FAMOUS DAVES OF AMERICA INC
Form DEF 14A
April 11, 2006

Table of Contents

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

Famous Dave's of America, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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Table of Contents

FAMOUS DAVE S OF AMERICA, INC.
12701 Whitewater Drive, Suite 200
Minnetonka, Minnesota 55343

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 10, 2006

TO THE SHAREHOLDERS OF FAMOUS DAVE S OF AMERICA, INC.:

Please take notice that the annual meeting of shareholders of Famous Dave s of America, Inc. (the Annual Meeting) will be held, pursuant to due call by the Board of Directors of the Company, at the Famous Dave s Calhoun Blues Club, 3001 Hennepin Avenue, Calhoun Square, Minneapolis, Minnesota, on Wednesday, May 10, 2006, at 9:00 a.m., or at any adjournment or adjournments thereof, for the purpose of considering and taking appropriate action with respect to the following:

1. To elect six directors;

2. To ratify the appointment of Grant Thornton LLP as the independent registered public accounting firm of the Company for fiscal 2006; and

3. To transact any other business as may properly come before the meeting or any adjournments thereof.

Pursuant to due action of the Board of Directors, shareholders of record on March 20, 2006 will be entitled to vote at the meeting or any adjournments thereof. Adoption of each proposal requires the affirmative vote of the holders of a majority of the shares of the Company s common stock present in person or represented by proxy at the Annual Meeting.

A proxy for the annual meeting is enclosed herewith. You are requested to fill in and sign the proxy, which is solicited by the Board of Directors, and mail it promptly in the enclosed envelope.

By Order of the Board of Directors

Diana G. Purcel
Secretary

April 11, 2006

TABLE OF CONTENTS

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MAY 10, 2006
PROXY STATEMENT
VOTING AND REVOCATION OF PROXY
PROXIES AND VOTING
ELECTION OF DIRECTORS (Proposal One)
EXECUTIVE COMPENSATION
OPTION GRANTS IN LAST FISCAL YEAR
AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES
LONG-TERM INCENTIVE PLANS -- AWARDS IN LAST FISCAL YEAR
Executive Officers of the Company
STOCK PERFORMANCE GRAPH
RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Proposal Two)
OTHER MATTERS
VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF
CERTAIN TRANSACTIONS
COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT
PROPOSALS OF SHAREHOLDERS
DISCRETIONARY PROXY VOTING AUTHORITY/ UNTIMELY SHAREHOLDER PROPOSALS
SOLICITATION

Table of Contents

Famous Dave s of America, Inc.
12701 Whitewater Drive, Suite 200
Minnetonka, Minnesota 55343

PROXY STATEMENT

Annual Meeting of Shareholders to be Held
May 10, 2006

VOTING AND REVOCATION OF PROXY

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Famous Dave s of America, Inc. (periodically referred to herein as Famous Dave s and the Company) to be used at the annual meeting of shareholders of the Company (the Annual Meeting) to be held on Wednesday, May 10, 2006, at 9:00 a.m. at the Famous Dave s Calhoun Blues Club, 3001 Hennepin Avenue, Calhoun Square, Minneapolis, Minnesota, for the purpose of considering and taking appropriate action with respect to the following:

1. To elect six directors;

2. To ratify the appointment of Grant Thornton LLP as the independent registered public accounting firm of the Company for fiscal 2006; and

3. To transact any other business as may properly come before the meeting or any adjournments thereof.

The approximate date on which this Proxy Statement and the accompanying proxy were first sent or given to shareholders was April 11, 2006. Each shareholder who signs and returns a proxy in the form enclosed with this Proxy Statement may revoke the same at any time prior to its use by giving notice of such revocation to the Company in writing, in open meeting or by executing and delivering a new proxy to the Secretary of the Company. Unless so revoked, the shares represented by each proxy will be voted at the Annual Meeting and at any adjournments thereof. Presence at the Annual Meeting of a shareholder who has signed a proxy does not alone revoke that proxy. Only shareholders of record at the close of business on March 20, 2006 (the Record Date) will be entitled to vote at the Annual Meeting or any adjournments thereof.

PROXIES AND VOTING

Only holders of record of the Company s Common Stock at the close of business on March 20, 2006, the Record Date for the Annual Meeting, are entitled to notice of and to vote at the Annual Meeting. On the Record Date, there were 10,608,583 shares of Common Stock outstanding. Each share of Common Stock entitles the holder thereof to one vote upon each matter to be presented at the Annual Meeting. A quorum, consisting of a majority of the outstanding shares of the Common Stock entitled to vote at the Annual Meeting, must be present in person or represented by proxy before action may be taken at the Annual Meeting.

Each proxy returned to the Company will be voted in accordance with the instructions indicated thereon. Adoption of each proposal requires the affirmative vote of the holders of a majority of the shares of the Company s common stock present in person or represented by proxy at the Annual Meeting.

Table of Contents

All shares represented by proxies will be voted for the election of the nominees for the Board of Directors named in this Proxy Statement and for ratification of Grant Thornton LLP s appointment as the Company s independent registered public accounting firm unless a contrary choice is specified. If any nominee for the Board of Directors should withdraw or otherwise become unavailable for reasons not presently known, the proxies which would have otherwise been voted for such nominee will be voted for such substitute nominee as may be selected by the Board of Directors. A shareholder who abstains with respect to any proposal is considered to be present and entitled to vote on such proposal and is in effect casting a negative vote, but a shareholder (including a broker) who does not give authority to a proxy to vote, or withholds authority to vote, on any proposal, shall not be considered present and entitled to vote on such proposal.

The Board of Directors unanimously recommends that you vote FOR the election of all nominees for the Board of Directors named in this Proxy Statement and FOR the ratification of Grant Thornton LLP as the independent registered public accounting firm of the Company for fiscal 2006.

While the Board of Directors knows of no other matters to be presented at the Annual Meeting or any adjournment thereof, all proxies returned to the Company will be voted on any such matter in accordance with the judgment of the proxy holders.

Table of Contents

ELECTION OF DIRECTORS
(Proposal One)

The Board of Directors currently consists of six (6) directors, each of which has been nominated for re-election by the Board of Directors. If re-elected, each nominee has consented to serve as a director of the Company, to hold office until the next annual meeting of shareholders, or until his or her successor is elected and shall have qualified.

The names and ages of the nominees, and their principal occupations and tenure as directors are set forth below based upon information furnished to the Company by such nominees.

Name and Age of Director and Nominee	Principal Occupation, Business Experience for the Past Five Years and Directorships of Public Companies	Director Since
F. Lane Cardwell, Jr. Age 53	F. Lane Cardwell, Jr. has spent over 25 years in the restaurant industry, most recently as the President of Eatzi s Market and Bakery from June 1996 to June 1999. Prior to joining Eatzi s in 1996, Mr. Cardwell was Executive Vice President, Chief Administrative Officer and a member of the Board of Directors of Brinker International, Inc. Mr. Cardwell is also a director of P. F. Chang s China Bistro, Inc., a publicly traded company, and serves on its Audit and Compensation Committees.	2003
K. Jeffrey Dahlberg Age 52	K. Jeffrey Dahlberg has served as Chairman of the Company s Board of Directors since December 2003. Mr. Dahlberg also serves as President of Sugarloaf Ventures, Inc. a business development and investment firm. Mr. Dahlberg, who co-founded Grow Biz International, Inc. in 1990, served as its Chairman from inception until March 2000 and as its Chief Executive Officer from 1999 until March 2000.	2001
David Goronkin Age 43	David Goronkin has served as President and Chief Executive Officer and a member of the Company s Board of Directors since August 2003. Prior to joining the Company, Mr. Goronkin was an executive officer of Buffets, Inc., serving as its Chief Operating Officer from August 2000 to July 2003 and Executive Vice President of Operations from October 1996 to August 2000. Mr. Goronkin had also served as a director of Buffets since October 2000. From 1994 though 1996, Mr. Goronkin held several operations and franchise-related positions with HomeTown Buffet, Inc., including serving as its Vice President of Operations immediately prior to that company s merger with Buffets, Inc. in 1996. From 1984 through 1994, Mr. Goronkin held a variety of operations and franchise support positions with Chi-Chi s Mexican Restaurants.	2003
Mary L. Jeffries Age 48	Mary L. Jeffries became Chief Operating Officer to Petters Group Worldwide in 2005. Prior to joining Petters Group, she owned her own management consulting company focused in the areas of strategy, operations and finance. Ms. Jeffries served as a General Partner and Chief Operating Officer of St. Paul Venture Capital, an early-stage venture capital fund, from February 2001 until December 2003. From 1997 until she joined St. Paul Venture Capital, Ms. Jeffries served as Chief Operating Officer at the marketing and communications agency of Shandwick International. Ms. Jeffries, who was a Senior Auditor and Computer Audit Specialist at KPMG from 1979-1983, also served as	2003

Assistant Controller of Fairview Hospital and HealthCare Services from 1983-1988 and held positions as Managing Director, Chief Operating Officer and Controller at the public relations agency of Mona Meyer McGrath & Gavin from 1988-1997.

Table of Contents

Name and Age of Director and Nominee	Principal Occupation, Business Experience for the Past Five Years and Directorships of Public Companies	Director Since
Richard L. Monfort Age 51	From 1991 to 1995, Richard L. Monfort served as Group Vice President and Chief Executive Officer of ConAgra Red Meats division, which had approximately $8 billion in annual pork and beef sales. From September 1995 to the present, Mr. Monfort has been engaged in the management of various private business and investment interests, including acting as managing partner of the Hyatt Grand Champions Hotel in Palm Springs, California, and being an owner of the Hilltop Steakhouse in Boston, Massachusetts and a partner in the Montera Cattle Company. Since 1997, Mr. Monfort has served as Vice Chairman of the Colorado Rockies, a professional baseball team.	1996
Dean A. Riesen Age 49	Appointed as a director in March 2003, Dean A. Riesen founded an investment firm, Riesen & Company, of which he has served as Managing Partner since 2001. Prior to that, Mr. Riesen served as Chief Financial Officer of Carlson Holdings, Inc. (parent of Carlson Companies, Inc. and T.G.I. Friday s, Inc.) from 1999-2001. Mr. Riesen was also President & CEO of Tonkawa, Inc. from 1999-2001 and President, CEO, and General Partner of Carlson Real Estate Company from 1985-2001. Mr. Riesen served on Carlson Companies Investment Committee from 1989-1999. Mr. Riesen was a member of Thomas Cook Holdings LTD (U.K.) Board of Directors and a member of its Audit Committee.	2003

Table of Contents

EXECUTIVE COMPENSATION

The following table sets forth the cash and non-cash compensation for each of the last three fiscal years awarded to or earned by (i) each individual serving as Chief Executive Officer of the Company during the fiscal year ended January 1, 2006; and (ii) each individual that served as an executive officer of the Company at the end of the fiscal year ended January 1, 2006 who received in excess of $100,000 in salary and bonus during such fiscal year (the Named Executives).

SUMMARY COMPENSATION TABLE

		Annual Compensation			Long Term Compensation Awards	
	Fiscal			Other Annual	Securities Underlying	All Other
Name and Principal Position	Year	Salary($)	Bonus($)	Compensation($)	Options(#)	Compensation($)
David Goronkin[1]	2005	472,500(4)	236,368(7)	1,100(13)	-0-	5,451(17)
President and	2004	458,654(5)	187,425(8)	1,100(13)	62,000(14)	68,152(18)
Chief Executive Officer	2003	164,232	93,750(9)	1,100(13)	200,000(15)	-0-
Diana G. Purcel[2]	2005	175,000(6)	46,690(10)	-0-	-0-	2,091(19)
Chief Financial Officer	2004	168,173(5)	48,106(11)	-0-	20,000(14)	-0-
and Secretary	2003	14,596	5,000(12)	-0-	30,000(16)	-0-
Christopher O Donnell[3]	2005	172,000	40,153	-0-	-0-	-0-
Executive Vice	2004	169,600(5)	48,514	-0-	20,000(14)	-0-
President Operations	2003	154,237	28,000	-0-	-0-	-0-

(1) Mr. Goronkin was appointed Chief Executive Officer on August 11, 2003.

(2) Ms. Purcel became Chief Financial Officer and Secretary on November 19, 2003.

(3) Mr. O Donnell became Executive Vice President on January 2, 2006. Prior to assuming his new position, he had served as Sr. Vice President Operations since June 19, 2002, prior to which he served as Vice President of Human Resources.

(4) Includes $27,369 that was deferred at the election of Mr. Goronkin under the Company s Non-qualified Deferred Compensation Plan.

(5) Reflects salary earned over the 53-week fiscal year.

(6) Includes $4,038 that was deferred at the election of Ms. Purcel under the Company s Non-qualified Deferred Compensation Plan.

(7) Represents a bonus earned by Mr. Goronkin for his performance during fiscal 2005. Mr. Goronkin elected to defer $47,274 of this bonus amount for one year under the Company s Deferred Stock Unit Plan.

(8) Represents a bonus earned by Mr. Goronkin for his performance during fiscal 2004. Mr. Goronkin elected to defer $50,000 of this bonus amount for two years under the Company s Deferred Stock Unit Plan.

(9) Represents a bonus earned by Mr. Goronkin for his performance during fiscal 2003. Mr. Goronkin elected to defer the entire amount of this bonus for one year under the Company s Deferred Stock Unit Plan.

(10) Represents a bonus earned by Ms. Purcel for her performance during fiscal 2005.

(11) Represents a bonus earned by Ms. Purcel for her performance during fiscal 2004. Ms. Purcel elected to defer $15,000 of this bonus amount for one year under the Company s Deferred Stock Unit Plan.

(12) Represents a pro-rated bonus paid to Ms. Purcel for her performance during fiscal 2003.

(13) Represents premium payments for a term-life insurance policy, made by the Company on behalf of Mr. Goronkin during fiscal years 2005, 2004 and 2003, respectively.

(14) Includes options granted in 2004 for fiscal 2003 performance.

(15) Includes options granted pursuant to Mr. Goronkin s employment agreement in connection with the commencement of his employment.

(16) Includes options granted in connection with the commencement of Ms. Purcel s employment.

Table of Contents

(17) Represents amounts matched by the Company under its Non-qualified Deferred Compensation Plan related to Mr. Goronkin s 2005 salary deferral.

(18) Represents the earnings received by Mr. Goronkin in fiscal 2005 on compensation deferred by Mr. Goronkin in 2004 under the Company s 2004 Deferred Stock Unit Plan.

(19) Represents amounts matched by the Company under its Non-qualified Deferred Compensation Plan related to Ms. Purcel s 2005 salary deferral.

OPTION GRANTS IN LAST FISCAL YEAR

The Company granted no stock options to the Named Executives during fiscal year 2005.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

The following table summarizes information with respect to options held by the Named Executives, and the value of the options held by such persons as of January 1, 2006 (the end of fiscal 2005).

			Number of Securities Underlying Unexercised Options at FY-End		Value of Unexercised In-The-Money Options at FY-End[1]	
Name	Number of Shares Acquired on Exercise	Value Realized($)	Exercisable	Unexercisable	Exercisable	Unexercisable
David Goronkin	0	0	148,833	113,167	$1,035,357	$716,082
Diana G. Purcel	0	0	17,000	33,000	$ 100,240	$188,760
Christopher O Donnell	4,000	43,040	83,000	27,000	$ 605,860	$132,840

(1) Based upon the difference between the option exercise price and the closing sale price of the Common Stock on December 30, 2005 (the last trading day prior to the end of the Company s 2005 fiscal year), which was $11.27.

