Verizon Delaware LLC

Financial Statements
As of December 31, 2009 and 2008
and for the years then ended

Verizon Delaware LLC

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Verizon Delaware LLC

REPORT OF INDEPENDENT AUDITORS

To The Board of Directors and Member of Verizon Delaware LLC

We have audited the accompanying balance sheets of Verizon Delaware LLC ("the Company"), a subsidiary of Verizon Communications Inc., as of December 31, 2009 and 2008, and the related statements of income, 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 Delaware LLC at December 31, 2009 and 2008, 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 29, 2010

Verizon Delaware LLC

STATEMENTS OF INCOME

Years Ended December 31,	2009	2008
		(dollars in thousands)
Operating Revenues	**$ 348,469**	$ 348,709
Operating Expenses		
Cost of services and sales (exclusive of items shown below)	**164,880**	128,742
Selling, general and administrative expense	**93,720**	88,909
Depreciation and amortization expense	**73,522**	70,726
Total Operating Expenses	**332,122**	288,377
Operating Income	**16,347**	60,332
Other income (expense), net	**(41)**	198
Interest expense	**(5,041)**	(8,114)
Income Before Provision for Income Taxes	**11,265**	52,416
Provision for income taxes	**(3,557)**	(20,675)
Net Income	**$ 7,708**	$ 31,741

See Notes to Financial Statements.

Verizon Delaware LLC

BALANCE SHEETS

At December 31,	2009	2008
		(dollars in thousands)
Assets		
Current assets		
Short-tem investments	**$ 2**	$ 1,163
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of $704 and $1,886	**30,399**	39,446
Affiliates	**11,333**	10,913
Material and supplies	**1,662**	3,073
Prepaid expenses	**7,117**	3,181
Deferred income taxes	**2,764**	2,379
Deferred charges and other	**5,256**	5,723
Total current assets	**58,533**	65,878
Plant, property and equipment	**1,590,427**	1,546,591
Less accumulated depreciation	**979,766**	941,432
	610,661	605,159
Intangible assets, net	**1,075**	835
Prepaid pension assets	**38,067**	47,487
Other assets	**5,950**	6,615
Total assets	**$ 714,286**	$ 725,974
Liabilities and Member's Investment		
Current liabilities		
Debt maturing within one year:		
Notes payable to affiliate	**$ 198,895**	$ 148,693
Other	**70**	---
Accounts payable and accrued liabilities:		
Affiliate	**36,070**	29,997
Other	**4,866**	18,602
Other current liabilities	**16,791**	17,615
Total current liabilities	**256,692**	214,907
Long-term debt		
Notes payable to affiliate	**---**	40,000
Other	**49,897**	49,552
	49,897	89,552
Employee benefit obligations	**108,582**	92,197
Deferred credits and other liabilities:		
Deferred income taxes	**69,799**	60,486
Unamortized investment tax credits	**948**	1,012
Other	**11,248**	10,409
	81,995	71,907
Member's investments		
Member share - $25 par value per share	**118,442**	118,442
Authorized shares: 5,262,280		
Outstanding shares: 4,737,686		
Contributed capital	**18,190**	18,189
Reinvested earnings	**80,488**	120,780
Total member's investment	**217,120**	257,411
Total liabilities and member's investment	**$ 714,286**	$ 725,974

See Notes to Financial Statements.

Verizon Delaware LLC

STATEMENTS OF CHANGES IN MEMBER'S INVESTMENT

		(dollars in thousands)
Years Ended December 31,	**2009**	2008
Member Share		
Balance at beginning of year	**$ 118,442**	$ 118,442
Balance at end of year	**118,442**	118,442
Contributed Capital		
Balance at beginning of year	**18,189**	18,189
Other	**1**	---
Balance at end of year	**18,190**	18,189
Reinvested Earnings		
Balance at beginning of year	**120,780**	110,039
Net income	**7,708**	31,741
Dividends paid	**(48,000)**	(21,000)
Balance at end of year	**80,488**	120,780
Total Member's Investment	**$ 217,120**	$ 257,411

See Notes to Financial Statements.

