

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(Mark one)



ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2015

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)

**23-2259884**

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

**1095 Avenue of the Americas  
New York, New York**

(Address of principal executive offices)

**10036**

(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>
Common Stock, \$.10 par value

<u>Name of each exchange on which registered</u>
New York Stock Exchange
The NASDAQ Global Select Market
London Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

At June 30, 2015, the aggregate market value of the registrant's voting stock held by non-affiliates was approximately \$189,475,659,614.

At January 29, 2016, 4,073,840,949 shares of the registrant's common stock were outstanding, after deducting 168,533,291 shares held in treasury.

**Documents Incorporated By Reference:**

Portions of the registrant's Annual Report to Shareowners for the year ended December 31, 2015 (Parts I and II).

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## PART I

### Item 1. Business

#### General

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. Formerly known as Bell Atlantic Corporation, we were incorporated in 1983 under the laws of the State of Delaware. We began doing business as Verizon on June 30, 2000 following our merger with GTE Corporation. We have a highly diverse workforce of approximately 177,700 employees.

Our principal executive offices are located at 1095 Avenue of the Americas, New York, New York 10036 (telephone number 212-395-1000).

We have two reportable segments, Wireless and Wireline, which we operate and manage as strategic business segments and organize by products and services.

**Wireless** Wireless' communications products and services include wireless voice and data services and equipment sales, which are provided to consumer, business and government customers across the United States.

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

The following portions of the 2015 Verizon Annual Report to Shareowners are incorporated into this report:

- "Overview" on pages 10 through 13; and,
- "Segment Results of Operations" on pages 19 through 24 and in Note 13 to the consolidated financial statements on pages 71 through 73.

#### Wireless

##### Background

Our Wireless segment, doing business as Verizon Wireless, provides wireless communications services across one of the most extensive wireless networks in the United States (U.S.). Verizon Wireless is the largest wireless service provider in the U.S. as measured by retail connections and revenue. At December 31, 2015, Verizon Wireless had 112.1 million retail connections and 2015 revenues of approximately \$91.7 billion, representing approximately 70% of Verizon's aggregate revenues.

Verizon Wireless was formed as a joint venture in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone Group Plc (Vodafone). On September 2, 2013, Verizon entered into a stock purchase agreement with Vodafone and Vodafone 4 Limited, pursuant to which Verizon agreed to acquire all of Vodafone's indirect 45% interest in Verizon Wireless for aggregate consideration of approximately \$130 billion (the Wireless Transaction). We completed the Wireless Transaction on February 21, 2014 and, as a result, we acquired 100% ownership of Verizon Wireless. The consideration paid was primarily comprised of cash and Verizon common stock.

We have the largest fourth-generation (4G) Long-Term Evolution (LTE) technology and third-generation (3G) Evolution - Data Optimized (EV-DO) networks of any U.S. wireless service provider. Our 4G LTE network is available to over 98% of the U.S. population in more than 500 markets covering approximately 312 million people, including those in areas served by our LTE in Rural America partners. Under this program, we are working with wireless carriers in rural areas to collaboratively build and operate a 4G LTE network using each carrier's network assets and our core 4G LTE equipment and 700 MHz C Block and Advanced Wireless Services (AWS) spectrum.

We are focusing our wireless capital spending on adding capacity and density to our 4G LTE network. In 2015, we announced our commitment to developing and deploying fifth-generation (5G) wireless technology. 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.

## **Wireless Service and Product Offerings**

Our wireless services are available to our customers receiving service under the Verizon Wireless brand. In addition, customers can obtain wireless products and services that operate on our network from resellers that purchase network access from us on a wholesale basis.

### ***Wireless Services***

We offer our wireless services on a postpaid and prepaid basis. Retail (non-wholesale) postpaid accounts primarily represent retail customers with Verizon Wireless that are directly served and managed by Verizon Wireless and use its branded services. A single account may include monthly wireless services for a variety of connected devices. A postpaid retail connection represents an individual line of service for a wireless device 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 in arrears. Approximately 95% of our retail connections received our wireless services on a postpaid basis as of December 31, 2015. Our prepaid service enables individuals to obtain wireless services without credit verification by paying for all services in advance.

We offer various postpaid account service plans, including shared data plans, single connection plans and plans tailored to the needs of our business customers. Our shared data plans feature domestic unlimited voice minutes, unlimited domestic and international text, video and picture messaging, cloud storage and a single data allowance that can be shared among up to 10 devices on a customer's account. For an additional monthly access fee, our customers have the option of sharing long distance and roaming minutes among their devices for calls from the United States to, and calls while within, Canada and Mexico. Shared data plans also include our Mobile Hotspot service at no additional charge. This service enables a customer to activate a personal Wi-Fi hotspot via their smartphone that can provide Internet access to multiple Wi-Fi enabled devices. We also offer various voice and shared data plans for small and large businesses.

Customers on our fixed-term service plans have historically paid higher fees for their wireless service in exchange for the ability to purchase their wireless devices at subsidized prices. Under the Verizon device payment program (formerly known as Verizon Edge), our eligible wireless customers purchase phones or tablets at unsubsidized prices on an installment basis (a device installment plan). 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 our fixed-term service plans. Generally, customers entering into device installment agreements on or after June 1, 2015 are required to repay all amounts due under their device installment agreement before being eligible to upgrade their device. However, certain devices are subject to promotions that allow customers to upgrade to a new device after paying down the minimum percentage of their device installment plan and trading in their device.

In August 2015, we launched a simplified shared data plan, the Verizon Plan, that offers customers various sizes of data packages that can be shared among up to 10 devices on a customer's account. New customers who wish to participate in this new plan can do so by purchasing a device from Verizon either under our device payment program or at full retail, or by using their own compatible device. In addition, our current customers have the option of either moving to the Verizon Plan, subject to certain restrictions, or keeping their existing plan.

We offer our customers a wide variety of wireless services accessible on a broad range of our devices. Our messaging services enable our customers to send and receive text, picture and video messages. In addition, access to the Internet is available on all of our smartphones and nearly all of our basic phones. We also offer service that enables our customers to access the Internet wirelessly at broadband speeds on notebook computers and tablets that either have embedded 4G LTE or 3G EV-DO modules or that are used in conjunction with separate devices that enable access to this service, such as USB modems, Jetpacks™ and other dedicated devices that provide a mobile Wi-Fi connection.

Our customers can access multimedia offerings, provided by Verizon and by third parties, consisting of applications providing music, video, gaming, news and other content. Our business-focused offerings, which are designed to increase productivity, include solutions that enable customers to access the Internet, their corporate intranets and e-mail across our diverse portfolio of wireless devices. Our location-based services provide our customers with directions to their destination and enable our business customers to locate, monitor and communicate with their mobile field workers. Our global data services allow our customers to access data services and the Internet on all of our smartphones and many of our tablets and basic phones from hundreds of international destinations. In addition, depending upon their wireless device's operating system, our customers have access to more than one million applications and services offered by Google Inc. (Google) via Google Play, Apple Inc. (Apple) via iTunes, Microsoft Inc. (Microsoft) via its Windows Phone operating system and BlackBerry Limited (BlackBerry) via its BlackBerry App World webstore.

Our customers can make and receive calls on their home phone handsets using our wireless network through our Home Phone Connect service or Verizon 4G LTE Broadband Router with Voice service. We also offer LTE Internet (Installed), a high-speed Internet service that provides customers with Internet connections in their homes using our 4G LTE network.

In addition, we provide network access and, in some cases, enhanced value added services to support wireless connections for the Internet of Things (IoT). Our IoT services support devices that are used by a variety of vertical market segments, including health monitoring, education, manufacturing, utilities, distribution and consumer products. For example, companies purchase network access and, in some cases, enhanced services from us in order to connect with and monitor equipment, such as medical devices used to monitor patients, fleet management devices used to monitor company-operated vehicles and utility monitoring devices used for smart grid applications. Other companies purchase network access from us to support devices that are included in a service they, in turn, sell to end users. We also support telematics services for some of the largest automotive manufacturers. We expect that consumer use of IoT wireless connections, such as telematics, home monitoring, health monitoring, energy management and utilities management, will increase as consumers integrate these devices into their mobile lifestyle. (See "New Product Development and Strategic Initiatives.")

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### ***Wireless Devices***

We offer several categories of wireless devices, including smartphones and basic phones, tablets and other Internet access devices.

*Smartphones and Basic Phones.* All of the smartphones we offer are enabled to utilize our 4G LTE and/or 3G EV-DO high-speed data services and run on various operating platforms, such as Apple iOS, Google Android, Windows Phone OS, and BlackBerry OS. Most of the basic phones we offer are 3G EV-DO-enabled and have HTML-browsing capability.

*Tablets and Other Internet Devices.* We offer tablets from multiple manufacturers, all of which can access the Internet via our 4G LTE network or a Wi-Fi connection. The tablets run primarily on the Apple iOS, Google Android or Microsoft Windows operating systems. In addition, we offer dedicated devices, which we refer to as Jetpacks that provide a mobile Wi-Fi 4G LTE and/or 3G EV-DO connection and are capable of connecting multiple Wi-Fi enabled devices to the Internet at one time. Our customers can also access the Internet wirelessly at broadband speeds on their computers via data cards, USB modems or through the use of certain laptop computers and netbooks with embedded 4G LTE and 3G EV-DO Mobile Broadband modules. During 2015, we continued to experience strong customer demand for tablets and the percentage of our retail postpaid connection base represented by connections to these devices continued to increase.

We purchase a substantial majority of our wireless devices and accessories from Apple, Motorola Mobility, Samsung, LG Electronics, BlackBerry and HTC.

A key component of all wireless devices is the chipset, which contains the “intelligence” of the device. The LTE chipsets used in our 4G LTE-enabled devices are manufactured by various companies, each using its own 4G LTE chipset technology. To support CDMA-1XRTT and EV-DO technologies (with and without 4G LTE), most of our wireless device suppliers currently rely on Qualcomm Incorporated for the manufacture and supply of chipsets. In addition, there are a number of other components common to wireless devices provided by various electronic component manufacturers that we do not deal with directly.

### ***Network***

We have the largest 4G LTE and 3G EV-DO networks of any service provider in the United States, with licensed and operational coverage in all of the 100 most populous U.S. metropolitan areas. As of December 31, 2015, our 4G LTE network covered approximately 312 million people in the U.S., including those in areas served by our LTE in Rural America partners. We currently have 21 committed program participants that have the potential to provide 4G LTE coverage to approximately three million people and, to date, all participants have commenced 4G LTE operations on their networks.

The reliability of our wireless network is a key factor for our continued success, and we strive to provide our customers with the highest network reliability for their wireless services. We believe that steady and consistent network and platform investments provide the foundation for innovative products and services that will fuel profitable growth. The depth and breadth of our network provides our fundamental strength and is the basis for our competitive advantage.

We design and deploy our network in an efficient manner that we believe maximizes the number of successful data sessions, including video, and completions of large file downloads and uploads while delivering on our advertised throughput speeds and maximizes the number of calls that are connected on the first attempt and completed without being dropped. We plan to continue to upgrade our network, primarily to increase its capacity and density, by utilizing small cell technology, in-building solutions and distributed antennae systems in addition to deploying existing AWS spectrum. We are also exploring strategic opportunities to expand our national network coverage through selective acquisitions of wireless operations and spectrum licenses.

Our network includes various elements of redundancy designed to enhance the reliability of our service. To mitigate the impact of power disruptions on our operations, we have battery backup at every switch and every cell site in our network. We also utilize backup generators at a majority of our cell sites and at every switch location. In addition, we have a fleet of portable backup generators that can be deployed to cell sites, if needed. We further enhance reliability by using a fully redundant Multiprotocol Label Switching backbone network in all critical locations.

In addition to our own network coverage, we have roaming agreements with a number of wireless service providers to enable our customers to receive wireless service in nearly all other areas in the United States where wireless service is available. We also offer a variety of international wireless voice and data services to our customers through roaming arrangements with wireless service providers outside of the United States. Certain of our roaming agreements can be terminated at-will by either party upon several months’ notice; however, we do not believe that the termination of any of these at-will agreements would have a material adverse effect on our business.

### ***Technology***

Our primary network technology platforms are 4G LTE and 3G Code Division Multiple Access (CDMA). 4G LTE provides higher data throughput performance for data services at a lower cost compared to that offered by 3G technologies.

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In 2014, we commercially launched our mobile Voice over Internet Protocol (VoIP) service known as Voice over LTE (VoLTE). Advanced Calling 1.0, a first generation suite of services enabled by VoLTE, is now being used, in addition to CDMA technology, to provide voice calling services to our customers.

In 2015, we announced our commitment to developing and deploying 5G wireless technology. We launched the Verizon 5G Technology Forum with key industry partners to develop 5G requirements and standards and conduct testing to accelerate the introduction of 5G technologies. We believe that 5G technology will provide higher throughput than the current 4G LTE technology, lower latency and the ability to handle more network traffic as the number of Internet-connected devices grows. We plan to launch field technology trials in 2016.

### ***Spectrum***

The spectrum licenses we hold can be used for mobile wireless voice and data communications services. We have licenses to provide these wireless services on portions of the 800 MHz band, also known as cellular spectrum, the 1800-1900 MHz band, also known as Personal Communication Services (PCS) spectrum, portions of the 700 MHz upper C band and AWS spectrum in the 1700 and 2100 MHz bands, in areas that, collectively, cover nearly all of the population of the United States.

In January 2015, the Federal Communications Commission (FCC) completed an auction of 65 MHz of spectrum in the AWS-3 band. We participated in that auction, and were the high bidder on 181 spectrum licenses, for which we paid cash of approximately \$10.4 billion. The FCC granted us these spectrum licenses in April 2015.

We anticipate we will need additional spectrum to meet future demand. This increasing demand is driven by growth in customer connections and usage of wireless broadband services, which use more bandwidth and require ever faster rates of speed to stay competitive. We can meet our future spectrum needs by acquiring licenses or leasing spectrum from other licensees, or by acquiring new spectrum licenses from the FCC, if and when future FCC spectrum auctions occur. The FCC will be auctioning television broadcast spectrum in the 600 MHz frequency range through a voluntary incentive auction that will take place in two phases. In the first phase, television broadcasters participating in the auction process will “sell” their rights to use such spectrum to the FCC. In the second phase, the FCC will “resell” that spectrum to various auction participants, including wireless service providers and other potential bidders. The incentive auction is scheduled to begin on March 29, 2016.

Since we and competing wireless service providers have experienced spectrum shortages in certain markets and may have spectrum surpluses in others, from time to time we have exchanged spectrum licenses with other service providers through secondary market swap transactions. We expect to continue to pursue similar opportunities to trade spectrum licenses in order to meet certain of our capacity and expansion needs in the future. In other cases, we have entered into intra-market spectrum swaps designed to increase the amount of contiguous spectrum within frequency bands in a specific market. Contiguous spectrum improves network performance and efficiency. These swaps as well as any spectrum purchases are subject to obtaining governmental approvals for the transfer of spectrum licenses in each instance.

See Note 2 to the consolidated financial statements for additional information regarding spectrum license transactions.

### **Network Equipment and Build-out**

Alcatel-Lucent and Ericsson are currently our primary network vendors for our LTE network deployments for macro sites as well as small cells. Our primary CDMA cell site equipment infrastructure vendors are Alcatel-Lucent, which provides more than half of our CDMA cell site equipment, and Nokia Solutions and Networks (NSN) and Ericsson, which together provide nearly all of our remaining cell site equipment. We also rely on Alcatel-Lucent, NSN and Ericsson for our switching equipment. In January 2016, Nokia Corporation acquired Alcatel-Lucent and combined operations.

As we continue to build and upgrade our existing network, we must complete a variety of steps, including securing rights to a large number of sites as well as obtaining zoning, other governmental approvals and fiber facilities for macro cell sites. As we densify our network, we follow a similar process for small cells, in-building systems and antennas and related radio equipment that comprise distributed antenna systems. We utilize tower site management firms, such as Crown Castle International Corp. and American Tower Corporation (American Tower), as lessors or managers of a portion of our existing tower sites.

During March 2015, we completed a transaction with American Tower pursuant to which American Tower acquired the exclusive rights to lease and operate approximately 11,300 of our wireless towers for an upfront payment of \$5.0 billion. Under the terms of the lease agreements, American Tower has exclusive rights to lease and operate towers over an average term of approximately 28 years. As the leases expire, American Tower has fixed-price purchase options to acquire these towers based on their anticipated fair market values at the end of the lease terms. As part of this transaction, we also sold 162 towers for \$0.1 billion. We have subleased capacity on the towers from American Tower for a minimum of 10 years at current market rates, with options to renew.

### **Marketing and Distribution**

Our marketing strategy is focused on offering solutions tailored to the needs of our various customer market groups; promoting our brand; leveraging our extensive distribution network; and jointly marketing our products and services to large business and government customers with Verizon’s Wireline business units through the Wireless Business Group, a sales and marketing organization that encompasses all of Verizon Wireless’ solutions for medium and large business and government customers. Our marketing plan includes a coordinated program of television, print, radio, outdoor signage, Internet and point-of-sale media promotions designed to present our corporate message consistently across all of our markets. We use a combination of direct, indirect and alternative distribution channels in order to increase customer growth while reducing customer acquisition costs.



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Company-operated stores are a core component of our distribution strategy. We have opened Verizon Destination Stores in various major metropolitan areas, which focus on the mobile lifestyle and highlight the many ways consumers can use wireless technology in their daily lives. These stores are part of a broader initiative that includes the redesign of our retail stores nationwide into “Smart Stores,” which showcase the same mobile lifestyle zones on a smaller scale. In addition, our direct channel includes our business-to-business sales operations and systems organization and is focused on supporting the wireless communications needs of consumers and local, regional and national business customers. In addition, we have a telemarketing sales force dedicated to handling incoming calls from customers, and we offer fully-automated, end-to-end web-based sales of wireless devices, accessories and service plans.

Our indirect channel includes agents that sell our postpaid and prepaid wireless products and services at retail locations throughout the United States, as well as through the Internet. The majority of these agents sell both our postpaid and prepaid products and services, and do so under exclusive selling arrangements with us. We also utilize high-profile, national retailers, such as Best Buy, Wal-Mart and Target, to sell our postpaid and prepaid wireless products and services. Stores such as Dollar General and various drugstore chains sell our prepaid products and services.

### **Competition**

We operate in a highly competitive industry. We compete against other national wireless service providers, including AT&T Inc. (AT&T), Sprint Corporation and T-Mobile USA, Inc. (T-Mobile USA), as well as various regional wireless service providers. We also compete for retail activations with resellers that buy bulk wholesale service from facilities-based wireless service providers for resale, including those that buy from us. Competition is intense as a result of continuing increases in wireless market penetration levels, network investment by our competitors, the development and deployment of new technologies, the introduction of new products and services, new market entrants, the availability of additional spectrum, both licensed and unlicensed, and regulatory changes. Competition may also increase as smaller, stand-alone wireless service providers merge or transfer licenses to larger, better capitalized wireless service providers.

The wireless industry also faces competition from other communications and technology companies seeking to increase their brand recognition and capture customer revenue with respect to the provision of wireless products and services, in addition to non-traditional offerings in mobile data. For example, Microsoft, Google, Apple and others are offering alternative means for making wireless voice calls that, in certain cases, can be used in lieu of the wireless provider’s voice service, as well as alternative means of accessing video content.

We believe that the following are the most important competitive factors in our industry:

- *Network reliability, capacity and coverage.* We believe that a wireless network that consistently provides high quality and reliable service is a key differentiator in the U.S. market and driver of customer satisfaction. Lower prices, improved service quality and new wireless service offerings, which in many cases include video content, have led to increased customer usage of wireless services, which, in turn, puts pressure on network capacity. In order to compete effectively, wireless service providers must keep pace with network capacity needs and offer highly reliable national coverage through their networks. We believe that our investments in our 4G LTE network to increase network capacity will enable us to meet customer demand.
- *Pricing.* Service and equipment pricing play an important role in the wireless competitive landscape. As the demand for wireless services continues to grow, wireless service providers are offering service plans that include unlimited voice minutes and text messages and a specific amount of data access in varying megabyte or gigabyte sizes or, in some cases, unlimited data usage at competitive prices. Some wireless service providers also allow customers to rollover unused data allowances to the next billing period. Furthermore, some wireless service providers offer price plans to new customers that undercut pricing under the customer’s service plan with its current wireless provider, and some wireless service providers have bundled wireless service offers with other products. Some wireless providers also offer promotional pricing and incentives targeted specifically to customers of Verizon Wireless.

Many wireless service providers, as well as equipment manufacturers, offer device payment options that decouple service pricing from equipment pricing and blur the traditional boundary between prepaid and postpaid plans. These payment options include device installment plans, which provide customers with the ability to pay for their device over a period of time, and device leasing arrangements. Historically, wireless service providers offered customers wireless plans whereby, in exchange for the customer entering into a fixed-term service agreement, the wireless service providers significantly, and in some cases fully, subsidized the customer’s device purchase. Wireless providers recovered those subsidies through higher service fees as compared to those paid by customers on device installment plans. We and many other wireless providers have limited or discontinued the use of device subsidies. As a result of the increased penetration of device installment plans, we expect the number of customers on plans with unsubsidized service pricing to continue to grow in 2016. We compete in this area by offering our customers services and devices that we believe they will regard as the best available value for the price, while meeting their wireless service needs.

- *Customer service.* We believe that high-quality customer service is a key factor in retaining customers and attracting new customers, including those of other wireless providers. Our customer service, retention and satisfaction programs are based on providing customers with convenient and easy-to-use products and services and focusing on their needs in order to promote long-term relationships and minimize churn. Our competitors also recognize the importance of customer service and are also focused on improving in this area. As part of our efforts to promote

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long-term relationships with our customers, we offer Verizon Smart Rewards, which is a program that offers a wide variety of rewards to customers in exchange for points they earn in connection with their account-related interactions with Verizon Wireless. The program offers customers discounts and savings on merchandise from well-known brands, as well as discounts and other offers at local shopping and dining venues.

- *Product and service development.* As wireless technologies develop and wireless broadband networks proliferate, continued customer and revenue growth will be increasingly dependent on the development of new and enhanced data products and services. We continue to pursue the development and rapid deployment of new and innovative wireless products and services both independently and in collaboration with application and content providers. We also collaborate with various device manufacturers in the development of distinctive smartphones and other wireless devices that can access the growing array of data applications and content available over the Internet. We continue to focus on increasing the penetration of smartphones, tablets and other connected devices throughout our customer base.
- *Sales and distribution.* Key to achieving sales success in the wireless industry is the reach and quality of sales channels and distribution points. We believe that attaining the optimal combination of varying distribution channels is important to achieving industry-leading profitability, as measured by operating income. We endeavor to increase sales through our company-operated stores, outside sales teams and telemarketing and web-based sales and fulfillment capabilities, our extensive indirect distribution network of retail outlets and prepaid replenishment locations, and through manufacturers of laptops and netbooks with embedded 4G LTE and 3G modules that can access the Internet on our network at broadband speeds. In addition, we sell network access to both traditional resellers, which resell network services to their end-users, and to various companies to enable wireless communications for their IoT devices or for their provision of telematics services.
- *Capital resources.* In order to expand the capacity and coverage of their networks and introduce new products and services, wireless service providers require significant capital resources. We generate significant cash flow from operations, as do some of our competitors.

Our success will depend on our ability to anticipate and respond to various factors affecting the wireless industry, including the factors described above, as well as new technologies, new business models, changes in customer preferences, regulatory changes, demographic trends, economic conditions and pricing strategies of competitors.

## **Wireline**

### **Background**

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. In 2015, Wireline revenues were \$37.7 billion, representing approximately 29% of Verizon's aggregate revenues.

In 2014, our Wireline segment sold a non-strategic business that provides communications solutions to a variety of government agencies. Accordingly, the historical Wireline results for these operations, which were not material to our consolidated financial statements or segment results of operations, have been reclassified to Corporate and other to reflect comparable segment operating results.

On February 5, 2015, we announced that we have entered into a definitive agreement with Frontier Communications Corporation (Frontier) pursuant to which Verizon will 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 \$7.5 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, does not involve any assets or liabilities of Verizon Wireless. The assets and liabilities that will be sold are currently included in Verizon's continuing operations and classified as assets held for sale and liabilities related to assets held for sale on our consolidated balance sheet as of December 31, 2015. The transaction is subject to the satisfaction of certain closing conditions including, among others, receipt of federal approvals from the FCC and the antitrust authorities and state regulatory approvals. All federal and state regulatory approvals have been obtained. We expect this transaction to close at the end of the first quarter of 2016.

Based on the number of voice connections and Fios Internet and video subscribers, respectively, as of December 31, 2015, the transaction would result in Frontier acquiring approximately 3.4 million voice connections, 1.6 million Fios Internet subscribers, 1.2 million Fios video subscribers and the related ILEC businesses from Verizon.

### **Wireline Service and Product Offerings**

We organize our service and product offerings by the primary customers targeted by these offerings – mass markets, global enterprise and global wholesale.



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### **Mass Markets**

Mass Markets operations provide broadband Internet and video services (including high-speed Internet, Fios Internet and Fios video services), and local exchange (basic service and end-user access) and long distance (including regional toll) voice services to residential and small business subscribers. In 2015, Mass Markets revenues were \$18.5 billion, representing approximately 49% of Wireline's aggregate revenues.

*Internet services.* We offer Fios Internet and high-speed Internet services with varying throughput speeds. We believe that as consumers connect more devices and stream more video, they will require increased broadband speeds. With our Fios Quantum broadband service and certain other data services, our customers can achieve symmetrical upload and download speeds of up to 500 Mbps. As more data storage and, in some cases, processing is moved to the cloud, we believe that customers will place an increasing value on upstream performance that matches what they already receive for downloads.

*Video services.* We offer video service over our fiber-optic network. As of December 31, 2015, Fios video was available to approximately 16 million homes across 12 states, as well as the District of Columbia. We have several offerings available to our Fios TV customers, including:

- *Fios Quantum TV*, which provides customers the ability to record up to 12 shows at once and control live TV from any room in their home;
- *Fios Custom TV*, which offers customers the option of purchasing a package of channels that includes a base set of select national networks and local broadcast stations plus their choice of two sets of channels grouped into various content categories, such as news, sports and entertainment. Customers can add more sets of categorized channels to their Custom TV package for an additional monthly fee. As with all Fios TV packages, Custom TV customers also receive the Fios Local Package, which contains local versions of the Fox, CBS, NBCU, and ABC broadcast stations and other similar local content; and
- *Fios on Demand*, which gives Fios customers the ability to watch content virtually anytime and anywhere, on any compatible device. Customers who subscribe to Fios Internet and video service also have the ability to upload their photos, music and videos to their personal Fios on Demand Library, which gives them access to this content via various data-capable devices. With the Fios Mobile App, programming, such as ESPN, TNT, Nickelodeon, HBO and TBS, can be streamed to a customer's tablet or other mobile device.

We continue to partner with major corporations to offer further interoperability with various products such as video game consoles, smart televisions and tablets. This technology further expands our initiative to provide customers with the ability to watch content anytime, anywhere, on any data-capable device.

*Voice services.* We offer voice services that include local exchange, regional and long distance calling and voice messaging services, as well as VoIP services, which use the Internet or private broadband networks to transmit voice communications.

### **Global Enterprise**

Global Enterprise offers strategic services and other core communications services to medium and large business customers, including multinational corporations, as well as state and federal government customers. Global Enterprise markets these services through Verizon Enterprise Solutions. In 2015, Global Enterprise revenues were \$12.9 billion, representing approximately 34% of Wireline's aggregate revenues.

Verizon Enterprise Solutions offers an array of advanced information and communication technology services, including Global Internet Protocol (IP) network, cloud, and IT solutions, and business communications, IoT, data, security and mobility services.

- *Network products and solutions* – These products and solutions primarily include our Private IP, Public Internet, Ethernet and optical networking services. Our Private IP service enables customers around the world to communicate over a virtual private network using a variety of access methods, including Ethernet and Verizon Wireless 4G LTE. Our Public Internet services provide Internet connectivity through a variety of low and high-speed options. Our Ethernet portfolio includes access services that allow customers to connect network environments around the world and enable applications and technologies to work seamlessly and with little disruption, as well as local and long distance layer 2 services that include Metro LAN, long distance switched and dedicated architectures. Optical networking services include technologies that help customers handle bandwidth demands and control their costs.
- *IT solutions and cloud services* – Our IT solutions and cloud services are built to help our enterprise customers drive innovation, business growth, and improve customer experiences. We offer IT infrastructure services that include collocation and managed hosting in over 50 data centers around the globe. Our cloud services include computing, storage, backup, recovery and application platforms our customers rely on to run their mission critical business operations.
- *Business communications services* – Business communications services primarily include IP communications services, which simplify network management and drive operational efficiencies by enabling the convergence of voice and data traffic on the same access connection; dedicated Internet access, which provides enterprise customers with high-bandwidth dedicated access to Verizon's global network; unified communications and collaboration capabilities, which enable customers to communicate in real time through VoIP and IP conferencing, and emergency communication services, which allow customers to respond effectively to emergencies while maintaining business continuity.

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- *Internet of Things services* – Our IoT services enable customers to improve operational efficiencies, control costs and generate new revenue opportunities. IoT technology enabled by secure network connectivity and cloud infrastructure can transform data into useful information for consumers, businesses and institutions. Our goal is to become the global leader in simplifying IoT to accelerate market adoption focused on four major components:
  - A new IoT platform – ThingSpace - for customers and developers to develop, manage and market IoT devices and applications;
  - A dedicated network core for new connectivity options for the next generation of IoT use cases;
  - Innovative, end-to-end solutions focused on various vertical segments, such as transportation, energy, healthcare, agriculture and consumer electronics; and
  - A powerful analytics engine that helps consumers and organizations make informed decisions faster based on big data driven intelligence.
- *Security services* – We offer a suite of data security services to help companies secure their networks, data, applications and infrastructure from security threats while building customer trust and confidence.
- *Core services* – Core services include core voice and data services, which consist of a comprehensive portfolio of global solutions utilizing traditional telecommunications technology, such as conferencing and contact center solutions, and private line and data access networks. Core services also include providing customer premise equipment, and installation, maintenance and site services. We are continuing to transition customers out of copper-based legacy voice and data services to fiber services, including IP and Ethernet.

### **Global Wholesale**

Global Wholesale provides communications services, including data, voice, local dial tone and broadband services, primarily to local, long distance, wireless, and other carriers that use our facilities to provide services to their customers. In 2015, Global Wholesale revenues were \$6.0 billion, representing approximately 16% of Wireline's aggregate revenues. A portion of Global Wholesale revenues are generated by a few large telecommunications companies, most of which compete directly with us.

Global Wholesale provides the following services, which it jointly markets with Verizon's other business units through Verizon Enterprise Solutions:

- *Data services.* We offer a robust portfolio of data services with varying speeds and options to enhance our wholesale customers' networks and provide connections to their end-users and subscribers. Our data services include high-speed digital data offerings, such as Ethernet and Wavelength services, as well as core data circuits, such as DS1s and DS3s. In addition, we receive revenue from data services that is generated from carriers that buy dedicated local exchange capacity to support their private networks.

New Ethernet connectivity in the U.S. represents the largest data growth opportunity in wholesale, as customers anticipate higher capacity demands in the future. These customers are also migrating networks from time division multiplexing (TDM) to Ethernet, which will better scale and service the growth of broadband services driven by smartphones, mobile broadband and mobile video. Global Wholesale offers a complete suite of services to support the expansion of 4G and 3G networks.

Data services also include certain value-added business services, which leverage many of the same offerings available in the Global Enterprise portfolio, including:

- *Managed services*, which offer wholesale customers the opportunity to outsource the management of their networks, security, remote access, and web applications to Verizon;
  - *Mobility offerings*, which enable wholesale customers to enhance their portfolio to triple-play or quad-play capability by leveraging wireless devices and services offered through Verizon Wireless that can be packaged and resold under their own carrier brand; and
  - *Security services*, which provide wholesale customers integrated solutions to help their enterprise end-users secure their networks and data.
- *Voice services.* We provide switched access services that allow carriers to complete their end-user calls that originate or terminate within our territory. In addition, we provide originating and terminating voice services throughout the United States and globally utilizing our TDM and VoIP networks.
- *Local services.* We offer an array of local dial tone and broadband services to competitive local exchange carriers, some of which are offered to comply with telecommunications regulations. In addition, we offer services such as colocation, resale and unbundled network elements in compliance with applicable regulations.

## Network

To provide services to our customers, we operate an advanced telecommunications network in the United States and around the world.

- *Fios.* Our fiber-to-the-home network through which we provide our Fios residential broadband service has passed over 20.5 million premises in the U.S. as of December 31, 2015. Residential broadband service has seen significant growth in bandwidth demand over the past several years, and we believe that demand will continue to grow. The continued emergence of new video services, new data applications, and the proliferation of IP devices in the home will continue to drive new network requirements for increased data speeds and throughput. We believe that the Passive Optical Network (PON) technology underpinning Fios makes us well positioned to meet these demands in a cost effective and efficient manner. Our PON technology provides the flexibility to adapt our network to deliver increased data speeds and new services without major overhauls or replacements to the fiber optic infrastructure. While deployed initially as a consumer broadband network, the PON infrastructure is finding increased application in the enterprise sector, especially as businesses seek to migrate to Ethernet-based access services.
- *Global IP.* Verizon owns and operates one of the largest global fiber networks in the world, providing connectivity to business customers in more than 150 countries and 2,700 cities. Our global IP network includes long haul, metro and submarine assets that span over 800,000 route miles and enable and support far reaching international operations.

Global IP volume has increased significantly over the last five years and substantial year-over-year growth is expected to continue. We deployed the industry's first 100G ultra-long-haul-system for live traffic in 2009, and have made additional 100G deployments on our European and Asia-Pacific long-haul networks, major U.S. backbone routes, and U.S. metro network. We have also completed a first office application of 200G technology on our U.S. long-haul network. This technology allows more information to be carried on a single wavelength while increasing the distance it can be sent without additional loss of signal quality.

Global business is rapidly evolving to an "everything-as-a-service" model in which business customers seek cloud-based, converged enterprise solutions delivered securely via managed and professional services. With the continued deployment of packet optical transport strategy, Verizon is creating a single, high-capacity global network platform that combines optical transport with advanced packet switching technology. The result is a global IP network that can offer powerful solutions to these service demands.

We believe that our continued focus on enhancing our domestic and global fiber-based networks, and achieving cost efficient solutions through new technology deployments, will help Verizon advance its position as a provider of choice to residential and enterprise customers.

## Competition

The wireline telecommunications industry is highly competitive. We expect competition to intensify further with traditional, non-traditional and emerging players seeking increased market share. Current and potential competitors include cable companies, wireless service providers, other domestic and foreign telecommunications providers, satellite television companies, Internet service providers and other companies that offer network services and managed enterprise solutions.

In addition, companies with a global presence increasingly compete with our wireline businesses. A relatively small number of telecommunications and integrated service providers with global operations serve customers in the global enterprise and, to a lesser extent, the global wholesale markets. We compete with these full or near-full service providers for large contracts to provide integrated services to global enterprises. Many of these companies have strong market presence, brand recognition, and existing customer relationships, all of which contribute to intensifying competition that may affect our future revenue growth.

We believe the following are the most important competitive factors and trends in the wireline industry:

- *Bandwidth (speed) and network reliability:* Consumers and small business customers are seeking to leverage high-speed connections for entertainment, communications and productivity. As online and online-enabled activities increase, so will bandwidth requirements, both downstream and upstream. To succeed, we and other network-based providers must ensure that our networks can meet these increasing bandwidth requirements. In addition, network reliability and security are increasingly important competitive factors in the global enterprise market. We continue to invest in our network to be able to meet growing bandwidth demand and provide the most reliable and secure network.
- *Pricing:* Cable operators, telecommunications companies and integrated service providers use pricing to capture market share from incumbents. Pricing is also a significant factor as non-traditional modes of providing communication services emerge and new entrants compete for customers. For example, VoIP and portal-based calling is free or nearly free to customers and is often supported by advertising revenues.
- *Customer service:* Customers expect industry-leading service from their service providers. As technologies and services evolve, the ability to excel in this area is important for customer acquisition and retention. In Mass Markets, we compete in this area through our service representatives and online support. In Global Enterprise, we provide our customers with ready access to their system and performance information, and we conduct proactive testing of our network to identify issues before they affect customers. In the Global Wholesale business, we believe service improvement can be achieved through continued system automation initiatives.

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- *Product differentiation:* As a result of pricing pressures, providers need to differentiate their products and services. Customers are shifting their focus from access to applications and are seeking ways to leverage their broadband and video connections. Converged features, such as integrated wireless and wireline functionality, are becoming similarly important, driven by both customer demand and technological advancement.
- *Innovation:* The delivery of new and innovative products and services has been accelerating. To compete effectively, providers need to continuously review, improve and refine their product portfolio and develop and rapidly deploy new products and services tailored to the needs of the customer.

In the Mass Markets business, cable operators are significant competitors. Cable operators have increased the size and capacity of their networks so that they can offer digital products and services. We continue to market competitive bundled offerings that include high-speed Internet access, digital television and voice services. Several major cable operators also offer bundles with wireless services through strategic relationships.

We expect customer migration from traditional voice services to wireless services to continue as a growing number of customers place greater value on mobility and wireless companies position their service as a landline alternative. We also face increasing competition from cable companies and other providers of VoIP services as well as Internet portal providers. In addition, customers have more choices for obtaining video content from various online services and that content can be accessed on a TV, computer, tablet or mobile phone.

