CRITICAL ACCOUNTING ESTIMATES AND RECENT ACCOUNTING PRONOUNCEMENTS

Critical Accounting Estimates

A summary of the critical accounting estimates used in preparing our financial statements is as follows:

- Goodwill and Other intangible assets, net are a significant component of our consolidated assets. At December 31, 2008, goodwill at Wireline and Domestic Wireless was $4,738 million and $1,297 million, respectively. As required by SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142), goodwill is periodically evaluated for impairment. The evaluation of goodwill for impairment is primarily based on a discounted cash flow model that includes estimates of future cash flows. There is inherent subjectivity involved in estimating future cash flows, which can have a material impact on the amount of any potential impairment. Wireless licenses of $61,974 million represent the largest component of our intangible assets. Our wireless licenses are indefinite-lived intangible assets, and as required by SFAS No. 142, are not amortized but are periodically evaluated for impairment. Any impairment loss would be determined by comparing the aggregated fair value of the wireless licenses with the aggregated carrying value. The direct value approach is used to determine fair value by estimating future cash flows.
- We maintain benefit plans for most of our employees, including pension and other postretirement benefit plans. At December 31, 2008, in the aggregate, pension plan benefit obligations exceeded the fair value of pension plan assets which will result in higher future pension plan expense. Other postretirement benefit plans have larger benefit obligations than plan assets, resulting in expense. Significant benefit plan assumptions, including the discount rate used, the long-term rate of return on plan assets and health care trend rates are periodically updated and impact the amount of benefit plan income, expense, assets and obligations. A sensitivity analysis of the impact of changes in these assumptions on the benefit obligations and expense (income) recorded as of December 31, 2008 and for the year then ended pertaining to Verizon's pension and postretirement benefit plans is provided in the table below.

(dollars in millions)

	Percentage point change	Benefit obligation increase (decrease) at December 31, 2008	Expense increase (decrease) for the year ended December 31, 2008
Pension plans discount rate*	+ 0.50	$ (1,281)	$ (29)
	- 0.50	1,399	41
Long-term rate of return on pension plan assets	+ 1.00	–	(375)
	- 1.00	–	375
Postretirement plans discount rate*	+ 0.50	(1,401)	(99)
	- 0.50	1,547	110
Long-term rate of return on postretirement plan assets	+ 1.00	–	(39)
	- 1.00	–	39
Health care trend rates	+ 1.00	2,891	460
	- 1.00	(2,399)	(318)

*The discount rate assumptions at December 31, 2008 were determined from hypothetical double A yield curves represented by a series of annualized individual discount rates developed using actual bonds available in the market. From the yield curves a single equivalent discount rate is determined at which the future stream of benefit payments could be settled. Each bond issue included in developing the yield curves is required to have a rating of double A or better by a nationally recognized rating agency and be non-callable with at least $150 million par outstanding.

- Our current and deferred income taxes, and associated valuation allowances, are impacted by events and transactions arising in the normal course of business as well as in connection with the adoption of new accounting standards, acquisitions of businesses and non-recurring items. Assessment of the appropriate amount and classification of income taxes is dependent on several factors, including estimates of the timing and realization of deferred income tax assets and the timing of income tax payments. We account for tax benefits taken or expected to be taken in our tax returns in accordance with 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. Actual collections and payments may materially differ from these estimates as a result of changes in tax laws as well as unanticipated future transactions impacting related income tax balances.
- Verizon's plant, property and equipment balance represents a significant component of our consolidated assets. Depreciation expense on Verizon's local telephone operations is principally based on the composite group remaining life method and straight-line composite rates, which 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. We depreciate other plant, property and equipment generally on a straight-line basis over the estimated useful life of the assets. Changes in the remaining useful lives of assets as a result of technological change or other changes in circumstances, including competitive factors in the markets where we operate, can have a significant impact on asset balances and depreciation expense.

Recent Accounting Pronouncements

In December 2008, the FASB issued FSP FAS No. 132 (R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP 132 (R)-1). FSP 132 (R)-1 requires Verizon, as plan sponsor, to provide improved disclosures about plan assets, including categories of plan assets, nature and amount of concentrations of risk and disclosure about fair value measurements of plan assets, similar to those required by SFAS No. 157, *Fair Value Measurements*. FAS 132 (R)-1 is effective for fiscal years ending after December 15, 2009. We do not expect that the adoption of FSP 132 (R)-1 will have a significant impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 removes the requirement under SFAS No. 142, *Goodwill and Other Intangible Assets* to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions, and replaces it with a requirement that an entity consider its own historical experience in renewing similar arrangements, or a consideration of market participant assumptions in the absence of historical experience. FSP 142-3 also requires entities to disclose information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. We were required to adopt FSP 142-3 effective January 1, 2009 on a prospective basis. The adoption of FSP 142-3 on January 1, 2009 did not have an impact on our consolidated financial statements.

In March 2008, the FASB issued 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. The adoption of SFAS No. 161 on January 1, 2009 did not have an impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, (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. Upon the adoption of SFAS No. 141(R) we will be required to expense certain transaction costs and related fees associated with business combinations that were previously capitalized. This will result in additional expenses being recognized relating to the 2009 closing of the Alltel transaction. In addition, with the adoption of SFAS No. 141(R) changes to valuation allowances for deferred income tax assets and adjustments to unrecognized tax benefits generally will be recognized as adjustments to income tax expense rather than goodwill.

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 which will be applied prospectively, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented. Upon the initial adoption of this statement we will change the classification and presentation of Noncontrolling Interest in our financial statements, which we currently refer to as minority interest. Additionally, we conduct certain business operations in certain markets through non-wholly owned entities. Any changes in these ownership interests may be required to be measured at fair value and recognized as a gain or loss, if any, in earnings. SFAS No. 160 will also result in a lower effective income tax rate for the Company due to the inclusion of income attributable to noncontrolling interest in income before the provision for income taxes. However, the income tax provision will not be adjusted as a result of SFAS No. 160.

Refer to Note 1 in the consolidated financial statements for a discussion of the accounting pronouncements adopted during 2008.

OTHER FACTORS THAT MAY AFFECT FUTURE RESULTS

Recent Developments

Alltel Corporation
On June 5, 2008, Verizon Wireless entered into an agreement and plan of merger with Alltel and its controlling stockholder, Atlantis Holdings LLC, an affiliate of private investment firms TPG Capital and GS Capital Partners, to acquire 100% of the equity of Alltel in an all-cash merger. After satisfying all closing conditions, including receiving the required regulatory approvals, Verizon Wireless closed the acquisition on January 9, 2009 and paid approximately $5.9 billion for the equity of Alltel. Immediately prior to the closing, the Alltel debt associated with the transaction, net of cash, was approximately $22.2 billion. Alltel provides wireless voice and advanced data services to residential and business customers in 34 states.

In connection with this transaction, on June 10, 2008, Verizon Wireless purchased from third parties approximately $5.0 billion aggregate principal amount of debt obligations of certain subsidiaries of Alltel for approximately $4.8 billion plus accrued and unpaid interest. These debt obligations are included in the amount of Alltel net debt, referenced above, immediately prior to the closing referenced above.

Rural Cellular Corporation
On August 7, 2008, Verizon Wireless acquired 100% of the outstanding common stock and redeemed all of the preferred stock of Rural Cellular in a cash transaction. Rural Cellular was a wireless communications service provider operating under the trade name of "Unicel," focusing primarily on rural markets in the United States. Verizon Wireless believes that the acquisition will further enhance its network coverage in markets adjacent to its existing service areas and will enable Verizon Wireless to achieve operational benefits through realizing synergies in reduced roaming and other operating expenses. Under the terms of the acquisition agreement, Verizon Wireless paid Rural Cellular's common shareholders $728 million in cash ($45 per share). Additionally, all classes of Rural Cellular's preferred shareholders received cash in the aggregate amount of $571 million.

As part of its approval process for the Rural Cellular acquisition, the FCC and Department of Justice (DOJ) required the divestiture of six operating markets, including all of Rural Cellular's operations in Vermont and New York as well as its operations in Okanogan and Ferry, WA (the Divestiture Markets). On December 22, 2008, Verizon Wireless completed an exchange transaction with AT&T. Pursuant to the terms of the exchange agreement, as amended, AT&T received the assets relating to the Divestiture Markets and a cellular license for part of the Madison, KY market. In exchange, Verizon Wireless received cellular operating markets in Madison and Mason, KY and 10 MHz PCS licenses in Las Vegas, NV, Buffalo, NY, Erie, PA, Sunbury-Shamokin, PA and Youngstown, OH. Verizon Wireless also received AT&T's minority interests in three entities in which Verizon Wireless holds interests plus a cash payment. The preliminary aggregate value of properties exchanged was approximately $500 million. In addition, subject to FCC approval, Verizon Wireless will acquire PCS licenses in Franklin, NY (except Franklin county) and the entire state of Vermont from AT&T in a separate cash transaction that is expected to close in the first half of 2009.

Telephone Access Lines Spin-off
On January 16, 2007, we announced a definitive agreement with FairPoint Communications, Inc. (FairPoint) providing for Verizon to establish a separate entity for its local exchange and related business assets in Maine, New Hampshire and Vermont, spin-off that new entity into a newly formed company, known as Northern New England Spinco Inc. (Spinco), to Verizon's shareowners, and immediately merge it with and into

FairPoint. On March 31, 2008, we completed the spin-off of the shares of Spinco to Verizon shareowners and the merger of Spinco with FairPoint, resulting in Verizon shareowners collectively owning approximately 60 percent of FairPoint common stock. FairPoint issued approximately 53.8 million shares of FairPoint common stock to Verizon shareowners in the merger, and Verizon shareowners received one share of FairPoint common stock for every 53.0245 shares of Verizon common stock they owned as of March 7, 2008. FairPoint paid cash in lieu of any fraction of a share of FairPoint common stock. As a result of the spin-off, our net debt was reduced by approximately $1.4 billion. Both the spin-off and merger qualify as tax-free transactions, except for the cash payments for fractional shares which are generally taxable.

Environmental Matters

During 2003, under a government-approved plan, remediation commenced at the site of a former Sylvania facility in Hicksville, New York that processed nuclear fuel rods in the 1950s and 1960s. Remediation beyond original expectations proved to be necessary and a reassessment of the anticipated remediation costs was conducted. A reassessment of costs related to remediation efforts at several other former facilities was also undertaken. In September 2005, the Army Corps of Engineers (ACE) accepted the Hicksville site into the Formerly Utilized Sites Remedial Action Program. This may result in the ACE performing some or all of the remediation effort for the Hicksville site with a corresponding decrease in costs to Verizon. To the extent that the ACE assumes responsibility for remedial work at the Hicksville site, an adjustment to a reserve previously established for the remediation may be made. Adjustments to the reserve may also be necessary based upon actual conditions discovered during the remediation at any of the sites requiring remediation.

New York Recovery Funding

In August 2002, President Bush signed the Supplemental Appropriations bill that included $5.5 billion in New York recovery funding. Of that amount, approximately $750 million was allocated to cover utility restoration and infrastructure rebuilding as a result of the September 11th terrorist attacks on lower Manhattan. These funds will be distributed through the Lower Manhattan Development Corporation and Empire State Development Corporation (ESDC) following an application and audit process. As of September 2004, we had applied for reimbursement of approximately $266 million under Category One and in 2004 and 2005 we applied for reimbursement of an additional $139 million of Category Two losses. Category One funding relates to Emergency and Temporary Service Response while Category Two funding is for permanent restoration and infrastructure improvement. According to the plan, permanent restoration is reimbursed up to 75% of the loss. On November 3, 2005, we received the results of preliminary audit findings disallowing all but $49.9 million of our $266 million of Category One application. On December 8, 2005, we provided a detailed rebuttal to the preliminary audit findings. We received a copy of the final audit report for Verizon's Category One applications largely confirming the preliminary audit findings and, on January 4, 2007, we filed an appeal. That appeal is pending. On November 9, 2007, Verizon submitted an additional Category Two application for approximately $16 million. ESDC has approved approximately $17 million in advances to Verizon on its Category Two applications. Based on the progress of these audits, Verizon recorded a portion of these advances to income in June 2008. The Category Two audits remain pending.

Regulatory and Competitive Trends

Competition and Regulation

Technological, regulatory and market changes have provided Verizon both new opportunities and challenges. These changes have allowed Verizon to offer new types of services in an increasingly competitive market. At the same time, they have allowed other service providers to broaden the scope of their own competitive offerings. Current and potential competitors for network services include other telephone companies, cable companies, wireless service providers, foreign telecommunications providers, satellite providers, electric utilities, Internet service providers, providers of VoIP services, and other companies that offer network services using a variety of technologies. Many of these companies have a strong market presence, brand recognition and existing customer relationships, all of which contribute to intensifying competition and may affect our future revenue growth. Many of our competitors also remain subject to fewer regulatory constraints than Verizon.

We are unable to predict definitively the impact that the ongoing changes in the telecommunications industry will ultimately have on our business, results of operations or financial condition. The financial impact will depend on several factors, including the timing, extent and success of competition in our markets, the timing and outcome of various regulatory proceedings and any appeals, and the timing, extent and success of our pursuit of new opportunities.

FCC Regulation

The FCC has jurisdiction over our interstate telecommunications services and other matters for which the FCC has jurisdiction under the Communications Act of 1934, as amended (Communications Act). The Communications Act generally provides that we may not charge unjust or unreasonable rates, or engage in unreasonable discrimination when we are providing services as a common carrier, and regulates some of the rates, terms and conditions under which we provide certain services. The FCC also has adopted regulations governing various aspects of our business including: (i) use and disclosure of customer proprietary network information; (ii) telemarketing; (iii) assignment of telephone numbers to customers; (iv) provision to law enforcement agencies of the capability to obtain call identifying information and call content information from calls pursuant to lawful process; (v) accessibility of services and equipment to individuals with disabilities if readily achievable; (vi) interconnection with the networks of other carriers; and (vii) customers' ability to keep (or "port") their telephone numbers when switching to another carrier. In addition, we pay various fees to support other FCC programs, such as the universal service program discussed below. Changes to these mandates, or the adoption of additional mandates, could require us to make changes to our operations or otherwise increase our costs of compliance.

Broadband

The FCC has adopted a series of orders that recognize the competitive nature of the broadband market and impose lesser regulatory requirements on broadband services and facilities than apply to narrowband or traditional telephone services. With respect to facilities, the FCC has determined that certain unbundling requirements that apply to narrowband facilities do not apply to broadband facilities such as fiber to the premise loops and packet switches. With respect to services, the FCC has concluded that broadband Internet access services offered by telephone companies and their affiliates qualify as largely deregulated information services. The same order also concluded that telephone companies may offer the underlying broadband transmission services that are used as an input to Internet access services through private carriage arrangements on negotiated commercial terms. The order was upheld on appeal. In addition, a Verizon petition asking the FCC to forbear from applying common

carrier regulation to certain broadband services sold primarily to larger business customers when those services are not used for Internet access was deemed granted by operation of law when the FCC did not deny the petition by the statutory deadline. The relief has been upheld on appeal, but is subject to a continuing challenge before the FCC.

Video

The FCC has a body of rules that apply to cable operators under Title VI of the Communications Act of 1934, and these rules also generally apply to telephone companies that provide cable services over their networks. In addition, companies that provide cable service over a cable system generally must obtain a local cable franchise. The FCC has interpreted the Cable Act to limit the franchise fees and other requirements that local franchise authorities may impose on cable operators and has found that some prior practices of franchise authorities constituted an unreasonable refusal to award a competitive local franchise under the requirements of federal law. This order has been upheld on appeal.

Interstate Access Charges and Intercarrier Compensation

The current framework for interstate access rates was established in the Coalition for Affordable Local and Long Distance Services (CALLS) plan which the FCC adopted on May 31, 2000. The CALLS plan has three main components. First, it establishes portable interstate access universal service support of $650 million for the industry that replaces implicit support previously embedded in interstate access charges. Second, the plan simplifies the patchwork of common line charges into one subscriber line charge (SLC) and provides for de-averaging of the SLC by zones and class of customers. Third, the plan set into place a mechanism to transition to a set target of $.0055 per minute for switched access services. Once that target rate is reached, local exchange carriers are no longer required to make further annual price cap reductions to their switched access prices. As a result of tariff adjustments which became effective in July 2003, virtually all of our switched access lines reached the $.0055 benchmark.

