VERIZON COMMUNICATIONS INC
Form 10-Q
April 29, 2014
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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 March 31, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-8606

Verizon Communications Inc.

(Exact name of registrant as specified in its charter)

Delaware	**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 March 31, 2014, 4,141,148,976 shares of the registrant s common stock were outstanding, after deducting 101,225,264 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 March 31, 2014	2013
Operating Revenues	$ 30,818	$ 29,420
Operating Expenses		
Cost of services and sales (exclusive of items shown below)	11,189	10,932
Selling, general and administrative expense	8,332	8,148
Depreciation and amortization expense	4,137	4,118
Total Operating Expenses	23,658	23,198
Operating Income	7,160	6,222
Equity in earnings of unconsolidated businesses	1,902	(5)
Other income and (expense), net	(894)	39
Interest expense	(1,214)	(537)
Income Before Provision For Income Taxes	6,954	5,719
Provision for income taxes	(968)	(864)
Net Income	$ 5,986	$ 4,855
Net income attributable to noncontrolling interests	$ 2,039	$ 2,903
Net income attributable to Verizon	3,947	1,952
Net Income	$ 5,986	$ 4,855
Basic Earnings Per Common Share		
Net income attributable to Verizon	$ 1.15	$ .68
Weighted-average shares outstanding (in millions)	3,425	2,866
Diluted Earnings Per Common Share		
Net income attributable to Verizon	$ 1.15	$ .68
Weighted-average shares outstanding (in millions)	3,430	2,872
Dividends declared per common share	$ 0.530	$ 0.515

See Notes to Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Comprehensive Income

Verizon Communications Inc. and Subsidiaries

	Three Months Ended March 31,	
(dollars in millions) (unaudited)	**2014**	**2013**
Net Income	$ 5,986	$ 4,855
Other comprehensive loss, net of taxes		
Foreign currency translation adjustments	(949)	(148)
Unrealized loss on cash flow hedges	(83)	(6)
Unrealized gain on marketable securities	1	11
Defined benefit pension and postretirement plans	(37)	(36)
Other comprehensive loss attributable to Verizon	(1,068)	(179)
Other comprehensive loss attributable to noncontrolling interests	(23)	(12)
Total Comprehensive Income	$ 4,895	$ 4,664
Comprehensive income attributable to noncontrolling interests	$ 2,016	$ 2,891
Comprehensive income attributable to Verizon	2,879	1,773
Total Comprehensive Income	$ 4,895	$ 4,664

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 March 31, 2014	At December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	$ 2,907	$ 53,528
Short-term investments	637	601
Accounts receivable, net of allowances of $614 and $645	12,131	12,439
Inventories	881	1,020
Prepaid expenses and other	6,716	3,406
Total current assets	23,272	70,994
Plant, property and equipment	223,841	220,865
Less accumulated depreciation	134,785	131,909
	89,056	88,956
Investments in unconsolidated businesses	889	3,432
Wireless licenses	72,713	75,747
Goodwill	24,647	24,634
Other intangible assets, net	5,839	5,800
Other assets	5,146	4,535
Total assets	$ 221,562	$ 274,098
Liabilities and Equity		
Current liabilities		
Debt maturing within one year	$ 2,152	$ 3,933
Accounts payable and accrued liabilities	14,984	16,453
Other	8,217	6,664
Total current liabilities	25,353	27,050
Long-term debt	107,617	89,658
Employee benefit obligations	26,977	27,682
Deferred income taxes	41,597	28,639
Other liabilities	6,167	5,653
Equity		
Series preferred stock ($.10 par value; none issued)		
Common stock ($.10 par value; 4,242,374,240 and 2,967,610,119 shares issued in each period, respectively)	424	297
Contributed capital	10,976	37,939
Reinvested earnings	3,534	1,782

Accumulated other comprehensive income		1,290		2,358
Common stock in treasury, at cost		(3,794)		(3,961)
Deferred compensation employee stock ownership plans and other		281		421
Noncontrolling interests		1,140		56,580
Total equity		13,851		95,416
Total liabilities and equity	$	221,562	$	274,098

