

VERIZON COMMUNICATIONS INC  
Form 10-Q  
August 03, 2017  
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 June 30, 2017

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**

Edgar Filing: VERIZON COMMUNICATIONS INC - Form 10-Q

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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

At June 30, 2017, 4,079,407,956 shares of the registrant's common stock were outstanding, after deducting 162,966,284 shares held in treasury.

Table of Contents**Table of Contents**

	<b>Page</b>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
<b>Item 1. <u>Financial Statements (Unaudited)</u></b>	
<b><u>Condensed Consolidated Statements of Income</u></b>	3
<i>Three and six months ended June 30, 2017 and 2016</i>	
<b><u>Condensed Consolidated Statements of Comprehensive Income</u></b>	4
<i>Three and six months ended June 30, 2017 and 2016</i>	
<b><u>Condensed Consolidated Balance Sheets</u></b>	5
<i>At June 30, 2017 and December 31, 2016</i>	
<b><u>Condensed Consolidated Statements of Cash Flows</u></b>	6
<i>Six months ended June 30, 2017 and 2016</i>	
<b><u>Notes to Condensed Consolidated Financial Statements</u></b>	7
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	32
<b>Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	58
<b>Item 4. <u>Controls and Procedures</u></b>	58
<b><u>PART II - OTHER INFORMATION</u></b>	
<b>Item 1. <u>Legal Proceedings</u></b>	58
<b>Item 1A. <u>Risk Factors</u></b>	58
<b>Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	58
<b>Item 6. <u>Exhibits</u></b>	59
<b><u>Signature</u></b>	60
<b><u>Certifications</u></b>	

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

Verizon Communications Inc. and Subsidiaries

(dollars in millions, except per share amounts) (unaudited)	Three Months Ended		Six Months Ended	
	2017	June 30, 2016	2017	June 30, 2016
<b>Operating Revenues</b>				
Service revenues and other	\$ 26,250	\$ 26,828	\$ 52,300	\$ 55,045
Wireless equipment revenues	4,298	3,704	8,062	7,658
<b>Total Operating Revenues</b>	30,548	30,532	60,362	62,703
<b>Operating Expenses</b>				
Cost of services (exclusive of items shown below)	7,075	7,577	13,933	15,191
Wireless cost of equipment	5,035	4,644	9,843	9,642
Selling, general and administrative expense (including net gain on sale of divested businesses of \$1,774 and \$1,007 for the three and six months ended June 30, 2017 and 2016, respectively)	6,039	9,775	12,947	17,375
Depreciation and amortization expense	4,167	3,982	8,226	7,999
<b>Total Operating Expenses</b>	22,316	25,978	44,949	50,207
<b>Operating Income</b>	8,232	4,554	15,413	12,496
Equity in losses of unconsolidated businesses	(28)	(20)	(49)	(40)
Other expense, net	(19)	(1,826)	(865)	(1,794)
Interest expense	(1,218)	(1,013)	(2,350)	(2,201)
<b>Income Before Provision For Income Taxes</b>	6,967	1,695	12,149	8,461
Provision for income taxes	(2,489)	(864)	(4,118)	(3,200)
<b>Net Income</b>	\$ 4,478	\$ 831	\$ 8,031	\$ 5,261
Net income attributable to noncontrolling interests	\$ 116	\$ 129	\$ 219	\$ 249
Net income attributable to Verizon	4,362	702	7,812	5,012
<b>Net Income</b>	\$ 4,478	\$ 831	\$ 8,031	\$ 5,261

**Basic Earnings Per Common Share**

Net income attributable to Verizon	\$	1.07	\$	0.17	\$	1.91	\$	1.23
Weighted-average shares outstanding (in millions)		4,082		4,079		4,082		4,080

**Diluted Earnings Per Common Share**

Net income attributable to Verizon	\$	1.07	\$	0.17	\$	1.91	\$	1.23
Weighted-average shares outstanding (in millions)		4,087		4,085		4,088		4,085

Dividends declared per common share	\$	0.578	\$	0.565	\$	1.155	\$	1.130
-------------------------------------	----	-------	----	-------	----	-------	----	-------

See Notes to Condensed Consolidated Financial Statements

Table of Contents**Condensed Consolidated Statements of Comprehensive Income**

Verizon Communications Inc. and Subsidiaries

(dollars in millions) (unaudited)	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Net Income</b>	\$ 4,478	\$ 831	\$ 8,031	\$ 5,261
<b>Other Comprehensive Income (loss), net of taxes</b>				
Foreign currency translation adjustments	17	25	88	55
Unrealized loss on cash flow hedges	(186)	(147)	(198)	(205)
Unrealized (loss) gain on marketable securities	(20)	2	(6)	(16)
Defined benefit pension and postretirement plans	(136)	2,508	(273)	2,463
Other comprehensive income (loss) attributable to Verizon	(325)	2,388	(389)	2,297
<b>Total Comprehensive Income</b>	\$ 4,153	\$ 3,219	\$ 7,642	\$ 7,558
Comprehensive income attributable to noncontrolling interests	\$ 116	\$ 129	\$ 219	\$ 249
Comprehensive income attributable to Verizon	4,037	3,090	7,423	7,309
<b>Total Comprehensive Income</b>	\$ 4,153	\$ 3,219	\$ 7,642	\$ 7,558

See Notes to Condensed Consolidated Financial Statements

**Table of Contents****Condensed Consolidated Balance Sheets**

Verizon Communications Inc. and Subsidiaries

(dollars in millions, except per share amounts) (unaudited)	At June 30, 2017	At December 31, 2016
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 4,583	\$ 2,880
Accounts receivable, net of allowances of \$918 and \$845	19,771	17,513
Inventories	1,116	1,202
Assets held for sale	-	882
Prepaid expenses and other	3,353	3,918
Total current assets	28,823	26,395
Plant, property and equipment	239,226	232,215
Less accumulated depreciation	152,705	147,464
Plant, property and equipment, net	86,521	84,751
Investments in unconsolidated businesses	1,075	1,110
Wireless licenses	88,004	86,673
Goodwill	28,527	27,205
Other intangible assets, net	11,143	8,897
Non-current assets held for sale	90	613
Other assets	8,795	8,536
Total assets	\$ 252,978	\$ 244,180
<b>Liabilities and Equity</b>		
Current liabilities		
Debt maturing within one year	\$ 1,153	\$ 2,645
Accounts payable and accrued liabilities	17,825	19,593
Other	8,780	8,102
Total current liabilities	27,758	30,340
Long-term debt	116,390	105,433
Employee benefit obligations	21,775	26,166
Deferred income taxes	47,506	45,964
Other liabilities	12,788	12,245
<b>Equity</b>		

Edgar Filing: VERIZON COMMUNICATIONS INC - Form 10-Q

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	11,099	11,182
Reinvested earnings	18,159	15,059
Accumulated other comprehensive income	2,284	2,673
Common stock in treasury, at cost	(7,142)	(7,263)
Deferred compensation employee stock ownership plans and other	365	449
Noncontrolling interests	1,572	1,508
Total equity	26,761	24,032
Total liabilities and equity	\$ 252,978	\$ 244,180

See Notes to Condensed Consolidated Financial Statements



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

Verizon Communications Inc. and Subsidiaries

(dollars in millions) (unaudited)	Six Months Ended	
	2017	June 30, 2016
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 8,031	\$ 5,261
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	8,226	7,999
Employee retirement benefits	(223)	4,021
Deferred income taxes	1,880	(3,085)
Provision for uncollectible accounts	632	651
Equity in losses of unconsolidated businesses, net of dividends received	67	58
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses	(3,094)	(1,067)
Discretionary contributions to qualified pension plans	(3,411)	-
Net gain on sale of divested businesses	(1,774)	(1,007)
Other, net	(416)	77
<b>Net cash provided by operating activities</b>	<b>9,918</b>	<b>12,908</b>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures (including capitalized software)	(7,011)	(7,273)
Acquisitions of businesses, net of cash acquired	(6,280)	(178)
Acquisitions of wireless licenses	(315)	(282)
Proceeds from dispositions of businesses	3,512	9,882
Other, net	211	504
<b>Net cash provided by (used in) investing activities</b>	<b>(9,883)</b>	<b>2,653</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds from long-term borrowings	16,009	-
Proceeds from asset-backed long-term borrowings	2,878	-
Repayments of long-term borrowings and capital lease obligations	(10,294)	(11,300)
Increase (decrease) in short-term obligations, excluding current maturities	(152)	610
Dividends paid	(4,710)	(4,605)
Other, net	(2,063)	(1,879)
<b>Net cash provided by (used in) financing activities</b>	<b>1,668</b>	<b>(17,174)</b>

Increase (decrease) in cash and cash equivalents	1,703	(1,613)
Cash and cash equivalents, beginning of period	2,880	4,470
Cash and cash equivalents, end of period	\$ 4,583	\$ 2,857

See Notes to Condensed Consolidated Financial Statements

**Table of Contents**

**Notes to Condensed Consolidated Financial Statements**

Verizon Communications Inc. and Subsidiaries

(Unaudited)

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared based upon Securities and Exchange Commission (SEC) rules that permit reduced disclosure for interim periods. For a more complete discussion of significant accounting policies and certain other information, you should refer to the financial statements included in the Verizon Communications Inc. (Verizon or the Company) Annual Report on Form 10-K for the year ended December 31, 2016. These financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown, including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year. We have reclassified certain prior year amounts to conform to the current year presentation.

