VERIZON COMMUNICATIONS INC
Form 10-Q
July 30, 2009
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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, 2009

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, 2009, 2,840,613,457 shares of the registrant s common stock were outstanding, after deducting 126,996,662 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 2009	June 30, 2008	Six Months Ended 2009	June 30, 2008
Operating Revenues	$ 26,861	$ 24,124	$ 53,452	$ 47,957
Operating Expenses				
Cost of services and sales (exclusive of items shown below)	10,481	9,466	20,789	18,983
Selling, general and administrative expense	7,871	6,528	15,432	12,929
Depreciation and amortization expense	4,091	3,584	8,119	7,166
Total Operating Expenses	22,443	19,578	44,340	39,078
Operating Income	4,418	4,546	9,112	8,879
Equity in earnings of unconsolidated businesses	128	150	256	247
Other income and (expense), net	11	92	64	115
Interest expense	(787)	(403)	(1,712)	(862)
Income Before Provision For Income Taxes	3,770	4,385	7,720	8,379
Provision for income taxes	(610)	(981)	(1,350)	(1,926)
Net Income	$ 3,160	$ 3,404	$ 6,370	$ 6,453
Net income attributable to noncontrolling interest	$ 1,677	$ 1,522	$ 3,242	$ 2,929
Net income attributable to Verizon	1,483	1,882	3,128	3,524
Net Income	$ 3,160	$ 3,404	$ 6,370	$ 6,453
Basic Earnings Per Common Share				
Net income attributable to Verizon	$ .52	$ .66	$ 1.10	$ 1.23
Weighted-average shares outstanding (in millions)	2,841	2,850	2,841	2,856
Diluted Earnings Per Common Share				
Net income attributable to Verizon	$ .52	$ .66	$ 1.10	$ 1.23
Weighted-average shares outstanding (in millions)	2,841	2,851	2,841	2,858
Dividends declared per common share	$ .46	$ .43	$ .92	$ .86

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, 2009	At December 31, 2008
Assets		
Current assets		
Cash and cash equivalents	$ 820	$ 9,782
Short-term investments	360	509
Accounts receivable, net of allowances of $994 and $941	12,170	11,703
Inventories	2,775	2,092
Prepaid expenses and other	5,339	1,989
Total current assets	21,464	26,075
Plant, property and equipment	224,150	215,605
Less accumulated depreciation	133,848	129,059
	90,302	86,546
Investments in unconsolidated businesses	3,513	3,393
Wireless licenses	71,708	61,974
Goodwill	22,189	6,035
Other intangible assets, net	7,232	5,199
Other investments		4,781
Other assets	8,591	8,349
Total assets	$ 224,999	$ 202,352
Liabilities and Equity		
Current liabilities		
Debt maturing within one year	$ 5,440	$ 4,993
Accounts payable and accrued liabilities	14,685	13,814
Other	6,243	7,099
Total current liabilities	26,368	25,906
Long-term debt	59,469	46,959
Employee benefit obligations	32,162	32,512
Deferred income taxes	17,737	11,769
Other liabilities	6,442	6,301
Equity		
Series preferred stock ($.10 par value; none issued)		
Common stock ($.10 par value; 2,967,610,119 shares and 2,967,610,119 shares issued)	297	297
Contributed capital	40,102	40,291
Reinvested earnings	19,765	19,250

Accumulated other comprehensive loss	(12,742)	(13,372)
Common stock in treasury, at cost	(4,836)	(4,839)
Deferred compensation employee stock ownership plans and other	86	79
Noncontrolling interest	40,149	37,199
Total equity	82,821	78,905
Total liabilities and equity	$ 224,999	$ 202,352

