# Verizon New Jersey Inc.

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Condensed Consolidated Financial Statements
Three Months Ended March 31, 2008 and 2007

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**Verizon New Jersey Inc.**

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

| (Dollars in Millions) (Unaudited) | Three Months Ended March 31, 2008 | 2007 |
|---|---|---|
| **Operating Revenues** | | |
| (including $129 and $125 from affiliates) | $ 804 | $ 821 |
| **Operating Expenses** | | |
| (including $263 and $268 to affiliates) | | |
| Cost of services and sales (exclusive of items shown below) | 307 | 304 |
| Selling, general and administrative expense | 235 | 253 |
| Depreciation and amortization expense | 155 | 146 |
| **Total Operating Expenses** | 697 | 703 |
| **Operating Income** | 107 | 118 |
| Other income | 5 | 3 |
| (including $4 and $1 to affiliate) | | |
| Interest expense | | |
| (including $(13) and $(8) to affiliate) | (34) | (29) |
| **Income Before Provision for Income Taxes** | 78 | 92 |
| Provision for income taxes | (29) | (39) |
| **Net Income** | $ 49 | $ 53 |

See Notes to Condensed Consolidated Financial Statements

**Verizon New Jersey Inc.**

## CONDENSED CONSOLIDATED BALANCE SHEETS

| (Dollars in Millions) (Unaudited) | At March 31, 2008 | At December 31, 2007 |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Short-term investments | $ 134 | $ 151 |
| Note receivable from affiliate | 448 | 300 |
| Accounts receivable: | | |
| Trade and other, net of allowances for uncollectibles of $73 and $73 | 363 | 408 |
| Affiliates | 100 | 101 |
| Material and supplies | 24 | 19 |
| Prepaid expenses | 32 | 42 |
| Deferred charges and other | 65 | 59 |
| Total current assets | 1,166 | 1,080 |
| Plant, property and equipment | 14,129 | 13,963 |
| Less accumulated depreciation | 9,558 | 9,445 |
| | 4,571 | 4,518 |
| Intangible assets, net | 4 | 5 |
| Prepaid pension asset | 563 | 556 |
| Deferred income taxes | 33 | 37 |
| Other assets | 78 | 78 |
| Total assets | $ 6,415 | $ 6,274 |
| **Liabilities and Shareowner's Investment** | | |
| Current liabilities | | |
| Debt maturing within one year: | | |
| Notes payable to affiliates | $ 921 | $ 820 |
| Other | 1 | 1 |
| Accounts payable and accrued liabilities: | | |
| Affiliates | 251 | 299 |
| Other | 222 | 215 |
| Deferred income taxes | 12 | 15 |
| Other current liabilities | 182 | 185 |
| Total current liabilities | 1,589 | 1,535 |
| Long-term debt | 1,447 | 1,448 |
| Employee benefit obligations | 1,161 | 1,145 |
| Deferred credits and other liabilities | | |
| Deferred income taxes | 339 | 322 |
| Unamortized investment tax credits | 13 | 13 |
| Other | 139 | 133 |
| | 491 | 468 |
| Shareowner's investment | | |
| Common stock (one share, without par value) | 1,357 | 1,357 |
| Reinvested earnings | 370 | 321 |
| Total shareowner's investment | 1,727 | 1,678 |
| Total liabilities and shareowner's investment | $ 6,415 | $ 6,274 |

See Notes to Condensed Consolidated Financial Statements

**Verizon New Jersey Inc.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| (Dollars in Millions) (Unaudited) | Three Months Ended March 31, 2008 | 2007 |
|---|---|---|
| **Net Cash Provided by Operating Activities** | $ 232 | $ 225 |
| **Cash Flows from Investing Activities** | | |
| Capital expenditures (including capitalized software) | (207) | (188) |
| Net change in short-term investments | 17 | 15 |
| Change in notes receivable from affiliates | (148) | (94) |
| Other, net | 2 | --- |
| Net cash used in investing activities | (336) | (267) |
| **Cash Flows from Financing Activities** | | |
| Change in notes payable to affiliate | 101 | 79 |
| Dividends paid | --- | (34) |
| Net change in outstanding checks drawn on controlled disbursement accounts | 3 | (3) |
| Net cash provided by financing activities | 104 | 42 |
| Net change in cash | --- | --- |
| Cash, beginning of period | --- | --- |
| Cash, end of period | $ --- | $ --- |