**Earnings Per Common Share**

There were a total of approximately 5 million and 6 million outstanding dilutive securities, primarily consisting of restricted stock units, included in the computation of diluted earnings per common share for the three and six months ended June 30, 2017, respectively. There were a total of approximately 6 million and 5 million outstanding dilutive securities, primarily consisting of restricted stock units, included in the computation of diluted earnings per common share for the three and six months ended June 30, 2016, respectively.

**Recently Adopted Accounting Standards**

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments in this update eliminate the requirement to perform step two of the goodwill impairment test, which requires a hypothetical purchase price allocation when an impairment is determined to have occurred. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This standard update is effective as of the first quarter of 2020; however, early adoption is permitted for any interim or annual impairment tests performed after January 1, 2017. Verizon early adopted this standard as of January 1, 2017.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This standard update intends to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This standard update is effective as of the first quarter of 2017. The adoption of this standard update did not have a significant impact on our condensed consolidated financial statements.

**Recently Issued Accounting Standards**

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this update require an employer to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost, including the recognition of prior service credits, will be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The amendments in this update also allow only the service cost component of pension and other postretirement benefit costs to be eligible for capitalization when applicable. The amendments in this update would be applied retrospectively for the presentation of the service cost component and other components of net periodic benefit cost in the income statement and prospectively, on and after the effective date, for the capitalization of the service cost component of net periodic benefit cost in assets. Disclosures of the nature of and reason for the change in accounting principle would be required in the first interim and annual reporting periods of adoption. This standard update is effective as of the first quarter of 2018; however, early adoption is permitted as of the beginning of an annual period for which financial statements have not been issued. The impact of the retrospective adoption of this standard update will be an increase to consolidated operating income of approximately \$2.2 billion and no impact to consolidated net income for the year ended December 31, 2016.

In February 2017, the FASB issued ASU 2017-05, Other Income - Gains and Losses From the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The new guidance defines an in substance nonfinancial asset as an asset or group of assets for which substantially all of the fair value consists of nonfinancial assets and the group or subsidiary is not a business. The standard requires entities to derecognize nonfinancial assets or in substance nonfinancial assets when the entity no longer has (or ceases to

## **Table of Contents**

have) a controlling financial interest in the legal entity that holds the asset and the entity transfers control of the asset. The standard update also unifies guidance related to partial sales of nonfinancial assets to be more consistent with the sale of a business. This standard update is effective as of the first quarter of 2018; however, early adoption is permitted. We are currently evaluating the impact that this standard update will have on our condensed consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The amendments in this update provide a framework, the screen, in which to evaluate whether a set of transferred assets and activities is a business. The screen requires that the set is not a business when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. The standard also aligns the definition of outputs with how outputs are described in Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers*. This standard is effective as of the first quarter of 2018; however, early adoption is permitted. We are currently evaluating the impact that this standard update will have on our condensed consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The amendments in this update require that cash and cash equivalent balances in a statement of cash flows include those amounts deemed to be restricted cash and restricted cash equivalents. This standard update is effective as of the first quarter of 2018; however, early adoption is permitted. We are currently evaluating the impact that this standard update will have on our condensed consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This standard update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice for these issues. Among the updates, this standard update requires cash receipts from payments on a transferor's beneficial interests in securitized trade receivables to be classified as cash inflows from investing activities. This standard update is effective as of the first quarter of 2018; however, early adoption is permitted. We expect the amendment relating to beneficial interests in securitization transactions will have an impact on our presentation of collections of the deferred purchase price from sales of wireless device payment plan agreement receivables in our condensed consolidated statements of cash flows. Upon adoption of this standard update in the first quarter of 2018, we expect to retrospectively reclassify approximately \$1.1 billion of collections of deferred purchase price related to collections from customers for the year ended December 31, 2016 from Cash flows from operating activities to Cash flows from investing activities in our consolidated statements of cash flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard update requires that certain financial assets be measured at amortized cost net of an allowance for estimated credit losses such that the net receivable represents the present value of expected cash collection. In addition, this standard update requires that certain financial assets be measured at amortized cost reflecting an allowance for estimated credit losses expected to occur over the life of the assets. The estimate of credit losses must be based on all relevant information including historical information, current conditions and reasonable and supportable forecasts that affect the collectability of the amounts. This standard update is effective as of the first quarter of 2020; however, early adoption is permitted. We are currently evaluating the impact that this standard update will have on our condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This standard update intends to increase transparency and improve comparability by requiring entities to recognize assets and liabilities on the balance sheet for all leases, with certain exceptions. In addition, through improved disclosure requirements, the standard update will enable users of financial statements to further understand the amount, timing, and uncertainty of cash flows arising from leases. This standard update is effective as of the first quarter of 2019; however, early adoption is permitted.

Verizon's current operating lease portfolio is primarily comprised of network, real estate, and equipment leases. Upon adoption of this standard, we expect our balance sheet to include a right of use asset and liability related to substantially all operating lease arrangements. We have established a cross-functional coordinated implementation team to implement the standard update related to leases. We are in the process of assessing the impact to our systems, processes and internal controls to meet the standard update's reporting and disclosure requirements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This standard update, along with related subsequently issued updates, clarifies the principles for recognizing revenue and develops a common revenue standard for United States generally accepted accounting principles (GAAP). The standard update also amends current guidance for the recognition of costs to obtain and fulfill contracts with customers such that incremental costs of obtaining and direct costs of fulfilling contracts with customers will be deferred and amortized consistent with the transfer of the related good or service. 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. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective

## **Table of Contents**

method, in which case the standard is applied only to the most current period presented and the cumulative effect of applying the standard would be recognized at the date of initial application. In August 2015, an accounting standard update was issued that delayed the effective date of this standard until the first quarter of 2018, at which time we plan to adopt the standard using the modified retrospective approach.

We are in the process of evaluating the impact of the standard update. The ultimate impact on revenue resulting from the application of the new standard will be subject to assessments that are dependent on many variables, including, but not limited to, the terms of our contractual arrangements and our mix of business. Upon adoption, we expect that the allocation of revenue between equipment and service for our wireless fixed-term service plans will result in more revenue allocated to equipment and recognized earlier as compared with current GAAP. We expect the timing of recognition of our sales commission expenses will also be impacted, as a substantial portion of these costs, which are currently expensed, will be capitalized and amortized as described above. In 2016, total sales commission expenses were approximately \$4.2 billion. In 2017, we expect total sales commission expenses to decline as our wireless customers continue to migrate from our fixed-term service plans to device payment plans which have lower commission structures.

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

## **2. Acquisitions and Divestitures**

### **Wireless**

#### **Spectrum License Transactions**

During the fourth quarter of 2016, we entered into a license exchange agreement with affiliates of AT&T Inc. to exchange certain Advanced Wireless Services (AWS) and Personal Communication Services (PCS) spectrum licenses. This non-cash exchange was completed in February 2017, at which time we received \$1.0 billion of AWS and PCS spectrum licenses at fair value and recorded a pre-tax gain of \$0.1 billion in Selling, general and administrative expense on our condensed consolidated statement of income for the six months ended June 30, 2017.

During the first quarter of 2017, we entered into a license exchange agreement with affiliates of Sprint Corporation, which provides for the exchange of certain PCS spectrum licenses. This non-cash exchange was completed in May 2017. As a result, we received \$0.1 billion of PCS spectrum licenses at fair value and recorded an insignificant gain in Selling, general and administrative expense on our condensed consolidated statements of income for the three and six months ended June 30, 2017.

During the three and six months ended June 30, 2017, we acquired, for cash consideration, various other wireless licenses that were insignificant.