In the global enterprise market, the customer's need to reduce technical complexity coupled with the growth opportunity created by technology convergence is driving the expansion of the competitive landscape. Major competitors include system integrators, carriers and hardware and software providers. Some of the biggest companies in IT services are making strategic acquisitions, divesting non-strategic assets or forging new alliances to be better positioned for a rebound in technology spending. Many new alliances and acquisitions have focused on emerging fields such as cloud computing, software delivery, communication applications and other computing tasks via the network, rather than on in-house machines. Carriers have also utilized acquisitions to make significant inroads into enterprise outsourcing markets that have long been dominated by the major IT outsourcers.

Global Wholesale competes with traditional carriers for long-haul, voice and IP services. In addition, mobile video and data needs are driving a greater need for wireless backhaul. Network providers, cable companies and niche players are competitors for this new revenue opportunity.

We also compete with competitive local exchange carriers (CLECs). Our telephone operations generally have been required to sell their services to CLECs at significant discounts from the prices our telephone operations charge their retail customers.

### **New Product Development and Strategic Initiatives**

Technology developments, interconnected markets, shifting consumer needs and converging industry ecosystems are creating innovative opportunities for Verizon. We are 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 IoT and create certain opportunities in applications and content for incremental monetization. To execute this strategy, we have created an organization devoted to the development of new products and incubation of new businesses. This organization is focused on leveraging all of our assets to create innovative products and services that can provide our customers with integrated solutions that address their wireless and wireline needs. Several strategic initiatives have been undertaken by this organization in the following areas:

- *Digital Media and Interactive Entertainment.* Verizon has been investing in emerging technology that taps into the market shift to digital content and advertising. On June 23, 2015, we completed our acquisition of AOL Inc. (AOL). AOL is a leader in digital content and advertising. AOL's business model aligns with our 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.

We believe the growth in video consumption using mobile devices provides us with an opportunity for revenue growth. We have made investments in converging technologies and services involving content delivery networks (CDNs), video streaming and related consumer hardware to leverage new content models. Our wireless network enables us to move towards a unified video strategy that positions us to take advantage of this growth opportunity. For example, in 2015 we launched go90, a mobile-first social entertainment platform that provides the opportunity for ad-supported mobile video streaming. Digital content available on the go90 platform includes live events, popular web and television content as well as original content. In January 2016, we introduced FreeBee Data, a sponsored data service that enables content providers to provide our customers with access to some or all of the provider's mobile content, or sponsor specific consumer actions on a per-click basis, all free of data charges to the customer. In February 2016, we announced we would offer retail postpaid Verizon Wireless customers video streaming in go90 over our 4G LTE network free of data charges via the FreeBee Data 360 sponsored data service. Customers must have the latest version of the go90 application to take advantage of this offer.

We also began using Multimedia Broadcast Multicast Service technology to develop our LTE Multicast service, which we used to deliver live events in go90 in 2015. This service has the potential to enhance our network efficiency and provide our customers with access to live streaming video content with virtually no buffering, regardless of the number of devices using the service. In order to continue to meet the changing needs of our customers, we also are developing an IP television service. We also believe it is important to have rights to deliver content over a wireless network that does not require an authentication back to a subscription agreement. For example, our NFL agreement allows our customers to access certain games live on our 4G LTE network without authenticating back to any subscription.

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We continue to invest in Verizon Digital Media Services, which offers a scalable platform for delivering content, including live broadcasts, video on demand, games, software and websites, to our customers on their devices at any time. As the digital platform reshapes the delivery of media and entertainment content, there is an increasing need for a stable, high-quality video delivery platform. We are focused on providing a simple, end-to-end, global platform for the delivery of media to customers, which we believe will be superior to that offered by the existing and highly fragmented media delivery ecosystem. This platform is targeted at media and entertainment companies as well as businesses focused on delivering their digital products and services through the Internet. We also expect, through this platform, to further integrate our Fios and wireless offerings.

Connected devices and associated online applications continue to experience significant growth as customers are increasingly consuming large amounts of broadband data, and we expect broadband usage to continue to increase. Our Fios network positions us in the industry with leading broadband speeds and reliability. Broadband represents a growth opportunity for us as the use of over-the-top video and user generated content and data accelerates and the number of connected homes and devices continues to grow.

- *Internet of Things and Telematics.* The adoption of IoT technology continues to increase, primarily led by the telematics and transportation industries, as well as the fields of utility and energy management. Our strategy to simplify the IoT and accelerate its adoption includes the launch in 2015 of ThingSpace, our new IoT platform designed to assist developers create, test, manage and market their IoT-based solutions aimed at major vertical markets, such as energy, health care and connected cities. ThingSpace comes with a portal that includes immediate access to dedicated application programming interfaces as well as partner development kits.

Through Verizon Telematics, we provide connectivity and telematics to manufacturers such as Mercedes-Benz and help businesses manage large vehicle fleets more efficiently. Our suite of real-time vehicle communications services and applications connects automobiles with content services and call centers. Our platform enables factory and aftermarket-installed automotive safety and security features as well as location-based services and vehicle diagnostics. We provide usage-based data services to new vehicles in the United States, China and Europe. Our Networkfleet solution provides commercial fleet managers throughout North America with real-time access to data that yields operational efficiencies, increased vehicle reliability and improved driver safety. We also provide this service to over 28,900 vehicles operated by Verizon. We are further expanding our telematics portfolio to add asset tracking capabilities.

During the third quarter of 2015, we announced the availability of Hum, an aftermarket vehicle technology and subscription service, to consumers. With this subscription-based service, drivers will have diagnostic technology in their vehicles, access to live assistance and will be able to request roadside assistance with GPS accuracy when needed. Hum also offers the ability to connect with a certified mechanic to diagnose potential problems and offer solutions.

- *Fostering Effective Partnerships and Alliances.* As a market leader in offering differentiated solutions to our connected customers across all their devices at home, at work and on the go, Verizon will continue to focus on strategic partnerships as an important pillar of our future strategy. Strategic partnerships are aimed at complementing and augmenting our strengths, expanding our addressable market, accelerating our pace of innovation, enabling faster delivery of solutions such as media, IoT and cloud to the marketplace and, where possible, lowering our market and execution risk. Strong partnerships are expected to further our efforts to offer comprehensive solutions for our customers. We look to formulate strategic partnerships and alliances with a global orientation, which will benefit us in terms of technology sourcing, content acquisition, consumer insights, and application ecosystems.

We believe these investments will assist us in bringing innovative next generation products and services to market and uncovering new sources of revenue, increasing revenue from existing projects and leveraging our strengths across the company.

### **Patents, Trademarks and Licenses**

Verizon owns or has licenses to various patents, copyrights, trademarks, domain names and other intellectual property rights necessary to conduct our business. We actively pursue the filing and registration of patents, copyrights, domain names, trademarks and service marks to protect our intellectual property rights within the United States and abroad. Verizon also actively grants licenses, in exchange for appropriate fees or other consideration and subject to appropriate safeguards and restrictions, to other companies that enable such companies to utilize certain Verizon intellectual property rights and proprietary technology as part of their products and services. Such licenses enable such third-party licensees to take advantage of the results of Verizon's research and development efforts. While these licenses result in valuable consideration being paid to Verizon, we do not believe that loss of such consideration, or the expiration of any of our intellectual property rights, would have a material effect on our results of operations.

Verizon periodically receives offers from third parties to purchase or obtain licenses for patents and other intellectual property rights in exchange for royalties or other payments. We also periodically receive notices alleging that our products or services infringe on third-party patents or other intellectual property rights. These claims, whether against us directly or against third-party suppliers of products or services that we, in turn, sell to our customers, if successful, could require us to pay damages or royalties, or cease offering the relevant products or services.

## Acquisitions and Divestitures

“Acquisitions and Divestitures” on pages 34 through 35 of the 2015 Verizon Annual Report to Shareowners is incorporated by reference into this report.

## Regulatory and Competitive Trends

### Regulatory and Competitive Landscape

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

### FCC Regulation

#### *Wireless Services*

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

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

#### *Broadband*

Verizon offers many different broadband services. Traditionally, the FCC has recognized that broadband Internet access services are “information services” subject to a “light touch” regulatory approach rather than the traditional, utilities-style regulations that apply to traditional voice services. In its order imposing so-called “network neutrality” rules, the FCC reversed course in 2015 and declared that broadband Internet access services will now be treated as “telecommunications services” subject to common carriage regulation under Title II of the Communications Act of 1934. This decision creates uncertainty concerning the level of regulation that will apply to broadband services going forward. These regulations will limit the ways that broadband Internet access service providers can structure business arrangements and manage their networks and could spur additional restrictions, including rate regulation, which could adversely affect broadband investment and innovation. The FCC’s decision is being challenged in court, and the proper scope of such regulations is also being debated in Congress. Verizon remains committed to the open Internet which provides consumers with competitive choices and unblocked access to lawful websites and content when, where, and how they want, and our commitment to our customers can be found on our website at <http://responsibility.verizon.com/broadband-commitment>. Verizon opposes the shift to utilities style regulation, however, which we believe is unnecessary, unlawful and harmful to the broader Internet ecosystem and our customers.

#### *Wireline Voice*

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

#### *Video*

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



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### *Intercarrier Compensation and Network Access*

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

### *Universal Service*

The Communications Act charges the FCC with ensuring that certain groups and areas have access to communications services, including rural and other high-cost areas, low income subscribers, schools and libraries, rural health-care organizations, and deaf and hard-of-hearing individuals. The FCC established different subsidy and discount programs to achieve these goals. To pay for these programs, the FCC requires contributions from providers such as Verizon based on reported revenues for certain services. Verizon also receives some payments from some of these programs but is a net payer into them.

## **State Regulation and Local Regulation**

### *Wireless Services*

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

### *Wireline Services*

State public utility commissions regulate Verizon’s telephone operations with respect to certain telecommunications intrastate matters. Verizon operates as an “incumbent local exchange carrier” in 13 states and the District of Columbia. These incumbent operations are subject to various levels of pricing flexibility and other state oversight and requirements. Verizon also has other wireline operations that are more lightly regulated. In addition, as a video services operator in many states, Verizon has been required to obtain a cable franchise from local government entities, or in some cases a state-wide franchise, and to comply with certain one-time and ongoing obligations as a result.

## **Environmental Matters**

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.

## **Executive Officers**

See Part III, Item 10. “Directors, Executive Officers and Corporate Governance” of this Annual Report on Form 10-K for information about our executive officers.

## **Employees**

As of December 31, 2015, Verizon and its subsidiaries had approximately 177,700 employees. Unions represent approximately 25% of our employees.

<b>Information on Our Internet Website</b>
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We make available, free of charge on our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports at [www.verizon.com/about/investors](http://www.verizon.com/about/investors).

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

The following important factors, along with those discussed elsewhere in this report and in other filings with the Securities and Exchange Commission (SEC), could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- adverse conditions in the U.S. and international economies;
- the effects of competition in the markets in which we operate;
- material changes in technology or technology substitution;
- disruption of our key suppliers’ provisioning of products or services;
- changes in the regulatory environment in which we operate, including any increase in restrictions on our ability to operate our networks;
- breaches of network or information technology security, natural disasters, terrorist attacks or acts of war or significant litigation and any resulting financial impact not covered by insurance;
- our high level of indebtedness;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets affecting the cost, including interest rates, and/or availability of further financing;
- material adverse changes in labor matters, including labor negotiations, and any resulting financial and/or operational impact;
- significant increases in benefit plan costs or lower investment returns on plan assets;
- changes in tax laws or treaties, or in their interpretation;
- changes in accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings; and
- the inability to implement our business strategies.

**Item 1A. Risk Factors**

*The following discussion of “Risk Factors” identifies the most significant factors that may adversely affect our business, operations, financial condition or future performance. This information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Result of Operations” and the consolidated financial statements and related notes. The following discussion of risks is not all-inclusive but is designed to highlight what we believe are important factors to consider when evaluating our business and expectations. These factors could cause our future results to differ materially from our historical results and from expectations reflected in forward-looking statements.*

***Adverse conditions in the U.S. and international economies could impact our results of operations.***

Unfavorable economic conditions, such as a recession or economic slowdown in the United States or elsewhere, could negatively affect the affordability of and demand for some of our products and services. In difficult economic conditions, consumers may seek to reduce discretionary spending by forgoing purchases of our products, electing to use fewer higher margin services or obtaining lower-cost products and services offered by other companies. Similarly, under these conditions, the business customers that we serve may delay purchasing decisions, delay full implementation of service offerings or reduce their use of services. In addition, adverse economic conditions may lead to an increased number of our consumer and business customers that are unable to pay for services. If these events were to occur, it could have a material adverse effect on our results of operations.

***We face significant competition that may reduce our profits.***

We face significant competition in our industry. The rapid development of new technologies, services and products has eliminated many of the traditional distinctions among wireless, cable, Internet, local and long distance communication services and brought new competitors to our markets, including other telephone companies, cable companies, wireless service providers, satellite providers, application and device providers and providers of VoIP services. While these changes have enabled us to offer new types of products and services, they have also allowed other providers to broaden the scope of their own competitive offerings. In addition, wireless service providers are significantly altering the financial relationships with their customers through commercial offers that vary service and device pricing, promotions, incentives and levels of service provided – in some cases specifically targeting Verizon Wireless customers. Our ability to compete effectively will depend on, among other things, our network quality, capacity and coverage, the pricing of our products and services, the quality of our customer service, our development of new and enhanced products and services, the reach and quality of our sales and distribution channels and our capital resources. It will also depend on how successfully we anticipate and respond to various factors affecting our industry, including new technologies and business models, changes in consumer preferences and demand for existing services, demographic trends and economic conditions. If we are not able to respond successfully to these competitive challenges, we could experience reduced profits.

***If we are not able to adapt to changes and disruptions in technology and address changing consumer demand on a timely basis, we may experience a decline in the demand for our services, be unable to implement our business strategy and experience reduced profits.***

Our industry is experiencing rapid change as new technologies are developed that offer consumers an array of choices for their communications needs and allow new entrants into the markets we serve. In order to grow and remain competitive, we will need to adapt to future changes in technology, enhance our existing offerings and introduce new offerings to address our customers’ changing demands. If we are unable to meet future challenges from competing technologies on a timely basis or at an acceptable cost, we could lose customers to our competitors. We may not be able to accurately predict technological trends or the success of new services in the market. In addition, there could be legal or regulatory restraints on our introduction of new services. If our services fail to gain acceptance in the marketplace, or if costs associated with implementation and completion of the introduction of these services materially increase, our ability to retain and attract customers could be adversely affected.

In addition to introducing new technologies and offerings, we must phase out outdated and unprofitable technologies and services. If we are unable to do so on a cost-effective basis, we could experience reduced profits. In addition, there could be legal or regulatory restraints on our ability to phase out current services.

***We depend on key suppliers and vendors to provide equipment that we need to operate our business.***

We depend on various key suppliers and vendors to provide us, directly or through other suppliers, with equipment and services, such as switch and network equipment and handsets, that we need in order to operate our business and provide products to our customers. For example, our handset and other device suppliers often rely on one vendor for the manufacture and supply of critical components, such as chipsets, used in their devices. If these suppliers or vendors fail to provide equipment or service on a timely basis or fail to meet our performance expectations, we may be unable to provide products and services as and when requested by our customers. We also may be unable to continue to maintain or upgrade our networks. Because of the costs and time lags that can be associated with transitioning from one supplier to another, our business could be substantially disrupted if we were required to, or chose to, replace the products or services of one or more major suppliers with products or services from another source, especially if the replacement became necessary on short notice. Any such disruption could increase our costs, decrease our operating efficiencies and have a material adverse effect on our business, results of operations and financial condition.

The suppliers and vendors on which we rely may also be subject to litigation with respect to technology on which we depend, including litigation involving claims of patent infringement. Such claims are frequently made in the communications industry. We are unable to predict whether our business will be affected by any such litigation. We expect our dependence on key suppliers to continue as we develop and introduce more advanced generations of technology.

***Changes in the regulatory framework under which we operate could adversely affect our business prospects or results of operations.***

Our domestic operations are subject to regulation by the FCC and other federal, state and local agencies, and our international operations are regulated by various foreign governments and international bodies. These regulatory regimes frequently restrict or impose conditions on our ability to operate in designated areas and to provide specified products or services. We are frequently required to maintain licenses for our operations and conduct our operations in accordance with prescribed standards. We are often involved in regulatory and other governmental proceedings or inquiries related to the application of these requirements. It is impossible to predict with any certainty the outcome of pending federal and state regulatory proceedings relating to our operations, or the reviews by federal or state courts of regulatory rulings. Without relief, existing laws and regulations may inhibit our ability to expand our business and introduce new products and services. Similarly, we cannot guarantee that we will be successful in obtaining the licenses needed to carry out our business plan or in maintaining our existing licenses. For example, the FCC grants wireless licenses for terms generally lasting 10 years, subject to renewal. The loss of, or a material limitation on, certain of our licenses could have a material adverse effect on our business, results of operations and financial condition.

New laws or regulations or changes to the existing regulatory framework at the federal, state and local, or international level could restrict the ways in which we manage our wireline and wireless networks, impose additional costs, impair revenue opportunities, and potentially impede our ability to provide services in a manner that would be attractive to us and our customers. For example, in its order imposing so-called “network neutrality” regulations, the FCC reversed course in 2015 on the longstanding “light touch” approach and “reclassified” broadband Internet access services as telecommunications services subject to utilities-style common carriage regulation. While the full scope and effect of this new regulatory approach is uncertain, these rules limit the ways that a broadband Internet access service provider can structure business arrangements and manage its network and open the door to additional restrictions, including rate regulation that could adversely affect broadband investment and innovation. These rules are being challenged in the courts and the proper scope of such regulations is being debated in Congress, but the outcome and timing of those challenges and debates remain uncertain. As another example, we hold certain wireless licenses that require us to comply with so-called “open access” FCC regulations, which generally require licensees of particular spectrum to allow customers to use devices and applications of their choice. Moreover, certain services could be subject to conflicting regulation by the FCC and/or various state and local authorities, which could significantly increase the cost of implementing and introducing new services. The further regulation of broadband, wireless and our other activities and any related court decisions could restrict our ability to compete in the marketplace and limit the return we can expect to achieve on past and future investments in our networks.

***Cyber attacks impacting our networks or systems could have an adverse effect on our business.***

Cyber attacks, including through the use of malware, computer viruses, dedicated denial of services attacks, credential harvesting and other means for obtaining unauthorized access to or disrupting the operation of our networks and systems and those of our suppliers, vendors and other service providers, could have an adverse effect on our business. Cyber attacks may cause equipment failures, loss of information, including sensitive personal information of customers or employees or valuable technical and marketing information, as well as disruptions to our or our customers’ operations. Cyber attacks against companies, including Verizon, have increased in frequency, scope and potential harm in recent years. Further, the perpetrators of cyber attacks are not restricted to particular groups or persons. These attacks may be committed by company employees or external actors operating in any geography, including jurisdictions where law enforcement measures to address such attacks are unavailable or ineffective, and may even be launched by or at the behest of nation states. While, to date, we have not been subject to cyber attacks which, individually or in the aggregate, have been material to our operations or financial condition, the preventive actions we take to reduce the risks associated with cyber attacks, including protection of our systems and networks, may be insufficient to repel or mitigate the effects of a major cyber attack in the future.

The inability to operate our networks and systems or those of our suppliers, vendors and other service providers as a result of cyber attacks, even for a limited period of time, may result in significant expenses to Verizon and/or a loss of market share to other communications providers. The costs associated with a major cyber attack on Verizon could include expensive incentives offered to existing customers and business partners to retain their business, increased expenditures on cyber security measures and the use of alternate resources, lost revenues from business interruption and litigation. The potential costs associated with these attacks could exceed the insurance coverage we maintain. Further, certain of Verizon’s businesses, such as those offering security solutions and infrastructure and cloud services to business customers, could be negatively affected if our ability to protect our own networks and systems is called into question as a result of a cyber attack. In addition, if we fail to prevent the theft of valuable information such as financial data, sensitive information about Verizon and intellectual property, or if we fail to protect the privacy of customer and employee confidential data against cyber attacks, it could result in lawsuits, government claims, investigations or proceedings, and damage to our reputation, which could adversely impact customer and investor confidence. Any of these occurrences could result in a material adverse effect on our results of operations and financial condition.

***Natural disasters, terrorist acts or acts of war could cause damage to our infrastructure and result in significant disruptions to our operations.***

Our business operations are subject to interruption by natural disasters, power outages, terrorist attacks, other hostile acts and events beyond our control. Such events could cause significant damage to our infrastructure upon which our business operations rely, resulting in degradation or disruption of service to our customers. While we maintain insurance coverage for some of these events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. Our system redundancy may be ineffective or inadequate, and our disaster recovery planning may not be sufficient for all eventualities. These events could also damage the infrastructure of the suppliers that provide us with the

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equipment and services we need to operate our business and provide products to our customers. A natural disaster or other event causing significant physical damage could cause us to experience substantial losses resulting in significant recovery time and expenditures to resume operations. In addition, these occurrences could result in lost revenues from business interruption as well as damage to our reputation.

### ***Verizon has significant debt, which could increase further if Verizon incurs additional debt in the future and does not retire existing debt.***

As of December 31, 2015, Verizon had approximately \$110.2 billion of outstanding indebtedness, as well as approximately \$7.9 billion of unused borrowing capacity under its existing credit facility. Verizon's debt level and related debt service obligations could have negative consequences, including:

- requiring Verizon to dedicate significant cash flow from operations to the payment of principal, interest and other amounts payable on its debt and the preferred stock issued by an entity acquired from Vodafone, which would reduce the funds Verizon has available for other purposes, such as working capital, capital expenditures and acquisitions;
- making it more difficult or expensive for Verizon to obtain any necessary future financing for working capital, capital expenditures, debt service requirements, debt refinancing, acquisitions or other purposes;
- reducing Verizon's flexibility in planning for or reacting to changes in its industry and market conditions;
- making Verizon more vulnerable in the event of a downturn in its business; and
- exposing Verizon to increased interest rate risk to the extent that its debt obligations are at variable interest rates.

In addition, the term loan agreement Verizon entered into in connection with the Wireless Transaction requires Verizon to maintain a certain leverage ratio unless Verizon's credit ratings are at or above a certain level, which could limit Verizon's ability to obtain additional financing in the future.

### ***Adverse changes in the credit markets could increase our borrowing costs and the availability of financing.***

We require a significant amount of capital to operate and grow our business. We fund our capital needs in part through borrowings in the public and private credit markets. Adverse changes in the credit markets, including increases in interest rates, could increase our cost of borrowing and/or make it more difficult for us to obtain financing for our operations or refinance existing indebtedness. In addition, our borrowing costs can be affected by short- and long-term debt ratings assigned by independent rating agencies, which are based, in significant part, on our performance as measured by customary credit metrics. A decrease in these ratings would likely increase our cost of borrowing and/or make it more difficult for us to obtain financing. A severe disruption in the global financial markets could impact some of the financial institutions with which we do business, and such instability could also affect our access to financing.

### ***Increases in costs for pension benefits and active and retiree healthcare benefits may reduce our profitability and increase our funding commitments.***

With approximately 177,700 employees and approximately 203,000 retirees as of December 31, 2015 eligible to participate in Verizon's benefit plans, the costs of pension benefits and active and retiree healthcare benefits have a significant impact on our profitability. Our costs of maintaining these plans, and the future funding requirements for these plans, are affected by several factors, including the continuing implementation of the provisions of the Patient Protection and Affordable Care Act and the Health Care Education Reconciliation Act of 2010, increases in healthcare costs, decreases in investment returns on funds held by our pension and other benefit plan trusts and changes in the discount rate and mortality assumptions used to calculate pension and other postretirement expenses. If we are unable to limit future increases in the costs of our benefit plans, those costs could reduce our profitability and increase our funding commitments.

### ***A significant portion of our workforce is represented by labor unions, and we could incur additional costs or experience work stoppages as a result of the renegotiation of our labor contracts.***

As of December 31, 2015, approximately 25% of our workforce was represented by labor unions. Labor contracts covering approximately 36,300 employees of our wireline business expired on August 1, 2015. We continue to be engaged in negotiations with our unions regarding new contracts. During the course of these negotiations we could experience lengthy work stoppages, which could adversely affect our business operations, including a loss of revenue and strained relationships with customers. We cannot predict the length of any such work stoppage. Depending on the outcome of the negotiations, we may incur additional costs. In addition, while less than 1% of the workforce of our wireless and other businesses are represented by unions, we cannot predict what level of success unions may have in organizing these workforces or the potentially negative impact it would have on our costs.

### ***We are subject to a significant amount of litigation, which could require us to pay significant damages or settlements.***

We are subject to a substantial amount of litigation, including, from time to time, shareholder derivative suits, patent infringement lawsuits, antitrust class actions, wage and hour class actions, personal injury claims and lawsuits relating to our advertising, sales, billing and collection practices. In

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addition, our wireless business also faces personal injury and consumer class action lawsuits relating to alleged health effects of wireless phones or radio frequency transmitters, and class action lawsuits that challenge marketing practices and disclosures relating to alleged adverse health effects of handheld wireless phones. We may incur significant expenses in defending these lawsuits. In addition, we may be required to pay significant awards or settlements.

### *Item 1B. Unresolved Staff Comments*

None.

### *Item 2. Properties*

Our principal properties do not lend themselves to simple description by character and location. Our total investment in plant, property and equipment was approximately \$220 billion at December 31, 2015 and \$231 billion at December 31, 2014, including the effect of retirements, but before deducting accumulated depreciation. Our gross investment in plant, property and equipment consisted of the following:

At December 31,	2015	2014
Network equipment	78.8%	80.0%
Land, buildings and building equipment	11.9%	11.3%
Furniture and other	9.3%	8.7%
	<b>100.0%</b>	<b>100.0%</b>

Our properties as a percentage of total properties are as follows:

At December 31,	2015	2014
Wireline	53.2%	59.3%
Wireless	45.4%	39.5%
Other	1.4%	1.2%
	<b>100.0%</b>	<b>100.0%</b>

Network equipment consists primarily of cable (aerial, buried, underground or undersea) and the related support structures of poles and conduit, wireless plant, switching equipment, network software, transmission equipment and related facilities. Land, buildings and building equipment consists of land and land improvements, central office buildings or any other buildings that house network equipment, and buildings that are used for administrative and other purposes. Substantially all the switching centers are located on land and in buildings we own due to their critical role in the network and high set-up relocation costs. We also maintain facilities throughout the United States comprised of administrative and sales offices, customer care centers, retail sales locations, garage work centers, switching centers, cell sites and data centers. Furniture and other consists of telephone equipment, furniture, data processing equipment, office equipment, motor vehicles, plant under construction and leasehold improvements. A portion of our property is subject to the liens of their respective mortgages securing funded debt.

### *Item 3. Legal Proceedings*

In October 2013, the California Attorney General's Office notified Verizon California Inc. and other Verizon companies of potential violations of California state hazardous waste statutes primarily arising from the disposal of electronic components, batteries and aerosol cans at certain California facilities. We are cooperating with this investigation and continue to review our operations relating to the management of hazardous waste. While penalties relating to the alleged violations could exceed \$100,000, we do not expect that any penalties ultimately incurred will be material.

### *Item 4. Mine Safety Disclosures*

None.



## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The principal market for trading in the common stock of Verizon is the New York Stock Exchange. As of December 31, 2015, there were 602,700 shareowners of record.

High and low stock prices, as reported on the New York Stock Exchange composite tape of transactions, and dividend data are as follows:

		Market Price		Cash Dividend
		High	Low	Declared
2015	Fourth Quarter	\$ 47.23	\$ 42.20	\$ .565
	Third Quarter	48.26	38.06	.565
	Second Quarter	50.86	46.60	.550
	First Quarter	49.99	45.37	.550
2014	Fourth Quarter	\$ 51.73	\$ 45.09	\$ .550
	Third Quarter	53.66	48.20	.550
	Second Quarter	50.33	45.85	.530
	First Quarter	49.40	45.45	.530

### Stock Repurchases

In March 2014, the Verizon Board of Directors authorized a three-year share buyback program to repurchase up to 100 million shares of the Company's common stock. Under the program, shares may be repurchased in privately negotiated transactions and on the open market, including through plans complying with Rule 10b5-1(c) under the Exchange Act. The timing and number of shares purchased under the program, if any, will depend on market conditions and the Company's capital allocation priorities.

During the fourth quarter of 2015, Verizon did not repurchase any shares of Verizon common stock. At December 31, 2015, the maximum number of shares that could be purchased by or on behalf of Verizon under our share buyback program was 97.2 million.

In February 2015, the Verizon Board of Directors authorized Verizon to enter into an accelerated share repurchase (ASR) agreement to repurchase \$5.0 billion of the Company's common stock. On February 10, 2015, Verizon received an initial delivery of 86.2 million shares having a value of approximately \$4.25 billion. On June 5, 2015, the ASR agreement was settled and an additional 15.4 million shares were delivered to Verizon and retired. In total, 101.6 million shares were delivered under the ASR at an average repurchase price of \$49.21.

For other information required by this item, see the section entitled "Stock Performance Graph" on page 9 of the 2015 Verizon Annual Report to Shareowners, which is incorporated herein by reference.

### Item 6. Selected Financial Data

Information required by this item is included in the 2015 Verizon Annual Report to Shareowners under the heading "Selected Financial Data" on page 9, which is incorporated herein by reference.

### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information required by this item is included in the 2015 Verizon Annual Report to Shareowners under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 10 through 31, which is incorporated herein by reference.

### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required by this item is included in the 2015 Verizon Annual Report to Shareowners under the heading "Market Risk" on pages 31 through 32, which is incorporated herein by reference.

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### **Item 8. Financial Statements and Supplementary Data**

Information required by this item is included in the 2015 Verizon Annual Report to Shareowners on pages 38 through 75, which is incorporated herein by reference.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **Item 9A. Controls and Procedures**

Our chief executive officer and chief financial officer have evaluated the effectiveness of the registrant's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934), as of the end of the period covered by this Annual Report, that ensure that information relating to the registrant which is required to be disclosed in this report is recorded, processed, summarized and reported within required time periods using the criteria for effective internal control established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this evaluation, our chief executive officer and chief financial officer have concluded that the registrant's disclosure controls and procedures were effective as of December 31, 2015.

In the ordinary course of business, we routinely review our system of internal control over financial reporting and make changes to our systems and processes that are intended to ensure an effective internal control environment. We are also continuing an initiative to standardize and centralize transaction-processing activities within our accounting processes, which we expect to continue over the next several years. These initiatives will incorporate certain changes in personnel as well. In connection with these initiatives and the resulting changes in our financial systems and transaction-processing activities, the Company continues to review the design and documentation of our internal control system and to enhance our processes as needed to ensure that controls over our financial reporting remain effective.

Except as noted above, there were no changes in the Company's internal control over financial reporting during the fourth quarter of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's report on internal control over financial reporting and the attestation report of Verizon's independent registered public accounting firm are included in the 2015 Verizon Annual Report to Shareowners on pages 36 and 37 and are incorporated herein by reference.

### **Item 9B. Other Information**

None.

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

Set forth below is information with respect to our executive officers.

Name	Age	Office	Held Since
Lowell C. McAdam	61	Chairman and Chief Executive Officer	2011
Roger Gurnani	55	Executive Vice President and Chief Information and Technology Architect	2015
Marc C. Reed	57	Executive Vice President and Chief Administrative Officer	2012
Diego Scotti	43	Executive Vice President and Chief Marketing Officer	2014
Francis J. Shammo	55	Executive Vice President and Chief Financial Officer	2010
Craig L. Silliman	48	Executive Vice President of Public Policy and General Counsel	2015
Anthony T. Skiadas	47	Senior Vice President and Controller	2013
John G. Stratton	54	Executive Vice President and President of Operations	2015
Marni M. Walden	48	Executive Vice President and President of Product Innovation and New Businesses	2015

Prior to serving as an executive officer, each of the above officers has held high-level managerial positions with the Company or one of its subsidiaries for at least five years, with the exception of Mr. Scotti, who has been with the Company since 2014. Officers are not elected for a fixed term of office and may be removed from office at any time at the discretion of the Board of Directors.

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Diego Scotti is Executive Vice President and Chief Marketing Officer for Verizon. Mr. Scotti joined the company in October 2014. Prior to joining Verizon, Mr. Scotti served as Chief Marketing Officer of J. Crew from 2011 to 2014 and as Executive Director of Marketing at Conde Nast Publications, where he oversaw 20 print and digital media brands, from 2008 to 2011. Mr. Scotti also previously served as the head of global advertising and brand management at American Express.

For other information required by this item, see the sections entitled “Election of Directors,” “Verizon’s governance practices—Business conduct and ethics and —Where to find more information on governance at Verizon,” “Our Board of Directors—Committees of the Board and —Nomination of candidates for Director” and “Security Ownership of Certain Beneficial Owners and Management—Section 16(a) beneficial ownership reporting compliance” in our definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with our 2016 Annual Meeting of Shareholders, which are incorporated herein by reference.

### **Item 11. Executive Compensation**

For information with respect to executive compensation, see the sections entitled “Compensation Discussion and Analysis,” “Compensation Tables” and “Compensation Committee Report” in our definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with our 2016 Annual Meeting of Shareholders, which is incorporated by reference. There were no relationships to be disclosed under paragraph (e) (4) of Item 407 of Regulation S-K.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

For information with respect to the security ownership, see the sections entitled “Security Ownership of Certain Beneficial Owners and Management” in our definitive Proxy Statement to be filed with the SEC and delivered to shareholders in connection with our 2016 Annual Meeting of Shareholders, which is incorporated herein by reference.

The following table provides information as of December 31, 2015 for (i) all equity compensation plans previously approved by the Company’s shareholders, and (ii) all equity compensation plans not previously approved by the Company’s shareholders. Since May 9, 2009, the Company has only issued awards under the 2009 Verizon Communications Inc. Long-Term Incentive Plan (2009 LTIP), which provides for awards of stock options, restricted stock, restricted stock units, performance stock units and other equity-based hypothetical stock units to employees of Verizon and its subsidiaries. No new awards are permitted to be issued under any other equity compensation plan. In accordance with SEC rules, the table does not include outstanding awards that are payable solely in cash by the terms of the award, and such awards do not reduce the number of shares remaining for issuance under the 2009 LTIP.

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights (b)</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</u>
Equity compensation plans approved by security holders	13,973,750 <sup>(1)</sup>	\$ — <sup>(2)</sup>	94,559,440 <sup>(3)</sup>
Equity compensation plans not approved by security holders	200,872 <sup>(4)</sup>	—	—
<b>Total</b>	<b>14,174,622</b>	<b>\$ —</b>	<b>94,559,440</b>

(1) This amount includes: 13,957,706 shares of common stock subject to outstanding restricted stock units and performance stock units, and 16,044 shares subject to outstanding deferred stock units, in each case including dividend equivalents accrued on such awards through December 31, 2015. This does not include performance stock units, deferred stock units and deferred share equivalents payable solely in cash.

(2) Verizon’s outstanding restricted stock units, performance stock units and deferred stock units do not have exercise prices associated with the settlement of these awards.

(3) This number reflects the number of shares of common stock that remained available for future issuance under the 2009 LTIP.

(4) This number reflects shares subject to deferred stock units credited to the Verizon Income Deferral Plan, which were awarded in 2002 under the Verizon Communications Broad-Based Incentive Plan. No new awards are permitted to be issued under this plan.

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### ***Item 13. Certain Relationships and Related Transactions, and Director Independence***

For information with respect to certain relationships and related transactions and Director independence, see the sections entitled “Verizon’s Governance Practices – Related persons transactions” and “Our Board of Directors – Independence” in our definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with our 2016 Annual Meeting of Shareholders, which are incorporated by reference.

### ***Item 14. Principal Accounting Fees and Services***

For information with respect to principal accounting fees and services, see the section entitled “Ratification of Appointment of Independent Registered Public Accounting Firm” in our definitive Proxy Statement to be filed with the Securities and Exchange Commission and delivered to shareholders in connection with our 2016 Annual Meeting of Shareholders, which are incorporated by reference.

## **PART IV**

### ***Item 15. Exhibits, Financial Statement Schedules***

(a) Documents filed as part of this report:

	Page
(1) Report of Management on Internal Control Over Financial Reporting	*
(2) Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	*
(3) Report of Independent Registered Public Accounting Firm on Financial Statements	*
Financial Statements covered by Report of Independent Registered Public Accounting Firm:	
Consolidated Statements of Income	*
Consolidated Statements of Comprehensive Income	*
Consolidated Balance Sheets	*
Consolidated Statements of Cash Flows	*
Consolidated Statements of Changes in Equity	*
Notes to Consolidated Financial Statements	*
* Incorporated herein by reference to the appropriate portions of the registrant’s Annual Report to Shareowners for the fiscal year ended December 31, 2015. (See Part II.)	
(4) Financial Statement Schedule	
<a href="#">II – Valuation and Qualifying Accounts</a>	28
(5) Exhibits	
Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto. Unless otherwise indicated, all exhibits so incorporated are from File No. 1-8606.	