LONG-TERM INCENTIVE PLANS AWARDS IN LAST FISCAL YEAR

The following table summarizes information with respect to awards granted to the Named Executives under long-term incentive plans during the fiscal year ended January 1, 2006. All such incentives issued to the Named Executives were awards of performance shares made under two separate Performance Share Programs, each corresponding to a three-year performance incentive period during which measurement of the Company s cumulative earnings per share against established goals would determine the number of shares ultimately issued to the Named Executive. The Performance Share Programs are administered as part of the Company s stock incentive plans. More detailed descriptions of the Company s Performance Share Programs can be found under the heading Other Employee Compensation Plans and Arrangements below.

		Estimated Future Payouts Under Non-Stock Price-Based Plans	
Number of Shares, Units or	Performance or Other Period Until	Minimum	Maximum

Name	Other Rights[1]	Maturation of Payout		Number	Number[2]
David Goronkin	44,630	Fiscal 2005	Fiscal 2007	0	44,630
	29,900	Fiscal 2006	Fiscal 2008	0	59,800
Diana G. Purcel	14,628	Fiscal 2005	Fiscal 2007	0	14,628
	7,200	Fiscal 2006	Fiscal 2008	0	14,400
Christopher O Donnell	14,628	Fiscal 2005	Fiscal 2007	0	14,628
	6,200	Fiscal 2006	Fiscal 2008	0	12,400

(1) Represents the Target number of shares of common stock that the recipient will receive at the end of the three-year performance period if 100% of the cumulative earnings per share goal over such period is achieved.

(2) Represents the maximum number of shares of common stock that the recipient is eligible to receive that at the end of the three-year performance period under the applicable Performance Share grant. If the Company achieves between 80% and 100% of the Cumulative EPS Goal, recipients will be entitled to a percentage of the Target number of

shares equal to the percentage of the Cumulative EPS Goal achieved. In the case of the 2006-2008 Program, if the Company achieves between 100% and 150% of the Cumulative EPS Goal for the period, in addition to the Target number of Performance Shares, the recipient will be entitled to receive a number of additional Performance Shares equal to twice the incremental percentage increase in the Cumulative EPS Goal over 100% (e.g., if the Company achieves 120% of the Cumulative EPS Goal, then the recipient will be entitled to receive 140% of his or her Target Performance Share amount).

Employment Agreements and Employment Arrangements

On July 25, 2003, the Company entered into a two-year written employment agreement with David Goronkin, the Company s current Chief Executive Officer, that became effective on August 11, 2003. Pursuant to the agreement, Mr. Goronkin was entitled to receive an annualized base salary of $450,000 (subject to increase at the discretion of the Board of Directors) and was eligible for a bonus of up to 50% of his base salary based on his satisfaction of certain performance-based criteria. In addition to providing health, medical, dental, vision and disability insurance coverage, and customary benefits, the Company agreed to purchase a term life insurance policy with beneficiaries of Mr. Goronkin s choice. The employment agreement provided that Mr. Goronkin would continue to receive his base salary and insurance benefits for a period of up to 18 months if he was terminated by the Company for a reason other than death, disability or cause, if Mr. Goronkin resigned for good reason, or if Mr. Goronkin was terminated for any reason within six months following a change in control, each as defined in the employment agreement. The employment agreement provided that Mr. Goronkin would not compete with the Company for two years after the termination of his employment with the Company. Effective January 1, 2005, the Board of Directors increased Mr. Goronkin s annualized base salary to $472,500.

On February 25, 2005, the Company entered into an amended and restated employment agreement with Mr. Goronkin on substantially the same terms as his prior agreement, except that Mr. Goronkin s minimum annualized base salary was set at $472,500, he is eligible to receive a bonus of up to 75% of his base salary, and that Mr. Goronkin s severance package (payable if he is terminated by the Company for a reason other than death, disability or cause, if he resigns for good reason, or if he is terminated for any reason within six months following a change in control, each as defined in the employment agreement) was reduced from 18 to 12 months of base salary and insurance benefits. The new agreement has a one year term commencing as of January 1, 2005 and automatically renews for successive one year terms.

Diana G. Purcel, the Company s Chief Financial Officer and Secretary, has an employment arrangement with the Company pursuant to which, during fiscal 2005, she received an annualized salary of $175,000, along with medical, dental and other customary benefits. Effective January 2, 2006, the Company increased Ms. Purcel s annualized base salary to $210,000. Ms. Purcel s employment arrangement includes a statement of severance protection which provides that, in the event of her separation from employment due to change in control or for any reason other than for cause, the Company will provide her six months base compensation, mitigated should she find new employment during the six month period.

Christopher O Donnell, the Company s Executive Vice President of Operations, has an employment arrangement with the Company pursuant to which, during fiscal 2005, he received an annualized salary of $172,000, along with medical, dental and other customary benefits. Effective January 2, 2006, the Company increased Mr. O Donnell s annualized base salary to $180,600.

Other Employee Compensation Plans and Arrangements

Performance Share Programs

The Company has approved three Performance Share Programs under its equity compensation plans, each of which grants recipients the right to receive a specified number of shares of the Company s common stock (Performance Shares) following the filing of the Company s Annual Report on Form 10-K for the last fiscal year of the applicable three-year performance period, subject to the Company achieving certain percentages of the cumulative total of the earnings per share goals during each of the fiscal years making up the three-year performance period (the Cumulative EPS Goal).

Table of Contents

Under the 2004-2006 Performance Share Program, the Company granted certain employees, including the officers, the right to receive Performance Shares following the filing of the Company s Annual Report on Form 10-K for fiscal 2006, subject to the Company achieving a specified percentage of its Cumulative EPS Goal for fiscal 2004, fiscal 2005 and fiscal 2006. The specified percentage will be determined using a weighted average calculation that takes into account 100% of the fiscal 2004 earnings per share goal and 80% of the earnings per share goals for each of fiscal 2005 and 2006. If the Company achieves the specified percentage of the Cumulative EPS Goal, each recipient will be entitled to receive a percentage of his or her Performance Shares equal to the percentage of the Cumulative EPS Goal achieved by the Company, up to a maximum of 100%.

Under the 2005-2007 Performance Share Program, the Company granted certain employees, including officers, the right to receive Performance Shares following the filing of the Company s Annual Report on Form 10-K for fiscal 2007, subject to the Company achieving at least 80% of the Cumulative EPS Goal for fiscal 2005, fiscal 2006 and fiscal 2007. If the Company achieves at least 80% of the Cumulative EPS Goal, each recipient will be entitled to receive a percentage of his or her Performance Shares equal to the percentage of the Cumulative EPS Goal achieved by the Company, up to a maximum of 100%.

Under the 2006-2008 Performance Share Stock Program, the Company granted certain employees, including officers, the right to receive Performance Shares following the filing of the Company s Annual Report on Form 10-K for fiscal 2008, subject to the Company achieving at least 80% of the Cumulative EPS Goal for fiscal 2006, fiscal 2007 and fiscal 2008. If the Company achieves at least 80% of the Cumulative EPS Goal, each recipient will be entitled to receive a percentage of his or her Performance Shares equal to the percentage of the Cumulative EPS Goal achieved by the Company. If the Company achieves between 100% and 150% of the Cumulative EPS Goal, each recipient will be entitled to receive an additional percentage of the Target number of Performance Shares granted equal to twice the incremental percentage increase in the Cumulative EPS Goal over 100% (e.g., if the Company achieves 120% of the Cumulative EPS Goal, then the recipient will be entitled to receive 140% of his or her Target Performance Share amount).

The earnings per share goal for each fiscal year is determined by the Company s Compensation Committee prior to the end of the first fiscal quarter of the applicable fiscal year. The actual earnings per share for each fiscal year is based on the earnings per diluted share amount for that fiscal year as set forth in the audited financial statements filed with the Company s corresponding Annual Report on Form 10-K. The Performance Shares will be issued following the filing of the Company s Annual Report on Form 10-K for the last fiscal year of the three-year performance period, as provided above, if the applicable specified percentage of the Cumulative EPS Goal is achieved. The Performance Share grants for each recipient are also contingent upon the recipient remaining an employee of the Company until the filing of the Annual Report on Form 10-K for the applicable fiscal year and the recipient having signed and delivered a non-competition agreement.

2004 Deferred Stock Unit Plan

The Company has adopted an Executive Elective Deferred Stock Unit Plan (the Deferred Stock Unit Plan), in which executives can elect to defer all or part of their bonus compensation for a specified period of time. The amount of compensation that is deferred is converted into a number of stock units, as determined by the share price of our common stock on the effective date of the election. Accordingly, we recognize compensation expense throughout the deferral period to the extent that the share price of our common stock increases, and reduce compensation expense throughout the deferral period to the extent that the share price of our common stock decreases.

Deferred Compensation Plan

The Company adopted a Non-Qualified Deferred Compensation Plan effective as of February 25, 2005 (the Deferred Compensation Plan). Selected employees who are at the director level and above are eligible to participate in the Deferred Compensation Plan. Participants must complete a deferral election each year to indicate the level of compensation (salary, bonus and commissions) they wish to have deferred for the coming year. This deferral election is irrevocable except to the extent permitted by the Deferred Compensation Plan s administrator, and the applicable regulations promulgated by the Internal Revenue Service. The Company matches 50.0% of the first 4.0% contributed by participants and currently pays a declared interest rate of 8.0% on balances outstanding. The Board of Directors administers the Deferred Compensation Plan and can change the rate and any other aspects of the plan at any time.

Deferral periods are capped at the earlier of termination of employment or not less than three calendar years following the end of the applicable Deferred Compensation Plan Year. Extensions of the deferral period for a minimum of five years are allowed provided the election is made at least one year before the first payment affected by the change. Payments can be in a lump sum or in equal payments over a two-, five- or ten-year period, plus interest from the commencement date.

The Deferred Compensation Plan assets are kept in an unsecured account that has no trust fund. In the event of bankruptcy, any future payments would have no greater rights than that of an unsecured general creditor of the Company and they confer no legal rights for interest or claim on any assets of the Company. Benefits provided by the Deferred Compensation Plan are not insured by the Pension Benefit Guaranty Corporation (PBGC) under Title IV of the Employee Retirement Income Security Act of 1974 (ERISA), because the pension insurance provisions of ERISA do not apply to the Deferred Compensation Plan.

For the plan year ended January 1, 2006, Named Executives contributed approximately $31,400 to the Plan and the Company provided matching funds and interest of approximately $7,500.

Director Compensation

The Company grants each of its non-employee directors options to purchase 25,000 shares of the Company s Common Stock upon his or her initial election to the Board of Directors, which vest in equal installments over four years. The Company also grants its non-employee directors options to purchase 5,000 shares of the Company s Common Stock on the day after each annual shareholder s meeting, which vest in their entirety on the first anniversary of the date of grant. The exercise price of all such options is equal to the fair market value of the Company s Common Stock on the date of grant.

In addition to stock options, each non-employee director of the Company receives $5,000 for each meeting of the Board of Directors attended in person, or $2,500 for each such meeting attended by telephone.

Non-employee directors may also be granted, at the discretion of the Compensation Committee, additional stock incentives that contain such terms and provisions as the Compensation Committee determines at the time of grant.

During fiscal 2005 options were granted to the following non-employee directors:

Name	Date Options Granted	Number of Shares Granted	Exercise Price	Vesting Schedule
K. Jeffery Dahlberg	05/13/2005	5,000	$10.98	05/13/2006
F. Lane Cardwell	05/13/2005	5,000	$10.98	05/13/2006
Mary L. Jeffries	05/13/2005	5,000	$10.98	05/13/2006
Mary L. Jeffries	05/13/2005	500(1)	$10.98	Vested upon grant(1)
Richard L. Monfort	05/13/2005	5,000	$10.98	05/13/2006
Dean A. Riesen	05/13/2005	5,000	$10.98	05/13/2006

(1) Ms. Jeffries, the Chair of the Audit Committee, was granted 500 shares in recognition of the extensive workload she undertook in 2005 as a result of Sarbanes-Oxley rules and other changes in the law.

Members of the Board who are also employees of the Company receive no stock options or performance shares for their services as directors.

Executive Officers of the Company

Name and Title	Age	Principal Occupation, Business Experience for the Past Five Years and Directorships of Public Companies
David Goronkin President and Chief Executive Officer	43	See Election of Directors (Proposal One) above.
Diana G. Purcel Chief Financial Officer and Secretary	39	Ms. Purcel has served as Chief Financial Officer and Secretary of the Company since November 19, 2003. Prior to joining the Company, Ms. Purcel served as Vice President and Chief Financial Officer of Paper Warehouse, Inc., a publicly held chain of retail stores specializing in party supplies and paper goods, from 2002 until September 2003, during which time that company filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Minnesota. While she was with Paper Warehouse, she also served as its Vice President, Controller and Chief Accounting Officer from 1999 to 2002. Over the course of her career, Ms. Purcel has held financial and accounting positions with Provell, Inc (formerly Damark International, Inc.) and Target Corporation (formerly Dayton Hudson Corporation). Ms. Purcel is a certified public accountant who spent five years with the firm of Arthur Andersen in the late 1980s and early 1990s.
Christopher O Donnell Executive Vice President of Operations	46	Mr. O Donnell has served as Executive Vice President of Operations of the Company since January 2, 2006. From June 19, 2002 to January 1, 2006, he served as Senior Vice President of Operations and from February 1998 to June 2002, he served as the Company s Vice President of Human Resources. Prior to joining the Company, Mr. O Donnell was Vice President of Development for Pencom International, a producer of training products for restaurant and hotel operators aimed at increasing sales, improving service, building traffic, addressing staffing challenges and reducing turnover. From 1982 to 1987 Mr. O Donnell was the operating partner in Premier Ventures, a high volume restaurant located in Denver, Colorado.

Table of Contents

STOCK PERFORMANCE GRAPH

The Securities and Exchange Commission requires that the Company include in this Proxy Statement a line-graph presentation comparing the cumulative, five-year return to the Company s shareholders (based on appreciation of the market price of the Company s common stock) on an indexed basis with (i) a broad equity market index and (ii) an appropriate published industry or line-of-business index, or peer group index constructed by the Company. The following presentation compares the Company s common stock price for the period from December 31, 2000 through January 1, 2006, to the S&P 500 Stock Index and to the S&P Small Cap Restaurant Index.

The Company has elected to use the S&P Small Cap Restaurant Index in compiling its stock performance graph because it believes the S&P Small Cap Restaurant Index represents a comparison to competitors with similar market capitalization to the Company.

The presentation assumes that the value of an investment in each of the Company s common stock, the S&P 500 Index and the S&P Small Cap Restaurant Index was $100 on December 31, 2000, and that any dividends paid were reinvested in the same security.

Comparison of Five-Year Cumulative Total Return
Among Famous Dave s Of America, Inc., The S&P 500 Index,
And The S&P Small Cap Restaurant Index

Total Return Analysis	12/31/2000	12/30/2001	12/29/2002	12/28/2003	1/2/2005	1/1/2006
Famous Dave s of America	$ 100.00	$ 243.67	$ 104.83	$ 155.00	$ 425.00	$ 375.67
S&P Small Cap Restaurants	$ 100.00	$ 117.69	$ 120.36	$ 172.04	$ 207.51	$ 211.67
S&P 500	$ 100.00	$ 78.95	$ 54.06	$ 81.09	$ 88.06	$ 89.27

Source: CTA Public Relations www.ctapr.com (303) 665-4200. Data from BRIDGE Information Systems, Inc.

Table of Contents

RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Proposal Two)

The Board of Directors and management of the Company are committed to the quality, integrity and transparency of the Company s financial reports. Independent registered public accountants play an important part in the Company s system of financial control. In accordance with the duties set forth in its written charter, the Audit Committee of the Company s Board of Directors has appointed Grant Thornton LLP as the Company s independent registered public accounting firm for the 2006 fiscal year. A representative of Grant Thornton LLP is expected to attend this year s Annual Meeting and be available to respond to appropriate questions from shareholders, and will have the opportunity to make a statement if he or she desires to do so.