#### **Straight Path**

On May 11, 2017, we entered into an agreement (the Purchase Agreement) to acquire Straight Path Communications Inc. (Straight Path), a holder of millimeter wave spectrum configured for 5G wireless services. Under the terms of the Purchase Agreement, we agreed to acquire Straight Path for \$184.00 per share, reflecting an enterprise value of approximately \$3.1 billion. The acquisition is subject to customary regulatory approvals and closing conditions, and is expected to close by the end of the first quarter of 2018.

### **Wireline**

#### **XO Holdings**

In February 2016, we entered into a purchase agreement to acquire XO Holdings wireline business (XO), which owns and operates one of the largest fiber-based Internet Protocol (IP) and Ethernet networks. Concurrently, we entered into a separate agreement to lease certain wireless spectrum from a wholly-owned subsidiary of XO Holdings that holds its wireless spectrum, which included an option, exercisable upon the closing of the XO transaction, to buy the subsidiary. In February 2017, we completed our acquisition of XO for total cash consideration of approximately \$1.8 billion, of which \$0.1 billion was paid in 2015. In April 2017, we exercised our option to buy the subsidiary for approximately \$0.2 billion, subject to certain adjustments. The transaction is subject to customary regulatory approvals and is expected to close by the end of 2017. Upon closing, the spectrum acquired as part of the transaction will be utilized by the Wireless segment.



## **Table of Contents**

The condensed consolidated financial statements include the results of XO's operations from the date the acquisition closed. If the acquisition of XO had been completed as of January 1, 2016, the results of operations of Verizon would not have been significantly different than our previously reported results of operations.

The acquisition of XO was accounted for as a business combination. Since the business combination and the lease agreement with the purchase option were entered into contemporaneously, the total cash consideration of \$1.8 billion has been preliminarily allocated between them on a relative fair value basis. The preliminary allocation of the purchase price for the business combination will be finalized within 12 months following the close of the acquisition. Upon closing, we preliminarily recorded approximately \$0.4 billion of goodwill, and \$0.2 billion of other intangibles. 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 XO transaction represents future economic benefits we expect to achieve as a result of the acquisition. The goodwill related to this acquisition is included within our Wireline segment (see Note 3 for additional information).

## **Data Center Sale**

On December 6, 2016, we entered into a definitive agreement, which was subsequently amended on March 21, 2017, with Equinix, Inc. pursuant to which we agreed to sell 23 customer-facing data center sites in the United States and Latin America, for approximately \$3.6 billion, subject to certain adjustments (Data Center Sale). The sale did not affect Verizon's data center services delivered from 27 sites in Europe, Asia-Pacific and Canada, or its managed hosting and cloud offerings. The transaction closed on May 1, 2017.

For the three and six months ended June 30, 2017, these businesses generated revenues of an insignificant amount and \$0.1 billion, respectively, and operating income of an insignificant amount and \$0.1 billion, respectively, for Verizon. For the three and six months ended June 30, 2016, these businesses generated revenues of \$0.1 billion and \$0.2 billion, respectively, and operating income of \$0.1 billion and \$0.1 billion, respectively. As a result of the closing of the transaction, we derecognized assets with a carrying value of \$1.4 billion, primarily consisting of goodwill, plant, property and equipment and other intangible assets. The liabilities associated with the sale were insignificant.

In connection with the Data Center Sale and other insignificant transactions, we recorded a net gain on sale of divested businesses of approximately \$1.8 billion in Selling, general and administrative expense on our condensed consolidated statements of income for the three and six months ended June 30, 2017.

## **Other**

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

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

On February 20, 2017, Verizon and Yahoo entered into an amendment to the Purchase Agreement, pursuant to which the Transaction purchase price was reduced by \$350 million to approximately \$4.48 billion in cash, subject to certain adjustments. Subject to certain exceptions, the parties also agreed that certain user security and data breaches incurred by Yahoo (and the losses arising therefrom) were to be disregarded (1) for purposes of specified conditions to Verizon's obligations to close the Transaction and (2) in determining whether a Business Material Adverse Effect under the Purchase Agreement has occurred.

Concurrently with the amendment of the Purchase Agreement, Yahoo and Yahoo Holdings, Inc., a wholly owned subsidiary of Yahoo that Verizon agreed to purchase pursuant to the Transaction, also entered into an amendment to the related reorganization agreement, pursuant to which Yahoo (which changed its name to Altaba Inc. following the closing of the Transaction) retains 50% of certain post-closing liabilities arising out of governmental or third party investigations, litigations or other claims related to certain user security and data breaches incurred by Yahoo. In accordance with the original Transaction agreements, Yahoo will continue to retain 100% of any liabilities arising out of any shareholder lawsuits (including derivative claims) and investigations and actions by the SEC.

Prior to the closing of the Transaction, pursuant to a related reorganization agreement, Yahoo transferred all of the assets and liabilities constituting Yahoo's operating business to the subsidiaries that we acquired in the Transaction. The assets that we acquired did not include Yahoo's cash, its ownership interests in Alibaba, Yahoo! Japan and certain other investments, certain undeveloped land recently divested by Yahoo or certain non-core intellectual property. We received for our benefit and that of our current and certain future affiliates a non-exclusive, worldwide, perpetual, royalty-free license to all of Yahoo's intellectual property that was not conveyed with the business.

**Table of Contents**

On June 13, 2017, we completed the Transaction. As a result, Yahoo Holdings, Inc. became a wholly-owned subsidiary of Verizon. The aggregate purchase consideration at the closing of the Transaction was approximately \$4.8 billion.

Verizon has combined Yahoo's operating business with its existing Media business to create a newly branded organization, Oath, a diverse house of more than 50 media and technology brands that engages approximately a billion people around the world. We believe that the Transaction represents a critical step in growing the global scale needed for our digital media company and building the future of brands using powerful technology, trusted content and differentiated data.

The acquisition of Yahoo's operating business has been accounted for as a business combination. We are currently assessing the identification and measurement of the assets acquired and liabilities assumed. The preliminary results, which are summarized below, will be finalized within 12 months following the close of the acquisition. The preliminary results do not include any amount for potential liability arising from certain user security and data breaches since a reasonable estimate of loss, if any, cannot be determined at this time. We will continue to evaluate the accounting for these contingencies in conjunction with finalizing our accounting for this business combination and thereafter.

The fair values of the assets acquired and liabilities assumed were determined using the income, cost, market and multiple period excess earnings 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 ASC 820, Fair Value Measurement, 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 Yahoo's shareholders and the preliminary identification of the assets acquired, including cash acquired of \$0.2 billion, and liabilities assumed as of the close of the acquisition, as well as the fair value at the acquisition date of Yahoo's noncontrolling interests:

(dollars in millions)	<b>As of June 13, 2017</b>	
Cash payment to Yahoo's equity holders	\$	4,723
Estimated liabilities to be paid		38
<b>Total consideration</b>	<b>\$</b>	<b>4,761</b>
Assets acquired:		
Goodwill	\$	874
Intangible assets subject to amortization		2,586
Property, plant, and equipment		1,796
Other		1,362

Total assets acquired		6,618
Liabilities assumed:		
Total liabilities assumed		1,824
Net assets acquired:		4,794
Noncontrolling interest		(33)
Total consideration	\$	4,761

On the closing date of the Transaction, each unvested and outstanding Yahoo restricted stock unit award that was held by an employee who became an employee of Verizon was replaced with a Verizon restricted stock unit award, which is generally payable in cash upon the applicable vesting date. The value of those outstanding restricted stock units on the acquisition date was approximately \$1.0 billion.

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 is primarily attributable to increased synergies that are expected to be achieved from the

**Table of Contents**

integration of Yahoo's operating business into our Media business. The preliminary goodwill related to this acquisition is included within Corporate and other (see Note 3 for additional information).

The condensed consolidated financial statements include the results of Yahoo's operating business from the date the acquisition closed. If the acquisition of Yahoo's operating business had been completed as of January 1, 2016, the results of operations of Verizon would not have been significantly different than our previously reported results of operations.

During the three and six months ended June 30, 2017, the operating revenues and net income of Yahoo's operating business included in our condensed consolidated statements of income were insignificant.

*Acquisition and Integration Related Charges*

In connection with the Yahoo Transaction, we recognized the following charges, which were recorded in Selling, general and administrative expense on our condensed consolidated statements of income:

(dollars in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Severance	\$ 370	\$ -	\$ 370	\$ -
Transaction costs	66	-	66	-
Integration costs	56	-	56	-
	\$ 492	\$ -	\$ 492	\$ -

**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, 2017	\$ 86,673
Acquisitions (Note 2)	76
Capitalized interest on wireless licenses	239
Reclassifications, adjustments and other	1,016
<b>Balance at June 30, 2017</b>	<b>\$ 88,004</b>

Reclassifications, adjustments and other includes \$1.0 billion received in exchanges of wireless licenses during the six months ended June 30, 2017.

