

Verizon Delaware LLC

Financial Statements
As of December 31, 2008 and 2007
and for the years then ended

Verizon Delaware LLC

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Verizon Delaware LLC

REPORT OF INDEPENDENT AUDITORS

To The Board of Directors and Shareowner of Verizon Delaware LLC

We have audited the accompanying balance sheets of Verizon Delaware LLC (“the Company”), a subsidiary of Verizon Communications Inc., as of December 31, 2008 and 2007, and the related statements of income, changes in member’s investment, and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Verizon Delaware LLC at December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for uncertainty in income taxes effective January 1, 2007.

Ernst + Young LLP

New York, New York
March 27, 2009

Verizon Delaware LLC

STATEMENTS OF INCOME

Years Ended December 31,	(dollars in thousands)	
	2008	2007
Operating Revenues	\$ 348,709	\$ 353,951
Operating Expenses		
Cost of services and sales (exclusive of items shown below)	128,742	132,826
Selling, general and administrative expense	88,909	89,839
Depreciation and amortization expense	70,726	68,747
Total Operating Expenses	288,377	291,412
Operating Income	60,332	62,539
Other income (expense), net	198	582
Interest expense	(8,114)	(11,808)
Income Before Provision for Income Taxes	52,416	51,313
Provision for income taxes	(20,675)	(20,753)
Net Income	\$ 31,741	\$ 30,560

See Notes to Financial Statements.

Verizon Delaware LLC

BALANCE SHEETS

ASSETS

At December 31,	(dollars in thousands)	
	2008	2007
Current assets		
Short-term investments	\$ 1,163	\$ 14,274
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of \$1,886 and \$2,788	39,446	36,984
Affiliates	10,913	11,827
Material and supplies	3,073	3,216
Prepaid expenses	3,181	2,691
Deferred income taxes	2,379	---
Deferred charges and other	5,723	6,445
Total current assets	65,878	75,437
Plant, property and equipment	1,546,591	1,477,124
Less accumulated depreciation	941,432	888,283
	605,159	588,841
Intangible assets, net	835	346
Prepaid pension asset	47,487	46,441
Other assets	6,615	7,757
Total assets	\$ 725,974	\$ 718,822

See Notes to Financial Statements.

Verizon Delaware LLC

BALANCE SHEETS

LIABILITIES AND MEMBER'S INVESTMENT

At December 31,	(dollars in thousands)	
	2008	2007
Current liabilities		
Debt maturing within one year:		
Notes payable to affiliate	\$ 148,693	\$ 170,289
Other	---	78
Accounts payable and accrued liabilities:		
Affiliates	29,997	25,770
Other	18,602	18,352
Deferred income taxes	---	1,869
Other current liabilities	17,615	17,085
Total current liabilities	<u>214,907</u>	<u>233,443</u>
Long-term debt		
Notes payable to affiliate	40,000	40,000
Other	49,552	49,525
	<u>89,552</u>	<u>89,525</u>
Employee benefit obligations	92,197	83,824
Deferred credits and other liabilities		
Deferred income taxes	60,486	52,958
Unamortized investment tax credits	1,012	1,077
Other	10,409	11,325
	<u>71,907</u>	<u>65,360</u>
Member's investment		
Member share - \$25 par value per share	118,442	118,442
Authorized shares: 5,262,280		
Outstanding shares: 4,737,686		
Contributed Capital	18,189	18,189
Reinvested earnings	120,780	110,039
Total member's investment	<u>257,411</u>	<u>246,670</u>
Total liabilities and member's investment	<u>\$ 725,974</u>	<u>\$ 718,822</u>

See Notes to Financial Statements.

Verizon Delaware LLC

STATEMENTS OF CHANGES IN MEMBER'S INVESTMENT

Years Ended December 31,	(dollars in thousands)	
	2008	2007
Member Share		
Balance at beginning of year	<u>\$ 118,442</u>	\$ 118,442
Balance at end of year	<u>118,442</u>	<u>118,442</u>
Contributed Capital		
Balance at beginning of year	18,189	18,186
Tax benefit on stock options	---	3
Balance at end of year	<u>18,189</u>	<u>18,189</u>
Reinvested Earnings		
Balance at beginning of year	110,039	77,732
Adoption of FIN 48	---	1,747
Adjusted balance at beginning of year	<u>110,039</u>	<u>79,479</u>
Net income	31,741	30,560
Dividends declared	<u>(21,000)</u>	---
Balance at end of year	<u>120,780</u>	<u>110,039</u>
Total Member's Investment	<u>\$ 257,411</u>	<u>\$ 246,670</u>

See Notes to Financial Statements.