The FCC currently is conducting a broad rulemaking proceeding to consider new rules governing intercarrier compensation including, but not limited to, access charges, compensation for Internet traffic and reciprocal compensation for local traffic. The FCC has sought comments about intercarrier compensation in general and requested input on a number of specific reform proposals. On November 5, 2008, the FCC issued an order on remand relating to intercarrier compensation for dial-up Internet-bound traffic. In April 2001, the FCC had found that this traffic is not subject to reciprocal compensation under Section 251(b)(5) of the Telecommunications Act of 1996. Instead, in that order, the FCC established federal rates per minute for this traffic that declined from $.0015 to $.0007 over a three-year period, and required incumbent local exchange carriers to offer to both bill and pay reciprocal compensation for local traffic at the same rate as they are required to pay on Internet-bound traffic. The U.S. Court of Appeals for the D.C. Circuit rejected part of the FCC's rationale, but declined to vacate the order while it is on remand. On July 8, 2008, the D.C. Circuit issued an order requiring the FCC to issue its order on remand by November 5, 2008. The FCC's November 2008 order provided a new rationale to support the compensation regime the FCC had announced in April 2001. The November 2008 order is now on appeal to the U.S. Court of Appeals for the D.C. Circuit. Disputes also remain pending in a number of forums relating to the appropriate compensation for Internet-bound traffic during previous periods under the terms of our interconnection agreements with other carriers.

The FCC is also conducting a rulemaking proceeding to address the regulation of services that use Internet protocol. The issues raised in the rulemaking as well as in several petitions currently pending before the FCC include whether, and under what circumstances, access charges should apply to voice or other Internet protocol services and the scope of federal and state commission authority over these services. The FCC previously has held that one provider's peer-to-peer Internet protocol service that does not use the public switched network is an interstate information service and is not subject to access charges, while a service that utilizes Internet protocol for only one intermediate part of a call's transmission is a telecommunications service that is subject to access charges. The FCC also declared the services offered by one provider of a voice over Internet protocol service to be jurisdictionally interstate and stated that its conclusion would apply to other services with similar characteristics. This order was affirmed on appeal.

The FCC also has adopted rules for special access services that provide for pricing flexibility and ultimately the removal of services from price regulation when prescribed competitive thresholds are met. More than half of special access revenues are now removed from price regulation. The FCC currently has a rulemaking proceeding underway to update the public record concerning its pricing flexibility rules and to determine whether any changes to those rules are warranted.

Universal Service

The FCC also has a body of rules implementing the universal service provisions of the Telecommunications Act of 1996, including rules governing support to rural and non-rural high-cost areas, support for low income subscribers and support for schools, libraries and rural health care. The FCC's current rules for support to high-cost areas served by larger "non-rural" local telephone companies were previously remanded by U.S. Court of Appeals for the Tenth Circuit, which had found that the FCC had not adequately justified these rules. The FCC has initiated a rulemaking proceeding in response to the court's remand, but its rules remain in effect pending the results of the rulemaking. On April 29, 2008, the FCC adopted a cap on the amount of support competitive carriers (including all wireless carriers) may receive. That cap is the subject of a pending appeal. The FCC is considering additional changes to the high-cost portion of the universal service fund but has not to date taken industry-wide action. However, in its November 4, 2008 order approving Verizon Wireless's acquisition of Alltel, the FCC required Verizon Wireless to phase out the high-cost support the merged company receives from the universal service fund by 20 percent during the first year following completion of the acquisition and by an additional 20 percent for each of the following three years, after which no support will be provided. In addition, the FCC is considering other changes to the rules governing contributions to, and disbursements from, the fund. Any change in the current rules could result in a change in the contribution that local telephone companies, wireless carriers or others must make and that would have to be collected from customers, or in the amounts that these providers receive from the fund.

Unbundling of Network Elements

Under Section 251 of the Telecommunications Act of 1996, incumbent local exchange carriers are required to provide competing carriers with access to components of their network on an unbundled basis, known as UNEs, where certain statutory standards are satisfied. The Telecommunications Act of 1996 also adopted a cost-based pricing standard for these UNEs, which the FCC interpreted as allowing it to impose a pricing standard known as "total element long run incremental cost" or "TELRIC." The FCC's rules defining the unbundled network elements that must be made available at TELRIC prices have been overturned on multiple occasions by the courts. In its most recent order issued in

response to these court decisions, the FCC eliminated the requirement to unbundle mass market local switching on a nationwide basis, and established criteria for determining whether high-capacity loops, transport or dark fiber transport must be unbundled in individual wire centers. The FCC also eliminated the obligation to provide dark fiber loops and found that there is no obligation to provide UNEs exclusively for wireless or long distance service. The decision was upheld on appeal.

As noted above, the FCC has concluded that the requirement under Section 251 of the Telecommunications Act of 1996 to provide unbundled network elements at TELRIC prices generally does not apply with respect to broadband facilities, such as fiber to the premises loops, the packet-switched capabilities of hybrid loops and packet switching. The FCC also has held that any separate unbundling obligations that may be imposed by Section 271 of the Telecommunications Act of 1996 do not apply to these same facilities. Those decisions were upheld on appeal.

Wireless Services

The FCC regulates the licensing, construction, operation, acquisition and transfer of wireless communications systems, including the systems that Verizon Wireless operates, pursuant to the Communications Act, other legislation, and the FCC's rules. The FCC and Congress continuously consider changes to these laws and rules. Adoption of new laws or rules may raise the cost of providing service or require modification of Verizon Wireless's business plans or operations.

To use the radio frequency spectrum, wireless communications systems must be licensed by the FCC to operate the wireless network and mobile devices in assigned spectrum segments. Verizon Wireless holds FCC licenses to operate in several different radio services, including the cellular radiotelephone service, personal communications service, wireless communications service, and point-to-point radio service. The technical and service rules, the specific radio frequencies and amounts of spectrum we hold, and the sizes of the geographic areas we are authorized to operate in, vary for each of these services. However, all of the licenses Verizon Wireless holds allow it to use spectrum to provide a wide range of mobile and fixed communications services, including both voice and data services, and Verizon Wireless operates a seamless network that utilizes those licenses to provide services to customers. Because the FCC issues licenses for only a fixed time, generally 10 years, Verizon Wireless must periodically seek renewal of those licenses. Although the FCC has routinely renewed all of Verizon Wireless's licenses that have come up for renewal to date, challenges could be brought against the licenses in the future. If a wireless license were revoked or not renewed upon expiration, Verizon Wireless would not be permitted to provide services on the licensed spectrum in the area covered by that license.

The FCC has also imposed specific mandates on carriers that operate wireless communications systems, which increase Verizon Wireless's costs. These mandates include requirements that Verizon Wireless: (i) meet specific construction and geographic coverage requirements during the license term; (ii) meet technical operating standards that, among other things, limit the radio frequency radiation from mobile devices and antennas; (iii) deploy "Enhanced 911" wireless services that provide the wireless caller's number, location and other information to a state or local public safety agency that handles 911 calls; (iv) provide roaming services to other wireless service providers; and (v) comply with regulations for the construction of transmitters and towers that, among other things, restrict siting of towers in environmentally sensitive locations and in places where the towers would affect a site listed or eligible for listing on the National Register of Historic Places. Changes to these mandates could require Verizon Wireless to make changes to operations or increase its costs of compliance. In its November 4, 2008 order approving Verizon Wireless's acquisition of Alltel, the FCC adopted conditions that impose additional requirements on Verizon Wireless in its provision of Enhanced 911 services and roaming services.

The Communications Act imposes restrictions on foreign ownership of U.S. wireless systems. The FCC has approved the interest that Vodafone Group Plc holds, through various of its subsidiaries, in Verizon Wireless. The FCC may need to approve any increase in Vodafone's interest or the acquisition of an ownership interest by other foreign entities. In addition, as part of the FCC's approval of Vodafone's ownership interest, Verizon Wireless, Verizon and Vodafone entered into an agreement with the U.S. Department of Defense, Department of Justice and Federal Bureau of Investigation which imposes national security and law enforcement-related obligations on the ways in which Verizon Wireless stores information and otherwise conducts its business.

Verizon Wireless anticipates that it will need additional spectrum to meet future demand. It can meet spectrum needs by purchasing licenses or leasing spectrum from other licensees, or by acquiring new spectrum licenses from the FCC. Under the Communications Act, before Verizon Wireless can acquire a license from another licensee in order to expand its coverage or its spectrum capacity in a particular area, it must file an application with the FCC, and the FCC can grant the application only after a period for public notice and comment. This review process can delay acquisition of spectrum needed to expand services. The Communications Act also requires the FCC to award new licenses for most commercial wireless services through a competitive bidding process in which spectrum is awarded to bidders in an auction. Verizon Wireless has participated in spectrum auctions to acquire licenses for radio spectrum in various bands. Most recently, it participated in the FCC's auction of spectrum in the 700 MHz band. This spectrum is currently used for UHF television operations. By law those operations were to have ceased no later than February 17, 2009. However, a new law has been enacted that extends this date until June 12, 2009. We do not believe that this extension will have a material adverse effect on our testing of LTE technology or our planned deployment of a 4G wireless broadband network using LTE.

On November 26, 2008, the FCC granted Verizon Wireless 109 licenses in this band for which it was the winning bidder. The FCC also adopted service rules that will impose costs on licensees that acquire the 700 MHz band spectrum, including minimum coverage mandates by specific dates during the license terms, and, for approximately one-third of the spectrum, "open access" requirements, which generally require licensees of that spectrum to allow customers to use devices and applications of their choice, subject to certain limits. Seven of the licenses that Verizon Wireless acquired in the 700 MHz auction, which in the aggregate cover the United States except for Alaska, are subject to these requirements. The open access requirements are the subject of a pending appeal in which Verizon Wireless has intervened. The timing of future auctions may not match Verizon Wireless's needs, and the company may not be able to secure the spectrum in the amounts and/or in the markets it seeks through any future auction.

The FCC is also conducting several proceedings to explore making additional spectrum available for licensed and/or unlicensed use. These proceedings could increase radio interference to Verizon Wireless's operations from other spectrum users and could impact the ways in which it uses spectrum, the capacity of that spectrum to carry traffic, and the value of that spectrum.

State Regulation and Local Approvals

Telephone Operations

State public utility commissions regulate our telephone operations with respect to certain telecommunications intrastate rates and services and other matters. Our competitive local exchange carrier and long distance operations are generally classified as nondominant and lightly regulated the same as other similarly situated carriers. Our incumbent local exchange operations are generally classified as dominant. These latter operations predominantly are subject to alternative forms of regulation (AFORs) in the various states, although they remain subject to rate of return regulation in a few states. Arizona, Illinois, Nevada, Oregon and Washington are rate of return regulated with various levels of pricing flexibility for competitive services. California, Connecticut, Delaware, the District of Columbia, Florida, Indiana, Maryland, Michigan, Massachusetts, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Virginia, West Virginia and Wisconsin are under AFORs with various levels of pricing flexibility, detariffing, and service quality standards. None of the AFORs include earnings regulation. In Idaho, Verizon has made the election under a statutory amendment into a deregulatory regime that phases out all price regulation.

Video

Companies that provide cable service over a cable system are typically subject to state and/or local cable television rules and regulations. As noted above, cable operators generally must obtain a local cable franchise from each local unit of government prior to providing cable service in that local area. Some states have recently enacted legislation that enables cable operators to apply for, and obtain, a single cable franchise at the state, rather than local, level. To date, Verizon has applied for and received state-issued franchises in California, Indiana, Florida, New Jersey, Texas and the unincorporated areas of Delaware. We also have obtained authorization from the state commission in Rhode Island to provide cable service in certain areas in that state, have obtained required state commission approvals for our local franchises in New York, and will need to obtain additional state commission approvals in these states to provide cable service in additional areas. Virginia law provides us the option of entering a given franchise area using state standards if local franchise negotiations are unsuccessful.

Wireless Services

The rapid growth of the wireless industry has led to an increase in efforts by some state legislatures and state public utility commissions to regulate the industry in ways that may impose additional costs on Verizon Wireless. The Communications Act generally preempts regulation by state and local governments of the entry of, or the rates charged by, wireless carriers. Although a state may petition the FCC to allow it to impose rate regulation, no state has done so. In addition, the Communications Act does not prohibit the states from regulating the other "terms and conditions" of wireless service. While numerous state commissions do not currently have jurisdiction over wireless services, state legislatures may decide to grant them such jurisdiction, and those commissions that already have authority to impose regulations on wireless carriers may adopt new rules.

State efforts to regulate wireless services have included proposals to regulate customer billing, termination of service, trial periods for service, advertising, network outages, the use of handsets while driving, and reporting requirements for system outages and the availability of broadband wireless services. Over the past several years, only a few states have imposed regulation in one or more of these areas, and in 2006 a federal appellate court struck down one such state statute, but Verizon Wireless expects these efforts to continue. Some states also impose their own universal service support regimes on wireless and other telecommunications carriers, and other states are considering whether to create such regimes.

Verizon Wireless (as well as AT&T and Sprint-Nextel) is a party to an Assurance of Voluntary Compliance (AVC) with 33 State Attorneys General. The AVC, which generally reflected Verizon Wireless's practices at the time it was entered into in July 2004, obligates the company to disclose certain rates and terms during a sales transaction, to provide maps depicting coverage, and to comply with various requirements regarding advertising, billing, and other practices.

At the state and local level, wireless facilities are subject to zoning and land use regulation. Under the Communications Act, neither state nor local governments may categorically prohibit the construction of wireless facilities in any community or take actions, such as indefinite moratoria, which have the effect of prohibiting service. Nonetheless, securing state and local government approvals for new tower sites has been and is likely to continue to be a difficult, lengthy and expensive process. Finally, state and local governments continue to impose new or higher fees and taxes on wireless carriers.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

In this annual report on Form 10-K we have made forward-looking statements. These statements are based on our estimates and assumptions and are subject to risks and uncertainties. Forward-looking statements include the information concerning our possible or assumed future results of operations. Forward-looking statements also include those preceded or followed by the words "anticipates," "believes," "estimates," "hopes" or similar expressions. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following important factors, along with those discussed elsewhere in this annual report, could affect future results and could cause those results to differ materially from those expressed in the forward-looking statements:

- the effects of adverse conditions in the U.S. and international economies;
- the effects of competition in our markets;
- materially adverse changes in labor matters, including workforce levels and labor negotiations, and any resulting financial and/or operational impact, in the markets served by us or by companies in which we have substantial investments;
- the effects of material changes in available technology;
- any disruption of our suppliers' provisioning of critical products or services;
- significant increases in benefit plan costs or lower investment returns on plan assets;
- the impact of natural or man-made disasters or existing or future litigation and any resulting financial impact not covered by insurance;
- technology substitution;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations or adverse conditions in the credit markets impacting the cost, including interest rates, and/or availability of financing;
- any changes in the regulatory environments in which we operate, including any loss of or inability to renew wireless licenses, and the final results of federal and state regulatory proceedings and judicial review of those results;
- the timing, scope and financial impact of our deployment of fiber-to-the-premises broadband technology;
- changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings;
- our ability to successfully integrate Alltel Corporation into Verizon Wireless's business and achieve anticipated benefits of the acquisition; and
- the inability to implement our business strategies.

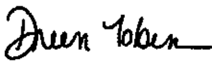
Report of Management on Internal Control Over Financial Reporting

We, the management of Verizon Communications Inc., are responsible for establishing and maintaining adequate internal control over financial reporting of the company. Management has evaluated internal control over financial reporting of the company using the criteria for effective internal control established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management has assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2008. Based on this assessment, we believe that the internal control over financial reporting of the company is effective as of December 31, 2008. In connection with this assessment, there were no material weaknesses in the company's internal control over financial reporting identified by management.