At June 30, 2017, approximately \$10.0 billion of wireless licenses were under development for commercial service for which we were capitalizing interest costs.

The average remaining renewal period for our wireless licenses portfolio was 5.6 years as of June 30, 2017.

## Goodwill

Changes in the carrying amount of Goodwill are as follows:

(dollars in millions)	Wireless		Wireline		Other		Total
Balance at January 1, 2017	\$	18,393	\$	3,784	\$	5,028	\$ 27,205
Acquisitions (Note 2)		5		432		887	1,324
Reclassifications, adjustments and other		-		(5)		3	(2)
<b>Balance at June 30, 2017</b>	\$	18,398	\$	4,211	\$	5,918	\$ 28,527

**Table of Contents**

At June 30, 2017, we recognized preliminary goodwill of \$0.9 billion in Corporate and other as a result of the acquisition of Yahoo's operating business. At June 30, 2017, we recognized preliminary goodwill of \$0.4 billion in Wireline as a result of the acquisition of XO. See Note 2 for additional information.

**Other Intangible Assets**

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

(dollars in millions)	At June 30, 2017			At December 31, 2016		
	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Customer lists (8 to 13 years)	\$ 4,014	\$ (529)	\$ 3,485	\$ 2,884	\$ (480)	\$ 2,404
Non-network internal-use software (5 to 7 years)	17,249	(11,525)	5,724	16,135	(10,913)	5,222
Other (5 to 25 years)	2,602	(668)	1,934	1,854	(583)	1,271
<b>Total</b>	<b>\$ 23,865</b>	<b>\$ (12,722)</b>	<b>\$ 11,143</b>	<b>\$ 20,873</b>	<b>\$ (11,976)</b>	<b>\$ 8,897</b>

At June 30, 2017, we recognized preliminary other intangible assets of \$2.6 billion in Corporate and other as a result of the acquisition of Yahoo's operating business. At June 30, 2017, we recognized preliminary other intangible assets of \$0.2 billion (primarily customer lists) in Wireline as a result of the acquisition of XO. See Note 2 for additional information.

The amortization expense for Other intangible assets was as follows:

(dollars in millions)	Three Months Ended	Six Months Ended
	June 30, 2017	June 30, 2016
2017	\$ 485	\$ 937
2016	401	836

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

Years	(dollars in millions)
Remainder of 2017	\$ 1,393
2018	1,891
2019	1,656
2020	1,406
2021	1,222

**4. Debt**

Changes to debt during the six months ended June 30, 2017 are as follows:

(dollars in millions)	<b>Debt Maturing within One Year</b>	<b>Long-term Debt</b>	<b>Total</b>
Balance at January 1, 2017	\$ 2,645	\$ 105,433	\$ 108,078
Proceeds from long-term borrowings	65	15,944	16,009
Proceeds from asset-backed long-term borrowings	-	2,878	2,878
Repayments of long-term borrowings and capital leases obligations	(3,158)	(7,136)	(10,294)
Decrease in short-term obligations, excluding current maturities	(152)	-	(152)
Reclassifications of long-term debt	1,569	(1,569)	-
Debt acquired (Note 2)	7	52	59
Other	177	788	965
<b>Balance at June 30, 2017</b>	<b>\$ 1,153</b>	<b>\$ 116,390</b>	<b>\$ 117,543</b>



**Table of Contents***January Exchange Offers and Cash Offers*

On January 25, 2017, we commenced eighteen separate private offers to exchange (the January Exchange Offers) specified series of outstanding Notes issued by Verizon Communications (the Old Notes) for new Notes to be issued by Verizon Communications and, for certain series, cash. In connection with the January Exchange Offers, which expired on January 31, 2017 and settled on February 3, 2017, we issued \$3.2 billion aggregate principal amount of Verizon Communications 2.946% Notes due 2022 (the 2022 New Notes), \$1.7 billion aggregate principal amount of Verizon Communications 4.812% Notes due 2039 (the 2039 New Notes) and \$4.1 billion aggregate principal amount of Verizon Communications 5.012% Notes due 2049 (the 2049 New Notes) plus applicable cash of \$0.6 billion (not including accrued and unpaid interest on the Old Notes) in exchange for \$8.3 billion aggregate principal amount of tendered Old Notes.

We concurrently commenced eighteen separate offers to purchase for cash (the January Cash Offers) the Old Notes. In connection with the January Cash Offers, which expired on January 31, 2017 and settled on February 3, 2017, we repurchased \$0.5 billion aggregate principal amount of Old Notes for \$0.5 billion, exclusive of accrued interest. On February 10, 2017, we purchased for \$0.1 billion, exclusive of accrued interest, an additional \$0.1 billion of Old Notes (the subsequent cash purchases ) from certain holders whose tenders of Old Notes in the January Cash Offers had been rejected.

The table below lists the series of Old Notes included in the January Exchange Offers for the 2022 New Notes and the January Cash Offers, referred to as Group 1:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted for Exchange	Principal Amount Accepted for Cash <sup>(1)</sup>
Verizon Communications Inc.	5.500%	2018	\$ 737	\$ 83	\$ 8
	6.100%	2018	753	77	9
	3.650%	2018	2,698	508	97
	2.550%	2019	500	154	35
	1.375%	2019	1,000	376	38
	2.625%	2020	3,304	1,925	55
				\$ 3,123	\$ 242

<sup>(1)</sup> Includes amounts acquired pursuant to the subsequent cash purchases.

The table below lists the series of Old Notes included in the January Exchange Offers for the 2039 New Notes and the January Cash Offers, referred to as Group 2:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted for Exchange	Principal Amount Accepted for Cash <sup>(1)</sup>
Verizon Communications Inc.	5.150%	2023	\$ 8,517	\$ 715	\$ 217

Edgar Filing: VERIZON COMMUNICATIONS INC - Form 10-Q

7.750%	2030	930	184	4
7.750%	2032	218	2	-
6.400%	2033	1,729	640	6
			\$ 1,541	\$ 227

<sup>(1)</sup> Includes amounts acquired pursuant to the subsequent cash purchases.

**Table of Contents**

The table below lists the series of Old Notes included in the January Exchange Offers for the 2049 New Notes and the January Cash Offers, referred to as Group 3:

(dollars in millions)	Interest Rate	Maturity	Principal Amount Outstanding	Principal Amount Accepted for Exchange	Principal Amount Accepted for Cash <sup>(1)</sup>
Verizon Communications Inc.	5.850%	2035	\$ 1,250	\$ 447	\$ 4
	6.250%	2037	636	189	5
	6.400%	2038	750	228	6
	6.900%	2038	384	111	4
	8.950%	2039	290	48	-
	7.350%	2039	412	225	1
	6.000%	2041	1,000	480	20
	6.550%	2043	4,245	1,933	46
				\$ 3,661	\$ 86

<sup>(1)</sup> Includes amounts acquired pursuant to the subsequent cash purchases.

*Term Loan Credit Agreement*

In March 2017, we prepaid \$1.7 billion of the outstanding \$3.3 billion term loan that had an original maturity date of July 2019. During April 2017, we repaid the remaining outstanding amount under the term loan agreement.

*March Tender Offer*

On March 13, 2017, we announced the commencement of a tender offer (the March Tender Offer) to purchase for cash any and all of the series of notes listed below. The Tender Offer expired on March 17, 2017 and most of which was settled on March 20, 2017. In addition to the purchase price, any accrued and unpaid interest on the purchased notes was paid to the date of purchase.