Verizon Delaware LLC

STATEMENTS OF CASH FLOWS

Years Ended December 31,	2009	2008
		(dollars in thousands)
Cash Flow from Operating Activities		
Net income	**$ 7,708**	$ 31,741
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**73,522**	70,726
Deferred income taxes, net	**8,863**	3,216
Employee retirement benefits	**34,829**	14,059
Provision for uncollectible accounts	**5,166**	2,553
Changes in current assets and liabilities:		
Accounts receivable	**3,461**	(4,102)
Material and supplies	**5,648**	143
Other current assets	**(3,470)**	233
Accounts payable and accrued liabilities	**(7,615)**	4,456
Other current liabilities	**(924)**	78
Other, net	**(7,744)**	(1,194)
Net cash provided by operating activities	**119,444**	121,909
Cash Flows from Investing Activities		
Capital expenditures (including capitalized network and non-network software)	**(78,360)**	(91,434)
Purchases of short-term investments	**(65)**	(1,086)
Proceeds from sale of short-term investments	**1,164**	14,102
Proceeds from sale of assets	**359**	---
Other, net	**(4,651)**	(842)
Net cash used in investing activities	**(81,553)**	(79,260)
Cash Flows from Financing Activities		
Proceeds from borrowings	**---**	40,000
Principal repayments of borrowings and capital lease obligations	**(43)**	(40,078)
Net change in current notes payable to affiliate	**10,202**	(21,596)
Dividends paid	**(48,000)**	(21,000)
Net change in outstanding checks drawn on controlled disbursement accounts	**(49)**	---
Other, net	**(1)**	25
Net cash used in financing activities	**(37,891)**	(42,649)
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 Delaware LLC (Verizon Delaware or the Company) 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 Delaware with a perpetual life and is therefore treated as "disregarded entity" for income tax purposes. We presently serve a territory consisting of a Local Access and Transport Area (LATA) in the state of Delaware and southeastern Pennsylvania. 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 FiOS TV services for residential and small business subscribers in certain areas.

The communications services we provide are subject to regulation by the Delaware and Pennsylvania Public Service Commissions 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 generally accepted accounting principles in the United States (U.S.) 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.

We have a 0.27% ownership interest in SMS/800, a venture that is jointly owned by the 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 evaluated subsequent events through March 29, 2010, the date these financial statements were issued.

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

Revenue Recognition

We recognize revenues based upon usage of our local exchange network and facilities and contract fees. Fixed monthly fees for local telephone, long distance 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. 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.

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 on a net basis.

Maintenance and Repairs

The cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, is charged primarily 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 $12,045 thousand and $8,361 thousand in 2009 and $15,265 thousand and $8,918 thousand in 2008, 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.

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 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 telephone plant, property and equipment 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 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 and depreciated as part of the cost of network related assets and as a reduction in interest expense.

Annually, we review the estimated useful lives of plant, property and equipment along with the associated depreciation rates. We determined effective January 1, 2009 that the average useful lives of copper cable was changed to 15 years from 15 to 17 years. As a result, 2009 depreciation expense increased by $1,957 thousand. Effective January 1, 2008, the average useful lives of fiber cable was increased from 20 years to 25 years. As a result, 2008 depreciation expense decreased by $3,070 thousand.

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.

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 software which has a useful life in excess of one year. Subsequent additions, modifications or upgrades to the internal-use 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 other intangible assets consist of non-network software and franchise fees as follows:

(dollars in thousands)

	At December 31, 2009		At December 31, 2008	
	Gross Amount	**Accumulated Amortization**	Gross Amount	Accumulated Amortization
Non-network software (6 to 7 years)	**$ ---**	**$ ---**	$ 424	$ 356
Franchise fees (5 to 15 years)	**1,360**	**285**	843	76

Intangible asset amortization expense was $277 thousand and $353 thousand for the years ended December 31, 2009 and 2008, respectively and is estimated to be $251 thousand in 2010, $251 thousand in 2011, $251 thousand in 2012, $188 thousand in 2013, $62 thousand in 2014 and $72 thousand thereafter.

