Condensed Consolidated Financial Statements Three Months Ended March 31, 2010 and 2009

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
(dollars in millions) (unaudited)	2010	2009
Operating Revenues (including \$150 and \$155 from affiliates)	\$ 588	\$ 617
(mending \$130 and \$133 from armates)	300	\$ 017
Operating Expenses (including \$198 and \$226 to affiliates)		
Cost of services and sales (exclusive of items shown below)	340	326
Selling, general and administrative expense	150	169
Depreciation and amortization expense	141	146
Total Operating Expenses	631	641
Operating Income Loss	(43)	(24)
Other income and (expense), net (including \$ and \$4 from affiliates)		6
Interest expense (including \$(3) and \$(3) to affiliates)	(22)	(27)
Loss Before Income Tax Benefit	(65)	(45)
Income tax benefit (provision)	(6)	26
Net Loss	\$ (71)	\$ (19)

CONDENSED CONSOLIDATED BALANCE SHEETS

Assets Current assets Accounts receivable: 386 Trade and other, net of allowances for uncollectibles of \$65 and \$64 \$ 386 Affiliates 50 Prepaid expenses 142 Deferred income taxes 71 Deferred charges and other 28 Total current assets 677 Plant, property and equipment 14,017 Less accumulated depreciation 9,563 Intangible assets, net 18 Prepaid pension asset 126 Other assets 190 Total assets 190 Total assets \$ 5,465 Liabilities and Shareowner's Investment Current liabilities \$ 5,465 Debt maturing within one year: \$ 394 Note payable to affiliate \$ 394 Other 3	\$ 373 62 30 75 52 592 13,945 9,495 4,450 17 135 205 \$ 5,399
Accounts receivable: Trade and other, net of allowances for uncollectibles of \$65 and \$64 \$ 386 Affiliates 50 Prepaid expenses 142 Deferred income taxes 71 Deferred charges and other 28 Total current assets 677 Plant, property and equipment 14,017 Less accumulated depreciation 9,563 Intangible assets, net 18 Prepaid pension asset 126 Other assets 190 Total assets \$ 5,465 Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate \$ 394	62 30 75 52 592 13,945 9,495 4,450 17 135 205
Trade and other, net of allowances for uncollectibles of \$65 and \$64 \$ 386 Affiliates 50 Prepaid expenses 142 Deferred income taxes 71 Deferred charges and other 28 Total current assets 677 Plant, property and equipment 14,017 Less accumulated depreciation 9,563 Intangible assets, net 18 Prepaid pension asset 126 Other assets 190 Total assets \$ 5,465 Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate \$ 394	62 30 75 52 592 13,945 9,495 4,450 17 135 205
Affiliates 50 Prepaid expenses 142 Deferred income taxes 71 Deferred charges and other 28 Total current assets 677 Plant, property and equipment 14,017 Less accumulated depreciation 9,563 Intangible assets, net 18 Prepaid pension asset 126 Other assets 190 Total assets \$ 5,465 Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate \$ 394	62 30 75 52 592 13,945 9,495 4,450 17 135 205
Prepaid expenses 142 Deferred income taxes 71 Deferred charges and other 28 Total current assets 677 Plant, property and equipment 14,017 Less accumulated depreciation 9,563 Intangible assets, net 18 Prepaid pension asset 126 Other assets 190 Total assets \$ 5,465 Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate \$ 394	30 75 52 592 13,945 9,495 4,450 17 135 205
Deferred income taxes Deferred charges and other Total current assets Total current assets Total current assets Flant, property and equipment Less accumulated depreciation Intangible assets, net Prepaid pension asset Other assets Total assets Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate Total assets Total affiliate Total affiliat	75 52 592 13,945 9,495 4,450 17 135 205
Deferred charges and other Total current assets Plant, property and equipment Less accumulated depreciation Intangible assets, net Prepaid pension asset Other assets Total assets Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate Popport and equipment 14,017 19,563 14,454 Intangible assets, net 18 18 190 126 126 190 5,465	52 592 13,945 9,495 4,450 17 135 205
Total current assets 677 Plant, property and equipment 14,017 Less accumulated depreciation 9,563 Intangible assets, net 18 Prepaid pension asset 126 Other assets 190 Total assets \$190 Total assets \$5,465 Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate \$394	13,945 9,495 4,450 17 135 205
Plant, property and equipment Less accumulated depreciation Intangible assets, net Prepaid pension asset Other assets Total assets Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate 14,017 9,563 18 18 126 126 126 190 \$5,465	13,945 9,495 4,450 17 135 205
Less accumulated depreciation P,563 4,454 Intangible assets, net Prepaid pension asset Other assets 126 Other assets 190 Total assets Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate \$ 394	9,495 4,450 17 135 205
Intangible assets, net Prepaid pension asset Other assets Total assets Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate 18 18 190 126 190 190 190 190 190 190 190 190 190 190	4,450 17 135 205
Intangible assets, net Prepaid pension asset Other assets 126 Other assets 190 Total assets Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate 18 190 126 190 190 190 190 190 190 190 190 190 190	17 135 205
Prepaid pension asset Other assets 126 Other assets 190 Total assets Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate 126 S 5,465	135 205
Prepaid pension asset Other assets 126 Other assets 190 Total assets Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate 126 S 5,465	205
Total assets \$ 5,465 Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate \$ 394	
Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Note payable to affiliate \$394	\$ 5,399
Current liabilities Debt maturing within one year: Note payable to affiliate \$ 394	
Other 3	\$ 426
Offici	2
Accounts payable and accrued liabilities:	
Affiliates 221	179
Other 144	133
Other current liabilities 132	131
Total current liabilities 894	871
Long-term debt	
Note payable to affiliate 220	220
Other 1,688	1,691
Employee benefit obligations 1,962 Deferred credits and other liabilities	1,965
Deferred income taxes 251	113
Unamortized investment tax credits 8	8
Other 120	138
379	259
Shareowner's investment	
Common stock (one share, without par value)	1
Contributed capital 425	425
Accumulated deficit (104)	(33)
Total shareowner's investment 322	393
Total liabilities and shareowner's investment \$ 5,465	\$ 5,399

