Verizon Florida LLC

Financial Statements
As of December 31, 2010 and 2009
and for the years then ended

Verizon Florida LLC

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Verizon Florida LLC

REPORT OF INDEPENDENT AUDITORS

To The Board of Directors and Member of Verizon Florida LLC

We have audited the accompanying balance sheets of Verizon Florida LLC ("the Company"), a subsidiary of Verizon Communications Inc., as of December 31, 2010 and 2009, and the related statements of operations, 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 Florida LLC at December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

New York, New York
March 30, 2011

Verizon Florida LLC

STATEMENTS OF OPERATIONS

			(dollars in millions)
Years Ended December 31,		**2010**	2009
Operating Revenues	**$**	**1,314**	$ 1,356
Operating Expenses			
Cost of services and sales (exclusive of items shown below)		**626**	692
Selling, general and administrative expense		**357**	455
Depreciation and amortization expense		**341**	359
Total Operating Expenses		**1,324**	1,506
Operating Loss		**(10)**	(150)
Interest expense		**(44)**	(47)
Loss Before Benefit for Income Taxes		**(54)**	(197)
Benefit for income taxes		**9**	84
Net Loss	**$**	**(45)**	$ (113)

See Notes to Financial Statements.

Verizon Florida LLC

BALANCE SHEETS

At December 31,	2010	2009
		(dollars in millions)
Assets		
Current assets		
Accounts receivable:		
Trade and other, net of allowances for uncollectables of $21 and $22	**$ 145**	$ 148
Affiliates	**37**	37
Prepaid expenses	**10**	5
Deferred income taxes	**12**	21
Deferred charges and other	**24**	39
Total current assets	**228**	250
Plant, property and equipment	**7,465**	7,578
Less accumulated depreciation	**4,569**	4,633
	2,896	2,945
Intangible assets, net	**5**	4
Prepaid pension assets	**328**	342
Other assets	**28**	35
Total assets	**$ 3,485**	$ 3,576
Liabilities and Shareowner's Investment		
Current liabilities		
Debt maturing within one year:		
Notes payable to affiliates	**$ 264**	$ 532
Accounts payable and accrued liabilities:		
Affiliates	**64**	64
Other	**109**	103
Other current liabilities	**74**	83
Total current liabilities	**511**	782
Long-term debt	**643**	643
Employee benefit obligations	**633**	630
Deferred credits and other liabilities:		
Deferred income taxes	**551**	359
Other	**85**	55
	636	414
Member's investment		
Member share (one share, without par value)	**585**	585
Contributed capital	**115**	115
Reinvested earnings	**362**	407
Total member's investment	**1,062**	1,107
Total liabilities and member's investment	**$ 3,485**	$ 3,576

See Notes to Financial Statements.

Verizon Florida LLC

STATEMENTS OF CHANGES IN MEMBER'S INVESTMENT

		(dollars in millions)
Years Ended December 31,	**2010**	2009
Member Share		
Balance at beginning of year	**$ 585**	$ 585
Balance at end of year	**585**	585
Contributed Capital		
Balance at beginning of year	**115**	115
Balance at end of year	**115**	115
Reinvested Earnings		
Balance at beginning of year	**407**	520
Net loss	**(45)**	(113)
Balance at end of year	**362**	407
Total Member's Investment	**$ 1,062**	$ 1,107

See Notes to Financial Statements.

Verizon Florida LLC

STATEMENTS OF CASH FLOWS

Years Ended December 31,	2010	2009
		(dollars in millions)
Cash Flow from Operating Activities		
Net loss	**$ (45)**	$ (113)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**341**	359
Deferred income taxes, net	**201**	41
Employee retirement benefits	**63**	164
Provision for uncollectible accounts	**16**	23
Changes in current assets and liabilities:		
Accounts receivable	**(14)**	(4)
Other current assets	**---**	30
Accounts payable and accrued liabilities	**7**	(60)
Other current liabilities	**(9)**	(26)
Other, net	**(28)**	(29)
Net cash provided by operating activities	**532**	385
Cash Flows from Investing Activities		
Capital expenditures (including capitalized network software)	**(262)**	(298)
Proceeds from sale of short-term investments	**---**	11
Proceeds from sales of assets	**1**	4
Other, net	**(3)**	(25)
Net cash used in investing activities	**(264)**	(308)
Cash Flows from Financing Activities		
Net change in current notes payable to affiliates	**(268)**	(76)
Other, net	**---**	(1)
Net cash used in financing activities	**(268)**	(77)
Net change in cash	**---**	---
Cash, beginning of year	**---**	---
Cash, end of year	**$ ---**	$ ---

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Verizon Florida LLC (Verizon Florida or the Company) is a wholly-owned subsidiary of GTE Corporation, which 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 Florida with a perpetual life and is therefore treated as "disregarded entity" for income tax purposes. We currently serve a territory consisting of a Local Access and Transport Area (LATA) located in Florida. We have one reportable segment which provides domestic wireline telecommunications services. We currently provide three 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.