If the shareholders do not ratify the appointment of Grant Thornton LLP, the Audit Committee may reconsider its selection, but is not required to do so. Notwithstanding the proposed ratification of the appointment of Grant Thornton LLP by the shareholders, the Audit Committee, in its discretion, may direct the appointment of new independent auditors at any time during the year without notice to, or the consent of, the shareholders, if the Audit Committee determines that such a change would be in the best interests of the Company and its shareholders.

Fees billed to Company by Its Independent Registered Public Accounting Firm

The following table presents fees for professional audit services and 401(k) audit services, tax services and other services rendered by Grant Thornton LLP during fiscal years 2005 and 2004.

	2005	2004
Audit Fees(1)(2)	$ 230,300	$ 170,765
Audit-Related Fees(3)	9,700	7,520
Tax Fees(4)	75,000	0
All Other Fees(5)	4,000	0
Total Fees	$ 319,000	$ 178,285

(1) Audit Fees consist of fees for professional services rendered for the audit of the Company s consolidated annual financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided in connection with statutory and regulatory filings or engagements.

(2) Includes fees of $142,000 in fiscal 2005 and $91,440 in fiscal 2004 for work performed in connection with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

(3) Audit-Related Fees consist principally of assurance and related services that are reasonably related to the performance of the audit or review of the Company s financial statements but not reported under the caption *Audit Fees* above including 401K audit.

(4) Tax Fees consist of fees for tax compliance, tax advice, and tax planning.

(5) All Other Fees typically consist of fees for permitted non-audit products and services provided.

The Audit Committee of the Board of Directors has reviewed the services provided by Grant Thornton LLP during fiscal year 2005 and the fees billed for such services. After consideration, the Audit Committee has determined that the receipt of these fees by Grant Thornton LLP is compatible with the provision of independent audit services. The Audit Committee discussed these services and fees with Grant Thornton LLP and Company management to determine that they are permitted under the rules and regulations concerning auditor independence promulgated by the U.S. Securities and Exchange Commission to implement the Sarbanes-Oxley Act of 2002, as well as the American Institute of Certified Public Accountants.

Pre-Approval Policy

The Company s Audit Committee Charter (a copy of which was attached as *Appendix A* to the proxy statement for the 2004 annual shareholders meeting) provides that all audit and non-audit accounting services that are permitted to be performed by the Company s independent registered public accounting firm under applicable rules and regulations must be pre-approved by the Audit Committee or by designated members of the Audit Committee, other than with respect to de minimus exceptions permitted under the Sarbanes-Oxley Act of 2002. During fiscal 2005, all services performed by Grant Thornton LLP were pre-approved in accordance with the Audit Committee Charter.

Prior to or as soon as practicable following the beginning of each fiscal year, a description of the audit, audit-related, tax, and other services expected to be performed by the independent registered public accounting firm in the following fiscal year is presented to the Audit Committee for approval. Following such approval, any requests for audit, audit-related, tax, and other services not presented and pre-approved must be submitted to the Audit Committee for specific pre-approval and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings. However, the authority to grant specific pre-approval between meetings, as necessary, has been delegated to the Chairperson of the Audit Committee. The Chairperson must update the Audit Committee at the next regularly scheduled meeting of any services that were granted specific pre-approval. In addition, the Audit Committee has granted pre-approval for the Chief Executive Officer and the Chief Financial Officer to spend up to $5,000 on a cumulative basis in additional permitted audit fees with Grant Thornton, which authority and amount will be reviewed and approved annually.

Table of Contents

OTHER MATTERS

Board of Directors and Committees

Board of Directors

The Company s Board of Directors is currently comprised of six (6) members, each of which is identified under Proposal One (Election of Directors) above. The following directors, which constitute a majority of the Board, are independent directors as such term is defined in Section 4200(a)(15) of National Association of Securities Dealers listing standards: F. Lane Cardwell, Jr., K. Jeffrey Dahlberg, Mary L. Jeffries, Richard L. Monfort and Dean A. Riesen. The Board of Directors held four meetings during fiscal 2005 and took action by written action in lieu of a meeting three times. The Company has a standing Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee and Strategic Planning Committee. During fiscal 2005, each member of the Board of Directors attended at least 75% of the board meetings and meetings of committees to which they belong.

Audit Committee of the Board of Directors

The Company has established a three-member Audit Committee within the Board of Directors that currently consists of Chairperson Mary L. Jeffries and Messrs. Richard L. Monfort and Dean A. Riesen. The Audit Committee operates under a written charter adopted by the Board of Directors. A copy of the written charter, as amended to date, was attached as *Appendix A* to the proxy statement for the 2004 annual shareholders meeting. As set forth in the charter, the primary responsibilities of the Audit Committee include: (i) serving as an independent and objective party to monitor the Company s financial reporting process and internal control system; (ii) reviewing and appraising the audit performed by the Company s independent registered public accounting firm; and (iii) providing an open avenue of communication among the independent registered public accounting firm, financial and senior management and the Board of Directors. The charter also requires that the Audit Committee review and pre-approve the performance of all audit and non-audit accounting services to be performed by the Company s independent registered public accounting firm, as well as tax work performed by the Company s tax firm, other than certain de minimus exceptions permitted by Section 202 of the Sarbanes-Oxley Act of 2002. The Audit Committee held four formal meetings and three informal quarterly telephonic meetings during fiscal 2005.

The Board of Directors has determined that at least one member of the Audit Committee, Mary L. Jeffries, is an audit committee financial expert as that term is defined in Item 401(h)(2) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended. In addition, each member of the Audit Committee (including Ms. Jeffries) is an independent director, as such term is defined in Section 4200(a)(15) of National Association of Securities Dealers listing standards, and meets the criteria for independence set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended. The Board of Directors has also determined that each of the Audit Committee members is able to read and understand fundamental financial statements and that at least one member of the Audit Committee has past employment experience in finance or accounting.

Compensation Committee of the Board of Directors

The Company has established a two-member Compensation Committee within the Board of Directors that currently consists of Dean A. Riesen and F. Lane Cardwell, Jr.. The Compensation Committee reviews the Company s remuneration policies and practices, makes recommendations to the full Board in connection with all compensation matters affecting the Company and administers the Company s incentive compensation plans. The Compensation Committee held three meetings during fiscal 2005 and took action by written action in lieu of a meeting two times.

Corporate Governance and Nominating Committee of the Board of Directors

The Company has established a Corporate Governance and Nominating Committee within the Board of Directors that consists of Chairman Dean A. Riesen, Mary L. Jeffries and F. Lane Cardwell, Jr., each of whom satisfies the independence requirements of The NASDAQ Stock Market rules. The primary role of the Corporate Governance and Nominating Committee is to consider and make recommendations to the full Board of Directors concerning the appropriate size, function and needs of the Board, including establishing criteria for Board membership and considering, recruiting and recommending candidates (including those recommended by shareholders) to fill new Board positions. The Corporate Governance and Nominating Committee also considers and advises the full Board on matters of corporate governance and monitors and recommends the functions of, and membership on, the various committees of the Board.

The Corporate Governance and Nominating Committee (or a subcommittee thereof) recruits and considers director candidates and presents qualified candidates to the full Board for consideration. Qualified candidates will be considered without regard to race, color, religion, sex, ancestry, national origin or disability.

The Corporate Governance and Nominating Committee will consider each candidate s general business and industry experience, his or her ability to act on behalf of shareholders, overall Board diversity, potential concerns regarding independence or conflicts of interest and other factors relevant in evaluating Board nominees. If the Corporate Governance and Nominating Committee approves a candidate for further review following an initial screening, the Corporate Governance and Nominating Committee will establish an interview process for the candidate. Generally, the candidate will meet with at least a majority of the members of the Corporate Governance and Nominating Committee, along with the Company s Chief Executive Officer. Contemporaneously with the interview process, the Corporate Governance and Nominating Committee will conduct a comprehensive conflicts-of-interest assessment of the candidate. The Corporate Governance and Nominating Committee will consider reports of the interviews and the conflicts-of-interest assessment to determine whether to recommend the candidate to the full Board of Directors. The Corporate Governance and Nominating Committee will also take into consideration the candidate s personal attributes, including, without limitation, personal integrity, loyalty to the Company and concern for its success and welfare, willingness to apply sound and independent business judgment, awareness of a director s vital part in the Company s good corporate citizenship and image, time available for meetings and consultation on Company matters and willingness to assume broad, fiduciary responsibility.

Recommendations for candidates to be considered for election to the Board at the Company s annual shareholders meeting may be submitted to the Corporate Governance and Nominating Committee by the Company s shareholders. In order to make such a recommendation, a shareholder must submit the recommendation in writing to the Chairperson of the Corporate Governance and Nominating Committee, in care of the Company s Secretary at the Company s headquarters address, at least 120 days prior to the mailing date of the previous year s annual meeting proxy statement. To enable the Corporate Governance and Nominating Committee to evaluate the candidate s qualifications, shareholder recommendations must include the following information:

The name and address of the nominating shareholder and of the director candidate;

A representation that the nominating shareholder is a holder of record of the Company entitled to vote at the current year s annual meeting;

A description of any arrangements or understandings between the nominating shareholder and the director candidate or candidates being recommended pursuant to which the nomination or nominations are to be made by the shareholder;

A resume detailing the educational, professional and other information necessary to determine if the nominee is qualified to hold a Board position;

Such other information regarding each nominee proposed by such shareholder as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated by the Board of Directors; and

The consent of each nominee to serve as a director of the Company if so elected.

The Corporate Governance and Nominating Committee held one meeting during fiscal 2005.

Strategic Planning Committee of the Board of Directors

The Company has established a Strategic Planning Committee within the Board of Directors which currently consists of Messrs. F. Lane Cardwell (Chairman), David Goronkin and Dean A. Riesen. The primary role of the Strategic Planning Committee is to consider the long-term strategic direction of the Company and make recommendation regarding the long-term strategic direction of the Company to the full Board of Directors. The Strategic Planning Committee held one meeting during fiscal 2005.

Corporate Governance, Ethics and Business Conduct

The Company s Board of Directors firmly believes that the commitment to sound corporate governance practices is essential to obtaining and retaining the trust of investors, employees, guests and suppliers. The Company s corporate governance practices reflect the requirements of applicable securities laws, including the Sarbanes-Oxley Act of 2002, the Nasdaq Stock Market listing requirements and the Company s own vision of good governance practices. As part of its adherence to these corporate governance practices, the Company has adopted the Famous Dave s of America, Inc. Corporate Governance Principles and Practices.

In addition to establishing practices that comply with applicable laws and listing requirements, at its February 22, 2006, meeting, the Board of Directors approved enhancements to the Company s Corporate Governance Principles and Practices, including provisions that:

limit the number of boards on which Directors may sit;

require regular internal performance reviews of the board and its members;

prohibit the adoption of equity plans without shareholder approval; and

establish executive and board stock ownership guidelines.

The Board of Directors is in the process of finalizing the details of these latest additions to the Company s Corporate Governance Principles and Practices and will post the amended Company s Corporate Governance Principles and Practices on the Company s website when the revisions are complete.

The Company is committed to conducting business lawfully and ethically. All of its employees, including its Chief Executive Officer and senior financial officers, are required to act at all times with honesty and integrity. The Company s Code of Ethics and Business Conduct covers areas of professional conduct, including workplace behavior, conflicts of interest, fair dealing with competitors, guests and vendors, the protection of Company assets, trading in Company securities and confidentiality, among others. The Code of Ethics and Business Conduct requires strict adherence to all laws and regulations applicable to our business and also describes the means by which any employee can provide an anonymous report of an actual or apparent violation of our Code of Ethics and Business Conduct. In addition to the Code of Ethics and Business Conduct, the Company has adopted a separate Code of Ethics specifically applicable to the Company s Chief Executive Officer, Chief Financial Officer and Controller.

The full text of the Famous Dave s of America, Inc. Corporate Governance Principles and Practices, the Code of Ethics and Business Conduct and the Code of Ethics specifically applicable to the Company s Chief Executive Officer, Chief Financial Officer and Controller are each available online at www.famousdaves.com (click on Investor Relations , Corporate Governance and Corporate Governance Principles and Practices , Code of Ethics and Business Conduct Policy , or Code of Ethics specifically applicable to CEO, CFO and Controller, as applicable).

Compensation Committee Interlocks and Insider Participation

During fiscal 2005, directors serving on the Compensation Committee included F. Lane Cardwell and Dean A. Riesen. There are no relationships among members of the Compensation Committee, members of the Board of Directors or executive officers of the Company that require disclosure under Item 402(j) of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended.

Ability of Shareholders to Communicate with the Company s Board of Directors

The Company s Board of Directors has established several means for shareholders and others to communicate with the Company s Board of Directors. If a shareholder has a concern regarding the Company s financial statements, accounting practices or internal controls, the concern should be submitted in writing to the Chairperson of the Company s Audit Committee in care of the Company s Secretary at the Company s headquarters address. If the concern relates to the Company s governance practices, business ethics or corporate conduct, the concern should be submitted in writing to the Chairman of the Corporate Governance and Nominating Committee in care of the Company Secretary at the Company s headquarters address. If a shareholder is unsure as to which category the concern relates, the shareholder may communicate it to any one of the independent directors in care of the Company s Secretary at the Company s headquarters address. All shareholder communications will be sent to the applicable director(s).

Table of Contents

Report of the Audit Committee

The Audit Committee is governed by the Audit Committee Charter adopted by the Company s Board of Directors, the full text of which is available online at www.famousdaves.com (click on Investor Relations, Corporate Governance and Audit Committee Charter). This Charter reflects the Audit Committee s increased responsibilities as a result of the Sarbanes-Oxley Act of 2002, as well as The Nasdaq Stock Market corporate governance standards. Each of the members of the Audit Committee qualifies as an independent director under the current applicable listing standards of The Nasdaq Stock Market.

The Company s management has primary responsibility for the Company s internal controls and preparing the Company s consolidated financial statements. The Company s independent registered public accounting firm, Grant Thornton LLP, is responsible for performing an independent audit of the Company s consolidated financial statements and of its internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB). The primary function of the Audit Committee is to assist the Board of Directors in its oversight of the Company s financial reporting, internal controls, and audit functions.

The Audit Committee has reviewed the Company s audited consolidated financial statements for the last fiscal year and discussed them with management.

The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, Communication with Audit Committees , by the Auditing Standards Board of the American Institute of Certified Public Accountants, and PCAOB Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements.

The Audit Committee has received and reviewed the written disclosures and the letter from the independent registered public accounting firm required by Independence Standard No. 1 (Independence Discussions with Audit Committees), as amended, promulgated by the Independence Standards Board, and has discussed with the independent accountants, their independence.

The Audit Committee, based on the review and discussions described above, has recommended to the Board of Directors that the audited financial statements be included in the Company s Annual Report on Form 10-K for the last fiscal year for filing with the Securities and Exchange Commission.

MARY L. JEFFRIES, Chairperson
RICHARD L. MONFORT
DEAN A. RIESEN

Table of Contents

Compensation Committee Report on Executive Compensation

A two-member Compensation Committee within the Board of Directors generally makes decisions on compensation of the Company s executives. All decisions by the Compensation Committee relating to the compensation of the Company s executive officers are reviewed by the full Board of Directors. The current members of the Compensation Committee are Messrs. F. Lane Cardwell and Dean A. Riesen (Chairman). Pursuant to rules designed to enhance disclosure of the Company s policies toward executive compensation, set forth below is a report prepared by the Compensation Committee addressing the compensation policies for the Company and its subsidiaries for the 2005 fiscal year as they affected the Company s executive officers.

