VERIZON COMMUNICATIONS INC
Form 10-Q
July 29, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010

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	**23-2259884**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
140 West Street **New York, New York**	**10007**
(Address of principal executive offices)	(Zip Code)

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

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

x Yes ¨ No

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

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

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

At June 30, 2010, 2,826,741,689 shares of the registrant s common stock were outstanding, after deducting 140,868,430 shares held in treasury.

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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 June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Operating Revenues	$ 26,773	$ 26,861	$ 53,686	$ 53,452
Operating Expenses				
Cost of services and sales (exclusive of items shown below)	12,239	10,481	22,956	20,789
Selling, general and administrative expense	8,319	7,871	16,043	15,432
Depreciation and amortization expense	4,176	4,091	8,297	8,119
Total Operating Expenses	24,734	22,443	47,296	44,340
Operating Income	2,039	4,418	6,390	9,112
Equity in earnings of unconsolidated businesses	121	128	254	256
Other income and (expense), net	17	11	62	64
Interest expense	(679)	(787)	(1,359)	(1,712)
Income Before (Provision) Benefit For Income Taxes	1,498	3,770	5,347	7,720
(Provision) benefit for income taxes	49	(610)	(1,516)	(1,350)
Net Income	$ 1,547	$ 3,160	$ 3,831	$ 6,370
Net income attributable to noncontrolling interest	$ 1,745	$ 1,677	$ 3,620	$ 3,242
Net income (loss) attributable to Verizon	(198)	1,483	211	3,128
Net Income	$ 1,547	$ 3,160	$ 3,831	$ 6,370
Basic Earnings (Loss) Per Common Share				
Net income (loss) attributable to Verizon	$ (.07)	$ .52	$ .07	$ 1.10
Weighted-average shares outstanding (in millions)	2,827	2,841	2,831	2,841
Diluted Earnings (Loss) Per Common Share				
Net income (loss) attributable to Verizon	$ (.07)	$ .52	$ .07	$ 1.10
Weighted-average shares outstanding (in millions)	2,827	2,841	2,833	2,841
Dividends declared per common share	$ .475	$ .460	$ .950	$ .920

See Notes to Condensed Consolidated Financial Statements

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Condensed Consolidated Balance Sheets

Verizon Communications Inc. and Subsidiaries

(dollars in millions, except per share amounts) (unaudited)	At June 30, 2010	At December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	$ 4,761	$ 2,009
Short-term investments	464	490
Accounts receivable, net of allowances of $948 and $976	12,058	12,573
Inventories	985	1,426
Prepaid expenses and other	2,793	5,247
Total current assets	21,061	21,745
Plant, property and equipment	234,727	229,381
Less accumulated depreciation	142,626	137,052
	92,101	92,329
Investments in unconsolidated businesses	3,797	3,535
Wireless licenses	72,435	72,067
Goodwill	22,467	22,472
Other intangible assets, net	6,324	6,764
Other assets	8,066	8,339
Total assets	$ 226,251	$ 227,251
Liabilities and Equity		
Current liabilities		
Debt maturing within one year	$ 7,874	$ 7,205
Accounts payable and accrued liabilities	16,905	15,223
Other	7,055	6,708
Total current liabilities	31,834	29,136
Long-term debt	49,594	55,051
Employee benefit obligations	32,435	32,622
Deferred income taxes	21,324	19,310
Other liabilities	6,591	6,765
Equity		
Series preferred stock ($.10 par value; none issued)		
Common stock ($.10 par value; 2,967,610,119 shares issued in both periods)	297	297
Contributed capital	40,108	40,108
Reinvested earnings	15,117	17,592
Accumulated other comprehensive loss	(11,140)	(11,479)

Common stock in treasury, at cost		(5,277)		(5,000)
Deferred compensation employee stock ownership plans and other		149		88
Noncontrolling interest		45,219		42,761
Total equity		84,473		84,367
Total liabilities and equity	$	226,251	$	227,251

See Notes to Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Cash Flows

Verizon Communications Inc. and Subsidiaries

(dollars in millions) (unaudited)	Six Months Ended June 30, 2010	2009
Cash Flows from Operating Activities		
Net Income	$ 3,831	$ 6,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	8,297	8,119
Employee retirement benefits	2,518	1,420
Deferred income taxes	1,354	1,296
Provision for uncollectible accounts	680	643
Equity in earnings of unconsolidated businesses, net of dividends received	(227)	173
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses	1,502	(2,070)
Other, net	(1,082)	(1,814)
Net cash provided by operating activities	16,873	14,137
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	(7,685)	(8,094)
Acquisitions of licenses, investments and businesses, net of cash acquired	(538)	(5,367)
Proceeds from dispositions	2,594	
Net change in short-term investments	(17)	119
Other, net	37	64
Net cash used in investing activities	(5,609)	(13,278)
Cash Flows from Financing Activities		
Proceeds from long-term borrowings		12,040
Repayments of long-term borrowings and capital lease obligations	(4,594)	(18,173)
Decrease in short-term obligations, excluding current maturities	(97)	(103)
Dividends paid	(2,690)	(2,614)
Other, net	(1,131)	(971)
Net cash used in financing activities	(8,512)	(9,821)
Increase (decrease) in cash and cash equivalents	2,752	(8,962)
Cash and cash equivalents, beginning of period	2,009	9,782
Cash and cash equivalents, end of period	$ 4,761	$ 820

See Notes to Condensed Consolidated Financial Statements

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Notes to Condensed Consolidated Financial Statements

Verizon Communications Inc. and Subsidiaries

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared based upon Securities and Exchange Commission (SEC) rules that permit reduced disclosure for interim periods. For a more complete discussion of significant accounting policies and certain other information, you should refer to the financial statements included in the Verizon Communications Inc. (Verizon or the Company) Annual Report on Form 10-K for the year ended December 31, 2009. These financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year.

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

During the three and six months ended June 30, 2010, we recorded a one-time non-cash adjustment of $268 million primarily to reduce wireless data revenues. This adjustment was recorded to properly defer previously recognized wireless data revenues that will be earned and recognized in future periods. As the amounts involved were not material to our consolidated financial statements in the current or any previous reporting period, the adjustment was recorded during the second quarter, which reduced Net income (loss) attributable to Verizon during the quarter by $92 million.

Recently Adopted Accounting Standards

In January 2010, we adopted the accounting standard regarding consolidation accounting for variable interest entities. This standard requires an enterprise to perform an analysis to determine whether the entity s variable interest or interests give it a controlling interest in a variable interest entity. The adoption of this accounting standard update did not have a material impact on our condensed consolidated financial statements.

In January 2010, we adopted the accounting standard update regarding fair value measurements and disclosures, which requires additional disclosures regarding assets and liabilities measured at fair value. The adoption of this accounting standard update did not have a material impact on our condensed consolidated financial statements.