Verizon Delaware LLC

STATEMENTS OF CASH FLOWS

Years Ended December 31,	(dollars in thousands)	
	2008	2007
Cash Flows from Operating Activities		
Net income	\$ 31,741	\$ 30,560
Adjustments to reconcile net income		
to net cash provided by operating activities:		
Depreciation and amortization	70,726	68,747
Deferred income taxes, net	3,216	(4,976)
Employee retirement benefits	14,059	12,743
Provision for uncollectible accounts	2,553	3,045
Changes in current assets and liabilities:		
Accounts receivable	(4,102)	(4,526)
Material and supplies	143	320
Other current assets	233	2,228
Accounts payable and accrued liabilities	4,456	(13,796)
Other current liabilities	78	(3,494)
Other, net	(1,194)	3,165
Net cash provided by operating activities	<u>121,909</u>	<u>94,016</u>
Cash Flows from Investing Activities		
Capital expenditures (including capitalized network and non-network software)	(91,434)	(106,231)
Purchases of short-term investments	(1,086)	(14,116)
Proceeds from sale of short-term investments	14,102	11,282
Other, net	(842)	---
Net cash used in investing activities	<u>(79,260)</u>	<u>(109,065)</u>
Cash Flows from Financing Activities		
Proceeds from borrowings	40,000	---
Principal repayments of borrowings and capital lease obligations	(40,078)	(25,142)
Net change in current notes payable to affiliate	(21,596)	41,672
Dividends paid	(21,000)	---
Net change in outstanding checks drawn on controlled disbursement accounts	25	(1,486)
Other, net	---	5
Net cash provided by (used in) financing activities	<u>(42,649)</u>	<u>15,049</u>
Net change in cash	---	---
Cash, beginning of year	---	---
Cash, end of year	<u>\$ ---</u>	<u>\$ ---</u>

See Notes to Financial Statements.

Verizon Delaware LLC

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Verizon Delaware LLC (Verizon Delaware or the Company) is a wholly-owned subsidiary of Verizon Communications Inc. (Verizon). On November 15, 2006, the Company was converted from a Corporation into a Limited Liability Company (LLC) for tax purposes under the laws of the state of Delaware with a perpetual life and is therefore treated as “disregarded entity” for income tax purposes. We presently serve a territory consisting of a Local Access and Transport Area (LATA) in the state of Delaware and southeastern Pennsylvania. We have one reportable segment which provides domestic wireline telecommunications services. We currently provide two basic types of telecommunications services:

- *Exchange telecommunication service* is the transmission of telecommunications among customers located within a local calling area within a LATA. Examples of exchange telecommunications services include switched local residential and business services, local private line voice and data services and Centrex services. We also provide toll services within a LATA (intraLATA long distance).
- *Exchange access service* links a customer’s premises and the transmission facilities of other telecommunications carriers, generally interLATA carriers. Examples of exchange access services include switched access and special access services.

The communications services we provide are subject to regulation by the Delaware and Pennsylvania Public Service Commissions with respect to intrastate rates and services and other matters. The Federal Communications Commission regulates rates that we charge long distance carriers and end-user subscribers for interstate access services.

On September 25, 2002, the FCC released an order approving our application for permission to enter the in-region long distance market in Delaware. Since October 8, 2002, in-region long distance is being offered by a separate non-regulated subsidiary of Verizon as required by law.

Basis of Presentation

We prepare our financial statements using U.S. generally accepted accounting principles which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. Examples of significant estimates include the allowance for doubtful accounts, the recoverability of long-lived assets, unrealized tax benefits, and pension and postretirement benefit assumptions.

We have a 0.27% ownership interest in SMS/800, a venture that is jointly owned by the Bell Operating Companies. SMS/800 administers the centralized national database system associated with toll free numbers. We use the equity method of accounting for our investment in SMS/800.

We have reclassified certain amounts from prior periods to conform with our current presentation.

Revenue Recognition

We recognize service revenues based upon usage of our local exchange network and facilities and contract fees. Fixed fees for local telephone, long distance and certain other services are recognized in the month the service is provided. Revenue from other products that are not fixed fee or that exceed contracted amounts is recognized when such services are provided. We recognize revenue for services, in which we bundle the equipment with maintenance and monitoring services, when the equipment is installed in accordance with contractual specifications and ready for the customer’s use. The maintenance and monitoring services are recognized monthly over the term of the contract as we provide the services. Long-term contracts are accounted for using the percentage of completion method. We use the completed contract method if we cannot estimate the costs with a reasonable degree of reliability.

Non-recurring customer activation fees, along with the related costs up to, but not exceeding the activation fees, are deferred and amortized over the customer relationship period.

Verizon Delaware LLC

We report taxes imposed by governmental authorities on revenue-producing transactions between us and our customers that are within the scope of Emerging Issues Task Force (EITF) No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement* (EITF No. 06-3) in the financial statement on a net basis.