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<b>Exhibit Number</b>	<b>Description</b>
3a	Restated Certificate of Incorporation of Verizon Communications Inc. (Verizon) (filed as Exhibit 3a to Form 10-Q for the period ended June 30, 2014 and incorporated herein by reference).
3b	Bylaws of Verizon, as amended and restated, effective as of June 4, 2015 (filed as Exhibit 3b to Form 8-K filed on June 8, 2015 and incorporated herein by reference).
4a	Indenture between Verizon, both individually and as successor in interest to Verizon Global Funding Corp., and U.S. Bank National Association, as successor trustee to Wachovia Bank, National Association, formerly known as First Union National Bank, as Trustee, dated as of December 1, 2000 (incorporated by reference to Verizon Global Funding Corp.'s Registration Statement on Form S-4, Registration No. 333-64792, Exhibit 4.1).
4b	First Supplemental Indenture between Verizon, both individually and as successor in interest to Verizon Global Funding Corp., and U.S. Bank National Association, as successor trustee to Wachovia Bank, National Association, formerly known as First Union National Bank, as Trustee, dated as of May 15, 2001 (incorporated by reference to Verizon Global Funding Corp.'s Registration Statement on Form S-3, Registration No. 333-67412, Exhibit 4.2).
4c	Second Supplemental Indenture between Verizon, both individually and as successor in interest to Verizon Global Funding Corp., and U.S. Bank National Association, as successor trustee to Wachovia Bank, National Association, formerly known as First Union National Bank, as Trustee, dated as of September 29, 2004 (incorporated by reference to Form 8-K filed on February 9, 2006, Exhibit 4.1).
4d	Third Supplemental Indenture between Verizon, both individually and as successor in interest to Verizon Global Funding Corp., and U.S. Bank National Association, as successor trustee to Wachovia Bank, National Association, formerly known as First Union National Bank, as Trustee, dated as of February 1, 2006 (incorporated by reference to Form 8-K filed on February 9, 2006, Exhibit 4.2).
	Except for Exhibits 4a – 4d above, no other instrument which defines the rights of holders of long-term debt of Verizon and its consolidated subsidiaries is filed herewith pursuant to Regulation S-K, Item 601(b)(4)(iii)(A). Pursuant to this regulation, Verizon hereby agrees to furnish a copy of any such instrument to the SEC upon request.
10a	NYNEX Directors' Charitable Award Program (filed as Exhibit 10i to Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).**
10b	2009 Verizon Long-Term Incentive Plan, As Amended and Restated (incorporated by reference to Appendix D of the Registrant's Proxy Statement included in Schedule 14A filed on March 18, 2013).**
10b(i)	Form of 2011 Special Performance Stock Unit Agreement (filed as Exhibit 10 to Form 10-Q for the period ended September 30, 2011 and incorporated by reference).**
10b(ii)	Performance Stock Unit Agreement 2013-2015 Award Cycle (filed as Exhibit 10a to Form 10-Q for the period ended March 31, 2013 and incorporated herein by reference).**
10b(iii)	Restricted Stock Unit Agreement 2013-2015 Award Cycle (filed as Exhibit 10b to Form 10-Q for the period ended March 31, 2013 and incorporated herein by reference).**
10b(iv)	Performance Stock Unit Agreement 2014-2016 Award Cycle (filed as Exhibit 10a to Form 10-Q for the period ended March 31, 2014 and incorporated herein by reference).**

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- 10b(v) Restricted Stock Unit Agreement 2014-2016 Award Cycle (filed as Exhibit 10b to Form 10-Q for the period ended March 31, 2014 and incorporated herein by reference).\*\*
- 10b(vi) Performance Stock Unit Agreement 2015-2017 Award Cycle (filed as Exhibit 10a to Form 10-Q for the period ended March 31, 2015 and incorporated herein by reference).\*\*
- 10b(vii) Restricted Stock Unit Agreement 2015-2017 Award Cycle (filed as Exhibit 10b to Form 10-Q for the period ended March 31, 2015 and incorporated herein by reference).\*\*
- 10c Verizon Short-Term Incentive Plan, As Amended and Restated (incorporated by reference to Appendix C of the Registrant's Proxy Statement included in Schedule 14A filed on March 23, 2009).\*\*
- 10d Verizon Income Deferral Plan (filed as Exhibit 10f to Form 10-Q for the period ended June 30, 2002 and incorporated herein by reference).\*\*
  - 10d(i) Description of Amendment to Plan (filed as Exhibit 10o(i) to Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).\*\*
- 10e Verizon Excess Pension Plan (filed as Exhibit 10p to Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).\*\*
  - 10e(i) Description of Amendment to Plan (filed as Exhibit 10p(i) to Form 10-K for the year ended December 31, 2004 and incorporated herein by reference).\*\*
- 10f GTE's Executive Salary Deferral Plan, as amended (filed as Exhibit 10.10 to GTE's Form 10-K for the year ended December 31, 1998, File No. 1-2755 and incorporated herein by reference).\*\*
- 10g Bell Atlantic Senior Management Long-Term Disability and Survivor Protection Plan, as amended (filed as Exhibit 10h to Form SE filed on March 27, 1986 and Exhibit 10b(ii) to Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).\*\*
- 10h fGTE Executive Retiree Life Insurance Plan (filed as Exhibit 10q to Form 10-K for the year ended December 31, 2010 and incorporated herein by reference).\*\*
- 10i Verizon Executive Life Insurance Plan, As Amended and Restated September 2009 (filed as Exhibit 10s to Form 10-K for the year ended December 31, 2010 and incorporated herein by reference).\*\*
- 10j Verizon Executive Deferral Plan (filed as Exhibit 10e to Form 10-Q for the period ended June 30, 2009 and incorporated herein by reference).\*\*
- 10k Form of Aircraft Time Sharing Agreement (filed as Exhibit 10v to Form 10-K for the year ended December 31, 2010 and incorporated herein by reference).\*\*
- 10l NYNEX Deferred Compensation Plan for Non-Employee Directors (filed as Exhibit 10gg to NYNEX's Registration Statement No. 2-87850, File No. 1-8608 and incorporated herein by reference).\*\*
- 10m Amendment to NYNEX Deferred Compensation Plan for Non-Employee Directors (filed as Exhibit 10iii 5a to NYNEX's Quarterly Report on Form 10-Q for the period ended June 30, 1996, File No. 1-8608 and incorporated herein by reference).\*\*
- 10n Verizon Senior Manager Severance Plan (filed as Exhibit 10d to Form 10-Q for the period ended March 31, 2010 and incorporated herein by reference).\*\*



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10o	Term Loan Credit Agreement, dated as of October 1, 2013, among Verizon, JPMorgan Chase Bank, N.A., as administrative agent, and the lenders party thereto (filed as Exhibit 10.1 to Form 8-K filed on October 3, 2013 and incorporated herein by reference).
10p	Securities Purchase Agreement, dated as of February 5, 2015, by and between Frontier Communications Corporation and Verizon Communications Inc. (filed as Exhibit 10q to Form 10-K for the year ended December 31, 2014 and incorporated herein by reference).
12	Computation of Ratio of Earnings to Fixed Charges filed herewith.
13	Portions of Verizon's Annual Report to Shareowners for the fiscal year ended December 31, 2015 filed herewith. Only the information incorporated by reference into this Form 10-K is included in the exhibit.
21	List of principal subsidiaries of Verizon filed herewith.
23	Consent of Ernst & Young LLP filed herewith.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 filed herewith.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
**	Indicates management contract or compensatory plan or arrangement.

**Schedule II - Valuation and Qualifying Accounts**
**Verizon Communications Inc. and Subsidiaries**

For the Years Ended December 31, 2015, 2014 and 2013

(dollars in millions)

(dollars in thousands)					
Description	Balance at Beginning of Period	Additions		Deductions Note (c)(d)	Balance at End of Period
		Charged to Expenses	Charged to Other Accounts Note (a)(b)		
Allowance for Uncollectible Accounts Receivable:					
Year 2015 (e)	\$ 739	\$ 1,610	\$ 200	\$ 1,512	\$ 1,037
Year 2014	645	1,095	141	1,142	739
Year 2013	641	993	162	1,151	645
Valuation Allowance for Deferred Tax Assets:					
Year 2015	\$ 1,841	\$ 237	\$ 1,701	\$ 365	\$ 3,414
Year 2014	1,685	505	5	354	1,841
Year 2013	2,096	235	64	710	1,685

- (a) Allowance for Uncollectible Accounts Receivable primarily includes amounts previously written off which were credited directly to this account when recovered.
- (b) Valuation Allowance for Deferred Tax Assets includes a current year increase to the valuation allowance as a result of the acquisition of AOL in 2015 and amounts charged to equity and reclassifications from other balance sheet accounts.
- (c) Amounts written off as uncollectible or transferred to other accounts or utilized.
- (d) Reductions to valuation allowances related to deferred tax assets.
- (e) Allowance for Uncollectible Accounts Receivable includes approximately \$155 million at December 31, 2015 related to long-term device installment plan receivables.

<b>Signatures</b>
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Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VERIZON COMMUNICATIONS INC.

By: <u>/s/ Anthony T. Skiadas</u> Anthony T. Skiadas Senior Vice President and Controller	Date: February 23, 2016
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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Principal Executive Officer:

<u>/s/ Lowell C. McAdam</u> Lowell C. McAdam	Chairman and Chief Executive Officer	February 23, 2016
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Principal Financial Officer:

<u>/s/ Francis J. Shammo</u> Francis J. Shammo	Executive Vice President and Chief Financial Officer	February 23, 2016
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Principal Accounting Officer:

<u>/s/ Anthony T. Skiadas</u> Anthony T. Skiadas	Senior Vice President and Controller	February 23, 2016
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<u>/s/ Lowell C. McAdam</u> Lowell C. McAdam	Director	February 23, 2016
<u>/s/ Shellye L. Archambeau</u> Shellye L. Archambeau	Director	February 23, 2016
<u>/s/ Mark T. Bertolini</u> Mark T. Bertolini	Director	February 23, 2016
<u>/s/ Richard L. Carrión</u> Richard L. Carrión	Director	February 23, 2016
<u>/s/ Melanie L. Healey</u> Melanie L. Healey	Director	February 23, 2016
<u>/s/ M. Frances Keeth</u> M. Frances Keeth	Director	February 23, 2016
<u>/s/ Karl-Ludwig Kley</u> Karl-Ludwig Kley	Director	February 23, 2016
<u>/s/ Donald T. Nicolaisen</u> Donald T. Nicolaisen	Director	February 23, 2016
<u>/s/ Clarence Otis, Jr.</u> Clarence Otis, Jr.	Director	February 23, 2016
<u>/s/ Rodney E. Slater</u> Rodney E. Slater	Director	February 23, 2016
<u>/s/ Kathryn A. Tesija</u> Kathryn A. Tesija	Director	February 23, 2016
<u>/s/ Gregory D. Wasson</u> Gregory D. Wasson	Director	February 23, 2016
<u>/s/ Gregory G. Weaver</u> Gregory G. Weaver	Director	February 23, 2016

**Computation of Ratio of Earnings to Fixed Charges**  
**Verizon Communications Inc. and Subsidiaries**

Years Ended December 31,	2015	2014	2013	(dollars in millions)	
				2012	2011
<b>Earnings:</b>					
Income before (provision) benefit for income taxes	\$ 28,240	\$ 15,270	\$ 29,277	\$ 9,897	\$ 10,483
Equity in losses (earnings) of unconsolidated businesses	86	(1,780)	(142)	(324)	(444)
Dividends from unconsolidated businesses	41	37	40	401	480
Interest expense <sup>(1)</sup>	4,920	4,915	2,667	2,571	2,827
Portion of rent expense representing interest	1,051	912	851	837	817
Amortization of capitalized interest	191	191	177	162	148
Earnings, as adjusted	\$ 34,529	\$ 19,545	\$ 32,870	\$ 13,544	\$ 14,311
<b>Fixed Charges:</b>					
Interest expense <sup>(1)</sup>	\$ 4,920	\$ 4,915	\$ 2,667	\$ 2,571	\$ 2,827
Portion of rent expense representing interest	1,051	912	851	837	817
Capitalized interest	584	376	754	406	442
Fixed charges	\$ 6,555	\$ 6,203	\$ 4,272	\$ 3,814	\$ 4,086
<b>Ratio of earnings to fixed charges</b>	<b>5.27</b>	<b>3.15</b>	<b>7.69</b>	<b>3.55</b>	<b>3.50</b>

- (1) We classify interest expense recognized on uncertain tax positions as income tax expense and therefore such interest expense is not included in the Ratio of Earnings to Fixed Charges.

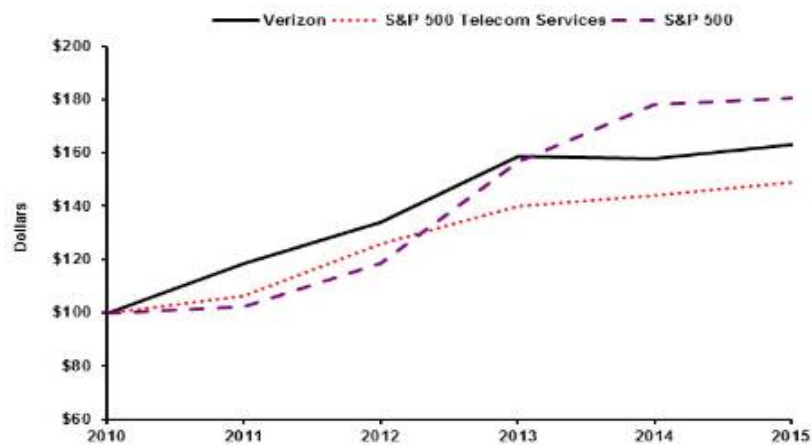
## Selected Financial Data Verizon Communications Inc. and Subsidiaries

		(dollars in millions, except per share amounts)				
	2015	2014	2013	2012	2011	
<b>Results of Operations</b>						
Operating revenues	\$ 131,620	\$ 127,079	\$ 120,550	\$ 115,846	\$ 110,875	
Operating income	33,060	19,599	31,968	13,160	12,880	
Net income attributable to Verizon	17,879	9,625	11,497	875	2,404	
Per common share – basic	4.38	2.42	4.01	.31	.85	
Per common share – diluted	4.37	2.42	4.00	.31	.85	
Cash dividends declared per common share	2.230	2.160	2.090	2.030	1.975	
Net income attributable to noncontrolling interests	496	2,331	12,050	9,682	7,794	
<b>Financial Position</b>						
Total assets	\$ 244,640	\$ 232,616	\$ 273,654	\$ 222,911	\$ 228,194	
Debt maturing within one year	6,489	2,735	3,933	4,369	4,849	
Long-term debt	103,705	110,536	89,658	47,618	50,303	
Employee benefit obligations	29,957	33,280	27,682	34,346	32,957	
Noncontrolling interests	1,414	1,378	56,580	52,376	49,938	
Equity attributable to Verizon	16,428	12,298	38,836	33,157	35,970	

- Significant events affecting our historical earnings trends in 2013 through 2015 are described in “Other Items” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section.
- 2012 data includes severance, pension and benefit charges, early debt redemption costs and litigation settlement charges. 2011 data includes severance, pension and benefit charges and early debt redemption costs.

## Stock Performance Graph

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



Data Points in Dollars	At December 31,					
	2010	2011	2012	2013	2014	2015
Verizon	100.0	118.3	133.9	158.5	157.7	163.2
S&P 500 Telecom Services	100.0	106.3	125.7	140.0	144.2	149.0
S&P 500	100.0	102.1	118.4	156.7	178.1	180.6

The graph compares the cumulative total returns of Verizon, the S&P 500 Telecommunications Services Index, and the S&P 500 Stock Index over a five-year period. It assumes \$100 was invested on December 31, 2010 with dividends being reinvested.



## 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 177,700 employees as of December 31, 2015.

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

### *Spectrum Auction*

In January 2015, the Federal Communications Commission (FCC) completed an auction of 65 MHz of spectrum in the Advanced Wireless Services (AWS)-3 band. We participated in that auction and were the high bidder on 181 spectrum licenses, for which we paid cash of approximately \$10.4 billion. The FCC granted us these spectrum licenses in April 2015.

### *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. See Note 2 to the consolidated financial statements for additional information.

### *Access Line Sale*

On February 5, 2015, we announced that we have entered into a definitive agreement with Frontier Communications Corporation (Frontier) pursuant to which Verizon will 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 \$7.5 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, does not involve any assets or liabilities of Verizon Wireless. The assets and liabilities that will be sold are currently included in Verizon's continuing operations and classified as assets held for sale and liabilities related to assets held for sale on our consolidated balance sheet as of December 31, 2015. The transaction is subject to the satisfaction of certain closing conditions including, among others, receipt of federal approvals from the FCC and the antitrust authorities and state regulatory approvals. All federal and state regulatory approvals have been obtained. We expect this transaction to close at the end of the first quarter of 2016.

Based on the number of voice connections and Fios Internet and video subscribers, respectively, as of December 31, 2015, the transaction will result in Frontier acquiring approximately 3.4 million voice connections, 1.6 million Fios Internet subscribers, 1.2 million Fios video subscribers and the related ILEC businesses from Verizon.

## *Tower Monetization Transaction*

During March 2015, we completed a transaction with American Tower Corporation (American Tower) pursuant to which American Tower acquired the exclusive rights to lease and operate approximately 11,300 of our wireless towers for an upfront payment of \$5.0 billion (the Tower Monetization Transaction). Under the terms of the leases, American Tower has exclusive rights to lease and operate the towers over an average term of approximately 28 years. As the leases expire, American Tower has fixed-price purchase options to acquire these towers based on their anticipated fair market values at the end of the lease terms. As part of this transaction, we sold 162 towers for \$0.1 billion. We have subleased capacity on the towers from American Tower for a minimum of 10 years at current market rates, with options to renew. We have accounted for the upfront payment as deferred rent and as a financing obligation.

## *Wireless Transaction*

On February 21, 2014, we completed the acquisition of Vodafone Group Plc's (Vodafone) indirect 45% interest in Cellco Partnership d/b/a Verizon Wireless for aggregate consideration of approximately \$130 billion (the Wireless Transaction). The consideration paid was primarily comprised of cash of approximately \$58.89 billion and Verizon common stock with a value of approximately \$61.3 billion. With full control of Verizon Wireless enhancing our operational efficiency, we believe we are well-positioned to meet the challenges of an increasingly competitive industry. See Note 2 to the consolidated financial statements for additional information.

## **Business Overview**

### *Wireless*

In our Wireless business, revenues grew 4.6% during 2015 driven by a 54.4% increase in equipment revenue as a result of an increase in device sales, primarily smartphones, under the Verizon device payment program (formerly known as Verizon Edge), partially offset by a decline in device sales under our traditional fixed-term service plans. Customers on our fixed-term service plans have historically paid higher fees for their wireless service in exchange for the ability to purchase their wireless devices at subsidized prices. Under the Verizon device payment program, our eligible wireless customers purchase phones or tablets at unsubsidized prices on an installment basis (a device installment plan). 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 our fixed-term service plans. The increase in activations of devices purchased under the Verizon device payment program has resulted in a relative shift of revenue from service revenue to equipment revenue and caused a change in the timing of the recognition of revenue. This shift in revenue was the result of recognizing a higher amount of equipment revenue at the time of sale of devices under the device payment program. For the year ended December 31, 2015, phone activations under the Verizon device payment program represented approximately 54% of retail postpaid phones activated compared to approximately 18% during 2014. During the fourth quarter of 2015, phone activations under the Verizon device payment program represented approximately 67% of retail postpaid phones activated. At December 31, 2015, approximately 29% of our retail postpaid phone connections participated in the Verizon device payment program compared to approximately 8% at December 31, 2014. At December 31, 2015, approximately 42% of our retail postpaid phone connections were on unsubsidized service pricing. At December 31, 2015, retail postpaid connections were 4.4% higher than at December 31, 2014, with smartphones representing 84% of our retail postpaid phone base at December 31, 2015 compared to 79% at December 31, 2014.

In August 2015, we launched a simplified shared data plan, the Verizon Plan, that offers customers various sizes of data packages that can be shared among up to 10 devices on a customer's account. New customers who wish to participate in this new plan can do so by purchasing a device from Verizon either under our device payment program or at full retail, or by using their own compatible device. In addition, our current customers have the option of either moving to the Verizon Plan, subject to certain restrictions, or keeping their existing plan.

We are focusing our wireless capital spending on adding capacity and density to our fourth generation (4G) Long Term Evolution (LTE) network, which is available to over 98% of the U.S. population in more than 500 markets covering approximately 312 million people, including those in areas served by our LTE in Rural America partners. Approximately 91% of our total data traffic in December 2015 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. In 2015, we announced our commitment to developing and deploying 5G wireless technology. 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 1.8% during 2015 primarily due to revenue declines in Global Enterprise resulting from lower voice services and data networking revenues, as well as the negative impact of foreign exchange rates. 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. The decrease in revenues in our Wireline segment was partially offset by revenue increases in Consumer retail driven by Fios. During the year ended December 31, 2015, Fios represented approximately 79% of Consumer retail revenue compared to approximately 76% in 2014. As the penetration of Fios products increases, we continue to seek ways to increase revenue and further realize operating and capital efficiencies as well as maximize profitability. As more applications are developed for this high-speed service, we expect that Fios will become a hub for managing multiple home services that will eventually be part of the digital grid, including not just entertainment and communications, but also IoT technology used to support wireless communications in areas such as home monitoring, health monitoring, energy management and utilities management.

We continue to develop offerings on our Fios platform. During 2015, Verizon announced the introduction of Fios Custom TV, which offers customers the option of purchasing a package of channels that includes a base set of select national networks and local broadcast stations plus their choice of two sets of channels grouped into various content categories, such as news, sports and entertainment. Customers can add more sets of categorized channels to their Custom TV package for an additional monthly fee. As with all Fios TV packages, Custom TV customers also receive the Fios Local Package, which contains local versions of the Fox, CBS, NBCU, and ABC broadcast stations and other similar local content.

### *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 2015, these investments included \$17.8 billion for capital expenditures and \$9.9 billion for acquisitions of wireless licenses. In addition, we acquired AOL to enhance our digital media and advertising capabilities. See “Cash Flows Used in Investing Activities” and Note 2 to the consolidated financial statements for additional information. 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 the sections that follow, we provide information about the important aspects of our operations and investments, both at the consolidated and segment levels, and discuss our results of operations, financial position and sources and uses of cash. In addition, we highlight key trends and uncertainties to the extent practicable.

The industries that we operate in are highly competitive, which we expect to continue particularly as traditional, non-traditional and emerging service providers seek increased market share. We believe that our high-quality customer base and superior networks differentiate us from our competitors and enable us to provide enhanced communications experiences to our customers. We believe our focus on the fundamentals of running a good business, including operating excellence and financial discipline, gives us the ability to plan and manage through changing economic and competitive conditions. We will continue to invest for growth, which we believe is the key to creating value for our shareowners. We are investing in innovative technology, like wireless networks and high-speed fiber, as well as the platforms that will position us to capture incremental profitable growth in new areas, like mobile video and IoT, to position ourselves at the center of growth trends of the future.

### *Connection and Operating Trends*

In our Wireless segment, we expect to continue to attract and maintain the loyalty of high-quality retail postpaid customers, capitalizing on demand for data services and bringing our customers new ways of using wireless services in their daily lives. We expect that future connection growth will be driven by smartphones, tablets and other connected devices. We believe these devices will attract and retain higher value retail postpaid connections, contribute to continued increases in the penetration of data services and help us remain competitive with other wireless carriers. We expect future growth opportunities will be dependent on expanding the penetration of our network services, offering innovative wireless devices for both consumer and business customers and increasing the number of ways that our customers can connect with our network and services, and we expect to manage churn by focusing on improving the customer experience through simplified pricing and better execution in our distribution channels.

Service and equipment pricing play an important role in the wireless competitive landscape. As the demand for wireless services continues to grow, wireless service providers are offering service plans that include unlimited voice minutes and text messages and a specific amount of data access in varying megabyte or gigabyte sizes or, in some cases, unlimited data usage at competitive prices. Some wireless service providers also allow customers to roll over unused data allowances to the next billing period. Furthermore, some wireless service providers offer price plans to new customers that undercut pricing under the customer’s service plan with its current wireless provider. Some wireless providers also offer promotional pricing and incentives targeted specifically to customers of Verizon Wireless.

Many wireless service providers, as well as equipment manufacturers, offer device payment options that decouple service pricing from equipment pricing and blur the traditional boundary between prepaid and postpaid plans. These payment options include device installment plans, which provide customers with the ability to pay for their device over a period of time, and device leasing arrangements. Historically, wireless service providers offered customers wireless plans whereby, in exchange for the customer entering into a fixed-term service agreement, the wireless service providers significantly, and in some cases fully, subsidized the customer’s device purchase. Wireless providers recovered those subsidies through higher service fees as compared to those paid by customers on device installment plans. We and many other wireless providers have limited or discontinued the use of device subsidies. As a result of the increased penetration of device installment plans, we expect the number of customers on plans with unsubsidized service pricing to continue to grow in 2016. We compete in this area by offering our customers services and devices that we believe they will regard as the best available value for the price, while meeting their wireless service needs.

In our Wireline segment, we have experienced continuing access line losses as customers have disconnected both primary and secondary lines and switched to alternative technologies such as wireless, voice over Internet protocol (VoIP) and cable for voice and data services. We expect to continue to experience access line losses as customers continue to switch to alternate technologies. We also expect Consumer retail revenues to increase, primarily driven by our Fios services, as we seek to increase our penetration rates within our Fios service areas.

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

#### *Operating Revenue*

We expect to experience revenue growth in our Wireless segment in 2016, primarily as a result of an increase in the sale of devices under the Verizon device payment program. The increase in activations of these devices with unsubsidized service pricing results in a relative shift of revenue from service revenue to equipment revenue and causes a change in the timing of the recognition of revenue. This shift in revenue is the result of recognizing a higher amount of equipment revenue at the time of sale of devices under the device payment program. As a result of the increased penetration of device installment plans, we expect the number of customers on plans with unsubsidized service pricing to continue to grow in 2016.

We expect Fios broadband and video penetration to positively impact our Mass Markets revenue and subscriber base. Although we have experienced revenue declines in our Global Enterprise business, we expect our Global Enterprise business to be positively impacted by additional revenues from application services, such as our cloud, security and other solutions-based services and from continued customer migration of their services to Private IP and other strategic networking services. We believe the trend in these growth areas as well as our offerings in telematics and video streaming will help offset the continuing decline in revenues in our Wireline segment related to retail voice connection losses and the continued decline in our legacy wholesale and enterprise markets.

We are focused on developing new products and services as well as commercial models in mobile video and the IoT to monetize usage on our networks and expand our revenue mix. Although we do not expect to realize material incremental revenues from these initiatives in 2016, we expect these initiatives will have a long-term positive impact on revenues.

#### *Operating Costs and Expenses*

We anticipate our overall wireless operating costs will increase as a result of the expected increase in the volume of smartphone sales, which will result in higher equipment costs. In addition, we expect content costs for our Fios video service to continue to increase. We also expect to incur costs related to the development of new products and services in mobile video and IoT. However, we expect to achieve certain cost efficiencies in 2016 and beyond as we continue to streamline our business processes with a focus on improving productivity and increasing profitability.

Upon the closing of the sale of our local exchange business and related landline activities in California, Florida and Texas, we expect that our Wireline segment EBITDA margin and operating income margin will decline. We expect to continue to undertake initiatives, including headcount and organizational realignment initiatives, to address our cost structure to mitigate this impact to our consolidated margins.

#### *Cash Flow from Operations*

We create value for our shareowners by investing the cash flows generated by our business in opportunities and transactions that support continued profitable growth, thereby increasing customer satisfaction and usage of our products and services. In addition, we have used our cash flows to maintain and grow our dividend payout to shareowners. Verizon's Board of Directors increased the Company's quarterly dividend by 2.7% during 2015, making this the ninth consecutive year in which we have raised our dividend.

Our goal is to use our cash to create long-term value for our shareholders. We will continue to look for investment opportunities that will help us to grow the business, acquire spectrum licenses (see "Cash Flows from Investing Activities"), pay dividends to our shareholders and, when appropriate, buy back shares of our outstanding common stock (see "Cash Flows from Financing Activities"). We expect to use the proceeds from the Frontier transaction to reduce our debt levels. We also remain committed to returning to our pre Wireless Transaction credit-rating profile in the 2018 to 2019 timeframe.

#### *Capital Expenditures*

Our 2016 capital program includes capital to fund advanced networks and services, including 4G LTE and Fios, the continued expansion of our core networks, including our IP and data center enhancements, and support for our copper-based legacy voice networks and other expenditures to drive operating efficiencies. The level and the timing of the Company's capital expenditures within these broad categories can vary significantly as a result of a variety of factors outside our control, including, for example, material weather events. We are replacing copper wire with fiber-optic cable which will not alter our capital program but should result in lower maintenance costs in the future. Capital expenditures were \$17.8 billion in 2015 and \$17.2 billion in 2014. We believe that we have significant discretion over the amount and timing of our capital expenditures on a Company-wide basis as we are not subject to any agreement that would require significant capital expenditures on a designated schedule or upon the occurrence of designated events. We expect capital expenditures in 2016, which will be primarily focused on adding capacity to our 4G LTE network in order to stay ahead of our customers' increasing data demands, to be in the range of approximately \$17.2 billion to \$17.7 billion. This includes capital spending up to approximately \$150 million for the properties to be sold to Frontier.

## 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.

On February 21, 2014, we completed the acquisition of Vodafone’s indirect 45% interest in Verizon Wireless. As a result, for 2014 our results reflect our 55% ownership of Verizon Wireless through the closing of the Wireless Transaction and reflect our full ownership of Verizon Wireless from the closing of the Wireless Transaction through December 31, 2014.

Corporate and other includes the operations of AOL and related businesses, unallocated corporate expenses, the results of other businesses, such as our investments in unconsolidated businesses, pension and other employee benefit related costs and lease financing. Effective January 1, 2014, we have also reclassified the results of certain businesses, such as development stage businesses that support our strategic initiatives, from our Wireline segment to Corporate and other. The impact of this reclassification was not material to our consolidated financial statements or our segment results of operations. 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 July 1, 2014, our Wireline segment sold a non-strategic business (see “Acquisitions and Divestitures”). Accordingly, the historical Wireline results for these operations, which were not material to our consolidated financial statements or our segment results of operations, have been reclassified to Corporate and other to reflect comparable segment operating results. The results of operations related to this divestiture included within Corporate and other are as follows:

Years Ended December 31,	2015	(dollars in millions)	
		2014	2013
<b>Impact of Divested Operations</b>			
Operating revenues	\$ —	\$ 256	\$ 599
Cost of services	—	239	531
Selling, general and administrative expense	—	5	25

## Consolidated Revenues

						(dollars in millions)	
						Increase/(Decrease)	
Years Ended December 31,	2015	2014	2013	2015 vs. 2014		2014 vs. 2013	
Wireless							
Service	\$ 70,396	\$ 72,630	\$ 69,033	\$ (2,234)	(3.1)%	\$ 3,597	5.2%
Equipment	16,924	10,959	8,111	5,965	54.4	2,848	35.1
Other	4,360	4,057	3,879	303	7.5	178	4.6
Total	91,680	87,646	81,023	4,034	4.6	6,623	8.2
Wireline							
Mass Markets	18,473	18,047	17,383	426	2.4	664	3.8
Global Enterprise	12,943	13,649	14,156	(706)	(5.2)	(507)	(3.6)
Global Wholesale	5,979	6,190	6,560	(211)	(3.4)	(370)	(5.6)
Other	325	543	525	(218)	(40.1)	18	3.4
Total	37,720	38,429	38,624	(709)	(1.8)	(195)	(0.5)
Corporate and other	3,444	2,144	2,113	1,300	60.6	31	1.5
Eliminations	(1,224)	(1,140)	(1,210)	(84)	7.4	70	(5.8)
Consolidated Revenues	\$ 131,620	\$ 127,079	\$ 120,550	\$ 4,541	3.6	\$ 6,529	5.4

## 2015 Compared to 2014

The increase in consolidated revenues during 2015 was primarily due to higher equipment revenues in our Wireless segment, higher revenues as a result of the acquisition of AOL and higher Mass Markets revenues driven by Fios services at our Wireline segment. Partially offsetting these increases were lower Service revenues at our Wireless segment and lower Global Enterprise revenues at our Wireline segment.

Wireless' revenues increased \$4.0 billion, or 4.6%, during 2015 primarily as a result of growth in equipment revenue. Equipment revenue increased by \$6.0 billion, or 54.4% during 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 traditional fixed-term service plans. Service revenue, which does not include recurring device installment billings related to the Verizon device payment program, decreased by \$2.2 billion, or 3.1%, during 2015 primarily driven by an increase in the activation of devices purchased under the Verizon device payment program on plans with unsubsidized service pricing. The increase in these activations resulted in a relative shift of revenue from service revenue to equipment revenue and caused a change in the timing of the recognition of revenue. This shift in revenue was the result of recognizing a higher amount of equipment revenue at the time of sale of devices under the device payment program. During the year ended December 31, 2015, phone activations under the Verizon device payment program represented approximately 54% of retail postpaid phones activated compared to approximately 18% during 2014. During the fourth quarter of 2015, phone activations under the Verizon device payment program represented approximately 67% of retail postpaid phones activated. At December 31, 2015, approximately 29% of our retail postpaid phone connections participated in the Verizon device payment program compared to approximately 8% at December 31, 2014. At December 31, 2015, approximately 42% of our retail postpaid phone connections were on unsubsidized service pricing. Service revenue plus recurring device installment billings related to the Verizon device payment program increased 2.0% during 2015.

Retail postpaid connection net additions decreased during 2015 primarily due to a decrease in retail postpaid connection gross additions, partially offset by a lower retail postpaid connection churn rate. Retail postpaid connections per account increased as of December 31, 2015 compared to December 31, 2014, primarily due to increases in Internet devices.

Wireline's revenues decreased \$0.7 billion, or 1.8%, during 2015 primarily as a result of declines in Global Enterprise, partially offset by higher Mass Markets revenues driven by Fios services.

Mass Markets revenues increased \$0.4 billion, or 2.4%, during 2015 primarily due to the expansion of Fios services (voice, internet and video), including our Fios Quantum offerings, as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues.

Global Enterprise revenues decreased \$0.7 billion, or 5.2%, during 2015 primarily due to lower voice services and data networking revenues, lower networking solutions revenues, a decline in customer premise equipment revenues and the negative impact of foreign exchange rates.

Corporate and other revenues increased \$1.3 billion, or 60.6%, during 2015 primarily as a result of the acquisition of AOL, which was completed on June 23, 2015.

## 2014 Compared to 2013

The increase in consolidated revenues during 2014 was primarily due to higher revenues at Wireless, as well as higher Mass Markets revenues driven by Fios services at our Wireline segment. Partially offsetting these increases were lower Global Enterprise Core and Global Wholesale revenues at our Wireline segment.

Wireless' revenues increased \$6.6 billion, or 8.2%, during 2014 primarily as a result of growth in service revenue and equipment revenue. The increase in service revenue, which does not include recurring equipment installment billings related to the Verizon device payment program, during 2014 was primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of 4G LTE smartphones and tablets through our More Everything plans. Retail postpaid connection net additions increased during 2014 primarily due to an increase in retail postpaid connection gross additions partially offset by an increase in our retail postpaid connection churn rate. Retail postpaid connections per account increased as of December 31, 2015 compared to December 31, 2014 primarily due to the increased penetration of tablets. Equipment revenue increased during 2014 primarily due to an increase in device sales under both traditional fixed-term service plans and the Verizon device payment program.

Wireline's revenues decreased \$0.2 billion, or 0.5%, during 2014 primarily as a result of declines in Global Enterprise Core and Global Wholesale, partially offset by higher Mass Markets revenues driven by Fios services and increased Strategic services revenues within Global Enterprise.

Mass Markets revenues increased \$0.7 billion, or 3.8%, during 2014 primarily due to the expansion of Fios services (voice, internet and video), including our Fios Quantum offerings, as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues.

Global Enterprise revenues decreased \$0.5 billion, or 3.6%, during 2014 primarily due to lower voice services and data networking revenues, the contraction of market rates due to competition and a decline in Core customer premise equipment revenues. This decrease was partially offset by an increase in Strategic services revenues, primarily due to growth in our application services, such as our cloud and data center offerings and contact center solutions.

Global Wholesale revenues decreased \$0.4 billion, or 5.6%, during 2014 primarily due to a decline in data revenues driven by the continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities, as well as a decline in traditional voice revenues. During 2014, we also experienced a decline in domestic wholesale connections.

## Consolidated Operating Expenses

Years Ended December 31,	2015	2014	2013	(dollars in millions)			
				Increase/(Decrease)		2014 vs. 2013	
				2015 vs. 2014			
Cost of services	\$ 29,438	\$ 28,306	\$ 28,534	\$ 1,132	4.0%	\$ (228)	(0.8)%
Wireless cost of equipment	23,119	21,625	16,353	1,494	6.9	5,272	32.2
Selling, general and administrative expense	29,986	41,016	27,089	(11,030)	(26.9)	13,927	51.4
Depreciation and amortization expense	16,017	16,533	16,606	(516)	(3.1)	(73)	(0.4)
<b>Consolidated Operating Expenses</b>	<b>\$ 98,560</b>	<b>\$ 107,480</b>	<b>\$ 88,582</b>	<b>\$ (8,920)</b>	<b>(8.3)</b>	<b>\$ 18,898</b>	<b>21.3</b>

Consolidated operating expenses decreased during 2015 primarily due to non-operational credits recorded in 2015 as compared to non-operational charges recorded in 2014 (see “Other Items”). Consolidated operating expenses increased during 2014 primarily due to non-operational charges recorded in 2014 as compared to non-operational credits recorded in 2013 (see “Other Items”) as well as increased operating expenses at Wireless.

## 2015 Compared to 2014

### Cost of Services

Cost of services includes the following costs directly attributable to a service: salaries and wages, benefits, materials and supplies, content costs, contracted services, network access and transport costs, customer provisioning costs, computer systems support, and costs to support our outsourcing contracts and technical facilities. Aggregate customer care costs, which include billing and service provisioning, are allocated between Cost of services and Selling, general and administrative expense.

