Verizon Maryland Inc.

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

Verizon Maryland Inc.

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Verizon Maryland Inc.

REPORT OF INDEPENDENT AUDITORS

To The Board of Directors and Shareowner of Verizon Maryland Inc.

We have audited the accompanying consolidated balance sheets of Verizon Maryland Inc. ("the Company"), a subsidiary of Verizon Communications Inc., as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in shareowner'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 consolidated financial position of Verizon Maryland Inc. at December 31, 2008 and 2007, and the consolidated 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 consolidated 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 Maryland Inc.

CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions)

Years Ended December 31,	2008	2007
Operating Revenues	**$ 2,380**	$ 2,302
Operating Expenses		
Cost of services and sales (exclusive of items shown below)	**782**	738
Selling, general and administrative expense	**764**	788
Depreciation and amortization expense	**461**	441
Total Operating Expenses	**2,007**	1,967
Operating Income	**373**	335
Other income (expense), net	**20**	22
Interest expense	**(116)**	(101)
Income Before Provision for Income Taxes	**277**	256
Provision for income taxes	**(105)**	(100)
Net Income	**$ 172**	$ 156

See Notes to Consolidated Financial Statements.

Verizon Maryland Inc.

CONSOLIDATED BALANCE SHEETS

ASSETS

At December 31,	2008	2007
		(dollars in millions)
Current assets		
Short-term investments	**$ 11**	$ 89
Notes receivable from affiliate	**780**	430
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of $33 and $35	**298**	317
Affiliates	**42**	92
Material and supplies	**33**	14
Prepaid expenses	**---**	5
Deferred charges and other	**47**	42
Total current assets	**1,211**	989
Plant, property and equipment	**9,781**	9,292
Less accumulated depreciation	**6,264**	5,955
	3,517	3,337
Intangible assets, net	**4**	3
Prepaid pension asset	**322**	315
Other assets	**44**	49
Total assets	**$ 5,098**	$ 4,693

See Notes to Consolidated Financial Statements.

Verizon Maryland Inc.

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREOWNER'S INVESTMENT

		(dollars in millions)
At December 31,	**2008**	2007
Current liabilities		
Debt maturing within one year:		
Notes payable to affiliates	**$ 910**	$ 598
Other	**1**	1
Accounts payable and accrued liabilities:		
Affiliates	**185**	216
Other	**176**	170
Deferred income taxes	**--**	22
Other current liabilities	**140**	140
Total current liabilities	**1,412**	1,147
Long-term debt	**1,244**	1,245
Employee benefit obligations	**695**	644
Deferred credits and other liabilities		
Deferred income taxes	**362**	312
Unamortized investment tax credit	**5**	6
Other	**77**	81
	444	399
Shareowner's investment		
Common stock - one share, without par value	**735**	735
Contributed capital	**143**	143
Reinvested earnings	**425**	380
Total shareowner's investment	**1,303**	1,258
Total liabilities and shareowner's investment	**$ 5,098**	$ 4,693

See Notes to Consolidated Financial Statements.

Verizon Maryland Inc.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNER'S INVESTMENT

	(dollars in millions)	
Years Ended December 31,	**2008**	2007
Common Stock		
Balance at beginning of year	**$ 735**	$ 735
Balance at end of year	**735**	735
Contributed Capital		
Balance at beginning of year	**143**	143
Balance at end of year	**143**	143
Reinvested Earnings		
Balance at beginning of year	**380**	223
Adoption of FIN 48	**---**	1
Adjusted balance at beginning of year	**380**	224
Net income	**172**	156
Dividends declared	**(128)**	---
Other	**1**	---
Balance at end of year	**425**	380
Total Shareowner's Investment	**$ 1,303**	$ 1,258

See Notes to Consolidated Financial Statements.