Maintenance and Repairs

We charge the cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, to Cost of services and sales as these costs are incurred.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are stated at cost, which approximates market value and include amounts held in money market funds.

Short-term Investments

Our short-term investments, which are stated at fair value, consist primarily of money market funds, a portion of which is held in trust to pay for certain employee benefits. The decline in Short-term investments at December 31, 2008 was due to a decrease in the annual trust funding.

Trade and Other Accounts Receivable

Trade and other accounts receivable are stated at the amount we expect to collect. We maintain allowances for uncollectible accounts for estimated losses resulting from the inability of our customers to make required payments. In determining these estimates, we consider historical write-offs and the aging of the receivables, among other factors, such as overall economic conditions.

Material and Supplies

Material and supplies include new and reusable materials which are stated principally at average original cost, except that specific costs are used in the case of large individual items.

Plant and Depreciation

We record plant, property and equipment at cost. Depreciation expense is principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

The asset lives used by our operations are presented in the following table:

<u>Average Useful Lives (in years)</u>	
Buildings	45
Central office equipment	5-11
Outside communications plant	
Copper cable	15-17
Fiber cable	20-25
Poles and conduit	30-50
Furniture, vehicles and other	5-15

When we replace, retire or dispose of depreciable plant used in our local telephone network, we deduct the carrying amount of such plant from the respective accounts and charge it to accumulated depreciation.

We capitalize network software purchased or developed in connection with related plant assets. We also capitalize interest associated with the acquisition or construction of plant assets. Capitalized interest is reported as a cost of plant and a reduction in interest expense.

Verizon Delaware LLC

Annually, we review the estimated useful lives of plant, property and equipment along with the associated depreciation rates. Effective January 1, 2009 the average useful lives of fiber cable was increased to 25 years from 20 to 25 years and the average useful lives of copper cable would be changed to 15 years from 15 to 17 years. Effective January 1, 2008, the average useful lives of fiber cable was increased from 20 years to 20 to 25 years. As a result, 2008 depreciation expense decreased by \$3,070 thousand (\$1,822 thousand after tax). Effective January 1, 2007, the life for buildings was increased to 45 years from a previous range of 25 to 42 years. As a result, 2007 depreciation expense decreased by \$600 thousand (\$300 thousand after tax). In addition, the life for circuit equipment was increased from 8 to 9 years, effective January 1, 2007. This resulted in a decrease in 2007 depreciation expense of \$2,400 thousand (\$1,400 thousand after tax).

We believe that the current estimated useful asset lives are reasonable, although they are subject to continual review and analysis. In the evaluation of asset lives, multiple factors are considered, including, but not limited to, the ongoing plans to roll out the broadband network, technology upgrades and enhancements, planned retirements, and the adequacy of reserves.

Impairment of Long-Lived Assets

Our plant, property and equipment and intangible assets that do not have indefinite lives are amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If any indications were present, we would test for recoverability by comparing the carrying amount of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount (i.e., the asset is not recoverable), we would perform the next step, which is to determine the fair value of the asset and record an impairment, if any.

Computer Software Costs

We capitalize the cost of network and non-network software which has a useful life in excess of one year in accordance with Statement of Position (SOP) No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. Subsequent additions, modifications or upgrades to the network and non-network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of non-network software. Capitalized non-network computer software costs are amortized using the straight-line method over a period of 5 to 7 years.

Intangible Assets

Our other intangible assets consist of non-network software and franchise fees as follows:

	At December 31, 2008		(dollars in thousands) At December 31, 2007	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Non-network software (5 to 7 years)	\$ 424	\$ 356	\$ 4,060	\$ 3,714
Franchise fees (5 to 15 years)	843	76	---	---

Intangible asset amortization expense was \$353 thousand and \$911 thousand for the years ended December 31, 2008 and 2007, respectively and is estimated to be \$217 thousand in 2009, \$149 thousand in 2010, \$149 thousand in 2011, \$149 thousand in 2012, \$86 thousand in 2013 and \$85 thousand thereafter.

Advertising Costs

Advertising costs for advertising products and services are charged to Selling, general and administrative expense in the period in which they are incurred.

Verizon Delaware LLC

Employee Benefit Plans

We participate in Verizon's benefit plans and the structure of these plans does not provide for the separate disclosure of the related pension and postretirement assets and obligations at a company level. The annual income and expense related to our employees are allocated to the Company based on employee obligations and are included in the statements of income in cost of services and sales and selling, general and administrative expenses. The related pension and postretirement benefit asset/obligations have been accumulated over time based on accruals net of payments and termination/settlement charges and are included in prepaid pension assets and employee benefit obligations in the balance sheets (see Note 6).