- In addition, we also provide fiber-to-the-premises services, operated under the FiOS service mark (FiOS TV), for residential and small business subscribers in certain areas.

The communications services we provide are subject to regulation by the Florida Public Service Commission 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.

Basis of Presentation

We prepare our financial statements using U.S. generally accepted accounting principles (GAAP) 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 plant, property and equipment, the recoverability of intangible assets and other long-lived assets, unbilled revenues, unrecognized tax benefits, valuation allowances on tax assets, accrued expenses, and pension and postretirement benefit assumptions.

We have evaluated subsequent events through March 30, 2011, the date these financial statements were available to be issued.

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

Revenue Recognition

We earn revenue based upon usage of our network and facilities and contract fees. In general fixed monthly fees for voice, video and certain other services are billed one month in advance and recognized when earned. Revenue from services that are not fixed in amount and are based on usage is generally billed in arrears and recognized when such services are provided. When we bundle the equipment with maintenance and monitoring services, we recognize equipment revenue when the equipment is installed in accordance with contractual specifications and ready for the customer's use. Revenue associated with maintenance and monitoring services contracts is accounted for using the percentage-of-completion method based on the ratio of actual costs incurred to total estimated costs of the contract. Expenses associated with each contract are recognized as incurred in connection with the installation of equipment. We use the completed contract method if we cannot estimate the costs with a reasonable degree of reliability.

Installation related fees, along with the associated costs up to but not exceeding these fees, are deferred and amortized over the customer relationship period.

We report taxes imposed by governmental authorities on revenue-producing transactions between us and our customers 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, principally to Cost of services and sales as these costs are incurred.

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, the aging of the receivables and other factors, such as overall economic conditions.

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of 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 $49 million and $20 million in 2010 and $48 million and $25 million in 2009, 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.

Plant and Depreciation

We record our 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 local 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:

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

When we replace, retire or otherwise 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 and depreciate network software purchased or developed along with related plant assets. We also capitalize interest associated with the acquisition or construction of network-related assets. Capitalized interest is reported as a reduction in interest expense and depreciated as part of the cost of network-related assets.

In connection with our ongoing review of the estimated remaining average useful lives of plant, property and equipment, we determined that there were no changes necessary to average useful lives for 2010. We determined effective January 1, 2009 that the average useful lives of copper cable would be changed to 15 years from 14 to 16 years. As a result, 2009 depreciation expense increased by $5 million.

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, technology upgrades and enhancements, planned retirements, and the adequacy of reserves.

Long-Lived Assets

Our plant, property and equipment are reviewed for impairment. These assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts 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. An impairment charge is recognized for the amount (if any) by which the carrying value of the asset exceeds its fair value.

Computer Software Costs

We capitalize the cost of internal-use network and non-network software which has a useful life in excess of one year. Subsequent additions, modifications or upgrades to internal-use 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 internal-use network software.

Intangible Assets

Our intangible assets primarily consist of franchise fees related to obtaining the rights to provide certain services in a local area. Intangible asset amortization expense was not material for the years ended December 31, 2010 and 2009, respectively.

Advertising Costs

Costs for advertising products and services as well as other promotional and sponsorship costs are charged to Selling, general and administrative expense in the periods in which they are incurred.

Stock-Based Compensation

We participate in the Verizon Communications Long Term Incentive Plan (the 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.

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 granted prior to January 1, 2010 are classified as liability awards because the RSUs will be paid in cash upon vesting. The RSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the performance of Verizon common stock. The RSUs granted subsequent to January 1, 2010 are classified as equity awards because these 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.

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

Stock Options

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

The structure of Verizon's stock incentive 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, 2010.

After-tax compensation expense for other stock-based compensation included in net income as reported for the years ended December 31, 2010 and 2009 was not material.

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 operations 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 5).

Verizon recognizes a defined benefit postretirement plan's funded status as either an asset or liability on the consolidated balance sheets. Also, Verizon measures any prior service costs and credits that arise during the period as a component of Accumulated other comprehensive income (loss), net of applicable income tax. Because of the structure of the plans, the related adjustments recorded by Verizon to recognize the funded status are not reflected in our balance sheets as of December 31, 2010 or 2009.