Recent Accounting Standards

In September 2009, the accounting standard update regarding revenue recognition for multiple deliverable arrangements was issued. This update requires the use of the relative selling price method when allocating revenue in these types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. This standard update is effective January 1, 2011 and may be adopted prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. We are currently evaluating the impact that this standard update will have on our consolidated financial statements.

In September 2009, the accounting standard update regarding revenue recognition for arrangements that include software elements was issued. This update requires tangible products that contain software and non-software elements that work together to deliver the products essential functionality to be evaluated under the accounting standard regarding multiple deliverable arrangements. This standard update is effective January 1, 2011 and may be adopted prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. We are currently evaluating the impact that this standard update will have on our consolidated financial statements.

Earnings Per Common Share

As a result of the Net loss attributable to Verizon for the three months ended June 30, 2010, diluted earnings per share is the same as basic earnings per share. For the three months ended June 30, 2010, diluted earnings per share would have included the dilutive effect of shares issuable under our stock-based compensation plans of 2 million shares. In addition, certain outstanding stock options to purchase shares for approximately 77 million weighted-average shares, were not included in the computation of diluted earnings per share for the three months ended June 30, 2010 because to do so would have been anti-dilutive for the period, which represents the only additional potential dilution. There were a total of approximately 2 million stock options and restricted stock units outstanding to purchase shares included in the computation of diluted earnings per common share for the six months ended June 30, 2010. There were no dilutive stock options or restricted stock units outstanding to purchase shares included in the computation of diluted earnings per common share for the three and six months ended June 30, 2009. Certain outstanding options to purchase shares were also not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive for the period, including 84 million weighted-average shares for the six months ended June 30, 2010, and approximately 115 million weighted-average shares and 118 million weighted-average shares for the three and six months ended June 30, 2009, respectively.

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2. Dispositions and Other

Telephone Access Line Spin-off

On May 13, 2009, we announced plans to spin off a newly formed subsidiary of Verizon (Spinco) to our stockholders and for Spinco to merge with Frontier Communications Corporation (Frontier) immediately following the spin-off pursuant to a definitive agreement with Frontier, with Frontier to be the surviving corporation.

On July 1, 2010, after receiving regulatory approval, we completed the spin-off of the shares of Spinco to Verizon stockholders and the merger of Spinco with Frontier, resulting in Verizon stockholders collectively owning approximately 68 percent of Frontier s equity which was outstanding immediately following the merger. Frontier issued approximately 678.5 million shares of Frontier common stock in the aggregate to Verizon stockholders in the merger, and Verizon stockholders received one share of Frontier common stock for every 4.165977 shares of Verizon common stock they owned as of June 7, 2010. Verizon stockholders have received cash in lieu of any fraction of a share of Frontier common stock to which they otherwise were entitled.

At the time of the spin-off and the merger, Spinco held defined assets and liabilities of the local exchange business and related landline activities of Verizon in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, and in portions of California bordering Arizona, Nevada and Oregon, including Internet access and long distance services and broadband video provided to designated customers in those areas. The transactions did not involve any assets or liabilities of Verizon Wireless. The merger resulted in Frontier acquiring approximately 4 million access lines and certain related businesses from Verizon, which collectively generated annual revenues of approximately $4 billion for Verizon s Wireline segment during 2009.

Pursuant to the terms of Verizon s equity incentive plans, shortly following the closing of the spin-off and the merger, the number of outstanding and unvested restricted stock units (RSUs) and performance stock units (PSUs) held by current and former Verizon employees (including Verizon employees who became employees of Frontier in connection with the merger) was increased to reflect a number of additional units approximately equal to the cash value of the Frontier common stock that the holders of the RSUs and PSUs would have received with respect to hypothetical shares of Verizon common stock subject to awards under those plans. In addition, the exercise prices and number of shares of Verizon common stock underlying stock options to purchase shares of Verizon common stock previously granted to employees under equity incentive plans were adjusted pursuant to the terms of those plans to take into account the decrease in the value of Verizon common stock immediately following the spin-off and merger.

The total value of the transaction to Verizon and its stockholders was approximately $8.6 billion. Verizon stockholders received $5.247 billion in Frontier common stock (based on the valuation formula contained in the merger agreement with Frontier) as described above, and Verizon received $3.333 billion in aggregate value, comprised of $3.083 billion in the form of a special cash payment from Spinco and $250 million in a reduction in Verizon s consolidated indebtedness. During July 2010, Verizon used the proceeds from the special cash payment to reduce its consolidated indebtedness (see Note 4). The accompanying unaudited condensed consolidated financial statements for the three and six months ended June 30, 2010 include the operations acquired by Frontier, which we owned through June 30, 2010.

On April 12, 2010, Spinco completed a financing of $3.2 billion in principal amount of notes. The gross proceeds of the offering were deposited into an escrow account. Immediately prior to the spin-off on July 1, 2010, the funds in the escrow account representing the net cash proceeds from the offering were released to Spinco, and Spinco used substantially all of those proceeds to make the special cash payment to Verizon noted above.

During the three and six months ended June 30, 2010, we recorded charges of $195 million and $340 million, respectively, primarily for costs incurred related to network, non-network software and other activities to enable the divested markets in the transaction with Frontier to operate on a stand-alone basis subsequent to the closing of the transaction.

Alltel Divestiture Markets

As a condition of the regulatory approvals by the Department of Justice and the Federal Communications Commission to complete the acquisition of Alltel Corporation (Alltel) in January 2009, Verizon Wireless was required to divest overlapping properties in 105 operating markets in 24 states (Alltel Divestiture Markets). Total assets and total liabilities divested were $2.6 billion and $0.1 billion, respectively, principally comprised of network assets, wireless licenses and customer relationships that were included in Prepaid expenses and other current assets and Other current liabilities, respectively, on the accompanying condensed consolidated balance sheet at December 31, 2009.

On May 8, 2009, Verizon Wireless entered into a definitive agreement with AT&T Mobility LLC (AT&T Mobility), a subsidiary of AT&T Inc., pursuant to which AT&T Mobility agreed to acquire 79 of the 105 Alltel Divestiture Markets, including licenses and network assets, for approximately $2.4 billion in cash. On June 9, 2009, Verizon Wireless entered into a definitive agreement with Atlantic Tele-Network, Inc. (ATN), pursuant to which ATN agreed to acquire the remaining 26 Alltel Divestiture Markets, including licenses and network assets, for $200 million in cash. During the second quarter of 2010, Verizon Wireless received the necessary regulatory approvals and completed both transactions. Upon completion of the divestitures, we recorded a tax charge of approximately $192 million for the taxable gain on the excess of book over tax basis of the goodwill associated with the Alltel Divestiture Markets.

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Other

Merger Integration and Acquisition Related Charges

During the three and six months ended June 30, 2010, we recorded merger integration charges of $187 million and $292 million, respectively, primarily related to the Alltel acquisition. These charges primarily related to handset conversions, the decommissioning of overlapping cell sites and trade name amortization.