The company's financial statements included in this annual report have been audited by Ernst & Young LLP, independent registered public accounting firm. Ernst & Young LLP has also provided an attestation report on the company's internal control over financial reporting.

Ivan G. Seidenberg
Chairman and Chief Executive Officer



Doreen A. Toben
Executive Vice President and Chief Financial Officer

Thomas A. Bartlett
Senior Vice President and Controller

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

To The Board of Directors and Shareowners of Verizon Communications Inc.:

We have audited Verizon Communications Inc. and subsidiaries' (Verizon) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Verizon's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

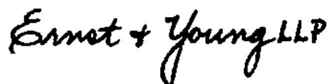
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Verizon maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Verizon as of December 31, 2008 and 2007, and the related consolidated statements of income, cash flows and changes in shareowners' investment for each of the three years in the period ended December 31, 2008 of Verizon and our report dated February 20, 2009 expressed an unqualified opinion thereon.



Ernst & Young LLP
New York, New York

February 20, 2009

Report of Independent Registered Public Accounting Firm on Financial Statements

To The Board of Directors and Shareowners of Verizon Communications Inc.:

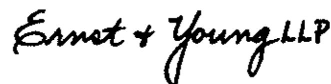
We have audited the accompanying consolidated balance sheets of Verizon Communications Inc. and subsidiaries (Verizon) as of December 31, 2008 and 2007, and the related consolidated statements of income, cash flows and changes in shareowners' investment for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of Verizon's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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 at December 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the financial statements, Verizon changed its methods of accounting for uncertainty in income taxes and for leveraged lease transactions effective January 1, 2007, stock-based compensation effective January 1, 2006 and pension and other post-retirement obligations effective December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Verizon's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2009 expressed an unqualified opinion thereon.



Ernst & Young LLP
New York, New York

February 20, 2009

Consolidated Statements of Income

(dollars in millions, except per share amounts)

Years Ended December 31,	2008	2007	2006
Operating Revenues	$ 97,354	$ 93,469	$ 88,182
Operating Expenses			
Cost of services and sales (exclusive of items shown below)	39,007	37,547	35,309
Selling, general and administrative expense	26,898	25,967	24,955
Depreciation and amortization expense	14,565	14,377	14,545
Total Operating Expenses	80,470	77,891	74,809
Operating Income	16,884	15,578	13,373
Equity in earnings of unconsolidated businesses	567	585	773
Other income and (expense), net	282	211	395
Interest expense	(1,819)	(1,829)	(2,349)
Minority interest	(6,155)	(5,053)	(4,038)
Income Before Provision for Income Taxes, Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change	9,759	9,492	8,154
Provision for income taxes	(3,331)	(3,982)	(2,674)
Income Before Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change	6,428	5,510	5,480
Income from discontinued operations, net of tax	–	142	759
Extraordinary item, net of tax	–	(131)	–
Cumulative effect of accounting change, net of tax	–	–	(42)
Net Income	$ 6,428	$ 5,521	$ 6,197
Basic Earnings Per Common Share[1]			
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 2.26	$ 1.90	$ 1.88
Income from discontinued operations, net of tax	–	.05	.26
Extraordinary item, net of tax	–	(.05)	–
Cumulative effect of accounting change, net of tax	–	–	(.01)
Net Income	$ 2.26	$ 1.91	$ 2.13
Weighted-average shares outstanding (in millions)	2,849	2,898	2,912
Diluted Earnings Per Common Share[1]			
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 2.26	$ 1.90	$ 1.88
Income from discontinued operations, net of tax	–	.05	.26
Extraordinary item, net of tax	–	(.05)	–
Cumulative effect of accounting change, net of tax	–	–	(.01)
Net Income	$ 2.26	$ 1.90	$ 2.12
Weighted-average shares outstanding (in millions)	2,850	2,902	2,938

(1) Total per share amounts may not add due to rounding.

See Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

(dollars in millions, except per share amounts)

At December 31,	2008	2007
Assets		
Current assets		
Cash and cash equivalents	**$ 9,782**	$ 1,153
Short-term investments	**509**	2,244
Accounts receivable, net of allowances of $941 and $1,025	**11,703**	11,736
Inventories	**2,092**	1,729
Prepaid expenses and other	**1,989**	1,836
Total current assets	**26,075**	18,698
Plant, property and equipment	**215,605**	213,994
Less accumulated depreciation	**129,059**	128,700
	86,546	85,294
Investments in unconsolidated businesses	**3,393**	3,372
Wireless licenses	**61,974**	50,796
Goodwill	**6,035**	5,245
Other intangible assets, net	**5,199**	4,988
Other investments	**4,781**	–
Other assets	**8,349**	18,566
Total assets	**$ 202,352**	$ 186,959
Liabilities and Shareowners' Investment		
Current liabilities		
Debt maturing within one year	**$ 4,993**	$ 2,954
Accounts payable and accrued liabilities	**13,814**	14,462
Other	**7,099**	7,325
Total current liabilities	**25,906**	24,741
Long-term debt	**46,959**	28,203
Employee benefit obligations	**32,512**	29,960
Deferred income taxes	**11,769**	14,784
Other liabilities	**6,301**	6,402
Minority interest	**37,199**	32,288
Shareowners' investment		
Series preferred stock ($.10 par value; none issued)	**–**	–
Common stock ($.10 par value; 2,967,610,119 and 2,967,610,119 shares issued)	**297**	297
Contributed capital	**40,291**	40,316
Reinvested earnings	**19,250**	17,884
Accumulated other comprehensive loss	**(13,372)**	(4,506)
Common stock in treasury, at cost	**(4,839)**	(3,489)
Deferred compensation-employee stock ownership plans and other	**79**	79
Total shareowners' investment	**41,706**	50,581
Total liabilities and shareowners' investment	**$ 202,352**	$ 186,959

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

(dollars in millions)

Years Ended December 31,	**2008**	2007	2006
Cash Flows from Operating Activities			
Net Income	**$ 6,428**	$ 5,521	$ 6,197
Adjustments to reconcile net income to net cash provided by operating activities – continuing operations:			
Depreciation and amortization expense	**14,565**	14,377	14,545
Loss on sale of discontinued operations	**–**	–	541
Employee retirement benefits	**1,955**	1,720	1,923
Deferred income taxes	**2,183**	408	(252)
Provision for uncollectible accounts	**1,085**	1,047	1,034
Equity in earnings of unconsolidated businesses, net of dividends received	**212**	1,986	(731)
Extraordinary item, net of tax	**–**	131	–
Cumulative effect of accounting change, net of tax	**–**	–	42
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses:			
Accounts receivable	**(1,085)**	(1,931)	(1,312)
Inventories	**(188)**	(255)	8
Other assets	**(59)**	(140)	52
Accounts payable and accrued liabilities	**(1,701)**	(567)	(383)
Other, net	**3,225**	4,012	1,366
Net cash provided by operating activities – continuing operations	**26,620**	26,309	23,030
Net cash provided by (used in) operating activities – discontinued operations	**–**	(570)	1,076
Net cash provided by operating activities	**26,620**	25,739	24,106
Cash Flows from Investing Activities			
Capital expenditures (including capitalized software)	**(17,238)**	(17,538)	(17,101)
Acquisitions of licenses, investments and businesses, net of cash acquired	**(15,904)**	(763)	(1,422)
Net change in short-term investments	**1,677**	169	290
Other, net	**(114)**	1,267	811
Net cash used in investing activities – continuing operations	**(31,579)**	(16,865)	(17,422)
Net cash provided by investing activities – discontinued operations	**–**	757	1,806
Net cash used in investing activities	**(31,579)**	(16,108)	(15,616)
Cash Flows from Financing Activities			
Proceeds from long-term borrowings	**21,598**	3,402	3,983
Repayments of long-term borrowings and capital lease obligations	**(4,146)**	(5,503)	(11,233)
Increase (decrease) in short-term obligations, excluding current maturities	**2,389**	(3,252)	7,944
Dividends paid	**(4,994)**	(4,773)	(4,719)
Proceeds from sale of common stock	**16**	1,274	174
Purchase of common stock for treasury	**(1,368)**	(2,843)	(1,700)
Other, net	**93**	(2)	(201)
Net cash provided by (used in) financing activities – continuing operations	**13,588**	(11,697)	(5,752)
Net cash used in financing activities – discontinued operations	**–**	–	(279)
Net cash provided by (used in) financing activities	**13,588**	(11,697)	(6,031)
Increase (decrease) in cash and cash equivalents	**8,629**	(2,066)	2,459
Cash and cash equivalents, beginning of year	**1,153**	3,219	760
Cash and cash equivalents, end of year	**$ 9,782**	$ 1,153	$ 3,219

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Shareowners' Investment

(dollars in millions, except per share amounts, and shares in thousands)

Years Ended December 31,	2008		2007		2006	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	**2,967,610**	**$ 297**	2,967,652	$ 297	2,774,865	$ 277
Shares issued–MCI/Price acquisitions	**–**	**–**	(42)	–	192,787	20
Balance at end of year	**2,967,610**	**297**	2,967,610	297	2,967,652	297
Contributed Capital						
Balance at beginning of year		**40,316**		40,124		25,369
Shares issued-employee and shareowner plans		**–**		58		(1)
Shares issued-MCI/Price acquisitions		**–**		–		6,010
Domestic print and Internet yellow pages directories business spin-off		**–**		–		8,695
Other		**(25)**		134		51
Balance at end of year		**40,291**		40,316		40,124
Reinvested Earnings						
Balance at beginning of year		**17,884**		17,324		15,905
Adoption of tax accounting standards (See Note 1)		**–**		(134)		–
Adjusted balance at beginning of year		**17,884**		17,190		15,905
Net income		**6,428**		5,521		6,197
Dividends declared ($1.78, $1.67 and $1.62 per share)		**(5,062)**		(4,830)		(4,781)
Other		**–**		3		3
Balance at end of year		**19,250**		17,884		17,324
Accumulated Other Comprehensive Loss						
Balance at beginning of year		**(4,506)**		(7,530)		(1,783)
Spin-off of local exchange businesses in Maine, New Hampshire and Vermont (see Note 3)		**44**		–		–
Adjusted balance at beginning of year		**(4,462)**		(7,530)		(1,783)
Foreign currency translation adjustments		**(231)**		838		1,196
Unrealized gains (losses) on marketable securities		**(97)**		(4)		54
Unrealized gains (losses) on cash flow hedges		**(40)**		1		14
Defined benefit pension and postretirement plans		**(8,542)**		1,948		–
Minimum pension liability adjustment		**–**		–		526
Other		**–**		241		(128)
Other comprehensive income (loss)		**(8,910)**		3,024		1,662
Adoption of pension and postretirement benefit accounting standard (See Note 1)		**–**		–		(7,409)
Balance at end of year		**(13,372)**		(4,506)		(7,530)
Treasury Stock						
Balance at beginning of year	**(90,786)**	**(3,489)**	(56,147)	(1,871)	(11,456)	(353)
Shares purchased	**(36,779)**	**(1,368)**	(68,063)	(2,843)	(50,066)	(1,700)
Shares distributed						
Employee plans	**468**	**18**	33,411	1,224	5,355	181
Shareowner plans	**7**	**–**	13	1	20	1
Balance at end of year	**(127,090)**	**(4,839)**	(90,786)	(3,489)	(56,147)	(1,871)
Deferred Compensation–ESOPs and Other						
Balance at beginning of year		**79**		191		265
Amortization		**–**		(112)		(74)
Other		**–**		–		–
Balance at end of year		**79**		79		191
Total Shareowners' Investment		**$ 41,706**		$ 50,581		$ 48,535
Comprehensive Income						
Net income		**$ 6,428**		$ 5,521		$ 6,197
Other comprehensive income (loss) per above		**(8,910)**		3,024		1,662
Total Comprehensive Income (Loss)		**$ (2,482)**		$ 8,545		$ 7,859

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

NOTE 1

DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Verizon Communications Inc., (Verizon or the Company) is one of the world's leading providers of communications services. We have two reportable segments, Domestic Wireless and Wireline, which we operate and manage as strategic business units and organize by products and services. For further information concerning our business segments, see Note 17.

Verizon's Domestic Wireless segment, operating as Verizon Wireless, provides wireless voice and data products and other value-added services and equipment across the United States (U.S.) using one of the most extensive and reliable wireless networks. Verizon Wireless continues to expand our wireless data, messaging and multi-media offerings at broadband speeds for both consumer and business customers.

Our Wireline segment provides communications services, including voice, broadband video and data, network access, nationwide long-distance and other communications products and services, and also owns and operates one of the most expansive end-to-end global Internet Protocol (IP) networks. We continue to deploy advanced broadband network technology, with our fiber-to-the-premises network, operated under the FiOS service mark, creating a platform with sufficient bandwidth and capabilities to meet customers' current and future needs. FiOS allows us to offer our customers a wide array of broadband services, including advanced data and video offerings. Our IP network includes over 485,000 route miles of fiber optic cable and provides access to over 150 countries across six continents, enabling us to provide next-generation IP network products and information technology services to medium and large businesses and government customers worldwide.

Consolidation

The method of accounting applied to investments, whether consolidated, equity or cost, involves an evaluation of all significant terms of the investments that explicitly grant or suggest evidence of control or influence over the operations of the investee. The consolidated financial statements include our controlled subsidiaries. Investments in businesses which we do not control, but have the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. Investments in which we do not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method. Equity and cost method investments are included in Investments in unconsolidated businesses in our consolidated balance sheets. Certain of our cost method investments are classified as available-for-sale securities and adjusted to fair value pursuant to the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (SFAS No. 115).

All significant intercompany accounts and transactions have been eliminated.

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

Use of Estimates

We prepare our financial statements using U.S. generally accepted accounting principles (GAAP), 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 plant, property and equipment, the recoverability of intangible assets and other long-lived assets, unbilled revenues, fair values of financial instruments, unrecognized tax benefits, valuation allowances on tax assets, accrued expenses, equity in income of unconsolidated entities, pension and postretirement benefit assumptions, contingencies and allocation of purchase prices in connection with business combinations.

Revenue Recognition

Domestic Wireless

Our Domestic Wireless segment earns revenue by providing access to and usage of our network, which includes voice and data revenue. In general, access revenue is billed one month in advance and recognized when earned. Access revenue and usage revenue are recognized when service is rendered. Equipment sales revenue associated with the sale of wireless handsets and accessories is recognized when the products are delivered to and accepted by the customer, as this is considered to be a separate earnings process from the sale of wireless services. Customer activation fees are considered additional consideration, and to the extent that handsets are sold to customers at a discount, these fees are recorded as equipment sales revenue at the time of customer acceptance. For agreements involving the resale of third-party services in which we are considered the primary obligor in the arrangements, we record the revenue gross.

Wireline

Our Wireline segment earns revenue based upon usage of our network and facilities and contract fees. In general, fixed monthly fees for voice, video, data 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 recognized when such services are provided.

We recognize equipment 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.

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 EITF No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement* in the consolidated financial statements on a net basis.

Discontinued Operations, Assets Held for Sale, and Sales of Businesses and Investments
We classify as discontinued operations for all periods presented any component of our business that we hold for sale or disposal that has operations and cash flows that are clearly distinguishable operationally and for financial reporting purposes from the rest of Verizon. For those components, Verizon has no significant continuing involvement after disposal and their operations and cash flows are eliminated from Verizon's ongoing operations. Sales of significant components of our business not classified as discontinued operations are reported as either Equity in earnings of unconsolidated businesses or Other income and (expense), net in our consolidated statements of income.

Maintenance and Repairs
We charge the cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, principally to Cost of services and sales as these costs are incurred.

Advertising Costs
Advertising costs for advertising products and services as well as other promotional and sponsorship costs are charged to Selling, general and administrative expense in the periods in which they are incurred (see Note 19).