Verizon Maryland Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended December 31,	2008	2007
	(dollars in millions)	
Cash Flows from Operating Activities		
Net income	**$ 172**	$ 156
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**461**	441
Deferred income taxes, net	**21**	(27)
Employee retirement benefits	**103**	94
Provision for uncollectible accounts	**25**	26
Changes in current assets and liabilities:		
Accounts receivable	**45**	(67)
Material and supplies	**(3)**	5
Other current assets	**5**	34
Accounts payable and accrued liabilities	**(24)**	69
Other current liabilities	**(3)**	(12)
Other, net	**(57)**	(23)
Net cash provided by operating activities	**745**	696
Cash Flows from Investing Activities		
Capital expenditures (including capitalized network and non-network software)	**(654)**	(657)
Purchases of short-term investments	**(10)**	(88)
Proceeds from sale of short-term investments	**88**	83
Change in notes receivable from affiliate	**(350)**	(323)
Proceeds from sales of assets	**3**	10
Other, net	**(4)**	(1)
Net cash used in investing activities	**(927)**	(976)
Cash Flows from Financing Activities		
Principal repayments of borrowings and capital lease obligations	**(1)**	(4)
Net change in current notes payable to affiliate	**312**	286
Dividends paid	**(128)**	---
Net change in outstanding checks drawn on controlled disbursement accounts	**(1)**	(2)
Net cash provided by financing activities	**182**	280
Net change in cash	**---**	---
Cash, beginning of year	**---**	---
Cash, end of year	**$ ---**	$ ---

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Verizon Maryland Inc. (Verizon Maryland or the Company) is a wholly owned subsidiary of Verizon Communications Inc. (Verizon). We presently serve a territory consisting of Local Access and Transport Areas (LATA) in the state of Maryland. 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 Public Service Commission of Maryland with respect to intrastate rates and services and other matters. The Federal Communications Commission (FCC) 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 generally accepted accounting principles in the United States of America 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.

The consolidated financial statements include the accounts of Verizon Maryland Inc. and its wholly owned subsidiary Verizon Online Maryland LLC. All significant intercompany accounts and transactions have been eliminated.

We have a 1.93% ownership interest in SMS/800, a venture that is jointly owned by the former 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.

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 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 useful 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	14-16
Fiber cable	20-25
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 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.

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 14 to 16 years. Annually, we review the estimated useful lives of plant, property and equipment along with the associated depreciation rates. 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 $15 million ($9 million 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 $11 million ($7 million 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 $29 million ($18 million 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:

(dollars in millions)

	At December 31, 2008		At December 31, 2007	
	Gross Amount	**Accumulated Amortization**	Gross Amount	Accumulated Amortization
Non-network software (5 to 7 years)	**$ 4**	**$ 3**	$ 28	$ 25
Franchise fees (5 to 15 years)	**4**	**1**	---	---

Intangible asset amortization expense was $3 million and $6 million for the years ended December 31, 2008 and 2007, respectively and is estimated to be $1 million in 2009, $1 million in 2010, $1 million in 2011 and $1 million in 2012.

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.

Stock-Based Compensation

We participate in the Verizon Communications Long Term Incentive Plan (the Plan). The Plan permits the granting of nonqualified stock options, incentive stock options, restricted stock, restricted stock units, performance shares, performance share 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 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 price of Verizon's stock. Dividend equivalent units are also paid to participants at the time the RSU award is paid.

Performance Share Units

The Plan also provides for grants of performance share 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 Communications determines the number of PSUs a participant earns based on the extent to which the corresponding goals have been achieved over the three-year performance cycle. All payments are subject to approval by Verizon's 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's 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 employees at an option price per share of 100% of the fair market value of Verizon 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, 2008.

After-tax compensation expense for other stock-based compensation included in net income as reported for the years ended December 31, 2008 and 2007 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 consolidated 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 consolidated 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). 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 consolidated 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* (SFAS No. 112). 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 consolidated statements 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.

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, including us, 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. 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 million 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:

		(dollars in millions)
At December 31,	**2008**	2007
Land	**$ 23**	$ 23
Buildings	**602**	600
Central office equipment	**4,233**	4,098
Outside communications plant	**4,238**	3,904
Furniture, vehicles and other work equipment	**293**	320
Construction-in-progress	**84**	129
Other	**308**	218
	9,781	9,292
Less accumulated depreciation	**6,264**	5,955
Total	**$ 3,517**	$ 3,337

3. LEASES

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense amounted to $91 million in 2008 and $111 million in 2007. Of these amounts, $76 million in 2008 and $99 million in 2007 were lease payments to affiliated companies. Rental commitments under noncancelable leases were not material at December 31, 2008.

