Condensed Consolidated Financial Statements Three and Six Months Ended June 30, 2010 and 2009

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

		Three Mo	nths Ended June 30,	Six Months Ended June 30,			
(dollars in millions) (unaudited)		2010	2009	2010	2009		
Operating Revenues							
(including \$158, \$147, \$308 and \$302 from affiliates)	\$	602	\$ 607	\$ 1,190	\$ 1,224		
Operating Expenses (including \$196, \$236, \$394, and \$462 to affiliates)							
Cost of services and sales (exclusive of items shown below)		672	302	1,012	628		
Selling, general and administrative expense		239	148	389	317		
Depreciation and amortization expense		143	146	284	292		
Total Operating Expenses		1,054	596	1,685	1,237		
Operating Income (Loss)		(452)	11	(495)	(13)		
Other income and (expense), net (including \$-, \$3, \$- and \$7 from affiliates)			5		11		
Interest expense (including \$(2), \$(3), \$(5) and \$(6) to affiliates)		(22)	(23)	(44)	(50)		
Loss Before Income Taxes		(474)	(7)	(539)	(52)		
Income tax benefit		185	6	179	32		
Net Loss	\$	(289)	\$ (1)	\$ (360)	\$ (20)		

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in millions) (unaudited)		At June 30, 2010		At December 31, 2009
Assets				
Current assets				
Trade and other, net of allowances for uncollectibles of \$45 and \$64	\$	404	\$	373
Affiliates	·	52		62
Prepaid expenses		181		30
Deferred income taxes		65		75
Deferred charges and other		26		52
Total current assets		728		592
Plant, property and equipment		14,084		13,945
Less accumulated depreciation		9,642		9,495
		4,442		4,450
Intangible assets, net		18		17
Prepaid pension asset		127		135
Other assets		187		205
Total assets	\$	5,502	\$	5,399
Liabilities and Shareowner's Investment				
Current liabilities				
Debt maturing within one year:	_			
Notes payable to affiliate	\$	473	\$	426
Other		2		2
Accounts payable and accrued liabilities: Affiliates		192		179
Other		132		133
Other current liabilities		137		131
Total current liabilities		936		871
Long-term debt:		220		220
Note payable to affiliate		220		220
Other		1,683		1,691
Employee benefit obligations		2,395		1,965
Deferred credits and other liabilities:				
Deferred income taxes		117		113
Unamortized investment tax credits		8		8
Other		110		138
		235		259
Shareowner's investment				
Common stock (one share, without par value)		1		1
Contributed capital		425		425
Accumulated deficit		(393)		(33)
Total shareowner's investment		33	Φ.	393
Total liabilities and shareowner's investment	\$	5,502	\$	5,399

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 3				
(dollars in millions) (unaudited)		2010	2009		
Net Cash Provided by Operating Activities	\$	190 \$	398		
Cash Flows from Investing Activities					
Capital expenditures (including capitalized software)		(232)	(287)		
Net change in short-term investments			24		
Net change in notes receivable from affiliates			44		
Other, net		(2)	(2)		
Net cash used in investing activities		(234)	(221)		
Cash Flows from Financing Activities					
Proceeds from long-term notes payable to affiliates			220		
Principal repayments of notes payable to affiliate		(1)	(201)		
Net change in short-term notes payable to affiliate		47	(195)		
Net change in outstanding checks drawn on controlled disbursement accounts		(2)	(1)		
Net cash provided by (used in) financing activities		44	(177)		
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 August 27, 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.

We have reclassified prior year amounts to conform to the current year presentation.

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	 		(360)
Balance at June 30, 2010	\$ 1	\$ 425	\$ (393)

Net loss and comprehensive loss were the same for the three and six months ended June 30, 2010 and 2009, respectively.

3. Fair Value Measurements

Assets measured at fair value on a recurring basis as of June 30, 2010 primarily include derivative contracts totaling \$30 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 and are recorded within Other assets. 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 \$2,451 million and \$2,403 million at June 30, 2010 and December 31, 2009, respectively, as compared to the carrying value of approximately \$2,371 million and \$2,331 million at June 30, 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.

Severance, Pension and Benefit Charges

In April 2010, we reached an agreement with certain unions on temporary enhancements to the separation programs contained in their existing collective bargaining agreements. These temporary enhancements were intended to help address a previously declared surplus of employees and to help reduce the need for layoffs. Accordingly, during the three months ended June 30, 2010, we recorded severance, pension and benefits charges of \$411 million associated with the union-represented employees who volunteered for the incentive offer. Included in the charges were pension and postretirement curtailment losses of \$136 million as workforce reductions caused the elimination of a significant amount of future service requiring us to recognize a portion of prior service costs and actuarial losses. The charges also included \$126 million of severance charges and \$149 million of special termination benefits for planned workforce reductions.