Earnings Per Common Share
Basic earnings per common share are based on the weighted-average number of shares outstanding during the period. Diluted earnings per common share include the dilutive effect of shares issuable under our stock-based compensation plans, an exchangeable equity interest and zero-coupon convertible notes (see Note 13). As of December 31, 2006, the exchangeable equity interest and zero-coupon convertible notes were no longer outstanding.

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. Prior to the close of the acquisition of Alltel Corporation (Alltel) we redeemed approximately $8.9 billion of these money market funds (see Note 2).

Short-Term Investments
Our short-term investments, which are stated at fair value, consist primarily of money market funds, a portion of which is held in trust to pay for certain employee benefits.

Marketable Securities
Marketable securities are included in the accompanying consolidated balance sheets in Short-term investments, Investments in unconsolidated businesses or Other assets. We continually evaluate our investments in marketable securities for impairment due to declines in market value considered to be other-than-temporary. That evaluation includes, in addition to persistent, declining stock prices, general economic and company-specific evaluations. In the event of a determination that a decline in market value is other-than-temporary, a charge to earnings is recorded for the loss, and a new cost basis in the investment is established.

Inventories
Inventory consists of wireless and wireline equipment held for sale, which is carried at the lower of cost (determined principally on either an average cost or first-in, first-out basis) or market. We also include in inventory new and reusable supplies and network equipment of our local telephone operations, 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. Our local telephone operations' 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 local telephone plant, less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

Plant, property and equipment of other wireline and wireless operations are generally depreciated on a straight-line basis.

The asset lives used by our operations are presented in the following table:

Average Useful Lives (in years)	
Buildings	8 – 45
Central office equipment	3 – 11
Other network equipment	3 – 15
Outside communications plant	
Copper cable	13 – 18
Fiber cable (including undersea cable)	11 – 25
Poles, conduit and other	30 – 50
Furniture, vehicles and other	1 – 20

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. When the depreciable assets of our other wireline and wireless operations are retired or otherwise disposed of, the related cost and accumulated depreciation are deducted from the plant accounts, and any gains or losses on disposition are recognized in income.

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 as part of the cost of the network-related assets and as a reduction in interest expense.

In connection with our ongoing review of the average useful lives of plant, property and equipment, we determined, effective January 1, 2009 that the average useful lives of fiber cable would be increased to 25 years from 20 to 25 years and the average useful lives of copper cable would be changed to 15 years from 13 to 18 years. These changes are not expected to have a significant impact on our depreciation expense for 2009. Effective January 1, 2008 the average useful lives of fiber cable was increased from 20 years to 20 to 25 years. This change did not result in a significant impact to depreciation expense for 2008. Effective January 1, 2007, the average useful lives of certain of the circuit equipment was lengthened from 8 years to 9 years based on subsequent modifications to our fiber optic cable deployment plan. The average useful lives of certain buildings at Wireline was also increased from 42 years to 45 years. The reduction in depreciation resulting from these adjustments in 2007 was partially offset by increased depreciation resulting from the shortening of the lives of various types of wireless plant, property and equipment. While the timing and extent of current deployment plans are subject to modification, we believe the current estimates of impacted asset lives are reasonable and subject to ongoing analysis.

Computer Software Costs

We capitalize the cost of internal-use network and non-network software which has a useful life in excess of one year. Subsequent additions, modifications or upgrades to internal-use 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 internal-use network and non-network software. Capitalized non-network internal-use software costs are amortized using the straight-line method over a period of 2 to 7 years and are included in Other intangible assets, net in our consolidated balance sheets. For a discussion of our impairment policy for capitalized software costs, see "Goodwill and Other Intangible Assets" below. Also, see Note 4 for additional detail of internal-use non-network software reflected in our consolidated balance sheets.

Goodwill and Other Intangible Assets

Goodwill

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. Impairment testing for goodwill is performed annually or more frequently if indications of potential impairment exist under the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS No. 142). The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. We have determined that in our case, the reporting units are our operating segments since that is the lowest level at which discrete, reliable financial and cash flow information is available. Step one compares the fair value of the reporting unit (calculated using a market approach and a discounted cash flow method) to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the fair value of goodwill is less than the carrying amount of goodwill, an impairment is recognized.

Intangible Assets Not Subject to Amortization

A significant portion of our intangible assets are wireless licenses that provide our wireless operations with the exclusive right to utilize designated radio frequency spectrum to provide cellular communication services. While licenses are issued for only a fixed time, generally ten years, such licenses are subject to renewal by the Federal Communications Commission (FCC). Renewals of licenses have occurred routinely and at nominal cost. Moreover, we have determined that there are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of our wireless licenses. As a result, we treat the wireless licenses as an indefinite-lived intangible asset under the provisions of SFAS No. 142. We reevaluate the useful life determination for wireless licenses each reporting period to determine whether events and circumstances continue to support an indefinite useful life.

We test our wireless licenses for potential impairment annually or more frequently if indications of impairment exist. We evaluate our licenses on an aggregate basis using a direct value approach. The direct value approach determines fair value using estimates of future cash flows associated specifically with the licenses. If the fair value of the aggregated wireless licenses is less than the aggregated carrying amount of the licenses, an impairment is recognized.

Interest expense incurred while qualifying wireless licenses are developed for service is capitalized as part of Wireless licenses. The capitalization period ends when the development is completed and the licenses are placed in commercial service.

Intangible Assets Subject to Amortization

Our intangible assets that do not have indefinite lives (primarily customer lists and non-network internal-use software) 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. We reevaluate the useful life determinations for these intangible assets each reporting period to determine whether events and circumstances warrant a revision in their remaining useful lives.

For information related to the carrying amount of goodwill by segment, wireless licenses and other intangible assets, as well as the major components and average useful lives of our other acquired intangible assets, see Note 4.

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 goodwill, other intangible assets, wireless licenses and other long-lived assets for impairment and valuing asset retirement obligations and liabilities for exit or disposal activities. 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 file a consolidated federal income tax return.

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.

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 $79 million increase in the liability for unrecognized tax benefits with an offsetting reduction to reinvested earnings as of January 1, 2007. The implementation of FIN 48 also resulted in adjustments to prior acquisitions accounted for under purchase accounting, resulting in a reduction in the liability for tax contingencies in the amount of $635 million and corresponding reductions to goodwill and wireless licenses of $100 million and $535 million, respectively. The implementation impact included a reduction in deferred income taxes of approximately $3 billion, offset with a similar increase in Other liabilities as of January 1, 2007.

FASB Staff Position (FSP) No. FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction* (FSP 13-2), requires that changes in the projected timing of income tax cash flows generated by a leveraged lease transaction be recognized as a gain or loss in the year in which the change occurs. We adopted FSP 13-2 effective January 1, 2007. The cumulative effect of initially adopting FSP 13-2 was a reduction to reinvested earnings of $55 million, after-tax.

Stock-Based Compensation

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)) utilizing the modified prospective method. SFAS No. 123(R) requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. Under the modified prospective method, the provisions of SFAS No. 123(R) apply to all awards granted or modified after the date of adoption. The impact to Verizon resulted from the Domestic Wireless segment, for which we recorded a $42 million cumulative effect of accounting change as of January 1, 2006, net of taxes and after minority interest, to recognize the effect of initially measuring the outstanding liability for Value Appreciation Rights (VARs) granted to Domestic Wireless employees at fair value utilizing a Black-Scholes model.

Foreign Currency Translation

The functional currency of our foreign operations is generally the local currency. For these foreign entities, we translate income statement amounts at average exchange rates for the period, and we translate assets and liabilities at end-of-period exchange rates. We record these translation adjustments in Accumulated other comprehensive loss, a separate component of Shareowners' Investment, in our consolidated balance sheets. We report exchange gains and losses on intercompany foreign currency transactions of a long-term nature in Accumulated other comprehensive loss. Other exchange gains and losses are reported in income.

Employee Benefit Plans

Pension and postretirement health care and life insurance benefits earned during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits. Expected return on plan assets is determined by applying the return on assets assumption to the market-related value of assets.

As of July 1, 2006, Verizon management employees no longer earn pension benefits or earn service towards the company retiree medical subsidy (see Note 15).

In September 2006, the FASB issued SFAS 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). Effective December 31, 2006, 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 Other accumulated comprehensive loss, net of applicable income taxes. We adopted SFAS No. 158 effective December 31, 2006, which resulted in a net decrease to shareowners' investment of $7,409 million. This included a net increase in pension obligations of $2,007 million, an increase in Other Postretirement Benefits Obligations of $10,828 million and an increase in Other Employee Benefit Obligations of $31 million, offset by an increase in deferred taxes of $5,457 million. Additionally, plan assets are measured at fair value as of the Company's year-end.

Derivative Instruments

We have entered into derivative transactions to manage our exposure to fluctuations in foreign currency exchange rates, interest rates and commodity prices. We employ risk management strategies which may include the use of a variety of derivatives including cross currency swaps, foreign currency forwards and collars, equity options, interest rate and commodity swap agreements and interest rate locks. We do not hold derivatives for trading purposes.

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) and related amendments and interpretations, we measure all derivatives, including derivatives embedded in other financial instruments, at fair value and recognize them as either assets or liabilities on our consolidated balance sheets. Changes in the fair values of derivative instruments not qualifying as hedges or any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in other comprehensive income (loss) and recognized in earnings when the hedged item is recognized in earnings.

Recent Accounting Pronouncements

In December 2008, the FASB issued FSP FAS No. 132 (R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* (FSP 132 (R)-1). FSP 132 (R)-1 requires Verizon, as plan sponsor, to provide improved disclosures about plan assets, including categories of plan assets, nature and amount of concentrations of risk and disclosure about fair value measurements of plan assets, similar to those required by SFAS No. 157. FAS 132 (R)-1 is effective for fiscal years ending after December 15, 2009. We do not expect that the adoption of FSP 132 (R)-1 will have a significant impact on our consolidated financial statements.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 removes the requirement under SFAS No. 142, *Goodwill and Other Intangible Assets* to consider whether an intangible asset can be renewed without substantial cost or material modifications to the existing terms and conditions, and replaces it with a requirement that an entity consider its own historical experience in renewing similar arrangements, or a consideration of market participant assumptions in the absence of historical experience. FSP 142-3 also requires entities to disclose information that enables users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. We were required to adopt FSP 142-3 effective January 1, 2009 on a prospective basis. The adoption of FSP 142-3 on January 1, 2009 did not have an impact on our consolidated financial statements.

In March 2008, the FASB issued 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. The adoption of SFAS No. 161 on January 1, 2009 did not have an impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, (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. Upon the adoption of SFAS No. 141(R) we will be required to expense certain transaction costs and related fees associated with business combinations that were previously capitalized. This will result in additional expenses being recognized relating to the 2009 closing of the Alltel transaction. In addition, with the adoption of SFAS No. 141(R) changes to valuation allowances for deferred income tax assets and adjustments to unrecognized tax benefits generally will be recognized as adjustments to income tax expense rather than goodwill.

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 which will be applied prospectively, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented. Upon the initial adoption of this statement, we will change the classification and presentation of Noncontrolling Interest in our financial statements, which we currently refer to as minority interest. Additionally, we conduct certain business operations in certain markets through non-wholly owned entities. Any changes in these ownership interests may be required to be measured at fair value and recognized as a gain or loss, if any, in earnings. SFAS No. 160 will also result in a lower effective income tax rate for the Company due to the inclusion of income attributable to noncontrolling interest in income before the provision for income taxes. However, the income tax provision will not be adjusted as a result of SFAS No. 160.

NOTE 2

ACQUISITIONS

Alltel Corporation

On June 5, 2008, Verizon Wireless entered into an agreement and plan of merger with Alltel and its controlling stockholder, Atlantis Holdings LLC, an affiliate of private investment firms TPG Capital and GS Capital Partners, to acquire 100% of the equity of Alltel in an all-cash merger. After satisfying all closing conditions, including receiving the required regulatory approvals, Verizon Wireless closed the acquisition on January 9, 2009 and paid approximately $5.9 billion for the equity of Alltel. Immediately prior to the closing, the Alltel debt associated with the transaction, net of cash, was approximately $22.2 billion. Alltel provides wireless voice and advanced data services to residential and business customers in 34 states.

We expect to experience substantial operational benefits from the Alltel acquisition, including additional combined overall cost savings from reduced roaming costs by moving more traffic to our own network, reduced network-related costs from the elimination of duplicate facilities, consolidation of platforms, efficient traffic consolidation, and reduced overall expenses relating to advertising, overhead and headcount. We expect reduced overall combined capital expenditures as a result of greater economies of scale and the rationalization of network assets. We also anticipate that the use of the same technology platform will enable us to rapidly integrate Alltel's operations with ours while enabling a seamless transition for customers.

The Alltel acquisition will be accounted for as a business combination under SFAS No. 141(R). While Verizon Wireless has commenced the appraisals necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed, the amounts of assets and liabilities arising from contingencies, the fair value of noncontrolling interests, and the amount of goodwill to be recognized as of the acquisition date, the initial purchase price allocation is not yet available.

On June 10, 2008, in connection with the agreement to acquire Alltel, Verizon Wireless purchased from third parties $5.0 billion aggregate principal amount of debt obligations of certain subsidiaries of Alltel for approximately $4.8 billion, plus accrued and unpaid interest. The maturity dates of these obligations range from 2015 to 2017. Verizon Wireless's investment in Alltel debt obligations is classified as available-for-sale and is included in Other investments in the consolidated balance sheet at December 31, 2008.

Alltel Divestiture Markets

As a condition of the regulatory approvals by the United States Department of Justice (DOJ) and the FCC that were required to complete the Alltel acquisition, Verizon Wireless will divest overlapping properties in 105 operating markets in 24 states (the Alltel Divestiture Markets). These markets consist primarily of Alltel operations, but also include the pre-merger operations of Verizon Wireless in four markets as well as operations in Southern Minnesota and Western Kansas that were acquired from Rural Cellular Corporation (Rural Cellular). As a result of these divestiture requirements, Verizon Wireless has placed the licenses and assets in the Alltel Divestiture Markets in a management trust that will continue to operate the markets under their current brands until they are sold.

Repayment of Alltel Debt and New Borrowings

On December 19, 2008, Verizon Wireless and Verizon Wireless Capital LLC, as the borrowers, entered into the $17.0 billion credit facility (Bridge Facility) with Bank of America, N.A., as Administrative Agent. On December 31, 2008, the Bridge Facility was reduced to $12.5 billion. As of December 31, 2008, there were no amounts outstanding under this facility.

On January 9, 2009, immediately prior to the closing of the Alltel acquisition, we borrowed $12,350 million under the Bridge Facility in order to complete the acquisition of Alltel and repay certain of Alltel's outstanding debt. The remaining commitments under the Bridge Facility were terminated. The Bridge Facility has a maturity date of January 8, 2010. Interest on borrowings under the Bridge Facility is calculated based on the London Interbank Offered Rate (LIBOR) for the applicable period, the level of borrowings on specified dates and a margin that is determined by reference to our long-term credit rating issued by S&P. If the aggregate outstanding principal amount under the Bridge Facility is greater than $6.0 billion on July 8th, 2009 (the 180th day after the closing of the Alltel acquisition), we are required to repay $3.0 billion on that date (less the amount of specified mandatory or optional prepayments that have been made as of that date). The Bridge Facility includes a requirement to maintain a certain leverage ratio. We are required to prepay indebtedness under the Bridge Facility with the net cash proceeds of specified asset sales, issuances and sales of equity and incurrences of borrowed money indebtedness, subject to certain exceptions.

On February 4, 2009, Verizon Wireless and Verizon Wireless Capital LLC co-issued a private placement of $3,500 million of 5.55% notes due 2014 and $750 million of 5.25% notes due 2012, resulting in cash proceeds of $4,211 million, net of discounts and issuance costs. The net proceeds from the sale of these notes were used to repay a portion of the borrowings outstanding under the Bridge Facility.

After the completion of the Alltel acquisition and repayments of Alltel debt, including repayments completed through January 28, 2009, approximately $2.5 billion of Alltel debt that is owed to third parties remained outstanding.