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 the accounting standards regarding employers' accounting for postemployment benefits. 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 statements of operations.

Fair Value Measurements

Fair value of financial and non-financial assets and liabilities 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. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

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.

Income Taxes

Verizon and its domestic subsidiaries, including us, file a consolidated federal income tax return. Additionally, we are included in consolidated state income tax returns which are filed by Verizon. For reporting purposes, we calculate and record current and deferred tax expense by applying the accounting standard for accounting for income taxes as if we were a separate taxpayer, with an exception for any benefits of consolidated federal and state filings generated by net operating losses based on our separate return calculation and/or tax credits. For separate states, the Company records valuation allowances against the deferred tax assets and net operating losses if they are not expected to be realized. At December 31, 2010 and December 31, 2009 we had an income tax (payable)/receivable due to/from Verizon Communications Inc. of ($3) million and $0 million, respectively.

Our effective tax rate is based on pre-tax income, statutory tax rates, tax laws and regulations and tax planning strategies available to us in the various jurisdictions in which we operate.

Deferred income taxes are provided for temporary differences in the bases between financial statement and income tax assets and liabilities. Deferred income taxes are recalculated annually at tax rates then in effect. We record valuation allowances to reduce our deferred tax assets to the amount that is more likely than not to be realized.

We use a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return. 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.

Significant management judgment is required in evaluating our tax positions and in determining our effective tax rate.

Recent Accounting Standards

In January 1, 2011, we prospectively adopted the accounting standard update regarding revenue recognition for multiple deliverable arrangements. This method allows a vendor to allocate revenue in an arrangement using its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists. Accordingly, the residual method of revenue allocation is no longer permissible. We are currently evaluating the impact that this standard update will have in our financial statements.

In January 1, 2011, we prospectively adopted the accounting standard update regarding revenue recognition for arrangements that include software elements. This update requires tangible products that contain software and non-software elements that work together to deliver the products' essential functionality to be evaluated under the accounting standard regarding multiple deliverable arrangements. We are currently evaluating the impact that this standard update will have in our financial statements.

2. PLANT, PROPERTY AND EQUIPMENT

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

		(dollars in millions)
At December 31,	**2010**	2009
Land	**$ 18**	$ 18
Buildings	**292**	288
Network equipment	**6,970**	7,105
Furniture, vehicles and other work equipment	**113**	117
Construction-in-progress	**28**	18
Other	**44**	32
	7,465	7,578
Less accumulated depreciation	**4,569**	4,633
Total	**$ 2,896**	$ 2,945

3. LEASES

We lease certain facilities and equipment for use in our operations under operating leases. Total rent expense amounted to $54 million in 2010 and $64 million in 2009. Of these amounts, $37 million in 2010 and $41 million in 2009 were lease payments to affiliated companies.

The following table displays the aggregate minimum rental commitments under noncancelable operating leases for the periods shown at December 31, 2010, excluding those with affiliated companies:

	(dollars in millions)
Years	**Operating Leases**
2011	$ 2
2012	1
2013	1
2014	1
2015	---
Thereafter	---
Total minimum rental commitments	$ 5

4. DEBT

Debt Maturing Within One Year

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

		(dollars in millions)
At December 31,	**2010**	2009
Notes payable to affiliate VNFC	**$ 264**	$ 532
Long-term debt maturing within one year	**$ 264**	$ 532
Weighted average interest rate for note payable outstanding at year-end	**0.32%**	0.73%

We have a contractual agreement with an affiliated company, Verizon Network Funding Corp. (VNFC), for the provision of financing and cash management services.

Long-Term Debt

Outstanding long-term debt consists of the following:

At December 31,	Interest Rate	Maturity	2010	2009
			(dollars in millions)	
Ten year debenture	6.125%	2013	**$ 350**	$ 350
Thirty year debenture	6.860	2028	**300**	300
			650	650
Unamortized discount and premium, net			**(7)**	(7)
Total long-term debt			**$ 643**	$ 643

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.

Maturities of long-term debt outstanding at December 31, 2010, excluding unamortized discount and premium are as follows:

Years	(dollars in millions)
2011	$ ---
2012	---
2013	350
2014	---
2015	---
Thereafter	300
Total long-term debt outstanding	$ 650

The fair value of our debt is determined based on market quotes for similar terms and maturities or future cash flows discounted at current rates. The fair value of our debt was $955 million and $1,206 million at December 31, 2010 and 2009, respectively, as compared to the carrying value of $907 million and $1,175 million, respectively at December 31, 2010 and 2009.

