financial information in evaluating operating profitability on a more variable cost basis as they exclude depreciation and amortization expense related primarily to capital expenditures and acquisitions that occurred in prior periods, as well as in evaluating operating performance in relation to Verizon's competitors. Consolidated EBITDA is calculated by adding back interest, taxes, depreciation and amortization expense, equity in losses of unconsolidated businesses and other income and (expense), net to net income.

Consolidated Adjusted EBITDA is calculated by excluding the effect of non-operational items and the impact of divested operations from the calculation of Consolidated EBITDA. We believe this measure is useful to management, investors and other users of our financial information in evaluating the effectiveness of our operations and underlying business trends in a manner that is consistent with management's evaluation of business performance. We believe Consolidated Adjusted EBITDA is widely used by investors to compare a company's operating performance to its competitors by minimizing impacts caused by differences in capital structure, taxes and depreciation policies. Further, the exclusion of non-operational items and the impact of divested operations enables comparability to prior period performance and trend analysis. Consolidated Adjusted EBITDA is also used by rating agencies, lenders and other parties to evaluate our creditworthiness. See Other Items for additional details regarding these non-operational items.

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

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accounting policy for the recognition of actuarial gains/losses. During the three and nine months ended September 30, 2016, we recorded pension and benefit remeasurement charges in accordance with our accounting policy to recognize actuarial gains and losses in the period in which they occur. During the fourth quarter of 2016, we will remeasure our pension and other postretirement assets and liabilities based on updated actuarial assumptions. This remeasurement could result in significant charges or credits to one or more of our pension plans and other postretirement benefit plans.

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. We believe that non-GAAP measures provide relevant and useful information, which is used by management, investors and other users of our financial information in assessing both consolidated and segment performance. The non-GAAP financial information presented may be determined or calculated differently by other companies.

(dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>Consolidated Operating Income</b>	\$ 6,540	\$ 7,535	\$ 19,036	\$ 23,316
Add Depreciation and amortization expense	3,942	4,009	11,941	11,978
<b>Consolidated EBITDA</b>	\$ 10,482	\$ 11,544	\$ 30,977	\$ 35,294
Add Severance, pension and benefit charges	797	342	4,512	342
Less Gain on spectrum license transaction			(142)	
Less Gain on access line sale			(1,007)	
Less Impact of divested operations		(717)	(661)	(2,197)
<b>Consolidated Adjusted EBITDA</b>	\$ 11,279	\$ 11,169	\$ 33,679	\$ 33,439

The changes in the table above during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, were a result of the factors described in connection with operating revenues and operating expenses.



**Table of Contents****Other Consolidated Results***Other Income and (Expense), Net*

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

(dollars in millions)	Three Months Ended September 30,		Increase/ (Decrease)		Nine Months Ended September 30,		Increase/ (Decrease)	
	2016	2015			2016	2015		
Interest income	\$ 16	\$ 14	\$ 2	14.3%	\$ 42	\$ 100	\$ (58)	(58.0)%
Other, net	81	37	44	nm	(1,739)	58	(1,797)	nm
<b>Total</b>	<b>\$ 97</b>	<b>\$ 51</b>	<b>\$ 46</b>	<b>90.2</b>	<b>\$ (1,697)</b>	<b>\$ 158</b>	<b>\$ (1,855)</b>	<b>nm</b>

nm not meaningful

The change in Other income and (expense), net during the nine months ended September 30, 2016, compared to the similar period in 2015 was primarily driven by net early debt redemption costs of \$1.8 billion recorded during the second quarter of 2016 (see Other Items ).