During the three and six months ended June 30, 2009, we recorded merger integration and acquisition charges of $228 million and $684 million, respectively, primarily related to the Alltel acquisition for transaction fees and costs associated with the acquisition, including fees related to the bridge facility that was entered into and utilized to complete the acquisition. The charges also included trade name amortization, handset conversions and the decommissioning of overlapping cell sites.

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, 2010	$ 72,067
Capitalized interest on wireless licenses	361
Reclassifications, adjustments and other	7
Balance at June 30, 2010	$ 72,435

As of June 30, 2010, and December 31, 2009, $12.1 billion and $12.2 billion, respectively, of wireless licenses were under development for commercial service for which we are capitalizing interest costs.

Goodwill

Changes in the carrying amount of Goodwill are as follows:

(dollars in millions)	Domestic Wireless	Wireline	Total
Balance at January 1, 2010	$ 17,738	$ 4,734	$ 22,472
Reclassifications, adjustments and other		(5)	(5)
Balance at June 30, 2010	$ 17,738	$ 4,729	$ 22,467

Other Intangible Assets

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

	At June 30, 2010			At December 31, 2009		
(dollars in millions)	**Gross Amount**	**Accumulated Amortization**	**Net Amount**	**Gross Amount**	**Accumulated Amortization**	**Net Amount**
Customer lists (6 to 8 years)	$ 3,115	$ (1,272)	$ 1,843	$ 3,134	$ (1,012)	$ 2,122
Non-network internal-use software (2 to 7 years)	8,270	(4,263)	4,007	8,455	(4,346)	4,109
Other (2 to 25 years)	876	(402)	474	865	(332)	533
Total	$ 12,261	$ (5,937)	$ 6,324	$ 12,454	$ (5,690)	$ 6,764

The amortization expense for other intangible assets was as follows:

(dollars in millions)	**Three Months Ended June 30,**	**Six Months Ended June 30,**
2010	$ 462	$ 919
2009	498	973

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

Years	(dollars in millions)
2010	$ 1,866
2011	1,605
2012	1,273
2013	1,024
2014	644

4. Debt

Changes to debt during the six months ended June 30, 2010 are as follows:

(dollars in millions)	Debt Maturing within One Year	Long-term Debt	Total
Balance at January 1, 2010	$ 7,205	$ 55,051	$ 62,256
Repayments of long-term borrowings and capital leases obligations	(3,802)	(792)	(4,594)
Decrease in short-term obligations, excluding current maturities	(97)		(97)
Reclassifications of long-term debt	4,500	(4,500)	
Other	68	(165)	(97)
Balance at June 30, 2010	$ 7,874	$ 49,594	$ 57,468

During the first half of 2010, $0.3 billion of 6.125% Verizon New York Inc. debentures, $0.2 billion of 6.375% Verizon North Inc. debentures and $0.2 billion of 6.30% Verizon Northwest Inc. debentures matured and were repaid.

During July 2010, Verizon received approximately $3.1 billion in connection with the completion of the spin-off and merger of Spinco (see Note 2). This special cash payment was subsequently used to redeem $2.0 billion of 7.25% Verizon Communications notes due December 2010 at a redemption price of 102.7% of the principal amount of the notes, plus accrued and unpaid interest through the date of redemption, as well as other short-term borrowings.

Verizon Wireless

On June 28, 2010, Verizon Wireless exercised its right to redeem the outstanding $1.0 billion of aggregate floating rate notes due June 2011 at a redemption price of 100% of the principal amount of the notes, plus accrued and unpaid interest through the date of redemption. In addition, during the second quarter of 2010, Verizon Wireless repaid $2.8 billion of borrowings under a three-year term loan facility, reducing the outstanding borrowings under this facility to approximately $1.2 billion at June 30, 2010. During July 2010, Verizon Wireless repaid $0.7 billion of borrowings under this facility reducing the outstanding borrowings under this facility to $0.5 billion.

Guarantees

We guarantee the debt obligations of GTE Corporation (but not the debt of its subsidiary or affiliate companies) that were issued and outstanding prior to July 1, 2003. As of June 30, 2010, $1.7 billion principal amount of these obligations remain outstanding.

Debt Covenants

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

Credit Facility

On April 14, 2010, we terminated all commitments under our previous $5.3 billion 364-day credit facility with a syndicate of lenders and entered into a new $6.2 billion three-year credit facility with a group of major financial institutions. As of June 30, 2010, the unused borrowing capacity under the three-year credit facility was approximately $6.1 billion.

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5. Fair Value Measurements

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of June 30, 2010:

(dollars in millions)

	Level 1 [(1)]	Level 2 [(2)]	Level 3 [(3)]	Total
Assets:				
Short-term investments:				
Equity securities	$ 220	$	$	$ 220
Fixed income securities	18	226		244
Investments in unconsolidated businesses:				
Equity and other securities	433			433
Other Assets:				
Fixed income securities		775		775
Derivative contracts:				
Interest rate swaps		373		373
Cross currency swaps		34		34
Total	$ 671	$ 1,408	$	$ 2,079
Liabilities:				
Other Liabilities:				
Derivative contracts:				
Cross currency swaps	$	$ 103	$	$ 103
Total	$	$ 103	$	$ 103

(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 in a variety of industry sectors and are generally measured using quoted prices in active markets and are classified as Level 1.

Fixed income securities consist primarily of investments in U.S. Treasuries and agencies, as well as municipal bonds. We use quoted prices in active markets for our U.S. Treasury securities, and therefore these securities are classified as Level 1. For all other fixed income securities that do not have quoted prices in active markets, we use alternative matrix pricing as a practical expedient resulting in these debt securities being classified as Level 2.

Derivative contracts primarily consist of interest rate swaps and cross currency swaps. Derivative contracts are valued using models based on readily observable market parameters for all substantial terms of our derivative contracts and thus are classified within Level 2. We use mid-market pricing for fair value measurements of our derivative instruments.

We recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during the six months ended June 30, 2010.

Fair Value of Short-term and Long-term Debt

The fair value of our short-term and long-term debt, excluding capital leases, is determined based on market quotes for similar terms and maturities or future cash flows discounted at current rates. The fair value of our short-term and long-term debt, excluding capital leases, was as follows:

	At June 30, 2010		**At December 31, 2009**	
(dollars in millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Short- and long-term debt, excluding capital leases	$ 57,099	$ 64,061	$ 61,859	$ 67,359

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Derivative Instruments

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

We measure all derivatives, including derivatives embedded in other financial instruments, at fair value and recognize them as either assets or liabilities on our consolidated balance sheets. Changes in the fair values of derivative instruments not qualifying as hedges or any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in Other comprehensive income (loss) and recognized in earnings when the hedged item is recognized in earnings.