5. 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, 2010.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for the majority of our employees are subject to collective bargaining agreements. Approximately 88% 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:

(dollars in millions)

	Pension		Health Care and Life	
Years Ended December 31,	**2010**	2009	**2010**	2009
Net periodic benefit (income) cost	**$ 11**	$ (4)	**$ 46**	$ 54
Termination benefits	**2**	2	**---**	1
Settlement loss	**4**	60	**---**	---
Curtailment loss	**---**	21	**---**	30
Subtotal	**6**	83	**---**	31
Total cost	**$ 17**	$ 79	**$ 46**	$ 85

In 2010, we recorded a pension settlement loss of $4 million related to employees that received lump-sum distributions, primarily resulting from our previous separation plans, as prescribed payment thresholds were reached.

In 2009, we recorded a pension settlement loss of $60 million related to employees that received lump-sum distributions, primarily resulting from our previous separation plans, as prescribed payment thresholds were reached. Additionally, we recorded pension and postretirement curtailment losses of $51 million as workforce reductions caused the elimination of a significant amount of future service requiring us to recognize a portion of the prior service cost and actuarial losses.

Amounts recognized in the balance sheets consist of:

(dollars in millions)

	Pension		Health Care and Life	
At December 31,	**2010**	2009	**2010**	2009
Prepaid pension asset	**$ 328**	$ 342	**$ ---**	$ ---
Employee benefit obligations	**66**	64	**524**	501

Changes in benefit obligations were caused by factors including changes in actuarial assumptions, settlements and curtailments.

Beginning in 2013, as a result of federal health care reform, Verizon will no longer file for the Retiree Drug Subsidy (RDS) and will instead contract with a Medicare Part D plan on a group basis to provide prescription drug benefits to Medicare eligible retirees. This change to our Medicare Part D strategy, resulted in the adoption of plan amendments during the fourth quarter of 2010, which will allow the company to be eligible for greater Medicare Part D plan subsidies over time.

Assumptions

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

	Pension		Health Care and Life	
At December 31,	**2010**	2009	**2010**	2009
Discount rate	**5.75 %**	6.25 %	**5.75 %**	6.25 %
Rate of compensation increases	**3.00**	4.00	**N/A**	N/A

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

	Pension		Health Care and Life	
At December 31,	**2010**	2009	**2010**	2009
Discount rate	**6.25 %**	6.75 %	**6.25 %**	6.75 %
Expected return on plan assets	**8.50**	8.50	**8.25**	8.25
Rate of compensation increases	**4.00**	4.00	**N/A**	N/A

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 follow:

	Health Care and Life	
At December 31,	**2010**	2009
Health care cost trend rate assumed for next year	**7.75 %**	8.00 %
Rate to which cost trend rate gradually declines	**5.00**	5.00
Year the rate reaches level it is assumed to remain thereafter	**2016**	2014

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 currently 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 attributed to our participating management employees. In addition to the ESOP, Verizon also maintains a savings plan for non-management employees. We recorded total savings plan costs of $9 million in 2010 and $9 million in 2009.

Severance Benefits

The following table provides an analysis of our severance liability recorded in accordance with the accounting standard regarding employers' accounting for postemployment benefits:

(dollars in millions)

Year	**Beginning of Year**	**Charged for Expenses (a)**	**Payments**	**End of Year (b)**
2009	$ 30	$ 32	$ (10)	$ 52
2010	**52**	**9**	**(30)**	**31**

(a) Includes accruals for ongoing employee severance costs and $7 million of charges in 2010 and $30 million in 2009 for the involuntary separation of employees.

(b) The remaining severance liability includes future contractual payments to employees separated as of the end of the year.

6. INCOME TAXES

The components of the provision (benefit) for income taxes are presented in the following table:

(dollars in millions)

Years Ended December 31,	**2010**	2009
Current:		
Federal	**$ (176)**	$ (112)
State and local	**(34)**	(13)
Total	**(210)**	(125)
Deferred:		
Federal	**173**	44
State and local	**28**	(3)
Total	**201**	41
Total benefit for income taxes	**$ (9)**	$ (84)

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,	**2010**	2009
Statutory federal income tax rate	**35.0 %**	35.0 %
State income taxes, net of federal tax benefits	**7.4**	5.1
Medicare subsidy	**1.9**	1.8
Medicare Part D subsidy charge	**(25.9)**	---
Other, net	**(1.7)**	0.8
Effective income tax rate	**16.7 %**	42.7 %

The change in the income tax benefit in 2010 was impacted by a one-time, non-cash income tax charge of $15 million. Under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively the Health Care Act), beginning in 2013, Verizon and other companies that receive a subsidy under Medicare Part D to provide retiree prescription drug coverage will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage to the extent of the subsidy received. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in our financial statements, this change required us to reduce the value of the related tax benefits recognized in our financial statements in the period during which the Health Care Act was enacted.