The Compensation Committee s executive compensation policies are designed to provide competitive levels of compensation that integrate pay with the Company s annual objectives and long-term goals, reward above-average corporate performance, recognize individual initiative and achievements, and assist the Company in attracting and retaining qualified executives. Executive compensation is set at levels that the compensation committee believes to be consistent with others in the Company s industry.

There are four elements in the Company s executive compensation program, all determined by individual and corporate performance.

Base salary compensation

Annual incentive compensation

Stock incentive awards (including conditional grants of performance shares)

Deferred Stock Unit Plan

Total compensation opportunities are competitive with those offered by employers of comparable size, growth and profitability in the Company s industry.

Base Salary Compensation

Base salary compensation is determined by the potential impact the individual has on the Company, the skills and experiences required by the job, the performance and potential of the incumbent in the job and competitive market information.

Annual Incentive Compensation

Annual incentive compensation potential for executives of the Company is based on competitive market information for similar positions and experience and the actual payouts are based on achieving corporate earnings per share targets.

Stock Incentive Awards

Based upon surveys of employee stock incentive programs and consultations with independent compensation advisers, in fiscal 2004 the Compensation Committee determined that, commencing in fiscal 2005, all stock incentive awards for employees of the Company, including officers should take the form of performance shares, replacing the Company s historical practice of issuing stock options as a form of stock incentive. It was the determination of the Compensation Committee that performance shares as an incentive award more closely align the Company s objectives with that of its shareholders, as these shares are earned based on achievement of specific cumulative earnings per share goals for a three year period, not merely the passage of time. The Company initiated the issuance of performance shares with its 2004-2006 Performance Share Program and has since established two subsequent Programs. A full description of the 2004-2006, 2005-2007 and 2006-2008 Performance Share Programs can be found below under the heading Description of Performance Share Programs.

The Compensation Committee surveys employee stock incentive programs of companies with similar capitalization to the Company prior to recommending grants of stock incentives to the Company s executive officers. The Compensation Committee also consults with independent compensation advisers when it deems such consultation to be appropriate. The value realizable from stock incentives is dependent upon the extent to which the Company s performance is reflected in the market price of the Company s common stock at any particular point in time with respect to exercisable stock options and following the three year period over which performance criteria is measured with respect to grants of performance shares. In addition, the decision as to whether the value of exercisable stock options will be realized in any particular year is determined by each individual executive s decision whether to exercise all or portion of such stock options and not by the Compensation Committee. Accordingly, when the Compensation Committee recommends that a stock incentive be granted to an executive, that recommendation does not take into account any gains realized that year by the executive as a result of his or her individual decision to exercise an option granted in a previous year or any gains realized by him or her upon the ultimate grant of shares underlying a stock performance grant.

In future years, the Compensation Committee will continue to evaluate the appropriate form for Company stock incentive awards and make changes to the form of such awards as it deems desirable and in the best interests of the Company from time to time.

Description of Performance Share Programs

The Compensation Committee of the Company s Board of Directors has approved a 2004-2006 Performance Stock Program under its equity compensation plans. Under the Program, the Company granted certain employees, including the officers, the right to receive a specified number of shares of the Company s common stock (the Performance Shares) following the filing of the Company s Annual Report on Form 10-K for fiscal 2006, subject to the Company achieving a specified percentage of the cumulative total of the earnings per share goals for fiscal 2004, fiscal 2005 and fiscal 2006 (the Cumulative EPS Goal). The specified percentage will be determined using a weighted average calculation that takes into account 100% of the fiscal 2004 earnings per share goal and 80% of the earnings per share goals for each of fiscal 2005 and 2006. If the Company achieves the specified percentage of the Cumulative EPS Goal, each recipient will be entitled to receive a percentage of his or her Performance Shares equal to the percentage of the Cumulative EPS Goal achieved by the Company, up to a maximum of 100%. The Performance Share grants for each recipient are also contingent upon the recipient remaining an employee of the Company until the filing of the Annual Report on Form 10-K for fiscal 2006 and the recipient having signed and delivered a non-competition agreement.

The Compensation Committee has approved a 2005-2007 Performance Share Stock Program under its equity compensation plans. The 2005-2007 Program granted certain Company employees, including officers, the right to receive Performance Shares following the filing of the Company s Annual Report on Form 10-K for fiscal 2007. Under the 2005-2007 Program, if the Company fails to achieve 100% of the Cumulative EPS Goal but achieves at least 80% of the Cumulative EPS Goal, recipients will be entitled to receive a percentage of their Performance Shares equal to the percentage of the Cumulative EPS Goal achieved by the Company, up to a maximum of 100%.

The Compensation Committee has approved a 2006-2008 Performance Share Stock Program under its equity compensation plans. The 2006-2008 Program granted certain Company employees, including officers, the right to receive Performance Shares following the filing of the Company s Annual Report on Form 10-K for fiscal 2008 if the Company achieves at least 80% of the Cumulative EPS Goal. In such instance, each recipient will be entitled to receive a percentage of his or her Performance Shares equal to the percentage of the Cumulative EPS Goal achieved by the Company. If the Company exceeds its Cumulative EPS Goal, each recipient will receive 100% of his or her Performance Shares plus an additional percentage equal to twice the incremental percentage over 100% achieved by the Company, up to a maximum of 200% of his or her Performance Shares (e.g., if the Company achieves 120% of the Cumulative EPS Goal, then the recipient will be entitled to receive 140% of his or her Target Performance Share amount).

The earnings per share goal for each fiscal year will be determined by the Compensation Committee prior to the end of the first fiscal quarter of the applicable fiscal year. The actual earnings per share for each fiscal year shall be based on the earnings per share amount for that fiscal year as set forth in the audited financial statements filed with the Company s corresponding Annual Report on Form 10-K.

The Compensation Committee believes that the Performance Share Programs, as amended and revised, are more consistent with the Company s desire to provide increased levels of incentive compensation based upon increased levels of employee performance.

In fiscal 2005, the Company granted certain employees, including its officers, the right to receive up to 126,013 Performance Shares under the 2005-2007 and 83,200 Performance Shares under the 2006-2008 Performance Stock Program, subject to achieving 100% of the performance thresholds set forth above. In the event that more than 100% of the performance thresholds are achieved, the number of Performance Shares issued under the 2006-2008 Program could be greater as explained above. The Company recognized approximately $566,000 of compensation expense in its consolidated statement of operations for fiscal 2005 related to these programs in addition to its 2004-2006 program.

Compensation of Chief Executive Officer

Based on the terms of his employment agreement with the Company, Mr. Goronkin received an annualized base salary of $472,500 during fiscal 2005, which the Compensation Committee believes is competitive with executives in other industry-related companies. Mr. Goronkin elected to defer $27,369 of his salary under the Company s Nonqualified Deferred Compensation Plan and, pursuant to that plan, the Company matched his deferral in the amount of $5,451. The Company granted Mr. Goronkin a bonus of $236,368 in 2005 for his performance during fiscal 2004 of which Mr. Goronkin elected to defer $47,274 for one year under the Company s Deferred Stock Unit Plan.

F. LANE CARDWELL
DEAN A. RIESEN, Chairman

Table of Contents

VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

The Company has outstanding one class of voting securities, Common Stock, $0.01 par value, of which 10,608,583 shares were outstanding as of the close of business on the Record Date. Each share of Common Stock is entitled to one vote on all matters put to a vote of shareholders.

The following table sets forth certain information regarding beneficial ownership of the Company s Common Stock as of the Record Date, by (i) each person known by the Company to be the beneficial owner of more than 5% of the outstanding Common Stock, (ii) each director, (iii) each executive officer named in the Summary Compensation Table, and (iv) all executive officers and directors as a group. Unless otherwise indicated, the address of each of the following persons is 12701 Whitewater Drive, Suite 200, Minnetonka, Minnesota 55343, and each such person has sole voting and investment power with respect to the shares of Common Stock set forth opposite each of their respective names.

Name and Address of Beneficial Owner	Shares Beneficially Owned	Percentage of Total
David Goronkin	196,933(1)	1.83%
Diana G. Purcel	24,000(2)	*
Christopher O Donnell	88,000(3)	*
F. Lane Cardwell, Jr.	27,500(4)	*
K. Jeffrey Dahlberg	342,800(5)	3.21%
Mary L. Jeffries	27,035(6)	*
Richard L. Monfort	76,500(7)	*
Dean A. Riesen	107,500(8)	1.01%
All Directors and Officers as a group (8 people)	890,268(9)	8.07%
FMR Corporation (Fidelity Management Research Corp.)	667,903(10)	6.30%
82 Devonshire Street		
Boston, MA 02109		
Vicuna Advisors, L.L.C.	626,592(11)	5.91%
230 Park Avenue, 7th Floor		
New York, NY 10169		

* less than 1%

(1) Includes 164,333 shares that Mr. Goronkin has the right to acquire within 60 days.

(2) Includes 2,000 shares held by Ms. Purcel in a self-directed IRA and 22,000 shares that Ms. Purcel has the right to acquire within 60 days.

(3) Includes 88,000 shares that Mr. O Donnell has the right to acquire within 60 days.

(4) Includes 22,500 shares that Mr. Cardwell has the right to acquire within 60 days.

(5) Includes 70,000 shares that Mr. Dahlberg has the right to acquire within 60 days.

(6) Includes 23,000 shares that Ms. Jeffries has the right to acquire within 60 days.

(7) Includes 10,000 shares that Mr. Monfort has the right to acquire within 60 days.

(8) Includes 27,500 shares that Mr. Riesen has the right to acquire within 60 days.

(9) Includes 427,333 shares that such individuals have the right to acquire within 60 days.

(10) Based on the most recent Schedule 13G filed on February 14, 2006 with the Securities and Exchange Commission.

(11) Based on the most recent Schedule 13G filed on February 14, 2006 with the Securities and Exchange Commission.

Table of Contents

CERTAIN TRANSACTIONS

In fiscal 2005, the Company did not engage in related party transactions with its officers, directors or significant shareholders.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s officers and directors, and persons who own more than ten percent of a registered class of the Company s equity securities, to file reports of ownership and changes in ownership of such securities with the Securities and Exchange Commission and NASDAQ. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

On March 9, 2005, Richard L. Monfort filed a Form 4 reporting a stock option exercise, which Form 4 was due on March 7, 2005. Otherwise, based solely on review of the copies of Forms 3, 4 and 5 furnished to the Company, or written representations that no Forms 5 were required, the Company believes that its officers, directors and greater than ten percent beneficial owners complied with all applicable Section 16(a) filing requirements during the fiscal year ended January 1, 2006.

PROPOSALS OF SHAREHOLDERS

Any shareholder who desires to submit a proposal for action by the shareholders at the next annual meeting must submit such proposal in writing to Diana G. Purcel, Secretary, Famous Dave s of America, Inc., 12701 Whitewater Drive, Suite 200, Minnetonka, Minnesota, 55343, by December 12, 2006. Due to the complexity of the respective rights of the shareholders and the Company in this area, any shareholder desiring to propose such an action is advised to consult with his or her legal counsel with respect to such rights. The Company suggests that any such proposal be submitted by certified mail return receipt requested.

DISCRETIONARY PROXY VOTING AUTHORITY/ UNTIMELY SHAREHOLDER PROPOSALS

Rule 14a-4(c) promulgated under the Securities and Exchange Act of 1934 governs the Company s use of its discretionary proxy voting authority with respect to a shareholder proposal that the shareholder has not sought to include in the Company s proxy statement. The Rule provides that if a proponent of a proposal fails to notify the Company of the proposal at least 45 days before the date of mailing of the prior year s proxy statement, then the management proxies will be allowed to use their discretionary voting authority when the proposal is raised at the meeting, without any discussion of the matter in the proxy statement.

With respect to the Company s 2007 annual shareholders meeting, if the Company is not provided notice of a shareholder proposal, which the shareholder has not previously sought to include in the Company s proxy statement, by February 25, 2007, the management proxies will be allowed to use their discretionary authority as outlined above.

Table of Contents

SOLICITATION

The Company will bear the cost of preparing, assembling and mailing the Proxy, Proxy Statement, Annual Report and other material which may be sent to the shareholders in connection with this solicitation. Brokerage houses and other custodians, nominees and fiduciaries may be requested to forward soliciting material to the beneficial owners of stock, in which case they will be reimbursed by the Company for their expenses in doing so. Proxies are being solicited personally, by telephone, by telegram or by special letter.

The Board of Directors does not intend to present to the meeting any other matter not referred to above and does not presently know of any matters that may be presented to the meeting by others. However, if other matters come before the meeting, it is the intent of the persons named in the enclosed proxy to vote the proxy in accordance with their best judgment.

By Order of the Board of Directors

Diana G. Purcel
Chief Financial Officer and Secretary

Table of Contents

FAMOUS DAVE S OF AMERICA, INC.
PROXY FOR ANNUAL MEETING OF SHAREHOLDERS
Wednesday, May 10, 2006
9:00 a.m.
Calhoun Blues Club
3001 Hennepin Avenue
Calhoun Square
Minneapolis, MN

Famous Dave s of America, Inc.
12701 Whitewater Dr., Suite 200
Minnetonka, MN 55343 **proxy**

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.
The undersigned, a shareholder of Famous Dave s of America, Inc., hereby appoints David Goronkin and Diana G.Purcel, and each of them, as proxies, with full power of substitution, to vote on behalf of the undersigned the number of shares which the undersigned is then entitled to vote, at the Annual Meeting of Shareholders of Famous Dave s of America, Inc. to be held at the Calhoun Blues Club, 3001 Hennepin Avenue, Calhoun Square, Minneapolis, Minnesota, on Wednesday, May 10, 2006 at 9:00 a.m., and at any and all adjournments thereof.

See reverse for voting instructions.

Table of Contents

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The Board of Directors Recommends a Vote FOR ALL NOMINEES.

1. Election of directors:	01 F. Lane Cardwell, Jr.	04 Mary L. Jeffries	o	Vote FOR	o	Vote WITHHELD
	02 K. Jeffrey Dahlberg	05 Richard L. Monfort		all nominees		from all
	03 David Goronkin	06 Dean A. Riesen		(except as marked)		nominees

(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

2.	**Proposal to ratify the appointment of Grant Thornton LLP, registered public accounting firm, as independent auditors of the Company for fiscal 2006.**	o	FOR	o	AGAINST	o	ABSTAIN

3. Upon such other business as may properly come before the meeting or any adjournments thereof.

When properly executed, this proxy will be voted on the proposals set forth herein as directed by the shareholder, but if no direction is made in the space provided, this proxy will be voted FOR the election of all nominees for director.

Address Change? Mark Box
Indicate changes below: o

Date

Signature(s) in Box
Please sign exactly as name appears at left. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, or in some other fiduciary capacity, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer(s). If a partnership, please sign in partnership name by authorized person(s).

.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.

10

Table of Contents

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.

Table of Contents

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. We do not hold derivatives for trading purposes.

12

Table of Contents

We measure all derivatives, including derivatives embedded in other financial instruments, at fair value and recognize them as either assets or liabilities on our condensed 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 loss and recognized in earnings when the hedged item is recognized in earnings.

Interest Rate Swaps

We enter into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. We principally receive fixed rates and pay variable rates based on LIBOR, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on our condensed consolidated balance sheets as assets and liabilities. The fair value of these contracts was not material at March 31, 2014 and December 31, 2013, respectively. As of March 31, 2014, the total notional amount of the interest rate swaps was $1.8 billion. The ineffective portion of these interest rate swaps was not material for the three months ended March 31, 2014.