Advertising Costs

Costs for advertising products and services are charged to Selling, general and administrative expense in the period in which they are incurred.

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 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 balance sheets (see Note 5).

We recognize a defined benefit postretirement plan's funded status as either an asset or liability on the balance sheets. Also, we measure any unrecognized actuarial gains and losses and prior service costs and credits that arise during the period as a component of Accumulated other comprehensive 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 the balance sheets as of December 31, 2009 or 2008.

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 income.

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. 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 accounting standard for accounting for income taxes to each subsidiary as if it were a separate taxpayer. At December 31, 2009 and December 31, 2008 we had an income tax (benefit)/expense due from/to Verizon Communications Inc. of ($1,733) thousand and $4,396 thousand, 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 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 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. These credits are amortized over the estimated service lives of the related assets as a reduction to the provision for income taxes.

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.

2. PLANT, PROPERTY AND EQUIPMENT

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

		(dollars in thousands)
At December 31,	**2009**	2008
Land	**$ 2,632**	$ 2,646
Buildings	**97,025**	95,259
Central office equipment	**628,440**	624,954
Outside communications plant	**809,347**	767,613
Furniture, vehicles and other work equipment	**30,930**	34,037
Construction-in-progress	**13,318**	8,927
Other	**8,735**	13,155
	1,590,427	1,546,591
Less accumulated depreciation	**979,766**	941,432
Total	**$ 610,661**	$ 605,159

3. LEASES

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense amounted to $11,615 thousand in 2009 and $16,781 thousand in 2008. Of these amounts, $9,438 thousand in 2009 and $14,634 thousand in 2008 were lease payments to affiliated companies.

This table displays the aggregate minimum rental commitments under noncancelable operating leases for the periods shown at December 31, 2009, excluding those with affiliated companies:

Years	(dollars in thousands) Operating Leases
2010	$ 663
2011	566
2012	137
2013	133
2014	10
Total minimum rental commitments	$ 1,509

The aggregate minimum rental commitments under noncancelable capital leases at December 31, 2009 were not significant.

4. DEBT

Debt Maturing Within One Year

Debt maturing within one year is as follows:

At December 31,	(dollars in thousands) 2009	2008
Notes payable to affiliates:		
Verizon Network Funding Corp.	**$ 158,895**	$ 148,693
Verizon Investments	**40,000**	---
Long-term debt maturing within one year	**70**	---
Total debt maturing within one year	**$ 198,965**	$ 148,693
Weighted average interest rate for notes payable outstanding at year-end	**0.69%**	2.93%

We have contractual agreements with affiliated companies, Verizon Network Funding Corp. (VNFC) and Verizon Investments Inc. 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	(dollars in thousands) 2009	2008
Thirty year debenture	8.375 %	2019	**$ 15,000**	$ 15,000
Thirty year debenture	7.000	2023	**20,000**	20,000
Forty year debenture	8.625	2031	**15,000**	15,000
			50,000	50,000
Five year notes payable to affiliate (Verizon Investments)		2010	**---**	40,000
			50,000	90,000
Unamortized discount and premium, net			**(441)**	(448)
Capital lease obligations			**408**	---
Total long-term debt, including current maturities			**49,967**	89,552
Less long-term debt maturing within one year			**70**	---
Total long-term debt			**$ 49,897**	$ 89,552

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.

The fair value of our 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 debt, excluding capital leases, was $254,206 thousand and $241,389 thousand at December 31, 2009 and 2008, respectively, as compared to the carrying value of $248,454 thousand and $238,245 thousand, respectively at December 31, 2009 and 2008.

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, 2009.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for the majority of our employees are subject to collective bargaining agreements. Approximately 93% 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 thousands)

	Pension		**Health Care and Life**	
At December 31,	**2009**	2008	**2009**	2008
Net periodic benefit (income) cost	**$ 150**	$ (1,120)	**$ 17,698**	$ 14,899
Termination benefit	**194**	205	**45**	48
Settlement (gain) loss	**625**	(29)	**---**	---
Curtailment loss	**8,547**	---	**7,570**	56
Subtotal	**9,366**	176	**7,615**	104
Total (income) cost	**$ 9,516**	$ (944)	**$ 25,313**	$ 15,003

In 2009, we recorded a pension settlement loss of $625 thousand 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 $16,117 thousand 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.