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:

		(dollars in millions)
Years Ended December 31,	**2010**	2009
Deferred tax assets:		
Employee benefits	**$ 128**	$ 136
Allowance for uncollectible accounts	**3**	5
Other - assets	**8**	10
Total deferred tax assets	**139**	151
Deferred tax liabilities:		
Depreciation	**668**	489
Other - liabilities	**10**	---
Total deferred tax liabilities	**678**	489
Net deferred tax liability	**$ 539**	$ 338

Unrecognized Tax Benefits

A reconciliation of the beginning and ending balance of unrecognized tax benefits is as follows:

		(dollars in millions)
At December 31,	**2010**	2009
Balance at January 1,	**$ 23**	$ 21
Additions based on tax positions related to the current year	**7**	2
Additions for tax positions of prior years	**17**	11
Reductions for tax positions of prior years	**(6)**	(11)
Balance at December 31,	**$ 41**	$ 23

Included in the total unrecognized tax benefits at December 31, 2010 and 2009 is $5 million and $5 million, respectively, that, if recognized, would favorably affect the effective income tax rate.

We recognized the following net after tax (expense)/benefit related to interest and penalties in the provision for income taxes:

At December 31,	(dollars in millions)
2010	**$ (1)**
2009	2

The after tax accrual for the payment of interest and penalties in the balance sheet are as follows:

At December 31,	(dollars in millions)
2010	**$ 4**
2009	3

Verizon and/or its domestic subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and local jurisdictions. The Internal Revenue Service (IRS) is currently examining Verizon's U.S. income tax returns for years 2004 through 2006. As a large taxpayer, we are under continual audit by the IRS and multiple state jurisdictions on numerous open tax positions. It is reasonably possible that the amount of the remaining liability for unrecognized tax benefits could change by a significant amount during the next twelve-month period. An estimate of the range of the possible change cannot be made until issues are further developed or examinations close.

7. TRANSACTIONS WITH AFFILIATES

Our financial statements include transactions with the following affiliates:

At December 31,		2010		(dollars in millions) 2009
Operating revenues:				
Verizon Online	**$**	**245**	$	226
Verizon Business		**76**		83
Verizon Wireless Inc.		**42**		33
Verizon Long Distance		**15**		15
Verizon Operating Telephone Companies		**11**		12
Verizon Services		**4**		2
Other		**1**		1
	$	**394**	$	372
Operating expenses:				
Verizon Services	**$**	**477**	$	447
Verizon Data Services Inc.		**59**		58
Verizon Business		**3**		3
Verizon Wireless Inc.		**---**		1
	$	**539**	$	509
Interest expense:				
Interest expense to Verizon Network Funding Corp.	**$**	**3**	$	5

Outstanding balances with affiliates are reported on the balance sheets at December 31, 2010 and 2009 as Accounts receivable - affiliates, Notes payable to affiliates, and Accounts payable and accrued liabilities - affiliates.

Verizon Online

Our operating revenues include transactions with Verizon Online LLC (Verizon Online) associated with the provision of network access and billing and collection services. These revenues are earned from Verizon Online, which utilizes our facilities to provide Internet access services to their customers. Revenues from Verizon Online include revenues from GTE.net LLC, which merged with and into Verizon Online on March 31, 2009.

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.

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.

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 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.

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 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.

Other Affiliates

Other operating revenues include miscellaneous items of income resulting from transactions with other affiliates. These transactions include primarily the provision of local and network access services, and rental of facilities and equipment.

Verizon Network Funding Corporation

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.

8. ADDITIONAL FINANCIAL INFORMATION

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

		(dollars in millions)
Years Ended December 31,	**2010**	2009
Cash Flow Information:		
Cash paid (refunded) during the year for:		
Income taxes refunded, net	**$ (233)**	$ (103)
Interest, net of amounts capitalized (excluding affiliates)	**42**	41
Income Statement Information:		
Depreciation expense	**340**	358
Interest costs incurred	**45**	48
Capitalized interest	**(1)**	(1)
Advertising expense (allocated to us by Verizon Services)	**36**	25

9. 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.