4. DEBT

Debt Maturing Within One Year

Debt maturing within one year consists of the following:

	(dollars in millions)	
At December 31,	**2008**	2007
Notes payable to affiliate:		
FSLLC	**$ 910**	$ 598
Long-term debt maturing within one year	**1**	1
Total debt maturing within one year	**$ 911**	$ 599
Weighted average interest rate for notes payable outstanding at year-end	**5.98%**	6.13%

We have contractual agreements with an affiliated company, Verizon Financial Services LLC (FSLLC), 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 $2,055 million and $1,868 million at December 31, 2008 and 2007, respectively, as compared to the carrying value of $2,150 million and $1,838 million, respectively at December 31, 2008 and 2007.

Long-Term Debt

Outstanding long-term debt obligations are as follows:

			(dollars in millions)	
At December 31,	**Interest Rate**	**Maturity**	**2008**	2007
Ten year debenture	6.125%	2012	**$ 500**	$ 500
Thirty year debenture	7.150	2023	**250**	250
Forty year debenture	8.000	2029	**50**	50
Forty year debenture	8.300	2031	**100**	100
Thirty year debenture	5.125	2033	**350**	350
			1,250	1,250
Unamortized discount and premium, net			**(10)**	(10)
Capital lease obligations			**5**	6
Total long-term debt, including current maturities			**1,245**	1,246
Less maturing within one year			**1**	1
Total long-term debt			**$ 1,244**	$ 1,245

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 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, 2008, excluding capital lease obligations and unamortized discount and premium are as follows:

	(dollars in millions)
Years	
2009	$ ---
2010	---
2011	---
2012	500
2013	---
Thereafter	750
Total long-term debt outstanding	$ 1,250

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 $106 million and $60 million in 2008 and $112 million and $57 million 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.

Notes Receivable

The Financial Services agreement between Verizon Network Funding Corp. (VNFC) and us allows VNFC to collect funds on our behalf. These funds are assigned a variable interest rate and demand note basis, therefore, the carrying value of the notes receivable approximates its fair market value. As of December 31, 2008 and 2007, we had a notes receivable in the amount of $780 million and $430 million from VNFC, respectively.

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 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 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.

As of June 30, 2006 Verizon management employees no longer earn pension benefits or earn service towards the company retiree medical subsidy. In addition, new management employees hired after December 31, 2005 are not eligible for pension benefits and managers with less than 13.5 years of service as of June 30, 2006 are not eligible for company-subsidized retiree healthcare or retiree life insurance benefits. Beginning July 1, 2006, management employees received an increased company match on their savings plan contributions.

Benefit Cost

(dollars in millions)

	Pension		Health Care and Life	
At December 31,	**2008**	2007	**2008**	2007
Net periodic benefit (income) cost	**$ (12)**	$ (14)	**$ 110**	$ 108
Settlement loss	**4**	---	**---**	---
Curtailment loss	**---**	---	**1**	---
Total (income) cost	**$ (8)**	$ (14)	**$ 111**	$ 108

In 2008 we recorded a pension settlement loss of $4 million as lump-sum payments exceeded the threshold of service and interest costs. Also, we recorded expense of $1 million 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 consolidated balance sheet at December 31 consist of:

(dollars in millions)

	Pension		Health Care and Life	
At December 31,	**2008**	2007	**2008**	2007
Prepaid pension asset	**$322**	$315	**$ ---**	$ ---
Employee benefit obligations	**1**	1	**648**	591

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:

	Pension		Health Care and Life	
At December 31,	**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:

	Pension		Health Care and Life	
Years Ended December 31,	**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 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,	**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 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 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 $15 million in 2008 and $16 million in 2007.

Severance Benefits

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

(dollars in millions)

Year	Beginning of Year	Charged to Expense (a)	Payments	End of Year (b)
2007	$ 16	$ 22	$ (13)	$ 25
2008	**25**	**13**	**(20)**	**18**

(a) Includes accruals for ongoing employee severance costs as well as special charges of $11 million and $20 million in 2008 and 2007, respectively.