*Interest Expense*

(dollars in millions)	Three Months Ended September 30,		Increase/ (Decrease)		Nine Months Ended September 30,		Increase/ (Decrease)	
	2016	2015			2016	2015		
Total interest costs on debt balances	\$ 1,214	\$ 1,386	\$ (172)	(12.4)%	\$ 3,770	\$ 4,147	\$ (377)	(9.1)%
Less capitalized interest costs	176	184	(8)	(4.3)	531	405	126	31.1
<b>Total</b>	<b>\$ 1,038</b>	<b>\$ 1,202</b>	<b>\$ (164)</b>	<b>(13.6)</b>	<b>\$ 3,239</b>	<b>\$ 3,742</b>	<b>\$ (503)</b>	<b>(13.4)</b>

Average debt outstanding	\$ 103,247	\$ 112,446	\$ 105,153	\$ 113,459
Effective interest rate	4.7%	4.9%	4.8%	4.9%

Total interest costs on debt balances decreased during the three and nine months ended September 30, 2016, compared to the similar periods in 2015. The decrease during the three and nine months ended September 30, 2016 was primarily due to lower average debt balances and a lower effective interest rate (see Consolidated Financial Condition ). Capitalized interest costs were higher during the nine months ended September 30, 2016, compared to the similar period in 2015, primarily due to an increase in wireless licenses that are currently under development, which was a result of our winning bid in the FCC spectrum license auction during 2015. The FCC granted us those wireless licenses on April 8, 2015.

*Provision for Income Taxes*

(dollars in millions)	Three Months Ended September 30,		Increase/ (Decrease)		Nine Months Ended September 30,		Increase/ (Decrease)	
	2016	2015			2016	2015		
<b>Provision for income taxes</b>	<b>\$ 1,829</b>	<b>\$ 2,195</b>	<b>\$ (366)</b>	<b>(16.7)%</b>	<b>\$ 5,029</b>	<b>\$ 6,800</b>	<b>\$ (1,771)</b>	<b>(26.0)%</b>

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### Effective income tax rate

32.8%

34.5%

35.8%

34.6%

The effective income tax rate is calculated by dividing the provision for income taxes by income before the provision for income taxes. The decrease in the effective income tax rate during the three months ended September 30, 2016, compared to the similar period in 2015, was primarily due to lower income taxes from an internal restructure in the current period as well as the effective income tax rate impact of lower income before income taxes due to greater severance, pension and benefit charges recorded in the current period. The increase in the effective income tax rate during the nine months ended September 30, 2016, compared to the similar period in 2015, was primarily due to the impact of \$527 million included in the provision for income taxes from goodwill not deductible for tax purposes in connection with the sale of our local exchange business and related landline activities in California, Florida and Texas to Frontier on April 1, 2016 as well as the effective income tax rate impact of lower income before income taxes due to severance, pension and benefit charges recorded in the current period. The decrease in the provision for income taxes during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, was primarily due to the impact of lower income before income taxes due to severance, pension and benefit charges recorded in the current period.

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### **Unrecognized Tax Benefits**

Unrecognized tax benefits were \$1.8 billion at September 30, 2016 and \$1.6 billion at December 31, 2015. Interest and penalties related to unrecognized tax benefits were \$0.2 billion (after-tax) at September 30, 2016 and \$0.1 billion (after-tax) at December 31, 2015, respectively.

Verizon and/or its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state, local and foreign jurisdictions. As a large taxpayer, we are under audit by the IRS and multiple state and foreign jurisdictions for various open tax years. It is reasonably possible that the amount of the liability for unrecognized tax benefits could change by a significant amount in the next twelve months. An estimate of the range of the possible change cannot be made until these tax matters are further developed or resolved.

### **Segment Results of Operations**

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

Segment earnings before interest, taxes, depreciation and amortization (Segment EBITDA), which is presented below, is a non-GAAP measure and does not purport to be an alternative to operating income (loss) as a measure of operating performance. We believe this measure is useful to management, 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 (loss). Segment EBITDA margin is calculated by dividing Segment EBITDA by total segment operating revenues. You can find additional information about our segments in Note 10 to the condensed consolidated financial statements.

**Table of Contents****Wireless**

Our Wireless segment, doing business as Verizon Wireless, provides wireless communications services across one of the most extensive wireless networks in the United States. We provide these services and equipment sales to consumer, business and government customers in the United States on a postpaid and prepaid basis. Postpaid connections represent individual lines of service for which a customer is billed in advance a monthly access charge in return for a monthly network service allowance, and usage beyond the allowance is billed monthly in arrears. Our prepaid service enables individuals to obtain wireless services without credit verification by paying for all services in advance.