See Notes to Condensed Consolidated Financial Statements

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 1. Basis of Presentation and Recent Accounting Pronouncements

Verizon New Jersey Inc. (Verizon New Jersey or the Company) is a wholly owned subsidiary of Verizon Communications Inc. (Verizon). The unaudited condensed consolidated financial statements include the accounts of Verizon New Jersey Inc. and its wholly owned subsidiary Verizon Online New Jersey LLC. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim periods. These condensed 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. The results for the interim periods are not necessarily indicative of results for the full year. The condensed balance sheet at December 31, 2007 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, 2007 audited financial statements.

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*, (SFAS No. 161). This statement requires additional disclosures for derivative instruments and hedging activities that include how and why an entity uses derivatives, how these instruments and the related hedged items are accounted for under SFAS No. 133 and related interpretations, and how derivative instruments and related hedged items affect the entity's financial position, results of operations and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are still evaluating the impact of SFAS No. 161, however, the adoption of this statement is not expected to have a material impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations (Revised)*, (SFAS No. 141(R)), to replace SFAS No. 141, *Business Combinations*. SFAS No. 141(R) requires the use of the acquisition method of accounting, defines the acquirer, establishes the acquisition date and broadens the scope to all transactions and other events in which one entity obtains control over one or more other businesses. This statement is effective for business combinations or transactions entered into for fiscal years beginning on or after December 15, 2008. The adoption of this statement will not have any impact to our financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*, (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the retained interest and gain or loss when a subsidiary is deconsolidated. This statement is effective for financial statements issued for fiscal years beginning on or after December 15, 2008. The adoption of this statement will not have any impact to our financial statements.

### 2. Note Receivable from Affiliate

The Financial Services Agreement between Verizon Network Funding Corp. (VNFC) and Verizon New Jersey allows VNFC to borrow or advance funds on a day-to-day (demand) basis to finance our ordinary business and capital requirements. These funds are assigned a variable interest rate and demand note basis; therefore, the carrying value of the note receivable approximates its fair market value. As of March 31, 2008 and December 31, 2007, we had a note receivable from VNFC for $448 million and $300 million, respectively.

### 3. Shareowner's Investment

| (Dollars in Millions) | **Common Stock** | **Reinvested Earnings** |
|---|---|---|
| Balance at December 31, 2007 | $1,357 | $ 321 |
| Net income | --- | 49 |
| Balance at March 31, 2008 | $1,357 | $ 370 |

Net income and comprehensive income were the same for the three months ended March 31, 2008 and 2007, respectively.

## 4. Fair Value Measurements

*SFAS No. 157*

SFAS No. 157, *Fair Value Measurements* (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. On February 12, 2008, the FASB issued FASB Staff Position (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 intangible assets and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. We are currently evaluating the impact of FSP 157-2 on our financial statements. The impact of partially adopting SFAS No. 157 effective January 1, 2008 was not material to our financial statements.

*Fair Value Measurements on a Recurring Basis*

Financial assets and 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.

The following table presents the asset balances measured at fair value on a recurring basis as of March 31, 2008:

| (Dollars in Millions) | **Level 1** [(1)] | **Level 2** [(2)] | **Level 3** [(3)] | **Total** |
|---|---|---|---|---|
| Assets: | | | | |
| Short-term investments | $ – | $ 134 | $ – | $ 134 |

[(1)] – quoted prices in active markets for identical assets or liabilities
[(2)] – observable inputs other than quoted prices in active markets for identical assets and liabilities
[(3)] – no observable pricing inputs in the market

Short-term investments primarily include a fund comprised of cash equivalents held in trust for the payment of certain employee benefits and are classified as Level 2 as they are not actively traded in an established market.

*Fair Value Measurements on a Nonrecurring Basis*

As permitted by FSP 157-2, we elected to defer the fair value measurement disclosure of our (a) long-lived assets and finite life intangible assets in the determination of impairment under SFAS No. 142 or SFAS No. 144, (b) asset retirement obligations initially measured at fair value under SFAS No. 143 *Accounting for Asset Retirement Obligations*, and (c) nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146 *Accounting for Costs Associated with Exit or Disposal Activities.*

*SFAS No. 159*

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS 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 financial statements.

## 5. 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.