(b) 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:

(dollars in millions)

Years Ended December 31,	2008	2007
Current:		
Federal	**$ 57**	$ 115
State and local	**27**	12
	84	127
Deferred:		
Federal	**29**	(34)
State and local	**(8)**	7
	21	(27)
Total provision for income taxes	**$ 105**	$ 100

The following table shows the principal 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	**4.4**	4.8
Investment tax credits	**(0.1)**	(0.1)
Other, net	**(1.5)**	(0.6)
Effective income tax rate	**37.8%**	39.1%

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,	**2008**	2007
Deferred tax assets:		
Employee benefits	**$ 172**	$ 123
Allowance for uncollectible accounts	**13**	13
Investment tax credits	**2**	2
Other - assets	**10**	10
Deferred tax assets	**197**	148
Deferred tax liabilities:		
Depreciation	**528**	460
Other - liabilities	**24**	22
Deferred tax liabilities	**552**	482
Net deferred tax liability	**$ 355**	$ 334

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 millions)	
	2008	2007
Balance at January 1,	**$28**	$24
Additions based on tax positions related to the current year	**11**	8
Additions for tax positions of prior years	**7**	4
Reductions for tax positions of prior years	**(13)**	(8)
Settlements	**2**	---
Lapses of statutes of limitations	**---**	---
Balance at December 31,	**$35**	$28

Included in the total unrecognized tax benefits at December 31, 2008 and 2007 is $4 million and $4 million, 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 interest and penalties of approximately $1 million. We had approximately $4 million (after-tax) and $3 million (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 $1 million (after-tax) for the payment of interest and penalties. We had approximately $3 million (after-tax) and $2 million (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.

8. TRANSACTIONS WITH AFFILIATES

Our consolidated financial statements include transactions with the following affiliates:

	(dollars in millions)	
Years Ended December 31,	**2008**	2007
Operating revenues:		
Verizon Business	**$ 132**	$ 142
Verizon Wireless Inc.	**58**	61
Verizon Services	**37**	37
Verizon Internet Services Inc.	**39**	34
Verizon Long Distance	**29**	31
Verizon Operating Telephone Companies	**13**	15
Other	**1**	1
	$ 309	$ 321
Operating expenses:		
Verizon Services	**$ 572**	$ 557
Verizon Internet Services Inc.	**182**	192
Verizon Data Services Inc.	**76**	38
Verizon Connected Solutions Inc.	**19**	20
Verizon Operating Telephone Companies	**---**	14
Verizon Wireless Inc	**6**	7
GTE Communication Systems Corporation	**15**	2
Verizon Business	**2**	2
	$ 872	$ 832
Other income (expense), net:		
Interest income from Verizon Network Funding Corp.	**$ 20**	$ 18
Interest income from Verizon Services	**---**	1
	$ 20	$ 19
Interest expense to		
Verizon Financial Services LLC	**$ 44**	$ 28
	$ 44	$ 28
Dividends paid to Verizon	**$ 128**	$ ---

Outstanding balances with affiliates are reported on the balance sheets at December 31, 2008 and 2007 as Notes Receivables from Affiliates, Accounts Receivable from Affiliates, Notes Payable to Affiliates, Accounts Payable and Accrued Liabilities to Affiliates.

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 Services

Our operating revenues and expenses 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 Internet Services Inc.

Our operating revenues and expenses 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 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, primarily related to programming charges associated with billing system changes. Prior to April 2003 and the approval of our application for permission to enter the in-region long distance market in Maryland, operating revenues included transactions with Verizon Long Distance associated with pre-launch activities related to this service.

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.

Other Affiliates

Other operating revenues 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 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 Network Funding Corp. and Verizon Financial Services LLC

We recognize interest expense/income in connection with contractual agreements with affiliated companies, Verizon Network Funding Corp. and Verizon Financial Services LLC, for the provision of short-term financing and cash management services.

9. ADDITIONAL FINANCIAL INFORMATION

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

		(dollars in millions)
Years Ended December 31,	**2008**	2007
Cash Flow Information:		
Cash paid during the year for:		
Income taxes paid, net	**$ 43**	$ 110
Interest, net of amounts capitalized (excluding affiliates)	**73**	73
Income Statement Information:		
Depreciation expense	**458**	435
Interest costs incurred	**124**	108
Advertising expense (allocated to us by Verizon Services)	**48**	47
Capitalized interest	**(8)**	(7)

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 EVENTS

On February 2, 2009, we declared and paid a dividend in the amount of $95 million to our parent, Verizon.