**Operating Revenues and Selected Operating Statistics**

(dollars in millions, except ARPA and I-ARPA)	Three Months Ended				Nine Months Ended			
	September 30,		Increase/ (Decrease)		September 30,		Increase/ (Decrease)	
	2016	2015			2016	2015		
Service	\$ 16,684	\$ 17,598	\$ (914)	(5.2)%	\$ 50,234	\$ 53,201	\$ (2,967)	(5.6)%
Equipment	4,124	4,292	(168)	(3.9)	11,782	11,526	256	2.2
Other	1,293	1,115	178	16.0	3,793	3,219	574	17.8
<b>Total Operating Revenues</b>	<b>\$ 22,101</b>	<b>\$ 23,005</b>	<b>\$ (904)</b>	<b>(3.9)</b>	<b>\$ 65,809</b>	<b>\$ 67,946</b>	<b>\$ (2,137)</b>	<b>(3.1)</b>
<b>Connections ( 000):<sup>(1)</sup></b>								
Retail connections					113,676	110,760	2,916	2.6
Retail postpaid connections					108,220	105,023	3,197	3.0
<b>Net additions in period ( 000):<sup>(2)</sup></b>								
Retail connections	525	1,209	(684)	(56.6)	1,573	2,594	(1,021)	(39.4)
Retail postpaid connections	442	1,289	(847)	(65.7)	1,697	2,988	(1,291)	(43.2)
<b>Churn Rate:</b>								
Retail connections	1.28%	1.21%			1.23%	1.24%		
Retail postpaid connections	1.04%	0.93%			0.98%	0.95%		
<b>Account Statistics:</b>								
Retail postpaid ARPA	\$ 144.94	\$ 152.38	\$ (7.44)	(4.9)	\$ 145.12	\$ 154.08	\$ (8.96)	(5.8)
Retail postpaid I-ARPA	\$ 169.49	\$ 164.31	\$ 5.18	3.2	\$ 167.23	\$ 163.37	\$ 3.86	2.4
Retail postpaid accounts ( 000) <sup>(1)</sup>					35,530	35,677	(147)	(0.4)
Retail postpaid connections per account <sup>(1)</sup>					3.05	2.94	0.11	3.7

<sup>(1)</sup> As of end of period

<sup>(2)</sup> Excluding acquisitions and adjustments

Wireless total operating revenues decreased by \$0.9 billion, or 3.9%, and \$2.1 billion, or 3.1%, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily as a result of declines in service and equipment revenues for the three months ended September 30, 2016 and a decline in service revenue partially offset by increases in equipment and other revenues for the nine months ended September 30, 2016.

**Accounts and Connections**

Retail postpaid accounts primarily represent retail customers with Verizon Wireless that are directly served and managed by Verizon Wireless and use its branded services. Accounts include shared data plans, such as our Verizon Plan and More Everything plans, and corporate accounts, as well as legacy single connection plans and family plans. A single account may include monthly wireless services for a variety of connected devices.



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Under the Verizon device payment program, our eligible wireless customers purchase wireless devices under a device payment plan agreement. Customers that activate service on devices purchased under the device payment program, or on a compatible device that they already own, pay lower service fees (unsubsidized service pricing) as compared to those under fixed-term service plans.

Retail connections represent our retail customer device connections. Churn is the rate at which service to connections is terminated. Retail connections under an account may include: smartphones and basic phones (collectively, phones) as well as tablets, LTE Internet (Installed) and other connected devices, including retail IoT connections. Retail postpaid connection net additions decreased during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily due to a decrease in retail postpaid connection gross additions as well as a higher retail postpaid connection churn rate.

*Retail Postpaid Connections per Account*

Retail postpaid connections per account is calculated by dividing the total number of retail postpaid connections by the number of retail postpaid accounts as of the end of the period. Retail postpaid connections per account increased 3.7% as of September 30, 2016, compared to September 30, 2015. The increase in retail postpaid connections per account is primarily due to increases in Internet devices, which represented 18.1% of our retail postpaid connection base as of September 30, 2016, compared to 16.0% as of September 30, 2015.