(dollars in millions, except for Purchase Price)	Interest Rate	Maturity	Principal Amount Outstanding	Purchase Price <sup>(1)</sup>	Principal Amount Purchased
Verizon Communications Inc.	8.950%	2039	\$ 242	\$ 1,537.18	\$ 131
	7.750%	2032	215	1,341.68	36
	6.550%	2043	2,266	1,239.85	847
	6.400%	2033	1,083	1,216.85	612
	7.350%	2039	186	1,324.60	27
	6.900%	2038	270	1,273.29	49
	7.750%	2030	742	1,379.04	160
	6.400%	2038	515	1,206.61	118
	6.250%	2037	443	1,189.56	103
	5.850%	2035	800	1,151.79	249

Edgar Filing: VERIZON COMMUNICATIONS INC - Form 10-Q

	6.000%	2041	500	1,151.23	206
	6.100%	2018	667	1,048.45	153
	5.500%	2018	646	1,037.01	113
Verizon New York Inc.	7.375%	2032	244	1,285.50	39
	6.500%	2028	72	1,177.23	1
Verizon Pennsylvania LLC	8.750%	2031	53	1,426.33	17
	8.350%	2030	48	1,384.37	16
	6.000%	2028	68	1,139.69	11
Verizon Delaware LLC	8.625%	2031	10	1,416.70	8

**Table of Contents**

Verizon Maryland LLC	8.300%	2031	24	1,378.75	2
	8.000%	2029	28	1,332.71	1
	5.125%	2033	179	1,063.06	15
Verizon Virginia LLC	8.375%	2029	19	1,367.57	9
	7.875%	2022	57	1,206.35	-
Verizon New England Inc.	7.875%	2029	173	1,322.35	26
Verizon New Jersey Inc.	7.850%	2029	87	1,319.96	8
	8.000%	2022	146	1,227.16	25
GTE LLC	8.750%	2021	207	1,240.28	14
	6.940%	2028	413	1,270.73	85
	6.840%	2018	332	1,056.27	38
				\$	3,119

(1) Per \$1,000 principal amount of notes tendered.

*Debt Issuances and Redemptions*

During February 2017, we redeemed \$0.2 billion of the \$0.6 billion 6.94% GTE LLC Notes due 2028 at 124.8% of the principal amount of the notes redeemed (see *Early Debt Redemptions* ).

During February 2017, we issued approximately \$1.5 billion aggregate principal amount of 4.95% Notes due 2047. The issuance of these notes resulted in cash proceeds of approximately \$1.5 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The net proceeds were used for general corporate purposes.

During March 2017, we issued \$11.0 billion aggregate principal amount of fixed and floating rate notes. The issuance of these notes resulted in cash proceeds of approximately \$10.9 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The issuance consisted of the following series of notes: \$1.4 billion aggregate principal amount of Verizon Communications Floating Rate Notes due 2022, \$1.85 billion aggregate principal amount of Verizon Communications 3.125% Notes due 2022, \$3.25 billion aggregate principal amount of Verizon Communications 4.125% Notes due 2027, \$3.0 billion aggregate principal amount of Verizon Communications 5.250% Notes due 2037, and \$1.5 billion aggregate principal amount of Verizon Communications 5.500% Notes due 2047. The floating rate notes bear interest at a rate equal to the three-month LIBOR plus 1.000% which rate will be reset quarterly. The net proceeds were primarily used for the tender offer and general corporate purposes, including discretionary contributions to our qualified pension plans of \$3.4 billion. We used the remaining net proceeds for the financing of our acquisition of Yahoo's operating business.

During April 2017, we redeemed in whole \$0.5 billion aggregate principal amount of Verizon Communications 6.100% Notes due 2018 at 104.5% of the principal amount of such notes and \$0.5 billion aggregate principal amount of Verizon Communications 5.50% Notes due 2018 at 103.3% of the principal amount of such notes, plus accrued and unpaid interest to the date of redemption.

During May 2017, we issued \$1.5 billion aggregate principal amount of Verizon Communications floating rate notes due 2020. The issuance of these notes resulted in cash proceeds of approximately \$1.5 billion, net of discounts and issuance costs and after reimbursement of certain expenses. The floating rate notes bear interest at a rate equal to three-month LIBOR plus 0.550% which will be reset quarterly. The net proceeds were primarily used for general corporate purposes, which included the repayment of outstanding indebtedness. In addition we issued CHF 0.6 billion aggregate principal amount of Verizon Communications 0.375% Bonds due 2023, and CHF 0.4 billion aggregate principal amount of Verizon Communications 1.00% Bonds due 2027. The issuance of these bonds resulted in cash proceeds of approximately \$1.0 billion, net of discounts and issuance costs. The net proceeds were primarily used for general corporate purposes including the repayment of debt.

During May 2017, we initiated a retail notes program in connection with the issuance and sale from time to time of our notes that are due nine months or more from the date of issue. As of June 30, 2017 we have issued \$0.5 billion of Verizon Communication Notes with interest rates ranging from 2.600% to 4.900% and maturity dates ranging from 2022 to 2047.

During June 2017, \$1.3 billion of Verizon Communication floating rate notes matured and were repaid.

## **Table of Contents**

During June 2017, we redeemed in whole \$0.5 billion aggregate principal amount of Verizon Communications 1.100% Notes due 2017 at 100.003% of the principal amount of such notes, plus accrued and unpaid interest to the date of redemption.

### *Asset-Backed Debt*

As of June 30, 2017, the carrying value of our asset-backed debt was \$7.9 billion. Our asset-backed debt includes notes (the Asset-Backed Notes) issued to third-party investors (Investors) and loans (ABS Financing Facility) received from banks and their conduit facilities (collectively, the Banks). Our consolidated asset-backed securitization bankruptcy remote legal entities (each, an ABS Entity or collectively, the ABS Entities) issue the debt or are otherwise party to the transaction documentation in connection with our asset-backed debt transactions. Under the terms of our asset-backed debt, we transfer device payment plan agreement receivables from Cellco Partnership and certain other affiliates of Verizon (collectively, the Originators) to one of the ABS Entities, which in turn transfers such receivables to another ABS Entity that issues the debt. Verizon entities retain the equity interests in the ABS Entities, which represent the rights to all funds not needed to make required payments on the asset-backed debt and other related payments and expenses.

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

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

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

### *Asset-Backed Notes*

In March 2017, we issued approximately \$1.3 billion aggregate principal amount of senior and junior Asset-Backed Notes through an ABS Entity. The Class A senior Asset-Backed Notes had an expected weighted-average life to maturity of 2.6 years at issuance and bear interest at 2.06% per annum, the Class B junior Asset-Backed Notes had an expected weighted-average life to maturity of 3.38 years at issuance and bear interest at 2.45% per annum and the Class C junior Asset-Backed Notes had an expected weighted-average life to maturity of 3.64 years at issuance and bear interest at 2.65% per annum.

In June 2017, we issued approximately \$1.3 billion aggregate principal amount of senior and junior Asset-Backed Notes through an ABS Entity. The Class A senior Asset-Backed Notes had an expected weighted-average life to maturity of 2.47 years at issuance and bear interest at 1.92% per annum, the Class B junior Asset-Backed Notes had an expected weighted-average life to maturity of 3.11 years at issuance and bear interest at 2.22% per annum and the Class C junior Asset-Backed Notes had an expected weighted-average life to maturity of 3.34 years at issuance and bear interest at 2.38% per annum.

Under the terms of the Asset-Backed Notes, there is a two-year revolving period during which we may transfer additional receivables to the ABS Entity.

*ABS Financing Facility*

As of June 30, 2017, aggregate outstanding borrowings under the ABS Financing Facility were approximately \$2.8 billion and \$0.3 billion of such amount was drawn down pursuant to a second series loan agreement that was entered into in May 2017. Under both series of the ABS Financing Facility there is a two year revolving period, which may be extended, during which we may transfer additional receivables to the ABS Entity. Subject to certain conditions, we may also remove receivables from the ABS Entity.



**Table of Contents**

Although the ABS Financing Facility is fully drawn as of June 30, 2017, we have the right to prepay all or a portion thereof at any time without penalty, but in certain cases, with breakage costs. If we choose to prepay, the amount prepaid shall be available for further drawdowns until September 2018, except in certain circumstances.

*Variable Interest Entities (VIEs)*

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

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

(dollars in millions)	<b>At June 30, 2017</b>	At December 31, 2016
<b>Assets</b>		
Account receivable, net	\$ 6,472	\$ 3,383
Prepaid expenses and other	396	236
Other assets	3,071	2,383
<b>Liabilities</b>		
Accounts payable and accrued liabilities	4	4
Long-term debt	7,869	4,988

See Note 5 for additional information on device payment plan agreement receivables used to secure asset-backed debt.

*Credit Facilities*

As of June 30, 2017, the unused borrowing capacity under our \$9.0 billion credit facility was approximately \$8.9 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.

As of June 30, 2017, the equipment credit facility insured by Eksportkreditnamnden Stockholm, Sweden (EKN), the Swedish export credit agency, was fully drawn at \$1.0 billion. We used this credit facility to finance network equipment-related purchases.

