UTILITIES AND TRANSPORTATION COMMISSION
Celebrating 100 Years

REGISTRATION AND COMPETITIVE CLASSIFICATION OF TELECOMMUNICATION COMPANIES

All telecommunications companies must register with the Utilities and Transportation Commission (UTC) prior to beginning operations in the state of Washington. Refer to RCW 80.36, WAC 480-121, 480-80, and 480-120.

1300 South Evergreen Park Drive SW
PO Box 47250
Olympia, WA 98504-7250

Telephone 360-664-1160 / Fax 360-586-1150
TTY 360-586-8203 or 1-800-416-5289
Website: www.wutc.wa.gov

The UTC has a policy of providing equal access to its services. To request this document in alternate formats, please call 360-664-1133.

- Complete the application form.
- Submit these forms via the Records Center Web portal or e-mail to records@wutc.wa.gov as an electronic attachment. UTC encourages electronic submission of filings.
- UTC will issue a registration certificate with an effective date 30 days from the date the completed application is received and approved.

Include the following:

☒ Current Balance Sheet ☒ Latest Annual Report, if any

Competitive Classification

☒ Yes ☐ No Applicant is subject to effective competition and requests waiver of regulatory requirements outlined in WAC 480-121-063 (1).

Telecommunications Company Information

Company Name: New Communications Online and Long Distance Inc. d/b/a:
Company Mailing Address: 1800 – 41st Street, WA0105RA
City/State/Zip: Everett, WA 98201
Web Site Address: To be determined

Unified Business Identification Number (UBI): 602985305
(If you do not know your UBI number or need to request one contact the Department of Licensing at 360-664-1400)

Questions regarding this application should be directed to:

Name: Thomas F. Dixon
Phone Number: 303-390-6206 Fax Number: 303-390-6333 E-mail: thomas.f.dixon@verizon.com

Mailing Address: 707 – 17th Street, 40th Floor
City/State/Zip: Denver, Colorado 80202

Registered Agent (A Washington Agent is required if the company is located outside Washington State):

Name: C T Corporation System
Mailing Address: 1801 W. Bay Drive, Suite 206
City/State/Zip: Olympia, WA 98502
Phone Number: 360-357-6794

Name, address and title of each officer or director (attach additional pages if needed)

Name	Address	Title
Francis J. Shammo	One Verizon Way, Basking Ridge, NJ 07920	CEO, Director
John W. Diercksen	One Verizon Way, Basking Ridge, NJ 07920	Director
(See attached sheet)		

Regulatory Contact:

Name: Richard E. Potter
Mailing Address: 1800 – 41st Street, WA0105RA, Everett, WA 98201
Phone Number: 425-261-5006 Fax Number: 425-261-5262
E-mail: richard.potter@verizon.com

Consumer Questions and/or Complaint Contact:

Name: Bonnie Yunker
Title: Analyst – Customer Service
Phone Number: 425-297-2003 Fax Number: 425-297-2010
E-mail: cr.verizon@verizon.com

Emergency Contact:

Name: Richard E. Potter
Title: Director, Public Affairs, Policy & Communications
Phone Number: 425-261-5006 Fax Number: 425-261-5262
E-mail: richard.potter@verizon.com

Telecommunication services that will be provided (check all that apply):

☐ Local Exchange Service (Resale)
☒ Data Services
☐ Calling Cards
☐ Prepaid Calling Cards
☐ Alternate Operator Services
☒ Directory Assistance

☒ Long Distance Interlata

☒ WATS (800/888)