Interest Rate Swaps

We have entered into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt, where we principally receive fixed rates and pay variable rates based on London Interbank Offered Rate (LIBOR). These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on our consolidated balance sheets as assets and liabilities. 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 debt due to changes in interest rates. The fair value of these contracts was $373 million and $171 million at June 30, 2010 and December 31, 2009, respectively, and are included in Other assets and Long-term debt. As of June 30, 2010, the total notional amount of these interest rate swaps was $6.0 billion.

Cross Currency Swaps

Verizon Wireless has entered into cross currency swaps designated as cash flow hedges to exchange approximately $2.4 billion of the net proceeds from a debt offering of British Pound Sterling and Euro denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as mitigate the impact of foreign currency transaction gains or losses. The fair value of these swaps included in Other assets and Other liabilities was approximately $34 million and $103 million, respectively, at June 30, 2010. The fair value of these swaps included in Other assets was approximately $315 million at December 31, 2009. During the three and six months ended June 30, 2010, a pretax loss of $239 million and $383 million, respectively, was recognized in Other comprehensive income, a portion of which was reclassified to Other income and (expense), net to offset the related pretax foreign currency transaction gain on the underlying debt obligations.

Prepaid Forward Agreements

During the first quarter of 2009, we entered into a privately negotiated prepaid forward agreement for 14 million shares of Verizon common stock at a cost of approximately $390 million. We terminated the prepaid forward agreement with respect to 5 million shares of Verizon common stock during the fourth quarter of 2009 and the remaining 9 million shares of Verizon common stock during the first quarter of 2010, which resulted in the delivery of those shares to Verizon upon termination.

6. Stock-Based Compensation

Verizon Communications Long-Term Incentive Plan

The 2009 Verizon Communications Inc. Long-Term Incentive Plan (the Plan) permits the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and other awards. The maximum number of shares available for awards from the Plan is 115 million shares.

Restricted Stock Units

The Plan provides for grants of Restricted Stock Units (RSUs) that generally vest at the end of the third year after the grant. The RSUs outstanding at January 1, 2010 are classified as liability awards because the RSUs will be paid in cash upon vesting. The RSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the performance of Verizon common stock. The RSUs granted during 2010 are classified as equity awards because these RSUs will be paid in Verizon common stock upon vesting. Compensation expense for RSUs classified as equity awards is measured based on the market price of Verizon common stock at the date of grant and is recognized over the vesting 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.

The following table summarizes Verizon s Restricted Stock Unit activity:

(shares in thousands)	Restricted Stock Units		Weighted-Average Grant-Date Fair Value
Outstanding, beginning of year	19,443	$	35.50
Granted	6,431		29.15
Payments	(6,746)		38.00
Cancelled/Forfeited	(71)		32.51
Outstanding, June 30, 2010	19,057		32.48

Performance Stock Units

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

The following table summarizes Verizon s Performance Stock Unit activity:

(shares in thousands)	Performance Stock Units		Weighted-Average Grant-Date Fair Value
Outstanding, beginning of year	29,895	$	35.52
Granted	14,236		31.64
Payments	(14,364)		38.00
Cancelled/Forfeited	(180)		34.82
Outstanding, June 30, 2010	29,587		32.46

As of June 30, 2010, unrecognized compensation expense related to the unvested portion of Verizon s RSUs and PSUs was approximately $439 million and is expected to be recognized over a weighted-average period of approximately two years.

Stock Options

The Plan provides for grants of stock options to participants at an option price per share of 100% of the fair market value of Verizon common stock on the date of grant. Each grant has a 10-year life, vesting equally over a three-year period, starting at the date of the grant. We have not granted new stock options since 2004.

The following table summarizes Verizon s stock option activity:

(shares in thousands)	Stock Options

		Weighted-Average Exercise Price
Outstanding, beginning of year	103,620	$ 46.29
Cancelled/Forfeited	(46,729)	46.66
Outstanding, June 30, 2010	56,891	46.00

All stock options outstanding at June 30, 2010 were exercisable.

Verizon Wireless Long-Term Incentive Plan

The 2000 Verizon Wireless Long-Term Incentive Plan (the Wireless Plan) provides compensation opportunities to eligible employees of Verizon Wireless (the Partnership). The Wireless Plan provides rewards that are tied to the long-term performance of the Partnership. Under the Wireless Plan, Value Appreciation Rights (VARs) were granted to eligible employees. As of June 30, 2010, all VARs were fully vested.

The following table summarizes the Value Appreciation Rights activity:

(shares in thousands)	**Value Appreciation Rights**	**Weighted-Average Grant-Date Fair Value**
Outstanding, beginning of year	16,591	$ 16.54
Exercised	(3,210)	25.31
Cancelled/Forfeited	(19)	16.82
Outstanding, June 30, 2010	13,362	14.43

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7. Employee Benefits

We maintain non-contributory defined benefit pension plans for many of our employees. In addition, we maintain postretirement health care and life insurance plans for our retirees and their dependents, which are both contributory and non-contributory, and include a limit on the Company s share of cost for certain recent and future retirees.

Net Periodic Benefit (Income) Cost

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

(dollars in millions)	Pension		Health Care and Life	
Three Months Ended June 30,	**2010**	**2009**	**2010**	**2009**
Service cost	$ 91	$ 96	$ 78	$ 78
Interest cost	453	481	412	442
Expected return on plan assets	(653)	(735)	(76)	(75)
Amortization of prior service cost	28	28	94	100
Actuarial loss, net	60	28	44	59
Net periodic benefit (income) cost	(21)	(102)	552	604
Termination benefits	681			
Settlement loss	80	416		
Curtailment loss and other, net	173		386	
Subtotal	934	416	386	
Total	$ 913	$ 314	$ 938	$ 604

(dollars in millions)	Pension		Health Care and Life	
Six Months Ended June 30,	**2010**	**2009**	**2010**	**2009**
Service cost	$ 182	$ 192	$ 156	$ 156
Interest cost	906	962	824	883
Expected return on plan assets	(1,306)	(1,469)	(152)	(151)
Amortization of prior service cost	56	56	188	200
Actuarial loss, net	120	56	88	119
Net periodic benefit (income) cost	(42)	(203)	1,104	1,207
Termination benefits	681			
Settlement loss	216	416		
Curtailment loss and other, net	173		386	
Subtotal	1,070	416	386	
Total	$ 1,028	$ 213	$ 1,490	$ 1,207

Severance, Pension and Benefit Charges

In April 2010, we reached an agreement with certain unions on temporary enhancements to the separation programs contained in their existing collective bargaining agreements. These temporary enhancements were intended to help address a previously declared surplus of employees and to help reduce the need for layoffs. Accordingly, during the three months ended June 30, 2010, we recorded severance, pension and benefits charges of $2,234 million associated with the union-represented employees who volunteered for the incentive offer. Included in the charges were pension and postretirement curtailment losses of $559 million as workforce reductions caused the elimination of a significant amount of future service requiring us to recognize a portion of prior service costs and actuarial losses. The charges also included $994 million of severance charges and $681 million of special termination benefits for planned workforce reductions of approximately 11,000 employees.