*Service Revenue*

Service revenue, which does not include recurring device payment plan billings related to the Verizon device payment program, decreased by \$0.9 billion, or 5.2%, and \$3.0 billion, or 5.6%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily driven by lower retail postpaid service revenue. Retail postpaid service revenue was negatively impacted as a result of customer migration to plans with unsubsidized service pricing. Customer migration to unsubsidized service pricing is driven in part by an increase in the activation of devices purchased under the Verizon device payment program. At September 30, 2016, approximately 60% of our retail postpaid phone connections were on unsubsidized service pricing compared to approximately 33% at September 30, 2015. At September 30, 2016, approximately 41% of our retail postpaid phone connections participated in the Verizon device payment program compared to approximately 22% at September 30, 2015. The decrease in service revenues was partially offset by an increase in retail postpaid connections compared to the prior year period. Service revenue plus recurring device payment plan billings related to the Verizon device payment program, which represents the total value received from our wireless connections, increased 2.3% and 2.1%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015.

Retail postpaid ARPA (the average service revenue per account from retail postpaid accounts), which does not include recurring device payment plan billings related to the Verizon device payment program, was negatively impacted during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, as a result of customer migration to plans with unsubsidized service pricing. Retail postpaid I-ARPA (the average service revenue per account from retail postpaid accounts plus recurring device payment plan billings), which represents the monthly recurring value received on a per account basis from our retail postpaid accounts, increased 3.2% and 2.4%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015.

*Equipment Revenue*

Equipment revenue decreased \$0.2 billion, or 3.9%, during the three months ended September 30, 2016, compared to the similar period in 2015, as a result of a decline in overall sales volume, partially offset by an increase in device sales under the Verizon device payment program. Equipment revenue increased by \$0.3 billion, or 2.2%, during the nine months ended September 30, 2016, compared to the similar period in 2015, as a result of an increase in device sales, primarily smartphones, under the Verizon device payment program, partially offset by a decline in device sales under the traditional fixed-term service plans as well as a decline in overall sales volumes.

Under the Verizon device payment program, we recognize a higher amount of equipment revenue at the time of sale of devices. For the three and nine months ended September 30, 2016, phone activations under the Verizon device payment program represented approximately 70% and 69%, respectively, of retail postpaid phones activated compared to approximately 58% and 49%, respectively, during the three and nine months ended September 30, 2015.

*Other Revenue*

Other revenue includes non-service revenues such as regulatory fees, cost recovery surcharges, revenues associated with our device protection package, sublease rentals and financing revenue. Other revenue increased \$0.2 billion, or 16.0%, and \$0.6 billion, or 17.8%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily due to financing revenues from our

device payment program, cost recovery surcharges and a volume-driven increase in revenues related to our device protection package.

**Table of Contents****Operating Expenses**

(dollars in millions)	Three Months Ended				Nine Months Ended			
	September 30, 2016	September 30, 2015	Increase/ (Decrease)		September 30, 2016	September 30, 2015	Increase/ (Decrease)	
Cost of services	\$ 2,006	\$ 2,010	\$ (4)	(0.2)%	\$ 5,932	\$ 5,809	\$ 123	2.1%
Cost of equipment	5,240	5,716	(476)	(8.3)	14,882	16,279	(1,397)	(8.6)
Selling, general and administrative expense	4,921	5,351	(430)	(8.0)	14,589	16,009	(1,420)	(8.9)
Depreciation and amortization expense	2,287	2,260	27	1.2	6,862	6,675	187	2.8
<b>Total Operating Expenses</b>	<b>\$ 14,454</b>	<b>\$ 15,337</b>	<b>\$ (883)</b>	<b>(5.8)</b>	<b>\$ 42,265</b>	<b>\$ 44,772</b>	<b>\$ (2,507)</b>	<b>(5.6)</b>

*Cost of Services*

Cost of services increased \$0.1 billion, or 2.1%, during the nine months ended September 30, 2016, compared to the similar period in 2015, primarily due to higher rent expense as a result of an increase in macro and small cell sites, as well as a volume-driven increase in costs related to the device protection package offered to our customers. Partially offsetting these increases were decreases in network connection costs and cost of roaming.

