

10-Q 1 d787433d10q.htm 10-Q

[Table of Contents](#)

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

(Mark one)

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

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
 OF THE SECURITIES EXCHANGE ACT OF 1934  
 For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-8606

**Verizon Communications Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
 (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**

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

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

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

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

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

shares held in treasury.

[Table of Contents](#)

## Table of Contents

	<u>Page</u>
<b><u>PART I – FINANCIAL INFORMATION</u></b>	
<b>Item 1. <u>Financial Statements (Unaudited)</u></b>	
<u>Condensed Consolidated Statements of Income</u> <i>Three and nine months ended September 30, 2014 and 2013</i>	3
<u>Condensed Consolidated Statements of Comprehensive Income</u> <i>Three and nine months ended September 30, 2014 and 2013</i>	4
<u>Condensed Consolidated Balance Sheets</u> <i>At September 30, 2014 and December 31, 2013</i>	5
<u>Condensed Consolidated Statements of Cash Flows</u> <i>Nine months ended September 30, 2014 and 2013</i>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<b>Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>	25
<b>Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	55
<b>Item 4. <u>Controls and Procedures</u></b>	55
<b><u>PART II – OTHER INFORMATION</u></b>	
<b>Item 1. <u>Legal Proceedings</u></b>	55
<b>Item 1A. <u>Risk Factors</u></b>	56
<b>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	56
<b>Item 6. <u>Exhibits</u></b>	57
<b><u>Signature</u></b>	58
<b>Certifications</b>	

## [Table of Contents](#)

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.

### **Pension Remeasurement**

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

The Consolidated Adjusted EBITDA non-GAAP measure presented in the Consolidated Operating Income and EBITDA discussion (See “Consolidated Results of Operations”) excludes the pension remeasurement described above.

[Table of Contents](#)
**Consolidated Financial Condition**

(dollars in millions)	Nine Months Ended		
	September 30,		
	2014	2013	Change
<b>Cash Flows Provided By (Used In)</b>			
Operating activities	\$ 23,157	\$ 28,387	\$ (5,230)
Investing activities	(10,430)	(10,023)	(407)
Financing activities	(59,037)	35,253	(94,290)
<b>Increase (Decrease) In Cash and Cash Equivalents</b>	<b>\$ (46,310)</b>	<b>\$ 53,617</b>	<b>\$ (99,927)</b>

We use the net cash generated from our operations to fund network expansion and modernization, repay external financing, pay dividends and invest in new businesses. 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. The cash portion of the purchase price for the Wireless Transaction was primarily funded by the incurrence of third-party indebtedness (see "Acquisitions and Divestitures"). 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 in diversified accounts 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 credit available under credit facilities and other bank lines of credit, vendor financing arrangements, issuances of registered debt or equity securities and privately-placed capital market securities. We may also issue short-term debt through an active commercial paper program and have an \$8 billion credit facility to support such commercial paper issuances.

**Cash Flows Provided By Operating Activities**

Our primary source of funds continues to be cash generated from operations, primarily from our Wireless segment. Net cash provided by operating activities during the nine months ended September 30, 2014 decreased by \$5.2 billion compared to the similar period in 2013 primarily due to a \$3.2 billion increase in income tax payments due to the incremental income included in Verizon's income since the closing of the Wireless Transaction and the impact of bonus depreciation recorded in 2013. Also contributing to the decrease was a \$2.5 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 decline was partially offset by an increase in earnings at our Wireless segment.

On February 21, 2014, we completed the acquisition of Vodafone's indirect 45% interest in Verizon Wireless which, among other benefits discussed herein, also provides us 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.

We do not expect to make any material employer contributions to our qualified pension plans in the fourth quarter of 2014.

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

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

# Explore Litigation Insights

Docket Alarm provides insights to develop a more informed litigation strategy and the peace of mind of knowing you're on top of things.

## Real-Time Litigation Alerts



Keep your litigation team up-to-date with **real-time alerts** and advanced team management tools built for the enterprise, all while greatly reducing PACER spend.

Our comprehensive service means we can handle Federal, State, and Administrative courts across the country.

## Advanced Docket Research



With over 230 million records, Docket Alarm's cloud-native docket research platform finds what other services can't. Coverage includes Federal, State, plus PTAB, TTAB, ITC and NLRB decisions, all in one place.

Identify arguments that have been successful in the past with full text, pinpoint searching. Link to case law cited within any court document via Fastcase.

## Analytics At Your Fingertips



Learn what happened the last time a particular judge, opposing counsel or company faced cases similar to yours.

Advanced out-of-the-box PTAB and TTAB analytics are always at your fingertips.

## API

Docket Alarm offers a powerful API (application programming interface) to developers that want to integrate case filings into their apps.

## LAW FIRMS

Build custom dashboards for your attorneys and clients with live data direct from the court.

Automate many repetitive legal tasks like conflict checks, document management, and marketing.

## FINANCIAL INSTITUTIONS

Litigation and bankruptcy checks for companies and debtors.

## E-DISCOVERY AND LEGAL VENDORS

Sync your system to PACER to automate legal marketing.