Rural Cellular Corporation

On August 7, 2008, Verizon Wireless acquired 100% of the outstanding common stock and redeemed all of the preferred stock of Rural Cellular in a cash transaction. Rural Cellular was a wireless communications service provider operating under the trade name of "Unicel," focusing primarily on rural markets in the United States. Verizon Wireless believes that the acquisition will further enhance its network coverage in markets adjacent to its existing service areas and will enable Verizon Wireless to achieve operational benefits through realizing synergies in reduced roaming and other operating expenses. Under the terms of the acquisition agreement, Verizon Wireless paid Rural Cellular's common shareholders $728 million in cash ($45 per share). Additionally, all classes of Rural Cellular's preferred shareholders received cash in the aggregate amount of $571 million.

The consolidated financial statements include the results of Rural Cellular's operations from the date the acquisition closed. Had this acquisition been consummated on January 1, 2008 or 2007, the results of Rural Cellular's acquired operations would not have had a significant impact on our consolidated income statement. In connection with the acquisition, Verizon Wireless assumed $1.5 billion of Rural Cellular's debt. This debt was redeemed on September 5, 2008, using proceeds from new debt borrowings by Verizon Wireless (see Note 10). The aggregate value of the net assets acquired was $1.3 billion based on the cash consideration, as well as closing and other direct acquisition-related costs of approximately $12 million.

In accordance with SFAS No. 141, the cost of the acquisition was preliminarily allocated to the assets acquired and liabilities assumed based on their fair values as of the close of the acquisition, with the amounts exceeding the fair value being recorded as goodwill. As the values of certain assets and liabilities are preliminary in nature, they are subject to adjustment as additional information is obtained. The valuations will be finalized within 12 months of the close of the acquisition. When the valuations are finalized, any changes to the preliminary valuation of assets acquired or liabilities assumed may result in adjustments to the fair value of the identifiable intangible assets acquired and goodwill.

The following table summarizes the preliminary allocation of the acquisition cost to the assets acquired, including cash acquired of $42 million, and liabilities assumed as of the acquisition date and adjustments made thereto during the three months ended December 31, 2008:

(dollars in millions)

	As of August 7, 2008	Adjustments	Adjusted as of August 7, 2008
Assets acquired			
Wireless licenses	$ 1,014	$ 82	$ 1,096
Goodwill	935	(2)	933
Intangible assets subject to amortization	197	1	198
Other acquired assets	1,007	(34)	973
Total assets acquired	3,153	47	3,200
Liabilities assumed			
Long-term debt	1,505	–	1,505
Deferred income taxes and other liabilities	342	42	384
Total liabilities assumed	1,847	42	1,889
Net assets acquired	$ 1,306	$ 5	$ 1,311

Included in Other acquired assets are $490 million of assets that have been divested pursuant to the exchange agreement with AT&T, as described below. Adjustments were primarily related to ongoing revisions to preliminary valuations of wireless licenses and other tangible and intangible assets acquired that were subsequently divested to AT&T, and revised estimated tax bases of acquired assets and liabilities.

Wireless licenses acquired have an indefinite life, and accordingly, are not subject to amortization. The customer relationships are being amortized using an accelerated method over 6 years, and other intangibles are being amortized on a straight-line basis over 12 months. Goodwill of approximately $115 million is expected to be deductible for tax purposes.

Divestiture Markets and Exchange Agreements with AT&T
As part of its regulatory approval for the Rural Cellular acquisition, the FCC and DOJ required the divestiture of six operating markets, including all of Rural Cellular's operations in Vermont and New York as well as its operations in Okanogan and Ferry, WA (the Divestiture Markets).

On December 22, 2008, Verizon Wireless completed an exchange with AT&T. Pursuant to the terms of the exchange agreement, as amended, AT&T received the assets relating to the Divestiture Markets and a cellular license for part of the Madison, KY market. In exchange, Verizon Wireless received cellular operating markets in Madison and Mason, KY and 10 MHz PCS licenses in Las Vegas, NV, Buffalo, NY, Erie, PA, Sunbury-Shamokin, PA and Youngstown, OH. Verizon Wireless also received AT&T's minority interests in three entities in which Verizon Wireless holds interests plus a cash payment. The preliminary aggregate value of properties exchanged was approximately $500 million. There was no gain or loss recognized on the exchange. In addition, subject to FCC approval, Verizon Wireless will acquire PCS licenses in Franklin, NY (except Franklin county) and the entire state of Vermont from AT&T in a separate cash transaction that is expected to close in the first half of 2009.

Other Acquisitions
In July 2007, Verizon acquired a security-services firm for $435 million, primarily resulting in goodwill of $343 million and other intangible assets of $81 million. This acquisition was made to enhance our managed information security services to large business and government customers worldwide. This acquisition was integrated into the Wireline segment.

In connection with the 2006 acquisition of MCI, Inc. (MCI), we recorded certain severance and severance-related costs and contract termination costs associated with the merger, pursuant to Emerging Issues Task Force Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*. At December 31, 2007, there was approximately $36 million remaining for these obligations which were substantially resolved during 2008. During 2008, 2007 and 2006, we recorded pretax charges of $172 million ($107 million after-tax), $178 million ($112 million after-tax) and $232 million ($146 million after-tax), respectively, primarily related to the MCI acquisition that were comprised mainly of systems integration activities.

NOTE 3

DISCONTINUED OPERATIONS, EXTRAORDINARY ITEM AND OTHER DISPOSITIONS

Discontinued Operations
Telecomunicaciones de Puerto Rico, Inc.
On March 30, 2007, we completed the sale of our 52% interest in Telecomunicaciones de Puerto Rico, Inc. (TELPRI) and received gross proceeds of approximately $980 million. The sale resulted in a pretax gain of $120 million ($70 million after-tax). Verizon contributed $100 million ($65 million after-tax) of the proceeds to the Verizon Foundation.

Verizon Dominicana C. por A.
On December 1, 2006, we closed the sale of Verizon Dominicana C. por A (Verizon Dominicana). The transaction resulted in net pretax cash proceeds of $2,042 million, net of a purchase price adjustment of $373 million. The U.S. taxes that became payable and were recognized at the time the transaction closed exceeded the $30 million pretax gain on the sale resulting in an overall after-tax loss of $541 million.

Verizon Information Services
In October 2006, we announced our intention to spin-off our domestic print and Internet yellow pages directories publishing operations, which have been organized into a newly formed company known as Idearc Inc. On October 18, 2006, the Verizon Board of Directors declared a dividend consisting of 1 share of the newly formed company for each 20 shares of Verizon owned. In making its determination to effect the spin-off, Verizon's Board of Directors considered, among other things, that the spin-off may allow each company to separately focus on its core business, which may facilitate the potential expansion and growth of Verizon and the newly formed company, and allow each company to determine its own capital structure.

On November 17, 2006, we completed the spin-off of our domestic print and Internet yellow pages directories business. Cash was paid for fractional shares. The distribution of common stock of the newly formed company to our shareowners was considered a tax free transaction for us and for our shareowners, except for the cash payments for fractional shares which were generally taxable.

At the time of the spin-off, the exercise price and number of shares of Verizon common stock underlying options to purchase shares of Verizon common stock, restricted stock units (RSU's) and performance stock units (PSU's) were adjusted pursuant to the terms of the applicable Verizon equity incentive plans, taking into account the change in the value of Verizon common stock as a result of the spin-off.

In connection with the spin-off, Verizon received approximately $2 billion in cash from the proceeds of loans under a term loan facility of the newly formed company and transferred to the newly formed company debt obligations in the aggregate principal amount of approximately $7.1 billion thereby reducing Verizon's outstanding debt at that time. We incurred pretax charges of approximately $117 million ($101 million after-tax), including debt retirement costs, costs associated with accumulated vested benefits of employees of the newly formed company, investment banking fees and other transaction costs related to the spin-off, which are included in discontinued operations.

In accordance with SFAS No. 144 we have classified TELPRI, Verizon Dominicana and our former domestic print and Internet yellow page directories publishing operations as discontinued operations in the consolidated financial statements for all periods presented through the date of the divestiture or spin-off.

Income from discontinued operations, net of tax, presented in the consolidated statements of income included the following:

(dollars in millions)			
Years Ended December 31,	**2008**	2007	2006
Operating revenues	$ –	$ 306	$ 5,077
Income before provision for income taxes	$ –	$ 185	$ 2,041
Provision for income taxes	–	(43)	(1,282)
Income from discontinued operations, net of tax	$ –	$ 142	$ 759

Extraordinary Item

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV)

In January 2007, the Bolivarian Republic of Venezuela (the Republic) declared its intent to nationalize certain companies, including CANTV. On February 12, 2007, we entered into a Memorandum of Understanding (MOU) with the Republic, which provided that the Republic offer to purchase all of the equity securities of CANTV, including our 28.5% interest, through public tender offers in Venezuela and the United States. Under the terms of the MOU, the prices in the tender offers would be adjusted downward to reflect any dividends declared and paid subsequent to February 12, 2007. During 2007, the tender offers were completed and Verizon received an aggregate amount of approximately $572 million, which included $476 million from the tender offers as well as $96 million of dividends declared and paid subsequent to the MOU. During 2007, based upon our investment balance in CANTV, we recorded an extraordinary loss of $131 million, including taxes of $38 million.

Other Dispositions

Telephone Access Lines Spin-off

On January 16, 2007, we announced a definitive agreement with FairPoint Communications, Inc. (FairPoint) providing for Verizon to establish a separate entity for its local exchange and related business assets in Maine, New Hampshire and Vermont, spin-off that new entity into a newly formed company, known as Northern New England Spinco Inc. (Spinco), to Verizon's shareowners, and immediately merge it with and into FairPoint.

On March 31, 2008, we completed the spin-off of the shares of Spinco to Verizon shareowners and the merger of Spinco with FairPoint, resulting in Verizon shareowners collectively owning approximately 60 percent of FairPoint common stock. FairPoint issued approximately 53.8 million shares of FairPoint common stock to Verizon shareowners in the merger, and Verizon shareowners received one share of FairPoint common stock for every 53.0245 shares of Verizon common stock they owned as of March 7, 2008. FairPoint paid cash in lieu of any fraction of a share of FairPoint common stock.

On April 1, 2008, the number of shares of restricted stock units (RSUs) and performance stock units (PSUs) previously issued by Verizon were adjusted pursuant to the terms of the applicable Verizon equity incentive plans, taking into account the change in the value of Verizon common stock as a result of the spin-off.

We also entered into other agreements that defined responsibility for obligations arising before or that may arise after the spin-off, including, among others, obligations relating to Verizon employees whose primary duties relate to Spinco's business, certain transition services and taxes. In general, the agreements governed the exchange of services between us and FairPoint through January 2009 at specified cost-based or commercial rates.

As a result of the spin-off, our net debt was reduced by approximately $1.4 billion. The consolidated income statements for the periods presented include the results of operations of the local exchange and related business assets in Maine, New Hampshire and Vermont through March 31, 2008, the date of completion of the spin-off. The consolidated balance sheet as of December 31, 2008 reflects the spin-off as of March 31, 2008, which increased shareowners' investment by approximately $16 million, and included approximately $79 million ($44 million after-tax) related to defined benefit pension and postretirement benefit plans, which is reflected as a reduction to the beginning balance of Accumulated other comprehensive loss.

During 2008, we recorded pretax charges of $103 million ($81 million after-tax) for costs incurred related to the separation of the wireline facilities and operations in Maine, New Hampshire and Vermont from Verizon at the closing of the transaction, as well as for professional advisory and legal fees in connection with this transaction. During 2007, we recorded pretax charges of $84 million ($80 million after-tax) for costs incurred related to the separation of the wireline facilities and operations in Maine, New Hampshire and Vermont.

NOTE 4

WIRELESS LICENSES, GOODWILL AND OTHER INTANGIBLE ASSETS

Wireless Licenses

Changes in the carrying amount of wireless licenses are as follows:

	(dollars in millions)
Balance as of December 31, 2006	$ 50,959
Wireless licenses acquired	170
Capitalized interest on wireless licenses	203
Other, net	(536)
Balance as of December 31, 2007	$ 50,796
Wireless licenses acquired	**10,626**
Capitalized interest on wireless licenses	**557**
Other, net	**(5)**
Balance as of December 31, 2008	**$ 61,974**

As of December 31, 2008 and 2007, $12.4 billion and $3.0 billion, respectively, of wireless licenses were not in service.

During 2007, Other, net primarily included the impact of adopting FIN 48 (see Note 1) of $535 million.

On March 20, 2008, the FCC announced the results of Auction 73 of wireless spectrum licenses in the 700 MHz band. We were the successful bidder for twenty-five 12 MHz licenses in the A-Block frequency, seventy-seven 12 MHz licenses in the B-Block frequency and seven 22 MHz licenses (nationwide with the exception of Alaska) in the C-Block frequency, with an aggregate bid price of $9,363 million. We have made all required payments to the FCC for these licenses. The FCC granted us these licenses on November 26, 2008.

Goodwill

Changes in the carrying amount of goodwill are as follows:

(dollars in millions)

	Domestic Wireless	Wireline	Total
Balance at December 31, 2006	$ 345	$ 5,310	$ 5,655
Acquisitions	–	343	343
Reclassifications and adjustments	–	(753)	(753)
Balance at December 31, 2007	$ 345	$ 4,900	$ 5,245
Acquisitions	**954**	**–**	**954**
Reclassifications and adjustments	**(2)**	**(162)**	**(164)**
Balance at December 31, 2008	**$ 1,297**	**$ 4,738**	**$ 6,035**

Reclassifications and adjustments to goodwill include the impact of adopting FIN 48 (see Note 1) of $100 million as of January 1, 2007, as well as to reflect revised estimated tax bases of acquired assets and liabilities during 2008 and 2007.

Other Intangible Assets

The following table displays the details of other intangible assets:

(dollars in millions)

	At December 31, 2008			At December 31, 2007		
	Gross Amount	**Accumulated Amortization**	**Net Amount**	Gross Amount	Accumulated Amortization	Net Amount
Finite-lived intangible assets:						
Customer lists (3 to 10 years)	**$ 1,415**	**$ 595**	**$ 820**	$ 1,307	$ 459	$ 848
Non-network internal-use software (2 to 7 years)	**8,099**	**4,102**	**3,997**	8,116	4,147	3,969
Other (1 to 25 years)	**465**	**83**	**382**	215	44	171
Total	**$ 9,979**	**$ 4,780**	**$ 5,199**	$ 9,638	$ 4,650	$ 4,988

Customer lists and Other at December 31, 2008 include $198 million related to the Rural Cellular acquisition. Amortization expense was $1,383 million, $1,341 million, and $1,423 million for the years ended December 31, 2008, 2007 and 2006, respectively and is estimated to be $1,430 million in 2009, $1,139 million in 2010, $934 million in 2011, $713 million in 2012 and $552 million in 2013.

During 2008, we entered into an agreement to acquire a non-exclusive license (the IP License) to a portfolio of intellectual property owned by an entity formed for the purpose of acquiring and licensing intellectual property. We paid an initial fee of $100 million for the IP License, which is included in Other intangible assets and is being amortized over the expected useful lives of the licensed intellectual property. In addition, we executed a subscription agreement (with a capital commitment of $250 million, of which approximately $214 million is remaining to be funded at December 31, 2008, as required through 2012) to become a member in a limited liability company (the LLC) formed by the same entity for the purpose of acquiring and licensing additional intellectual property. In connection with this investment, we will receive non-exclusive license rights to certain intellectual property acquired by the LLC for an annual license fee.

NOTE 5

MARKETABLE SECURITIES AND OTHER INVESTMENTS

We have investments in marketable securities which are considered "available-for-sale" under the provisions of SFAS No. 115. These investments have been included in our consolidated balance sheets in Short-term investments, Other investments, Investments in unconsolidated businesses and Other assets.

Investment Impairment Charge

During 2008, we recorded a pretax charge of $48 million ($31 million after-tax) related to an other-than-temporary decline in the fair value of our investments in certain marketable securities.