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)	Three Months Ended March 31, 2014	2013
Cash Flows from Operating Activities		
Net Income	$ 5,986	$ 4,855
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	4,137	4,118
Employee retirement benefits	281	295
Deferred income taxes	(155)	878
Provision for uncollectible accounts	231	260
Equity in earnings of unconsolidated businesses, net of dividends received	(1,894)	14
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses	(1,626)	(1,491)
Other, net	179	(1,398)
Net cash provided by operating activities	7,139	7,531
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	(4,150)	(3,602)
Acquisitions of investments and businesses, net of cash acquired	(157)	(21)
Acquisitions of wireless licenses, net	(213)	(117)
Other, net	(11)	141
Net cash used in investing activities	(4,531)	(3,599)
Cash Flows from Financing Activities		
Proceeds from long-term borrowings	16,952	500
Repayments of long-term borrowings and capital lease obligations	(7,951)	(73)
Increase in short-term obligations, excluding current maturities	252	581
Dividends paid	(1,517)	(1,472)
Proceeds from sale of common stock	34	56
Purchase of common stock for treasury		(153)
Acquisition of noncontrolling interest	(58,886)	
Other, net	(2,113)	(989)
Net cash used in financing activities	(53,229)	(1,550)
Increase (decrease) in cash and cash equivalents	(50,621)	2,382
Cash and cash equivalents, beginning of period	53,528	3,093
Cash and cash equivalents, end of period	$ 2,907	$ 5,475

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 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, 2013. 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. Effective January 1, 2014, we have also reclassified the results of certain businesses, such as development stage businesses that support our strategic initiatives, from our Wireline segment to Corporate, eliminations and other. The impact of this reclassification was not material to our condensed consolidated financial statements.

Recently Adopted Accounting Standards

During the first quarter of 2014, we adopted the accounting standard update relating to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The standard update provides that a liability related to an unrecognized tax benefit should be offset against same jurisdiction deferred tax assets for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The adoption of this standard update did not have a significant impact on our condensed consolidated financial statements.

Leasing Arrangements

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

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 months ended March 31, 2014 and 2013, respectively. Outstanding options to purchase shares that were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive for the period were not significant for the three months ended March 31, 2014, and 2013, respectively.

On January 28, 2014, at a special meeting of our shareholders, we received shareholder approval to increase our authorized shares of common stock by 2 billion shares to an aggregate 6.25 billion authorized shares of common stock. On February 4, 2014, this authorization became effective.

2. Acquisitions and Divestitures

Wireless

Wireless Transaction

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

On February 21, 2014, pursuant to the terms and subject to the conditions set forth in the Stock Purchase Agreement, Verizon acquired (the Wireless Transaction) from Seller all of the issued and outstanding capital stock (the Transferred Shares) of

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Vodafone Americas Finance 1 Inc., a subsidiary of Seller (VF1 Inc.), which indirectly through certain subsidiaries (together with VF1 Inc., the Purchased Entities) owned the Vodafone Interest. In consideration for the Transferred Shares, upon completion of the Wireless Transaction, Verizon (i) paid approximately $58.89 billion in cash, (ii) issued approximately 1.27 billion shares of Verizon s common stock, par value $0.10 per share (the Stock Consideration), which was valued at approximately $61.3 billion at the closing of the Wireless Transaction, (iii) issued senior unsecured Verizon notes in an aggregate principal amount of $5.0 billion (the Verizon Notes), (iv) sold Verizon s indirectly owned 23.1% interest in Vodafone Omnitel N.V. (Omnitel, and such interest, the Omnitel Interest), valued at $3.5 billion and (v) provided other consideration, which included the assumption of preferred stock valued at approximately $1.7 billion. The total cash paid to Vodafone and the other costs of the Wireless Transaction, including financing, legal and bank fees, were financed through the incurrence of third-party indebtedness. See Note 4 for additional information.

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

Omnitel Transaction

On February 21, 2014, Verizon and Vodafone also consummated the sale of the Omnitel Interest (the Omnitel Transaction) by a subsidiary of Verizon to a subsidiary of Vodafone in connection with the Wireless Transaction pursuant to a separate share purchase agreement. As a result, during the three months ended March 31, 2014, we recognized a pre-tax gain of $1.9 billion on the disposal of the Omnitel interest in Equity in earnings of unconsolidated businesses on our condensed consolidated statement of income.

Verizon Notes

The Verizon Notes were issued to Vodafone pursuant to Verizon s existing indenture. The Verizon Notes were issued in two separate series, with $2.5 billion due February 21, 2022 (the eight-year Verizon Notes) and $2.5 billion due February 21, 2025 (the eleven-year Verizon Notes). The Verizon Notes bear interest at a floating rate, which will be reset quarterly, with interest payable quarterly in arrears, beginning May 21, 2014. The eight-year Verizon Notes bear interest at a floating rate equal to three-month London Interbank Offered Rate (LIBOR), plus 1.222%, and the eleven-year Verizon Notes bear interest at a floating rate equal to three-month LIBOR, plus 1.372%. The indenture that governs the Verizon Notes contains certain negative covenants, including a negative pledge covenant and a merger or similar transaction covenant, affirmative covenants and events of default that are customary for companies maintaining an investment grade credit rating. An event of default for either series of the Verizon Notes may result in acceleration of the entire principal amount of all debt securities of that series. Beginning two years after the closing of the Wireless Transaction, Verizon may redeem all or any portion of the outstanding Verizon Notes held by Vodafone or any of its affiliates for a redemption price of 100% of the principal amount plus accrued and unpaid interest. The Verizon Notes may only be transferred by Vodafone to third parties in specified amounts during specified periods, commencing January 1, 2017. Any Verizon Notes held by third parties will not be redeemable by Verizon prior to their maturity dates. Verizon has agreed to file a registration statement with respect to the Verizon Notes at least three months prior to the Verizon Notes becoming transferable.