Cost of services increased during 2015 primarily due to an increase in costs as a result of the acquisition of AOL, higher rent expense as a result of an increase in wireless macro and small cell sites, higher wireless network costs from an increase in fiber facilities supporting network capacity expansion and densification, including the deployment of small cell technology, a volume-driven increase in costs related to the wireless device protection package offered to our customers as well as a \$0.5 billion increase in content costs at our Wireline segment. Partially offsetting these increases were a \$0.3 billion decline in employee costs and a \$0.3 billion decline in access costs at our Wireline segment. Also offsetting the increase was a decrease in Cost of services reflected in the results of operations related to a non-strategic Wireline business that was divested on July 1, 2014.

### Wireless Cost of Equipment

Wireless cost of equipment increased during 2015 primarily as a result of an increase in the average cost per unit, driven by a shift to higher priced units in the mix of devices sold, partially offset by a decline in the number of units sold.

### Selling, General and Administrative Expense

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

Selling, general and administrative expense decreased during 2015 primarily due to non-operational credits, primarily severance, pension and benefit credits, recorded in 2015 as compared to non-operational charges, primarily severance, pension and benefit charges, recorded in 2014 (see “Other Items”). Also contributing to this decrease was a decline in sales commission expense at our Wireless segment, which was driven by an increase in activations under the Verizon device payment program. The decrease is partially offset by an increase in bad debt expense at our Wireless segment. The increase in bad debt expense was primarily driven by a volume increase in our installment receivables, as the credit quality of our customers remained consistent throughout the periods presented.



### *Depreciation and Amortization Expense*

Depreciation and amortization expense decreased during 2015 primarily due to \$0.9 billion of depreciation and amortization expense not being recorded on our depreciable Wireline assets in California, Florida and Texas which were classified as held for sale as of February 5, 2015, partially offset by an increase in depreciable assets at our Wireless segment.

We will not record depreciation and amortization expense on our depreciable Wireline assets in California, Florida and Texas through the closing of the transaction with Frontier, which is expected to occur at the end of the first quarter of 2016.

### **2014 Compared to 2013**

#### *Wireless Cost of Equipment*

Wireless cost of equipment increased during 2014 primarily due to an increase in cost of equipment sales at our Wireless segment as a result of an increase in the number of devices sold as well as an increase in the cost per unit.

#### *Selling, General and Administrative Expense*

Selling, general and administrative expense increased during 2014 primarily due to non-operational charges, primarily severance, pension and benefit charges, recorded in 2014 as compared to non-operational credits, primarily severance, pension and benefit credits, recorded in 2013 (see “Other Items”).

#### *Depreciation and Amortization Expense*

Depreciation and amortization expense decreased during 2014 primarily due to a decrease in net depreciable assets at our Wireline segment, partially offset by an increase in depreciable assets at our Wireless segment.

### **Non-operational (Credits) Charges**

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

Years Ended December 31,	(dollars in millions)		
	2015	2014	2013
<b>Severance, Pension and Benefit (Credits) Charges</b>			
Selling, general and administrative expense	\$ (2,256)	\$ 7,507	\$ (6,232)
<b>Gain on Spectrum License Transactions</b>			
Selling, general and administrative expense	(254)	(707)	(278)
<b>Other Costs</b>			
Cost of services and sales	—	27	—
Selling, general and administrative expense	—	307	—
	—	334	—
<b>Total non-operating (credits) charges included in operating expenses</b>	<b>\$ (2,510)</b>	<b>\$ 7,134</b>	<b>\$ (6,510)</b>

See “Other Items” for a description of these and other non-operational items.

### *Consolidated Operating Income and EBITDA*

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

Consolidated Adjusted EBITDA is calculated by excluding the effect of non-operational items and the impact of divested operations from the calculation of Consolidated EBITDA. Management believes that this measure provides additional relevant and useful information to investors and other users of our financial data in evaluating the effectiveness of our operations and underlying business trends in a manner that is consistent with management's evaluation of business performance. See "Other Items" for additional details regarding these non-operational items.

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

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

Years Ended December 31,	(dollars in millions)		
	2015	2014	2013
<b>Consolidated Operating Income</b>	<b>\$ 33,060</b>	<b>\$ 19,599</b>	<b>\$ 31,968</b>
Add Depreciation and amortization expense	<b>16,017</b>	16,533	16,606
<b>Consolidated EBITDA</b>	<b>49,077</b>	36,132	48,574
Add (Less) Non-operating (credits) charges included in operating expenses	<b>(2,510)</b>	7,134	(6,510)
Less Impact of divested operations	<b>—</b>	(12)	(43)
<b>Consolidated Adjusted EBITDA</b>	<b>\$ 46,567</b>	<b>\$ 43,254</b>	<b>\$ 42,021</b>

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

## Other Consolidated Results

### Equity in Earnings of Unconsolidated Businesses

Equity in earnings of unconsolidated businesses decreased \$1.9 billion during 2015 and increased \$1.6 billion during 2014 primarily due to the gain of \$1.9 billion recorded on the sale of our interest in Vodafone Omnitel N.V. (the Omnitel Transaction, and such interest, the Omnitel Interest) during the first quarter of 2014, which was part of the consideration for the Wireless Transaction completed on February 21, 2014.

### Other Income and (Expense), Net

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

Years Ended December 31,	(dollars in millions)						
	2015	2014	2013	Increase/(Decrease)		2014 vs. 2013	
Interest income	<b>\$ 115</b>	\$ 108	\$ 64	<b>\$ 7</b>	<b>6.5%</b>	\$ 44	68.8%
Other, net	<b>71</b>	(1,302)	(230)	<b>1,373</b>	<b>nm</b>	(1,072)	nm
<b>Total</b>	<b>\$ 186</b>	<b>\$ (1,194)</b>	<b>\$ (166)</b>	<b>\$ 1,380</b>	<b>nm</b>	<b>\$ (1,028)</b>	<b>nm</b>

nm – not meaningful

Other income and (expense), net changed favorably during 2015 and changed unfavorably during 2014 primarily driven by net early debt redemption costs of \$1.4 billion incurred in 2014 (see "Other Items").

## Interest Expense

Years Ended December 31,					(dollars in millions)	
	2015	2014	2013	2015 vs. 2014	Increase/(Decrease)	
Total interest costs on debt balances	\$ 5,504	\$ 5,291	\$ 3,421	\$ 213	4.0%	\$ 1,870 54.7%
Less capitalized interest costs	584	376	754	208	55.3	(378) (50.1)
<b>Total</b>	<b>\$ 4,920</b>	<b>\$ 4,915</b>	<b>\$ 2,667</b>	<b>\$ 5</b>	<b>0.1</b>	<b>\$ 2,248 84.3</b>
Average debt outstanding	\$ 113,325	\$ 108,461	\$ 65,959			
Effective interest rate	4.9%	4.9%	5.2%			

Total interest costs on debt balances increased during 2015 primarily due to a \$4.9 billion increase in average debt (see “Consolidated Financial Condition”). Capitalized interest costs were higher 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 (see Note 2 for additional information).

Total interest costs on debt balances increased during 2014 primarily due to the issuance of fixed and floating rate notes to finance the Wireless Transaction (see “Acquisitions and Divestitures”) resulting in an increase in average debt and a corresponding increase in interest expense, partially offset by a lower effective interest rate (see “Consolidated Financial Condition”). Capitalized interest costs were lower in 2014 primarily due to a decrease in wireless licenses that are currently under development, which was due to the deployment of AWS licenses for commercial service during 2014.

## Provision for Income Taxes

Years Ended December 31,					(dollars in millions)	
	2015	2014	2013	2015 vs. 2014	Increase/(Decrease)	
<b>Provision for income taxes</b>	<b>\$ 9,865</b>	<b>\$ 3,314</b>	<b>\$ 5,730</b>	<b>\$ 6,551</b>	<b>nm</b>	<b>\$ (2,416) (42.2)%</b>
<b>Effective income tax rate</b>	<b>34.9%</b>	<b>21.7%</b>	<b>19.6%</b>			

nm— not meaningful

The effective income tax rate is calculated by dividing the provision for income taxes by income before the provision for income taxes. The effective income tax rate for 2015 was 34.9% compared to 21.7% for 2014. The increase in the effective income tax rate and provision for income taxes was primarily due to the impact of higher income before income taxes due to severance, pension and benefit credits recorded in 2015 compared to severance, pension and benefit charges recorded in 2014, as well as tax benefits associated with the utilization of certain tax credits in 2014 in connection with the Omnitel Transaction. The 2014 effective income tax rate also included a benefit from the inclusion of income attributable to Vodafone’s noncontrolling interest in the Verizon Wireless partnership prior to the Wireless Transaction completed on February 21, 2014.

The effective income tax rate for 2014 was 21.7% compared to 19.6% for 2013. The increase in the effective income tax rate was primarily due to additional income taxes on the incremental income from the Wireless Transaction completed on February 21, 2014 and was partially offset by the utilization of certain tax credits in connection with the Omnitel Transaction in 2014 and the effective income tax rate impact of lower income before income taxes due to severance, pension and benefit charges recorded in 2014 compared to severance, pension and benefit credits recorded in 2013. The decrease in the provision for income taxes was primarily due to lower income before income taxes due to severance, pension and benefit charges recorded in 2014 compared to severance, pension and benefit credits recorded in 2013.

Our effective income tax rate differed significantly from the statutory federal income tax rate for 2013 due to the inclusion of income attributable to Vodafone’s noncontrolling interest in the Verizon Wireless partnership for the full year within our income before the provision for income taxes. In 2013, we recorded a tax provision on income before the provision for income taxes and when we included the income attributable to Vodafone’s noncontrolling interest in the Verizon Wireless partnership in our income before the provision for income taxes it resulted in our effective income tax rate being 13.7 percentage points lower during 2013.

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

*Net Income Attributable to Noncontrolling Interests*

					(dollars in millions)		
					<b>Increase/(Decrease)</b>		
Years Ended December 31,	2015	2014	2013	2015 vs. 2014	2014 vs. 2013		
<b>Net income attributable to noncontrolling interests</b>	<b>\$ 496</b>	<b>\$ 2,331</b>	<b>\$ 12,050</b>	<b>\$ (1,835)</b>	<b>(78.7)%</b>	<b>\$ (9,719)</b>	<b>(80.7)%</b>

The decrease in Net income attributable to noncontrolling interests during 2015 and 2014 was primarily due to the completion of the Wireless Transaction on February 21, 2014. As a result, our results reflect our 55% ownership interest of Verizon Wireless through the closing of the Wireless Transaction and reflect our full ownership of Verizon Wireless for the remainder of the year. The noncontrolling interests that remained after the completion of the Wireless Transaction primarily relate to wireless partnership entities.

## Segment Results of Operations

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

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

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

## Wireless

Our Wireless segment, doing business as Verizon Wireless, provides wireless communications services across one of the most extensive wireless networks in the United States. Verizon Wireless was formed as a joint venture in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone. Prior to the completion of the Wireless Transaction, Verizon owned a controlling 55% interest in Verizon Wireless and Vodafone owned the remaining 45%. On February 21, 2014, the Wireless Transaction was completed and Verizon acquired 100% ownership of Verizon Wireless.

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

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

### Operating Revenues and Selected Operating Statistics

Years Ended December 31,	2015	2014	2013	(dollars in millions, except ARPA)			
				Increase/(Decrease)		2014 vs. 2013	
				2015 vs. 2014			
Service	\$ 70,396	\$ 72,630	\$ 69,033	\$ (2,234)	(3.1)%	\$ 3,597	5.2%
Equipment	16,924	10,959	8,111	5,965	54.4	2,848	35.1
Other	4,360	4,057	3,879	303	7.5	178	4.6
<b>Total Operating Revenues</b>	<b>\$ 91,680</b>	<b>\$ 87,646</b>	<b>\$ 81,023</b>	<b>\$ 4,034</b>	<b>4.6</b>	<b>\$ 6,623</b>	<b>8.2</b>
Connections ('000): <sup>(1)</sup>							
Retail connections	112,108	108,211	102,799	3,897	3.6	5,412	5.3
Retail postpaid connections	106,528	102,079	96,752	4,449	4.4	5,327	5.5
Net additions in period ('000): <sup>(2)</sup>							
Retail connections	3,956	5,568	4,472	(1,612)	(29.0)	1,096	24.5
Retail postpaid connections	4,507	5,482	4,118	(975)	(17.8)	1,364	33.1
Churn Rate:							
Retail connections	1.24%	1.33%	1.27%				
Retail postpaid connections	0.96%	1.04%	0.97%				
Account Statistics:							
Retail postpaid ARPA	\$ 152.63	\$ 159.86	\$ 153.93	\$ (7.23)	(4.5)	\$ 5.93	3.9
Retail postpaid accounts ('000) <sup>(1)</sup>	35,736	35,616	35,083	120	0.3	533	1.5
Retail postpaid connections per account <sup>(1)</sup>	2.98	2.87	2.76	0.11	3.8	0.11	4.0

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

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

### 2015 Compared to 2014

Wireless' total operating revenues increased by \$4.0 billion, or 4.6%, during 2015 primarily as a result of growth in equipment revenue.

#### Accounts and Connections

Retail (non-wholesale) 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 new 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. 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. Retail postpaid connection net additions decreased during 2015 primarily due to a decrease in retail postpaid connection gross additions, partially offset by lower retail postpaid connection churn rate. The decrease in retail postpaid connection gross additions during 2015 was driven by a decline in gross additions of smartphones, tablets and other Internet devices.

#### *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 as of December 31, 2015 compared to December 31, 2014. The increase in retail postpaid connections per account is primarily due to increases in Internet devices, which represented 16.8% of our retail postpaid connection base as of December 31, 2015, compared to 14.1% as of December 31, 2014.

#### *Service Revenue*

Service revenue, which does not include recurring device installment billings related to the Verizon device payment program, decreased by \$2.2 billion, or 3.1%, during 2015 primarily driven by lower retail postpaid service revenue. Retail postpaid service revenue was negatively impacted as a result of an increase in the activation of devices purchased under the Verizon device payment program on plans with unsubsidized service pricing. The increase in these activations resulted in a relative shift of revenue from service revenue to equipment revenue and caused a change in the timing of the recognition of revenue. At December 31, 2015, approximately 29% of our retail postpaid phone connections participated in the Verizon device payment program compared to approximately 8% at December 31, 2014. At December 31, 2015, approximately 42% of our retail postpaid phone connections were on unsubsidized service pricing. The decrease in service revenue was partially offset by the impact of an increase in retail postpaid connections as well as the continued increase in penetration of smartphones and tablets through our shared data plans. Service revenue plus recurring device installment billings related to the Verizon device payment program increased 2.0% during 2015.

Retail postpaid ARPA (the average revenue per account from retail postpaid accounts), which does not include recurring device installment billings related to the Verizon device payment program, was negatively impacted during 2015 as a result of the increase in the activation of devices purchased under the Verizon device payment program on plans with unsubsidized service pricing. Partially offsetting this impact during 2015 was an increase in our retail postpaid connections per account, as discussed above.

#### *Equipment Revenue*

Equipment revenue increased by \$6.0 billion, or 54.4%, during 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 traditional fixed-term service plans. For the year ended December 31, 2015, phone activations under the Verizon device payment program represented approximately 54% of retail postpaid phones activated compared to approximately 18% during 2014. During the fourth quarter of 2015, phone activations under the Verizon device payment program represented approximately 67% of retail postpaid phones activated. The increase in these activations resulted in a relative shift of revenue from service revenue to equipment revenue and caused a change in the timing of the recognition of revenue. This shift in revenue was the result of recognizing a higher amount of equipment revenue at the time of sale of devices under the device payment program.

#### *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 \$0.3 billion, or 7.5%, during 2015 primarily due to a volume-driven increase in revenues related to our device protection package.

### **2014 Compared to 2013**

Wireless' total operating revenues increased by \$6.6 billion, or 8.2%, during 2014 primarily as a result of growth in service revenue and equipment revenue.

#### *Accounts and Connections*

Retail postpaid connection net additions increased during 2014 primarily due to an increase in retail postpaid connection gross additions partially offset by an increase in our retail postpaid connection churn rate. Higher retail postpaid connection gross additions were driven by gross additions of tablets as well as 4G LTE smartphones. During 2014, our retail postpaid connection net additions included approximately 4.2 million tablets as compared to 1.4 million tablets in 2013.

#### *Retail Postpaid Connections per Account*

Retail postpaid connections per account increased 4.0% as of December 31, 2014 compared to December 31, 2013 primarily due to the increased penetration of tablets.



### *Service Revenue*

Service revenue, which does not include recurring device installment billings related to the Verizon device payment program, increased by \$3.6 billion, or 5.2%, during 2014 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of 4G LTE smartphones and tablets through our More Everything plans. The penetration of 4G LTE smartphones was driven by the activation of smartphones by new customers as well as existing customers migrating from basic phones and 3G smartphones to 4G LTE smartphones.

The increase in retail postpaid ARPA, which does not include recurring device installment billings related to the Verizon device payment program, during 2014 was primarily driven by increases in smartphone penetration and retail postpaid connections per account. As of December 31, 2014, we experienced a 4.0% increase in retail postpaid connections per account compared to 2013, with smartphones representing 79% of our retail postpaid phone base as of December 31, 2014 compared to 70% as of December 31, 2013. The increased penetration in retail postpaid connections per account is primarily due to increases in Internet data devices, which represented 14.1% of our retail postpaid connection base as of December 31, 2014 compared to 10.7% as of December 31, 2013, primarily due to tablet activations. Additionally, during 2014, postpaid smartphone activations represented 92% of phones activated compared to 86% during 2013.

Other service revenue increased during 2014 due to growth in wholesale connections.

### *Equipment Revenue*

Equipment revenue increased during 2014 primarily due to an increase in device sales under both traditional fixed-term service plans and the Verizon device payment program.

### **Operating Expenses**

Years Ended December 31,	2015	2014	2013	(dollars in millions)			
				Increase/(Decrease)		2014 vs. 2013	
				2015 vs. 2014			
Cost of services	\$ 7,803	\$ 7,200	\$ 7,295	\$ 603	8.4%	\$ (95)	(1.3)%
Cost of equipment	23,119	21,625	16,353	1,494	6.9	5,272	32.2
Selling, general and administrative expense	21,805	23,602	23,176	(1,797)	(7.6)	426	1.8
Depreciation and amortization expense	8,980	8,459	8,202	521	6.2	257	3.1
<b>Total Operating Expenses</b>	<b>\$ 61,707</b>	<b>\$ 60,886</b>	<b>\$ 55,026</b>	<b>\$ 821</b>	<b>1.3</b>	<b>\$ 5,860</b>	<b>10.6</b>

### *Cost of Services*

Cost of services increased \$0.6 billion, or 8.4%, during 2015 primarily due to higher rent expense as a result of an increase in macro and small cell sites as well as higher wireless network costs from an increase in fiber facilities supporting network capacity expansion and densification, including the deployment of small cell technology, to meet growing customer demand for 4G LTE data services. Also contributing to the increase in Cost of services during 2015 was a volume-driven increase in costs related to the device protection package offered to our customers.

### *Cost of Equipment*

Cost of equipment increased \$1.5 billion, or 6.9%, during 2015 primarily as a result of an increase in the average cost per unit, driven by a shift to higher priced units in the mix of devices sold, partially offset by a decline in the number of units sold.

Cost of equipment increased during 2014 primarily due to an increase in cost of equipment sales of \$5.3 billion as a result of an increase in the number of devices sold as well as an increase in the cost per unit. The increase in the number of devices sold was driven, in part, by the launch of new devices.

### *Selling, General and Administrative Expense*

Selling, general and administrative expense decreased during 2015 primarily due to a \$2.8 billion decline in sales commission expense. The decline in sales commission expense was driven by an increase in activations under the Verizon device payment program, which has a lower commission per unit than activations under traditional fixed-term service plans, partially offset by an increase in bad debt expense. The increase in bad debt expense was primarily driven by a volume increase in our device installment receivables, as the credit quality of our customers remained consistent throughout the periods presented.

Selling, general and administrative expense increased during 2014 primarily due to a \$0.2 billion increase in advertising expense and gains recorded in the first quarter of 2013 related to wireless license exchange agreements, partially offset by a decline in sales commission expense, which was driven by the adoption of the Verizon device payment program.

#### *Depreciation and Amortization Expense*

The increase in depreciation and amortization expense increased during 2015 and 2014, respectively, was primarily driven by an increase in net depreciable assets.

#### **Segment Operating Income and EBITDA**

Years Ended December 31,	2015	2014	2013	(dollars in millions)			
				<b>Increase/(Decrease)</b>			
				<b>2015 vs. 2014</b>	<b>2014 vs. 2013</b>		
<b>Segment Operating Income</b>	<b>\$ 29,973</b>	<b>\$ 26,760</b>	<b>\$ 25,997</b>	<b>\$ 3,213</b>	<b>12.0%</b>	<b>\$ 763</b>	<b>2.9%</b>
Add Depreciation and amortization expense	<b>8,980</b>	8,459	8,202	<b>521</b>	<b>6.2</b>	257	3.1
<b>Segment EBITDA</b>	<b>\$ 38,953</b>	<b>\$ 35,219</b>	<b>\$ 34,199</b>	<b>\$ 3,734</b>	<b>10.6</b>	<b>\$ 1,020</b>	<b>3.0</b>
<b>Segment operating income margin</b>	<b>32.7%</b>	30.5%	32.1%				
<b>Segment EBITDA margin</b>	<b>42.5%</b>	40.2%	42.2%				
<b>Segment EBITDA service margin</b>	<b>55.3%</b>	48.5%	49.5%				

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

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

Years Ended December 31,	2015	2014	2013	(dollars in millions)			
Gain on spectrum license transactions	<b>\$ (254)</b>	<b>\$ (707)</b>	<b>\$ (278)</b>				
Severance, pension and benefit (credits) charges	<b>5</b>	86	(61)				
Other costs	<b>—</b>	109	—				
	<b>\$ (249)</b>	<b>\$ (512)</b>	<b>\$ (339)</b>				

## 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 of Verizon's local exchange business and related landline activities in California, Florida and Texas, which will be sold to Frontier, are included within our Wireline segment for all periods presented. The assets and liabilities that will be sold are currently included in Verizon's continuing operations and classified as assets held for sale and liabilities related to assets held for sale on our consolidated balance sheet as of December 31, 2015. We expect this transaction to close at the end of the first quarter of 2016.

### Operating Revenues and Selected Operating Statistics

Years Ended December 31,	2015	2014	2013	(dollars in millions)			
				Increase/(Decrease)		2014 vs. 2013	
				2015 vs. 2014			
Consumer retail	\$ 16,123	\$ 15,583	\$ 14,842	\$ 540	3.5%	\$ 741	5.0%
Small business	2,350	2,464	2,541	(114)	(4.6)	(77)	(3.0)
Mass Markets	18,473	18,047	17,383	426	2.4	664	3.8
Strategic services	8,165	8,324	8,140	(159)	(1.9)	184	2.3
Core	4,778	5,325	6,016	(547)	(10.3)	(691)	(11.5)
Global Enterprise	12,943	13,649	14,156	(706)	(5.2)	(507)	(3.6)
Global Wholesale	5,979	6,190	6,560	(211)	(3.4)	(370)	(5.6)
Other	325	543	525	(218)	(40.1)	18	3.4
<b>Total Operating Revenues</b>	<b>\$ 37,720</b>	<b>\$ 38,429</b>	<b>\$ 38,624</b>	<b>\$ (709)</b>	<b>(1.8)</b>	<b>\$ (195)</b>	<b>(0.5)</b>
Connections ('000): <sup>(1)</sup>							
Total voice connections	18,387	19,795	21,085	(1,408)	(7.1)	(1,290)	(6.1)
Total Broadband connections	9,228	9,205	9,015	23	0.2	190	2.1
Fios Internet subscribers	7,034	6,616	6,072	418	6.3	544	9.0
Fios video subscribers	5,827	5,649	5,262	178	3.2	387	7.4

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

Wireline's revenues decreased \$0.7 billion, or 1.8%, during 2015 primarily driven by declines in Global Enterprise, partially offset by higher Mass Markets revenues driven by Fios services. Fios revenues increased \$1.1 billion, or 8.6%, during 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.

#### 2015 Compared to 2014

Mass Markets revenues increased \$0.4 billion, or 2.4%, during 2015 primarily due to the expansion of Fios services (voice, Internet and video), including our Fios Quantum offerings, as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues.

During 2015, we grew our subscriber base by 0.4 million Fios Internet subscribers and by 0.2 million Fios video subscribers, while also improving the penetration rate within our Fios service areas for Fios Internet. As of December 31, 2015, we achieved a penetration rate of 41.8% for Fios Internet compared to a penetration rate of 41.1% for Fios Internet as of December 31, 2014. During 2015, Consumer Fios revenue increased \$1.0 billion, or 8.3%. Fios represented approximately 79% of Consumer retail revenue during 2015 compared to approximately 76% during 2014.

The decline of local exchange revenues was primarily due to a 6.9% decline in Consumer retail voice connections resulting primarily from competition and technology substitution with wireless, competing VoIP 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 7.1% 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.

#### *2014 Compared to 2013*

Mass Markets revenues increased \$0.7 billion, or 3.8%, during 2014 primarily due to the expansion of Fios services (voice, Internet and video), including our Fios Quantum offerings, as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues. Fios represented approximately 76% of Consumer retail revenue during 2014 compared to approximately 71% during 2013.

During 2014, we grew our subscriber base by 0.5 million Fios Internet subscribers and by 0.4 million Fios video subscribers, while also improving penetration rates within our Fios service areas. As of December 31, 2014, we achieved penetration rates of 41.1% and 35.8% for Fios Internet and Fios video, respectively, compared to penetration rates of 39.5% and 35.0% for Fios Internet and Fios video, respectively, at December 31, 2013.

The increase in Mass Markets revenues was partially offset by the decline of local exchange revenues primarily due to a 5.5% decline in Consumer retail voice connections resulting primarily from competition and technology substitution with wireless, competing VoIP 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 decline in Small business retail voice connections, primarily reflecting competition and a shift to both IP and high-speed circuits.

### **Global Enterprise**

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

#### *2015 Compared to 2014*

Global Enterprise revenues decreased \$0.7 billion, or 5.2%, during 2015 primarily due to a \$0.4 billion, or 11.7%, decline in core voice services and data networking revenues, which consist of traditional circuit-based services such as frame relay, private line and legacy voice and data services. These core services declined as a result of secular declines. Also contributing to the decrease were lower networking solutions revenues, a decline in customer premise equipment revenues and the negative impact of foreign exchange rates. Networking solutions, which include Private IP, Public Internet, Ethernet and optical network services, declined \$0.2 billion, or 4.6%, as a result of competitive price compression.

#### *2014 Compared to 2013*

Global Enterprise revenues decreased \$0.5 billion, or 3.6%, during 2014 primarily due to a decline in voice services and data networking revenues, which consist of traditional circuit-based services such as frame relay, private line and legacy voice and data services. These core services declined as customers continued to migrate to next generation IP services. Also contributing to the decrease was the contraction of market rates due to competition and a decline in Core customer premise equipment revenues. This decrease was partially offset by an increase in strategic services revenues of \$0.2 billion, or 2.3%, primarily due to growth in our application services, such as our cloud and data center offerings and contract center solutions.

### **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.

#### *2015 Compared to 2014*

Global Wholesale revenues decreased \$0.2 billion, or 3.4%, during 2015 primarily due to declines in traditional voice revenues and data revenues driven by the effect of technology substitution as well as continuing contraction of market rates due to competition. The decline in traditional voice revenue was primarily due to a decrease in minutes of use (MOUs) driven by a 6.5% decline in domestic wholesale connections between December 31, 2015 and December 31, 2014. As a result of technology substitution, the number of core data circuits at December 31, 2015 experienced a 14.5% decline compared to December 31, 2014.

#### *2014 Compared to 2013*

Global Wholesale revenues decreased \$0.4 billion, or 5.6%, during 2014 primarily due to a decline in data and traditional voice revenues. Data revenue declines were driven by the continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities. As a result of the customer migrations, at December 31, 2014, the number of core data circuits experienced a 14.2% decline. The traditional voice revenue declines are primarily due to a decrease in MOUs and the effect of technology substitution. As of December 31, 2014, we also experienced a 6.2% decline in domestic wholesale connections. Also contributing to the decline in voice revenues is the continuing contraction of market rates due to competition.

## Operating Expenses

Years Ended December 31,	2015	2014	2013	(dollars in millions)			
				Increase/(Decrease)		2014 vs. 2013	
				2015 vs. 2014			
Cost of services	\$ 20,878	\$ 21,332	\$ 21,396	\$ (454)	(2.1)%	\$ (64)	(0.3)%
Selling, general and administrative expense	7,989	8,180	8,571	(191)	(2.3)	(391)	(4.6)
Depreciation and amortization expense	6,678	7,882	8,327	(1,204)	(15.3)	(445)	(5.3)
<b>Total Operating Expenses</b>	<b>\$ 35,545</b>	<b>\$ 37,394</b>	<b>\$ 38,294</b>	<b>\$ (1,849)</b>	<b>(4.9)</b>	<b>\$ (900)</b>	<b>(2.4)</b>

### Cost of Services

Cost of services decreased during 2015 primarily due to a \$0.3 billion decline in employee costs as a result of reduced headcount as well as a \$0.3 billion decline in access costs driven by declines in overall wholesale long distance volumes. Partially offsetting these decreases was an increase in content costs of \$0.5 billion associated with continued Fios subscriber growth and programming license fee increases.

Cost of services decreased slightly during 2014 primarily due to a decrease in employee costs as a result of reduced headcount and a decline in access costs driven by declines in overall wholesale long distance volumes, which was partially offset by an increase in content costs of \$0.4 billion associated with continued Fios subscriber growth and programming license fee increases.

### Selling, General and Administrative Expense

Selling, general and administrative expense decreased during 2015 primarily due to declines in employee costs as a result of reduced headcount and decreased administrative expenses, partially offset by an increase in transaction taxes and regulatory expenses.

Selling, general and administrative expense decreased during 2014 primarily due to declines in employee costs as a result of reduced headcount, decreased advertising expense and lower transaction and property taxes.

### Depreciation and Amortization Expense

Depreciation and amortization expense decreased during 2015 primarily due to \$0.9 billion of depreciation and amortization expense not being recorded on our assets in California, Florida and Texas, which were classified as held for sale as of February 5, 2015, as well as decreases in net depreciable assets.

We will not record depreciation and amortization expense on our depreciable Wireline assets in California, Florida and Texas through the closing of the transaction with Frontier, which is expected to occur at the end of the first quarter of 2016.

Depreciation and amortization expense decreased during 2014 due to decreases in net depreciable assets.

## Segment Operating Income and EBITDA

Years Ended December 31,	2015	2014	2013	(dollars in millions)			
				Increase/(Decrease)		2014 vs. 2013	
				2015 vs. 2014			
<b>Segment Operating Income</b>	<b>\$ 2,175</b>	<b>\$ 1,035</b>	<b>\$ 330</b>	<b>\$ 1,140</b>	<b>nm</b>	<b>\$ 705</b>	<b>nm</b>
Add Depreciation and amortization expense	6,678	7,882	8,327	(1,204)	(15.3)%	(445)	(5.3)%
<b>Segment EBITDA</b>	<b>\$ 8,853</b>	<b>\$ 8,917</b>	<b>\$ 8,657</b>	<b>\$ (64)</b>	<b>(0.7)</b>	<b>\$ 260</b>	<b>3.0</b>
<b>Segment operating income margin</b>	<b>5.8%</b>	<b>2.7%</b>	<b>0.9%</b>				
<b>Segment EBITDA margin</b>	<b>23.5%</b>	<b>23.2%</b>	<b>22.4%</b>				

nm – not meaningful

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

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

	(dollars in millions)		
Years Ended December 31,	2015	2014	2013
Severance, pension and benefit charges	\$ 15	\$ 189	\$ —
Impact of divested operations	—	(12)	(43)
Other costs	—	137	—
	<b>\$ 15</b>	<b>\$ 314</b>	<b>\$ (43)</b>

#### Other Items

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

During 2015, we recorded net pre-tax severance, pension and benefit credits of approximately \$2.3 billion primarily for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The credits were primarily driven by an increase in our discount rate assumption used to determine the current year liabilities from a weighted-average of 4.2% at December 31, 2014 to a weighted-average of 4.6% at December 31, 2015 (\$2.5 billion), the execution of a new prescription drug contract during 2015 (\$1.0 billion) and a change in mortality assumptions primarily driven by the use of updated actuarial tables (MP-2015) issued by the Society of Actuaries (\$0.9 billion), partially offset by the difference between our estimated return on assets of 7.25% at December 31, 2014 and our actual return on assets of 0.7% at December 31, 2015 (\$1.2 billion), severance costs recorded under our existing separation plans (\$0.6 billion) and other assumption adjustments (\$0.3 billion).

During 2014, we recorded net pre-tax severance, pension and benefit charges of approximately \$7.5 billion primarily for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The charges were primarily driven by a decrease in our discount rate assumption used to determine the current year liabilities from a weighted-average of 5.0% at December 31, 2013 to a weighted-average of 4.2% at December 31, 2014 (\$5.2 billion), a change in mortality assumptions primarily driven by the use of updated actuarial tables (RP-2014 and MP-2014) issued by the Society of Actuaries in October 2014 (\$1.8 billion) and revisions to the retirement assumptions for participants and other assumption adjustments, partially offset by the difference between our estimated return on assets of 7.25% and our actual return on assets of 10.5% (\$0.6 billion). As part of this charge, we recorded severance costs of \$0.5 billion under our existing separation plans.

During 2013, we recorded net pre-tax severance, pension and benefit credits of approximately \$6.2 billion primarily for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The credits were primarily driven by an increase in our discount rate assumption used to determine the current year liabilities from a weighted-average of 4.2% at December 31, 2012 to a weighted-average of 5.0% at December 31, 2013 (\$4.3 billion), lower than assumed retiree medical costs and other assumption adjustments (\$1.4 billion) and the difference between our estimated return on assets of 7.5% at December 31, 2012 and our actual return on assets of 8.6% at December 31, 2013 (\$0.5 billion).

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

##### Early Debt Redemption and Other Costs

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

See Note 7 to the consolidated financial statements for additional information regarding the Tender Offer.

During the fourth quarter of 2014, we recorded net debt redemption costs of \$0.5 billion in connection with the early redemption of \$0.5 billion aggregate principal amount of Verizon 4.90% Notes due 2015, \$0.6 billion aggregate principal amount of Verizon 5.55% Notes due 2016, \$1.3 billion aggregate principal amount of Verizon 3.00% Notes due 2016, \$0.4 billion aggregate principal amount of Verizon 5.50% Notes due 2017, \$0.7 billion aggregate principal amount of Verizon 8.75% Notes due 2018, \$1.0 billion of the then outstanding \$3.2 billion aggregate principal amount of Verizon 2.50% Notes due 2016, \$0.1 billion aggregate principal amount Alltel Corporation 7.00% Debentures due 2016 and \$0.4 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, as well as \$0.3 billion of other costs.

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

#### **Gain on Spectrum License Transactions**

During the fourth quarter of 2015, we completed a license exchange transaction with an affiliate of T-Mobile USA Inc. (T-Mobile USA) to exchange certain AWS and Personal Communication Services (PCS) licenses. As a result of this non-cash exchange, we received \$0.4 billion of AWS and PCS spectrum licenses at fair value and we recorded a pre-tax gain of approximately \$0.3 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2015.

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

During the second quarter of 2014, we completed transactions pursuant to two additional agreements with T-Mobile USA with respect to our remaining 700 MHz A block spectrum licenses. Under one agreement, we sold certain of these licenses to T-Mobile USA in exchange for cash consideration of approximately \$2.4 billion, and under the second agreement we exchanged the remainder of our 700 MHz A block spectrum licenses as well as AWS and PCS spectrum licenses for AWS and PCS spectrum licenses. As a result, we received \$1.6 billion of AWS and PCS spectrum licenses at fair value and we recorded a pre-tax gain of approximately \$0.7 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2014.

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

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

#### **Wireless Transaction Costs**

As a result of the third-party indebtedness incurred to finance the Wireless Transaction, we incurred interest expense of \$0.4 billion during 2014 (see “Consolidated Financial Condition”). This amount represents the interest expense incurred prior to the closing of the Wireless Transaction.

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

#### **Gain on Sale of Omnitel Interest**

As a result of the sale of the Omnitel Interest on February 21, 2014, which was part of the consideration for the Wireless Transaction, we recorded a gain of \$1.9 billion in Equity in earnings of unconsolidated businesses on our consolidated statement of income during 2014.

#### **Impact of Divested Operations**

On July 1, 2014, we sold a non-strategic Wireline business that provides communications solutions to a variety of government agencies.

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (see “Consolidated Results of Operations”) excludes the historical financial results of the divested operations described above.



## Consolidated Financial Condition

Years Ended December 31,	(dollars in millions)		
	2015	2014	2013
<b>Cash Flows Provided By (Used In)</b>			
Operating activities	\$ 38,930	\$ 30,631	\$ 38,818
Investing activities	(30,043)	(15,856)	(14,833)
Financing activities	(15,015)	(57,705)	26,450
<b>Increase (Decrease) In Cash and Cash Equivalents</b>	<b>\$ (6,128)</b>	<b>\$ (42,930)</b>	<b>\$ 50,435</b>

We use the net cash generated from our operations to fund network expansion and modernization, service and repay external financing, pay dividends, invest in new businesses and, when appropriate, buy back shares of our outstanding common stock. Our sources of funds, primarily from operations and, to the extent necessary, from external financing arrangements, are sufficient to meet ongoing operating and investing requirements. We expect that our capital spending requirements will continue to be financed primarily through internally generated funds. Debt or equity financing may be needed to fund additional investments or development activities or to maintain an appropriate capital structure to ensure our financial flexibility. Our cash and cash equivalents are primarily held domestically and are invested to maintain principal and liquidity. Accordingly, we do not have significant exposure to foreign currency fluctuations. See “Market Risk” for additional information regarding our foreign currency risk management strategies.