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). Effective December 31, 2006, SFAS No. 158 requires the recognition of a defined benefit postretirement plan's funded status as either an asset or liability on the balance sheet. SFAS No. 158 also requires the immediate recognition of the unrecognized actuarial gains and losses and prior service costs and credits that arise during the period as a component of Accumulated other comprehensive income, net of applicable income taxes. Verizon adopted SFAS No. 158 effective December 31, 2006. Because of the structure of the plans, the SFAS No. 158 related adjustments recorded by Verizon to recognize the funded status are not reflected in the balance sheets as of December 31, 2008 or 2007.

We maintain ongoing severance plans for both management and associate employees, which provide benefits to employees that are terminated. The costs for these plans are accounted for under SFAS No. 112, *Employers' Accounting for Postemployment Benefits—an amendment of FASB Statements No. 5 and 43*. We accrue for severance benefits based on the terms of our severance plan over the estimated service periods of the employees. The accruals are also based on the historical run-rate of actual severances and expectations for future severances. Severance costs are included in selling, general and administrative expense in our statement of income.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. SFAS No. 157 also expands financial statement disclosures about fair value measurements. Under SFAS No. 157, fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. SFAS No. 157 also establishes a three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities

Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 - No observable pricing inputs in the market

Financial assets and financial liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. Our assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

On February 12, 2008, FASB issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), which delays the effective date of SFAS No. 157 for one year for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. We elected a partial deferral of SFAS No. 157 under the provisions of FSP 157-2 related to the measurement of fair value used when evaluating other intangible assets. On October 10, 2008, the FASB issued FSP 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, (FSP 157-3), which clarifies application of SFAS No. 157 in a market that is not active. FSP 157-3 was effective upon issuance, including prior periods for which financial statements have not been issued. The impact of partially adopting SFAS No. 157 on January 1, 2008 and the related FSPs 157-2 and 157-3 was not material to our financial statements.

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SFAS No. 159

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of SFAS No. 115* (SFAS No. 159), permits but does not require us to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As we did not elect to fair value any of our financial instruments under the provisions of SFAS No. 159, our adoption of this statement effective January 1, 2008 did not have an impact on our consolidated financial statements.

Income Taxes

Verizon and its domestic subsidiaries file a consolidated federal income tax return. We participate in a tax sharing agreement with Verizon and remit tax payments to Verizon based on the respective tax liability determined as if on a separate company basis. For income tax purposes Verizon Delaware LLC is treated as a “disregarded entity” and its activity is reported as part of Verizon Communications Inc. However, notwithstanding the above, for financial statement purposes, Verizon Delaware LLC continues to reflect income taxes consistent with Verizon’s tax sharing allocation policy as if it were a separate taxpayer and not a disregarded entity. Current and deferred tax expense/(benefit) is determined by applying the provisions of SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109), to each subsidiary as if it were a separate taxpayer.

Effective January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. The first step is recognition: we determine whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, we presume that the position will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step is measurement: a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in one or more of the following: an increase in a liability for income taxes payable, a reduction of an income tax refund receivable, a reduction in a deferred tax asset, or an increase in a deferred tax liability. As a result of the implementation of FIN 48, we recorded adjustments to liabilities that resulted in a net \$1,747 thousand reduction in the liability for unrecognized tax benefits with an offsetting increase to reinvested earnings as of January 1, 2007.

We use the deferral method of accounting for investment tax credits earned prior to the repeal of investment tax credits by the Tax Reform Act of 1986. We also defer certain transitional credits earned after the repeal. We amortize these credits over the estimated service lives of the related assets as a reduction to the Provision for Income Taxes.

2. PLANT, PROPERTY AND EQUIPMENT

The following table displays the details of plant, property and equipment, which is stated at cost:

At December 31,	(dollars in thousands)	
	2008	2007
Land	\$ 2,646	\$ 2,646
Buildings	95,259	94,562
Central office equipment	624,954	605,176
Outside communications plant	767,613	696,329
Furniture, vehicles and other work equipment	34,037	37,078
Construction-in-progress	8,927	28,806
Other	13,155	12,527
	1,546,591	1,477,124
Less accumulated depreciation	941,432	888,283
Total	\$ 605,159	\$ 588,841

Verizon Delaware LLC

3. LEASES

We lease certain facilities and equipment for use in our operations under both capital and operating leases.

Capital lease amounts included in plant, property and equipment are as follows:

At December 31,	(dollars in thousands) 2007
Capital leases	\$ 444
Less accumulated amortization	383
Total	\$ 61

Total rent expense amounted to \$16,781 thousand in 2008 and \$19,744 thousand in 2007. Of these amounts, \$14,634 thousand in 2008 and \$17,458 thousand in 2007 were lease payments to affiliated companies.