In 2008, we recorded a pension settlement gain of $29 thousand related to employees that received lump-sum distributions, primarily resulting from our previous separation plans, as prescribed payment thresholds were reached. Additionally, we recorded postretirement curtailment loss of $56 thousand 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 thousands)

	Pension		Health Care and Life	
At December 31,	**2009**	2008	**2009**	2008
Prepaid pension asset	**$ 38,067**	$ 47,487	**$ ---**	$ ---
Employee benefit obligations	**292**	339	**95,219**	80,102

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

Assumptions

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

	Pension		Health Care and Life	
At December 31,	**2009**	2008	**2009**	2008
Discount rate	**6.25%**	6.75%	**6.25%**	6.75%
Rate of compensation increases	**4.00**	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,	**2009**	2008	**2009**	2008
Discount rate	**6.75%**	6.50%	**6.75%**	6.50%
Expected return on plan assets	**8.50**	8.50	**8.25**	8.25
Rate of compensation increases	**4.00**	4.00	**N/A**	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 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 at December 31,

	Health Care and Life	
	2009	2008
Health care cost trend rate assumed for next year	**8.00%**	9.00%
Rate to which cost trend rate gradually declines	**5.00**	5.00
Year the rate reaches level it is assumed to remain thereafter	**2014**	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 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 $1,761 thousand in 2009 and $2,053 thousand in 2008.

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 thousands)

Year	Beginning of Year	Charged to Expense (a)	Payments	Other (b)	End of Year(c)
2008	$ 7,888	$ 1,728	$ (2,766)	$ 1	$ 6,851
2009	**$ 6,851**	**$ 4,304**	**$ (2,382)**	**$ (1)**	**$ 8,772**

(a) Includes accruals for ongoing employee severance and $3,928 thousand of charges in 2009 and $1,440 thousand in 2008 for the involuntary separation of employees.

(b) Includes amounts reallocated among other Verizon affiliates. From time to time, Verizon must redistribute across its subsidiaries the amount of severance liability based on actual experience at the companies.

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

Recent Developments

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act (PPACA), which includes provisions that, when fully phased in, limit the federal income tax deduction an employer can claim for retiree health care costs for providing retiree prescription drug benefits that are equivalent to Medicare D coverage, and also imposes a 40% excise tax on coverage providers to the extent the value of employer-sponsored health plans exceeds certain prescribed dollar thresholds. Verizon is currently evaluating the impacts that the PPACA will have on Verizon's financial position and results of operations, including its effective tax rate, which may be material.

6. INCOME TAXES

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

(dollars in thousands)

Years Ended December 31,	2009	2008
Current:		
Federal	**$ (4,565)**	$ 14,152
State and local	**(741)**	3,307
	(5,306)	17,459
Deferred:		
Federal	**7,306**	2,116
State and local	**1,621**	1,165
	8,927	3,281
Investment tax credits	**(64)**	(65)
Total income tax expense	**$ 3,557**	$ 20,675

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,	**2009**	2008
Statutory federal income tax rate	**35.0%**	35.0%
State income taxes, net of federal tax benefits	**5.1**	5.5
Investment tax credits	**(0.4)**	(0.1)
Medicare subsidy	**(5.3)**	(1.0)
Unrecognized tax benefit	**(2.1)**	---
Other, net	**(0.7)**	---
Effective income tax rate	**31.6%**	39.4%

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 thousands)	
Years Ended December 31,	**2009**	2008
Deferred tax assets:		
Employee benefits	**$ 31,994**	$ 21,289
Allowance for uncollectible accounts	**677**	775
Investment tax credits	**386**	411
Other - assets	**1,429**	1,025
Total deferred tax assets	**34,486**	23,500
Deferred tax liabilities:		
Depreciation	**101,458**	80,922
Other - liabilities	**62**	685
Total deferred tax liabilities	**101,520**	81,607
Net deferred tax liability	**$ 67,034**	$ 58,107