Our available external financing arrangements include an active commercial paper program, credit available under credit facilities and other bank lines of credit, vendor financing arrangements, issuances of registered debt or equity securities and privately-placed capital market securities. In addition, in 2015, we established an active program to sell selected device installment plan receivables under the Verizon device payment program to a group of primarily relationship banks (Purchasers).

### Cash Flows Provided By Operating Activities

Our primary source of funds continues to be cash generated from operations, primarily from our Wireless segment. Net cash provided by operating activities during 2015 increased by \$8.3 billion primarily due to \$5.9 billion of cash proceeds, net of remittances, related to the sale of wireless device installment receivables as well as \$2.4 billion of cash proceeds received related to the Tower Monetization Transaction attributable to the portion of the towers for which the right-of-use has passed to the tower operator (see Note 2) as well as an increase in earnings at our Wireless segment.

During 2015, we established an on-going program to sell from time to time, on an uncommitted basis, selected device installment plan receivables under the Verizon device payment program to the Purchasers. Under the program, we transfer the receivables to wholly-owned subsidiaries that are bankruptcy remote special purpose entities (Sellers). The Sellers then sell the receivables to the Purchasers for cash and additional consideration upon settlement of the receivables (the deferred purchase price). The receivables sold under the program are no longer considered assets of Verizon. We continue to bill and collect on the receivables in exchange for a monthly servicing fee, which is not material.

Net cash provided by operating activities during 2014 decreased by \$8.2 billion due in part to a \$3.7 billion increase in income tax payments due to the incremental pre-tax income attributable to Verizon included in Verizon’s income since the closing of the Wireless Transaction. Also contributing to the decrease was a \$2.3 billion increase in interest payments primarily due to the incremental debt needed to fund the Wireless Transaction as well as a \$1.5 billion increase in pension contributions. The decrease in Cash flows provided by operating activities was partially offset by an increase in earnings at our Wireless segment.

On February 21, 2014, we completed the Wireless Transaction which provides full access to the cash flows of Verizon Wireless. Having full access to all the cash flows from our wireless business gives us the ability to continue to invest in our networks and spectrum, meet evolving customer requirements for products and services and take advantage of new growth opportunities across our lines of business.

**Cash Flows Used In Investing Activities***Capital Expenditures*

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

Capital expenditures, including capitalized software, were as follows:

Years Ended December 31,	(dollars in millions)		
	2015	2014	2013
Wireless	\$ 11,725	\$ 10,515	\$ 9,425
Wireline	5,049	5,750	6,229
Other	1,001	926	950
	<u>\$ 17,775</u>	<u>\$ 17,191</u>	<u>\$ 16,604</u>
Total as a percentage of revenue	13.5%	13.5%	13.8%

Capital expenditures increased at Wireless in 2015 and 2014 in order to increase the capacity of our 4G LTE network. Capital expenditures declined at Wireline in 2015 and 2014 as a result of decreased legacy spending requirements as well as decreased Fios spending requirements in 2015.

*Acquisitions*

During 2015, 2014 and 2013, we invested \$9.9 billion, \$0.4 billion and \$0.6 billion, respectively, in acquisitions of wireless licenses. During 2015, 2014 and 2013, we also invested \$3.5 billion, \$0.2 billion and \$0.5 billion, respectively, in acquisitions of investments and businesses, net of cash acquired.

On January 29, 2015, the FCC completed an auction of 65 MHz of spectrum, which it identified as the AWS-3 band. Verizon participated in that auction, and was the high bidder on 181 spectrum licenses, for which we paid cash of approximately \$10.4 billion. During the fourth quarter of 2014, we made a deposit of \$0.9 billion related to our participation in this auction, which is classified within Other, net investing activities on our consolidated statement of cash flows for the year ended December 31, 2014. During the first quarter of 2015, we submitted an application to the FCC and paid \$9.5 billion to the FCC to complete payment for these licenses. The cash payment of \$9.5 billion is classified within Acquisitions of wireless licenses on our consolidated statement of cash flows for the year ended December 31, 2015. On April 8, 2015, the FCC granted us these spectrum licenses.

On May 12, 2015, we entered into the Merger Agreement with 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, net of cash acquired of \$0.5 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 closing. See Note 2 to the consolidated financial statements for additional information.

In October 2015, AOL acquired an advertising technology business for cash consideration that was not significant.

In February 2014, Verizon acquired a business dedicated to the development of IP television for cash consideration that was not significant.

During the fourth quarter of 2013, Verizon acquired an industry leader in content delivery networks for \$0.4 billion. Additionally, we acquired a technology company for cash consideration that was not significant.

*Dispositions*

During 2014, we received proceeds of \$2.4 billion related to spectrum license transactions and \$0.1 billion related to the disposition of a non-strategic Wireline business. See Note 2 to the consolidated financial statements for additional information.

During 2013, we completed the sale of 700 MHz lower B block spectrum licenses and as a result, we received proceeds of \$2.1 billion.

*Other, net*

On May 19, 2015, Verizon consummated a sale-leaseback transaction with a financial services firm for the buildings and real estate at our Basking Ridge, New Jersey location. We received total gross proceeds of \$0.7 billion resulting in a deferred gain of \$0.4 billion, which will be amortized over the initial leaseback term of twenty years. The leaseback of the buildings and real estate is accounted for as an operating lease. The proceeds received as a result of this transaction have been classified within Other, net investing activities for the year ended December 31, 2015. Also in 2015, Verizon received proceeds of \$0.2 billion related to a sale of real estate.

<b>Cash Flows Provided by (Used In) Financing Activities</b>
--------------------------------------------------------------

We seek to maintain a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters. During 2015, 2014 and 2013, net cash provided by (used in) financing activities was \$(15.0) billion, \$(57.7) billion and \$26.5 billion, respectively.

## **2015**

During 2015, our net cash used in financing activities of \$15.0 billion was primarily driven by:

- \$9.3 billion used for repayments of long-term borrowings and capital lease obligations, including the repayment of \$6.5 billion of borrowings under a term loan agreement;
- \$8.5 billion used for dividend payments; and
- \$5.0 billion payment for our accelerated share repurchase agreement.

These uses of cash were partially offset by proceeds from long-term borrowings of \$6.7 billion, which included \$6.5 billion of borrowings under a term loan agreement which was used for general corporate purposes, including the acquisition of spectrum licenses, as well as \$2.7 billion of cash proceeds received related to the Tower Monetization Transaction attributable to the portion of the towers that we continue to occupy and use for network operations.

### *Proceeds from and Repayments of Long-Term Borrowings*

At December 31, 2015, our total debt decreased to \$110.2 billion as compared to \$113.3 billion at December 31, 2014. The substantial majority of our total debt portfolio consists of fixed rate indebtedness, therefore, changes in interest rates do not have a material effect on our interest payments. See Note 7 to the consolidated financial statements for additional details regarding our debt activity.

At December 31, 2015, approximately \$8.2 billion or 7.5% of the aggregate principal amount of our total debt portfolio consisted of foreign denominated debt, primarily the Euro and British Pound Sterling. We have entered into cross currency swaps in order to fix our future interest and principal payments in U.S. dollars and mitigate the impact of foreign currency transaction gains or losses. See “Market Risk” for additional information.

Verizon may continue to acquire debt securities issued by Verizon and its affiliates in the future through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise, upon such terms and at such prices as Verizon may from time to time determine for cash or other consideration.

### *Other, net*

Other, net financing activities during 2015, include \$2.7 billion of cash proceeds received related to the Tower Monetization Transaction, which relates to the portion of the towers that we continue to occupy and use for network operations, partially offset by the settlement of derivatives upon maturity for \$0.4 billion.

### *Dividends*

The Verizon Board of Directors assesses the level of our dividend payments on a periodic basis taking into account such factors as long-term growth opportunities, internal cash requirements and the expectations of our shareholders. During the third quarter of 2015, the Board increased our quarterly dividend payment 2.7% to \$.565 per share from \$.550 per share in the prior period. This is the ninth consecutive year that Verizon’s Board of Directors has approved a quarterly dividend increase.

As in prior periods, dividend payments were a significant use of capital resources. During 2015, we paid \$8.5 billion in dividends.

## **2014**

During 2014, our net cash used in financing activities of \$57.7 billion was primarily driven by:

- \$58.9 billion used to partially fund the Wireless Transaction (see Note 2 to the consolidated financial statements);
- \$17.7 billion used for repayments of long-term borrowings and capital lease obligations; and
- \$7.8 billion used for dividend payments.

These uses of cash were partially offset by proceeds from long-term borrowings of \$31.0 billion.

### *Proceeds from and Repayments of Long-Term Borrowings*

At December 31, 2014, our total debt increased to \$113.3 billion as compared to \$93.6 billion at December 31, 2013 primarily as a result of additional debt issued to finance the Wireless Transaction. Since the substantial majority of our total debt portfolio consists of fixed rate

indebtedness, changes in interest rates do not have a material effect on our interest payments. Throughout 2014, we accessed the capital markets to optimize the maturity schedule of our debt portfolio and take advantage of lower interest rates, thereby reducing our effective interest rate to 4.9% from 5.2% in 2013. See Note 7 to the consolidated financial statements for additional details regarding our debt activity.

At December 31, 2014, approximately \$9.6 billion or 8.5% of the aggregate principal amount of our total debt portfolio consisted of foreign denominated debt, primarily the Euro and British Pound Sterling. We have entered into cross currency swaps in order to fix our future interest and principal payments in U.S. dollars and mitigate the impact of foreign currency transaction gains or losses. See “Market Risk” for additional information.

See “Other Items” for additional information related to the early debt redemption costs incurred in 2014.

#### *Dividends*

During the third quarter of 2014, the Board increased our quarterly dividend payment 3.8% to \$.550 per share from \$.530 per share in the same period of 2013. As in prior periods, dividend payments were a significant use of capital resources. During 2014, we paid \$7.8 billion in dividends compared to \$5.9 billion in 2013. The increase is primarily due to the issuance of approximately 1.27 billion additional shares of common stock as a result of the Wireless Transaction.

### **2013**

During 2013, our net cash provided by financing activities of \$26.5 billion was primarily driven by proceeds from long-term borrowings of \$49.2 billion to fund the Wireless Transaction. This source of cash was partially offset by:

- \$8.2 billion used for repayments of long-term borrowings and capital lease obligations;
- \$5.9 billion used for dividend payments; and
- \$3.2 billion used for a special distribution to a noncontrolling interest.

#### *Proceeds from and Repayments of Long-Term Borrowings*

At December 31, 2013, our total debt increased to \$93.6 billion as compared to \$52.0 billion at December 31, 2012 primarily as a result of additional debt issued to finance the Wireless Transaction. Since the substantial majority of our total debt portfolio consists of fixed rate indebtedness, changes in interest rates do not have a material effect on our interest payments. See Note 7 to the consolidated financial statements for additional details regarding our debt activity.

#### *Dividends*

During the third quarter of 2013, the Board increased our quarterly dividend payment 2.9% to \$.530 per share from \$.515 per share in the same period of 2012. As in prior periods, dividend payments were a significant use of capital resources.

#### *Special Distributions*

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

#### *Other, net*

The change in Other, net financing activities during 2013 was primarily driven by higher distributions to Vodafone, which owned a 45% noncontrolling interest in Verizon Wireless as of December 31, 2013.

### **Credit Facility**

As of December 31, 2015, the unused borrowing capacity under our \$8.0 billion four-year credit facility was approximately \$7.9 billion. The credit facility does not require us to comply with financial covenants or maintain specified credit ratings, and it permits us to borrow even if our business has incurred a material adverse change. We use the credit facility for the issuance of letters of credit and for general corporate purposes.

### **Common Stock**

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareholder plans, including 22.6 million, 18.2 million and 6.9 million common shares issued from Treasury stock during 2015, 2014 and 2013, respectively, which had aggregate values of \$0.9 billion, \$0.7 billion and \$0.3 billion, respectively.

In February 2015, the Verizon Board of Directors authorized Verizon to enter into an accelerated share repurchase (ASR) agreement to repurchase \$5.0 billion of the Company's common stock. On February 10, 2015, in exchange for an upfront payment totaling \$5.0 billion, Verizon received an initial delivery of 86.2 million shares having a value of approximately \$4.25 billion. On June 5, 2015, Verizon received an additional 15.4 million shares as final settlement of the transaction under the ASR agreement. In total, 101.6 million shares were delivered under the ASR at an average repurchase price of \$49.21.

On March 7, 2014, the Verizon Board of Directors approved a share buyback program, which authorizes the repurchase of up to 100 million shares of Verizon common stock terminating no later than the close of business on February 28, 2017. The program permits Verizon to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs. The Board also determined that no additional shares were to be purchased under the prior program. During 2015, we repurchased \$0.1 billion of our common stock as part of our previously announced share buyback program. There were no repurchases of common stock during 2014. During 2013, we repurchased \$0.2 billion of our common stock under our previous share buyback program.

As a result of the Wireless Transaction, in February 2014, Verizon issued approximately 1.27 billion shares.

### **Credit Ratings**

Verizon's credit ratings did not change in 2015 or 2014.

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

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

### **Covenants**

Our credit agreements contain covenants that are typical for large, investment grade companies. These covenants include requirements to pay interest and principal in a timely fashion, pay taxes, maintain insurance with responsible and reputable insurance companies, preserve our corporate existence, keep appropriate books and records of financial transactions, maintain our properties, provide financial and other reports to our lenders, limit pledging and disposition of assets and mergers and consolidations, and other similar covenants. Additionally, our term loan credit agreement requires us to maintain a leverage ratio (as such term is defined in those agreements) not in excess of 3.50:1.00 until our credit ratings are equal to or higher than A3 and A-. See Note 7 to the consolidated financial statements for additional details related to our term loan credit agreement.

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

### **Increase (Decrease) In Cash and Cash Equivalents**

Our Cash and cash equivalents at December 31, 2015 totaled \$4.5 billion, a \$6.1 billion decrease compared to Cash and cash equivalents at December 31, 2014 primarily as a result of the factors discussed above. Our Cash and cash equivalents at December 31, 2014 totaled \$10.6 billion, a \$42.9 billion decrease compared to Cash and cash equivalents at December 31, 2013 primarily as a result of the cash payment made to Vodafone as part of the completion of the Wireless Transaction.

### **Free Cash Flow**

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

Years Ended December 31,	(dollars in millions)		
	2015	2014	2013
Net cash provided by operating activities	\$ 38,930	\$ 30,631	\$ 38,818
Less Capital expenditures (including capitalized software)	17,775	17,191	16,604
<b>Free cash flow</b>	<b>\$ 21,155</b>	<b>\$ 13,440</b>	<b>\$ 22,214</b>

The changes in free cash flow during 2015, 2014 and 2013 were a result of the factors described in connection with net cash provided by operating activities and capital expenditures. During 2015, we received \$5.9 billion of cash proceeds, net of remittances, related to the sale of wireless device installment receivables as well as \$2.4 billion of cash proceeds received related to the Tower Monetization Transaction attributable to the portion of the towers for which the right-of-use has passed to the tower operator. On February 21, 2014, we completed the Wireless Transaction which provides full access to the cash flows of Verizon Wireless. The completion of the Wireless Transaction resulted in an increase in income tax payments as well as an increase in interest payments, which reduced our net cash provided by operating activities during 2014 (see “Cash Flows Provided by Operating Activities”).

## Employee Benefit Plan Funded Status and Contributions

### Employer Contributions

We operate numerous qualified and nonqualified pension plans and other postretirement benefit plans. These plans primarily relate to our domestic business units. During 2015 and 2014, contributions to our qualified pension plans were \$0.7 billion and \$1.5 billion, respectively. During 2013, contributions to our qualified pension plans were not material. We also contributed \$0.1 billion, \$0.1 billion and \$0.1 billion to our nonqualified pension plans in 2015, 2014 and 2013, respectively.

In an effort to reduce the risk of our portfolio strategy and better align assets with liabilities, we have adopted a liability driven pension strategy that seeks to better match cash flows from investments with projected benefit payments. We expect that the strategy will reduce the likelihood that assets will decline at a time when liabilities increase (referred to as liability hedging), with the goal to reduce the risk of underfunding to the plan and its participants and beneficiaries, however, we also expect the strategy to result in lower asset returns. Based on this strategy and the funded status of the plans at December 31, 2015, we expect the minimum required qualified pension plan contribution in 2016 to be \$0.6 billion. Nonqualified pension contributions are estimated to be approximately \$0.1 billion in 2016.

Contributions to our other postretirement benefit plans generally relate to payments for benefits on an as-incurred basis since the other postretirement benefit plans do not have funding requirements similar to the pension plans. We contributed \$0.9 billion, \$0.7 billion and \$1.4 billion to our other postretirement benefit plans in 2015, 2014 and 2013, respectively. Contributions to our other postretirement benefit plans are estimated to be approximately \$0.9 billion in 2016.

## Leasing Arrangements

See Note 6 to the consolidated financial statements for a discussion of leasing arrangements.

## Off Balance Sheet Arrangements and Contractual Obligations

### Contractual Obligations and Commercial Commitments

The following table provides a summary of our contractual obligations and commercial commitments at December 31, 2015. Additional detail about these items is included in the notes to the consolidated financial statements.

Contractual Obligations	(dollars in millions)				
	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt <sup>(1)</sup>	\$ 109,073	\$ 6,054	\$ 10,843	\$ 14,381	\$ 77,795
Capital lease obligations <sup>(2)</sup>	957	271	424	124	138
Total long-term debt, including current maturities	110,030	6,325	11,267	14,505	77,933
Interest on long-term debt <sup>(1)</sup>	88,562	5,058	9,731	8,880	64,893
Operating leases <sup>(2)</sup>	18,213	2,744	4,697	3,475	7,297
Purchase obligations <sup>(3)</sup>	21,934	8,440	9,166	2,278	2,050
Other long-term liabilities <sup>(4)</sup>	2,402	1,462	940	—	—
Finance obligations <sup>(5)</sup>	2,625	261	538	560	1,266
Total contractual obligations	\$ 243,766	\$ 24,290	\$ 36,339	\$ 29,698	\$ 153,439

<sup>(1)</sup> Items included in long-term debt with variable coupon rates are described in Note 7 to the consolidated financial statements.

<sup>(2)</sup> See Note 6 to the consolidated financial statements.

- (3) The purchase obligations reflected above are primarily commitments to purchase programming and network services, equipment, software, handsets and peripherals, and marketing activities, which will be used or sold in the ordinary course of business. These amounts do not represent our entire anticipated purchases in the future, but represent only those items that are the subject of contractual obligations. We also purchase products and services as needed with no firm commitment. For this reason, the amounts presented in this table alone do not provide a reliable indicator of our expected future cash outflows or changes in our expected cash position (see Note 16 to the consolidated financial statements).
- (4) Other long-term liabilities include estimated postretirement benefit and qualified pension plan contributions (see Note 11 to the consolidated financial statements).
- (5) Represents future minimum payments under the sublease arrangement for our tower transaction (see Note 2 to the consolidated financial statements).

We are not able to make a reliable estimate of when the unrecognized tax benefits balance of \$1.6 billion and related interest and penalties will be settled with the respective taxing authorities until issues or examinations are further developed (see Note 12 to the consolidated financial statements).

## Guarantees

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries as well as the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003 (see Note 7 to the consolidated financial statements).

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

As of December 31, 2015, letters of credit totaling approximately \$0.1 billion, which were executed in the normal course of business and support several financing arrangements and payment obligations to third parties, were outstanding (see Note 16 to the consolidated financial statements).

## Market Risk

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

It is our general policy to enter into interest rate, foreign currency and other derivative transactions only to the extent necessary to achieve our desired objectives in optimizing exposure to various market risks. Our objectives include maintaining a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. We do not hedge our market risk exposure in a manner that would completely eliminate the effect of changes in interest rates and foreign exchange rates on our earnings. At December 31, 2015 and 2014, we posted collateral of approximately \$0.1 billion and \$0.6 billion, respectively, related to derivative contracts under collateral exchange arrangements. During the first and second quarter of 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. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote. As such, we do not expect that our results of operations or financial condition will be materially affected by these risk management strategies.

## Interest Rate Risk

We are exposed to changes in interest rates, primarily on our short-term debt and the portion of long-term debt that carries floating interest rates. As of December 31, 2015, approximately 81% of the aggregate principal amount of our total debt portfolio consisted of fixed rate indebtedness, including the effect of interest rate swap agreements designated as hedges. The impact of a 100 basis point change in interest rates affecting our floating rate debt would result in a change in annual interest expense, including our interest rate swap agreements that are designated as hedges, of approximately \$0.2 billion. The interest rates on substantially all of our existing long-term debt obligations are unaffected by changes to our credit ratings.

The table that follows summarizes the fair values of our long-term debt, including current maturities, and interest rate swap derivatives as of December 31, 2015 and 2014. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming 100-basis-point upward and downward shifts in the yield curve. Our sensitivity analysis does not include the fair values of our commercial paper and bank loans, if any, because they are not significantly affected by changes in market interest rates.



			(dollars in millions)
Long-term debt and related derivatives	Fair Value	Fair Value assuming + 100 basis point shift	Fair Value assuming - 100 basis point shift
<b>At December 31, 2015</b>	<b>\$ 117,943</b>	<b>\$ 108,992</b>	<b>\$ 128,641</b>
At December 31, 2014	126,139	115,695	138,420

#### *Interest Rate Swaps*

We enter into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. We principally receive fixed rates and pay variable rates based on LIBOR, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on our consolidated balance sheets as assets and liabilities.

During the third quarter of 2015, we entered into interest rate swaps with a total notional value of \$3.2 billion. During the fourth quarter of 2015, we entered into interest rate swaps with a total notional value of \$2.6 billion. At December 31, 2015 and 2014, the total notional amount of the interest rate swaps was \$7.6 billion and \$1.8 billion, respectively. The fair value of these contracts was \$0.1 billion at December 31, 2015 and was not material at December 31, 2014. The ineffective portion of these interest rate swaps was not material at December 31, 2015 and 2014.

#### *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. At December 31, 2014, these swaps had a notional value of \$2.0 billion. The fair value of these contracts was \$0.2 billion at December 31, 2014, which was included within Other liabilities on our consolidated balance sheet. During the third quarter of 2015, we settled these forward interest rate swaps and the pre-tax loss was not material. During the third quarter of 2015, we entered into forward interest rate swaps with a total notional value of \$0.8 billion. The fair value of these contracts was not material at December 31, 2015.

### **Foreign Currency Translation**

The functional currency for our foreign operations is primarily the local currency. The translation of income statement and balance sheet amounts of our foreign operations into U.S. dollars is recorded as cumulative translation adjustments, which are included in Accumulated other comprehensive income in our consolidated balance sheets. Gains and losses on foreign currency transactions are recorded in the consolidated statements of income in Other income and (expense), net. At December 31, 2015, our primary translation exposure was to the British Pound Sterling, Euro and Australian Dollar.

#### *Cross Currency Swaps*

Verizon Wireless previously entered into cross currency swaps designated as cash flow hedges to exchange approximately \$1.6 billion of British Pound Sterling and Euro-denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses. In June 2014, we settled \$0.8 billion of these cross currency swaps and the gains with respect to these swaps were not material. In December 2015, we settled \$0.6 billion of these cross currency swaps on maturity.

During the first quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately \$5.4 billion of Euro and British Pound Sterling denominated debt into U.S. dollars. During the second quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately \$1.2 billion of British Pound Sterling denominated debt into U.S. dollars. During the fourth quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately \$3.0 billion of Euro denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars. Each of these cross currency swaps was entered into in order to mitigate the impact of foreign currency transaction gains or losses.

A portion of the gains and losses recognized in Other comprehensive income was reclassified to Other income and (expense), net to offset the related pre-tax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was \$1.6 billion and \$0.6 billion, which was primarily included within Other liabilities on our consolidated balance sheets at December 31, 2015 and 2014, respectively. At December 31, 2015, the total notional amount of the cross currency swaps was \$9.7 billion. During 2015 and 2014, a pre-tax loss of \$1.2 billion and a pre-tax loss of \$0.1 billion, respectively, was recognized in Other comprehensive income with respect to these swaps.

#### *Net Investment Hedges*

We entered 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. During the third quarter of 2015, we entered into net investment hedges with a total notional value of \$0.9 billion with the contract tenor maturing in 2018. The fair value of these contracts was not material at December 31, 2015.

**Critical Accounting Estimates**

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

- Wireless licenses and Goodwill are a significant component of our consolidated assets. Both our wireless licenses and goodwill are treated as indefinite-lived intangible assets and, therefore are not amortized, but rather are tested for impairment annually in the fourth fiscal quarter, unless there are events requiring an earlier assessment or changes in circumstances during an interim period that indicate these assets may not be recoverable. We believe our estimates and assumptions are reasonable and represent appropriate marketplace considerations as of the valuation date. Although we use consistent methodologies in developing the assumptions and estimates underlying the fair value calculations used in our impairment tests, these estimates are uncertain by nature and can vary from actual results. It is possible that in the future there may be changes in our assumptions, including estimated cash flow projections, margins, growth rates and discount rate, which could result in different fair value estimates and an impairment charge.

*Wireless Licenses*

The carrying value of our wireless licenses was approximately \$86.6 billion as of December 31, 2015. We aggregate our wireless licenses into one single unit of accounting, as we utilize our wireless licenses on an integrated basis as part of our nationwide wireless network. Our wireless licenses provide us with the exclusive right to utilize certain radio frequency spectrum to provide wireless communication services. There are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses.

In 2015, our quantitative impairment test consisted of comparing the estimated fair value of our aggregate wireless licenses to the aggregated carrying amount as of the test date. If the estimated fair value of our aggregated wireless licenses is less than the aggregated carrying amount of the wireless licenses then an impairment charge would have been recognized. Our quantitative impairment test for 2015 indicated that the fair value significantly exceeded the carrying value and, therefore, did not result in an impairment.

In 2015, using a quantitative assessment, we estimated the fair value of our wireless licenses using the Greenfield approach. The Greenfield approach is an income based valuation approach that values the wireless licenses by calculating the cash flow generating potential of a hypothetical start-up company that goes into business with no assets except the wireless licenses to be valued. A discounted cash flow analysis is used to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. As a result, we were required to make significant estimates about future cash flows specifically associated with our wireless licenses, an appropriate discount rate based on the risk associated with those estimated cash flows and assumed terminal value and growth rates. We considered current and expected future economic conditions, current and expected availability of wireless network technology and infrastructure and related equipment and the costs thereof as well as other relevant factors in estimating future cash flows. The discount rate represented our estimate of the weighted-average cost of capital (WACC), or expected return, that a marketplace participant would have required as of the valuation date. We developed the discount rate based on our consideration of the cost of debt and equity of a group of guideline companies as of the valuation date. Accordingly, our discount rate incorporated our estimate of the expected return a marketplace participant would have required as of the valuation date, including the risk premium associated with the current and expected economic conditions as of the valuation date. The terminal value growth rate represented our estimate of the marketplace's long-term growth rate.

In 2014 and 2013, we performed a qualitative impairment assessment to determine whether it is more likely than not that the fair value of our wireless licenses was less than the carrying amount. As part of our assessment we considered several qualitative factors including the business enterprise value of Wireless, macroeconomic conditions (including changes in interest rates and discount rates), industry and market considerations (including industry revenue and EBITDA margin projections), the projected financial performance of Wireless, as well as other factors. Based on our assessment in 2014 and 2013, we qualitatively concluded that it was more likely than not that the fair value of our wireless licenses significantly exceeded their carrying value and therefore, did not result in an impairment.

*Goodwill*

At December 31, 2015, the balance of our goodwill was approximately \$25.3 billion, of which \$18.4 billion was in our Wireless reporting unit, \$4.3 billion was in our Wireline reporting unit and \$2.6 billion was in our other reporting unit. Determining whether an impairment has occurred requires the determination of fair value of each respective reporting unit. The fair value of our reporting units exceeded the carrying values. Accordingly, our annual impairment tests for 2015, 2014 and 2013 did not result in an impairment. In the event of a 10% decline in the fair value of any of our reporting units, the fair value would have still exceeded the book value of the reporting unit and no impairment charge would be recorded.

The fair value of the reporting unit is calculated using a market approach and a discounted cash flow method. The market approach includes the use of comparative multiples to corroborate discounted cash flow results. The discounted cash flow method is based on the present value of two components—projected cash flows and a terminal value. The terminal value represents the expected normalized future cash flows of the reporting unit beyond the cash flows from the discrete projection period. The fair value of the reporting unit is calculated based on the sum of the present value of the cash flows from the discrete period and the present value of the terminal value. The discount rate represented our estimate of the WACC, or expected return, that a marketplace participant would have required as of the valuation date.

- We maintain benefit plans for most of our employees, including, for certain employees, pension and other postretirement benefit plans. At December 31, 2015, in the aggregate, pension plan benefit obligations exceeded the fair value of pension plan assets, which will result in higher future pension plan expense. Other postretirement benefit plans have larger benefit obligations than plan assets, resulting in expense. Significant benefit plan assumptions, including the discount rate used, the long-term rate of return on plan assets, the determination of the substantive plan and health care trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations. Changes to one or more of these assumptions could significantly impact our accounting for pension and other postretirement benefits. A sensitivity analysis of the impact of changes in these assumptions on the benefit obligations and expense (income) recorded, as well as on the funded status due to an increase or a decrease in the actual versus expected return on plan assets as of December 31, 2015 and for the year then ended pertaining to Verizon's pension and postretirement benefit plans is provided in the table below.

(dollars in millions)	Percentage point change	Increase (decrease) at December 31, 2015*
Pension plans discount rate	+0.50	\$ (1,195)
	-0.50	1,333
Rate of return on pension plan assets	+1.00	(175)
	-1.00	175
Postretirement plans discount rate	+0.50	(1,565)
	-0.50	1,761
Rate of return on postretirement plan assets	+1.00	(21)
	-1.00	21
Health care trend rates	+1.00	3,074
	-1.00	(2,516)

\* In determining its pension and other postretirement obligation, the Company used a weighted-average discount rate of 4.6%. The rate was selected to approximate the composite interest rates available on a selection of high-quality bonds available in the market at December 31, 2015. The bonds selected had maturities that coincided with the time periods during which benefits payments are expected to occur, were non-callable and available in sufficient quantities to ensure marketability (at least \$0.3 billion par outstanding).

The annual measurement date for both our pension and other postretirement benefits is December 31<sup>st</sup>. Effective January 1, 2016, we adopted the full yield curve approach to estimate the interest cost component of net periodic benefit cost for pension and other postretirement benefits. We will account for this change as a change in accounting estimate and, accordingly, will account for it prospectively beginning in the first quarter of 2016. Prior to this change, 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.

The full yield curve approach refines our estimate of interest cost by applying the individual spot rates from a yield curve composed of the rates of return on several hundred high-quality, fixed income corporate bonds available at the measurement date. These individual spot rates align with the timing of each future cash outflow for benefit payments and therefore provide a more precise estimate of interest cost.

This change in accounting estimate does not affect the measurement of our total benefit obligations at year end or our annual net periodic benefit cost as the change in the interest cost is offset in the actuarial gain or loss recorded at year end. Accordingly, this change in accounting estimate has no impact on our annual consolidated GAAP results. We estimate the impact of this change on our consolidated GAAP results for the first quarter of 2016 will be a reduction of the interest cost component of net periodic benefit cost and an increase to Net income by approximately \$0.1 billion. However, at this time the estimated impact of this change on the remaining 2016 interim periods and for annual 2016 results cannot be reasonably estimated because it is possible that in the future there may be changes to underlying assumptions, including an interim remeasurement of our benefit obligations, which could result in different estimates. Our non-GAAP measure for segment EBITDA is unaffected because net periodic benefit costs are not included in our segment results. For additional discussion of Non-GAAP measures and non-operational items see "Consolidated Results of Operations".

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

amounts recorded, such differences may impact income tax expense and actual tax payments. We recognize any interest and penalties accrued related to unrecognized tax benefits in income tax expense. Actual tax payments may materially differ from estimated liabilities as a result of changes in tax laws as well as unanticipated transactions impacting related income tax balances.

- Our Plant, property and equipment balance represents a significant component of our consolidated assets. We record Plant, property and equipment at cost. We depreciate Plant, property and equipment on a straight-line basis over the estimated useful life of the assets. We expect that a one-year increase in estimated useful lives of our Plant, property and equipment would result in a decrease to our 2015 depreciation expense of \$2.8 billion and that a one-year decrease would result in an increase of approximately \$7.2 billion in our 2015 depreciation expense.
- We maintain allowances for uncollectible accounts receivable, including our device installment plan receivables, for estimated losses resulting from the failure or inability of our customers to make required payments. Our allowance for uncollectible accounts receivable is based on management's assessment of the collectability of specific customer accounts and includes consideration of the credit worthiness and financial condition of those customers. We record an allowance to reduce the receivables to the amount that is reasonably believed to be collectible. We also record an allowance for all other receivables based on multiple factors including historical experience with bad debts, the general economic environment and the aging of such receivables. If there is a deterioration of customers' financial condition or if future actual default rates on receivables in general differ from those currently anticipated, we may have to adjust our allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

#### **Recently Issued Accounting Standards**

See Note 1 to the consolidated financial statements for a discussion of recently issued accounting standard updates not yet adopted as of December 31, 2015.

### **Acquisitions and Divestitures**

#### **Wireless**

##### **Wireless Transaction**

On February 21, 2014, we completed the Wireless Transaction for aggregate consideration of approximately \$130 billion. The consideration paid was primarily comprised of cash of approximately \$58.89 billion, Verizon common stock with a value of approximately \$61.3 billion and other consideration.

##### *Omnitel Transaction*

On February 21, 2014, Verizon and Vodafone also consummated the sale of the Omnitel Interest (the Omnitel Transaction) by a subsidiary of Verizon to a subsidiary of Vodafone in connection with the Wireless Transaction pursuant to a separate share purchase agreement. As a result, during 2014, we recognized a pre-tax gain of \$1.9 billion on the disposal of the Omnitel interest.

See Note 2 to the consolidated financial statements for additional information regarding the Wireless Transaction.

##### **Spectrum License Transactions**

In January 2015, the FCC completed an auction of 65 MHz of spectrum in the AWS-3 band. We participated in the auction and were the high bidder on 181 spectrum licenses, for which we paid cash of approximately \$10.4 billion. The FCC granted us these spectrum licenses in April 2015.

From time to time, we enter into agreements to buy, sell or exchange spectrum licenses. We believe these spectrum license transactions have allowed us to continue to enhance the reliability of our network while also resulting in a more efficient use of spectrum. See Note 2 to the consolidated financial statements for additional details regarding our spectrum license transactions.

##### **Tower Monetization Transaction**

During March 2015, we completed a transaction with American Tower pursuant to which American Tower acquired the exclusive right to lease, acquire or otherwise operate and manage many of our wireless towers for an upfront payment of \$5.1 billion, which also included payment for the sale of 162 towers. See Note 2 to the consolidated financial statements for additional information.

#### **Wireline**

During July 2014, Verizon sold a non-strategic Wireline business for cash consideration that was not significant. See Note 2 to the consolidated financial statements for additional information.

##### **Access Line Sale**

On February 5, 2015, we announced that we have entered into a definitive agreement with Frontier pursuant to which Verizon will 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 \$7.5 billion net of income taxes), subject to certain adjustments and including the assumption of \$0.6 billion of indebtedness from Verizon by Frontier. We expect this transaction to close at the end of the first quarter of 2016. See Note 2 to the consolidated financial statements for additional information.

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**Other****Acquisition of AOL Inc.**

On May 12, 2015, we entered into the Merger Agreement with 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 their 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. See Note 2 to the consolidated financial statements for additional information.

**Other**

On September 3, 2015, AOL announced an agreement to acquire an advertising technology business for cash consideration that was not significant. The transaction was completed in October 2015.

During the fourth quarter of 2014, Redbox Instant by Verizon, a venture between Verizon and Redbox Automated Retail, LLC (Redbox), a wholly-owned subsidiary of Outerwall Inc., ceased providing service to its customers. In accordance with an agreement between the parties, Redbox withdrew from the venture on October 20, 2014 and Verizon wound down and dissolved the venture during the fourth quarter of 2014. As a result of the termination of the venture, we recorded a pre-tax loss of \$0.1 billion in the fourth quarter of 2014.

During February 2014, Verizon acquired a business dedicated to the development of IP television for cash consideration that was not significant.

During the fourth quarter of 2013, Verizon acquired an industry leader in content delivery networks for \$0.4 billion.

See Note 2 to the consolidated financial statements for additional information.

## Cautionary Statement Concerning Forward-Looking Statements

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

The following important factors, along with those discussed elsewhere in this report and in other filings with the Securities and Exchange Commission (SEC), could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- adverse conditions in the U.S. and international economies;
- the effects of competition in the markets in which we operate;
- material changes in technology or technology substitution;
- disruption of our key suppliers’ provisioning of products or services;
- changes in the regulatory environment in which we operate, including any increase in restrictions on our ability to operate our networks;
- breaches of network or information technology security, natural disasters, terrorist attacks or acts of war or significant litigation and any resulting financial impact not covered by insurance;
- our high level of indebtedness;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets affecting the cost, including interest rates, and/or availability of further financing;
- material adverse changes in labor matters, including labor negotiations, and any resulting financial and/or operational impact;
- significant increases in benefit plan costs or lower investment returns on plan assets;
- changes in tax laws or treaties, or in their interpretation;
- changes in accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings; and
- the inability to implement our business strategies.