*Additional Financing Activities (Non-Cash Transaction)*

During the six months ended June 30, 2017, we financed, primarily through alternative financing arrangements, the purchase of approximately \$0.2 billion of long-lived assets consisting primarily of network equipment. At June 30, 2017, \$1.2 billion relating to these financing arrangements, including those entered into in prior years and liabilities assumed through acquisitions, remained outstanding. These purchases are non-cash financing activities and therefore not reflected within Capital expenditures on our condensed consolidated statements of cash flows.

*Early Debt Redemptions*

During the first quarter of 2017, we recorded a net pre-tax loss on early debt redemption of \$0.8 billion primarily in connection with the January Cash Offers and the March Tender Offer.

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

**Table of Contents***Guarantees*

We guarantee the debentures of our operating telephone company subsidiaries. As of June 30, 2017, \$1.0 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 LLC as successor in interest to GTE Corporation that were issued and outstanding prior to July 1, 2003. As of June 30, 2017, \$0.8 billion aggregate principal amount of these obligations remain outstanding.

**5. Wireless Device Payment Plans**

Under the Verizon device payment program, our eligible wireless customers purchase wireless devices under a device payment plan agreement. Customers that activate service on devices purchased under the device payment program pay lower service fees as compared to those under our fixed-term service plans, and their device payment plan charge is included on their standard wireless monthly bill. As of January 2017, we no longer offer consumers fixed-term service plans for phones.

**Wireless Device Payment Plan Agreement Receivables**

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

(dollars in millions)	At June 30, 2017	At December 31, 2016
Device payment plan agreement receivables, gross	\$ 14,505	\$ 11,797
Unamortized imputed interest	(654)	(511)
Device payment plan agreement receivables, net of unamortized imputed interest	13,851	11,286
Allowance for credit losses	(715)	(688)
<b>Device payment plan agreement receivables, net</b>	<b>\$ 13,136</b>	<b>\$ 10,598</b>
<b>Classified on our condensed consolidated balance sheets:</b>		
Accounts receivable, net	\$ 8,548	\$ 6,140
Other assets	4,588	4,458
<b>Device payment plan agreement receivables, net</b>	<b>\$ 13,136</b>	<b>\$ 10,598</b>

Included in our device payment plan agreement receivables, net at June 30, 2017, are net device payment plan agreement receivables of \$9.5 billion that have been transferred to ABS Entities and continue to be reported in our condensed consolidated balance sheet.

We may offer our customers certain promotions where a customer can trade-in his or her owned device in connection with the purchase of a new device. Under these types of promotions, the customer will receive trade-in credits that are applied to the customer's monthly bill. As a result, we recognize a trade-in obligation measured at fair value using weighted-average selling prices obtained in recent resales of devices eligible for trade-in. Device payment plan agreement receivables, net does not reflect this trade-in obligation. At June 30, 2017, the amount of trade-in obligations was insignificant.

From time to time, on select devices, certain marketing promotions have been revocably offered to customers to upgrade to a new device after paying down a certain specified portion of the required device payment plan agreement amount as well as trading in their device in good working order.

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

When originating device payment plan agreements, we use internal and external data sources to create a credit risk score to measure the credit quality of a customer and to determine eligibility for the device payment program. If a customer is either new to Verizon Wireless or has less than 210 days of customer tenure with Verizon Wireless (a new customer), the credit decision

**Table of Contents**

process relies more heavily on external data sources. If the customer has 210 days or more of customer tenure with Verizon Wireless (an existing customer), the credit decision process relies on internal data sources. Verizon Wireless experience has been that the payment attributes of longer tenured customers are highly predictive when considering their ability to pay in the future. External data sources include obtaining a credit report from a national consumer credit reporting agency, if available. Verizon Wireless uses its internal data and/or credit data obtained from the credit reporting agencies to create a custom credit risk score. The custom credit risk score is generated automatically (except with respect to a small number of applications where the information needs manual intervention) from the applicant's credit data using Verizon Wireless' proprietary custom credit models, which are empirically derived, demonstrably and statistically sound. The credit risk score measures the likelihood that the potential customer will become severely delinquent and be disconnected for non-payment. For a small portion of new customer applications, a traditional credit report is not available from one of the national credit reporting agencies because the potential customer does not have sufficient credit history. In those instances, alternate credit data is used for the risk assessment.

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

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

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

(dollars in millions)	<b>At June 30, 2017</b>	At December 31, 2016
Unbilled	\$ 13,714	\$ 11,089
Billed:		
Current	659	557
Past due	132	151
<b>Device payment plan agreement receivables, gross</b>	<b>\$ 14,505</b>	<b>\$ 11,797</b>

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

(dollars in millions)	<b>2017</b>	2016
Balance at January 1,	\$ 688	\$ 444

Bad debt expense	315	310
Write-offs	(288)	(210)
Allowance related to receivables sold	-	28
Other	-	6
<b>Balance at June 30,</b>	<b>\$ 715</b>	<b>\$ 578</b>

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

During 2015 and 2016, we established programs pursuant to a Receivables Purchase Agreement, or RPA, to sell from time to time, on an uncommitted basis, eligible device payment plan agreement receivables to a group of primarily relationship banks (Purchasers) on both a revolving (Revolving Program) and non-revolving (Non-Revolving Program) basis. The receivables sold under the RPA are no longer considered assets of Verizon. The outstanding portfolio of device payment plan agreement receivables derecognized from our condensed consolidated balance sheets, but which we continue to service, was \$1.5 billion at

## **Table of Contents**

June 30, 2017 and \$8.4 billion at June 30, 2016. At June 30, 2017, the total portfolio of device payment plan agreement receivables, including derecognized device payment plan agreement receivables, that we are servicing was \$16.0 billion.

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

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

There were no sales of device payment plan agreement receivables under the Revolving Program or the Non-Revolving Program during the three and six months ended June 30, 2017. During the three and six months ended June 30, 2016, we sold \$0.7 billion and \$3.3 billion, respectively, of receivables, net of allowances and imputed interest, under the Revolving Program. We received cash proceeds from new transfers of \$2.0 billion during the six months ended June 30, 2016. During the three and six months ended June 30, 2016, we received cash proceeds from reinvested collections of \$0.6 billion and \$0.9 billion, respectively, and recorded a deferred purchase price of an insignificant amount and \$0.4 billion, respectively.

### *Deferred Purchase Price*

Under the RPA, the deferred purchase price was initially recorded at fair value, based on the remaining device payment amounts expected to be collected, adjusted, as applicable, for the time value of money and by the timing and estimated value of the device trade-in in connection with upgrades. The estimated value of the device trade-in considers prices expected to be offered to us by independent third parties. This estimate contemplates changes in value after the launch of a device. The fair value measurements are considered to be Level 3 measurements within the fair value hierarchy. The collection of the deferred purchase price is contingent on collections from customers. During the three and six months ended June 30, 2017, we have collected \$0.3 billion and \$0.6 billion, respectively, and an insignificant amount during the three and six months ended June 30, 2016, which was returned as deferred purchase price and recorded within Cash flows provided by operating activities on our condensed consolidated statements of cash flows. Collections, which were returned as deferred purchase price and recorded within Cash flows provided by investing activities on our condensed consolidated statements of cash flows, were insignificant during the six months ended June 30, 2017 and 2016, respectively. At June 30, 2017, our deferred purchase price receivable, which is held by the Sellers, was comprised of \$1.1 billion included within Prepaid expenses and other in our condensed consolidated balance sheet. At December 31, 2016, our deferred purchase price receivable was comprised of \$1.2 billion included within Prepaid expenses and other and \$0.4 billion included within Other assets in our condensed consolidated balance sheet.

### *Variable Interest Entities (VIEs)*

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

#### *Continuing Involvement*

Verizon has continuing involvement with the sold receivables as it services the receivables. We continue to service the customer and their related receivables on behalf of the Purchasers, including facilitating customer payment collection, in exchange for a monthly servicing fee. While servicing the receivables, the same policies and procedures are applied to the sold receivables that apply to owned receivables, and we continue to maintain normal relationships with our customers. The credit quality of the customers we continue to service is consistent throughout the periods presented. To date, we have collected and remitted approximately \$9.6 billion, net of fees. To date, cash proceeds received, net of remittances, were \$0.5 billion. Credit losses on receivables sold were insignificant during both the six months ended June 30, 2017 and 2016.

In addition, we have continuing involvement related to the sold receivables as we may be responsible for absorbing additional credit losses pursuant to the agreements. The Company's maximum exposure to loss related to the involvement with the Sellers



**Table of Contents**

is limited to the amount of the outstanding deferred purchase price, which was \$1.1 billion as of June 30, 2017. 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.