*Cost of Equipment*

Cost of equipment decreased \$0.5 billion, or 8.3%, and \$1.4 billion, or 8.6%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily as a result of a decline in the number of smartphone units sold as well as a decrease in the average cost per unit for smartphones, driven by a shift to lower priced units in the mix of devices sold.

*Selling, General and Administrative Expense*

Selling, general and administrative expense decreased \$0.4 billion, or 8.0%, and \$1.4 billion, or 8.9%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily due to declines in sales commission expense, bad debt expense, employee related costs and non-income taxes. In addition, advertising expense decreased during the nine months ended September 30, 2016. The declines in sales commission expense of \$0.2 billion, or 18.2%, and \$1.0 billion, or 27.9%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, was driven by an overall decline in activations as well as an increase in the proportion of activations under the Verizon device payment program, which has a lower commission per unit than activations under traditional fixed-term service plans. The decline in employee related costs was a result of reduced headcount.

*Depreciation and Amortization Expense*

Depreciation and amortization expense increased during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily driven by an increase in net depreciable assets.



**Table of Contents****Segment Operating Income and EBITDA**

(dollars in millions)	Three Months Ended				Nine Months Ended			
	September 30, 2016	September 30, 2015	Increase/ (Decrease)		September 30, 2016	September 30, 2015	Increase/ (Decrease)	
<b>Segment Operating Income</b>	\$ 7,647	\$ 7,668	\$ (21)	(0.3)%	\$ 23,544	\$ 23,174	\$ 370	1.6%
Add Depreciation and amortization expense	2,287	2,260	27	1.2	6,862	6,675	187	2.8
<b>Segment EBITDA</b>	\$ 9,934	\$ 9,928	\$ 6	0.1	\$ 30,406	\$ 29,849	\$ 557	1.9
<b>Segment operating income margin</b>	34.6%	33.3%			35.8%	34.1%		
<b>Segment EBITDA margin</b>	44.9%	43.2%			46.2%	43.9%		

The changes in the table above during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, were primarily a result of the factors described in connection with operating revenues and operating expenses.

Non-operational items excluded from our Wireless segment Operating income were as follows:

(dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Gain on spectrum license transaction	\$	\$	\$ 142	\$
Severance, pension and benefit charges	(53)		(53)	
	\$ (53)	\$	\$ 89	\$

**Table of Contents****Wireline**

Our Wireline segment provides voice, data and video communications products and enhanced services including broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice services. We provide these products and services to consumers in the United States, as well as to carriers, businesses and government customers both in the United States and around the world.

The operating results and statistics for all periods presented below exclude the results of Verizon's local exchange business and related landline activities in California, Florida and Texas, which were sold to Frontier on April 1, 2016, to reflect comparable segment operating results consistent with the information regularly reviewed by our chief operating decision maker.

**Operating Revenues and Selected Operating Statistics**

(dollars in millions)	Three Months Ended				Nine Months Ended			
	September 30,		Increase/		September 30,		Increase/	
	2016	2015	(Decrease)		2016	2015	(Decrease)	
Consumer retail	\$ 3,174	\$ 3,168	\$ 6	0.2%	\$ 9,519	\$ 9,470	\$ 49	0.5%
Small business	411	434	(23)	(5.3)	1,241	1,320	(79)	(6.0)
Mass Markets	3,585	3,602	(17)	(0.5)	10,760	10,790	(30)	(0.3)
Global Enterprise	2,886	2,988	(102)	(3.4)	8,749	9,042	(293)	(3.2)
Global Wholesale	1,239	1,289	(50)	(3.9)	3,778	3,938	(160)	(4.1)
Other	77	88	(11)	(12.5)	246	260	(14)	(5.4)
<b>Total Operating Revenues</b>	<b>\$ 7,787</b>	<b>\$ 7,967</b>	<b>\$ (180)</b>	<b>(2.3)</b>	<b>\$ 23,533</b>	<b>\$ 24,030</b>	<b>\$ (497)</b>	<b>(2.1)</b>