## Report of Management on Internal Control Over Financial Reporting

We, the management of Verizon Communications Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the company. Management has evaluated internal control over financial reporting of the company using the criteria for effective internal control established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

Management has assessed the effectiveness of the company’s internal control over financial reporting as of December 31, 2015. Based on this assessment, we believe that the internal control over financial reporting of the company is effective as of December 31, 2015. In connection with this assessment, there were no material weaknesses in the company’s internal control over financial reporting identified by management.

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

/s/ Lowell C. McAdam

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**Lowell C. McAdam**

Chairman and Chief Executive Officer

/s/ Francis J. Shammo

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**Francis J. Shammo**

Executive Vice President and Chief Financial Officer

/s/ Anthony T. Skiadas

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**Anthony T. Skiadas**

Senior Vice President and Controller

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

We have audited Verizon Communications Inc. and subsidiaries' (Verizon) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Verizon's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Verizon maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Verizon as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2015 and our report dated February 23, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

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

February 23, 2016



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

We have audited the accompanying consolidated balance sheets of Verizon Communications Inc. and subsidiaries (Verizon) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of Verizon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Verizon at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Verizon's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

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

February 23, 2016

# Consolidated Statements of Income Verizon Communications Inc. and Subsidiaries

Years Ended December 31,	(dollars in millions, except per share amounts)		
	2015	2014	2013
<b>Operating Revenues</b>			
Service revenues and other	\$ 114,696	\$ 116,122	\$ 112,454
Wireless equipment revenues	16,924	10,957	8,096
<b>Total Operating Revenues</b>	<b>131,620</b>	<b>127,079</b>	<b>120,550</b>
<b>Operating Expenses</b>			
Cost of services (exclusive of items shown below)	29,438	28,306	28,534
Wireless cost of equipment	23,119	21,625	16,353
Selling, general and administrative expense	29,986	41,016	27,089
Depreciation and amortization expense	16,017	16,533	16,606
<b>Total Operating Expenses</b>	<b>98,560</b>	<b>107,480</b>	<b>88,582</b>
<b>Operating Income</b>	<b>33,060</b>	<b>19,599</b>	<b>31,968</b>
Equity in (losses) earnings of unconsolidated businesses	(86)	1,780	142
Other income and (expense), net	186	(1,194)	(166)
Interest expense	(4,920)	(4,915)	(2,667)
<b>Income Before Provision For Income Taxes</b>	<b>28,240</b>	<b>15,270</b>	<b>29,277</b>
Provision for income taxes	(9,865)	(3,314)	(5,730)
<b>Net Income</b>	<b>\$ 18,375</b>	<b>\$ 11,956</b>	<b>\$ 23,547</b>
<b>Net income attributable to noncontrolling interests</b>	<b>\$ 496</b>	<b>\$ 2,331</b>	<b>\$ 12,050</b>
<b>Net income attributable to Verizon</b>	<b>17,879</b>	<b>9,625</b>	<b>11,497</b>
<b>Net Income</b>	<b>\$ 18,375</b>	<b>\$ 11,956</b>	<b>\$ 23,547</b>
<b>Basic Earnings Per Common Share</b>			
Net income attributable to Verizon	\$ 4.38	\$ 2.42	\$ 4.01
Weighted-average shares outstanding (in millions)	4,085	3,974	2,866
<b>Diluted Earnings Per Common Share</b>			
Net income attributable to Verizon	\$ 4.37	\$ 2.42	\$ 4.00
Weighted-average shares outstanding (in millions)	4,093	3,981	2,874

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income Verizon Communications Inc. and Subsidiaries

	(dollars in millions)		
Years Ended December 31,	2015	2014	2013
<b>Net Income</b>	<b>\$ 18,375</b>	<b>\$ 11,956</b>	<b>\$ 23,547</b>
<b>Other Comprehensive Income, net of taxes</b>			
Foreign currency translation adjustments	(208)	(1,199)	60
Unrealized gains (losses) on cash flow hedges	(194)	(197)	25
Unrealized gains (losses) on marketable securities	(11)	(5)	16
Defined benefit pension and postretirement plans	(148)	154	22
Other comprehensive income (loss) attributable to Verizon	(561)	(1,247)	123
Other comprehensive loss attributable to noncontrolling interests	—	(23)	(15)
<b>Total Comprehensive Income</b>	<b>\$ 17,814</b>	<b>\$ 10,686</b>	<b>\$ 23,655</b>
Comprehensive income attributable to noncontrolling interests	496	2,308	12,035
Comprehensive income attributable to Verizon	17,318	8,378	11,620
<b>Total Comprehensive Income</b>	<b>\$ 17,814</b>	<b>\$ 10,686</b>	<b>\$ 23,655</b>

See Notes to Consolidated Financial Statements

Consolidated Balance Sheets Verizon Communications Inc. and Subsidiaries

(dollars in millions, except per share amounts)

At December 31,

2015

2014

**Assets**

Current assets

Cash and cash equivalents	\$ 4,470	\$ 10,598
Short-term investments	350	555
Accounts receivable, net of allowances of \$882 and \$739	13,457	13,993
Inventories	1,252	1,153
Assets held for sale	792	552
Prepaid expenses and other	1,959	2,648
Total current assets	22,280	29,499

Plant, property and equipment	220,163	230,508
Less accumulated depreciation	136,622	140,561
Plant, property and equipment, net	83,541	89,947

Investments in unconsolidated businesses	796	802
Wireless licenses	86,575	75,341
Goodwill	25,331	24,639
Other intangible assets, net	8,338	5,728
Non-current assets held for sale	10,267	—
Deposit for wireless licenses	—	921
Other assets	7,512	5,739
Total assets	\$ 244,640	\$ 232,616

**Liabilities and Equity**

Current liabilities

Debt maturing within one year	\$ 6,489	\$ 2,735
Accounts payable and accrued liabilities	19,362	16,680
Liabilities related to assets held for sale	463	—
Other	8,738	8,572
Total current liabilities	35,052	27,987

Long-term debt	103,705	110,536
Employee benefit obligations	29,957	33,280
Deferred income taxes	45,484	41,563
Non-current liabilities related to assets held for sale	959	—
Other liabilities	11,641	5,574

Equity

Series preferred stock (\$.10 par value; none issued)	—	—
Common stock (\$.10 par value; 4,242,374,240 shares issued in each period)	424	424
Contributed capital	11,196	11,155
Reinvested earnings	11,246	2,447
Accumulated other comprehensive income	550	1,111
Common stock in treasury, at cost	(7,416)	(3,263)
Deferred compensation – employee stock ownership plans and other	428	424
Noncontrolling interests	1,414	1,378
Total equity	17,842	13,676
Total liabilities and equity	\$ 244,640	\$ 232,616

See Notes to Consolidated Financial Statements

**Consolidated Statements of Cash Flows Verizon Communications Inc. and Subsidiaries**

Years Ended December 31,	(dollars in millions)		
	2015	2014	2013
<b>Cash Flows from Operating Activities</b>			
Net Income	\$ 18,375	\$ 11,956	\$ 23,547
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	16,017	16,533	16,606
Employee retirement benefits	(1,747)	8,130	(5,052)
Deferred income taxes	3,516	(92)	5,785
Provision for uncollectible accounts	1,610	1,095	993
Equity in losses (earnings) of unconsolidated businesses, net of dividends received	127	(1,743)	(102)
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses			
Accounts receivable	(945)	(2,745)	(843)
Inventories	(99)	(132)	56
Other assets	942	(695)	(143)
Accounts payable and accrued liabilities	2,545	1,412	925
Other, net	(1,411)	(3,088)	(2,954)
Net cash provided by operating activities	38,930	30,631	38,818
<b>Cash Flows from Investing Activities</b>			
Capital expenditures (including capitalized software)	(17,775)	(17,191)	(16,604)
Acquisitions of investments and businesses, net of cash acquired	(3,545)	(182)	(494)
Acquisitions of wireless licenses	(9,942)	(354)	(580)
Proceeds from dispositions of wireless licenses	—	2,367	2,111
Proceeds from dispositions of businesses	48	120	—
Other, net	1,171	(616)	734
Net cash used in investing activities	(30,043)	(15,856)	(14,833)
<b>Cash Flows from Financing Activities</b>			
Proceeds from long-term borrowings	6,667	30,967	49,166
Repayments of long-term borrowings and capital lease obligations	(9,340)	(17,669)	(8,163)
Decrease in short-term obligations, excluding current maturities	(344)	(475)	(142)
Dividends paid	(8,538)	(7,803)	(5,936)
Proceeds from sale of common stock	40	34	85
Purchase of common stock for treasury	(5,134)	—	(153)
Special distribution to noncontrolling interest	—	—	(3,150)
Acquisition of noncontrolling interest	—	(58,886)	—
Other, net	1,634	(3,873)	(5,257)
Net cash provided by (used in) financing activities	(15,015)	(57,705)	26,450
Increase (decrease) in cash and cash equivalents	(6,128)	(42,930)	50,435
Cash and cash equivalents, beginning of period	10,598	53,528	3,093
Cash and cash equivalents, end of period	\$ 4,470	\$ 10,598	\$ 53,528

See Notes to Consolidated Financial Statements

# Consolidated Statements of Changes in Equity Verizon Communications Inc. and Subsidiaries

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

Years Ended December 31,	2015		2014		2013	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Common Stock</b>						
Balance at beginning of year	4,242,374	\$ 424	2,967,610	\$ 297	2,967,610	\$ 297
Common shares issued (Note 2)	—	—	1,274,764	127	—	—
Balance at end of year	4,242,374	424	4,242,374	424	2,967,610	297
<b>Contributed Capital</b>						
Balance at beginning of year		11,155		37,939		37,990
Acquisition of noncontrolling interest (Note 2)		—		(26,898)		—
Other		41		114		(51)
Balance at end of year		11,196		11,155		37,939
<b>Reinvested Earnings (Accumulated Deficit)</b>						
Balance at beginning of year		2,447		1,782		(3,734)
Net income attributable to Verizon		17,879		9,625		11,497
Dividends declared (\$2.23, \$2.16, \$2.09) per share		(9,080)		(8,960)		(5,981)
Balance at end of year		11,246		2,447		1,782
<b>Accumulated Other Comprehensive Income</b>						
Balance at beginning of year attributable to Verizon		1,111		2,358		2,235
Foreign currency translation adjustments		(208)		(1,199)		60
Unrealized gains (losses) on cash flow hedges		(194)		(197)		25
Unrealized gains (losses) on marketable securities		(11)		(5)		16
Defined benefit pension and postretirement plans		(148)		154		22
Other comprehensive income (loss)		(561)		(1,247)		123
Balance at end of year attributable to Verizon		550		1,111		2,358
<b>Treasury Stock</b>						
Balance at beginning of year	(87,410)	(3,263)	(105,610)	(3,961)	(109,041)	(4,071)
Shares purchased	(104,402)	(5,134)	—	—	(3,500)	(153)
Employee plans (Note 15)	17,072	740	14,132	541	6,835	260
Shareowner plans (Note 15)	5,541	241	4,105	157	96	3
Other	—	—	(37)	—	—	—
Balance at end of year	(169,199)	(7,416)	(87,410)	(3,263)	(105,610)	(3,961)
<b>Deferred Compensation-ESOPs and Other</b>						
Balance at beginning of year		424		421		440
Restricted stock equity grant		208		166		152
Amortization		(204)		(163)		(171)
Balance at end of year		428		424		421
<b>Noncontrolling Interests</b>						
Balance at beginning of year		1,378		56,580		52,376
Acquisition of noncontrolling interest (Note 2)		—		(55,960)		—
Net income attributable to noncontrolling interests		496		2,331		12,050
Other comprehensive loss		—		(23)		(15)
Total comprehensive income		496		2,308		12,035
Distributions and other		(460)		(1,550)		(7,831)
Balance at end of year		1,414		1,378		56,580
<b>Total Equity</b>		<b>\$ 17,842</b>		<b>\$ 13,676</b>		<b>\$ 95,416</b>

See Notes to Consolidated Financial Statements

**Note 1****Description of Business and Summary of Significant Accounting Policies****Description of Business**

Verizon Communications Inc. (Verizon or the Company) is a holding company 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 have two reportable segments, Wireless and Wireline. For further information concerning our business segments, see Note 13.

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

The 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.

**Consolidation**

The method of accounting applied to investments, whether consolidated, equity or cost, involves an evaluation of all significant terms of the investments that explicitly grant or suggest evidence of control or influence over the operations of the investee. The consolidated financial statements include our controlled subsidiaries, as well as variable interest entities (VIE) where we are deemed to be the primary beneficiary. For controlled subsidiaries that are not wholly-owned, the noncontrolling interests are included in Net income and Total equity. Investments in businesses which we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. Investments in which we do not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method. Equity and cost method investments are included in Investments in unconsolidated businesses in our consolidated balance sheets. All significant intercompany accounts and transactions have been eliminated.

**Basis of Presentation**

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

**Use of Estimates**

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

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

**Revenue Recognition***Multiple Deliverable Arrangements*

We offer products and services to our wireless and wireline customers through bundled arrangements. These arrangements involve multiple deliverables which may include products, services, or a combination of products and services.

*Wireless*

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

Under the Verizon device payment program (formerly known as Verizon Edge), our eligible wireless customers purchase phones or tablets at unsubsidized prices on an installment basis (a device installment plan). Certain devices are subject to promotions that allow customers to upgrade to a new device after paying down the minimum percentage of the device installment plan and trading in their device. When a customer has the right to upgrade to a new device by paying down the minimum percentage of the device installment plan and trading in their device, we account for this trade-in right as a guarantee obligation. The full amount of the trade-in right's fair value (not an allocated value) is recognized as a guarantee liability and the remaining allocable consideration is allocated to the device. The value of the guarantee liability effectively results in a reduction to the revenue recognized for the sale of the device.

In multiple element arrangements that bundle devices and monthly wireless service, revenue is allocated to each unit of accounting using a relative selling price method. At the inception of the arrangement, the amount allocable to the delivered units of accounting is limited to the amount that is not contingent upon the delivery of the monthly wireless service (the noncontingent amount). We effectively recognize revenue on the delivered device at the lesser of the amount allocated based on the relative selling price of the device or the noncontingent amount owed when the device is sold.

#### *Wireline*

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

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

When we bundle equipment with maintenance and monitoring services, we recognize equipment revenue when the equipment is installed in accordance with contractual specifications and ready for the customer's use. The maintenance and monitoring services are recognized monthly over the term of the contract as we provide the services.

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

#### *Other*

Advertising revenues are generated through display advertising and search advertising. Display advertising revenue is generated by the display of graphical advertisements and other performance-based advertising. Search advertising revenue is generated when a consumer clicks on a text-based advertisement on their screen. Agreements for advertising typically take the forms of impression-based contracts, time-based contracts or performance-based contracts. Advertising revenues derived from impression-based contracts, in which we provide impressions in exchange for a fixed fee, are generally recognized as the impressions are delivered. Advertising revenues derived from time-based contracts, in which we provide promotions over a specified time period for a fixed fee, are recognized on a straight-line basis over the term of the contract, provided that we meet and will continue to meet our obligations under the contract. Advertising revenues derived from contracts where we are compensated based on certain performance criteria are recognized as we complete the contractually specified performance.

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

#### **Maintenance and Repairs**

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

#### **Advertising Costs**

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

#### **Earnings Per Common Share**

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

There were a total of approximately 8 million, 7 million and 8 million outstanding dilutive securities, primarily consisting of restricted stock units, included in the computation of diluted earnings per common share for the years ended December 31, 2015, 2014 and 2013, respectively. For the year ended December 31, 2015, there were no outstanding options to purchase shares that would have been anti-dilutive. Outstanding options to purchase shares that were not included in the computation of diluted earnings per common share, because to do so would have been anti-dilutive for the period, were not significant for the years ended December 31, 2014 and 2013, respectively.



On January 28, 2014, at a special meeting of our shareholders, we received shareholder approval to increase our authorized shares of common stock by 2 billion shares to an aggregate of 6.25 billion authorized shares of common stock. On February 4, 2014, this authorization became effective. On February 21, 2014, we issued approximately 1.27 billion shares of common stock upon completing the acquisition of Vodafone Group Plc's indirect 45% interest in Cellco Partnership d/b/a Verizon Wireless. See Note 2 for additional information.

### **Cash and Cash Equivalents**

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

### **Marketable Securities**

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

### **Allowance for Doubtful Accounts**

Accounts receivable are recorded in the consolidated financial statements at cost net of an allowance for credit losses. We maintain allowances for uncollectible accounts receivable, including our device installment plan receivables, for estimated losses resulting from the failure or inability of our customers to make required payments. Similar to traditional service revenue accounting treatment, we record device installment plan bad debt expense based on an estimate of the percentage of equipment revenue that will not be collected. This estimate is based on a number of factors including historical write-off experience, credit quality of the customer base and other factors such as macroeconomic conditions. Due to the device installment plan being incorporated in the standard Verizon Wireless bill, the collection and risk strategies continue to follow historical practices. We monitor the aging of our accounts with device installment plan receivables and write off account balances if collection efforts are unsuccessful and future collection is unlikely.

### **Inventories**

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

### **Plant and Depreciation**

We record plant, property and equipment at cost. Plant, property and equipment are generally depreciated on a straight-line basis.

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

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

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

In connection with our ongoing review of the estimated remaining average useful lives of plant, property and equipment, we determined that changes were necessary to the remaining estimated useful lives of certain assets as a result of technology upgrades, enhancements, and planned retirements. These changes resulted in an increase in depreciation expense of \$0.4 billion and \$0.6 billion in 2015 and 2014, respectively. While the timing and extent of current deployment plans are subject to ongoing analysis and modification, we believe the current estimates of useful lives are reasonable.

### **Computer Software Costs**

We capitalize the cost of internal-use network and non-network software that has a useful life in excess of one year. Subsequent additions, modifications or upgrades to internal-use network and non-network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Planning, software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of internal-use network and non-network software. Capitalized non-network internal-use software costs are amortized using the straight-line method over a period of 3 to 8 years and are included in Other intangible assets, net in our consolidated balance sheets. For a discussion of our impairment policy for capitalized software costs, see "Goodwill and Other Intangible Assets" below. Also, see Note 3 for additional detail of internal-use non-network software reflected in our consolidated balance sheets.

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## Goodwill and Other Intangible Assets

### *Goodwill*

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Impairment testing for goodwill is performed annually in the fourth fiscal quarter or more frequently if impairment indicators are present. To determine if goodwill is potentially impaired, we have the option to perform a qualitative assessment. However, we may elect to bypass the qualitative assessment and perform an impairment test even if no indications of a potential impairment exist. The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. Step one, performed to identify potential impairment, compares the fair value of the reporting unit (calculated using a market approach and/or a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed to measure the amount of the impairment charge. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the implied fair value of goodwill is less than the carrying amount of goodwill, an impairment charge is recognized.

### *Intangible Assets Not Subject to Amortization*

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

We test our wireless licenses for potential impairment annually or more frequently if impairment indicators are present. We have the option to first perform a qualitative assessment to determine whether it is necessary to perform a quantitative impairment test. However, we may elect to bypass the qualitative assessment in any period and proceed directly to performing the quantitative impairment test. The most recent quantitative assessment of our wireless licenses occurred in 2015. Our quantitative assessment consisted of comparing the estimated fair value of our aggregate wireless licenses to the aggregated carrying amount as of the test date. Using a quantitative assessment, we estimated the fair value of our aggregate wireless licenses using the Greenfield approach. The Greenfield approach is an income based valuation approach that values the wireless licenses by calculating the cash flow generating potential of a hypothetical start-up company that goes into business with no assets except the wireless licenses to be valued. A discounted cash flow analysis is used to estimate what a marketplace participant would be willing to pay to purchase the aggregated wireless licenses as of the valuation date. If the estimated fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the wireless licenses then an impairment charge is recognized. In 2014 and 2013, we performed a qualitative assessment to determine whether it is more likely than not that the fair value of our wireless licenses was less than the carrying amount. As part of our assessment, we considered several qualitative factors including the business enterprise value of our Wireless segment, macroeconomic conditions (including changes in interest rates and discount rates), industry and market considerations (including industry revenue and EBITDA (Earnings before interest, taxes, depreciation and amortization) margin projections), the projected financial performance of our Wireless segment, as well as other factors.

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

### *Intangible Assets Subject to Amortization and Long-Lived Assets*

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

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

## Fair Value Measurements

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

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

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

## **Income Taxes**

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

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

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

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

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

## **Stock-Based Compensation**

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

## **Foreign Currency Translation**

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

## **Employee Benefit Plans**

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

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

## **Derivative Instruments**

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

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

### **Variable Interest Entities**

VIEs are entities which lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, have equity investors which do not have the ability to make significant decisions relating to the entity's operations through voting rights, do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity. We consolidate the assets and liabilities of VIEs when we are deemed to be the primary beneficiary. The primary beneficiary is the party which has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

### **Recently Adopted Accounting Standards**

During the first quarter of 2015, we adopted the accounting standard update related to the reporting of discontinued operations and disclosures of disposals of components of an entity, which changes the criteria for reporting discontinued operations. As a result of this standard update, a disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. The prospective adoption of this standard update did not have an impact on our consolidated financial statements.

During the fourth quarter of 2015, we early adopted the accounting standard update related to the balance sheet classification of deferred taxes. The standard update requires that deferred tax liabilities and assets be classified as noncurrent in the statement of financial position. We applied the amendments in this accounting standard update retrospectively to all periods presented. The adoption of this standard update did not have a significant impact on our consolidated financial statements.

### **Recently Issued Accounting Standards**

In September 2015, the accounting standard update related to the simplification of the accounting for measurement-period adjustments in business combinations was issued. 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. We will adopt this standard update during the first quarter of 2016. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

In May 2015, the accounting standard update related to disclosures for investments in certain entities that calculate net asset value per share was issued. 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 also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. We will adopt this standard update during the first quarter of 2016 and apply it retrospectively to all periods presented. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

In April 2015, the accounting standard update related to the simplification of the presentation of debt issuance costs was issued. 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. In August 2015, the accounting standard update related to the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements was issued. This standard adds Securities and Exchange Commission (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 will adopt these standard updates during the first quarter of 2016. The adoption of these standard updates is not expected to have a significant impact on our consolidated financial statements.

In June 2014, an accounting standard update was issued 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 update requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. We will adopt this standard update during the first quarter of 2016. The adoption of this standard update is not expected to have a significant impact on our 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 U.S. GAAP and International Financial Reporting Standards. The standard update intends to provide a more robust framework for addressing revenue issues; improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; and provide more useful information to users of financial statements through improved disclosure requirements. Upon adoption of this standard update, we expect that the allocation and timing of revenue recognition will be impacted. In August 2015, an accounting standard update was issued that delays the effective date of this standard until the first quarter of 2018. Companies are permitted to early adopt the standard in the first quarter of 2017.

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 consolidated financial statements.

## Note 2

### Acquisitions and Divestitures

#### Wireless

##### **Wireless Transaction**

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

On February 21, 2014, pursuant to the terms and subject to the conditions set forth in the Stock Purchase Agreement, Verizon acquired (the Wireless Transaction) from Seller all of the issued and outstanding capital stock (the Transferred Shares) of Vodafone Americas Finance 1 Inc., a subsidiary of Seller (VF1 Inc.), which indirectly through certain subsidiaries (together with VF1 Inc., the Purchased Entities) owned the Vodafone Interest. In consideration for the Transferred Shares, upon completion of the Wireless Transaction, Verizon (i) paid approximately \$58.89 billion in cash, (ii) issued approximately 1.27 billion shares of Verizon's common stock, par value \$0.10 per share (the Stock Consideration), which was valued at approximately \$61.3 billion at the closing of the Wireless Transaction, (iii) issued senior unsecured Verizon notes in an aggregate principal amount of \$5.0 billion (the Verizon Notes), (iv) sold Verizon's indirectly owned 23.1% interest in Vodafone Omnitel N.V. (Omnitel, and such interest, the Omnitel Interest), valued at \$3.5 billion and (v) provided other consideration, which included the assumption of preferred stock valued at approximately \$1.7 billion. The total cash paid to Vodafone and the other costs of the Wireless Transaction, including financing, legal and bank fees, were financed through the incurrence of third-party indebtedness. See Note 7 for additional information.

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

##### *Omnitel Transaction*

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

##### *Verizon Notes (Non-Cash Transaction)*

The Verizon Notes were issued pursuant to Verizon's existing indenture. The Verizon Notes were issued in two separate series, with \$2.5 billion due February 21, 2022 (the eight-year Verizon Notes) and \$2.5 billion due February 21, 2025 (the eleven-year Verizon Notes). The Verizon Notes bear interest at a floating rate, which will be reset quarterly, with interest payable quarterly in arrears, beginning May 21, 2014. The eight-year Verizon notes bear interest at a floating rate equal to three-month London Interbank Offered Rate (LIBOR), plus 1.222%, and the eleven-year Verizon notes bear interest at a floating rate equal to three-month LIBOR, plus 1.372%. The indenture that governs the Verizon Notes contains certain negative covenants, including a negative pledge covenant and a merger or similar transaction covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. An event of default for either series of the Verizon Notes may result in acceleration of the entire principal amount of all debt securities of that series. Beginning two years after the closing of the Wireless Transaction,

Verizon may redeem all or any portion of the outstanding Verizon Notes held by Vodafone or any of its affiliates for a redemption price of 100% of the principal amount plus accrued and unpaid interest. The Verizon Notes may only be transferred by Vodafone to third parties in specified amounts during specified periods, commencing January 1, 2017. Any Verizon Notes held by third parties will not be redeemable by Verizon prior to their maturity dates. Verizon has agreed to file a registration statement with respect to the Verizon Notes at least three months prior to the Verizon Notes becoming transferable.

#### *Other Consideration (Non-Cash Transaction)*

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

#### *Deferred Tax Liabilities*

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

#### **Spectrum License Transactions**

Since 2013, we have entered into several strategic spectrum transactions including:

- During the first quarter of 2013, we completed license exchange transactions with T-Mobile License LLC and Cricket License Company, LLC, a subsidiary of Leap Wireless, to exchange certain Advanced Wireless Services (AWS) licenses. These non-cash exchanges included a number of intra-market swaps that we expect will enable Verizon Wireless to make more efficient use of the AWS band. As a result of these exchanges, we received an aggregate \$0.5 billion of AWS licenses at fair value and recorded an immaterial gain.
- During the third quarter of 2013, after receiving the required regulatory approvals, Verizon Wireless sold 39 lower 700 MHz B block spectrum licenses to AT&T Inc. (AT&T) in exchange for a payment of \$1.9 billion and the transfer by AT&T to Verizon Wireless of AWS (10 MHz) licenses in certain markets in the western United States. Verizon Wireless also sold certain lower 700 MHz B block spectrum licenses to an investment firm for a payment of \$0.2 billion. As a result, we received \$0.5 billion of AWS licenses at fair value and we recorded a pre-tax gain of approximately \$0.3 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2013.
- During the second quarter of 2014, we completed license exchange transactions with T-Mobile USA, Inc. (T-Mobile USA) to exchange certain AWS and Personal Communication Services (PCS) licenses. The exchange included a number of swaps that we expect will result in more efficient use of the AWS and PCS bands. As a result of these exchanges, we received \$0.9 billion of AWS and PCS spectrum licenses at fair value and we recorded an immaterial gain.
- During the second quarter of 2014, we completed transactions pursuant to two additional agreements with T-Mobile USA with respect to our remaining 700 MHz A block spectrum licenses. Under one agreement, we sold certain of these licenses to T-Mobile USA in exchange for cash consideration of approximately \$2.4 billion, and under the second agreement we exchanged the remainder of our 700 MHz A block spectrum licenses as well as AWS and PCS spectrum licenses for AWS and PCS spectrum licenses. As a result, we received \$1.6 billion of AWS and PCS spectrum licenses at fair value and we recorded a pre-tax gain of approximately \$0.7 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2014.
- During the third quarter of 2014, we entered into a license exchange agreement with affiliates of AT&T to exchange certain AWS and PCS spectrum licenses. This non-cash exchange was completed in January 2015 at which time we recorded an immaterial gain.
- On January 29, 2015, the FCC completed an auction of 65 MHz of spectrum, which it identified as the AWS-3 band. Verizon participated in that auction and was the high bidder on 181 spectrum licenses, for which we paid cash of approximately \$10.4 billion. During the fourth quarter of 2014, we made a deposit of \$0.9 billion related to our participation in this auction which is classified within Other, net investing activities on our consolidated statement of cash flows for the year ended December 31, 2014. During the first quarter of 2015, we submitted an application to the FCC and paid \$9.5 billion to the FCC to complete payment for these licenses. The cash payment of \$9.5 billion is classified within Acquisitions of wireless licenses on our consolidated statement of cash flows for the year ended December 31, 2015. On April 8, 2015, the FCC granted us these spectrum licenses.
- During the fourth quarter of 2015, we completed a license exchange transaction with an affiliate of T-Mobile USA to exchange certain AWS and PCS spectrum licenses. As a result we received \$0.4 billion of AWS and PCS spectrum licenses at fair value and recorded a pre-tax gain of approximately \$0.3 billion in Selling, general and administrative expense on our consolidated statement of income for the year ended December 31, 2015.

- During the fourth quarter of 2015, 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 expected to be completed during the first quarter of 2016 and we expect to record an immaterial gain.
- 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 is expected to be completed in the second quarter of 2016 and we expect to record an immaterial gain.

### **Tower Monetization Transaction**

During March 2015, we completed a transaction with American Tower Corporation (American Tower) pursuant to which American Tower acquired the exclusive rights to lease and operate approximately 11,300 of our wireless towers for an upfront payment of \$5.0 billion. Under the terms of the leases, American Tower has exclusive rights to lease and operate the towers over an average term of approximately 28 years. As the leases expire, American Tower has fixed-price purchase options to acquire these towers based on their anticipated fair market values at the end of the lease terms. As part of this transaction, we also sold 162 towers for \$0.1 billion. We have subleased capacity on the towers from American Tower for a minimum of 10 years at current market rates, with options to renew. The upfront payment, including the towers sold, which is primarily included within Other liabilities on our consolidated balance sheet, is accounted for as deferred rent and as a financing obligation. The \$2.4 billion accounted for as deferred rent, which is presented within Other, net cash flows provided by operating activities, relates to the portion of the towers for which the right-of-use has passed to the tower operator. The \$2.7 billion accounted for as a financing obligation, which is presented within Other, net cash flows used in financing activities, relates to the portion of the towers that we continue to occupy and use for network operations.

### **Other**

During 2015, 2014 and 2013, we acquired various other wireless licenses and markets for cash consideration that was not significant. Additionally, during 2013, we obtained control of previously unconsolidated wireless partnerships, which were previously accounted for under the equity method and are now consolidated, which resulted in an immaterial gain. In 2013, we recorded \$0.2 billion of goodwill as a result of these transactions.

### **Wireline**

#### **Access Line Sale**

On February 5, 2015, we announced that we have entered into a definitive agreement with Frontier Communications Corporation (Frontier) pursuant to which Verizon will 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 \$7.5 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, does not involve any assets or liabilities of Verizon Wireless. The assets and liabilities that will be sold are currently included in Verizon's continuing operations and classified as assets held for sale and liabilities related to assets held for sale on our consolidated balance sheet as of December 31, 2015. For the years ended December 31, 2015 and 2014, these businesses generated approximately \$5.4 billion of revenues, excluding revenues with affiliates, for each respective year and operating income of approximately \$0.8 billion and an immaterial loss, respectively, based on the stand-alone financial results of the businesses. These amounts include direct expenses incurred of approximately \$2.7 billion in each of the years ended December 31, 2015 and 2014 and (credits) charges related to pension and benefit actuarial valuation adjustments for these ILEC employees of \$(0.2) billion and \$0.6 billion for the years ended December 31, 2015 and 2014, respectively. The amounts also include indirect overhead expenses, which are a significant component of our cost structure. These stand-alone financial results also include approximately \$1.0 billion of depreciation and amortization for the years ended December 31, 2015 and 2014, respectively. In our consolidated results, the depreciation and amortization of these ILEC assets ceased at the beginning of 2015 in accordance with the accounting model for assets held for sale. The transaction is subject to the satisfaction of certain closing conditions including, among others, receipt of federal approvals from the FCC and the antitrust authorities and state regulatory approvals. All federal and state regulatory approvals have been obtained. We expect this transaction to close at the end of the first quarter of 2016.

Based on the number of voice connections and Fios Internet and video subscribers, respectively, as of December 31, 2015, the transaction would result in Frontier acquiring approximately 3.4 million voice connections, 1.6 million Fios Internet subscribers, 1.2 million Fios video subscribers and the related ILEC businesses from Verizon. The operating results of these businesses, collectively, are included within our Wireline segment for all periods presented.

The following table summarizes the major classes of assets and liabilities of our local exchange and related landline activities in California, Florida and Texas which are classified as held for sale on our consolidated balance sheet as of December 31, 2015:

	(dollars in millions)
<b>Assets held for sale:</b>	
Accounts receivable	\$ 435
Prepaid expense and other	58
Total current assets held for sale	493
Plant, property and equipment, net	8,884
Goodwill (Note 3)	1,328
Other assets	55
Total non-current assets held for sale	10,267
<b>Total assets held for sale</b>	<b>\$ 10,760</b>
<b>Liabilities related to assets held for sale:</b>	
Accounts payable and accrued liabilities	\$ 256
Other current liabilities	207
Total current liabilities related to assets held for sale	463
Long-term debt	594
Employee benefit obligations	289
Other liabilities	76
Total non-current liabilities related to assets held for sale	959
<b>Total liabilities related to assets held for sale</b>	<b>\$ 1,422</b>

#### **Other**

On July 1, 2014, we sold a non-strategic Wireline business that provides communications solutions to a variety of government agencies for net cash proceeds of \$0.1 billion and recorded an immaterial gain.

During the fourth quarter of 2015, Verizon completed a sale of real estate for which we received total gross proceeds of \$0.2 billion and recognized an immaterial deferred gain. The proceeds received as a result of this transaction have been classified within Cash flows used in investing activities on our consolidated statement of cash flows for the year ended December 31, 2015.

#### **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 and we are in the process of finalizing our valuations for deferred taxes. These adjustments are not expected to have a material impact on our consolidated financial statements. The valuations will be finalized within 12 months following the close of the acquisition.

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)	As of June 23, 2015
Cash payment to AOL's equity holders	\$ 3,764
Estimated liabilities to be paid	377
<b>Total consideration</b>	<b>\$ 4,141</b>
<b>Assets acquired:</b>	
Goodwill	\$ 1,903
Intangible assets subject to amortization	2,504
Other	1,551
<b>Total assets acquired</b>	<b>5,958</b>
<b>Liabilities assumed:</b>	
Total liabilities assumed	1,816
<b>Net assets acquired:</b>	<b>4,142</b>
Noncontrolling interest	(1)
<b>Total consideration</b>	<b>\$ 4,141</b>

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 preliminary goodwill related to this acquisition is included within Corporate and other (see Note 3 for additional details).

#### *Pro Forma Information*

If the acquisition of AOL had been completed as of January 1, 2014, our results of operations, including Operating revenues and Net income attributable to Verizon, would not have been materially different from our previously reported results of operations.

#### **Real Estate Transaction**

On May 19, 2015, Verizon consummated a sale-leaseback transaction with a financial services firm for the buildings and real estate at our Basking Ridge, New Jersey location. We received total gross proceeds of \$0.7 billion resulting in a deferred gain of \$0.4 billion, which will be amortized over the initial leaseback term of twenty years. The leaseback of the buildings and real estate is accounted for as an operating lease. The proceeds received as a result of this transaction have been classified within Cash flows used in investing activities on our consolidated statement of cash flows for the year ended December 31, 2015.

#### **Other**

On September 3, 2015, AOL announced an agreement to acquire an advertising technology business for cash consideration that was not significant. The transaction was completed in October 2015.

On October 7, 2014, Redbox Instant by Verizon, a venture between Verizon and Redbox Automated Retail, LLC (Redbox), a wholly-owned subsidiary of Outerwall Inc., ceased providing service to its customers. In accordance with an agreement between the parties, Redbox withdrew from the venture on October 20, 2014 and Verizon wound down and dissolved the venture during the fourth quarter of 2014. As a result of the termination of the venture, we recorded a pre-tax loss of \$0.1 billion in the fourth quarter of 2014.

During February 2014, Verizon acquired a business dedicated to the development of Internet Protocol (IP) television for cash consideration that was not significant.

During the fourth quarter of 2013, Verizon acquired an industry leader in content delivery networks for \$0.4 billion. Upon closing, we recorded \$0.3 billion of goodwill. Additionally, we acquired a technology company for cash consideration that was not significant. The consolidated financial statements include the results of the operations of each of these acquisitions from the date each acquisition closed.

On 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 subject to customary regulatory approvals and is expected to close in the first half of 2017. Separately, Verizon entered into an agreement to lease certain wireless spectrum from XO Holdings and has an option to buy XO Holdings' entity that owns its wireless spectrum exercisable under certain circumstances.

### Note 3

#### Wireless Licenses, Goodwill and Other Intangible Assets

##### Wireless Licenses

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

	(dollars in millions)
Balance at January 1, 2014	\$ 75,747
Acquisitions (Note 2)	444
Dispositions (Note 2)	(1,978)
Capitalized interest on wireless licenses	167
Reclassifications, adjustments and other	961
Balance at December 31, 2014	\$ 75,341
Acquisitions (Note 2)	10,474
Capitalized interest on wireless licenses	389
Reclassifications, adjustments and other	371
<b>Balance at December 31, 2015</b>	<b>\$ 86,575</b>

Reclassifications, adjustments and other includes the exchanges of wireless licenses in 2015 and 2014 as well as \$0.3 billion of Wireless licenses that are classified as Assets held for sale on our consolidated balance sheets at December 31, 2015 and 2014, respectively. See Note 2 for additional details.