Forward Interest Rate Swaps

In order to manage our exposure to future interest rate changes, during the fourth quarter of 2013, we entered into forward interest rate swaps with a total notional value of $2.0 billion. We designated these contracts as cash flow hedges. In March 2014, we settled these forward interest rate swaps and the pre-tax gain was not material. During the three months ended March 31, 2014, we entered into forward interest rate swaps with a total notional value of $0.9 billion. We designated these contracts as cash flow hedges.

In April 2014, we entered into forward interest rate swaps with a total notional value of $1.6 billion. We designated these contracts as cash flow hedges.

Cross Currency Swaps

Verizon Wireless previously entered into cross currency swaps designated as cash flow hedges to exchange approximately $1.6 billion 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 to mitigate the effect of foreign currency transaction gains or losses.

During February 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $5.4 billion of Euro and British Pound Sterling denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses.

A portion of the gains and losses recognized in Other comprehensive loss was reclassified to Other income and (expense), net to offset the related pre-tax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was $0.2 billion at March 31, 2014 and was not material at December 31, 2013. During the three months ended March 31, 2014 and 2013, an immaterial pre-tax gain and a pre-tax loss of $0.1 billion, respectively, were recognized in Other comprehensive loss.

6. Stock-Based Compensation

Verizon Communications Long-Term Incentive Plan

The 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 119.6 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 are classified as equity awards because the RSUs will be paid in Verizon common stock upon vesting. The RSU equity awards are measured using the grant date fair value of Verizon common stock and are not remeasured at the end of each reporting period. Dividend equivalent units are also paid to participants at the time the RSU award is paid, and in the same proportion as the RSU award.

Table of Contents

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 performance goals have been achieved over the three-year performance cycle. The PSUs are classified as liability awards because the PSU awards are paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the price of Verizon common stock as well as performance relative to the targets. Dividend equivalent units are also paid to participants at the time that the PSU award is determined and paid, and in the same proportion as the PSU award.

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

(shares in thousands)	Restricted Stock Units	Performance Stock Units
Outstanding, January 1, 2014	16,193	23,724
Granted	4,514	6,578
Payments	(6,116)	(9,153)
Cancelled/Forfeited	(54)	(77)
Outstanding, March 31, 2014	14,537	21,072

As of March 31, 2014, unrecognized compensation expense related to the unvested portion of outstanding RSUs and PSUs was approximately $0.7 billion and is expected to be recognized over approximately two years.

The RSUs granted in 2014 have a weighted-average grant date fair value of $47.15 per unit.

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 our share of the cost for certain recent and future retirees. In accordance with our accounting policy for pension and other postretirement benefits, operating expenses include pension and benefit related credits and/or charges based on actuarial assumptions, including projected discount rates and an estimated return on plan assets. These estimates are updated in the fourth quarter or upon a remeasurement event to reflect actual return on plan assets and updated actuarial assumptions. The adjustment will be recognized in the income statement during the fourth quarter or upon a remeasurement event pursuant to our accounting policy for the recognition of actuarial gains and losses.

Net Periodic Benefit 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 March 31,	**2014**	**2013**	**2014**	**2013**
Service cost	$ 81	$ 99	$ 65	$ 80
Amortization of prior service cost (credit)	(2)	1	(63)	(62)
Expected return on plan assets	(295)	(311)	(41)	(36)
Interest cost	259	250	277	274

Net periodic benefit cost	$ 43	$ 39	$ 238	$ 256

Severance Payments

During the three months ended March 31, 2014, we paid severance benefits of $0.2 billion. At March 31, 2014, we had a remaining severance liability of $0.6 billion, a portion of which includes future contractual payments to employees separated as of March 31, 2014.

14

Table of Contents

Employer Contributions

During the three months ended March 31, 2014, we contributed $0.5 billion to our other postretirement benefit plans and $0.2 billion to our qualified pension plans. The contributions to our nonqualified pension plans were not material during the three months ended March 31, 2014. There have been no material changes with respect to the qualified and nonqualified pension contributions in 2014 as previously disclosed in Part II. Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2013.

8. Equity and Accumulated Other Comprehensive Income

Equity

Changes in the components of Total equity were as follows:

(dollars in millions)	Attributable to Verizon	Noncontrolling Interests	Total Equity
Balance at January 1, 2014	$ 38,836	$ 56,580	$ 95,416
Net income	3,947	2,039	5,986
Other comprehensive loss	(1,068)	(23)	(1,091)
Comprehensive income	2,879	2,016	4,895
Issuance of common stock	127		127
Contributed capital	(26,963)		(26,963)
Dividends declared	(2,195)		(2,195)
Common stock in treasury	167		167
Purchase of noncontrolling interest		(55,960)	(55,960)
Distributions and other	(140)	(1,496)	(1,636)
Balance at March 31, 2014	$ 12,711	$ 1,140	$ 13,851

The changes in Common stock, Contributed capital and Purchase of noncontrolling interest are primarily due to the completion of the Wireless Transaction on February 21, 2014. See Note 2 for additional information.

Prior to the closing of the Wireless Transaction, noncontrolling interests included in our condensed consolidated financial statements primarily consisted of Vodafone s 45% ownership interest in Verizon Wireless. The noncontrolling interests that remain after the completion of the Wireless Transaction primarily relate to wireless partnership entities.

Common Stock

As a result of the Wireless Transaction, Verizon issued approximately 1.27 billion shares of Verizon common stock.

Accumulated Other Comprehensive Income

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

(dollars in millions)	Foreign currency translation adjustments	Unrealized loss on cash flow hedges	Unrealized gain on marketable securities	Defined benefit pension and postretirement plans	Total
Balance at January 1, 2014	$ 853	$ 113	$ 117	$ 1,275	$ 2,358
Other comprehensive income (loss)	(38)	25	6		(7)
Amounts reclassified to net income	(911)	(108)	(5)	(37)	(1,061)
Net other comprehensive income (loss)	(949)	(83)	1	(37)	(1,068)
Balance at March 31, 2014	$ (96)	$ 30	$ 118	$ 1,238	$ 1,290

15

Table of Contents

The amounts presented above in net other comprehensive income (loss) are net of taxes and noncontrolling interests, which are not significant. For the three months ended March 31, 2014, the amounts reclassified to net income related to foreign currency translation adjustments are included in Equity in earnings of unconsolidated businesses on our condensed consolidated statement of income and are a result of the completion of the Omnitel Transaction. See Note 2 for additional details. For the three months ended March 31, 2014, the amounts reclassified to net income related to defined benefit pension and postretirement plans are included in Cost of services and sales and Selling, general and administrative expense on our condensed consolidated statements of income. For the three months ended March 31, 2014, all other amounts reclassified to net income are included in Other income and (expense), net on our condensed consolidated statements of income.

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, pension and other employee benefit related costs, lease financing, as well as 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. 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 or our segment results of operations.

Our segments and their principal activities consist of the following:

Segment	**Description**
Wireless	Wireless communications products and services include wireless voice and data services and equipment sales, which are provided to consumer, business and government customers across the United States.
Wireline	Wireline s voice, data and video communications products and enhanced services include broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice services. We provide these products and services to consumers in the United States, as well as to carriers, businesses and government customers both in the United States and in over 150 other countries around the world.

Table of Contents

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

(dollars in millions)	Three Months Ended March 31, 2014	2013
External Operating Revenues		
Wireless		
Retail service	$ 17,233	$ 16,155
Other service	735	557
Service revenue	17,968	16,712
Equipment	1,869	1,809
Other	1,014	975
Total Wireless	20,851	19,496
Wireline		
Consumer retail	3,846	3,616
Small business	624	635
Mass Markets	4,470	4,251
Strategic services	2,101	2,073
Core	1,500	1,691
Global Enterprise	3,601	3,764
Global Wholesale	1,345	1,443
Other	153	101
Total Wireline	9,569	9,559
Total segments	30,420	29,055
Corporate, eliminations and other	398	365
Total consolidated reported	$ 30,818	$ 29,420
Intersegment Revenues		
Wireless	$ 28	$ 27
Wireline	221	271
Total segments	249	298
Corporate, eliminations and other	(249)	(298)
Total consolidated reported	$	$
Total Operating Revenues		
Wireless	$ 20,879	$ 19,523

Wireline	9,790	9,830
Total segments	30,669	29,353
Corporate, eliminations and other	149	67
Total consolidated reported	$ 30,818	$ 29,420
Operating Income		
Wireless	$ 7,318	$ 6,418
Wireline	147	13
Total segments	7,465	6,431
Reconciling items	(305)	(209)
Total consolidated reported	$ 7,160	$ 6,222

(dollars in millions)	At March 31, 2014	At December 31, 2013
Assets		
Wireless	$ 149,178	$ 146,429
Wireline	83,540	84,573
Total segments	232,718	231,002
Corporate, eliminations and other	(11,156)	43,096
Total consolidated reported	$ 221,562	$ 274,098

Corporate, eliminations and other at December 31, 2013 is primarily comprised of cash and cash equivalents which were used to complete the Wireless Transaction on February 21, 2014.

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

(dollars in millions)	Three Months Ended March 31, 2014	2013
Total segment operating income	$ 7,465	$ 6,431
Corporate, eliminations and other	(305)	(209)
Total consolidated 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

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 months ended March 31, 2014 and 2013.

10. Commitments and Contingencies

In the ordinary course of business Verizon is involved in various commercial litigation and regulatory proceedings at the state and federal level. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In none of the currently pending matters is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) uncertain damage theories and demands; (2) a less than complete factual record; (3) uncertainty concerning legal theories and their resolution by courts or regulators; and (4) the unpredictable nature of the opposing party and its demands. We continuously monitor these proceedings as they develop and adjust any accrual or disclosure as needed. We do not expect that the ultimate resolution of any pending regulatory or legal matter 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.

Verizon is currently involved in approximately 50 federal district court actions alleging that Verizon is infringing various patents. Most of these cases are brought by non-practicing entities and effectively seek only monetary damages; a small number are brought by companies that have sold products and seek injunctive relief as well. These cases have progressed to various stages and a small number may go to trial in the coming 12 months if they are not otherwise resolved.

Table of Contents

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. From time to time, counterparties may make claims under these provisions, and Verizon will seek to defend against those claims and resolve them in the ordinary course of business.

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 as a variety of the potential outcomes available under the guarantee result in costs and revenues or benefits that may offset each other. We do not believe performance under the guarantee is likely.

Table of Contents

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

Overview

Verizon Communications Inc. (Verizon or the Company) is a holding company that, acting through its subsidiaries, is one of the world s leading providers of communications, information and entertainment products and services to consumers, businesses and governmental agencies. With a presence in over 150 countries around the world, we offer voice, data and video services and solutions on our wireless and wireline networks that are designed to meet customers demand for mobility, reliable network connectivity, security and control. We have two reportable segments, Wireless and Wireline. Our wireless business, operating as Verizon Wireless, provides voice and data services and equipment sales across the United States using one of the most extensive and reliable wireless networks. Our wireline business provides consumer, business and government customers with communications products and services, including broadband data and video services, network access, voice, 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. We have a highly skilled, diverse and dedicated workforce of approximately 176,900 employees as of March 31, 2014.

In recent years, Verizon has embarked upon a strategic transformation as advances in technology have changed the ways that our customers interact in their personal and professional lives and that businesses operate. To meet the changing needs of our customers and address the changing technological landscape, we are focusing our efforts around higher margin and growing areas of our business: wireless data, wireline data and Strategic services, including cloud computing services.

Our strategy requires significant capital investments primarily to acquire wireless spectrum, put the spectrum into service, provide additional capacity for growth in our wireless and wireline networks, invest in the fiber optic network that supports our wireless and wireline businesses, maintain our wireless and wireline networks and develop and maintain significant advanced information technology systems and data system capabilities.

On February 21, 2014, we completed the acquisition of Vodafone Group Plc s (Vodafone) indirect 45% interest in Cellco Partnership d/b/a Verizon Wireless for aggregate consideration of approximately $130 billion (the Wireless Transaction). The consideration paid was primarily comprised of cash of approximately $58.89 billion and Verizon common stock with a value of approximately $61.3 billion. See Acquisitions and Divestitures for additional information.

In our Wireless business, during the three months ended March 31, 2014 compared to the similar period in 2013, revenue growth of 6.9% was driven by service revenue growth of 7.5% as the demand for fourth-generation (4G) Long-Term Evolution (LTE) smartphones and tablets continues. At March 31, 2014, retail postpaid connections were 4.4% higher than at March 31, 2013, with smartphones representing 72% of our retail postpaid phone base at March 31, 2014 compared to 61% at March 31, 2013. Also during the three months ended March 31, 2014, postpaid smartphone activations represented 90% of phones activated compared to 84% in the similar period in 2013.

While we have substantially completed the deployment of our 4G LTE network, we are focusing our capital spending on adding capacity and density to our existing 4G LTE network. Our 4G LTE network is available to approximately 97% of the U.S. population in more than 500 markets and covering approximately 306 million people, including those in areas served by our LTE in Rural America partners. Our 4G LTE network provides higher data throughput performance for data services at lower cost compared to those provided via third-generation (3G) networks. In March 2014, 73% of our total data traffic was carried on our 4G LTE network.

On February 13, 2014, we introduced our More Everything® plans which replaced our Share Everything® plans and provide more value to our customers. These plans, which are available to both new and existing postpaid customers, feature domestic unlimited voice minutes, unlimited domestic and international text, video and picture messaging, cloud storage and a single data allowance that can be shared among up to 10 devices connected to the Verizon Wireless network. Beginning on April 17, 2014, for a limited time, existing customers who receive wireless services on a month-to-month basis and new customers who bring their own device, can move to a More Everything plan and receive discounted monthly access fees. Customers with Verizon Edge, which provides a device payment plan option and allows customers to trade in their phone for a new phone after a minimum of thirty days, subject to certain conditions, will also receive discounted monthly access fees on More Everything plans. As of March 31, 2014, More Everything accounts represented approximately 50% of our retail postpaid accounts compared to Share Everything plans representing approximately 30% of our retail postpaid accounts as of March 31, 2013. Verizon Wireless offers shared data plans for business, with More Everything plans for Small business and the Nationwide Business Data Packages and Plans.

In our Wireline business, revenues declined 0.4% during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to revenue declines in Global Enterprise Core and Global Wholesale. These declines were partially offset by revenue increases in Consumer retail driven by FiOS services and in Strategic services within Global Enterprise. FiOS represented approximately 74% of Consumer retail revenue during the three months ended March 31, 2014 compared to

20

Table of Contents

approximately 69% during the similar period in 2013. As the penetration of FiOS products increases, we continue to seek ways to increase revenue and further realize operating and capital efficiencies as well as maximize profitability. As more applications are developed for this high-speed service, we expect that FiOS will become a hub for managing multiple home services that will eventually be part of the digital grid, including not just entertainment and communications, but also machine-to-machine communications, such as home monitoring, health monitoring, energy management and utilities management.

Verizon recently announced the introduction of FiOS Quantum TV, which provides FiOS TV customers with new features including the ability to record up to 12 shows at once and control live TV from any room in their home. This new service is now available in North Texas, as well as Pittsburgh and Harrisburg, Pennsylvania. We expect to continue to roll out this service in phases over the next few months where FiOS TV is offered.