During the three and six months ended June 30, 2010, we recorded non-cash pension settlement losses of $80 million and $216 million, respectively, related to employees who received lump-sum distributions, primarily resulting from our previously announced separation plans in which prescribed payment thresholds were reached.

During the three and six months ended June 30, 2009, we recorded non-cash pension settlement losses of $416 million related to employees who received lump-sum distributions primarily resulting from our previously announced separation plans in which prescribed payment thresholds were reached.

Severance Payments

During the three and six months ended June 30, 2010, we paid severance benefits of $98 million and $262 million, respectively. At June 30, 2010, we had a remaining severance liability of $2,422 million, a portion of which includes future contractual payments to employees separated as of June 30, 2010.

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Employer Contributions

During the three months ended June 30, 2010, we contributed $21 million to our nonqualified pension plans and $324 million to our other postretirement benefit plans. During the six months ended June 30, 2010, we contributed $1 million to our qualified pension trusts, $71 million to our nonqualified pension plans and $770 million to our other postretirement benefit plans. The anticipated qualified pension trust contributions for 2010 disclosed in Verizon s Annual Report on Form 10-K for the year ended December 31, 2009 have not changed. Our estimate of the amount and timing of required qualified pension trust contributions for 2010 is based on current proposed Internal Revenue Service regulations under the Pension Protection Act of 2006.

Medicare Part D Subsidy

Under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively the Health Care Act), beginning in 2013, Verizon and other companies that receive a subsidy under Medicare Part D to provide retiree prescription drug coverage will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage to the extent of the subsidy received. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in Verizon s financial statements, this change requires Verizon to reduce the value of the related tax benefits recognized in its financial statements in the period during which the Health Care Act was enacted. As a result, Verizon recorded a one-time, non-cash income tax charge of $962 million in the first quarter of 2010 to reflect the impact of this change.

8. Equity and Comprehensive Income

Equity

Changes in the components of Total equity were as follows:

	Six Months Ended June 30, 2010		
(dollars in millions)	Attributable to Verizon	Noncontrolling Interest	Total Equity
Balance at beginning of period	$ 41,606	$ 42,761	$ 84,367
Net income	211	3,620	3,831
Other comprehensive income (loss)	339	(32)	307
Comprehensive income	550	3,588	4,138
Dividends declared	(2,686)		(2,686)
Common stock in treasury (Note 5)	(277)		(277)
Distributions and other	61	(1,130)	(1,069)
Balance at end of period	$ 39,254	$ 45,219	$ 84,473

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

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Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting equity that, under generally accepted accounting principles, are excluded from net income. Significant changes in the components of Other comprehensive income (loss), net of income tax expense (benefit), are described below.

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in millions)	2010	2009	2010	2009
Net income	$ 1,547	$ 3,160	$ 3,831	$ 6,370
Other Comprehensive Income (Loss), Net of Taxes				
Foreign currency translation adjustments	(257)	188	(451)	30
Net unrealized gain (loss) on cash flow hedges	(25)	47	(22)	85
Unrealized gain (loss) on marketable securities	(35)	39	(19)	24
Defined benefit pension and postretirement plans	619	371	831	491
Other comprehensive income attributable to Verizon	302	645	339	630
Other comprehensive income (loss) attributable to noncontrolling interest	(36)	46	(32)	82
Total Comprehensive Income	$ 1,813	$ 3,851	$ 4,138	$ 7,082
Comprehensive income attributable to noncontrolling interest	$ 1,709	$ 1,723	$ 3,588	$ 3,324
Comprehensive income attributable to Verizon	104	2,128	550	3,758
Total Comprehensive Income	$ 1,813	$ 3,851	$ 4,138	$ 7,082

Other comprehensive income (loss) attributable to noncontrolling interest primarily reflects activity related to the cross currency swaps (see Note 5).

The components of Accumulated other comprehensive loss were as follows:

(dollars in millions)	At June 30, 2010	At December 31, 2009
Foreign currency translation adjustments	$ 563	$ 1,014
Net unrealized gain on cash flow hedges	15	37
Unrealized gain on marketable securities	31	50
Defined benefit pension and postretirement plans	(11,749)	(12,580)
Accumulated Other Comprehensive Loss	$ (11,140)	$ (11,479)

Foreign Currency Translation Adjustments

The change in Foreign currency translation adjustments for the three and six months ended June 30, 2010 was primarily driven by the strengthening of the U.S. dollar against the Euro.

Unrealized Gain on Marketable Securities

Gross unrealized gains and losses on marketable securities for the three and six months ended June 30, 2010 were not significant.

Defined Benefit Pension and Postretirement Plans

The change in Defined benefit pension and postretirement plans for the three and six months ended June 30, 2010 was attributable to pension settlement losses and the amortization of prior service cost and actuarial losses. The change was also impacted by the curtailment losses and termination benefits associated with the voluntary incentive program for union-represented employees recorded in the second quarter of 2010 (see Note 7).

9. Segment Information

Reportable Segments

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

Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses, such as our investments in unconsolidated businesses, lease financing, and other adjustments and gains and losses that are not allocated in assessing segment performance due to their non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results, as these items are included in the chief operating decision maker s assessment of segment performance.

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Our segments and their principal activities consist of the following:

Segment	**Description**
Domestic Wireless	Domestic Wireless products and services include wireless voice and data services and equipment sales across the U.S.
Wireline	Wireline s communications products and services include voice, Internet access, broadband video and data, next generation Internet protocol (IP) network services, network access, long distance and other services. We provide these products and services to consumers in the U.S., as well as to carriers, businesses and government customers both in the U.S. and in 150 other countries around the world.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in millions)	**2010**	**2009**	**2010**	**2009**
External Operating Revenues				
Domestic Wireless				
Service revenue	$ 14,029	$ 13,330	$ 27,854	$ 26,387
Equipment and other	1,954	2,125	3,886	4,164
Total Domestic Wireless	15,983	15,455	31,740	30,551
Wireline				
Mass Markets	4,616	4,626	9,198	9,212
Global Enterprise	4,036	4,010	8,029	8,059
Global Wholesale	1,910	2,126	3,921	4,239
Other	212	398	504	889
Total Wireline	10,774	11,160	21,652	22,399
Total segments	26,757	26,615	53,392	52,950
Corporate, eliminations and other	16	246	294	502
Total consolidated reported	$ 26,773	$ 26,861	$ 53,686	$ 53,452
Intersegment Revenues				
Domestic Wireless	$ 23	$ 25	$ 49	$ 51
Wireline	338	328	692	656
Total segments	361	353	741	707
Corporate, eliminations and other	(361)	(353)	(741)	(707)
Total consolidated reported	$	$	$	$
Total Operating Revenues				
Domestic Wireless	$ 16,006	$ 15,480	$ 31,789	$ 30,602
Wireline	11,112	11,488	22,344	23,055
Total segments	27,118	26,968	54,133	53,657
Corporate, eliminations and other	(345)	(107)	(447)	(205)
Total consolidated reported	$ 26,773	$ 26,861	$ 53,686	$ 53,452