This table displays the aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2008, excluding those with affiliated companies:

Years	(dollars in thousands) Operating Leases
2009	\$ 530
2010	449
2011	345
2012	39
2013	32
Total minimum rental commitments	\$ 1,395

There were no rental commitments under noncancelable capital leases at December 31, 2008.

4. DEBT

Debt Maturing Within One Year

Debt maturing within one year consists of the following at December 31:

	(dollars in thousands)	
	2008	2007
Notes payable to affiliate (VNFC)	\$ 148,693	\$ 170,289
Other	---	78
Total debt maturing within one year	\$ 148,693	\$ 170,367
Weighted average interest rate for notes payable outstanding at year-end	2.93%	4.69%

We have contractual agreements with affiliated companies, Verizon Network Funding Corp. (VNFC) and Verizon NSI Holdings Inc (VNSHI), for the provision of financing and cash management services.

The fair value of our short-term and long-term debt, excluding capital leases, is determined based on market quotes for similar terms and maturities or future cash flows discounted at current rates. The fair value of our long-term and short-term debt, excluding capital leases, was \$241,389 thousand and \$269,732 thousand at December 31, 2008 and 2007, respectively, as compared to the carrying value of \$238,245 thousand and \$259,814 thousand, respectively at December 31, 2008 and 2007.

Verizon Delaware LLC

Long-Term Debt

Outstanding long-term debt are as follows:

At December 31,	Interest Rate	Maturity	(dollars in thousands)	
			2008	2007
Thirty year debenture	8.375 %	2019	\$ 15,000	\$ 15,000
Thirty year debenture	7.000	2023	20,000	20,000
Forty year debenture	8.625	2031	15,000	15,000
			50,000	50,000
Five year notes payable to affiliate (VNSHI)	5.624	2010	---	40,000
Five year notes payable to affiliate (Verizon Investments)	2.399	2010	40,000	---
			90,000	90,000
Unamortized discount and premium, net			(448)	(475)
Capital lease obligations			---	78
Total long-term debt, including current maturities			89,552	89,603
Less maturing within one year			---	78
Total long-term debt			\$ 89,552	\$ 89,525

The aggregate principal amount of bonds and debentures that may be issued is subject to the restrictions and provisions of our indentures. None of the securities shown above were held in sinking or other special funds or pledged by us. Debt discounts and premiums on our outstanding long-term debt are amortized over the lives of the respective issues.

We are in compliance with all of our debt covenants.

During the first quarter of 2007, the \$25 million long-term note with Verizon NSI Holdings Inc. matured. The note matured on March 30, 2007 and carried a floating interest rate priced at 3 month LIBOR plus 60 bps, reset and paid quarterly.

Maturities of long-term debt outstanding at December 31, 2008, excluding capital lease obligations and unamortized discount and premium are as follows:

Years	(dollars in thousands)
2009	\$ ---
2010	40,000
2011	---
2012	---
2013	---
Thereafter	50,000
Total long-term debt outstanding	\$ 90,000

5. FINANCIAL INSTRUMENTS

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of short-term investments and trade receivables. Concentrations of credit risk with respect to trade receivables, other than those from AT&T Inc. (AT&T) and Sprint Nextel Corporation (Sprint), are limited due to the large number of customers. We generated revenues from services provided to AT&T and Sprint (primarily network access and billing and collection) of \$15,265 thousand and \$8,918 thousand in 2008 and \$18,648 thousand and \$10,311 thousand in 2007, respectively.

While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider this risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial position.

Verizon Delaware LLC

6. EMPLOYEE BENEFITS

We participate in Verizon's benefit plans. Verizon maintains noncontributory defined benefit pension plans for many of our employees. The postretirement health care and life insurance plans for our retirees and their dependents are both contributory and noncontributory and include a limit on Verizon's share of cost for certain recent and future retirees. Verizon also sponsors defined contribution savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis. We use a measurement date of December 31 for our pension and postretirement health care and life insurance plans.

The structure of Verizon's benefit plans does not provide for the separate determination of certain disclosures for our company. The required information is provided on a consolidated basis in Verizon's Annual Report on Form 10-K for the year ended December 31, 2008.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for the majority of our employees are subject to collective bargaining agreements. Approximately 93% of our employees (associates) are covered by collective bargaining agreements. Modifications in benefits have been bargained from time to time, and Verizon may also periodically amend the benefits in the management plans.