Other Consideration

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

Deferred Tax Liabilities

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

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Spectrum License Transactions

During the fourth quarter of 2013, we entered into license exchange agreements with T-Mobile USA, Inc. (T-Mobile USA) to exchange certain Advanced Wireless Services (AWS) and Personal Communication Services (PCS) licenses. These non-cash exchanges, which are subject to customary closing conditions, are expected to close in the first half of 2014. The exchange includes a number of swaps that we expect will result in more efficient use of the AWS and PCS bands. As a result of these agreements, $0.9 billion of Wireless licenses are classified as held for sale and included in Prepaid expenses and other on our condensed consolidated balance sheets at March 31, 2014 and December 31, 2013, respectively. Upon completion of the transaction, we expect to record a gain which will be determined upon the closing of the transaction.

Subsequent to the transaction with T-Mobile USA in the fourth quarter of 2013, on January 6, 2014, we announced two agreements with T-Mobile USA with respect to our remaining 700 MHz A block spectrum licenses. Under one agreement, we will sell certain of these licenses to T-Mobile USA in exchange for cash consideration of approximately $2.4 billion, and under the second agreement we will exchange the remainder of these licenses for AWS and PCS spectrum licenses. As a result of these agreements, $3.3 billion of Wireless licenses are classified as held for sale and included in Prepaid expenses and other on our condensed consolidated balance sheet at March 31, 2014. These transactions are subject to customary closing conditions. These transactions are expected to close in the middle of 2014. Upon completion of these transactions, we expect to record a gain which will be determined upon the closing of these transactions.

During the three months ended March 31, 2014, we acquired various wireless licenses for cash consideration that was not significant.

Other

During February 2014, Verizon acquired a business dedicated to the development of Internet Protocol (IP) television for cash consideration that was not significant. The transaction is expected to accelerate the availability of next-generation video services.

3. Wireless Licenses, Goodwill and Other Intangible Assets

Wireless Licenses

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

(dollars in millions)	
Balance at January 1, 2014	$ 75,747
Acquisitions (Note 2)	136
Capitalized interest on wireless licenses	79
Reclassifications, adjustments and other	(3,249)
Balance at March 31, 2014	$ 72,713

Reclassifications, adjustments and other includes $3.3 billion of Wireless licenses that are classified as held for sale and included in Prepaid expenses and other on our condensed consolidated balance sheet at March 31, 2014. See Note 2 for additional details.

At March 31, 2014, approximately $5.5 billion of Wireless licenses were under development for commercial service for which we were capitalizing interest costs.

Goodwill

Changes in the carrying amount of Goodwill are as follows:

(dollars in millions)	Wireless	Wireline	Total
Balance at January 1, 2014	$ 18,376	$ 6,258	$ 24,634
Acquisitions (Note 2)		13	13
Balance at March 31, 2014	$ 18,376	$ 6,271	$ 24,647

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Other Intangible Assets

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

	At March 31, 2014			At December 31, 2013		
(dollars in millions)	Gross Amount	Accumulated Amortization	Net Amount	Gross Amount	Accumulated Amortization	Net Amount
Customer lists (5 to 13 years)	$ 3,640	$ (2,735)	$ 905	$ 3,639	$ (2,660)	$ 979
Non-network internal-use software (3 to 7 years)	12,183	(7,600)	4,583	11,770	(7,317)	4,453
Other (2 to 25 years)	662	(311)	351	691	(323)	368
Total	$ 16,485	$ (10,646)	$ 5,839	$ 16,100	$ (10,300)	$ 5,800

The amortization expense for Other intangible assets was as follows:

(dollars in millions)	Three Months Ended March 31,
2014	$ 394
2013	386

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

Years	(dollars in millions)
Remainder of 2014	$ 1,137
2015	1,280
2016	1,039
2017	852
2018	688

4. Debt

Changes to debt during the three months ended March 31, 2014 are as follows:

(dollars in millions)	Debt Maturing within One Year	Long-term Debt	Total
Balance at January 1, 2014	$ 3,933	$ 89,658	$ 93,591
Proceeds from long-term borrowings		16,952	16,952
Verizon Notes		5,000	5,000
Preferred Stock		1,650	1,650
Repayments of long-term borrowings and capital leases obligations	(2,500)	(5,451)	(7,951)
Increase in short-term obligations, excluding current maturities	252		252
Reclassifications of long-term debt	532	(532)	
Other	(65)	340	275

Balance at March 31, 2014	$ 2,152	$ 107,617	$ 109,769

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

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2054 resulting in cash proceeds of approximately $0.5 billion, net of discounts and issuance costs. The net proceeds were used for general corporate purposes.

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

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

(1) Per $1,000 principal amount of notes

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

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

During March 2014, Verizon Wireless redeemed $1.25 billion aggregate principal amount of the Cellco Partnership and Verizon Wireless Capital LLC 8.50% Notes due 2018 at 127.135% of the principal amount of such notes, plus accrued and unpaid interest (see Early Debt Redemption). Also, during March 2014, $1.0 billion of LIBOR plus 0.61% Verizon Communications Notes and $1.5 billion of 1.95% Verizon Communications Notes matured and were repaid.

Term Loan Agreement

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

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Verizon Notes

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

Preferred Stock

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

Other Credit Facilities

As of March 31, 2014, the unused borrowing capacity under our $6.2 billion credit facility was approximately $6.1 billion and the unused borrowing capacity under our $2.0 billion 364-day revolving credit agreement was $2.0 billion.

Early Debt Redemption

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

We recognized these costs in Other income and (expense), net on our condensed consolidated statement of income during the three months ended March 31, 2014.

Guarantees

We guarantee the debentures and first mortgage bonds of our operating telephone company subsidiaries. As of March 31, 2014, $3.1 billion principal amount of these obligations remain outstanding. Each guarantee will remain in place for the life of the obligation unless terminated pursuant to its terms, including the operating telephone company no longer being a wholly-owned subsidiary of Verizon.

We also guarantee the debt obligations of GTE Corporation that were issued and outstanding prior to July 1, 2003. As of March 31, 2014, $1.4 billion principal amount of these obligations remain outstanding.

In 2013, we launched Verizon Edge, a program that provides eligible wireless customers with the ability to pay for their phone over 24 months and upgrade to a new phone after a minimum of 30 days, subject to certain conditions, including making at least 50% of the required device payments, trading in their phone in good working condition and signing a new contract with Verizon Wireless. Verizon values this trade-in right as a guarantee liability. The guarantee liability is initially measured at fair value and is determined based on assumptions including the probability and timing of the customer upgrading to a new phone, the customer s estimated remaining installment balance at the time of trade-in and the fair value of the phone at the time of trade-in. As of March 31, 2014, the guarantee liability related to this program was approximately $0.3 billion.

Debt Covenants

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

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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 March 31, 2014:

(dollars in millions)	Level 1[1]	Level 2[2]	Level 3[3]	Total
Assets:				
Short-term investments:				
Equity securities	$ 383	$	$	$ 383
Fixed income securities		254		254
Other assets:				
Fixed income securities		884		884
Cross currency swaps		262		262
Interest rate swaps		19		19
Total	$ 383	$ 1,419	$	$ 1,802
Liabilities:				
Other liabilities:				
Cross currency swaps	$	$ 13	$	$ 13
Total	$	$ 13	$	$ 13

(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.

Fixed income securities consist primarily of investments in municipal bonds that do not have quoted prices in active markets. For these securities, we use alternative matrix pricing resulting in these debt securities being classified as Level 2.

Derivative contracts are valued using models based on readily observable market parameters for all substantial terms of our derivative contracts and thus are classified within Level 2. We use mid-market pricing for fair value measurements of our derivative instruments. Our derivative instruments are recorded on a gross basis.

We recognize transfers between levels of the fair value hierarchy as of the end of the reporting period. There were no transfers within the fair value hierarchy during the three months ended March 31, 2014.

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 March 31, 2014 Fair Value**	At December 31, 2013 Fair Value

	Carrying Amount		Carrying Amount	
Short- and long-term debt, excluding capital leases	$ 109,516	$ 122,052	$ 93,298	$ 103,527

Derivative Instruments

We enter into derivative transactions to manage our exposure to fluctuations in foreign currency exchange rates, interest rates, and equity and commodity prices. We employ risk management strategies, which may include the use of a variety of derivatives including cross currency swaps, foreign currency and prepaid forwards and collars, interest rate swap agreements, commodity swap and forward agreements and interest rate locks.