Operating Income				
Domestic Wireless	$ 4,842	$ 4,459	$ 9,396	$ 8,730
Wireline	214	555	386	1,246
Total segments	5,056	5,014	9,782	9,976
Reconciling items	(3,017)	(596)	(3,392)	(864)
Total consolidated reported	$ 2,039	$ 4,418	$ 6,390	$ 9,112

(dollars in millions)	**At June 30, 2010**	**At December 31, 2009**
Assets		
Domestic Wireless	$ 132,875	$ 135,162
Wireline	92,529	91,778
Total segments	225,404	226,940
Reconciling items	847	311
Total consolidated reported	$ 226,251	$ 227,251

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A reconciliation of the total of the reportable segments Operating revenues to consolidated Operating revenues is as follows:

(dollars in millions)	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Total segment operating revenues	$ 26,757	$ 26,615	$ 53,392	$ 52,950
Deferred revenue adjustment (Note 1)	(268)		(268)	
Corporate and other	284	246	562	502
Total consolidated operating revenues	$ 26,773	$ 26,861	$ 53,686	$ 53,452

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

(dollars in millions)	Three Months Ended June 30, 2010	2009	Six Months Ended June 30, 2010	2009
Total segment operating income	$ 5,056	$ 5,014	$ 9,782	$ 9,976
Severance, pension and benefit charges (Note 7)	(2,314)	(416)	(2,450)	(416)
Deferred revenue adjustment (Note 1)	(268)		(268)	
Merger integration and acquisition related charges (Note 2)	(187)	(181)	(292)	(427)
Access line spin-off related charges (Note 2)	(195)		(340)	
Corporate and other	(53)	1	(42)	(21)
Total consolidated operating income	2,039	4,418	6,390	9,112
Equity in earnings of unconsolidated businesses	121	128	254	256
Other income and (expense), net	17	11	62	64
Interest expense	(679)	(787)	(1,359)	(1,712)
Income Before (Provision) Benefit For Income Taxes	$ 1,498	$ 3,770	$ 5,347	$ 7,720

We generally account for intersegment sales of products and services and asset transfers at current market prices. No single customer accounted for more than 10% of our total operating revenues during the three and six months ended June 30, 2010 and 2009.

10. Commitments and Contingencies

Several state and federal regulatory proceedings may require our telephone operations to pay penalties or to refund to customers a portion of the revenues collected in the current and prior periods. There are also various legal actions pending to which we are a party and claims that, if asserted, may lead to other legal actions. We have established reserves for specific liabilities in connection with regulatory and legal actions, including environmental matters that we currently deem to be probable and estimable. We do not expect that the ultimate resolution of pending regulatory and legal matters in future periods, including the Hicksville matter described below, will have a material effect on our financial condition, but it could have a material effect on our results of operations for a given reporting period.

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. In September 2005, the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to a reserve previously established for the remediation may be made. Adjustments to the reserve may also be made based upon actual conditions discovered during the remediation at this or any other site requiring remediation.

In connection with the execution of agreements for the sales of businesses and investments, Verizon ordinarily provides representations and warranties to the purchasers pertaining to a variety of nonfinancial matters, such as ownership of the securities being sold, as well as indemnity from certain financial losses.

Subsequent to the sale of Verizon Information Services Canada in 2004, we continue to provide a guarantee to publish directories, which was issued when the directory business was purchased in 2001 and had a 30-year term (before extensions). The preexisting guarantee continues, without modification, despite the subsequent sale of Verizon Information Services Canada and the spin-off of our domestic print and Internet yellow pages directories business. The possible financial impact of the guarantee, which is not expected to be adverse, cannot be reasonably estimated since a variety of the potential outcomes available under the guarantee result in costs and revenues or benefits that may offset each other. In addition, performance under the guarantee is not likely.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Verizon Communications Inc. (Verizon, or the Company), is one of the world s leading providers of communications services. Our domestic wireless business, operating as Verizon Wireless, provides wireless voice and data products and services across the United States (U.S.) using one of the most extensive and reliable wireless networks. Our wireline business provides communications products and services, including voice, broadband data and video services, network access, long distance and other communications products and services, and also owns and operates one of the most expansive end-to-end global Internet Protocol (IP) networks. Stressing diversity and commitment to the communities in which we operate, we have a highly diverse workforce of approximately 210,800 employees as of June 30, 2010.

In the sections that follow, we provide information about the important aspects of our operations and investments, both at the consolidated and segment levels, and discuss our results of operations, financial position and sources and uses of cash. In addition, we highlight key trends and uncertainties to the extent practicable. We also monitor several key economic indicators as well as the state of the economy in general primarily in the United States where the majority of our operations are located for purposes of evaluating our operating results and assessing the potential impacts of these factors on our businesses. While most key economic indicators, including gross domestic product, affect our operations to some degree, we historically have noted higher correlations to non-farm employment, personal consumption expenditures and capital spending, as well as more general economic indicators such as inflationary or recessionary trends and housing starts.

On May 13, 2009, we announced plans to spin off a newly formed subsidiary of Verizon (Spinco) to our stockholders and for Spinco to merge with Frontier Communications Corporation (Frontier) immediately following the spin-off pursuant to a definitive agreement with Frontier, with Frontier to be the surviving corporation. At the time of the spin-off and the merger, Spinco held defined assets and liabilities of the local exchange business and related landline activities of Verizon in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin, and in portions of California bordering Arizona, Nevada and Oregon, including Internet access and long distance services and broadband video provided to designated customers in those areas. On July 1, 2010, after receiving regulatory approval, we completed the spin-off of the shares of Spinco to Verizon stockholders and the merger of Spinco with Frontier, resulting in Verizon stockholders collectively owning approximately 68 percent of Frontier s equity which was outstanding immediately following the merger. Frontier issued approximately 678.5 million shares of Frontier common stock in the aggregate to Verizon stockholders in the merger, and Verizon stockholders received one share of Frontier common stock for every 4.165977 shares of Verizon common stock they owned as of June 7, 2010. Verizon stockholders have received cash in lieu of any fraction of a share of Frontier common stock to which they otherwise were entitled. The merger resulted in Frontier acquiring approximately 4 million access lines and certain related businesses from Verizon, which collectively generated annual revenues of approximately $4 billion for our Wireline segment during 2009.