At December 31, 2015 and 2014, approximately \$10.4 billion and \$0.4 billion, respectively, of wireless licenses were under development for commercial service for which we were capitalizing interest costs. The increase is primarily due to licenses acquired in the AWS-3 auction.

The average remaining renewal period of our wireless license portfolio was 5.6 years as of December 31, 2015. See Note 1 for additional details.

##### Goodwill

Changes in the carrying amount of Goodwill are as follows:

	(dollars in millions)			
	Wireless	Wireline	Other	Total
Balance at January 1, 2014	\$ 18,376	\$ 6,258	\$ —	\$ 24,634
Acquisitions (Note 2)	15	40	—	55
Dispositions (Note 2)	—	(38)	—	(38)
Reclassifications, adjustments and other	(1)	(11)	—	(12)
Balance at December 31, 2014	\$ 18,390	\$ 6,249	\$ —	\$ 24,639
Acquisitions (Note 2)	3	—	2,035	2,038
Reclassifications, adjustments and other	—	(1,918)	572	(1,346)
<b>Balance at December 31, 2015</b>	<b>\$ 18,393</b>	<b>\$ 4,331</b>	<b>\$ 2,607</b>	<b>\$ 25,331</b>

As a result of the acquisition of AOL in the second quarter of 2015, we recognized preliminary Goodwill of \$1.9 billion, which is included within Other (see Note 2 for additional details). We also allocated \$0.6 billion of goodwill on a relative fair value basis from Wireline to Other as a result of an internal reorganization. This increase was partially offset by a decrease in Goodwill in Wireline primarily due to the reclassification of \$1.3 billion of Goodwill to Non-current assets held for sale on our consolidated balance sheet at December 31, 2015 as a result of our agreement to sell our local exchange business and related landline activities in California, Florida and Texas to Frontier (see Note 2 for additional details). The amount of Goodwill reclassified was based on a relative fair value basis.

## Other Intangible Assets

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

				(dollars in millions)		
	2015			2014		
At December 31,	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Customer lists (5 to 14 years)	\$ 4,139	\$ (2,365)	\$ 1,774	\$ 3,618	\$ (2,924)	\$ 694
Non-network internal-use software (3 to 8 years)	14,542	(9,620)	4,922	12,791	(8,428)	4,363
Other (5 to 25 years)	2,220	(578)	1,642	1,073	(402)	671
Total	\$ 20,901	\$ (12,563)	\$ 8,338	\$ 17,482	\$ (11,754)	\$ 5,728

The amortization expense for Other intangible assets was as follows:

Years	(dollars in millions)
2015	\$ 1,694
2014	1,567
2013	1,587

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

Years	(dollars in millions)
2016	\$ 1,696
2017	1,491
2018	1,311
2019	1,082
2020	805

## Note 4

### Plant, Property and Equipment

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

At December 31,	Lives (years)	(dollars in millions)	
		2015	2014
Land	–	\$ 709	\$ 763
Buildings and equipment	15-45	25,587	25,209
Central office and other network equipment	3-50	129,201	129,619
Cable, poles and conduit	11-50	44,290	54,797
Leasehold improvements	5-20	7,104	6,374
Work in progress	–	4,907	4,580
Furniture, vehicles and other	3-20	8,365	9,166
		220,163	230,508
Less accumulated depreciation		136,622	140,561
Plant, property and equipment, net		\$ 83,541	\$ 89,947

**Note 5****Investments in Unconsolidated Businesses****Equity Method Investments***Vodafone Omnitel*

Vodafone Omnitel N.V. (Vodafone Omnitel) is one of the largest wireless communications companies in Italy. Prior to the completion of the Wireless Transaction on February 21, 2014, Verizon held a 23.1% ownership interest in Vodafone Omnitel. As part of the consideration of the Wireless Transaction, a subsidiary of Verizon sold its entire ownership interest in Vodafone Omnitel to a subsidiary of Vodafone on February 21, 2014. See Note 2 for additional information.

*Other Equity and Cost Investees*

The remaining investments include wireless partnerships in the U.S., limited partnership investments in entities that invest in affordable housing projects and other smaller domestic and international investments.

**Summarized Financial Information**

The financial information for our equity method investees in 2015 and 2014, including Vodafone Omnitel through the closing of the Wireless Transaction in February 2014, was not significant and therefore is not reflected in the table below.

Summarized financial information for our equity investees in 2013 is as follows:

*Income Statement*

	(dollars in millions)
Years Ended December 31,	2013
Net revenue	\$ 8,984
Operating income	1,632
Net income	925

**Note 6****Leasing Arrangements****As Lessor**

We are the lessor in leveraged and direct financing lease agreements for commercial aircraft and power generating facilities, which comprise the majority of our leasing portfolio along with telecommunications equipment, commercial real estate property and other equipment. These leases have remaining terms of up to 23 years as of December 31, 2015. In addition, we lease space on certain of our cell towers to other wireless carriers. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which is secured by a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments. All recourse debt is reflected in our consolidated balance sheets.

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

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

At December 31,	(dollars in millions)					
	2015			2014		
	Leveraged Leases	Direct Finance Leases	Total	Leveraged Leases	Direct Finance Leases	Total
Minimum lease payments receivable	\$ 778	\$ 7	\$ 785	\$ 1,095	\$ 8	\$ 1,103
Estimated residual value	496	2	498	600	2	602
Unearned income	(309)	(2)	(311)	(535)	(2)	(537)
Total	<u>\$ 965</u>	<u>\$ 7</u>	<u>\$ 972</u>	<u>\$ 1,160</u>	<u>\$ 8</u>	<u>\$ 1,168</u>
Allowance for doubtful accounts			(78)			(78)
Finance lease receivables, net			<u>\$ 894</u>			<u>\$ 1,090</u>
Prepaid expenses and other			\$ 3			\$ 4
Other assets			891			1,086
			<u>\$ 894</u>			<u>\$ 1,090</u>

Accumulated deferred taxes arising from leveraged leases, which are included in Deferred income taxes, amounted to \$0.8 billion at December 31, 2015 and \$0.9 billion at December 31, 2014.

The future minimum lease payments to be received from noncancelable capital leases (direct financing and leveraged leases), net of nonrecourse loan payments related to leveraged leases and allowances for doubtful accounts, along with expected receipts relating to operating leases for the periods shown at December 31, 2015, are as follows:

Years	(dollars in millions)	
	Capital Leases	Operating Leases
2016	\$ 93	\$ 128
2017	94	103
2018	52	82
2019	44	51
2020	72	23
Thereafter	430	12
Total	<u>\$ 785</u>	<u>\$ 399</u>

#### As Lessee

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense under operating leases amounted to \$3.2 billion in 2015, \$2.7 billion in 2014 and \$2.6 billion in 2013, respectively.

During March 2015, we completed a transaction with American Tower pursuant to which American Tower acquired the exclusive rights to lease and operate approximately 11,300 of our wireless towers for an upfront payment of \$5.0 billion. We have subleased capacity on the towers from American Tower for a minimum of 10 years at current market rates, with options to renew. Under this agreement, total rent payments amounted to \$0.2 billion for the year ended December 31, 2015. We expect to make minimum future lease payments of approximately \$2.6 billion. We continue to include the towers in Plant, property and equipment, net in our consolidated balance sheets and depreciate them accordingly. At December 31, 2015, \$0.5 billion of towers were included in Plant, property and equipment, net. See Note 2 for additional information.

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

At December 31,	(dollars in millions)	
	2015	2014
Capital leases	\$ 421	\$ 319
Less accumulated amortization	(221)	(171)
Total	<u>\$ 200</u>	<u>\$ 148</u>

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2015, are as follows:

Years	Capital Leases	(dollars in millions)
		Operating Leases
2016	\$ 302	\$ 2,744
2017	278	2,486
2018	187	2,211
2019	97	1,939
2020	45	1,536
Thereafter	159	7,297
Total minimum rental commitments	1,068	\$ 18,213
Less interest and executory costs	111	
Present value of minimum lease payments	957	
Less current installments	271	
<b>Long-term obligation at December 31, 2015</b>	<b>\$ 686</b>	

#### Note 7

#### Debt

Changes to debt during 2015 are as follows:

	Debt Maturing within One Year	Long-term Debt	(dollars in millions)
			Total
Balance at January 1, 2015	\$ 2,735	\$ 110,536	\$ 113,271
Proceeds from long-term borrowings	4,000	2,667	6,667
Repayments of long-term borrowings and capital leases obligations	(9,340)	—	(9,340)
Decrease in short-term obligations, excluding current maturities	(344)	—	(344)
Reclassifications of long-term debt	8,556	(8,556)	—
Reclassification of long-term debt to Non-current liabilities related to assets held for sale (Note 2)	—	(594)	(594)
Debt acquired (Note 2)	461	92	553
Other	421	(440)	(19)
<b>Balance at December 31, 2015</b>	<b>\$ 6,489</b>	<b>\$ 103,705</b>	<b>\$ 110,194</b>

Debt maturing within one year is as follows:

At December 31,	(dollars in millions)	
	2015	2014
Long-term debt maturing within one year	\$ 6,325	\$ 2,397
Short-term notes payable	158	319
Commercial paper and other	6	19
Total debt maturing within one year	<b>\$ 6,489</b>	<b>\$ 2,735</b>

The weighted-average interest rate for our commercial paper outstanding was 1.0% and 0.4% at December 31, 2015 and 2014, respectively.

#### Credit Facility

As of December 31, 2015, the unused borrowing capacity under our \$8.0 billion four-year credit facility was approximately \$7.9 billion. The credit facility does not require us to comply with financial covenants or maintain specified credit ratings, and it permits us to borrow even if our business has incurred a material adverse change. We use the credit facility for the issuance of letters of credit and for general corporate purposes.

## Long-Term Debt

Outstanding long-term debt obligations are as follows:

At December 31,	Interest Rates %	Maturities	(dollars in millions)	
			2015	2014
Verizon Communications—notes payable and other	0.30 – 3.85	2016 – 2042	\$ 26,281	\$ 27,617
	4.15 – 5.50	2018 – 2055	51,156	40,701
	5.85 – 6.90	2018 – 2054	16,420	24,341
	7.35 – 8.95	2018 – 2039	2,300	2,264
	Floating	2016 – 2025	14,100	14,600
Verizon Wireless—notes payable and other	8.88	2018	68	676
Verizon Wireless—Alltel assumed notes	6.80 – 7.88	2029 – 2032	686	686
Telephone subsidiaries—debentures	5.13 – 6.50	2028 – 2033	575	1,075
	7.38 – 7.88	2022 – 2032	1,099	1,099
	8.00 – 8.75	2019 – 2031	780	880
Other subsidiaries—debentures and other	6.84 – 8.75	2018 – 2028	1,432	1,432
Capital lease obligations (average rate of 3.4% and 4.0% in 2015 and 2014, respectively)			957	516
Unamortized discount, net of premium			(5,824)	(2,954)
Total long-term debt, including current maturities			110,030	112,933
Less long-term debt maturing within one year			6,325	2,397
Total long-term debt			\$ 103,705	\$ 110,536

## 2015

### February Exchange Offers

On February 11, 2015, we announced the commencement of seven separate private offers to exchange (the February Exchange Offers) specified series of outstanding notes and debentures issued by Verizon and GTE Corporation (collectively, the Old Notes) for new Notes to be issued by Verizon (the New Notes) and, in the case of the 6.94% debentures due 2028 of GTE Corporation, cash. The February Exchange Offers have been accounted for as a modification of debt. On March 13, 2015, Verizon issued \$2.9 billion aggregate principal amount of 4.272% Notes due 2036 (the 2036 New Notes), \$5.0 billion aggregate principal amount of 4.522% Notes due 2048 (the 2048 New Notes) and \$5.5 billion aggregate principal amount of 4.672% Notes due 2055 (the 2055 New Notes) in satisfaction of the exchange offer consideration on tendered Old Notes (not including accrued and unpaid interest on the Old Notes). The following tables list the series of Old Notes included in the February Exchange Offers and the principal amount of each such series accepted by Verizon for exchange.

The table below lists the series of Old Notes included in the February Exchange Offers for the 2036 New Notes:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted For Exchange
Verizon Communications Inc.	5.15%	2023	\$ 11,000	\$ 2,483

The table below lists the series of Old Notes included in the February Exchange Offers for the 2048 New Notes:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted For Exchange
Verizon Communications Inc.	6.90%	2038	\$ 1,250	\$ 773
	6.40%	2038	1,750	884
	6.40%	2033	4,355	2,159
	6.25%	2037	750	—
GTE Corporation	6.94%	2028	800	—
				\$ 3,816

The table below lists the series of Old Notes included in the February Exchange Offers for the 2055 New Notes:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted For Exchange
Verizon Communications Inc.	6.55%	2043	\$ 10,670	\$ 4,084

#### *Term Loan Agreement*

During the first quarter of 2015, we entered into a term loan agreement with a major financial institution, pursuant to which we borrowed \$6.5 billion for general corporate purposes, including the acquisition of spectrum licenses. Borrowings under the term loan agreement were to mature in March 2016, with a \$4.0 billion mandatory prepayment required in June 2015. The term loan agreement contained certain negative covenants, including a negative pledge covenant, a merger or similar transaction covenant and an accounting changes covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. In addition, the term loan agreement required us to maintain a leverage ratio (as defined in the term loan agreement) not in excess of 3.50:1.00, until our credit ratings were equal to or higher than A3 and A- at Moody's Investors Service and Standard & Poor's Ratings Services, respectively.

During March 2015, we prepaid approximately \$5.0 billion of the term loan agreement, which satisfied the mandatory prepayment. During the third and fourth quarters of 2015, respectively, we made repayments of approximately \$1.0 billion and \$0.5 billion. As of December 31, 2015, no amounts remained outstanding under the term loan agreement.

#### *Other*

During June 2015, as part of the Merger Agreement with AOL, we assumed approximately \$0.6 billion of debt and capital lease obligations. As of December 31, 2015, approximately \$0.4 billion of the assumed debt and capital lease obligations were repaid.

During October 2015, we executed a \$0.2 billion, 1.5% loan due 2018. Also, during March 2015, \$0.5 billion of floating rate Verizon Communications Notes matured and were repaid. During November 2015, \$1.0 billion of 0.7% Verizon Communications Notes matured and were repaid.

#### 2014

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

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

Also, during March 2014, \$1.0 billion of LIBOR plus 0.61% Verizon Communications Notes and \$1.5 billion of 1.95% Verizon Communications Notes matured and were repaid.

During September 2014, we issued \$0.9 billion aggregate principal amount of 4.8% Notes due 2044. The issuance of these Notes resulted in cash proceeds of approximately \$0.9 billion, net of discounts and issuance costs. The net proceeds were used for general corporate purposes. Also, during September 2014, we redeemed \$0.8 billion aggregate principal amount of Verizon 1.25% Notes due November 2014 and recorded an immaterial amount of early debt redemption costs.



During October 2014, we issued \$6.5 billion aggregate principal amount of fixed rate notes. The issuance of these notes resulted in cash proceeds of approximately \$6.4 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The issuance consisted of the following: \$1.5 billion aggregate principal amount of 3.00% Notes due 2021, \$2.5 billion aggregate principal amount of 3.50% Notes due 2024, and \$2.5 billion aggregate principal amount of 4.40% Notes due 2034. The net proceeds from the issuance was used to redeem (i) in whole the following series of outstanding notes which were called for early redemption in November 2014 (collectively, November Early Debt Redemption): \$0.5 billion aggregate principal amount of Verizon Communications 4.90% Notes due 2015 at 103.7% of the principal amount of such notes, \$0.6 billion aggregate principal amount of Verizon Communications 5.55% Notes due 2016 at 106.3% of the principal amount of such notes, \$1.3 billion aggregate principal amount of Verizon Communications 3.00% Notes due 2016 at 103.4% of the principal amount of such notes, \$0.4 billion aggregate principal amount of Verizon Communications 5.50% Notes due 2017 at 110.5% of the principal amount of such notes, \$0.7 billion aggregate principal amount of Verizon Communications 8.75% Notes due 2018 at 125.2% of the principal amount of such notes, \$0.1 billion aggregate principal amount of Alltel Corporation 7.00% Debentures due 2016 at 108.7% of the principal amount of such notes and \$0.4 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018 at 124.5% of the principal amount of such notes; and (ii) \$1.0 billion aggregate principal amount of Verizon Communications 2.50% Notes due 2016 at 103.0% of the principal amount of such notes. Proceeds not used for the redemption of these notes were used for general corporate purposes. Any accrued and unpaid interest was paid to the date of redemption (see “Early Debt Redemption and Other Costs”).

During December 2014, we issued €1.4 billion aggregate principal amount of 1.625% Notes due 2024 and €1.0 billion aggregate principal amount of 2.625% Notes due 2031. The issuance of these Notes resulted in cash proceeds of approximately \$3.0 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The net proceeds were used for general corporate purposes.

#### *Verizon Notes (Non-Cash Transaction)*

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

#### *Preferred Stock (Non-Cash Transaction)*

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

#### *Term Loan Agreement*

During February 2014, we drew \$6.6 billion pursuant to a term loan agreement, which was entered into during October 2013, with a group of major financial institutions to finance, in part, the Wireless Transaction. \$3.3 billion of the loans under the term loan agreement had a maturity of three years (the 3-Year Loans) and \$3.3 billion of the loans under the term loan agreement had a maturity of five years (the 5-Year Loans). The 5-Year Loans provide for the partial amortization of principal during the last two years that they are outstanding. Loans under the term loan agreement bear interest at floating rates. The term loan agreement contains certain negative covenants, including a negative pledge covenant, a merger or similar transaction covenant and an accounting changes covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. In addition, the term loan agreement requires us to maintain a leverage ratio (as defined in the term loan agreement) not in excess of 3.50:1.00, until our credit ratings are equal to or higher than A3 and A- at Moody’s Investors Service and Standard & Poor’s Ratings Services, respectively.

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

During July 2014, we amended the term loan agreement, settled the outstanding \$3.3 billion of 5-Year Loans and borrowed \$3.3 billion of new loans. The new loans mature in July 2019, bear interest at a lower interest rate and require lower amortization payments in 2017 and 2018. In connection with the transaction, which primarily settled on a net basis, we recorded approximately \$0.5 billion of proceeds from long-term borrowings and of repayments of long-term borrowings, respectively.

#### *Tender Offer*

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

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

<sup>(1)</sup> Per \$1,000 principal amount of notes

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

#### *May Exchange Offer*

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

Concurrent with the issuance of the New Notes, we entered into cross currency swaps to fix our future interest and principal payments in U.S. dollars (see Note 9).

#### *July Exchange Offers*

On July 23, 2014, we announced the commencement of eleven separate private offers to exchange (the July Exchange Offers) specified series of outstanding Notes issued by Verizon and Alltel Corporation (collectively, the Old Notes) for new Notes to be issued by Verizon. The July Exchange Offers have been accounted for as a modification of debt. On August 21, 2014, Verizon issued \$3.3 billion aggregate principal amount of 2.625% Notes due 2020 (the 2020 New Notes), \$4.5 billion aggregate principal amount of 4.862% Notes due 2046 (the 2046 New Notes) and \$5.5 billion aggregate principal amount of 5.012% Notes due 2054 (the 2054 New Notes) in satisfaction of the exchange offer consideration on tendered Old Notes (not including accrued and unpaid interest on the Old Notes). The following tables list the series of Old Notes included in the July Exchange Offers and the principal amount of each such series accepted by Verizon for exchange.

The table below lists the series of Old Notes included in the July Exchange Offers for the 2020 New Notes:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted For Exchange
Verizon Communications	3.65%	2018	\$ 4,750	\$ 2,052
	2.50%	2016	4,250	1,068
				<u>\$ 3,120</u>

The table below lists the series of Old Notes included in the July Exchange Offers for the 2046 New Notes:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted For Exchange
Verizon Communications	6.40%	2033	\$ 6,000	\$ 1,645
	7.75%	2030	2,000	794
	7.35%	2039	1,000	520
	7.75%	2032	400	149
Alltel Corporation	7.875%	2032	700	248
	6.80%	2029	300	65
				<u>\$ 3,421</u>

The table below lists the series of Old Notes included in the July Exchange Offers for the 2054 New Notes:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted For Exchange
Verizon Communications	6.55%	2043	\$ 15,000	\$ 4,330
	6.40%	2038	1,750	—
	6.90%	2038	1,250	—
				<u>\$ 4,330</u>

### Verizon Wireless – Notes Payable and Other

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

#### 2015

During December 2015, we repaid \$0.6 billion upon maturity for €0.5 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.750% Notes due 2015, and the related cross currency swap was settled.

#### 2014

In addition to the retirements of debt securities in connection with the Tender Offer, the May Exchange Offer, the July Exchange Offers and the November Early Debt Redemption, as noted above, during March 2014, Verizon Wireless redeemed \$1.25 billion aggregate principal amount of the Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018 at 127.135% of the principal amount of such notes, plus accrued and unpaid interest (see “Early Debt Redemption and Other Costs”).

### Telephone and Other Subsidiary Debt

#### 2014

During 2014, a series of notes held by GTE Corporation was included in the Tender Offer described above.

## Early Debt Redemption and Other Costs

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

During the fourth quarter of 2014, we recorded net debt redemption costs of \$0.5 billion in connection with the early redemption of \$0.5 billion aggregate principal amount of Verizon 4.90% Notes due 2015, \$0.6 billion aggregate principal amount of Verizon 5.55% Notes due 2016, \$1.3 billion aggregate principal amount of Verizon 3.00% Notes due 2016, \$0.4 billion aggregate principal amount of Verizon 5.50% Notes due 2017, \$0.7 billion aggregate principal amount of Verizon 8.75% Notes due 2018, \$1.0 billion of the then outstanding \$3.2 billion aggregate principal amount of Verizon 2.50% Notes due 2016, \$0.1 billion aggregate principal amount Alltel Corporation 7.00% Debentures due 2016 and \$0.4 billion aggregate principal amount of Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018, as well as \$0.3 billion of other costs.

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

## Additional Financing Activities (Non-Cash Transaction)

We financed, primarily through vendor financing arrangements, the purchase of approximately \$0.7 billion of long-lived assets during 2015 and 2014, consisting primarily of network equipment. At December 31, 2015, \$0.9 billion of vendor financing arrangements remained outstanding. These purchases are non-cash financing activities and therefore not reflected within Capital expenditures on our consolidated statements of cash flows.

## Guarantees

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries. As of December 31, 2015, \$3.1 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.

We also guarantee the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003. As of December 31, 2015, \$1.4 billion aggregate principal amount of these obligations remain outstanding.

## Debt Covenants

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

## Maturities of Long-Term Debt

Maturities of long-term debt outstanding at December 31, 2015 are as follows:

Years	(dollars in millions)
2016	\$ 6,325
2017	4,195
2018	7,072
2019	5,645
2020	8,860
Thereafter	77,933

**Note 8****Wireless Device Installment Plans**

Under the Verizon device payment program, our eligible wireless customers purchase phones or tablets at unsubsidized prices on an installment basis (a device installment plan). 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 installment charge is included in their standard wireless monthly bill. As of December 31, 2015 and 2014, respectively, the total portfolio of device installment plan receivables we are servicing was \$11.9 billion and \$3.8 billion. During 2015, we entered into programs to sell certain device installment receivables. The outstanding portfolio of device installment plan receivables derecognized from our consolidated balance sheets but which we continue to service was \$8.2 billion at December 31, 2015.

**Wireless Device Installment Plan Receivables**

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

	(dollars in millions)	
At December 31,	2015	2014
Device installment plan receivables, gross	\$ 3,720	\$ 3,833
Unamortized imputed interest	(142)	(155)
Device installment plan receivables, net of unamortized imputed interest	3,578	3,678
Allowance for credit losses	(444)	(76)
<b>Device installment plan receivables, net</b>	<b>\$ 3,134</b>	<b>\$ 3,602</b>
<b>Classified on our consolidated balance sheets:</b>		
Accounts receivable, net	\$ 1,979	\$ 2,470
Other assets	1,155	1,132
<b>Device installment plan receivables, net</b>	<b>\$ 3,134</b>	<b>\$ 3,602</b>

At the time of sale, we impute risk adjusted interest on the device installment plan 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 consolidated statements of income, is recognized over the financed installment term.

We assess the collectability of our device installment plan receivables based upon a variety of factors, including the credit quality of the customer base, payment trends and other qualitative factors. We use custom, empirical, risk models to measure the credit quality of a customer and determine eligibility for the device payment program. Based upon the risk assessed by the models, a customer may be required to provide a down payment to enter into the program and may be subject to lower limits on the total amount financed. The down payment will vary in accordance with the risk assessed. We update our risk assessments monthly based on payment trends and other qualitative factors in order to monitor the overall quality of our receivables. The credit quality of our customers is consistent throughout the periods presented.

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

(dollars in millions)	
Balance at January 1, 2015	\$ 76
Bad debt expenses	662
Write-offs	(203)
Allowance related to receivables sold	(101)
Other	10
<b>Balance at December 31, 2015</b>	<b>\$ 444</b>

Customers entering into device installment 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 payments and trading in their device. Generally, customers entering into device installment agreements on or after June 1, 2015 are required to repay all amounts due under their device installment agreement before being eligible to upgrade their device. However, certain devices are subject to promotions that allow customers to upgrade to a new device after paying down the minimum percentage of their device installment plan and trading in their device. When a customer is eligible to upgrade to a new device, we record a guarantee liability in accordance with our accounting policy. The gross guarantee liability related to the upgrade program, which was approximately \$0.2 billion at December 31, 2015 and \$0.7 billion at December 31, 2014, was primarily included in Other current liabilities on our consolidated balance sheets.

## Sales of Wireless Device Installment Plan Receivables

### *Wireless Device Installment Plan Receivables Purchase Agreement*

During the first quarter of 2015, we established a program (Receivables Purchase Agreement, or RPA) to sell from time to time, on an uncommitted basis, eligible device installment plan receivables to a group of primarily relationship banks (Purchasers). Under the program, we transfer the eligible receivables to wholly-owned subsidiaries that are bankruptcy remote special purpose entities (Sellers or SPEs). 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). The receivables sold under the program are no longer considered assets of Verizon. 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 exclude device installment plans where a customer was required to provide a down payment.

### *Revolving Sale of Wireless Device Installment Plan Receivables*

During the fourth quarter of 2015, we entered into a one-year uncommitted facility to sell eligible device installment plan receivables on a revolving basis (Revolving Program), 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. The receivables sold under the Revolving Program are no longer considered assets of Verizon. We continue to bill and collect on the receivables in exchange for a monthly servicing fee, which is not material. Customer installment payments will be available to purchase eligible installment plan receivables originated over the facility's term. Eligible receivables under the Revolving Program exclude device installment plans where a customer was required to provide a down payment.

The sales of receivables under the RPA and Revolving Program did not have a material impact on our consolidated statements of income. The cash proceeds received from the Purchasers are recorded within Cash flows provided by operating activities on our consolidated statement of cash flows.

The following table provides a summary of device installment receivables sold under the RPA and the Revolving Program during the year ended December 31, 2015:

(dollars in millions)	RPA	Revolving Program	Total
Device installment plan receivables sold, net <sup>(1)</sup>	\$ 6,093	\$ 3,270	\$ 9,363
Cash proceeds received <sup>(2)</sup>	4,502	2,738	7,240
Deferred purchase price recorded	1,690	532	2,222

<sup>(1)</sup> Device installment plan receivables net of allowances, imputed interest and the device trade-in right.

<sup>(2)</sup> As of December 31, 2015, cash proceeds received, net of remittances, were \$5.9 billion.

### *Variable Interest Entities*

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

### *Deferred Purchase Price*

Under both the RPA and the Revolving Program, the deferred purchase price was initially recorded at fair value, based on the remaining installment 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. 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. At December 31, 2015, our deferred purchase price receivable was \$2.2 billion, which is held by the SPEs and is included within Other assets on our consolidated balance sheet.

### *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, 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. During the year ended December 31, 2015, we have collected and remitted approximately \$1.3 billion, net of fees, of which an immaterial amount was returned as deferred purchase price. During the year ended December 31, 2015, credit losses on receivables sold were an immaterial amount.

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 SPEs is limited to the amount of the deferred purchase price, which was \$2.2 billion as of December 31, 2015. The maximum exposure to loss represents an estimated loss that 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.

## Note 9

### Fair Value Measurements and Financial Instruments

#### Recurring Fair Value Measurements

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>	<b>\$ 515</b>	<b>\$ 1,155</b>	<b>\$ –</b>	<b>\$ 1,670</b>
<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>	<b>\$ –</b>	<b>\$ 1,681</b>	<b>\$ –</b>	<b>\$ 1,681</b>

<sup>(1)</sup> quoted prices in active markets for identical assets or liabilities

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

<sup>(3)</sup> no observable pricing inputs in the market

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

Fixed income securities consist primarily of investments in municipal bonds 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 2015.

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

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

At December 31,	(dollars in millions)			
	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short- and long-term debt, excluding capital leases	\$ 109,237	\$ 118,216	\$ 112,755	\$ 126,549

### **Derivative Instruments**

#### *Interest Rate Swaps*

We enter into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. We principally receive fixed rates and pay variable rates based on LIBOR, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on our consolidated balance sheets as assets and liabilities.

During the third quarter of 2015, we entered into interest rate swaps with a total notional value of \$3.2 billion. During the fourth quarter of 2015, we entered into interest rate swaps with a total notional value of \$2.6 billion. At December 31, 2015 and 2014, the total notional amount of the interest rate swaps was \$7.6 billion and \$1.8 billion, respectively. The fair value of these contracts was \$0.1 billion at December 31, 2015 and was not material at December 31, 2014. The ineffective portion of these interest rate swaps was not material at December 31, 2015 and 2014.

#### *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. At December 31, 2014, these swaps had a notional value of \$2.0 billion. The fair value of these contracts was \$0.2 billion at December 31, 2014, which was included within Other liabilities on our consolidated balance sheet. During the third quarter of 2015, we settled these forward interest rate swaps and the pre-tax loss was not material. During the third quarter of 2015, we entered into forward interest rate swaps with a total notional value of \$0.8 billion. The fair value of these contracts was not material at December 31, 2015.

#### *Cross Currency Swaps*

Verizon Wireless previously entered into cross currency swaps designated as cash flow hedges to exchange approximately \$1.6 billion of British Pound Sterling and Euro-denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses. In June 2014, we settled \$0.8 billion of these cross currency swaps and the gains with respect to these swaps were not material. In December 2015, we settled \$0.6 billion of these cross currency swaps on maturity.

During the first quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately \$5.4 billion of Euro and British Pound Sterling denominated debt into U.S. dollars. During the second quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately \$1.2 billion of British Pound Sterling denominated debt into U.S. dollars. During the fourth quarter of 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately \$3.0 billion of Euro denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars. Each of these cross currency swaps was entered into in order to mitigate the impact of foreign currency transaction gains or losses.

A portion of the gains and losses recognized in Other comprehensive income was reclassified to Other income and (expense), net to offset the related pre-tax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was \$1.6 billion and \$0.6 billion, which was primarily included within Other liabilities on our consolidated balance sheets at December 31, 2015 and 2014, respectively. At December 31, 2015, the total notional amount of the cross currency swaps was \$9.7 billion. During 2015 and 2014, a pre-tax loss of \$1.2 billion and a pre-tax loss of \$0.1 billion, respectively, was recognized in Other comprehensive income with respect to these swaps.

#### *Net Investment Hedges*

We entered 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. During the third quarter of 2015, we entered into net investment hedges with a total notional value of \$0.9 billion with the contract tenor maturing in 2018. The fair value of these contracts was not material at December 31, 2015.



## Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments, short-term and long-term investments, trade receivables, certain notes receivable, including lease receivables, and derivative contracts. Our policy is to deposit our temporary cash investments with major financial institutions. Counterparties to our derivative contracts are also major financial institutions with whom we have negotiated derivatives agreements (ISDA master agreement) and credit support annex agreements which provide rules for collateral exchange. We generally apply collateralized arrangements with our counterparties for uncleared derivatives to mitigate credit risk. At December 31, 2015 and 2014, we posted collateral of approximately \$0.1 billion and \$0.6 billion, respectively, related to derivative contracts under collateral exchange arrangements, which were recorded as Prepaid expenses and other in our consolidated balance sheets. During the first and second quarters of 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 may enter into swaps on an uncollateralized basis in certain circumstances. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial condition.

## Nonrecurring Fair Value Measurements

The Company measures certain assets and liabilities at fair value on a nonrecurring basis. During the fourth quarter of 2014, certain long-lived assets met the criteria to be classified as held for sale. At that time, the fair value of these long-lived assets was measured, resulting in expected disposal losses of \$0.1 billion. The fair value of these assets held for sale was measured with the assistance of third-party appraisals and other estimates of fair value, which used market approach techniques as part of the analysis. The fair value measurement was categorized as Level 3, as significant unobservable inputs were used in the valuation. The expected disposal losses, which represented the difference between the fair value less cost to sell and the carrying amount of the assets held for sale, were included in Selling, general and administrative expenses.

## Note 10

### Stock-Based Compensation

#### *Verizon Communications Long-Term Incentive Plan*

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

#### *Restricted Stock Units*

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

#### *Performance Stock Units*

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

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

(shares in thousands)	Restricted Stock Units	Performance Stock Units
Outstanding January 1, 2013	18,669	39,463
Granted	4,950	7,470
Payments	(7,246)	(22,703)
Cancelled/Forfeited	(180)	(506)
Outstanding December 31, 2013	16,193	23,724
Granted	5,278	7,359
Payments	(6,202)	(9,153)
Cancelled/Forfeited	(262)	(1,964)
Outstanding December 31, 2014	15,007	19,966
<b>Granted</b>	<b>4,958</b>	<b>7,044</b>
<b>Payments</b>	<b>(5,911)</b>	<b>(6,732)</b>
<b>Cancelled/Forfeited</b>	<b>(151)</b>	<b>(3,075)</b>
<b>Outstanding December 31, 2015</b>	<b>13,903</b>	<b>17,203</b>

As of December 31, 2015, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately \$0.3 billion and is expected to be recognized over approximately two years.

The RSUs granted in 2015 and 2014 have weighted-average grant date fair values of \$48.15 and \$47.23 per unit, respectively. During 2015, 2014 and 2013, we paid \$0.4 billion, \$0.6 billion and \$1.1 billion, respectively, to settle RSUs and PSUs classified as liability awards.

#### *Verizon Wireless' Long-Term Incentive Plan*

The Verizon Wireless Long-Term Incentive Plan (the Wireless Plan) provided compensation opportunities to eligible employees of Verizon Wireless (the Partnership). Under the Wireless Plan, Value Appreciation Rights (VARs) were granted to eligible employees. We have not granted new VARs since 2004. As of December 31, 2015, there are no VARs that remain outstanding.

#### *Stock-Based Compensation Expense*

After-tax compensation expense for stock-based compensation related to RSUs, PSUs and VARs described above included in Net income attributable to Verizon was \$0.3 billion, \$0.3 billion and \$0.4 billion for 2015, 2014 and 2013, respectively.

#### *Stock Options*

The Plan provides for grants of stock options to participants at an option price per share of no less than 100% of the fair market value of Verizon common stock on the date of grant. Each grant has a 10-year life, vesting equally over a three-year period, starting at the date of the grant. We have not granted new stock options since 2004. As of December 31, 2015, there are no stock options that remain outstanding.

### **Note 11**

#### **Employee Benefits**

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

#### **Pension and Other Postretirement Benefits**

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

## Obligations and Funded Status

At December 31,	(dollars in millions)			
		Pension	Health Care and Life	
	2015	2014	2015	2014
<b>Change in Benefit Obligations</b>				
Beginning of year	\$ 25,320	\$ 23,032	\$ 27,097	\$ 23,042
Service cost	374	327	324	258
Interest cost	969	1,035	1,117	1,107
Plan amendments	—	(89)	(45)	(412)
Actuarial (gain) loss, net	(1,361)	2,977	(2,733)	4,645
Benefits paid	(971)	(1,566)	(1,370)	(1,543)
Curtailment and termination benefits	—	11	—	—
Settlements paid	(2,315)	(407)	—	—
Reclassifications (Note 2)	—	—	(167)	—
End of year	\$ 22,016	\$ 25,320	\$ 24,223	\$ 27,097
<b>Change in Plan Assets</b>				
Beginning of year	\$ 18,548	\$ 17,111	\$ 2,435	\$ 3,053
Actual return on plan assets	118	1,778	28	193
Company contributions	744	1,632	667	732
Benefits paid	(971)	(1,566)	(1,370)	(1,543)
Settlements paid	(2,315)	(407)	—	—
End of year	\$ 16,124	\$ 18,548	\$ 1,760	\$ 2,435
<b>Funded Status</b>				
End of year	\$ (5,892)	\$ (6,772)	\$ (22,463)	\$ (24,662)

We reclassified \$0.2 billion to Non-current liabilities related to assets held for sale as a result of our agreement to sell our local exchange business and related landline activities in California, Florida and Texas to Frontier (see Note 2 for additional details).

At December 31,	(dollars in millions)			
		Pension	Health Care and Life	
	2015	2014	2015	2014
<b>Amounts recognized on the balance sheet</b>				
Noncurrent assets	\$ 349	\$ 337	\$ —	\$ —
Current liabilities	(93)	(122)	(695)	(528)
Noncurrent liabilities	(6,148)	(6,987)	(21,768)	(24,134)
Total	\$ (5,892)	\$ (6,772)	\$ (22,463)	\$ (24,662)
<b>Amounts recognized in Accumulated Other Comprehensive Income (Pre-tax)</b>				
Prior Service Benefit (Cost)	\$ (51)	\$ (56)	\$ (2,038)	\$ (2,280)
Total	\$ (51)	\$ (56)	\$ (2,038)	\$ (2,280)

The accumulated benefit obligation for all defined benefit pension plans was \$22.0 billion and \$25.3 billion at December 31, 2015 and 2014, respectively.