Connections ( '000)<sup>(1)</sup>

Total voice connections	14,194	15,324	(1,130)	(7.4)
Total Broadband connections	7,038	7,074	(36)	(0.5)
Fios Internet subscribers	5,585	5,336	249	4.7
Fios video subscribers	4,673	4,610	63	1.4

<sup>(1)</sup> As of end of period

Wireline's revenues decreased \$0.2 billion, or 2.3%, and \$0.5 billion, or 2.1%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily as a result of declines in Global Enterprise and Global Wholesale. Wireline's revenues during the nine months ended September 30, 2016 were also partially impacted by a reduction in Fios marketing activities during the union work stoppage that commenced April 13, 2016 and ended on June 1, 2016. Fios revenues were \$2.8 billion and \$8.3 billion, respectively, during the three and nine months ended September 30, 2016, compared to \$2.7 billion and \$8.0 billion, respectively, during the similar periods in 2015.

*Mass Markets*

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

Mass Markets revenues decreased 0.5% and 0.3%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, as the continued decline of local exchange revenues was partially offset by increases in Fios revenues due to subscriber growth for Fios services (Internet, video and voice).

We grew our subscriber base by 0.2 million Fios Internet subscribers and 0.1 million Fios video subscribers, while also improving penetration rates within our Fios service areas for Fios Internet. As of September 30, 2016, we achieved a penetration rate of 40.4% for Fios Internet,

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compared to a penetration rate of 40.1% for Fios Internet as of September 30, 2015. Our Fios connection growth for the nine months ended September 30, 2016 was impacted by installation delays as a result of the union work stoppage that commenced on April 13, 2016 and ended on June 1, 2016. Consumer Fios revenues increased \$0.1 billion, or 4.2%, and \$0.3 billion, or 4.4%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015. Fios represented approximately 82% of Consumer retail revenue for both the three and nine months ended September 30, 2016, compared to approximately 79% during the similar periods in 2015.

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The decline of local exchange revenues was primarily due to a 7.3% decline in Consumer retail voice connections resulting primarily from competition and technology substitution with wireless, competing VoIP (voice over IP) and cable telephony services. Total voice connections include traditional switched access lines in service as well as Fios digital voice connections. There was also a 7.6% decline in Small business retail voice connections, reflecting competition and a shift to both IP and high-speed circuits, primarily in areas outside of our Fios footprint.

*Global Enterprise*

Global Enterprise offers advanced information and communication technology services and other traditional communications services to medium and large business customers, multinational corporations and state and federal government customers.

Global Enterprise revenues decreased \$0.1 billion, or 3.4%, and \$0.3 billion, or 3.2%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, due to declines in traditional data and advanced networking solutions, Cloud and IT services and voice communications services. Also contributing to the decrease was the negative impact of foreign exchange rates. Our traditional data networking services, which consist of traditional circuit-based services such as frame relay, private line and legacy data networking services, our advanced networking solutions, which include Private IP, Public Internet, Ethernet and optical network services, and our Cloud and IT services declined as a result of competitive pressures.

*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 \$0.1 billion, or 3.9%, and \$0.2 billion, or 4.1%, respectively, during the three and nine months ended September 30, 2016, compared to the similar periods in 2015, primarily due to declines in data revenues and traditional voice revenues driven by the effect of technology substitution as well as continuing contraction of market rates due to competition. As a result of technology substitution, the number of core data circuits at September 30, 2016 experienced a 16.3% decline compared to September 30, 2015. The decline in traditional voice revenue is driven by a 6.1% decline in domestic wholesale connections at September 30, 2016, compared to September 30, 2015.

**Operating Expenses**

	Three Months Ended				Nine Months Ended			
	September 30,		Increase/ (Decrease)		September 30,		Increase/ (Decrease)	
(dollars in millions)	2016	2015			2016	2015		
Cost of services	\$ 4,440	\$ 4,695	\$ (255)	(5.4)%	\$ 14,191	\$ 14,184	\$ 7	%
Selling, general and administrative expense	1,693	1,770	(77)	(4.4)	5,080	5,421		