Unrecognized Tax Benefits

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

	(dollars in thousands)	
	2009	2008
Balance at January 1,	**$ 5,019**	$ 4,454
Additions based on tax positions related to the current year	**1,561**	1,261
Additions for tax positions of prior years	**1,038**	574
Reductions for tax positions of prior years	**(2,830)**	(1,552)
Settlements	**---**	282
Balance at December 31,	**$ 4,788**	$ 5,019

Included in the total unrecognized tax benefits at December 31, 2009 and 2008 is $596 thousand and $543 thousand, 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 2009 and 2008, we recognized a net after tax benefit in the income statement related to interest and penalties of approximately $235 thousand and a net after tax expense of approximately $175 thousand, respectively. We had approximately $391 thousand (after-tax) and $626 thousand (after-tax) for the payment of interest and penalties accrued in the balance sheets at December 31, 2009 and December 31, 2008, respectively.

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:

			(dollars in thousands)
Years Ended December 31,		**2009**	2008
Operating revenues:			
Verizon Internet Services Inc.	**$**	**50,147**	$ 42,701
Verizon Business		**24,244**	23,932
Verizon Long Distance		**3,463**	3,500
Verizon Operating Telephone Companies		**2,406**	1,601
Verizon Services		**2,253**	3,939
Verizon Wireless Inc.		**521**	529
Other		**34**	22
	$	**83,068**	$ 76,224
Operating expenses:			
Verizon Services	**$**	**115,940**	$ 79,746
Verizon Data Services Inc.		**12,459**	11,562
Verizon Connected Solutions Inc.		**2,912**	3,017
GTE Communications Systems Corp		**---**	2,564
Verizon Wireless Inc.		**124**	217
Verizon Business		**50**	40
Other		**(43)**	25
	$	**131,442**	$ 97,171
Other income (expense), net:			
Interest income from Verizon Services	**$**	**---**	$ 20
Interest income from Verizon Network Funding Corp.		**---**	48
Equity income from investee		**---**	5
	$	**---**	$ 73
Interest expense to			
Interest expense to Verizon NSI Holdings Inc.	**$**	**---**	$ 457
Interest expense to Verizon Network Funding Corp.		**1,298**	4,417
Interest expense to Verizon Investments Inc.		**474**	997
	$	**1,772**	$ 5,871
Dividends paid to Verizon	**$**	**48,000**	$ 21,000

Outstanding balances with affiliates are reported in the balance sheets at December 31, 2009 and 2008 as Accounts Receivable from Affiliates, Notes Payable to Affiliate, Accounts Payable and Accrued Liabilities to Affiliates, and Current and Long-term Debt – Notes Payable to Affiliate.

Verizon Internet Services Inc.

Our operating revenues 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 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 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 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.

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 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 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.

Other Affiliates

Other operating revenues and expenses 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 NSI Holding Inc., Verizon Network Funding Corp. and Verizon Investments

We recognize interest expense and/or interest income 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. We also recognized interest expense related to a promissory note held by Verizon NSI Holdings Inc., which was assigned over to Verizon Investments Inc. in March 2008.

8. ADDITIONAL FINANCIAL INFORMATION

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

	(dollars in thousands)	
Years Ended December 31,	**2009**	2008
Cash Flow Information:		
Cash paid during the year for:		
Income taxes paid, net	**$ 1,449**	$ 12,803
Interest, net of amounts capitalized (excluding affiliates)	**3,253**	2,192
Income Statement Information:		
Depreciation expense	**73,245**	70,373
Interest costs incurred	**5,846**	9,762
Capitalized interest	**(805)**	(1,648)
Advertising expense (allocated to us by Verizon Services)	**3,051**	4,643

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.

10. SUBSEQUENT EVENT

On February 15, 2010, Verizon Delaware repaid a $40 million affiliate note payable with Verizon Investments. On February 22, 2010, Verizon Delaware issued a $85 million affiliate note payable, bearing interest at LIBOR plus 70 basis points, with VZ Investments, due February 15, 2015.