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

	(dollars in millions)	
At December 31,	2015	2014
Projected benefit obligation	\$ 21,694	\$ 24,919
Accumulated benefit obligation	21,636	24,851
Fair value of plan assets	15,452	17,810

#### 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)					
	Pension			Health Care and Life		
Years Ended December 31,	2015	2014	2013	2015	2014	2013
Service cost	\$ 374	\$ 327	\$ 395	\$ 324	\$ 258	\$ 318
Amortization of prior service cost (credit)	(5)	(8)	6	(287)	(253)	(247)
Expected return on plan assets	(1,270)	(1,181)	(1,245)	(101)	(161)	(143)
Interest cost	969	1,035	1,002	1,117	1,107	1,095
Remeasurement (gain) loss, net	(209)	2,380	(2,470)	(2,659)	4,615	(3,989)
Net periodic benefit (income) cost	(141)	2,553	(2,312)	(1,606)	5,566	(2,966)
Curtailement and termination benefits	–	11	4	–	–	–
Total	\$ (141)	\$ 2,564	\$ (2,308)	\$ (1,606)	\$ 5,566	\$ (2,966)

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

	(dollars in millions)			
	Pension		Health Care and Life	
At December 31,	2015	2014	2015	2014
Prior service cost	\$ –	\$ (89)	\$ (45)	\$ (413)
Reversal of amortization items				
Prior service cost	5	8	287	253
<b>Total recognized in other comprehensive (income) loss (pre-tax)</b>	<b>\$ 5</b>	<b>\$ (81)</b>	<b>\$ 242</b>	<b>\$ (160)</b>

The estimated prior service cost for the defined benefit pension plans that will be amortized from Accumulated other comprehensive income (loss) into net periodic benefit (income) cost over the next fiscal year is not significant. The estimated prior service cost for the defined benefit postretirement plans that will be amortized from Accumulated other comprehensive income into net periodic benefit (income) cost over the next fiscal year is \$0.3 billion.

#### Assumptions

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

	Pension		Health Care and Life	
At December 31,	2015	2014	2015	2014
Discount Rate	4.60%	4.20%	4.60%	4.20%
Rate of compensation increases	3.00	3.00	N/A	N/A

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

At December 31,	Pension			Health Care and Life		
	2015	2014	2013	2015	2014	2013
Discount Rate	<b>4.20%</b>	5.00%	4.20%	<b>4.20%</b>	5.00%	4.20%
Expected return on plan assets	<b>7.25</b>	7.25	7.50	<b>4.80</b>	5.50	5.60
Rate of compensation increases	<b>3.00</b>	3.00	3.00	<b>N/A</b>	N/A	N/A

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 will account for this change as a change in accounting estimate and accordingly will account for it prospectively. We estimate the impact of this change on our consolidated GAAP results for the first quarter of 2016 will be a reduction of the interest cost component of net periodic benefit cost and an increase to Net income by approximately \$0.1 billion. However, at this time the estimated impact of this change on the remaining 2016 interim periods and for annual 2016 results cannot be reasonably estimated because it is possible that in the future there may be changes to underlying assumptions, including an interim remeasurement of our benefit obligations, which could result in different estimates. The use of the full yield curve approach does not impact how we measure our total benefit obligations at year end 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 the income statement. 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.

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

The assumed health care cost trend rates follow:

At December 31,	Health Care and Life		
	2015	2014	2013
Healthcare cost trend rate assumed for next year	<b>6.00%</b>	6.50%	6.50%
Rate to which cost trend rate gradually declines	<b>4.50</b>	4.75	4.75
Year the rate reaches the level it is assumed to remain thereafter	<b>2024</b>	2022	2020

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

One-Percentage Point	(dollars in millions)	
	Increase	Decrease
Effect on 2015 service and interest cost	\$ 249	\$ (194)
Effect on postretirement benefit obligation as of December 31, 2015	3,074	(2,516)

## Plan Assets

The company's overall investment strategy is to achieve a mix of assets which allows us to meet projected benefit payments while taking into consideration risk and return. While target allocation percentages will vary over time, the current target allocation for plan assets is designed so that 65% of the assets have the objective of achieving a return in excess of the growth in liabilities (comprised of public equities, private equities, real estate, hedge funds and emerging debt) and 35% of the assets are invested as liability hedging assets (where cash flows from investments better match projected benefit payments, typically longer duration fixed income). This allocation will shift as funded status improves to a higher allocation of liability hedging assets. Target policies will be revisited periodically to ensure they are in line with fund objectives. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors. Due to our diversification and risk control processes, there are no significant concentrations of risk, in terms of sector, industry, geography or company names.

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

### *Pension Plans*

The fair values for the pension plans by asset category at December 31, 2015 are as follows:

Asset Category	(dollars in millions)			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 1,459	\$ 1,375	\$ 84	\$ –
Equity securities	3,216	2,313	900	3
Fixed income securities				
U.S. Treasuries and agencies	1,264	884	380	–
Corporate bonds	3,024	194	2,702	128
International bonds	713	34	659	20
Other	3	–	3	–
Real estate	1,670	–	39	1,631
Other				
Private equity	2,988	–	–	2,988
Hedge funds	1,787	–	730	1,057
<b>Total</b>	<b>\$ 16,124</b>	<b>\$ 4,800</b>	<b>\$ 5,497</b>	<b>\$ 5,827</b>

The fair values for the pension plans by asset category at December 31, 2014 are as follows:

Asset Category	(dollars in millions)			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 1,983	\$ 1,814	\$ 169	\$ –
Equity securities	4,339	2,952	1,277	110
Fixed income securities				
U.S. Treasuries and agencies	1,257	830	427	–
Corporate bonds	2,882	264	2,506	112
International bonds	582	39	524	19
Other	3	–	3	–
Real estate	1,792	–	–	1,792
Other				
Private equity	3,748	–	204	3,544
Hedge funds	1,962	–	1,164	798
<b>Total</b>	<b>\$ 18,548</b>	<b>\$ 5,899</b>	<b>\$ 6,274</b>	<b>\$ 6,375</b>

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

	(dollars in millions)						
	Equity Securities	Corporate Bonds	International Bonds	Real Estate	Private Equity	Hedge Funds	Total
Balance at January 1, 2014	\$ —	\$ 162	\$ —	\$ 1,784	\$ 3,942	\$ 1,196	\$ 7,084
Actual gain (loss) on plan assets	(1)	5	—	42	73	33	152
Purchases and sales	106	(50)	8	(34)	(471)	144	(297)
Transfers in (out)	5	(5)	11	—	—	(575)	(564)
Balance at December 31, 2014	\$ 110	\$ 112	\$ 19	\$ 1,792	\$ 3,544	\$ 798	\$ 6,375
Actual gain (loss) on plan assets	1	4	(3)	132	63	12	209
Purchases and sales	16	18	5	(259)	(619)	324	(515)
Transfers in (out)	(124)	(6)	(1)	(34)	—	(77)	(242)
Balance at December 31, 2015	\$ 3	\$ 128	\$ 20	\$ 1,631	\$ 2,988	\$ 1,057	\$ 5,827

#### Health Care and Life Plans

The fair values for the other postretirement benefit plans by asset category at December 31, 2015 are as follows:

	(dollars in millions)			
Asset Category	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 162	\$ 8	\$ 154	\$ —
Equity securities	974	752	222	—
Fixed income securities				
U.S. Treasuries and agencies	21	18	3	—
Corporate bonds	524	133	391	—
International bonds	79	19	60	—
Other	—	—	—	—
<b>Total</b>	<b>\$ 1,760</b>	<b>\$ 930</b>	<b>\$ 830</b>	<b>\$ —</b>

The fair values for the other postretirement benefit plans by asset category at December 31, 2014 are as follows:

	(dollars in millions)			
Asset Category	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 208	\$ 6	\$ 202	\$ —
Equity securities	1,434	1,172	262	—
Fixed income securities				
U.S. Treasuries and agencies	105	98	7	—
Corporate bonds	461	119	296	46
International bonds	111	14	97	—
Other	116	—	116	—
<b>Total</b>	<b>\$ 2,435</b>	<b>\$ 1,409</b>	<b>\$ 980</b>	<b>\$ 46</b>

The following is a reconciliation of the beginning and ending balance of the other postretirement benefit plans assets that are measured at fair value using significant unobservable inputs:

	(dollars in millions)	
	<b>Corporate Bonds</b>	<b>Total</b>
Balance at December 31, 2013	\$ —	\$ —
Actual gain on plan assets	1	1
Purchases and sales	45	45
Balance at December 31, 2014	\$ 46	\$ 46
<b>Transfers in (out)</b>	<b>(46)</b>	<b>(46)</b>
<b>Balance at December 31, 2015</b>	<b>\$ —</b>	<b>\$ —</b>

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

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

Equity securities are investments in common stock of domestic and international corporations in a variety of industry sectors, and are valued primarily using quoted market prices at the end of the reporting period or other valuation methods based on observable inputs, and thus are classified as Level 1 or Level 2. Investments not traded on a national securities exchange use other valuation methods such as pricing models or quoted prices of securities with similar characteristics depending upon market activity and availability of quoted market prices, and thus are classified as Level 3.

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

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

Commingled funds, included within the Cash and cash equivalents, Equity securities, Fixed income securities and Real estate investment asset categories, are typically valued at net asset value (NAV) provided by the fund administrator. NAV is the redemption value of the units held at year end. As a practical expedient, management has determined that NAV approximates fair value. These assets are categorized as Level 2 or Level 3 depending upon liquidity.

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

Hedge fund investments include those seeking to maximize absolute returns using a broad range of strategies to enhance returns and provide additional diversification. The fair values of hedge funds are estimated using the NAV of the investments as a practical expedient. Investments of this type for which Verizon has the ability to fully redeem at NAV within the near term are classified within Level 2. Investments that cannot be redeemed in the near term are classified within Level 3.

### Employer Contributions

In 2015, we contributed \$0.7 billion to our qualified pension plans, \$0.1 billion to our nonqualified pension plans and \$0.9 billion to our other postretirement benefit plans. We anticipate a minimum contribution of \$0.6 billion to our qualified pension plans in 2016. Nonqualified pension plans contributions are estimated to be \$0.1 billion and contributions to our other postretirement benefit plans are estimated to be \$0.9 billion in 2016.



## Estimated Future Benefit Payments

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

Year	(dollars in millions)	
	Pension Benefits	Health Care and Life
2016	\$ 1,906	\$ 1,390
2017	1,757	1,390
2018	1,441	1,384
2019	1,391	1,354
2020	1,371	1,349
2021-2025	6,699	6,889

## Savings Plan and Employee Stock Ownership Plans

We maintain four leveraged employee stock ownership plans (ESOP). We match a certain percentage of eligible employee contributions to the savings plans with shares of our common stock from this ESOP. At December 31, 2015, the number of allocated shares of common stock in this ESOP was 57 million. There were no unallocated shares of common stock in this ESOP at December 31, 2015. All leveraged ESOP shares are included in earnings per share computations.

Total savings plan costs were \$0.9 billion in 2015, \$0.9 billion in 2014 and \$1.0 billion in 2013.

## Severance Benefits

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

Year	(dollars in millions)				
	Beginning of Year	Charged to Expense	Payments	Other	End of Year
2013	\$ 1,010	\$ 134	\$ (381)	\$ (6)	\$ 757
2014	757	531	(406)	(7)	875
<b>2015</b>	<b>875</b>	<b>551</b>	<b>(619)</b>	<b>(7)</b>	<b>800</b>

## Severance, Pension and Benefit (Credits) Charges

During 2015, we recorded net pre-tax severance, pension and benefit credits of approximately \$2.3 billion primarily for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The credits were primarily driven by an increase in our discount rate assumption used to determine the current year liabilities from a weighted-average of 4.2% at December 31, 2014 to a weighted-average of 4.6% at December 31, 2015 (\$2.5 billion), the execution of a new prescription drug contract during 2015 (\$1.0 billion) and a change in mortality assumptions primarily driven by the use of updated actuarial tables (MP-2015) issued by the Society of Actuaries (\$0.9 billion), partially offset by the difference between our estimated return on assets of 7.25% at December 31, 2014 and our actual return on assets of 0.7% at December 31, 2015 (\$1.2 billion), severance costs recorded under our existing separation plans (\$0.6 billion) and other assumption adjustments (\$0.3 billion).

During 2014, we recorded net pre-tax severance, pension and benefit charges of approximately \$7.5 billion primarily for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The charges were primarily driven by a decrease in our discount rate assumption used to determine the current year liabilities from a weighted-average of 5.0% at December 31, 2013 to a weighted-average of 4.2% at December 31, 2014 (\$5.2 billion), a change in mortality assumptions primarily driven by the use of updated actuarial tables (RP-2014 and MP-2014) issued by the Society of Actuaries in October 2014 (\$1.8 billion) and revisions to the retirement assumptions for participants and other assumption adjustments, partially offset by the difference between our estimated return on assets of 7.25% and our actual return on assets of 10.5% (\$0.6 billion). As part of this charge, we recorded severance costs of \$0.5 billion under our existing separation plans.

During 2013, we recorded net pre-tax severance, pension and benefit credits of approximately \$6.2 billion primarily for our pension and postretirement plans in accordance with our accounting policy to recognize actuarial gains and losses in the year in which they occur. The credits were primarily driven by an increase in our discount rate assumption used to determine the current year liabilities from a weighted-average of 4.2% at December 31, 2012 to a weighted-average of 5.0% at December 31, 2013 (\$4.3 billion), lower than assumed retiree medical costs and other assumption adjustments (\$1.4 billion) and the difference between our estimated return on assets of 7.5% at December 31, 2012 and our actual return on assets of 8.6% at December 31, 2013 (\$0.5 billion).

## Note 12

### Taxes

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

Years Ended December 31,	2015	(dollars in millions)	
		2014	2013
Domestic	\$ 27,639	\$ 12,992	\$ 28,833
Foreign	601	2,278	444
Total	<u>\$ 28,240</u>	<u>\$ 15,270</u>	<u>\$ 29,277</u>

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

Years Ended December 31,	2015	(dollars in millions)	
		2014	2013
Current			
Federal	\$ 5,476	\$ 2,657	\$ (197)
Foreign	70	81	(59)
State and Local	803	668	201
Total	<u>6,349</u>	<u>3,406</u>	<u>(55)</u>
Deferred			
Federal	3,377	(51)	5,060
Foreign	9	(9)	8
State and Local	130	(32)	717
Total	<u>3,516</u>	<u>(92)</u>	<u>5,785</u>
Total income tax provision	<u>\$ 9,865</u>	<u>\$ 3,314</u>	<u>\$ 5,730</u>

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

Years Ended December 31,	2015	2014	2013
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income tax rate, net of federal tax benefits	2.1	2.7	2.1
Affordable housing credit	(0.5)	(1.0)	(0.6)
Employee benefits including ESOP dividend	(0.4)	(0.7)	(0.4)
Disposition of Omnitel Interest	—	(5.9)	—
Noncontrolling interests	(0.5)	(5.0)	(14.3)
Other, net	(0.8)	(3.4)	(2.2)
Effective income tax rate	<u>34.9%</u>	<u>21.7%</u>	<u>19.6%</u>

The effective income tax rate for 2015 was 34.9% compared to 21.7% for 2014. The increase in the effective income tax rate and provision for income taxes was primarily due to the impact of higher income before income taxes due to severance, pension and benefit credits recorded in 2015 compared to severance, pension and benefit charges recorded in 2014, as well as tax benefits associated with the utilization of certain tax credits in connection with the Omnitel Transaction in 2014.

The effective income tax rate for 2014 was 21.7% compared to 19.6% for 2013. The increase in the effective income tax rate was primarily due to additional income taxes on the incremental income from the Wireless Transaction completed on February 21, 2014 and was partially offset by the utilization of certain tax credits in connection with the Omnitel Transaction in 2014 and the effective income tax rate impact of lower income before income taxes due to severance, pension and benefit charges recorded in 2014 compared to severance, pension and benefit credits recorded in 2013. The decrease in the provision for income taxes was primarily due to lower income before income taxes due to severance, pension and benefit charges recorded in 2014 compared to severance, pension and benefit credits recorded in 2013.

The amounts of cash taxes paid are as follows:

Years Ended December 31,	(dollars in millions)		
	2015	2014	2013
Income taxes, net of amounts refunded	\$ 5,293	\$ 4,093	\$ 422
Employment taxes	1,284	1,290	1,282
Property and other taxes	1,868	1,797	2,082
Total	<u>\$ 8,445</u>	<u>\$ 7,180</u>	<u>\$ 3,786</u>

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

At December 31,	(dollars in millions)	
	2015	2014
Employee benefits	\$ 12,220	\$ 13,350
Tax loss and credit carry forwards	4,099	2,255
Other - assets	2,504	2,247
	<u>18,823</u>	<u>17,852</u>
Valuation allowances	(3,414)	(1,841)
Deferred tax assets	<u>15,409</u>	<u>16,011</u>
Spectrum and other intangible amortization	29,945	28,283
Depreciation	24,725	23,423
Other - liabilities	6,125	5,754
Deferred tax liabilities	<u>60,795</u>	<u>57,460</u>
Net deferred tax liability	<u>\$ 45,386</u>	<u>\$ 41,449</u>

At December 31, 2015, undistributed earnings of our foreign subsidiaries indefinitely invested outside the United States amounted to approximately \$1.8 billion. The majority of Verizon's cash flow is generated from domestic operations and we are not dependent on foreign cash or earnings to meet our funding requirements, nor do we intend to repatriate these undistributed foreign earnings to fund U.S. operations. Furthermore, a portion of these undistributed earnings represent amounts that legally must be kept in reserve in accordance with certain foreign jurisdictional requirements and are unavailable for distribution or repatriation. As a result, we have not provided U.S. deferred taxes on these undistributed earnings because we intend that they will remain indefinitely reinvested outside of the United States and therefore unavailable for use in funding U.S. operations. Determination of the amount of unrecognized deferred taxes related to these undistributed earnings is not practicable.

At December 31, 2015, we had net after-tax loss and credit carry forwards for income tax purposes of approximately \$4.1 billion that primarily relate to state and foreign tax losses. Of these net after-tax loss and credit carry forwards, approximately \$2.5 billion will expire between 2016 and 2035 and approximately \$1.6 billion may be carried forward indefinitely.

During 2015, the valuation allowance increased approximately \$1.6 billion primarily as a result of the acquisition of AOL. The balance of the valuation allowance at December 31, 2015 and the 2015 activity is primarily related to state and foreign tax losses.

### Unrecognized Tax Benefits

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

		(dollars in millions)		
	2015	2014	2013	
Balance at January 1,	\$ 1,823	\$ 2,130	\$ 2,943	
Additions based on tax positions related to the current year	194	80	116	
Additions for tax positions of prior years	330	627	250	
Reductions for tax positions of prior years	(412)	(278)	(801)	
Settlements	(79)	(239)	(210)	
Lapses of statutes of limitations	(221)	(497)	(168)	
Balance at December 31,	\$ 1,635	\$ 1,823	\$ 2,130	

Included in the total unrecognized tax benefits at December 31, 2015, 2014 and 2013 is \$1.2 billion, \$1.3 billion and \$1.4 billion, respectively, that if recognized, would favorably affect the effective income tax rate.

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

Years Ended December 31,	(dollars in millions)	
2015	\$	43
2014		92
2013		33

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

At December 31,	(dollars in millions)	
2015	\$	125
2014		169

The decrease in unrecognized tax benefits was primarily due to an internal restructure that eliminated certain state unrecognized tax benefits and the expiration of the statute of limitations in various jurisdictions, partially offset by an increase in unrecognized tax benefits related to the acquisition of AOL.

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. The IRS is currently examining the Company's U.S. income tax returns for tax years 2010-2012, Cellco Partnership's U.S. income tax returns for tax years 2013-2014, and AOL's U.S. income tax returns for tax years 2011-2012. Tax controversies are ongoing for tax years as early as 2006. The amount of the liability for unrecognized tax benefits will change in the next twelve months due to the expiration of the statute of limitations in various jurisdictions and it is reasonably possible that various current tax examinations will conclude or require reevaluations of the Company's tax positions during this period. An estimate of the range of the possible change cannot be made until these tax matters are further developed or resolved.

## 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 businesses, such as our investments in unconsolidated businesses, pension and other employee benefit related costs and lease financing. Effective January 1, 2014, we have also reclassified the results of certain businesses, such as development stage businesses that support our strategic initiatives, from our Wireline segment to Corporate and other. The impact of this reclassification was not material to our consolidated financial statements or our segment results of operations. 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.

On July 1, 2014, our Wireline segment sold a non-strategic business (see Note 2). Accordingly, the historical Wireline results for these operations have been reclassified to Corporate and other to reflect comparable segment operating results.

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.

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

Our segments and their principal activities consist of the following:

Segment	Description
<b>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 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 following table provides operating financial information for our two reportable segments:

	(dollars in millions)		
2015	Wireless	Wireline	Total Segments
External Operating Revenues			
Service revenue	\$ 70,305	\$ —	\$ 70,305
Equipment	16,924	—	16,924
Other	4,294	—	4,294
Consumer retail	—	16,123	16,123
Small business	—	2,350	2,350
Mass Markets	—	18,473	18,473
Strategic services	—	8,164	8,164
Core	—	4,777	4,777
Global Enterprise	—	12,941	12,941
Global Wholesale	—	4,958	4,958
Other	—	322	322
Intersegment revenues	157	1,026	1,183
Total operating revenues	91,680	37,720	129,400
Cost of services	7,803	20,878	28,681
Wireless cost of equipment	23,119	—	23,119
Selling, general and administrative expense	21,805	7,989	29,794
Depreciation and amortization expense	8,980	6,678	15,658
Total operating expenses	61,707	35,545	97,252
Operating income	\$ 29,973	\$ 2,175	\$ 32,148
Assets	\$ 185,406	\$ 78,316	\$ 263,722
Plant, property and equipment, net	40,911	41,044	81,955
Capital expenditures	11,725	5,049	16,774

2014	(dollars in millions)		
	Wireless	Wireline	Total Segments
External Operating Revenues			
Service revenue	\$ 72,555	\$ —	\$ 72,555
Equipment	10,957	—	10,957
Other	4,021	—	4,021
Consumer retail	—	15,583	15,583
Small business	—	2,464	2,464
Mass Markets	—	18,047	18,047
Strategic services	—	8,316	8,316
Core	—	5,323	5,323
Global Enterprise	—	13,639	13,639
Global Wholesale	—	5,207	5,207
Other	—	529	529
Intersegment revenues	113	1,007	1,120
Total operating revenues	87,646	38,429	126,075
Cost of services	7,200	21,332	28,532
Wireless cost of equipment	21,625	—	21,625
Selling, general and administrative expense	23,602	8,180	31,782
Depreciation and amortization expense	8,459	7,882	16,341
Total operating expenses	60,886	37,394	98,280
Operating income	\$ 26,760	\$ 1,035	\$ 27,795
Assets	\$ 160,333	\$ 76,640	\$ 236,973
Plant, property and equipment, net	38,276	50,318	88,594
Capital expenditures	10,515	5,750	16,265

2013	(dollars in millions)		
	Wireless	Wireline	Total Segments
<b>External Operating Revenues</b>			
Service revenue	\$ 68,973	\$ –	\$ 68,973
Equipment	8,096	–	8,096
Other	3,851	–	3,851
Consumer retail	–	14,842	14,842
Small business	–	2,537	2,537
Mass Markets	–	17,379	17,379
Strategic services	–	8,129	8,129
Core	–	6,002	6,002
Global Enterprise	–	14,131	14,131
Global Wholesale	–	5,549	5,549
Other	–	502	502
Intersegment revenues	103	1,063	1,166
Total operating revenues	81,023	38,624	119,647
Cost of services	7,295	21,396	28,691
Wireless cost of equipment	16,353	–	16,353
Selling, general and administrative expense	23,176	8,571	31,747
Depreciation and amortization expense	8,202	8,327	16,529
Total operating expenses	55,026	38,294	93,320
Operating income	\$ 25,997	\$ 330	\$ 26,327
Assets	\$ 146,363	\$ 84,524	\$ 230,887
Plant, property and equipment, net	35,932	51,885	87,817
Capital expenditures	9,425	6,229	15,654



## Reconciliation to Consolidated Financial Information

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

Years Ended December 31,	2015	(dollars in millions)	
		2014	2013
<b>Operating Revenues</b>			
Total reportable segments	\$ 129,400	\$ 126,075	\$ 119,647
Corporate and other	3,444	1,888	1,514
Reconciling items:			
Impact of divested operations (Note 2)	–	256	599
Eliminations	(1,224)	(1,140)	(1,210)
Consolidated operating revenues	\$ 131,620	\$ 127,079	\$ 120,550

Fios revenues are included within our Wireline segment and amounted to approximately \$13.8 billion, \$12.7 billion, and \$11.2 billion for the years ended December 31, 2015, 2014, and 2013, respectively.

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

Years Ended December 31,	2015	(dollars in millions)	
		2014	2013
<b>Operating Income</b>			
Total reportable segments	\$ 32,148	\$ 27,795	\$ 26,327
Corporate and other	(1,598)	(1,074)	(912)
Reconciling items:			
Severance, pension and benefit credits (charges) (Note 11)	2,256	(7,507)	6,232
Gain on spectrum license transactions (Note 2)	254	707	278
Impact of divested operations (Note 2)	–	12	43
Other costs	–	(334)	–
Consolidated operating income	33,060	19,599	31,968
Equity in (losses) earnings of unconsolidated businesses	(86)	1,780	142
Other income and (expense), net	186	(1,194)	(166)
Interest expense	(4,920)	(4,915)	(2,667)
Income Before Provision for Income Taxes	\$ 28,240	\$ 15,270	\$ 29,277

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

	(dollars in millions)	
At December 31,	2015	2014
<b>Assets</b>		
Total reportable segments	\$ 263,722	\$ 236,973
Corporate and other	205,930	191,686
Eliminations	(225,012)	(196,043)
Total consolidated	\$ 244,640	\$ 232,616

We generally account for intersegment sales of products and services and asset transfers at arm's length prices. No single customer accounted for more than 10% of our total operating revenues during the years ended December 31, 2015, 2014 and 2013. International operating revenues and long-lived assets are not significant.

**Note 14****Comprehensive Income**

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

**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 flow hedges	Unrealized loss on marketable securities	Defined benefit pension and postretirement plans	Total
Balance at January 1, 2015	\$ (346)	\$ (84)	\$ 112	\$ 1,429	\$ 1,111
Other comprehensive loss	(208)	(1,063)	(5)	—	(1,276)
Amounts reclassified to net income	—	869	(6)	(148)	715
Net other comprehensive loss	(208)	(194)	(11)	(148)	(561)
<b>Balance at December 31, 2015</b>	<b>\$ (554)</b>	<b>\$ (278)</b>	<b>\$ 101</b>	<b>\$ 1,281</b>	<b>\$ 550</b>

The amounts presented above in net other comprehensive loss are net of taxes and noncontrolling interests, which are not significant. For the year ended December 31, 2015, 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 consolidated statement of income. For the year ended December 31, 2015, all other amounts reclassified to net income in the table above are included in Other income and (expense), net on our consolidated statement of income.

*Foreign Currency Translation Adjustments*

The change in Foreign currency translation adjustments during 2015 was related to our non-U.S. dollar net investments in foreign subsidiaries. The change in Foreign currency translation adjustments during 2014 was primarily a result of the completion of the Omnitel transaction. The change in Foreign currency translation adjustments during 2013 was primarily related to our investment in Vodafone Omnitel N.V. which was driven by the movements of the U.S. dollar against the Euro.

*Net Unrealized Gains (Losses) on Cash Flow Hedges*

During 2014 and 2013, Unrealized gains (losses) on cash flow hedges included in Other comprehensive income (loss) attributable to noncontrolling interests primarily reflect activity related to cross currency swaps. Reclassification adjustments on cash flow hedges primarily reflect the reclassification to Other income and (expense), net of a portion of the unrealized gains and losses on cross currency swaps to offset related pre-tax foreign currency transaction gain or loss on the underlying debt obligations (see Note 9).

*Net Unrealized Gains (Losses) on Marketable Securities*

During 2015, 2014 and 2013, reclassification adjustments on marketable securities for gains (losses) realized in net income were not significant.

*Defined Benefit Pension and Postretirement Plans*

The change in Defined benefit pension and postretirement plans at December 31, 2015 and 2014, respectively, was not significant.

**Note 15****Additional Financial Information**

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

**Income Statement Information**

Years Ended December 31,	2015	(dollars in millions)	
		2014	2013
Depreciation expense	\$ 14,323	\$ 14,966	\$ 15,019
Interest costs on debt balances	5,504	5,291	3,421
Capitalized interest costs	(584)	(376)	(754)
Advertising expense	2,749	2,526	2,438

**Balance Sheet Information**

At December 31,	(dollars in millions)	
	2015	2014
<i>Accounts Payable and Accrued Liabilities</i>		
Accounts payable	\$ 6,391	\$ 5,598
Accrued expenses	5,281	4,016
Accrued vacation, salaries and wages	4,107	4,131
Interest payable	1,529	1,478
Taxes payable	2,054	1,457
	<u>\$ 19,362</u>	<u>\$ 16,680</u>
<i>Other Current Liabilities</i>		
Advance billings and customer deposits	\$ 2,969	\$ 3,125
Dividends payable	2,323	2,307
Other	3,446	3,140
	<u>\$ 8,738</u>	<u>\$ 8,572</u>

**Cash Flow Information**

Years Ended December 31,	2015	(dollars in millions)	
		2014	2013
<i>Cash Paid</i>			
Interest, net of amounts capitalized	\$ 4,491	\$ 4,429	\$ 2,122

During the year ended December 31, 2015, Verizon repurchased approximately 2.8 million shares of the Company's common stock under our authorized share buyback program for approximately \$0.1 billion. At December 31, 2015, the maximum number of shares that could be purchased by or on behalf of Verizon under our share buyback program was 97.2 million.

In addition to the previously authorized three-year share buyback program, in February 2015, the Verizon Board of Directors authorized Verizon to enter into an accelerated share repurchase (ASR) agreement to repurchase \$5.0 billion of the Company's common stock. On February 10, 2015, in exchange for an up-front payment totaling \$5.0 billion, Verizon received an initial delivery of 86.2 million shares having a value of approximately \$4.25 billion. On June 5, 2015, Verizon received an additional 15.4 million shares as final settlement of the transaction under the ASR agreement. In total, 101.6 million shares were delivered under the ASR at an average repurchase price of \$49.21.

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans, including 22.6 million common shares issued from Treasury stock during the year ended December 31, 2015, which had an aggregate value of \$0.9 billion.

**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 60 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.

As of December 31, 2015, letters of credit totaling approximately \$0.1 billion, which were executed in the normal course of business and support several financing arrangements and payment obligations to third parties, were outstanding.

We have several commitments primarily to purchase programming and network services, equipment, software, handsets and peripherals, and marketing activities, which will be used or sold in the ordinary course of business, from a variety of suppliers totaling \$21.9 billion. Of this total amount, \$8.4 billion is attributable to 2016, \$9.2 billion is attributable to 2017 through 2018, \$2.3 billion is attributable to 2019 through 2020 and \$2.0 billion is attributable to years thereafter. These amounts do not represent our entire anticipated purchases in the future, but represent only those items that are the subject of contractual obligations. Our commitments are generally determined based on the noncancelable quantities or termination amounts. Purchases against our commitments for 2015 totaled approximately \$10.2 billion. Since the commitments to purchase programming services from television networks and broadcast stations have no minimum volume requirement, we estimated our obligation based on number of subscribers at December 31, 2015, and applicable rates stipulated in the contracts in effect at that time. We also purchase products and services as needed with no firm commitment.

**Note 17**
**Quarterly Financial Information (Unaudited)**

(dollars in millions, except per share amounts)

Quarter Ended	Operating Revenues	Operating Income (Loss)	Net Income (Loss) attributable to Verizon <sup>(1)</sup>			Net Income (Loss)
			Amount	Per Share-Basic	Per Share-Diluted	
2015						
March 31	\$ 31,984	\$ 7,960	\$ 4,219	\$ 1.03	\$ 1.02	\$ 4,338
June 30	32,224	7,821	4,231	1.04	1.04	4,353
September 30	33,158	7,535	4,038	.99	.99	4,171
December 31	34,254	9,744	5,391	1.32	1.32	5,513
2014						
March 31	\$ 30,818	\$ 7,160	\$ 3,947	\$ 1.15	\$ 1.15	\$ 5,986
June 30	31,483	7,685	4,214	1.02	1.01	4,324
September 30	31,586	6,890	3,695	.89	.89	3,794
December 31	33,192	(2,136)	(2,231)	(.54)	(.54)	(2,148)

- Results of operations for the third quarter of 2015 include after-tax charges attributable to Verizon of \$0.2 billion related to a pension remeasurement.
- Results of operations for the fourth quarter of 2015 include after-tax credits attributable to Verizon of \$1.6 billion related to severance, pension and benefit credits, as well as after-tax credits attributable to Verizon of \$0.2 billion related to a gain on spectrum license transactions.
- Results of operations for the first quarter of 2014 include after-tax-credits attributable to Verizon of \$1.9 billion related to the sale of its entire ownership interest in Vodafone Omnitel, as well as after-tax costs attributable to Verizon of \$0.6 billion related to early debt redemptions and \$0.3 billion related to the Wireless Transaction.
- Results of operations for the second quarter of 2014 include after-tax credits attributable to Verizon of \$0.4 billion related to a gain on spectrum license transactions.
- Results of operations for the fourth quarter of 2014 include after-tax charges attributable to Verizon of \$4.7 billion related to severance, pension and benefit charges, as well as after-tax costs attributable to Verizon of \$0.5 billion related to early debt redemption and other costs.

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

**Verizon Communications Inc. and Subsidiaries**  
Principal Subsidiaries of Registrant at December 31, 2015

<b>Name</b>	<b>State of Incorporation / Organization</b>
Verizon California Inc.	California
Verizon Delaware LLC	Delaware
Verizon Florida LLC	Florida
Verizon Maryland LLC	Delaware
Verizon New England Inc.	New York
Verizon New Jersey Inc.	New Jersey
Verizon New York Inc.	New York
Verizon Pennsylvania LLC	Delaware
GTE Southwest Incorporated (d/b/a Verizon Southwest)	Delaware
Verizon Virginia LLC	Virginia
Bell Atlantic Mobile Systems LLC	Delaware
Cellco Partnership (d/b/a Verizon Wireless)	Delaware
GTE Corporation	New York
GTE Wireless Incorporated	Delaware
MCI Communications Corporation	Delaware
Verizon Americas Inc.	Delaware
Verizon Business Global LLC	Delaware
Cranberry Properties LLC	Delaware

## Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Verizon Communications Inc. (Verizon) of our reports dated February 23, 2016, with respect to the consolidated financial statements of Verizon and the effectiveness of internal control over financial reporting of Verizon, included in the 2015 Annual Report to Shareowners of Verizon.

Our audits also included the financial statement schedule of Verizon listed in Item 15(a). This schedule is the responsibility of Verizon's management. Our responsibility is to express an opinion based on our audits. In our opinion, as to which the date is February 23, 2016, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the following registration statements of Verizon and where applicable, related Prospectuses, of our reports dated February 23, 2016, with respect to the consolidated financial statements of Verizon and the effectiveness of internal control over financial reporting of Verizon, incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule of Verizon included in this Annual Report (Form 10-K) for the year ended December 31, 2015: Form S-4, No. 333-11573; Form S-8, No. 333-41593; Form S-8, No. 333-50146; Form S-4, No. 333-76171; Form S-8, No. 333-76171; Form S-8, No. 333-53830; Form S-8, No. 333-82690; Form S-4, No. 333-124008; Form S-8, No. 333-124008; Form S-4, No. 333-132651; Form S-8, No. 333-169267; Form S-8, No. 333-172501; Form S-8, No. 333-172999; Form S-3, No. 333-190954; Form S-8, No. 333-200398; and Form S-3, No. 333-203745.

/s/ Ernst & Young LLP  
Ernst & Young LLP  
New York, New York  
February 23, 2016

I, Lowell C. McAdam, certify that:

1. I have reviewed this annual report on Form 10-K of Verizon Communications Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2016

/s/ Lowell C. McAdam

Lowell C. McAdam

Chairman and Chief Executive Officer



I, Francis J. Shammo, certify that:

1. I have reviewed this annual report on Form 10-K of Verizon Communications Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2016

/s/ Francis J. Shammo  
 Francis J. Shammo  
 Executive Vice President  
 and Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

I, Lowell C. McAdam, Chairman and Chief Executive Officer of Verizon Communications Inc. (the Company), certify that:

- (1) the report of the Company on Form 10-K for the annual period ending December 31, 2015 (the Report) fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (the Exchange Act); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods referred to in the Report.

Date: February 23, 2016

/s/ Lowell C. McAdam  
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Lowell C. McAdam  
Chairman and Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Verizon Communications Inc. and will be retained by Verizon Communications Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002, PURSUANT TO SECTION 1350 OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

I, Francis J. Shammo, Executive Vice President and Chief Financial Officer of Verizon Communications Inc. (the Company), certify that:

- (1) the report of the Company on Form 10-K for the annual period ending December 31, 2015 (the Report) fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (the Exchange Act); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods referred to in the Report.

Date: February 23, 2016

/s/ Francis J. Shammo

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Francis J. Shammo  
Executive Vice President  
and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Verizon Communications Inc. and will be retained by Verizon Communications Inc. and furnished to the Securities and Exchange Commission or its staff upon request.