Wireline s revenues during the three months ended March 31, 2014 included a 1.8% increase in Strategic services revenues, which represented 59% of total Global Enterprise revenues. Strategic services revenues include revenues from the public sector, where we continue to experience revenue pressure. We believe Global Enterprise customers continue to be more focused on improving their cost structure as opposed to investing for growth, which creates revenue pressure for us. Total Global Enterprise and Global Wholesale revenues declined due to declines in Core customer premise equipment revenues and traditional voice revenues. The decline in Core customer premise equipment revenues is a result of our focus on improving our margins by continuing to de-emphasize sales of equipment that are not part of an overall enterprise solutions bundle. To compensate for the shrinking market for traditional voice service, we continue to build our Wireline segment around data, video and advanced business services areas where demand for reliable high-speed connections is growing.

We are investing in innovative technology like wireless networks, high-speed fiber and cloud services to position ourselves at the center of growth trends of the future. During the three months ended March 31, 2014, these investments included capital expenditures of $4.2 billion, acquisitions of wireless licenses of $0.2 billion and acquisitions of investments and businesses of $0.2 billion. See Cash Flows Used in Investing Activities and Acquisitions and Divestitures for additional information.

By investing in our own capabilities, we are also investing in the markets we serve by providing our communities with an efficient, reliable infrastructure for competing in the information economy. We are committed to putting our customers first and being a responsible member of our communities. Guided by this commitment and by our core values of integrity, respect, performance excellence and accountability, we believe we are well-positioned to produce a long-term return for our shareowners, create meaningful work for ourselves and provide something of lasting value for society.

Trends

We expect the number of devices activated on Verizon Edge to continue to increase. Additionally, we expect the activations on Verizon Edge to contribute positively to our consolidated operating income and our Wireless segment operating income. As more customers adopt Verizon Edge, we expect retail postpaid ARPA (the average revenue per account from retail postpaid accounts) and service revenue to be negatively impacted, and we expect equipment and other revenue to be positively impacted.

There have been no significant changes to the information related to trends affecting our business that was disclosed in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2013, except to the extent described above.

Table of Contents

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 segment results. We have two reportable segments, Wireless and Wireline, which we operate and manage as strategic business units and organize by products and services. In Segment Results of Operations , we review the performance of our two reportable segments.

On February 21, 2014, we completed the acquisition of Vodafone s indirect 45% interest in Verizon Wireless. As a result, our results reflect our 55% ownership of Verizon Wireless through the closing of the Wireless Transaction and reflect our full ownership of Verizon Wireless for the remainder of the period.

Corporate, eliminations and other includes unallocated corporate expenses such as certain pension and other employee benefit related costs, 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 users of our financial statements in better understanding our results of operations and trends from period to period. 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 or our segment results of operations.

Consolidated Revenues

	Three Months Ended March 31,			
(dollars in millions)	**2014**	**2013**	**Increase/(Decrease)**	
Wireless				
Service revenue	$ 17,987	$ 16,728	$ 1,259	7.5%
Equipment and other	2,892	2,795	97	3.5
Total	20,879	19,523	1,356	6.9
Wireline				
Mass Markets	4,464	4,254	210	4.9
Global Enterprise	3,606	3,770	(164)	(4.4)
Global Wholesale	1,591	1,699	(108)	(6.4)
Other	129	107	22	20.6
Total	9,790	9,830	(40)	(0.4)
Corporate, eliminations and other	149	67	82	nm
Consolidated Revenues	$ 30,818	$ 29,420	$ 1,398	4.8

nm not meaningful

The increase in consolidated revenues during the three months ended March 31, 2014 compared to the similar period in 2013 was primarily due to higher revenues at Wireless, as well as higher Mass Markets revenues driven by FiOS services at our Wireline segment. Partially offsetting these increases were lower Global Enterprise Core and Global Wholesale revenues at our Wireline segment.

Wireless revenues increased $1.4 billion, or 6.9% during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to growth in service revenue. The increase in service revenue during the three months ended March 31, 2014 compared to the similar period in 2013 was primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of 4G LTE smartphones and tablets through our More Everything plans. During the three months ended March 31, 2014, retail postpaid connection net additions decreased compared to the similar period in 2013 primarily due to an increase in our retail postpaid connection churn rate, partially offset by an increase in retail postpaid connection gross additions. Retail postpaid connections per account increased as of March 31, 2014 compared to March 31, 2013, primarily due to the increased penetration of tablets.

Table of Contents

Wireline s revenues decreased 0.4% during the three months ended March 31, 2014 compared to the similar period in 2013 primarily driven by declines in Global Enterprise Core and Global Wholesale. The decrease in revenues was partially offset by higher Mass Markets revenues and increased Strategic services revenues within Global Enterprise.

Mass Markets revenues increased $0.2 billion, or 4.9%, during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to the expansion of FiOS services (Voice, Internet and Video) as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues.

Global Enterprise revenues decreased $0.2 billion, or 4.4%, during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to a decline in Core customer premise equipment revenues as well as lower voice services and data networking revenues. This decrease was partially offset by growth in Strategic services revenues, primarily due to growth in advanced services, such as IP communications, our cloud and data center offerings, contact center solutions, security services and professional services as well as our telematics offerings.

Global Wholesale revenues decreased $0.1 billion, or 6.4%, during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to a decline in traditional voice revenues as a result of decreased minutes of use (MOUs) and a decline in domestic wholesale connections, partially offset by Ethernet migrations from core customers as well as continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities.

Consolidated Operating Expenses

(dollars in millions)	Three Months Ended March 31, 2014	2013	Increase/(Decrease)	
Cost of services and sales	$ 11,189	$ 10,932	$ 257	2.4%
Selling, general and administrative expense	8,332	8,148	184	2.3
Depreciation and amortization expense	4,137	4,118	19	0.5
Consolidated Operating Expenses	$ 23,658	$ 23,198	$ 460	2.0

Cost of Services and Sales

Cost of services and sales increased during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to an increase in cost of equipment sales of $0.3 billion and an increase in cost of network services at our Wireless segment, as well as higher content costs associated with continued FiOS subscriber growth and vendor rate increases at our Wireline segment. Partially offsetting this increase is a decrease in data roaming, a decrease in cost of data services, and a decrease in network connection costs at our Wireless segment, as well as declines in access costs and costs related to customer premise equipment at our Wireline segment.

Selling, General and Administrative Expense

Selling, general and administrative expense increased during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to gains recorded in the first quarter of 2013 related to wireless license exchange agreements, higher advertising expense associated with the launch of our More Everything plans and higher sales commission expense at our Wireless segment. Partially offsetting this increase was a decline in employee costs and lower advertising expenses at our Wireline segment.

Depreciation and Amortization Expense

Depreciation and amortization expense increased during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to an increase in net depreciable assets and an increase in amortization expense related to non-network software.

Consolidated Operating Income and EBITDA

Consolidated earnings before interest, taxes, depreciation and amortization expenses (Consolidated EBITDA), which is presented below, is a non-GAAP measure and does not purport to be an alternative to operating income as a measure of operating performance. Management believes that this measure is useful to investors and other users of our financial information in evaluating operating profitability on a more variable cost basis as it excludes the depreciation and amortization expense related primarily to capital expenditures and acquisitions that occurred in prior years, as well as in evaluating operating performance in relation to our competitors. Consolidated EBITDA is calculated by adding back interest, taxes, depreciation and amortization expense, equity in earnings of unconsolidated businesses and other income and (expense), net to net income.

Operating expenses include pension and benefit related credits and/or charges based on actuarial assumptions, including projected discount rates and an estimated return on plan assets. These estimates will be updated in the fourth quarter or upon a remeasurement event to reflect actual return on plan assets and updated actuarial assumptions. The adjustment will be recognized in the income statement during the fourth quarter or upon a remeasurement event pursuant to our accounting policy for the recognition of actuarial gains/losses.

It is management s intent to provide non-GAAP financial information to enhance the understanding of Verizon s GAAP financial information, and it should be considered by the reader in addition to, but not instead of, the financial statements prepared in accordance with GAAP. Each non-GAAP financial measure is presented along with the corresponding GAAP measure so as not to imply that more emphasis should be placed on the non-GAAP measure. The non-GAAP financial information presented may be determined or calculated differently by other companies.

	Three Months Ended March 31,	
(dollars in millions)	**2014**	**2013**
Consolidated Operating Income	$ 7,160	$ 6,222
Add Depreciation and amortization expense	4,137	4,118
Consolidated EBITDA	$ 11,297	$ 10,340

The changes in the table above during the three months ended March 31, 2014 compared to the similar period in 2013 were a result of the factors described in connection with operating revenues and operating expenses.

Table of Contents

Other Consolidated Results

Equity in Earnings of Unconsolidated Businesses

Equity in earnings of unconsolidated businesses increased $1.9 billion during the three months ended March 31, 2014, compared to the similar period in 2013 primarily due to the gain of $1.9 billion recorded on the sale of our interest in Vodafone Omnitel N.V. (Vodafone Omnitel), which was part of the consideration for the Wireless Transaction.

Other Income and (Expense), Net

Additional information relating to Other income and (expense), net is as follows:

(dollars in millions)		Three Months Ended March 31, 2014		2013		Increase/(Decrease)	
Interest income	$	22	$	13	$	9	69.2%
Other, net		(916)		26		(942)	nm
Total	$	(894)	$	39	$	(933)	nm

nm not meaningful

Other income and (expense), net decreased during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to net early debt redemption costs of $0.9 billion recorded during the three months ended March 31, 2014 (see Other Items).

Interest Expense

(dollars in millions)		Three Months Ended March 31, 2014		2013		Increase/(Decrease)	
Total interest costs on debt balances	$	1,350	$	714	$	636	89.1%
Less capitalized interest costs		136		177		(41)	(23.2)
Total	$	1,214	$	537	$	677	nm
Average debt outstanding	$	103,164	$	52,623			
Effective interest rate		5.2%		5.4%			

nm not meaningful

Total interest costs on debt balances increased during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to the issuance of fixed and floating rate notes to finance the Wireless Transaction (see Acquisitions and Divestitures) resulting in an increase in average debt as well as an increase in interest expense, partially offset by a lower effective interest rate (see Consolidated Financial Condition). Capitalized interest costs were lower in 2014 primarily due to a decrease in wireless licenses that are currently under development.

Table of Contents

Provision for Income Taxes

(dollars in millions)		Three Months Ended March 31, 2014		2013		Increase/(Decrease)	
Provision for income taxes	$	968	$	864	$	104	12.0 %
Effective income tax rate		13.9%		15.1%			

The effective income tax rate is calculated by dividing the provision for income taxes by income before the provision for income taxes. Our annual effective income tax rate is significantly lower than the statutory federal income tax rate due to the inclusion of income attributable to Vodafone s noncontrolling interest in the Verizon Wireless partnership within our income before the provision for income taxes, which resulted in our effective income tax rate being 5.8 and 15.6 percentage points lower during the three months ended March 31, 2014 and 2013, respectively. As a result of the Wireless Transaction, the difference in the effective income tax rate as compared to the statutory federal income tax rate will no longer be significant in subsequent quarters.

The increase in the provision for income taxes during the three months ended March 31, 2014 compared to the similar period in 2013 is primarily due to higher income before income taxes, partially offset by higher tax benefits resulting from the favorable resolution of income tax matters due to lapses of statutes of limitations in the current period. The decrease in the effective income tax rate during the three months ended March 31, 2014 compared to the similar period in 2013 is primarily due to the favorable tax treatment of the gain on the sale of the Omnitel Interest, partially offset by lower income attributable to Vodafone s noncontrolling interest in the Verizon Wireless partnership, in connection with the acquisition of Vodafone s indirect 45% interest in Verizon Wireless on February 21, 2014. The decrease in the effective income tax rate is also attributable to higher tax benefits resulting from the favorable resolution of income tax matters due to lapses of statutes of limitations in the current period.

Unrecognized Tax Benefits

Unrecognized tax benefits were $2.8 billion at March 31, 2014 and $2.1 billion at December 31, 2013. Interest and penalties related to unrecognized tax benefits were $0.2 billion (after-tax) and $0.3 billion (after-tax) at March 31, 2014 and December 31, 2013, respectively. The increase in unrecognized tax benefits was primarily due to the acquisition of Vodafone s indirect 45% interest in Verizon Wireless and reevaluation of certain existing tax positions, partially offset by lapses of statutes of limitations in various jurisdictions. The uncertain tax benefits related to the acquisition of Vodafone s indirect 45% interest in Verizon Wireless concern pre-acquisition tax controversies and are the subject of an indemnity from Vodafone for which a corresponding indemnity asset has been established.

Verizon and/or its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state, local and foreign jurisdictions. As a large taxpayer, we are under audit by the Internal Revenue Service (IRS) and multiple state and foreign jurisdictions for various open tax years. The IRS is currently examining Verizon s U.S. income tax returns for tax years 2007-2009 and Cellco Partnership s U.S. income tax returns for tax years 2010-2011. Significant tax examinations and litigation are ongoing in New York City for tax years as early as 2000. It is reasonably possible that the amount of the liability for unrecognized tax benefits could change by a significant amount in the next twelve months. An estimate of the range of the possible change cannot be made until these tax matters are further developed or resolved.

Net Income Attributable to Noncontrolling Interests

(dollars in millions)		Three Months Ended March 31, 2014		2013		Increase/(Decrease)	
Net income attributable to noncontrolling interests	$	2,039	$	2,903	$	(864)	(29.8)%

The decrease in Net income attributable to noncontrolling interests during the three months ended March 31, 2014 compared to the similar period in 2013 was primarily due to the completion of the Wireless Transaction on February 21, 2014. As a result, our results reflect our 55% ownership of Verizon Wireless through the closing of the Wireless Transaction and reflect our full ownership of Verizon Wireless for the remainder of the period. The noncontrolling interests that remained after the completion of the Wireless Transaction primarily relate to wireless partnership entities.

26

Table of Contents

Segment Results of Operations

We have two reportable segments, Wireless and Wireline, 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. The use of segment operating income is consistent with the chief operating decision maker s assessment of segment performance.

Segment earnings before interest, taxes, depreciation and amortization (Segment EBITDA), which is presented below, is a non-GAAP measure and does not purport to be an alternative to operating income as a measure of operating performance. Management believes that this measure is useful to investors and other users of our financial information in evaluating operating profitability on a more variable cost basis as it excludes the depreciation and amortization expenses related primarily to capital expenditures and acquisitions that occurred in prior years, as well as in evaluating operating performance in relation to our competitors. Segment EBITDA is calculated by adding back depreciation and amortization expense to segment operating income.

Wireless Segment EBITDA service margin, also presented below, is calculated by dividing Wireless Segment EBITDA by Wireless service revenues. Wireless Segment EBITDA service margin utilizes service revenues rather than total revenues. Service revenues primarily exclude equipment revenues in order to reflect the impact of providing service to the wireless customer base on an ongoing basis. Wireline EBITDA margin is calculated by dividing Wireline EBITDA by total Wireline revenues.

Table of Contents

Wireless

Our Wireless segment is primarily comprised of Cellco Partnership doing business as Verizon Wireless. Cellco Partnership was formed as a joint venture in April 2000 by the combination of the U.S. wireless operations and interests of Verizon and Vodafone. Prior to the completion of the Wireless Transaction, Verizon owned a controlling 55% interest in Verizon Wireless and Vodafone owned the remaining 45%. On February 21, 2014, the Wireless Transaction was completed and Verizon acquired 100% ownership of Verizon Wireless. Verizon Wireless provides wireless communications services across one of the most extensive wireless networks in the United States.

We provide these services and equipment sales to consumer, business and government customers in the United States on a postpaid and prepaid basis. Postpaid connections represent individual lines of service for which a customer is billed in advance a monthly access charge in return for a monthly network service allowance, and usage beyond the allowances is billed monthly in arrears. Our prepaid service enables individuals to obtain wireless services without a long-term contract or credit verification by paying for all services in advance.