As a condition of the regulatory approvals by the Department of Justice (DOJ) and the Federal Communications Commission (FCC) to complete the acquisition of Alltel Corporation (Alltel) in January 2009, Verizon Wireless was required to divest overlapping properties in 105 operating markets in 24 states (Alltel Divestiture Markets). On May 8, 2009, Verizon Wireless entered into a definitive agreement with AT&T Mobility LLC (AT&T Mobility), a subsidiary of AT&T Inc., pursuant to which AT&T Mobility agreed to acquire 79 of the 105 Alltel Divestiture Markets, including licenses and network assets, for approximately $2.4 billion in cash. On June 9, 2009, Verizon Wireless entered into a definitive agreement with Atlantic Tele-Network, Inc. (ATN), pursuant to which ATN agreed to acquire the remaining 26 Alltel Divestiture Markets, including licenses and network assets, for $200 million in cash. During the second quarter of 2010, Verizon Wireless received the necessary regulatory approvals and completed both transactions. The Verizon Wireless customer base was reduced by approximately 2.1 million customers, partially offset by certain adjustments.

Our results of operations, financial position and sources and uses of cash in the current and future periods reflect our focus on the following strategic imperatives:

Revenue Growth To generate revenue growth we are devoting our resources to higher growth markets such as the wireless voice and data markets, the broadband and video markets, and the provision of strategic services to business markets, rather than to the traditional wireline voice market. During the three months ended June 30, 2010, consolidated revenue decreased 0.3% compared to the similar period in 2009, primarily due to lower revenue in the Wireline segment resulting from switched access line losses and decreased minutes of use (MOUs), partially offset by higher revenues in our growth markets. We continue developing and marketing innovative product bundles to include local, long distance, wireless, broadband data and video services for consumer, business and government customers. We anticipate that these efforts will help counter the effects of competition and technology substitution that have resulted in access line losses, and will enable us to grow consolidated revenues.

Market Share Gains In our wireless business, our goal is to continue to be the market leader in providing wireless voice and data communication services in the U.S. We are focused on providing the highest network reliability and innovative products and services. During the six months ended June 30, 2010, we invested $7.7 billion in capital expenditures, which included the continued investment in the build-out of our fourth generation network based on Long-Term Evolution technology. As the demand for wireless data services grows, we continue to expand our offerings of data services and devices with advanced capabilities for both consumer and business customers and increase our data revenues. In our wireline business, our goal is to become the leading broadband provider in every market in which we operate.

In Domestic Wireless:

- as of June 30, 2010 as compared to June 30, 2009, total customers increased 5.0% to 92.1 million; and
- during the three months ended June 30, 2010 as compared to the similar period in 2009, total data average revenue per customer per month (ARPU) increased by 16.1% to $17.37.

During the three months ended June 30, 2010, in Wireline:

- we added 28,000 net wireline broadband connections, including 196,000 net new FiOS Internet subscribers, for a total of 9.3 million connections, including 3.8 million FiOS Internet subscribers;
- we added 174,000 net new FiOS TV subscribers, for a total of 3.2 million FiOS TV subscribers; and
- total broadband and video revenues exceeded $1.8 billion.

As of June 30, 2010, we passed 15.9 million premises with our high-capacity fiber optics network operated under the FiOS service mark. With FiOS, we have created the opportunity to increase revenue per customer as well as improve Wireline profitability as the traditional fixed-line telephone business continues to decline due to customer migration to wireless, cable and other newer technologies.

We are also focused on gaining market share in our enterprise business through the deployment of strategic enterprise service offerings, including expansion of our Voice over Internet Protocol (VoIP) and international Ethernet capabilities, the introduction of video and web-based conferencing capabilities, and enhancements to our virtual private network portfolio. During the three months ended June 30, 2010, revenues from strategic enterprise services grew 6.2% compared to the similar period in 2009.

Profitability Improvement Our goal is to increase operating income and margins. Strong wireless data and FiOS revenue growth continue to positively impact operating results. In addition, we have seen early indications of an economic recovery, particularly in the business markets. A sustained economic recovery should positively impact our revenue performance in future quarters. However, we remain focused on cost controls with the objective of driving efficiencies to offset business volume declines, as we expect the pressures of the economy to continue throughout the remainder of 2010.

Operational Efficiency While focusing resources on revenue growth and market share gains, we are continually challenging our management team to lower expenses, particularly through technology-assisted productivity improvements, including self-service initiatives. These and other efforts, such as real estate consolidation, call center routing improvements, a centralized shared services organization, information technology and marketing efforts, have led to changes in our cost structure with a goal of maintaining and improving operating income margins. Through our deployment of the FiOS network, we expect to realize savings annually in our ongoing operating expenses as a result of efficiencies gained from fiber network facilities.

Customer Service Our goal is to be the leading company in customer service in every market we serve. We view superior product offerings and customer service experiences as a competitive differentiator and a catalyst to growing revenues and gaining market share. We are committed to providing high-quality customer service and continually monitor customer satisfaction in all facets of our business. Verizon Wireless ranked highest among wireless providers in small to mid-sized business customer satisfaction in the J.D. Power and Associates 2010 U.S. Business Wireless Satisfaction Study released in June.

Performance-Based Culture We embrace a culture of accountability based on individual and team objectives that are performance-based and tied to Verizon s strategic imperatives. Key objectives of our compensation programs are pay-for-performance and the alignment of executives and stockholders long-term interests. We also employ a highly diverse workforce, as respect for diversity is an integral part of Verizon s culture and a critical element of our competitive success.

Trends

Information related to trends affecting our business was disclosed in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009. During the three and six months ended June 30, 2010, we have continued to experience growth in our wireless reseller customer base and expect this trend in net reseller customer additions to continue through the end of the year. There have been no other significant changes to previously discussed trends.

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Consolidated Results of Operations

In this section, we discuss our overall results of operations and highlight items of a non-operational nature that are not included in our business segment results. We have two reportable segments, which we operate and manage as strategic business units and organize by products and services. Our segments are Domestic Wireless and Wireline. In the Segment Results of Operations section, we review the performance of our two reportable segments.

Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses such as our investments in unconsolidated businesses, lease financing, and other adjustments and gains and losses that are not allocated in assessing segment performance due to their non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results, as these items are included in the chief operating decision maker s assessment of segment performance. We believe that this presentation assists readers in better understanding our results of operations and trends from period to period.

The following discussion includes the results of operations of the Alltel Divestiture Markets through the date the divestitures were completed as well as the operations acquired by Frontier, which we owned through June 30, 2010.

Consolidated Revenues

	Three Months Ended June 30,			Six Months Ended June 30,		
(dollars in millions)	**2010**	**2009**	**% Change**	**2010**	**2009**	**% Change**
Domestic Wireless						
Service revenue	$ 14,046	$ 13,349	5.2	$ 27,891	$ 26,424	5.6
Equipment and other	1,960	2,131	(8.0)	3,898	4,178	(6.7)
Total	16,006	15,480	3.4	31,789	30,602	3.9
Wireline						
Mass Markets	4,619	4,628	(0.2)	9,204	9,218	(0.2)
Global Enterprise	4,036	4,010	0.6	8,029	8,060	(0.4)
Global Wholesale	2,232	2,434	(8.3)	4,579	4,850	(5.6)
Other	225	416	(45.9)	532	927	(42.6)
Total	11,112	11,488	(3.3)	22,344	23,055	(3.1)
Corporate, eliminations and other	(345)	(107)	nm	(447)	(205)	nm
Consolidated Revenues	$ 26,773	$ 26,861	(0.3)	$ 53,686	$ 53,452	0.4

nm not meaningful

Consolidated revenues during the three months ended June 30, 2010 decreased by $88 million, or 0.3%, compared to the similar period in 2009, primarily due to declines in revenues at our Wireline segment resulting from switched access line losses and decreased MOUs in traditional voice products, partially offset by higher revenues in our growth markets. Consolidated revenues during the six months ended June 30, 2010 increased by $234 million, or 0.4%, compared to the similar period in 2009, primarily due to higher revenues in our growth markets. These revenue increases were partially offset by declines in revenues at our Wireline segment due to switched access line losses and decreased MOUs in traditional voice products.