The following table shows certain summarized information related to our investments in marketable securities:

(dollars in millions)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2008				
Short-term investments	**$ 362**	**$ 2**	**$ (5)**	**$ 359**
Investments in unconsolidated businesses (Note 7)	**342**	**–**	**(52)**	**290**
Other investments (Notes 2 and 12)	**4,781**	**–**	**–**	**4,781**
Other assets	**684**	**4**	**(9)**	**679**
	$ 6,169	**$ 6**	**$ (66)**	**$ 6,109**
At December 31, 2007				
Short-term investments	$ 497	$ 21	$ –	$ 518
Investments in unconsolidated businesses (Note 7)	286	42	–	328
Other assets	661	31	–	692
	$ 1,444	$ 94	$ –	$ 1,538

Our short-term investments are primarily bonds and mutual funds.

Certain other investments in securities that we hold are not adjusted to market values because those values are not readily determinable and/or the securities are not marketable. We do, however, adjust the carrying values of these securities in situations where we believe declines in value below cost were other-than-temporary. The carrying values for investments not adjusted to market value were $28 million at December 31, 2008 and $15 million at December 31, 2007.

NOTE 6

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	**$ 815**	$ 839
Buildings and equipment	**20,440**	19,734
Network equipment	**175,757**	173,654
Furniture, office and data processing equipment	**10,477**	11,912
Work in progress	**1,279**	1,988
Leasehold improvements	**4,155**	3,612
Other	**2,682**	2,255
	215,605	213,994
Less accumulated depreciation	**129,059**	128,700
Total	**$ 86,546**	$ 85,294

Verizon Center Relocation, Net

During 2006, we recorded pretax charges of $184 million ($118 million after-tax) in connection with the relocation of employees and business operations to Verizon Center located in Basking Ridge, New Jersey.

NOTE 7

INVESTMENTS IN UNCONSOLIDATED BUSINESSES

Our investments in unconsolidated businesses are comprised of the following:

(dollars in millions)

At December 31,	Ownership	2008 Investment	Ownership	2007 Investment
Equity Investees				
Vodafone Omnitel	**23.1%**	**$ 2,182**	23.1%	$ 2,313
Other	**Various**	**877**	Various	744
Total equity investees		**3,059**		3,057
Cost Investees	**Various**	**334**	Various	315
Total investments in unconsolidated businesses		**$ 3,393**		$ 3,372

Dividends and repatriations of foreign earnings received from these investees amounted to $779 million in 2008, $2,571 million in 2007 and $42 million in 2006.

Equity Method Investments

Vodafone Omnitel

Vodafone Omnitel is the second largest wireless communications company in Italy. At December 31, 2008 and 2007, our investment in Vodafone Omnitel included goodwill of $1,105 million and $1,154 million, respectively. During 2008 and 2007, Verizon received a net distribution from Vodafone Omnitel of approximately $670 million and $2,100 million, respectively. As a result, in 2007 we recorded $610 million of foreign and domestic taxes and expenses specifically relating to our share of Vodafone Omnitel's distributable earnings.

Other Equity Investees

Verizon has limited partnership investments in entities that invest in affordable housing projects, for which Verizon provides funding as a limited partner and receives tax deductions and tax credits based on its partnership interests. At December 31, 2008 and 2007, Verizon had equity investments in these partnerships of $761 million and $637 million, respectively. Verizon currently adjusts the carrying value of these investments for any losses incurred by the limited partnerships through earnings.

The remaining investments include wireless partnerships in the U.S. and other smaller domestic and international investments.

Cost Method Investments

Some of our cost investments are carried at their current market value. Other cost investments are carried at their original cost, except in cases where we have determined that a decline in the estimated market value of an investment is other-than-temporary.

NOTE 8

MINORITY INTEREST

Minority interests in equity of subsidiaries were as follows:

(dollars in millions)

At December 31,	2008	2007
Minority interests in consolidated subsidiaries:		
Wireless joint venture	**$ 36,683**	$ 31,782
Cellular partnerships and other	**516**	506
	$ 37,199	$ 32,288

Wireless Joint Venture

The wireless joint venture was formed in April 2000 in connection with the combination of the U.S. wireless operations and interests of Verizon and Vodafone. The wireless joint venture operates as Verizon Wireless. Verizon owns a controlling 55% interest in Verizon Wireless and Vodafone owns the remaining 45%.

Under the terms of an investment agreement, Vodafone had the right to require Verizon Wireless to purchase up to an aggregate of $20 billion worth of Vodafone's interest in Verizon Wireless at designated times (put windows) at its then fair market value, not to exceed $10 billion in any one put window. The last of these put windows opened on June 10 and closed on August 9 in 2007. Vodafone did not exercise its right during this period and no longer has any right to require the purchase of any of its interest in Verizon Wireless.

Cellular Partnerships and Other

In August 2002, Verizon Wireless and Price Communications Corp. (Price) combined Price's wireless business with a portion of Verizon Wireless. The resulting limited partnership, Verizon Wireless of the East LP (VZ East), is controlled and managed by Verizon Wireless. In exchange for its contributed assets, Price received a limited partnership interest in VZ East which was exchangeable into the common stock of Verizon Wireless if an initial public offering of that stock occurred, or into the common stock of Verizon on the fourth anniversary of the asset contribution date. On August 15, 2006, Verizon delivered 29.5 million shares of newly-issued Verizon common stock to Price valued at $1,007 million in exchange for Price's limited partnership interest in VZ East.

Noncontrolling Interests in Consolidated Financial Statements

See Note 1 for a discussion of the pending implementation of SFAS No. 160.

NOTE 9

LEASING ARRANGEMENTS

As Lessor

We are the lessor in leveraged and direct financing lease agreements for commercial aircraft and power generating facilities, which comprise the majority of the portfolio along with telecommunications equipment, real estate property, and other equipment. These leases have remaining terms up to 42 years as of December 31, 2008. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which holds a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with GAAP. All recourse debt is reflected in our consolidated balance sheets.

Finance lease receivables, which are included in Prepaid expenses and other and Other assets in our consolidated balance sheets are comprised of the following:

(dollars in millions)

At December 31,	2008			2007		
	Leveraged Leases	**Direct Finance Leases**	**Total**	Leveraged Leases	Direct Finance Leases	Total
Minimum lease payments receivable	**$ 2,734**	**$ 133**	**$ 2,867**	$ 2,834	$ 131	$ 2,965
Estimated residual value	**1,501**	**12**	**1,513**	1,559	16	1,575
Unamortized initial direct costs	**–**	**1**	**1**	–	1	1
Unearned income	**(1,400)**	**(24)**	**(1,424)**	(1,483)	(25)	(1,508)
	$ 2,835	**$ 122**	**2,957**	$ 2,910	$ 123	3,033
Allowance for doubtful accounts			**(159)**			(168)
Finance lease receivables, net			**$ 2,798**			$ 2,865
Current			**$ 46**			$ 36
Noncurrent			**$ 2,752**			$ 2,829

Accumulated deferred taxes arising from leveraged leases, which are included in Deferred Income Taxes, amounted to $2,218 million at December 31, 2008 and $2,307 million at December 31, 2007.

The following table is a summary of the components of income from leveraged leases:

(dollars in millions)

Years Ended December 31,	2008	2007	2006
Pretax lease income	**$ 74**	$ 78	$ 96
Income tax expense	**30**	30	57
Investment tax credits	**4**	4	4

The future minimum lease payments to be received from noncancelable leases, net of nonrecourse loan payments related to leveraged leases, along with payments relating to direct financing leases for the periods shown at December 31, 2008, are as follows:

(dollars in millions)

Years	Capital Leases	Operating Leases
2009	$ 240	$ 26
2010	148	19
2011	114	14
2012	124	7
2013	124	5
Thereafter	2,117	12
Total	**$ 2,867**	**$ 83**

As Lessee

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense from continuing operations under operating leases amounted to $1,835 million in 2008, $1,712 million in 2007 and $1,608 million in 2006.

Amortization of capital leases is included in depreciation and amortization expense in the consolidated statements of income. Capital lease amounts included in plant, property and equipment are as follows:

(dollars in millions)

At December 31,	2008	2007
Capital leases	**$ 298**	$ 329
Accumulated amortization	**(97)**	(153)
Total	**$ 201**	$ 176

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2008, are as follows:

(dollars in millions)

Years	Capital Leases	Operating Leases
2009	$ 90	$ 1,620
2010	81	1,339
2011	76	1,039
2012	56	770
2013	51	539
Thereafter	126	1,995
Total minimum rental commitments	480	$ 7,302
Less interest and executory costs	(90)	
Present value of minimum lease payments	390	
Less current installments	(63)	
Long-term obligation at December 31, 2008	**$ 327**	

As of December 31, 2008, the total minimum sublease rentals to be received in the future under noncancelable operating subleases was approximately $57 million.

NOTE 10

DEBT

Debt Maturing Within One Year

Debt maturing within one year is as follows:

(dollars in millions)		
At December 31,	2008	2007
Long-term debt maturing within one year	$ 3,506	$ 2,564
Commercial paper	1,487	390
Total debt maturing within one year	$ 4,993	$ 2,954

The weighted average interest rate for our commercial paper at December 31, 2008 and December 31, 2007 was 2.9% and 4.6%, respectively.

Capital expenditures (primarily acquisition and construction of network assets) are partially financed pending long-term financing through bank loans and the issuance of commercial paper payable within 12 months.

At December 31, 2008, we had approximately $5,600 million of unused bank lines of credit which consisted of a three-year committed facility that expires in September 2009. In addition, at December 31, 2008, we had entered into a vendor provided credit facility that provided $150 million of financing capacity. Certain of these lines of credit contain requirements for the payment of commitment fees.

Long-Term Debt

Outstanding long-term debt obligations are as follows:

			(dollars in millions)	
At December 31,	Interest Rates %	Maturities	2008	2007
Notes payable	4.35 - 5.50	2009 - 2018	$ 7,878	$ 5,872
	5.55 - 6.90	2012 - 2038	8,741	3,550
	7.25 - 8.95	2009 - 2039	8,822	5,501
Verizon Wireless – notes payable and other	7.38 - 8.88	2011 - 2018	5,983	–
	LIBOR plus 1.00%	2009 - 2011	4,440	–
Telephone subsidiaries – debentures	4.63 - 7.00	2009 - 2033	9,654	10,580
	7.15 - 7.88	2012 - 2032	1,449	1,449
	8.00 - 8.75	2010 - 2031	1,080	1,080
Other subsidiaries – debentures and other	6.84 - 8.75	2009 - 2028	2,200	2,450
Employee stock ownership plan loans – NYNEX debentures	9.55	2010	47	70
Capital lease obligations (average rate 6.2% and 6.8%)			390	312
Unamortized discount, net of premium			(219)	(97)
Total long-term debt, including current maturities			50,465	30,767
Less debt maturing within one year			(3,506)	(2,564)
Total long-term debt			$ 46,959	$ 28,203

Notes Payable

In November 2008, Verizon issued $2,000 million of 8.75% notes due 2018 and $1,250 million of 8.95% notes due 2039, which resulted in cash proceeds of $3,189 million net of discount and issuance costs. In April 2008, Verizon issued $1,250 million of 5.25% notes due 2013, $1,500 million of 6.10% notes due 2018, and $1,250 million of 6.90% notes due 2038, resulting in cash proceeds of $3,950 million, net of discounts and issuance costs. In February 2008, Verizon issued $750 million of 4.35% notes due 2013, $1,500 million of 5.50% notes due 2018, and $1,750 million of 6.40% notes due 2038, resulting in cash proceeds of $3,953 million, net of discounts and issuance costs. In January 2008, Verizon utilized a $239 million fixed rate vendor financing facility due 2010. During the first quarter of 2008, $1,000 million of Verizon Communications Inc. 4.0% notes matured and were repaid.

In April 2007, Verizon issued $750 million of 5.50% notes due 2017, $750 million of 6.25% notes due 2037, and $500 million of floating rate notes due 2009 resulting in cash proceeds of $1,977 million, net of discounts and issuance costs. In March 2007, Verizon issued $1,000 million of 13-month floating rate exchangeable notes with an original maturity of 2008. These notes were exchangeable periodically at the option of the note holder into similar notes until 2017. The exchangeable notes were not exchanged and are now due April 2009. In February 2007, Verizon utilized a $425 million floating rate vendor financing facility due 2013.

In January 2007, we redeemed $1,580 million principal of the remaining outstanding floating rate notes due August 15, 2007, at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest through the date of redemption. The total payment on the date of redemption was approximately $1,593 million. Approximately $1,600 million of other borrowings were redeemed during 2007.

We recorded pretax charges of $26 million ($16 million after-tax) during the first quarter of 2006 resulting from the extinguishment of $5,665 million aggregate principal amount of long-term debt assumed in connection with the MCI merger.

Verizon Wireless – Notes Payable and Other

Unless indicated, the following notes were co-issued or co-borrowed by Verizon Wireless and Verizon Wireless Capital LLC. Verizon Wireless Capital LLC is a wholly owned subsidiary of Verizon Wireless. It is a limited liability company formed under the laws of Delaware on December 7, 2001 as a special purpose finance subsidiary to facilitate the offering of debt securities of Verizon Wireless by acting as co-issuer. Other than the financing activities as a co-issuer of Verizon Wireless indebtedness, Verizon Wireless Capital LLC has no material assets, operations or revenues. Verizon Wireless is jointly and severally liable with Verizon Wireless Capital LLC for these notes.

On December 18, 2008, Verizon Wireless and Verizon Wireless Capital LLC, co-issued €650 million of 7.625% notes due 2011, €500 million of 8.750% notes due 2015 and £600 million of 8.875% notes due 2018. Concurrent with these offerings, we entered into cross currency swaps to fix our future interest and principal payments in U.S. dollars as well as to exchange the proceeds from British Pound Sterling and Euros into U.S. dollars (see Note 11). The cash proceeds of $2,410 million, net of discounts and issuance costs were used in connection with the Alltel acquisition on January 9, 2009 (see Note 2).

On November 21, 2008, Verizon Wireless and Verizon Wireless Capital LLC co-issued a private placement of $1,250 million of 7.375% notes due 2013 and $2,250 million of 8.500% notes due 2018 resulting in cash proceeds of $3,451 million net of discounts and issuance costs. The net proceeds from the sale of these notes were used in connection with the Alltel acquisition on January 9, 2009 (see Note 2). The co-issuers are required to file a registration statement with respect to an offer to exchange these notes for a new issue of notes registered under the Securities Act of 1933 and use their reasonable best efforts to cause the registration statement to be declared effective within 330 days after the closing of the offering of these notes.

On September 30, 2008, Verizon Wireless and Verizon Wireless Capital LLC entered into a $4,440 million Three-Year Term Loan Facility Agreement (Three-Year Term Facility) with Citibank, N.A., as Administrative Agent, with a maturity date of September 30, 2011. Verizon Wireless borrowed $4,440 million under the Three-Year Term Facility in order to repay a portion of the 364-Day Credit Agreement as described below. Of the $4,440 million, $444 million must be repaid at the end of the first year, $1,998 million at the end of the second year, and $1,998 million upon final maturity. Interest on borrowings under the Three-Year Term Facility is calculated based on the LIBOR rate for the applicable period and a margin that is determined by reference to the long-term credit rating of Verizon Wireless issued by Standard & Poor's Rating Services and Moody's Investors Service (if Moody's subsequently determines to provide a credit rating for the Three-Year Term Facility). Borrowings under the Three-Year Term Facility currently bear interest at a variable rate based on LIBOR plus 100 basis points. The Three-Year Term Facility includes a requirement to maintain a certain leverage ratio.

On June 5, 2008, Verizon Wireless entered into a $7,550 million 364-Day Credit Agreement with Morgan Stanley Senior Funding Inc. as Administrative Agent. During 2008, Verizon Wireless utilized this facility primarily to purchase the Alltel debt obligations acquired in the second quarter and pay fees and expenses incurred in connection therewith, finance the acquisition of Rural Cellular and repay the outstanding Rural Cellular debt and pay fees and expenses incurred in connection therewith. During 2008, the borrowings under the 364-Day Credit Agreement were repaid.