Operating Revenues and Selected Operating Statistics

	Three Months Ended March 31,			
(dollars in millions, except ARPA)	**2014**	**2013**	**Increase/(Decrease)**	
Retail service	$ 17,246	$ 16,169	$ 1,077	6.7%
Other service	741	559	182	32.6
Service revenue	17,987	16,728	1,259	7.5
Equipment and other	2,892	2,795	97	3.5
Total Operating Revenues	$ 20,879	$ 19,523	$ 1,356	6.9
Connections (000)[1]:				
Retail connections	103,330	98,930	4,400	4.4
Retail postpaid connections	97,273	93,186	4,087	4.4
Net additions in period (000)[2]:				
Retail connections	549	720	(171)	(23.8)
Retail postpaid connections	539	677	(138)	(20.4)
Churn Rate:				
Retail connections	1.37%	1.30%		
Retail postpaid connections	1.07%	1.01%		
Account Statistics:				
Retail postpaid ARPA	$ 159.67	$ 150.27	$ 9.40	6.3
Retail postpaid accounts (000)[1]	35,061	34,943	118	0.3
Retail postpaid connections per account[1]	2.77	2.67	0.10	3.7

(1) As of end of period

(2) Excluding acquisitions and adjustments

Wireless total operating revenues increased by $1.4 billion, or 6.9%, during the three months ended March 31, 2014 compared to the similar period in 2013 primarily as a result of growth in service revenue.

Accounts and Connections

Retail (non-wholesale) postpaid accounts represent retail customers under contract with Verizon Wireless that are directly served and managed by Verizon Wireless and use its branded services. Accounts include More Everything plans and corporate accounts, as well as legacy single connection plans and family plans. A single account may receive monthly wireless services for a variety of connected devices. Retail connections represent our retail customer device connections. Churn is the rate at which service to connections is terminated.

[Table of Contents](#)

Retail connections under an account may include: smartphones, basic phones, tablets and other Internet devices as well as Home Phone Connect and Home Fusion. We expect to continue to experience retail connection growth based on the strength of our product offerings and network service quality. Retail postpaid connection net additions decreased during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to an increase in our retail postpaid connection churn rate, partially offset by an increase in retail postpaid connection gross additions. During the three months ended March 31, 2014, retail postpaid connection net additions were negatively impacted by declines in basic phones and 3G smartphones as customers continue to demand 4G LTE smartphones and tablets. During the three months ended March 31, 2014, our retail postpaid connection net additions included approximately 634 thousand tablets as compared to 313 thousand tablets in the similar period in 2013.

Retail Postpaid Connections per Account

Retail postpaid connections per account is calculated by dividing the total number of retail postpaid connections by the number of retail postpaid accounts as of the end of the period. Retail postpaid connections per account increased 3.7% as of March 31, 2014 compared to March 31, 2013, primarily due to the increased penetration of tablets.

Service Revenue

Service revenue increased by $1.3 billion, or 7.5%, during the three months ended March 31, 2014 compared to the similar period in 2013 primarily driven by higher retail postpaid service revenue, which increased largely as a result of an increase in retail postpaid connections as well as the continued increase in penetration of 4G LTE smartphones and tablets through our More Everything plans. The penetration of 4G LTE smartphones was driven by the activation of smartphones by new customers as well as existing customers migrating from basic phones and 3G smartphones to 4G LTE smartphones.

The increase in retail postpaid ARPA during the three months ended March 31, 2014 compared to the similar period in 2013 was primarily driven by increases in smartphone penetration and retail postpaid connections per account. As of March 31, 2014, we experienced a 3.7% increase in retail postpaid connections per account, compared to March 31, 2013, with smartphones representing 72% of our retail postpaid phone base as of March 31, 2014 compared to 61% as of March 31, 2013. The increased penetration in retail postpaid connections per account is primarily due to increases in Internet data devices, which represented 11.3% of our retail postpaid connection base as of March 31, 2014 compared to 9.6% as of March 31, 2013, primarily due to activations of tablets. Additionally, during the three months ended March 31, 2014, postpaid smartphone activations represented 90% of phones activated compared to 84% in the similar period in 2013.

Other service revenue increased during the three months ended March 31, 2014 compared to the similar period in 2013 due to growth in wholesale connections and an increase in revenue related to third party roaming.

Equipment and Other Revenue

Equipment and other revenue increased during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to an increase in equipment sales, in part driven by the increased adoption of our Verizon Edge plan, which was partially offset by a decline in upgrade fees.

Operating Expenses

	Three Months Ended March 31,				
(dollars in millions)	**2014**		**2013**	**Increase/(Decrease)**	
Cost of services and sales	$ 5,856		$ 5,651	$ 205	3.6%
Selling, general and administrative expense	5,644		5,448	196	3.6
Depreciation and amortization expense	2,061		2,006	55	2.7
Total Operating Expenses	$ 13,561		$ 13,105	$ 456	3.5

Cost of Services and Sales

Cost of services and sales increased during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to an increase in cost of equipment sales of $0.3 billion and an increase in cost of network services, partially offset by decreased data roaming, a decrease in cost of data services, and a decrease in network connection costs due to the deployment of Ethernet backhaul facilities primarily targeted at sites upgrading to 4G LTE.

Table of Contents

Selling, General and Administrative Expense

Selling, general and administrative expense increased during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to gains recorded in the first quarter of 2013 related to wireless license exchange agreements, higher advertising expense associated with the launch of our More Everything plans and higher sales commission expense. Sales commission expense increased during the three months ended March 31, 2014, compared to the similar period in 2013 primarily as a result of an increase in the average commission per unit, as the mix of units continues to shift toward smartphones as more customers activate data services. This increase was partially offset by a decline in salary expense.

Depreciation and Amortization Expense

Depreciation and amortization expense increased during the three months ended March 31, 2014 compared to the similar period in 2013 primarily driven by an increase in net depreciable assets.

Segment Operating Income and EBITDA

	Three Months Ended March 31,			
(dollars in millions)	2014	2013	Increase/(Decrease)	
Segment Operating Income	$ 7,318	$ 6,418	$ 900	14.0%
Add Depreciation and amortization expense	2,061	2,006	55	2.7
Segment EBITDA	$ 9,379	$ 8,424	$ 955	11.3
Segment operating income margin	35.0%	32.9%		
Segment EBITDA service margin	52.1%	50.4%		

The changes in the table above during the three months ended March 31, 2014 compared to the similar period in 2013 were primarily a result of the factors described in connection with operating revenues and operating expenses.

Table of Contents

Wireline

Our Wireline segment provides voice, data and video communications products and enhanced services including broadband video and data, corporate networking solutions, data center and cloud services, security and managed network services and local and long distance voice services. We provide these products and services to consumers in the United States, as well as to carriers, businesses and government customers both in the United States and in over 150 other countries around the world.

Operating Revenues and Selected Operating Statistics

	Three Months Ended March 31,			
(dollars in millions)	**2014**	**2013**	**Increase/(Decrease)**	
Consumer retail	$ 3,840	$ 3,616	$ 224	6.2
Small business	624	638	(14)	(2.2)
Mass Markets	4,464	4,254	210	4.9
Strategic services	2,110	2,073	37	1.8
Core	1,496	1,697	(201)	(11.8)
Global Enterprise	3,606	3,770	(164)	(4.4)
Global Wholesale	1,591	1,699	(108)	(6.4)
Other	129	107	22	20.6
Total Operating Revenues	$ 9,790	$ 9,830	$ (40)	(0.4)
Connections (000):[1]				
Total voice connections	20,733	22,191	(1,458)	(6.6)
Total Broadband connections	9,031	8,894	137	1.5
FiOS Internet subscribers	6,170	5,612	558	9.9
FiOS Video subscribers	5,319	4,895	424	8.7

[1] As of end of period

Wireline s revenues decreased 0.4% during the three months ended March 31, 2014 compared to the similar period in 2013 primarily driven by declines in Global Enterprise Core and Global Wholesale, partially offset by higher Consumer retail revenues driven by FiOS services and increased Strategic services revenues within Global Enterprise.

Mass Markets

Mass Markets operations provide broadband services (including high-speed Internet, FiOS Internet and FiOS Video services), local exchange (basic service and end-user access) and long distance (including regional toll) voice services to residential and small business subscribers.

Mass Markets revenues increased $0.2 billion, or 4.9%, during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to the expansion of FiOS services (Voice, Internet and Video) as well as changes in our pricing strategies, partially offset by the continued decline of local exchange revenues. FiOS represented approximately 74% of Consumer retail revenue during the three months ended March 31, 2014 compared to approximately 69% during the similar period in 2013.

Since April 1, 2013, we grew our subscriber base by 0.6 million FiOS Internet subscribers and 0.4 million FiOS Video subscribers, while also consistently improving penetration rates within our FiOS service areas. As of March 31, 2014, we achieved penetration rates of 39.7% and 35.0% for FiOS Internet and FiOS Video, respectively, compared to penetration rates of 38.2% and 34.1% for FiOS Internet and FiOS Video, respectively, as of March 31, 2013.

The increase in Mass Markets revenues, driven by FiOS services, was partially offset by the decline of local exchange revenues primarily due to a 5.8% decline in Consumer retail voice connections resulting primarily from competition and technology substitution with wireless, VoIP (voice over internet protocol), broadband and cable services. Total voice connections include traditional switched access lines in service as well as FiOS digital voice connections. There was also a decline in Small business retail voice connections, primarily reflecting competition and a shift to both IP and high-speed circuits.

Table of Contents

Global Enterprise

Global Enterprise offers Strategic services including network products and solutions, advanced communications services, and other core communications services to medium and large business customers, multinational corporations and state and federal government customers.

Global Enterprise revenues decreased $0.2 billion, or 4.4%, during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to a $0.1 billion, or 19.9%, decline in Core customer premise equipment revenues as well as lower voice services and data networking revenues, which consist of traditional circuit-based services such as frame relay, private line and Asynchronous Transfer Mode services. These core services declined compared to the similar period in 2013 as our customer base continued to migrate to next generation IP services. The decline in customer premise equipment revenues reflected our focus on improving margins by continuing to de-emphasize sales of equipment that are not part of an overall enterprise solutions bundle. The decline is also due to lower revenue from public sector customers. This decrease was partially offset by growth in Strategic services revenues which increased 1.8% during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to growth in advanced services, such as IP communications, our cloud and data center offerings, contact center solutions, security services and professional services as well as our telematics offerings. Strategic services revenues include revenues from the public sector, where we continue to experience revenue pressure. We believe Global Enterprise customers continue to be more focused on improving their cost structure as opposed to investing for growth, which creates revenue pressure for us.

Global Wholesale

Global Wholesale provides communications services including data, voice and local dial tone and broadband services primarily to local, long distance and other carriers that use our facilities to provide services to their customers.

Global Wholesale revenues decreased $0.1 billion, or 6.4%, during the three months ended March 31, 2014 compared to the similar period in 2013 primarily due to a decline in traditional voice revenues as a result of decreased MOUs and a 5.2% decline in domestic wholesale connections as of March 31, 2014 compared to March 31, 2013. The traditional voice product reductions are primarily due to competitors de-emphasizing their local market initiatives coupled with the effect of technology substitution. Also contributing to the decline in voice revenues is the continuing contraction of market rates due to competition. Partially offsetting the overall decrease in wholesale revenues were Ethernet migrations from core customers as well as continuing demand for high-speed digital data services from fiber-to-the-cell customers upgrading their core data circuits to Ethernet facilities. As a result of the customer upgrades, the number of core data circuits experienced a 12.7% decline as compared to the similar period in 2013.

Operating Expenses

(dollars in millions)	Three Months Ended March 31, 2014	2013	Increase/(Decrease)	
Cost of services and sales	$ 5,459	$ 5,457	$ 2	
Selling, general and administrative expense	2,151	2,265	(114)	(5.0)%
Depreciation and amortization expense	2,033	2,095	(62)	(3.0)
Total Operating Expenses	$ 9,643	$ 9,817	$ (174)	(1.8)

Cost of Services and Sales

During the three months ended March 31, 2014, Cost of services and sales was essentially unchanged compared to the similar period in 2013. The increase in content costs associated with continued FiOS subscriber growth and vendor rate increases was offset by the decline in access costs resulting primarily from declines in overall wholesale long distance volumes and a decrease in costs related to customer premise equipment, which reflected our focus on improving margins by de-emphasizing sales of equipment that are not part of an overall enterprise solutions bundle.

Selling, General and Administrative Expense

During the three months ended March 31, 2014, Selling, general and administrative expense decreased compared to the similar period in 2013 primarily due to declines in employee costs, primarily as a result of lower headcount, and lower advertising expenses.

Table of Contents

Depreciation and Amortization Expense

During the three months ended March 31, 2014, Depreciation and amortization expense decreased compared to the similar period in 2013 primarily due to a decrease in net depreciable assets.

Segment Operating Income and EBITDA

(dollars in millions)	Three Months Ended March 31, 2014	2013	Increase/(Decrease)	
Segment Operating Income	$ 147	$ 13	$ 134	nm
Add Depreciation and amortization expense	2,033	2,095	(62)	(3.0)%
Segment EBITDA	$ 2,180	$ 2,108	$ 72	3.4
Segment operating income margin	1.5%	0.1%		
Segment EBITDA margin	22.3%	21.4%		

nm not meaningful

The changes in the table above during the three months ended March 31, 2014 compared to the similar period in 2013 were primarily a result of the factors described in connection with operating revenues and operating expenses.

Other Items

Wireless Transaction Costs

As a result of the third-party indebtedness incurred to finance the Wireless Transaction, we incurred interest expense of $0.4 billion during the three months ended March 31, 2014 (see Consolidated Financial Condition). This amount represents only the interest expense incurred prior to the closing of the Wireless Transaction.

Gain on Sale of Omnitel Interest

As a result of the sale of the Omnitel Interest on February 21, 2014, which was part of the consideration for the Wireless Transaction, we recorded a gain of $1.9 billion in Equity in earnings of unconsolidated businesses on our condensed consolidated statement of income for the three months ended March 31, 2014.

Early Debt Redemption Costs

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.

Table of Contents

Consolidated Financial Condition

(dollars in millions)	Three Months Ended March 31, 2014	2013	Change
Cash Flows Provided By (Used In)			
Operating activities	$ 7,139	$ 7,531	$ (392)
Investing activities	(4,531)	(3,599)	(932)
Financing activities	(53,229)	(1,550)	(51,679)
Increase (Decrease) In Cash and Cash Equivalents	$ (50,621)	$ 2,382	$ (53,003)

We use the net cash generated from our operations to fund network expansion and modernization, repay external financing, pay dividends and invest in new businesses. Our sources of funds, primarily from operations and, to the extent necessary, from external financing arrangements, are sufficient to meet ongoing operating and investing requirements. The cash portion of the purchase price for the Wireless Transaction was primarily funded by the incurrence of third-party indebtedness (see Acquisitions and Divestitures). We expect that our capital spending requirements will continue to be financed primarily through internally generated funds. Debt or equity financing may be needed to fund additional investments or development activities or to maintain an appropriate capital structure to ensure our financial flexibility. Our cash and cash equivalents are primarily held domestically in diversified accounts and are invested to maintain principal and liquidity. Accordingly, we do not have significant exposure to foreign currency fluctuations. See Market Risk for additional information regarding our foreign currency risk management strategies.

The volatility in world debt and equity markets has not had a significant effect on our ability to access external financing. Our available external financing arrangements include credit available under credit facilities and other bank lines of credit, vendor financing arrangements, issuances of registered debt or equity securities and privately-placed capital market securities. We may also issue short-term debt through an active commercial paper program and have a $6.2 billion credit facility to support such commercial paper issuances, as well as a $2.0 billion 364-day revolving credit agreement.