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, 2009	2008
Cash Flows from Operating Activities		
Net Income	$ 6,370	$ 6,453
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	8,119	7,166
Employee retirement benefits	1,420	808
Deferred income taxes	1,296	1,774
Provision for uncollectible accounts	643	494
Equity in earnings of unconsolidated businesses, net of dividends received	173	507
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses	(2,070)	(2,309)
Other, net	(1,814)	(2,258)
Net cash provided by operating activities	14,137	12,635
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	(8,094)	(8,397)
Acquisitions of licenses, investments and businesses, net of cash acquired	(5,367)	(14,493)
Net change in short-term investments	119	736
Other, net	64	(114)
Net cash used in investing activities	(13,278)	(22,268)
Cash Flows from Financing Activities		
Proceeds from long-term borrowings	12,040	8,144
Repayments of long-term borrowings and capital lease obligations	(18,173)	(1,849)
Increase (decrease) in short-term obligations, excluding current maturities	(103)	6,929
Dividends paid	(2,614)	(2,464)
Proceeds from sale of common stock		15
Purchase of common stock for treasury		(1,117)
Other, net	(971)	(596)
Net cash provided by (used in) financing activities	(9,821)	9,062
Decrease in cash and cash equivalents	(8,962)	(571)
Cash and cash equivalents, beginning of period	9,782	1,153
Cash and cash equivalents, end of period	$ 820	$ 582

See Notes to Condensed Consolidated Financial Statements

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, 2008. 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. We have evaluated subsequent events through July 30, 2009, the date these condensed consolidated financial statements were filed with the SEC. 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.

Recently Adopted Accounting Pronouncements

On January 1, 2009, we adopted the accounting pronouncement on noncontrolling interests in consolidated financial statements, which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the retained interest and gain or loss when a subsidiary is deconsolidated. As required by this pronouncement, we retrospectively changed the classification and presentation of noncontrolling interest in our financial statements for all prior periods, which we previously referred to as minority interest. The adoption of this pronouncement also resulted in a lower effective income tax rate for the Company due to the inclusion of income attributable to Vodafone Group Plc. s (Vodafone), noncontrolling partnership interest in Income before the provision for income taxes. However, the income tax provision was not adjusted as a result of adopting this pronouncement.

The adoption of the following accounting pronouncements during the first six months of 2009 did not result in a significant impact to our condensed consolidated financial statements:

On January 1, 2009, we adopted the accounting pronouncements relating to business combinations, including assets acquired and liabilities assumed arising from contingencies. These pronouncements require the use of the acquisition method of accounting, define the acquirer, establish the acquisition date and apply to all transactions and other events in which one entity obtains control over one or more other businesses. These pronouncements also amend the accounting and disclosure requirements for assets and liabilities in a business combination that arise from contingencies. Upon our adoption of these pronouncements, we were required to expense certain transaction costs and related fees associated with business combinations that were previously capitalized. In addition, with the adoption of these pronouncements, changes to valuation allowances for deferred income tax assets and adjustments to unrecognized tax benefits generally are to be recognized as adjustments to income tax expense rather than goodwill.

On January 1, 2009, we adopted the accounting pronouncement relating to disclosures about derivative instruments and hedging activities, which requires additional disclosures that include how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for and how derivative instruments and related hedged items affect the entity s financial position, results of operations and cash flows.

On January 1, 2009, we adopted the accounting pronouncement regarding the determination of the useful life of intangible assets that removes the requirement to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions, and replaces it with a requirement that an entity consider its own historical experience in renewing similar arrangements, or a consideration of market participant assumptions in the absence of historical experience. This pronouncement also requires entities to disclose information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity s intent and/or ability to renew or extend the arrangements.

On June 15, 2009, we adopted the accounting pronouncement regarding the general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before the financial statements are issued. This pronouncement was effective prospectively for interim and annual reporting periods ending after June 15, 2009.

On June 15, 2009, we adopted the accounting pronouncement that amends the requirements for disclosures about fair value of financial instruments, regarding the fair value of financial instruments for annual, as well as interim, reporting periods. This pronouncement was effective prospectively for all interim and annual reporting periods ending after June 15, 2009.