See Note 2 regarding the recent repayment of Alltel debt and related borrowings subsequent to December 31, 2008.

Telephone and Other Subsidiary Debt

During the fourth quarter of 2008, $200 million of Verizon Northwest 5.55% notes, $250 million 6.9% notes and $250 million 5.65% notes of Verizon North Inc. matured and were repaid. During the second quarter of 2008, $100 million of Verizon California Inc. 7.0% notes and $250 million of Verizon New York Inc. 6.0% notes matured and were repaid. Additionally, during first half of 2008, $250 million of GTE Corporation 6.46% notes and $125 million of Verizon South Inc. 6.0% notes matured and were repaid.

During the fourth quarter of 2007, Verizon New England Inc. redeemed previously guaranteed $480 million 7.0% debentures, Series B, issued by Verizon New England Inc. due 2042 at par plus accrued and unpaid interest to the redemption dates. During the third quarter of 2007, $150 million Verizon Pennsylvania Inc. 7.375% notes matured and were repaid. During the second quarter of 2007, $125 million Verizon New England Inc. 7.65% notes and the $225 million Verizon South Inc. 6.125% notes matured and were repaid. During the first quarter of 2007, $150 million GTE Southwest Inc. 6.23% notes and the $275 million Verizon California Inc. 7.65% notes matured and were repaid. In addition, we redeemed $500 million of GTE Corporation 7.9% debentures due February 1, 2027 and $300 million Verizon South Inc. 7.0% debentures, Series F, due 2041 at par plus accrued and unpaid interest to the redemption dates. During the first quarter of 2007, we recorded pretax charges of $28 million ($18 million after-tax) in connection with the early extinguishments of debt.

Guarantees

We guarantee the debt obligations of GTE Corporation (but not the debt of its subsidiary or affiliate companies) that were issued and outstanding prior to July 1, 2003. As of December 31, 2008, $2,200 million principal amount of these obligations remained outstanding. Verizon Communications Inc. and NYNEX Corporation are the joint and several co-obligors of the 20-Year 9.55% Debentures due 2010 previously issued by NYNEX on March 26, 1990. As of December 31, 2008, $47 million principal amount of this obligation remained outstanding. NYNEX and GTE no longer issue public debt or file SEC reports.

Debt Covenants

We and our consolidated subsidiaries are in compliance with all of our debt covenants.

Maturities of Long-Term Debt

Maturities of long-term debt outstanding at December 31, 2008 are as follows:

Years	(dollars in million)
2009	$ 3,506
2010	5,018
2011	5,647
2012	4,306
2013	5,638
Thereafter	26,350

NOTE 11

FINANCIAL INSTRUMENTS

Derivatives

The ongoing effect of SFAS No. 133 and related amendments and interpretations on our consolidated financial statements will be determined each period by several factors, including the specific hedging instruments in place and their relationships to hedged items, as well as market conditions at the end of each period.

Interest Rate Risk Management

We have entered into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt, where we principally receive fixed rates and pay variable rates based on LIBOR. These swaps are designated as fair value hedges and hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value in our balance sheet as assets and liabilities and adjust debt for the change in its fair value due to changes in interest rates. During 2008, we entered into domestic interest rate swaps, designated as fair value hedges, with a notional principal value of approximately $2 billion. The fair value of our entire portfolio of interest rate swaps at December 31, 2008 included in Other assets and Long-term debt was $415 million.

Foreign Exchange Risk Management

During 2008, we entered into cross currency swaps designated as cash flow hedges to exchange the net proceeds from the December 18, 2008 Verizon Wireless and Verizon Wireless Capital LLC offering (see Note 10) from British Pound Sterling and Euros into U.S. dollars, to fix our future interest and principal payments in U.S. dollars as well as mitigate the impact of foreign currency transaction gains or losses. We record these contracts at fair value and any gains or losses on the contract will, over time, offset the gains or losses on the underlying debt obligations.

Net Investment Hedges

During 2007, we entered into foreign currency forward contracts to hedge a portion of our net investment in Vodafone Omnitel. Changes in fair value of these contracts due to Euro exchange rate fluctuations are recognized in Accumulated other comprehensive loss and partially offset the impact of foreign currency changes on the value of our net investment. During 2008, our positions in these foreign currency forward contracts were settled. As of December 31, 2008, Accumulated other comprehensive loss includes unrecognized losses of approximately $166 million ($108 million after-tax) related to these hedge contracts, which along with the unrealized foreign currency translation balance on the investment hedged, remain in Accumulated other comprehensive loss until the investment is sold.

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments, short-term and long-term investments, trade receivables, certain notes receivable, including lease receivables, and derivative contracts. Our policy is to deposit our temporary cash investments with major financial institutions. Counterparties to our derivative contracts are also major financial institutions. The financial institutions have all been accorded high ratings by primary rating agencies. We limit the dollar amount of contracts entered into with any one financial institution and monitor our counterparties' credit ratings. We generally do not give or receive collateral on swap agreements due to our credit rating and those of our counterparties. While we may be exposed to credit losses due to the nonperformance of our counterpar-

ties, we consider the risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial condition.

NOTE 12

FAIR VALUE MEASUREMENTS

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

(dollars in millions)	Level 1[(1)]	Level 2[(2)]	Level 3[(3)]	Total
Assets:				
Short-term investments	$ 180	$ 329	$ –	$ 509
Investments in unconsolidated businesses	290	–	–	290
Other investments	–	–	4,781	4,781
Other assets	–	1,158	–	1,158
Liabilities:				
Other liabilities	–	59	–	59

(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

A reconciliation of the beginning and ending balance of items measured at fair value using significant unobservable inputs as of December 31, 2008 is as follows:

(dollars in millions)	Level 3
Balance at January 1, 2008	$ –
Total gains (losses) (realized/unrealized):	
Included in earnings	–
Included in other comprehensive loss	–
Purchases, issuances and settlements	**4,767**
Discount amortization included in earnings	**14**
Transfers in (out) of Level 3	–
Balance at December 31, 2008	**$ 4,781**

Short-term investments include a fund comprised of cash equivalents held in trust for the payment of certain employee benefits and are classified as Level 2. These temporary cash investments are stated at fair value using matrix pricing as they are not actively traded in an established market. Short-term investments and Investments in unconsolidated businesses also include equity securities, mutual funds, U.S. Treasuries, and obligations of the U.S. government, which are generally measured using quoted prices in active markets and are classified as Level 1.

Other investments are comprised of our investment in Alltel debt, which was acquired in June 2008, and is classified as Level 3. The fair value of the investment in Alltel debt is based upon internally developed valuation techniques since the underlying obligations are not registered or traded in an active market. Upon closing of the Alltel acquisition (see Note 2), the investment in Alltel debt became an intercompany loan that will be eliminated in consolidation.

Other assets are primarily comprised of domestic and foreign corporate and government bonds. While quoted prices in active markets for certain of these debt securities are available, for some they are not. As permitted under SFAS No. 157, we use alternative matrix pricing as a practical expedient resulting in our debt securities being classified as Level 2. Our derivative contracts, included in Other assets or Other liabilities, are primarily comprised of interest rate swaps, 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. As permitted by SFAS No. 157, 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 long-term and short-term debt, excluding capital leases, was $53,174 million and $32,380 million at December 31, 2008 and 2007, respectively, as compared to the carrying value of $51,562 million and $30,845 million, respectively at December 31, 2008 and 2007.

NOTE 13

EARNINGS PER SHARE AND SHAREOWNERS' INVESTMENT

Earnings Per Share

The following table is a reconciliation of the numerators and denominators used in computing earnings per common share:

(dollars and shares in millions, except per share amounts)

Years Ended December 31,	2008	2007	2006
Income Before Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change	**$ 6,428**	$ 5,510	$ 5,480
After-tax minority interest expense related to exchangeable equity interest	–	–	20
After-tax interest expense related to zero-coupon convertible notes	–	–	11
Income Before Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change – after assumed conversion of dilutive securities	**$ 6,428**	$ 5,510	$ 5,511
Weighted-average shares outstanding – basic	**2,849**	2,898	2,912
Effect of dilutive securities:			
Stock options	**1**	4	1
Exchangeable equity interest	–	–	18
Zero-coupon convertible notes	–	–	7
Weighted-average shares outstanding – diluted	**2,850**	2,902	2,938
Earnings Per Common Share from Income Before Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change			
Basic	**$ 2.26**	$ 1.90	$ 1.88
Diluted	**$ 2.26**	$ 1.90	$ 1.88

Certain outstanding options to purchase shares were not included in the computation of diluted earnings per common share because they were not dilutive, including approximately 158 million weighted-average shares during 2008, 170 million weighted-average shares during 2007 and 228 million weighted-average shares during 2006.

The zero-coupon convertible notes were retired on May 15, 2006 and the exchangeable equity interest was converted on August 15, 2006 by issuing 29.5 million Verizon shares (see Note 8).

Shareowners' Investment
Our certificate of incorporation provides authority for the issuance of up to 250 million shares of Series Preferred Stock, $.10 par value, in one or more series, with such designations, preferences, rights, qualifications, limitations and restrictions as the Board of Directors may determine.

We are authorized to issue up to 4.25 billion shares of common stock.

On February 7, 2008, the Board of Directors approved a share buy back program which authorized the repurchase of up to 100 million shares of Verizon common stock terminating no later than the close of business on February 28, 2011. During 2008, 2007 and 2006, we repurchased approximately 37 million, 68 million and 50 million common shares under programs previously authorized by the Board of Directors.

NOTE 14

STOCK-BASED COMPENSATION

Refer to Note 1 for a discussion of the adoption of SFAS No. 123(R), which was effective January 1, 2006.

Verizon Communications Long Term Incentive Plan
The Verizon Communications Long Term Incentive 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. The maximum number of shares for awards is 207 million.

Restricted Stock Units
The Plan provides for grants of RSUs that generally vest at the end of the third year after the grant. The RSUs are classified as liability awards because they 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 performance of Verizon's stock. Dividend equivalent units are also paid to participants at the time the RSU award is paid.

The following table summarizes Verizon's Restricted Stock Unit activity:

(shares in thousands)	Restricted Stock Units	Weighted-Average Grant-Date Fair Value
Outstanding, January 1, 2006	6,869	$ 36.12
Granted	9,116	31.88
Cancelled/forfeited	(392)	35.01
Outstanding, December 31, 2006	15,593	33.67
Granted	6,779	37.59
Payments	(602)	36.75
Cancelled/forfeited	(197)	34.81
Outstanding, December 31, 2007	21,573	34.80
Granted	**7,277**	**36.64**
Payments	**(6,869)**	**36.06**
Cancelled/forfeited	**(161)**	**35.45**
Outstanding, December 31, 2008	**21,820**	**35.01**

Performance Share Units
The Plan also provides for grants of 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 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 the 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.

The following table summarizes Verizon's Performance Share Unit activity:

(shares in thousands)	Performance Share Units	Weighted-Average Grant-Date Fair Value
Outstanding, January 1, 2006	19,091	$ 36.84
Granted	14,166	32.05
Payments	(3,607)	38.54
Cancelled/forfeited	(1,227)	37.25
Outstanding, December 31, 2006	28,423	34.22
Granted	10,371	37.59
Payments	(5,759)	36.75
Cancelled/forfeited	(900)	36.18
Outstanding, December 31, 2007	32,135	34.80
Granted	**11,194**	**36.64**
Payments	**(7,597)**	**36.06**
Cancelled/forfeited	**(2,518)**	**36.00**
Outstanding, December 31, 2008	**33,214**	**35.04**

As of December 31, 2008, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately $308 million and is expected to be recognized over a weighted-average period of approximately two years.

Verizon Wireless's Long-Term Incentive Plan

The 2000 Verizon Wireless Long-Term Incentive Plan (the Wireless Plan) provides compensation opportunities to eligible employees and other participating affiliates of Verizon Wireless (the Partnership). The Wireless Plan provides rewards that are tied to the long-term performance of the Partnership. Under the Wireless Plan, VARs were granted to eligible employees. As of December 31, 2008, all VARs were fully vested.

VARs reflect the change in the value of the Partnership, as defined in the Wireless Plan, similar to stock options. Once VARs become vested, employees can exercise their VARs and receive a payment that is equal to the difference between the VAR price on the date of grant and the VAR price on the date of exercise, less applicable taxes. VARs are fully exercisable three years from the date of grant with a maximum term of 10 years. All VARs are granted at a price equal to the estimated fair value of the Partnership, as defined in the Wireless Plan, at the date of the grant.

With the adoption of SFAS No. 123(R), the Partnership began estimating the fair value of VARs granted using a Black-Scholes option valuation model. The following table summarizes the assumptions used in the model during 2008:

	Ranges
Risk-free rate	0.6% – 3.3%
Expected term (in years)	1.2 – 3.0
Expected volatility	33.9% – 58.5%

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the measurement date. The expected term of the VARs granted was estimated using a combination of the simplified method historical experience, and management judgment. Expected volatility was based on a blend of the historical and implied volatility of publicly traded peer companies for a period equal to the VARs expected life, ending on the measurement date, and calculated on a monthly basis.

The following table summarizes the Value Appreciation Rights activity:

(shares in thousands)	**VARs**	**Weighted-Average Grant-Date Fair Value**
Outstanding rights, January 1, 2006	108,923	$ 17.12
Exercised	(7,448)	13.00
Cancelled/forfeited	(7,008)	23.25
Outstanding rights, December 31, 2006	94,467	16.99
Exercised	(30,848)	15.07
Cancelled/forfeited	(3,207)	24.55
Outstanding rights, December 31, 2007	60,412	17.58
Exercised	**(31,817)**	**18.47**
Cancelled/forfeited	**(351)**	**19.01**
Outstanding rights, December 31, 2008	**28,244**	**16.54**

Stock-Based Compensation Expense

After-tax compensation expense for stock-based compensation related to RSUs, PSUs, and VARs described above included in net income as reported was $375 million, $750 million and $535 million for 2008, 2007 and 2006, respectively.

Stock Options

The Verizon Long Term Incentive 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 following table summarizes Verizon's stock option activity:

(shares in thousands)	**Stock Options**	**Weighted-Average Exercise Price**
Outstanding, January 1, 2006	259,760	$ 46.01
Exercised	(3,371)	32.12
Cancelled/forfeited	(27,025)	43.72
Outstanding, December 31, 2006	229,364	46.48
Exercised	(33,079)	38.50
Cancelled/forfeited	(21,422)	48.26
Outstanding, December 31, 2007	174,863	47.78
Exercised	**(218)**	**38.00**
Cancelled/forfeited	**(39,878)**	**48.13**
Options outstanding, December 31, 2008	**134,767**	**47.69**
Options exercisable, December 31,		
2006	225,067	46.69
2007	174,838	47.78
2008	**134,767**	**47.69**

The following table summarizes information about Verizon's stock options outstanding as of December 31, 2008:

Range of Exercise Prices	**Shares (in thousands)**	**Weighted-Average Remaining Life**	**Weighted-Average Exercise Price**
$ 20.00 - 29.99	24	3.7 years	$ 27.86
30.00 - 39.99	19,327	4.6	36.41
40.00 - 49.99	54,190	2.2	44.03
50.00 - 59.99	60,884	1.1	54.46
60.00 - 69.99	342	0.8	60.48
Total	**134,767**	**2.1**	**47.69**

The total intrinsic value for stock options outstanding was not significant as of December 31, 2008. The total intrinsic value for stock options exercised was $147 million in 2007 and not significant in 2008 and 2006. The amount of cash received from the exercise of stock options was not significant in 2008, $1,274 million in 2007 and $101 million in 2006, respectively. The related tax benefits were not significant. The after-tax compensation expense for stock options was not significant for 2007 and 2006. There was no stock option expense for 2008.