Cash Flows Provided By Operating Activities

Our primary source of funds continues to be cash generated from operations, primarily from our Wireless segment. Net cash provided by operating activities during the three months ended March 31, 2014 decreased by $0.4 billion compared to the similar period in 2013 primarily due to a $1.3 billion increase in interest payments primarily due to the incremental debt needed to fund the Wireless Transaction and $0.2 billion in pension contributions, partially offset by higher consolidated earnings.

On February 21, 2014, we completed the acquisition of Vodafone s indirect 45% interest in Verizon Wireless which, among other benefits discussed herein, also provides full access to the cash flows of Verizon Wireless. Having full access to all the cash flows from our wireless business gives us the ability to continue to invest in our networks and spectrum, meet evolving customer requirements for products and services and take advantage of new growth opportunities across our lines of business.

Cash Flows Used In Investing Activities

Capital Expenditures

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

Capital expenditures, including capitalized software, were as follows:

(dollars in millions)	Three Months Ended March 31, 2014	2013
Wireless	$ 2,554	$ 1,992
Wireline	1,385	1,434
Other	211	176
	$ 4,150	$ 3,602
Total as a percentage of revenue	13.5%	12.2%

34

Table of Contents

The increase in capital expenditures during the three months ended March 31, 2014 compared to the similar period in 2013 was primarily due to investments to increase the capacity of our 4G LTE network, partially offset by lower capital expenditures at Wireline as a result of decreased legacy spending requirements, which were partially offset by an increase in spending on our FiOS network.

Acquisitions

In February 2014, Verizon acquired a business dedicated to the development of IP television for cash consideration that was not significant.

Dispositions

On January 6, 2014, we announced agreements with T-Mobile USA, Inc. (T-Mobile USA) pursuant to which we will dispose of our remaining 700 MHz A block spectrum licenses, and as a result of these agreements we expect to receive cash consideration of approximately $2.4 billion and additional spectrum. See Acquisitions and Divestitures for additional information.

Cash Flows Used In Financing Activities

We seek to maintain a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. During the three months ended March 31, 2014 and 2013, net cash used in financing activities was $53.2 billion and $1.6 billion, respectively. The change in cash flows used in financing activities during three months ended March 31, 2014 as compared to the similar period in 2013 was primarily driven by the use of $58.89 billion as part of the consideration for the Wireless Transaction. See Acquisitions and Divestitures for additional information.

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 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

Table of Contents

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.

Verizon may continue to acquire debt securities issued by Verizon and its affiliates in the future through open market purchases, privately negotiated transactions, tender offers, exchange offers, or otherwise, upon such terms and at such prices as Verizon may from time to time determine for cash or other consideration.

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.

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.

Other, net

The change in Other, net financing activities during the three months ended March 31, 2014 compared to the similar period in 2013 was primarily driven by net early debt redemption costs of $0.9 billion.

Following the completion of the Wireless Transaction, in the second quarter of 2014 we will make our final tax distribution to Vodafone pursuant to the Cellco Partnership agreement.

36

Dividends

As in prior periods, dividend payments were a significant use of capital resources. During the three months ended March 31, 2014 and 2013, respectively, we paid $1.5 billion in cash dividends.

Special Distribution

As a result of the completion of the Wireless Transaction on February 21, 2014, we now have full ownership of Verizon Wireless and will no longer make special distributions to Vodafone.

Common Stock

As a result of the Wireless Transaction, Verizon issued approximately 1.27 billion shares of Verizon common stock.

On February 28, 2014, our previously authorized share buyback program expired. On March 7, 2014, the Verizon Board of Directors approved a new share buyback program, which authorized the repurchase of up to 100 million shares of Verizon common stock terminating no later than the close of business on February 28, 2017. The program permits Verizon to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs.

Verizon did not repurchase any shares of Verizon common stock through its authorized share buyback program during the three months ended March 31, 2014.

Covenants

Our credit agreements contain covenants that are typical for large, investment grade companies. These covenants include requirements to pay interest and principal in a timely fashion, pay taxes, maintain insurance with responsible and reputable insurance companies, preserve our corporate existence, keep appropriate books and records of financial transactions, maintain our properties, provide financial and other reports to our lenders, limit pledging and disposition of assets and mergers and consolidations, and other similar covenants. Additionally, the term loan credit agreement and the 364-day revolving credit agreement require us to maintain a leverage ratio (as such term is defined in those agreements) 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.

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

Increase (Decrease) In Cash and Cash Equivalents

Our Cash and cash equivalents at March 31, 2014 totaled $2.9 billion, a $50.6 billion decrease compared to Cash and cash equivalents at December 31, 2013 primarily as a result of the completion of the Wireless Transaction.

Free Cash Flow

Free cash flow is a non-GAAP financial measure that management believes is useful to investors and other users of Verizon s financial information in evaluating cash available to pay debt and dividends. Free cash flow is calculated by subtracting capital expenditures from net cash provided by operating activities. The following table reconciles Net cash provided by operating activities to Free cash flow:

	Three Months Ended March 31,		
(dollars in millions)	**2014**	**2013**	**Change**
Net cash provided by operating activities	$ 7,139	$ 7,531	$ (392)
Less Capital expenditures (including capitalized software)	4,150	3,602	548

Free cash flow	$	2,989	$	3,929	$	(940)

The change in Free cash flow during the three months ended March 31, 2014 compared to the similar period in 2013 was primarily due to a $1.3 billion increase in interest payments and $0.2 billion in pension contributions as well as higher capital expenditures, partially offset by higher consolidated earnings. Subsequent to the completion of the Wireless Transaction on February 21, 2014, we now have full access to all of the cash flows generated by our wireless business.

Table of Contents

Market Risk

We are exposed to various types of market risk in the normal course of business, including the effects of interest rate changes, foreign currency exchange rate fluctuations, changes in investment, equity and commodity prices and changes in corporate tax rates. 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. We do not hold derivatives for trading purposes.

It is our general policy to enter into interest rate, foreign currency and other derivative transactions only to the extent necessary to achieve our desired objectives in limiting our exposure to various market risks. Our objectives include maintaining a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. We do not hedge our market risk exposure in a manner that would completely eliminate the effect of changes in interest rates and foreign exchange rates on our earnings. We do not expect that our net income, liquidity and cash flows will be materially affected by these risk management strategies.

Interest Rate Risk

We are exposed to changes in interest rates, primarily on our short-term debt and the portion of long-term debt that carries floating interest rates. As of March 31, 2014, approximately 83% of the aggregate principal amount of our total debt portfolio consisted of fixed rate indebtedness, including the effect of interest rate swap agreements designated as hedges. The impact of a 100 basis point change in interest rates affecting our floating rate debt would result in a change in annual interest expense, including our interest rate swap agreements that are designated as hedges, of approximately $0.2 billion. The interest rates on our existing long-term debt obligations are unaffected by changes to our credit ratings.

Interest Rate Swaps

We enter into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. We principally receive fixed rates and pay variable rates based on LIBOR, resulting in a net increase or decrease to Interest expense. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value on our condensed consolidated balance sheets as assets and liabilities. The fair value of these contracts was not material at March 31, 2014 and December 31, 2013, respectively. As of March 31, 2014, the total notional amount of the interest rate swaps was $1.8 billion. The ineffective portion of these interest rate swaps was not material for the three months ended March 31, 2014.

Forward Interest Rate Swaps

In order to manage our exposure to future interest rate changes, during the fourth quarter of 2013, we entered into forward interest rate swaps with a total notional value of $2.0 billion. We designated these contracts as cash flow hedges. In March 2014, we settled these forward interest rate swaps and the pre-tax gain was not material. During the three months ended March 31, 2014, we entered into forward interest rate swaps with a total notional value of $0.9 billion. We designated these contracts as cash flow hedges.

In April 2014, we entered into forward interest rate swaps with a total notional value of $1.6 billion. We designated these contracts as cash flow hedges.

Foreign Currency Translation

The functional currency for our foreign operations is primarily the local currency. The translation of income statement and balance sheet amounts of our foreign operations into U.S. dollars is recorded as cumulative translation adjustments, which are included in Accumulated other comprehensive income in our condensed consolidated balance sheets. Gains and losses on foreign currency transactions are recorded in the condensed consolidated statements of income in Other income and (expense), net. At March 31, 2014, our primary translation exposure was to the British Pound Sterling, the Euro, the Australian Dollar and the Japanese Yen.

Cross Currency Swaps

Verizon Wireless previously entered into cross currency swaps designated as cash flow hedges to exchange approximately $1.6 billion 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 to mitigate the effect of foreign currency transaction gains or losses.

During February 2014, we entered into cross currency swaps designated as cash flow hedges to exchange approximately $5.4 billion of Euro and British Pound Sterling denominated debt into U.S. dollars and to fix our future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses.

A portion of the gains and losses recognized in Other comprehensive loss was reclassified to Other income and (expense), net to offset the related pre-tax foreign currency transaction gain or loss on the underlying debt obligations. The fair value of the outstanding swaps was $0.2 billion at March 31, 2014 and was not material at December 31, 2013. During the three months ended March 31, 2014 and 2013, an immaterial pre-tax gain and a pre-tax loss of $0.1 billion, respectively, were recognized in Other comprehensive loss.

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 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 Consolidated Financial Condition).

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 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

Table of Contents

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.

Spectrum License Transactions

During the fourth quarter of 2013, we entered into license exchange agreements with 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 IP television for cash consideration that was not significant. The transaction is expected to accelerate the availability of next-generation video services.

Table of Contents

Other Factors That May Affect Future Results

Regulatory and Competitive Trends

There have been no material changes to Regulatory and Competitive Trends as previously disclosed in Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2013.

Environmental Matters

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.

Table of Contents

Cautionary Statement Concerning Forward-Looking Statements

In this report we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words anticipates, believes, estimates, hopes or similar expression For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, along with those discussed elsewhere in this report and in other filings with the Securities and Exchange Commission (SEC), could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- the ability to realize the expected benefits of the Wireless Transaction in the timeframe expected or at all;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets affecting the cost, including interest rates, and/or availability of further financing;
- significantly increased levels of indebtedness as a result of the Wireless Transaction;
- changes in tax laws or treaties, or in their interpretation;
- adverse conditions in the U.S. and international economies;
- material adverse changes in labor matters, including labor negotiations, and any resulting financial and/or operational impact;
- material changes in technology or technology substitution;
- disruption of our key suppliers provisioning of products or services;
- changes in the regulatory environment in which we operate, including any increase in restrictions on our ability to operate our networks;
- breaches of network or information technology security, natural disasters, terrorist attacks or acts of war or significant litigation and any resulting financial impact not covered by insurance;
- the effects of competition in the markets in which we operate;
- changes in accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings;

significant increases in benefit plan costs or lower investment returns on plan assets; and

the inability to implement our business strategies.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Information relating to market risk is included in Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Market Risk.

Item 4. Controls and Procedures

Our chief executive officer and chief financial officer have evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934), as of the end of the period covered by this quarterly report. Based on this evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of March 31, 2014.

In the ordinary course of business, we review our system of internal control over financial reporting and make changes to our systems and processes intended to ensure an effective internal control environment. We are continuing an initiative to implement new financial systems that will continue in phases over the next several quarters. We are also continuing an initiative to standardize and centralize transaction-processing activities within our accounting processes, which we expect to continue over the next several years. These initiatives will incorporate certain changes in personnel as well. In connection with these initiatives and the resulting changes in our financial systems and transaction-processing activities, the Company continues to enhance the design and documentation of our internal control processes to ensure that controls over our financial reporting remain effective.

Except as noted above, there were no changes in the Company s internal control over financial reporting during the first quarter of 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings

On September 15, 2010, the U.S. Bank National Association (U.S. Bank), as Litigation Trustee for the Idearc Inc. Litigation Trust (Litigation Trust), filed suit in U.S. District Court for the Northern District of Texas against Verizon and certain subsidiaries challenging the November 2006 spin-off of Verizon s former directories business then known as Idearc Inc. U.S. Bank, which represents a group of creditors who filed claims in Idearc s bankruptcy, alleged that Idearc was insolvent at the time of the spin-off or became insolvent shortly thereafter. The Litigation Trust sought over $9 billion in damages. Following a two-week trial in October 2012 limited to the question of the value of Idearc Inc. on the date of the spin-off, on January 22, 2013, the Court issued a decision finding that the value was at least $12 billion. As $12 billion exceeds the value of the debt and cash that Idearc transferred to Verizon on the date of the spin-off, the Court issued a related Order to Show Cause directing the Litigation Trust to submit a brief that explains why any (or all) of its legal claims are viable in light of the court s finding on Idearc s value. In its June 18, 2013 decision, the Court entered judgment for Verizon and its subsidiaries and ruled that U.S. Bank would take nothing on its claims. U.S. Bank appealed the decision to the U.S. Court of Appeals for the Fifth Circuit. Briefing was completed in the first quarter of 2014.

On October 25, 2011, a Litigation Trust created during the bankruptcy proceedings of FairPoint Communications, Inc. filed a complaint in state court in Mecklenburg County, North Carolina, against Verizon and other related entities. The complaint claims that FairPoint s acquisition of Verizon s landline operations in Maine, New Hampshire and Vermont in March 2008 was structured and carried out in a way that left FairPoint insolvent or led to its insolvency shortly thereafter and ultimately to its October 2009 bankruptcy. The Litigation Trust seeks approximately $2 billion in damages. Verizon removed the case to the United States District Court for the Western District of North Carolina in November 2011. At the close of discovery in February 2012, Verizon filed a summary judgment motion to dismiss the two counts in the complaint constructive fraudulent transfer and actual fraudulent transfer. On June 12, 2013, the Court granted Verizon s summary judgment motion in part, dismissing the Litigation Trust s constructive fraudulent transfer claim. A bench trial limited to the actual fraudulent transfer claim concluded December 15, 2013. Post-trial briefing was completed in the first quarter of 2014.

In October 2013, the California Attorney General s Office notified Verizon California Inc. and other Verizon companies of potential violations of California state hazardous waste statutes primarily arising from the disposal of electronic components, batteries and aerosol cans at certain California facilities. We are cooperating with this investigation and continue to review our operations relating to the management of hazardous waste. While penalties relating to the alleged violations could exceed $100,000, we do not expect that any penalties ultimately incurred will be material.

Item 1A. Risk Factors

There have been no material changes to our risk factors as previously disclosed in Part I, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2013.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On February 28, 2014, our previously authorized share buyback program expired. On March 7, 2014, the Verizon Board of Directors approved a new share buyback program, which authorized the repurchase of up to 100 million shares of Verizon common stock terminating no later than the close of business on February 28, 2017. The program permits Verizon to repurchase shares over time, with the amount and timing of repurchases depending on market conditions and corporate needs.

Verizon did not repurchase any shares of Verizon common stock through its authorized share buyback program during the three months ended March 31, 2014. At March 31, 2014, the maximum number of shares that could be purchased by or on behalf of Verizon under our share buyback program was 100 million.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description
10a	Verizon Communications Inc. Long-Term Incentive Plan Performance Stock Unit Agreement 2014-16 Award Cycle.
10b	Verizon Communications Inc. Long-Term Incentive Plan Restricted Stock Unit Agreement 2014-16 Award Cycle.
12	Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.PRE	XBRL Taxonomy Presentation Linkbase Document.
101.CAL	XBRL Taxonomy Calculation Linkbase Document.
101.LAB	XBRL Taxonomy Label Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.

Table of Contents

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	VERIZON COMMUNICATIONS INC.
Date: April 29, 2014	By /s/ Anthony T. Skiadas Anthony T. Skiadas Senior Vice President and Controller (Principal Accounting Officer)

46

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