**6. Fair Value Measurements****Recurring Fair Value Measurements**

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis at June 30, 2017:

(dollars in millions)	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
<b>Assets:</b>				
Other assets:				
Equity securities	\$ 77	\$ -	\$ -	\$ 77
Fixed income securities	-	349	-	349
Interest rate swaps	-	169	-	169
Cross currency swaps	-	192	-	192
Interest rate cap	-	4	-	4
<b>Total</b>	\$ 77	\$ 714	\$ -	\$ 791
<b>Liabilities:</b>				
Other liabilities:				
Interest rate swaps	\$ -	\$ 181	\$ -	\$ 181
Cross currency swaps	-	1,400	-	1,400
<b>Total</b>	\$ -	\$ 1,581	\$ -	\$ 1,581

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis at December 31, 2016:

(dollars in millions)	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
<b>Assets:</b>				
Other assets:				
Equity securities	\$ 123	\$ -	\$ -	\$ 123
Fixed income securities	10	566	-	576
Interest rate swaps	-	71	-	71
Cross currency swaps	-	45	-	45

Interest rate caps	-	10	-	10
<b>Total</b>	\$ 133	\$ 692	\$ -	\$ 825
<b>Liabilities:</b>				
Other liabilities:				
Interest rate swaps	\$ -	\$ 236	\$ -	\$ 236
Cross currency swaps	-	1,803	-	1,803
<b>Total</b>	\$ -	\$ 2,039	\$ -	\$ 2,039

(1) quoted prices in active markets for identical assets or liabilities

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

(3) no observable pricing inputs in the market

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

**Table of Contents**

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 between Level 1 and Level 2 during the six months ended June 30, 2017 and 2016, respectively.

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

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

(dollars in millions)	At June 30, 2017		At December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short- and long-term debt, excluding capital leases	\$ 116,537	\$ 127,281	\$ 107,128	\$ 117,584

**Derivative Instruments**

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

(dollars in millions)	At June 30, 2017		At December 31, 2016	
	Notional Amount		Notional Amount	
Interest rate swaps	\$ 6,635		\$ 13,099	
Cross currency swaps		13,911		12,890
Interest rate caps		2,840		2,540

*Interest Rate Swaps*

We enter into 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 interest rate risk exposure of designated debt issuances. We record the interest rate swaps at fair value on our condensed consolidated balance sheets as assets and liabilities. Changes in the fair value of the interest rate swaps are recorded to Interest expense, which are offset by changes in the fair value of the hedged debt due to changes in interest rates.

During the first quarter of 2017, we entered into interest rate swaps with a total notional value of \$3.5 billion.

The ineffective portion of our interest rate swaps was insignificant for the three and six months ended June 30, 2017 and 2016, respectively.

*Forward Interest Rate Swaps*

In order to manage our exposure to future interest rate changes, we periodically enter into forward interest rate swaps. We designate these contracts as cash flow hedges. During the three and six months ended June 30, 2016, pre-tax losses of \$0.1 billion and \$0.2 billion, respectively, were recognized in Other comprehensive income (loss).

## **Table of Contents**

### *Cross Currency Swaps*

We have entered into cross currency swaps designated as cash flow hedges to exchange our British Pound Sterling, Euro and Swiss Franc-denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses.

During the second quarter of 2017, we entered into cross currency swaps with a total notional value of \$1.0 billion.

During the three and six months ended June 30, 2017, pre-tax gains of \$0.4 billion and \$0.5 billion, respectively, were recognized in Other comprehensive income (loss). During the three and six months ended June 30, 2016, pre-tax losses of \$0.4 billion and \$0.2 billion, respectively, were recognized in Other comprehensive income (loss). A portion of the gains and losses recognized in Other comprehensive income (loss) was reclassified to Other expense, net to offset the related pre-tax foreign currency transaction gain or loss on the underlying debt obligations.

### *Net Investment Hedges*

We have designated certain foreign currency instruments 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. In 2016, we designated \$0.8 billion total notional value of Euro-denominated debt as a net investment hedge. The notional amount of the Euro-denominated debt as a net investment hedge was \$0.8 billion at June 30, 2017 and December 31, 2016, respectively.

## **Undesignated Derivatives**

We also have the following derivative contracts which we use as an economic hedge but for which we have elected not to apply hedge accounting.

### *Interest Rate Caps*

We enter into interest rate caps to mitigate our interest exposure to interest rate increases on our ABS Financing Facility. During the second quarter of 2017, we entered into interest rate caps with a total notional value of \$0.3 billion. During the three and six months ended June 30, 2017, we recognized an insignificant increase in Interest expense, respectively.

## **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, including device payment plan agreement 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 agreements) and credit support annex agreements (CSA) which provide rules for collateral exchange. Our CSAs generally require collateralized arrangements with our counterparties in connection with uncleared derivatives, but as of June 30, 2017, we have entered into amendments to our CSA agreements with substantially all of our counterparties that suspend the requirement for 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 and do not expect that any such nonperformance would result in a

significant effect on our results of operations or financial condition. During the first and second quarter of 2017, we paid an insignificant amount of cash to extend certain of such amendments to certain collateral exchange arrangements. As a result of the amendments to the CSA agreements, we did not post any collateral at June 30, 2017. At December 31, 2016, we posted collateral of approximately \$0.2 billion related to derivative contracts under collateral exchange arrangements, which were recorded as Prepaid expenses and other in our condensed consolidated balance sheet.

## **7. Stock-Based Compensation**

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

In May 2017, Verizon's shareholders approved the 2017 Long-Term Incentive Plan (the 2017 Plan) and terminated Verizon's authority to grant new awards under the Verizon 2009 Long-Term Incentive Plan (the 2009 Plan). Consistent with the 2009 Plan, the 2017 Plan provides for broad-based equity grants to employees, including executive officers, and permits the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and other awards. Upon approval of the 2017 Plan, Verizon reserved the 91 million shares that were reserved but not issued under the 2009 Plan for future issuance under the 2017 Plan.

**Table of Contents***Restricted Stock Units*

The 2009 Plan and 2017 Plan provide for grants of Restricted Stock Units (RSUs). For RSUs granted prior to 2017, vesting generally occurs at the end of the third year. For the 2017 grants, vesting generally occurs in three equal installments on each anniversary of the grant date. The RSUs are generally 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.

In connection with our acquisition of Yahoo's operating business, on the closing date of the Transaction each unvested and outstanding Yahoo RSU award that was held by an employee who became an employee of Verizon was replaced with a Verizon RSU award, which is generally payable in cash upon the applicable vesting date. These awards are classified as liability awards and are measured at fair value at the end of each reporting period.

*Performance Stock Units*

The 2009 Plan and 2017 Plan also provide for grants of Performance Stock Units (PSUs) that generally vest at the end of the third year after the grant. As defined by the 2009 Plan and 2017 Plan, the Human Resources Committee of the Board of Directors determines the number of PSUs a participant earns based on the extent to which the corresponding performance goals have been achieved over the three-year performance cycle. The PSUs are classified as liability awards because the PSU awards are paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the price of Verizon common stock as well as performance relative to the targets. Dividend equivalent units are also paid to participants at the time that the PSU award is determined and paid, and in the same proportion as the PSU award. The granted and cancelled activity for the PSU award includes adjustments for the performance goals achieved.

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

(shares in thousands)	Restricted Stock Units		Performance
	Equity Awards	Liability Awards	Stock Units
Outstanding, January 1, 2017	13,308	-	17,919
Granted	5,888	22,071	6,278
Payments	(4,880)	(726)	(6,031)
Cancelled/Forfeited	(108)	(55)	(1,198)
<b>Outstanding, June 30, 2017</b>	<b>14,208</b>	<b>21,290</b>	<b>16,968</b>

As of June 30, 2017, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately \$1.3 billion and is expected to be recognized over approximately two years.

The equity RSUs granted in 2017 have a weighted-average grant date fair value of \$50.01 per unit.