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
(dollars in millions) (unaudited)	2010	2009
Net Cash Provided by Operating Activities	\$ 150	\$ 231
Cash Flows from Investing Activities Capital expenditures (including capitalized software)	(110)	(122)
Net change in short-term investments	(116)	(133) 15
Net change in notes receivable from affiliates Other, net	 (1)	(109) (2)
Net cash used in investing activities	(117)	(229)
Cash Flows from Financing Activities		
Proceeds from long-term note payable to affiliate Principal repayments of note payable to affiliate		220 (220)
Net change in short-term notes payable to affiliate	(31)	(220)
Net change in outstanding checks drawn on controlled disbursement accounts	(2)	(2)
Net cash used in financing activities	(33)	(2)
Net change in cash		
Cash, beginning of period		
Cash, end of period	\$	\$

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation and Recent Accounting Standard Updates

Verizon New England Inc. (Verizon New England or the Company) and its wholly owned subsidiary, Northern New England Telephone Operations, LLC, are wholly owned subsidiaries of NYNEX Corporation (NYNEX), which is a wholly owned subsidiary of Verizon Communications Inc. (Verizon). The unaudited condensed consolidated financial statements include the accounts of Verizon New England Inc. and its subsidiary. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim periods. These condensed consolidated financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial position for the interim periods shown including normal recurring accruals and other items. All significant intercompany accounts and transactions have been eliminated. We have evaluated subsequent events through May 28, 2010, the date these condensed consolidated financial statements were issued. The results for the interim periods are not necessarily indicative of results for the full year. The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For a more complete discussion of significant accounting policies and certain other information, you should refer to our December 31, 2009 audited financial statements.

Recent Accounting Standards

In September 2009, the accounting standard update regarding revenue recognition for multiple deliverable arrangements was issued. This update requires the use of the relative selling price method when allocating revenue in these types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. This standard update is effective January 1, 2011 and may be adopted prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. We are currently evaluating the impact that this standard update will have on our consolidated financial statements.

In September 2009, the accounting standard update regarding revenue recognition for arrangements that include software elements was issued. 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. This standard update is effective January 1, 2011 and may be adopted prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. We are currently evaluating the impact that this standard update will have on our consolidated financial statements.

2. Shareowner's Investment

(dollars in millions)	Common Stock	Contributed Capital	Accumulated Deficit
Balance at December 31, 2009	\$ 1	\$ 425	\$ (33)
Net loss			(71)
Balance at March 31, 2010	\$ 1	\$ 425	\$ (104)

Net loss and comprehensive loss were the same for the three months ended March 31, 2010 and 2009, respectively.

3. Fair Value Measurements

Assets measured at fair value on a recurring basis as of March 31, 2010 primarily include derivative contracts totaling \$35 million that are comprised of interest rate swaps and are valued using models based on readily observable market parameters for all substantial terms of our derivative contracts and thus are classified within Level 2. We use mid-market pricing for fair value measurements of our derivative instruments.

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 short-term and long-term debt, excluding capital leases, was approximately \$2,385 million and \$2,403 million at March 31, 2010 and December 31, 2009, respectively, as compared to the carrying value of approximately \$2,298 million and \$2,331 million at March 31, 2010 and December 31, 2009, respectively.

4. 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, including environmental 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.

5. Other Items

Medicare Part D Subsidy

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 requires 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. As a result, we recorded a one-time, non-cash income tax charge of \$33 million in the first quarter of 2010 to reflect the impact of this change.