Corporate, eliminations and other during the three and six months ended June 30, 2010, included a one-time non-cash adjustment of $268 million primarily to reduce wireless data revenues. This adjustment was recorded to properly defer previously recognized wireless data revenues that will be earned and recognized in future periods. As the amounts involved were not material to our consolidated financial statements in the current or any previous reporting period, the adjustment was recorded during the second quarter (see Other Items).

Domestic Wireless revenues during the three months ended June 30, 2010 increased by $526 million, or 3.4%, and $1,187 million, or 3.9%, for the six months ended June 30, 2010, compared to the similar periods in 2009, primarily due to growth in service revenue. Service revenue during the three months ended June 30, 2010 increased by $697 million, or 5.2%, and $1,467 million, or 5.6%, for the six months ended June 30, 2010 compared to the similar periods in 2009 primarily due to a 4.4 million, or 5.0%, increase in total customers since July 1, 2009, as well as continued growth from data services, partially offset by a decline in wireless voice revenue.

Total wireless data revenue was $4,839 million and accounted for 34.5% of service revenue during the three months ended June 30, 2010, compared to $3,908 million and 29.3% during the similar period in 2009. Total wireless data revenue was $9,451 million and accounted for 33.9% of service revenue during the six months ended June 30, 2010, compared to $7,557 million and 28.6% during the similar period in 2009. Total data revenue continues to increase as a result of growth of our e-mail, Mobile Broadband and messaging services. Voice revenue decreased as a result of continued declines in our voice ARPU, partially offset by an increase in the number of customers.

Equipment and other revenue during the three months ended June 30, 2010 decreased by $171 million, or 8.0%, and $280 million, or 6.7%, during the six months ended June 30, 2010 compared to the similar periods in 2009, primarily due to the decrease in gross retail customer additions as well as a decrease in average revenue per equipment unit as a result of promotional activities.

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Wireline s revenues during the three months ended June 30, 2010 decreased by $376 million, or 3.3%, and $711 million, or 3.1%, during the six months ended June 30, 2010, compared to the similar periods in 2009. Mass Markets revenues during the three months ended June 30, 2010 decreased by $9 million, or 0.2%, and $14 million, or 0.2%, during the six months ended June 30, 2010, compared to the similar periods in 2009, primarily due to a continued decline of local exchange revenues principally as a result of switched access line losses, partially offset by continued growth in consumer and business FiOS services (Voice, Internet and TV). Global Enterprise revenues increased by $26 million, or 0.6%, during the three months ended June 30, 2010, compared to the similar period in 2009, primarily due to higher customer premises equipment revenue, partially offset by lower long distance and traditional circuit-based revenues. Global Enterprise revenues decreased $31 million, or 0.4%, during the six months ended June 30, 2010, compared to the similar period in 2009, primarily due to lower long distance and traditional circuit-based data revenues, partially offset by higher customer premises equipment revenue. Global Wholesale revenues during the three months ended June 30, 2010 decreased by $202 million, or 8.3%, and $271 million, or 5.6%, during the six months ended June 30, 2010, compared to the similar periods in 2009, due to decreased MOUs in traditional voice products, increases in voice termination pricing on certain international routes and continued rate compression in the marketplace. Other revenue during the three months ended June 30, 2010 decreased by $191 million, or 45.9%, and $395 million, or 42.6%, during the six months ended June 30, 2010, compared to the similar periods in 2009, primarily due to reduced business volumes, including former MCI mass markets customer losses.

Consolidated Operating Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
(dollars in millions)	**2010**	**2009**	**% Change**	**2010**	**2009**	**% Change**
Cost of services and sales	$ 12,239	$ 10,481	16.8	$ 22,956	$ 20,789	10.4
Selling, general and administrative expense	8,319	7,871	5.7	16,043	15,432	4.0
Depreciation and amortization expense	4,176	4,091	2.1	8,297	8,119	2.2
Consolidated Operating Expenses	$ 24,734	$ 22,443	10.2	$ 47,296	$ 44,340	6.7

Cost of Services and Sales

Consolidated cost of services and sales during the three months ended June 30, 2010 increased by $1,758 million, or 16.8%, and $2,167 million, or 10.4%, during the six months ended June 30, 2010, compared to the similar periods in 2009, primarily due to severance, pension and benefit charges recorded during the three and six months ended June 30, 2010 as well as other non-operational charges noted in the table below. Also contributing to the increases were an increase in content costs, higher circuit expense and customer premise equipment costs partially offset by lower headcount and productivity improvements at our Wireline segment. Wireless network costs also increased as a result of an increase in operating lease expense and local interconnection cost.

Selling, General and Administrative Expense

Consolidated selling, general and administrative expense during the three months ended June 30, 2010 increased by $448 million, or 5.7%, and $611 million, or 4.0% during the six months ended June 30, 2010, compared to the similar periods in 2009. This increase was primarily due to severance, pension and benefit charges recorded during the three and six months ended June 30, 2010 as well as other non-operational charges noted in the table below. Also contributing to the increases were higher sales commission expense, at our Domestic Wireless segment, in our indirect channel, related to increases in both equipment upgrades leading to contract renewals and the average commission per unit, as the mix of units and service plans sold continues to shift toward data devices and bundled data plans. Partially offsetting these increases was the impact of cost reduction initiatives in our Wireline segment.

Depreciation and Amortization Expense

Depreciation and amortization expense during the three months ended June 30, 2010 increased by $85 million, or 2.1%, and $178 million, or 2.2%, during the six months ended June 30, 2010, compared to the similar periods in 2009. The increases were primarily driven by growth in depreciable assets. Partially offsetting the increases in Depreciation and amortization expense were lower non-operational charges noted in the table below.

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Non-operational Charges

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

(dollars in millions)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Merger Integration and Acquisition Related Charges				
Cost of services and sales	$ 96	$ 24	$ 133	$ 85
Selling, general and administrative expense	66	66	106	206
Depreciation and amortization expense	25	91	53	136
Total	$ 187	$ 181	$ 292	$ 427
Severance, Pension and Benefit Charges				
Cost of services and sales	$ 1,649	$		