**8. Employee Benefits**

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



**Table of Contents****Net Periodic Cost**

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

(dollars in millions)	<b>Pension</b>		<b>Health Care and Life</b>	
<b>Three Months Ended June 30,</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Service cost	\$ 70	\$ 76	\$ 37	\$ 52
Amortization of prior service cost (credit)	9	3	(235)	(113)
Expected return on plan assets	(316)	(257)	(13)	(13)
Interest cost	171	170	165	197
Remeasurement loss, net	-	1,257	-	2,293
Net periodic benefit (income) cost	\$ (66)	\$ 1,249	\$ (46)	\$ 2,416

(dollars in millions)	<b>Pension</b>		<b>Health Care and Life</b>	
<b>Six Months Ended June 30,</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Service cost	\$ 140	\$ 156	\$ 74	\$ 113
Amortization of prior service cost (credit)	19	2	(470)	(186)
Expected return on plan assets	(632)	(528)	(26)	(28)
Interest cost	342	356	330	421
Remeasurement loss, net	-	1,422	-	2,293
Net periodic benefit (income) cost	\$ (131)	\$ 1,408	\$ (92)	\$ 2,613

**Severance, Pension and Benefit Charges**

During the three and six months ended June 30, 2017, we recorded a pre-tax severance charge of approximately \$0.6 billion primarily in connection with the acquisition of Yahoo's operating business.

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

During the six months ended June 30, 2016, we also recorded a net pre-tax pension and benefit remeasurement charge of \$0.2 billion related to settlements for employees who received lump-sum distribution in one of Verizon's defined benefit pension plans.

**Severance Payments**

During the three and six months ended June 30, 2017, we paid severance benefits of \$0.2 billion and \$0.4 billion, respectively. At June 30, 2017, we had a remaining severance liability of \$0.7 billion, a portion of which includes future contractual payments to employees separated as of June 30, 2017.

### **Employer Contributions**

During the three and six months ended June 30, 2017, we contributed \$0.2 billion and \$3.8 billion, respectively, to our qualified pension plans, which included \$3.4 billion of discretionary contributions during the six months ended June 30, 2017. The discretionary contribution together with previous estimates of \$0.6 billion for minimum contributions result in an expected \$4.0 billion in pension funding to qualified plans in 2017. The contributions to our nonqualified pension plans were insignificant

**Table of Contents**

during the three and six months ended June 30, 2017, respectively. There have been no significant changes with respect to the nonqualified pension and other postretirement benefit plans contributions in 2017 as previously disclosed in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2016.

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

Changes in the components of Total equity were as follows:

(dollars in millions)	Attributable to Verizon	Noncontrolling Interests	Total Equity
Balance at January 1, 2017	\$ 22,524	\$ 1,508	\$ 24,032
Net income	7,812	219	8,031
Other comprehensive loss	(389)	-	(389)
Comprehensive income	7,423	219	7,642
Contributed capital	(83)	-	(83)
Dividends declared	(4,712)	-	(4,712)
Common stock in treasury	121	-	121
Distributions and other	(84)	(155)	(239)
<b>Balance at June 30, 2017</b>	<b>\$ 25,189</b>	<b>\$ 1,572</b>	<b>\$ 26,761</b>

*Common Stock*

On February 28, 2017, our previously authorized share buyback program expired. On March 3, 2017, the Verizon Board of Directors approved a new share buyback program, which authorized the repurchase of up to 100 million shares of Verizon common stock terminating no later than the close of business on February 28, 2020. The program permits Verizon to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs.

Verizon did not repurchase any shares of Verizon common stock through its authorized share buyback program during the six months ended June 30, 2017.

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans, including 2.7 million common shares issued from Treasury stock during the six months ended June 30, 2017.

**Accumulated Other Comprehensive Income**

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

(dollars in millions)	<b>Foreign currency translation adjustments</b>	<b>Unrealized loss on cash flow hedges</b>	<b>Unrealized loss on marketable securities</b>	<b>Defined benefit pension and postretirement plans</b>	<b>Total</b>
Balance at January 1, 2017	\$ (713)	\$ (80)	\$ 46	\$ 3,420	\$ 2,673
Other comprehensive income	88	331	13	-	432
Amounts reclassified to net income	-	(529)	(19)	(273)	(821)
Net other comprehensive income (loss)	88	(198)	(6)	(273)	(389)
<b>Balance at June 30, 2017</b>	<b>\$ (625)</b>	<b>\$ (278)</b>	<b>\$ 40</b>	<b>\$ 3,147</b>	<b>\$ 2,284</b>

The amounts presented above in net other comprehensive income (loss) are net of taxes. The amounts reclassified to net income related to unrealized loss on cash flow hedges in the table above are included in Other expense, net and Interest expense on our condensed consolidated statements of income (see Note 6 for additional information). The amounts reclassified to net income related to unrealized loss on marketable securities in the table above are included in Other expense, net on our condensed

**Table of Contents**

consolidated statements of income. The amounts reclassified to net income related to defined benefit pension and postretirement plans in the table above are included in Cost of services and Selling, general and administrative expense on our condensed consolidated statements of income (see Note 8 for additional information).

**10. Segment Information****Reportable Segments**

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

Our segments and their principal activities consist of the following:

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

Corporate and other includes the results of our media business including Oath, our telematics and other businesses, investments in unconsolidated businesses, unallocated corporate expenses, pension and other employee benefit related costs and lease financing. Corporate and other also includes the historical results of divested businesses and other adjustments and gains and losses that are not allocated in assessing segment performance due to their 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 completed our acquisition of Yahoo's operating business on June 13, 2017. The results of operations of Yahoo's operating business from the date of closing until June 30, 2017 were insignificant to our condensed consolidated statements of income.

On April 1, 2016, we completed the sale of our 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 to Frontier Communications Corporation (Frontier). The transaction, which included the acquisition by Frontier of the equity interests of Verizon's incumbent local exchange carriers (ILECs) in California, Florida and Texas, did not involve any assets or liabilities of Verizon Wireless. Additionally, on May 1, 2017, we completed the Data Center Sale (see Note 2 for additional information). The results of operations for these divestitures is included within Corporate and other for all periods presented to reflect comparable segment operating results consistent with the information regularly reviewed by our chief

operating decision maker.

In addition, Corporate and other includes the results of our telematics businesses for all periods presented, which were reclassified from our Wireline segment effective April 1, 2016. The impact of this reclassification was insignificant to our condensed consolidated financial statements or our segment results of operations.

During the first quarter of 2017, Verizon reorganized the customer groups within its Wireline segment. Previously, the customer groups in the Wireline segment consisted of Mass Markets (which included Consumer Retail and Small Business subgroups), Global Enterprise and Global Wholesale. Pursuant to the reorganization, there are now four customer groups within the Wireline segment: Consumer Markets, which includes the customers previously included in Consumer Retail; Enterprise Solutions, which includes the large business customers, including multinational corporations, and federal government customers previously included in Global Enterprise; Partner Solutions, which includes the customers previously included in Global Wholesale; and Business Markets, a new customer group, which includes U.S.-based small business customers previously included in Mass Markets and U.S.-based medium business customers, state and local government customers and educational institutions previously included in Global Enterprise.

The reconciliation of segment operating revenues and expenses to consolidated operating revenues and expenses below includes the effects of special items that management does not consider in assessing segment performance, primarily because of their nature.

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

**Table of Contents**

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

(dollars in millions)	Three Months Ended		Six Months Ended	
	2017	June 30, 2016	2017	June 30, 2016
<b>External Operating Revenues</b>				
Wireless				
Service	\$ 15,605	\$ 16,692	\$ 31,335	\$ 33,461
Equipment	4,298	3,704	8,062	7,658
Other	1,306	1,216	2,588	2,412
Total Wireless	21,209	21,612	41,985	43,531
Wireline				
Consumer Markets	3,184	3,165	6,385	6,345
Enterprise Solutions	2,387	2,378	4,779	4,802
Partner Solutions	1,008	1,002	1,999	2,031
Business Markets	921	845	1,803	1,707
Other	74	84	135	166
Total Wireline	7,574	7,474	15,101	15,051
Total reportable segments	\$ 28,783	\$ 29,086	\$ 57,086	\$ 58,582
<b>Intersegment Revenues</b>				
Wireless	\$ 73	\$ 92	\$ 175	\$ 177
Wireline	228	239	469	476
Total reportable segments	\$ 301	\$ 331	\$ 644	\$ 653
<b>Total Operating Revenues</b>				
Wireless	\$ 21,282	\$ 21,704	\$ 42,160	\$ 43,708
Wireline	7,802	7,713	15,570	15,527
Total reportable segments	\$ 29,084	\$ 29,417	\$ 57,730	\$ 59,235
<b>Operating Income (Loss)</b>				
Wireless	\$ 7,410	\$ 8,017	\$ 14,486	\$ 15,897
Wireline	68	(524)	287	(653)
Total reportable segments	\$ 7,478	\$ 7,493	\$ 14,773	\$ 15,244

**Table of Contents**

(dollars in millions)	<b>At June 30,</b>	<b>At December 31,</b>
	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Wireless	\$ 222,275	\$ 211,345