☒ Long Distance Intralata

☐ Other, please specify ______________________________

New Communications Online and Long Distance Inc.
Officer/Director List

Name	Title	Business Address
Diercksen, John W.	Director	One Verizon Way, Basking Ridge, NJ 07920
Shammo, Francis J.	Director	One Verizon Way, Basking Ridge, NJ 07920
Bennett, J. Goodwin	Vice President	One Verizon Way, Basking Ridge, NJ 07920
Burden, Robert J.	Vice President-Taxes	One Verizon Way, Basking Ridge, NJ 07920
Christian, Rosalynn	Assistant Secretary	600 Hidden Ridge, Irving, TX 75038
Cordy, Scott L.	Vice President-Taxes	One Verizon Way, Basking Ridge, NJ 07920
Garrity, Janet M.	Treasurer	3900 Washington St., Wilmington, DE 19802
Harvey, Keiko	Vice President – Network	One Verizon Way, Basking Ridge, NJ 07920
Horton, Jr., William L.	Secretary	One Verizon Way, Basking Ridge, NJ 07920
Jankun, Richard P.	Vice President-Taxes	One Verizon Way, Basking Ridge, NJ 07920
Kauffman, David S.	Assistant Secretary	One Verizon Way, Basking Ridge, NJ 07920
Leake, Gary	Vice President-Taxes	700 Hidden Ridge, Irving, TX 75038
Masching, Richard R.	Vice President-Taxes	700 Hidden Ridge, Irving, TX 75038
Olson, Neil D.	Assistant Treasurer	One Verizon Way, Basking Ridge, NJ 07920
O'Rourke, James V.	Chief Operating Officer	1717 Arch St., Philadelphia, PA 19103
Schapker, Jane A.	Assistant Secretary	One Verizon Way, Basking Ridge, NJ 07920
Shammo, Francis J.	Chief Executive Officer	One Verizon Way, Basking Ridge, NJ 07920
Smith, Stephen E.	Vice President	One Verizon Way, Basking Ridge, NJ 07920
Williams, Richard L.	Chief Financial Officer	8001 W Jefferson Blvd., Fort Wayne, IN 46804

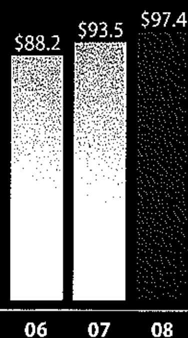
13 January 2010

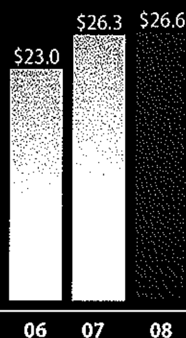
Verizon Communications

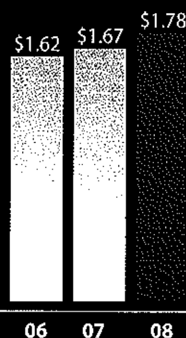
2008 Annual Report

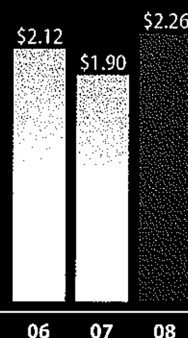
Financial Highlights

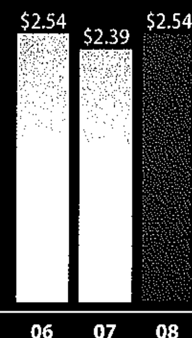
(as of December 31, 2008)











Corporate Highlights

> 5.1% consolidated revenue growth
> 9.2% operating income growth
> 7.6% EPS growth
> 7% annual dividend increase
> $1.4 billion in share repurchases

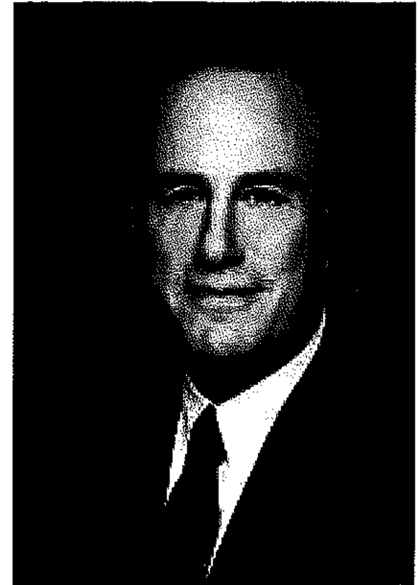
Note: Prior-period amounts have been reclassified to reflect comparable results.