Benefit Cost

The following table displays the details of net periodic pension and other postretirement costs:

At December 31,	(dollars in thousands)			
	Pension		Health Care and Life	
	2008	2007	2008	2007
Net periodic benefit (income) cost	\$ (1,120)	\$ (1,393)	\$ 14,899	\$ 14,136
Termination benefits	205	---	48	---
Settlement (gain)	(29)	---	---	---
Curtailment loss	---	---	56	---
Subtotal	176	---	104	---
Total (income) cost	\$ (944)	\$ (1,393)	\$ 15,003	\$ 14,136

In 2008 we recorded a pension settlement gain of \$29,000 as lump-sum payments exceeded the threshold of service and interest costs. Also, we recorded expense of \$56,000 for retiree medical curtailments as a result of management downsizing. The settlement and curtailment of pension and retiree medical obligations are recorded in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Pension Plans and for Termination Benefits* and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions*.

Amounts recognized in the balance sheet consist of:

At December 31,	(dollars in thousands)			
	Pension		Health Care and Life	
	2008	2007	2008	2007
Prepaid pension asset	\$ 47,487	\$ 46,441	\$ ---	\$ ---
Employee benefit obligations	339	236	80,102	72,051

Verizon Delaware LLC

The changes in the employee benefit asset and obligations from year to year were caused by a number of factors, including changes in actuarial assumptions (see Assumptions) and settlements.

Assumptions

The weighted-average assumptions used in determining benefit obligations follow:

At December 31,	Pension		Health care and Life	
	2008	2007	2008	2007
Discount rate	6.75%	6.50%	6.75%	6.50%
Rate of compensation increases	4.00	4.00	N/A	4.00

The weighted-average assumptions used in determining net periodic cost follow:

At December 31,	Pension		Health Care and Life	
	2008	2007	2008	2007
Discount rate	6.50%	6.00%	6.50%	6.00%
Expected return on plan assets	8.50	8.50	8.25	8.25
Rate of compensation increases	4.00	4.00	4.00	4.00

In order to project the long-term target investment return for the total portfolio, estimates are prepared for the total return of each major asset class over the subsequent 10-year period, or longer. Those estimates are based on a combination of factors including the current market interest rates and valuation levels, consensus earnings expectations, historical long-term risk premiums and value-added. To determine the aggregate return for the pension trust, the projected return of each individual asset class is then weighted according to the allocation to that investment area in the trust's long-term asset allocation policy.

The assumed Health Care Cost Trend Rates at December 31,

	Health Care and Life	
	2008	2007
Health care cost trend rate assumed for next year	9.00%	10.00%
Rate to which cost trend rate gradually declines	5.00	5.00
Year the rate reaches level it is assumed to remain thereafter	2014	2013

Savings Plans and Employee Stock Ownership Plans

Substantially all of our employees are eligible to participate in savings plans maintained by Verizon. Verizon maintains four leveraged employee stock ownership plans (ESOP). Only one plan has unallocated shares. Under this plan, a certain percentage of eligible employee contributions are matched with shares of Verizon's common stock. We recognize savings plan cost based on our matching obligation attributable to our participating employees. In addition to the ESOP, Verizon also maintains a savings plan for associate employees. We recorded total savings plan costs of \$2,053 thousand in 2008 and \$2,203 thousand in 2007.

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Severance Benefits

The following table provides an analysis of our severance liability recorded in accordance with SFAS No. 112, *Employers Accounting for Postemployment Benefits* (SFAS 112):

Year	Beginning of Year	Charged to Expense (a)	Payments	Other (b)	End of Year(c)
2007	\$ 1,586	\$ 7,054	\$ (758)	\$ 6	\$ 7,888
2008	7,888	1,728	(2,766)	1	6,851

(dollars in thousands)

- (a) Includes accruals for ongoing employee severance and \$1,440 thousand of special charges in 2008 and \$6,582 thousand of special charges in 2007.
- (b) Includes amounts reallocated among other Verizon affiliates. From time to time, Verizon must redistribute across its subsidiaries the amount of severance liability based on actual experience at the companies.
- (c) The remaining severance liability includes future contractual payments to employees separated as of the end of the year.

7. INCOME TAXES

The components of income tax expense (benefit) are presented in the following table:

Years Ended December 31,	2008	2007
Current:		
Federal	\$ 14,152	\$ 20,010
State and local	3,307	5,719
	17,459	25,729
Deferred:		
Federal	2,116	(3,585)
State and local	1,165	(1,325)
	3,281	(4,910)
Investment tax credits	(65)	(66)
Total income tax expense	\$ 20,675	\$ 20,753

(dollars in thousands)

The following table shows the primary reasons for the difference between the effective income tax rate and the statutory federal income tax rate:

Years Ended December 31,	2008	2007
Statutory federal income tax rate	35.0%	35.0%
State income taxes, net of federal tax benefits	5.5	5.6
Investment tax credits	(0.1)	(0.1)
Other, net	(1.0)	(0.1)
Effective income tax rate	39.4%	40.4%

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Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Significant components of our deferred tax assets and liabilities are shown in the following table:

Years Ended December 31,	(dollars in thousands)	
	2008	2007
Deferred tax assets:		
Employee benefits	\$ 21,289	\$ 13,043
Allowance for uncollectible accounts	775	1,092
Investment tax credits	411	438
Other – assets	1,025	1,258
Total deferred tax assets	23,500	15,831
Deferred tax liabilities:		
Depreciation	80,922	70,385
Other - liabilities	685	273
Total deferred tax liabilities	81,607	70,658
Net deferred tax liability	\$ 58,107	\$ 54,827

FASB Interpretation No. 48

FIN 48 prescribes the recognition, measurement and disclosure standards for uncertainties in income tax positions. A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

	(dollars in thousands)	
	2008	2007
Balance at January 1,	\$ 4,454	\$ 2,748
Additions based on tax positions related to the current year	1,261	1,397
Additions for tax positions of prior years	574	1,143
Reductions for tax positions of prior years	(1,552)	(834)
Settlements	282	---
Lapses of statutes of limitations	---	---
Balance at December 31,	\$ 5,019	\$ 4,454

Included in the total unrecognized tax benefits at December 31, 2008 and 2007 is \$543 thousand and \$817 thousand, respectively, that, if recognized, would favorably affect the effective income tax rate.

We recognize any interest and penalties accrued related to unrecognized tax benefits in income tax expense. During the year ended December 31, 2008 we recognized a net after tax expense in the income statement related to interest and penalties of approximately \$175 thousand. We had approximately \$626 thousand (after-tax) and \$451 thousand (after-tax) for the payment of interest and penalties accrued in the balance sheets at December 31, 2008 and December 31, 2007, respectively.

During the year ended December 31, 2007, we recognized approximately \$179 thousand (after-tax) for the payment of interest and penalties. We had approximately \$451 thousand (after-tax) and \$272 thousand (after-tax) for the payment of interest and penalties accrued in the balance sheet at December 31, 2007 and January 1, 2007, respectively.

Verizon or one of its domestic subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. Verizon is generally no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years before 2004. The Internal Revenue Service will begin its examination of Verizon's U.S. income tax returns for the years 2004 through 2006 in the first quarter of 2009. As a result of the anticipated resolution of various income tax audits within the next twelve months, we believe that it is reasonably possible that the amount of unrecognized tax benefits will decrease. An estimate of the range of the possible change cannot be made until issues are further developed.

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8. TRANSACTIONS WITH AFFILIATES

Our financial statements include transactions with the following affiliates:

Years ended December 31,	(dollars in thousands)	
	2008	2007
Operating revenues:		
Verizon Internet Services Inc.	\$ 42,701	\$ 34,320
Verizon Business	23,932	17,089
Verizon Services	3,939	5,388
Verizon Long Distance	3,500	3,479
Verizon Operating Telephone Companies	1,601	2,081
Verizon Wireless Inc.	529	884
Other	22	55
	\$ 76,224	\$ 63,296
Operating expenses:		
Verizon Services	\$ 79,746	\$ 81,958
Verizon Data Services Inc.	11,562	5,828
Verizon Operating Telephone Companies	---	3,878
Verizon Connected Solutions Inc.	3,017	3,761
Verizon Wireless Inc.	217	413
GTE Communication Systems Corporation	2,564	405
Verizon Business	40	24
Other	25	27
	\$ 97,171	\$ 96,294
Other income and (expense), net:		
Interest income from Verizon Services	\$ 20	\$ 117
Interest income from Verizon Network Funding Corp.	48	81
Equity income from investee	5	---
	\$ 73	\$ 198
Interest expense:		
Interest expense to Verizon Network Funding Corp.	\$ 4,417	\$ 7,702
Interest expense to Verizon NSI Holdings Inc.	457	2,638
Interest expense to Verizon Investments Inc.	997	---
Verizon Services	---	1
	\$ 5,871	\$ 10,341
Dividends paid to Verizon	\$ 21,000	\$ ---

Outstanding balances with affiliates are reported in the balance sheets at December 31, 2008 and 2007 as Accounts Receivable from Affiliates, Notes Payable to Affiliate, Accounts Payable and Accrued Liabilities to Affiliates, and Current and Long-term Debt – Notes Payable to Affiliate.

Verizon Internet Services Inc.

Our operating revenues include transactions with Verizon Internet Services Inc. (Verizon Internet Services) associated with the provision of network access and billing and collection services. These revenues are earned from Verizon Internet Services who utilizes our facilities to provide Internet access services to their customers.

Verizon Business

Our operating revenues include transactions with Verizon Business associated with the provision of network access services, wholesale interconnection service agreements and from billing and collection services.