NOTE 15

EMPLOYEE BENEFITS

We maintain non-contributory defined benefit pension plans for many of our employees. In addition, we maintain postretirement health care and life insurance plans for our retirees and their dependents, which are both contributory and non-contributory and include a limit on the Company's share of cost for certain recent and future retirees. We also sponsor 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.

Refer to Note 1 for a discussion of the adoption of SFAS No. 158, which was effective December 31, 2006.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for many of our employees are subject to collective bargaining agreements. Modifications in benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans.

As of June 30, 2006, Verizon management employees no longer earned pension benefits or earned 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 receive an increased company match on their savings plan contributions.

The following tables summarize benefit costs, as well as the benefit obligations, plan assets, funded status and rate assumptions associated with pension and postretirement health care and life insurance benefit plans:

Obligations and Funded Status

(dollars in millions)

	Pension		Health Care and Life	
At December 31,	**2008**	2007	**2008**	2007
Change in Benefit Obligations				
Beginning of year	**$ 32,495**	$ 34,159	**$ 27,306**	$ 27,330
Service cost	**382**	442	**306**	354
Interest cost	**1,966**	1,975	**1,663**	1,592
Plan amendments	**300**	–	**24**	–
Actuarial (gain) loss, net	**(154)**	123	**(483)**	(409)
Benefits paid	**(2,577)**	(4,204)	**(1,529)**	(1,561)
Termination benefits	**32**	–	**7**	–
Curtailment gain	**–**	–	**(29)**	–
Acquisitions and divestitures, net	**(183)**	–	**(169)**	–
Settlements	**(1,867)**	–	**–**	–
End of year	**$ 30,394**	$ 32,495	**$ 27,096**	$ 27,306
Change in Plan Assets				
Beginning of year	**$ 42,659**	$ 41,509	**$ 4,142**	$ 4,303
Actual return on plan assets	**(10,680)**	4,591	**(1,285)**	352
Company contributions	**487**	737	**1,227**	1,048
Benefits paid	**(2,577)**	(4,204)	**(1,529)**	(1,561)
Settlements	**(1,867)**	–	**–**	–
Acquisitions and divestitures, net	**(231)**	26	**–**	–
End of year	**$ 27,791**	$ 42,659	**$ 2,555**	$ 4,142
Funded Status				
End of year	**$ (2,603)**	$ 10,164	**$ (24,541)**	$ (23,164)
Amounts recognized on the balance sheet				
Noncurrent assets	**$ 3,132**	$ 13,745	**$ –**	$ –
Current liabilities	**(122)**	(130)	**(496)**	(360)
Noncurrent liabilities	**(5,613)**	(3,451)	**(24,045)**	(22,804)
Total	**$ (2,603)**	$ 10,164	**$ (24,541)**	$ (23,164)
Amounts recognized in Accumulated Other Comprehensive Loss (Pretax)				
Actuarial loss, net	**$ 13,296**	$ 13	**$ 6,848**	$ 6,040
Prior service cost	**1,162**	932	**3,235**	3,636
Total	**$ 14,458**	$ 945	**$ 10,083**	$ 9,676

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

The accumulated benefit obligation for all defined benefit pension plans was $29,405 million and $31,343 million at December 31, 2008 and 2007, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets follows:

(dollars in millions)

At December 31,	**2008**	2007
Projected benefit obligation	**$ 27,171**	$ 11,001
Accumulated benefit obligation	**26,641**	10,606
Fair value of plan assets	**21,436**	8,868

During 2008, the decline in the fair value of pension assets increased the number of plans having accumulated benefit obligations in excess of plan assets as of December 31, 2008 compared to December 31, 2007.

Net Periodic Cost

The following table displays the details of net periodic pension and other postretirement costs:

(dollars in millions)

	Pension			Health Care and Life		
Years Ended December 31,	**2008**	2007	2006	**2008**	2007	2006
Service cost	**$ 382**	$ 442	$ 581	**$ 306**	$ 354	$ 356
Interest cost	**1,966**	1,975	1,995	**1,663**	1,592	1,499
Expected return on plan assets	**(3,187)**	(3,175)	(3,173)	**(321)**	(317)	(328)
Amortization of prior service cost	**62**	43	44	**395**	392	360
Actuarial loss, net	**40**	98	182	**222**	316	290
Net periodic benefit (income) cost	**(737)**	(617)	(371)	**2,265**	2,337	2,177
Termination benefits	**32**	–	47	**7**	–	14
Settlement loss	**364**	–	56	**–**	–	–
Curtailment loss and other, net	**–**	–	–	**24**	–	–
Subtotal	**396**	–	103	**31**	–	14
Total (income) cost	**$ (341)**	$ (617)	$ (268)	**$ 2,296**	$ 2,337	$ 2,191

Other pretax changes in plan assets and benefit obligations recognized in other comprehensive (income) loss are as follows:

(dollars in millions)

	Pension		Health Care and Life	
At December 31,	**2008**	2007	**2008**	2007
Other changes in plan assets and benefit obligations recognized in other comprehensive (income) loss (pretax)				
Actuarial (gain) loss, net	**$ 13,686**	$ (1,317)	**$ 1,030**	$ (444)
Prior service cost	**293**	–	**(6)**	–
Reversal of amortization items:				
Prior service cost	**(62)**	(43)	**(395)**	(392)
Actuarial loss, net	**(404)**	(98)	**(222)**	(316)
Total recognized in other comprehensive (income) loss (pretax)	**$ 13,513**	$ (1,458)	**$ 407**	$ (1,152)

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $114 million and $112 million, respectively. The estimated net loss and prior service cost for the defined benefit postretirement plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $238 million and $401 million, respectively.

Additional Information

As a result of the adoption of SFAS No. 158 in 2006, we no longer record an additional minimum pension liability. In prior years, as a result of changes in interest rates and changes in investment returns, an adjustment to the additional minimum pension liability was required for a number of plans, as indicated below. The adjustment in the liability was recorded as a charge or (credit) to Accumulated other comprehensive loss, net of tax, in shareowners' investment in the consolidated balance sheets. The Additional Minimum Pension Liability at December 31, 2006, was reduced by $809 million, ($526 million after-tax) based on the final measurement just prior to the adoption of SFAS No. 158. The remaining $396 million, ($262 million after-tax), was reversed as a result of the adoption of SFAS No. 158.

(dollars in millions)

Years Ended December 31,	**2008**	2007	2006
Decrease in minimum liability included in other comprehensive income, net of tax	**$ –**	$ –	$ (526)

Notes to Consolidated Financial Statements continued

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	2006	**2008**	2007	2006
Discount rate	**6.50%**	6.00%	5.75%	**6.50%**	6.00%	5.75%
Expected return on plan assets	**8.50**	8.50	8.50	**8.25**	8.25	8.25
Rate of compensation increase	**4.00**	4.00	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 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 follow:

	Health Care and Life		
At December 31,	**2008**	2007	2006
Health care cost trend rate assumed for next year	**9.00%**	10.00%	10.00%
Rate to which cost trend rate gradually declines	**5.00**	5.00	5.00
Year the rate reaches level it is assumed to remain thereafter	**2014**	2013	2011

A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	(dollars in millions)	
One-Percentage-Point	Increase	Decrease
Effect on 2008 service and interest cost	$ 279	$ (224)
Effect on postretirement benefit obligation as of December 31, 2008	**2,891**	**(2,399)**

Plan Assets

Pension Plans

The weighted-average asset allocations for the pension plans by asset category follow:

At December 31,	**2008**	2007
Asset Category		
Equity securities	**46%**	59%
Debt securities	**20**	18
Real estate	**9**	6
Other	**25**	17
Total	**100%**	100%

Equity securities include Verizon common stock of $87 million and $127 million at December 31, 2008 and 2007, respectively. Other assets include cash and cash equivalents (primarily held for the payment of benefits), private equity and investments in absolute return strategies.

Health Care and Life Plans

The weighted-average asset allocations for the other postretirement benefit plans by asset category follow:

At December 31,	**2008**	2007
Asset Category		
Equity securities	**67%**	74%
Debt securities	**26**	21
Other	**7**	5
Total	**100%**	100%

In our health care and life plans, there was not a significant amount of Verizon common stock held at the end of 2008 and none in 2007.

Our portfolio strategy emphasizes a long-term equity orientation, significant global diversification, the use of both public and private investments and professional financial and operational risk controls. Assets are allocated according to long-term risk and return estimates. Both active and passive management approaches are used depending on perceived market efficiencies and various other factors.

Cash Flows

In 2008, we contributed $332 million to our qualified pension plans, $155 million to our nonqualified pension plans and $1,227 million to our other postretirement benefit plans. We estimate required qualified pension plan contributions for 2009 to be approximately $300 million. We also anticipate approximately $120 million in contributions to our non-qualified pension plans and $1,770 million to our other postretirement benefit plans in 2009.

Estimated Future Benefit Payments

The benefit payments to retirees, which reflect expected future service, are expected to be paid as follows:

(dollars in millions)

	Pension Benefits	Health Care and Life Prior to Medicare Prescription Drug Subsidy	Expected Medicare Prescription Drug Subsidy
2009	$ 4,101	$ 1,979	$ 89
2010	3,110	2,085	99
2011	2,769	2,174	109
2012	2,324	2,195	122
2013	2,338	2,221	134
2014 – 2018	11,292	10,928	837

Savings Plan and Employee Stock Ownership Plans

We maintain four leveraged employee stock ownership plans (ESOP). Only one plan currently has unallocated shares. We match a certain percentage of eligible employee contributions to the savings plans with shares of our common stock from this ESOP. At December 31, 2008, the number of unallocated and allocated shares of common stock in this ESOP were 3 million and 68 million, respectively. All leveraged ESOP shares are included in earnings per share computations.

Total savings plan costs were $683 million, $712 million, and $669 million in 2008, 2007 and 2006, respectively.

Severance Benefits

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

(dollars in millions)

Year	Beginning of Year	Charged to Expense	Payments	Other	End of Year
2006	$ 596	$ 343	$ (383)	$ 88	$ 644
2007	644	743	(363)	–	1,024
2008	**1,024**	**570**	**(509)**	**19**	**1,104**

The remaining severance liability is actuarially determined and includes the impact of the activities described in "*Severance, Pension and Benefit Related Charges*" below. The 2008 expense includes charges for the involuntary separation of approximately 8,600 employees, including approximately 800 during the fourth quarter of 2008 and 5,100 expected during 2009. The 2007 expense includes charges for the involuntary separation of 9,000 employees as described below.

Severance, Pension and Benefit Related Charges

During 2008, we recorded net pretax severance, pension and benefits charges of $950 million ($588 million after-tax). This charge primarily included $586 million ($363 million after-tax) for workforce reductions in connection with the separation of approximately 8,600 employees and related charges; 3,500 of whom were separated in the second half of 2008, with the remaining reductions expected to occur in 2009, in accordance with SFAS No. 112. Also included are net pretax pension settlement losses of $364 million ($225 million after-tax) related to employees that received lump-sum distributions primarily resulting from our separation plans. These charges were recorded in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits* (SFAS No. 88), which requires that settlement losses be recorded once prescribed payment thresholds have been reached.

During the fourth quarter of 2007, we recorded charges of $772 million ($477 million after-tax) primarily in connection with workforce reductions of 9,000 employees and related charges, 4,000 of whom were separated in the fourth quarter of 2007 with the remaining reductions occurring throughout 2008. In addition, we adjusted our actuarial assumptions for severance to align with future expectations.

During 2006, we recorded net pretax severance, pension and benefits charges of $425 million ($258 million after-tax). These charges included net pretax pension settlement losses of $56 million ($26 million after-tax) related to employees that received lump-sum distributions primarily resulting from our separation plans. These charges were recorded in accordance with SFAS No. 88. Also included are pretax charges of $369 million ($228 million after-tax) for employee severance and severance-related costs in connection with the involuntary separation of approximately 4,100 employees.

Notes to Consolidated Financial Statements continued

NOTE 16

INCOME TAXES

The components of Income Before Provision for Income Taxes, Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change are as follows:

Years Ended December 31,	2008	2007	2006
			(dollars in millions)
Domestic	**$ 8,838**	$ 8,508	$ 7,000
Foreign	**921**	984	1,154
	$ 9,759	$ 9,492	$ 8,154

The components of the provision for income taxes from continuing operations are as follows:

Years Ended December 31,	2008	2007	2006
			(dollars in millions)
Current			
Federal	**$ 365**	$ 2,568	$ 2,364
Foreign	**240**	461	141
State and local	**543**	545	421
	1,148	3,574	2,926
Deferred			
Federal	**2,214**	397	(9)
Foreign	**(91)**	66	(45)
State and local	**66**	(48)	(191)
	2,189	415	(245)
Investment tax credits	**(6)**	(7)	(7)
Total income tax expense	**$ 3,331**	$ 3,982	$ 2,674

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	2006
Statutory federal income tax rate	**35.0 %**	35.0 %	35.0 %
State and local income tax, net of federal tax benefits	**4.1**	3.4	1.8
Distributions from foreign investments	**(0.8)**	5.9	–
Equity in earnings from unconsolidated businesses	**(2.4)**	(2.3)	(3.8)
Other, net	**(1.8)**	–	(0.2)
Effective income tax rate	**34.1 %**	42.0 %	32.8 %

The effective income tax rate is the provision for income taxes as a percentage of income from continuing operations before the provision for income taxes. The effective income tax rate in 2008 was lower than 2007 primarily due to recording $610 million of foreign and domestic taxes and expenses in 2007 specifically relating to our share of Vodafone Omnitel's distributable earnings. Verizon received net distributions from Vodafone Omnitel in April 2008 and December 2007 of approximately $670 million and $2,100 million, respectively.

The effective income tax rate in 2007 compared to 2006 was higher primarily due to taxes recorded in 2007 related to distributions from Vodafone Omnitel as discussed above. The 2007 rate was also increased due to higher state taxes in 2007 as compared to 2006, as well as greater benefits from foreign operations in 2006 compared to 2007. These increases were partially offset by lower expenses recorded for unrecognized tax benefits in 2007 as compared to 2006.

Deferred taxes arise because of differences in the book and tax bases of certain assets and liabilities. Significant components of deferred tax are shown in the following table:

At December 31,	2008	2007
		(dollars in millions)
Employee benefits	**$ 13,174**	$ 7,067
Tax loss and credit carry forwards	**2,634**	2,711
Uncollectible accounts receivable	**341**	400
Other – assets	**953**	852
	17,102	11,030
Valuation allowance	**(2,995)**	(2,944)
Deferred tax assets	**14,107**	8,086
Former MCI intercompany accounts receivable basis difference	**1,818**	1,977
Depreciation	**8,157**	7,045
Leasing activity	**2,218**	2,307
Wireless joint venture including wireless licenses	**12,957**	11,634
Other – liabilities	**823**	349
Deferred tax liabilities	**25,973**	23,312
Net deferred tax liability	**$ 11,866**	$ 15,226

Employee benefits deferred tax assets include $10,344 million and $4,929 million at December 31, 2008 and 2007, respectively, recognized in accordance with SFAS No. 158 (see Notes 1 and 15).

At December 31, 2008, undistributed earnings of our foreign subsidiaries indefinitely invested outside of the United States amounted to approximately $800 million. We have not provided deferred taxes on these earnings because we intend that they will remain indefinitely invested outside of the United States. Determination of the amount of unrecognized deferred taxes related to these undistributed earnings is not practical.

At December 31, 2008, we had tax loss and credit carry forwards for income tax purposes of approximately $3,000 million. Of these tax loss and credit carry forwards, approximately $2,420 million will expire between 2009 and 2028 and approximately $580 million may be carried forward indefinitely. The amount of tax loss and credit carry forwards reflected as a deferred tax asset above has been reduced by approximately $614 million and $661 million at December 31, 2008 and 2007, respectively, due to federal and state tax law limitations on utilization of net operating losses.

During 2008, the valuation allowance increased $51 million. Beginning January 1, 2009, due to the issuance of SFAS No. 141(R), the valuation allowance as of December 31, 2008, if recognized, will be reflected in income tax expense.