Our operating expenses also include transactions with Verizon Business. We recognize costs associated with interconnection agreements and capacity services agreements.

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Verizon Services

Our operating revenues include transactions with Verizon Services, (including Verizon Services Corp., Verizon Services Group and Verizon Corporate Services Group Inc.) for the provision of local telephone service and for the rental of facilities and equipment.

We have contractual arrangements with Verizon Services for the provision of various centralized services. These services are divided into two broad categories. The first category is comprised of network related services which generally benefit only Verizon's operating telephone subsidiaries. These services include marketing, sales, legal, accounting, finance, data processing, materials management, procurement, labor relations, and staff support for various network operations. The second category is comprised of overhead and support services which generally benefit all subsidiaries of Verizon. Such services include corporate governance, corporate finance, external affairs, legal, media relations, employee communications, corporate advertising, human resources, treasury, and rent expenses associated with the rental of facilities and equipment. Costs may be either directly assigned to one subsidiary or allocated to more than one subsidiary based on functional reviews of the work performed.

Verizon Long Distance

Our operating revenues include transactions with Verizon Long Distance who utilizes our facilities to provide long distance services to their customers. We record revenue in connection with the provision of billing and collection services, including programming charges associated with billing system changes.

Verizon Operating Telephone Companies

Our operating revenues and expenses include transactions with other Verizon Operating Telephone Companies. Revenues associated with transactions with these affiliates are primarily earned from the rental of our facilities and equipment. We also earn revenue from fees associated with the termination of their customer's calls on our network. In addition, we also recognize expenses associated with transactions with these affiliates. These costs are primarily associated with the rental of their facilities and equipment.

Verizon Wireless Inc.

Our operating revenues include transactions with Verizon Wireless Inc. (Verizon Wireless) associated with the provision of local and network access services, billing and collection services and from interconnection agreements. These revenues are earned from Verizon Wireless who provides wireless voice and data services, paging services and equipment sales to their customers.

Our operating expenses also include transactions with Verizon Wireless. We recognize costs associated with wireless voice and data services, paging services and for interconnection agreements.

Other Affiliates

Other operating revenues and expenses include miscellaneous items of income and expense resulting from transactions with other affiliates. These transactions include the provision of local and network access services, billing and collection services, rental of facilities and equipment, electronic repair services, and sales and purchases of material and supplies.

Verizon Data Services Inc.

Verizon Data Services Inc. provides data processing services, software application development and maintenance, which generally benefits Verizon's operating telephone subsidiaries, including us. We are charged for these affiliated transactions based on proportional cost allocation methodologies.

Verizon Delaware LLC

Verizon Connected Solutions Inc.

Verizon Connected Solutions Inc. provides installation and maintenance services to our customers. We record these services at cost.

GTE Communication Systems Corporation

GTE Communication Systems Corporation (GTE Communication Systems) provides construction and maintenance equipment, supplies and electronic repair services to us. We record these purchases and services at cost, including a return realized by GTE Communication Systems.

Verizon NSI Holding Inc., Verizon Network Funding Corp. and Verizon Investments

We recognize interest expense in connection with a contractual agreement with an affiliated company, VNFC, for the provision of short-term financing, short-term investing and cash management services. We also recognized interest expense related to a promissory note held by Verizon NSI Holdings Inc., which was assigned over to Verizon Investments Inc. in March 2008.

9. ADDITIONAL FINANCIAL INFORMATION

The tables below provide additional financial information related to our financial statements:

Years Ended December 31,	(dollars in thousands)	
	2008	2007
Cash Flow Information:		
Cash paid during the year for:		
Income taxes paid, net	\$ 12,803	\$ 21,917
Interest, net of amounts capitalized (excluding affiliates)	2,192	1,461
Income Statement Information:		
Depreciation expense	70,373	67,836
Interest costs incurred	9,762	14,333
Advertising expense (allocated to us by Verizon Services)	4,643	3,943
Capitalized interest	(1,648)	(2,525)

10. COMMITMENTS AND CONTINGENCIES

Various legal actions and regulatory proceedings are pending to which we are a party and claims which, if asserted, may lead to other legal actions. We have established reserves for specific liabilities in connection with regulatory and legal matters that we currently deem to be probable and estimable. We do not expect that the ultimate resolution of pending regulatory and legal matters in future periods will have a material effect on our financial condition, but it could have a material effect on our results of operations.

From time to time, state regulatory decisions require us to assure customers that we will provide a level of service performance that falls within prescribed parameters. There are penalties associated with failing to meet those service parameters and we, from time to time, pay such penalties. We do not expect these penalties to have a material effect on our financial condition, but they could have a material effect on our results of operations.

11. SUBSEQUENT EVENT

On February 2, 2009, we declared and paid dividend in the amount of \$11 million to our parent, Verizon.