See www.verizon.com/investor for reconciliations to generally accepted accounting principles (GAAP) for the non-GAAP financial measures included in this annual report. Verizon's results for the periods presented have been adjusted to reflect the spinoff of local exchange and related business assets in Maine, New Hampshire and Vermont in March 2008. These reclassifications were determined using specific information where available and allocations where data is not maintained on a state-specific basis within the Company's books and records. Verizon's 2006 reported results include revenues and expenses from the former MCI, Inc., subsequent to the close of the merger in January 2006. Information provided in this annual report on a pro-forma (non-GAAP) basis presents the combined operating results of Verizon and the former MCI on a comparable basis. Discontinued operations include Verizon's former directory publishing unit, which was spun off to shareowners in the fourth quarter 2006, and the operations of Verizon Dominicana C. por A. (Verizon Dominciana) and Telecomunicaciones de Puerto Rico Inc. (TELPRI) following second quarter 2006 agreements to sell the businesses. The Verizon Dominicana sale closed in the fourth quarter 2006. The TELPRI sale closed in the first quarter of 2007.

Corporate Highlights shown above are presented on a pro forma and adjusted basis. Intra- and inter-segment transactions have not been eliminated from the business group revenue totals cited in this document.

In keeping with Verizon's commitment to protect the environment, this report was printed on paper certified by the Forest Stewardship Council (FSC). By selecting FSC-certified paper, Verizon is helping to make a difference by supporting responsible forest management practices.

Chairman's Letter to Shareowners



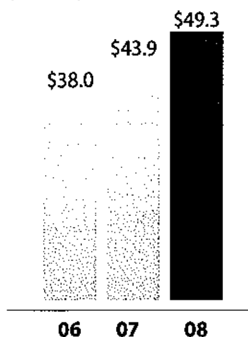
Ivan Seidenberg
Chairman and Chief Executive Officer

At Verizon, our business model is based on a few core beliefs. We believe our superior networks differentiate us and provide great communications experiences to customers. We believe our focus on the fundamentals of running a good business – operating excellence, financial discipline and strong values – gives us the ability to plan our future and manage through all economic conditions. We believe that investing for growth is the key to creating value for our shareowners. And we believe that the communications products and services we deliver are, and will continue to be, hugely important in the lives of our customers, our communities and our world.

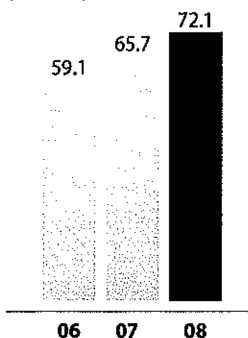
By staying focused on this basic business model, Verizon has remained a source of relative stability in a tumultuous market. Our performance in 2008 bears this out and shows the fundamental strength of our company.

Our main growth engines are wireless voice and data; high-speed consumer broadband and video services; and Internet Protocol (IP) networks, applications and professional services for global businesses. Each of these gained market share and attracted new customers in 2008. As a result of this strong performance in our strategic businesses, Verizon delivered growth in revenues, earnings and cash flow in 2008. Operating revenues for the year were $97.4 billion, an increase of 4.2 percent or 5.1 percent on an adjusted basis. Adjusted operating income was $18.1 billion, up 9.2 percent for the year. Operating cash flows from continuing operations totaled $26.6 billion, up 1.2 percent from 2007. Adjusted earnings from continuing operations were $2.54 per share, up 7.6 percent.

WIRELESS REVENUE
(billions)



WIRELESS CUSTOMERS
(millions)



By way of comparison, only three companies in the Dow Jones 30 generated more cash from operations than Verizon. Because of our strong financial position, we were able to invest $17.2 billion in networks, pay $5 billion in dividends and repurchase $1.4 billion of Verizon stock. In September, we increased our quarterly dividend by 7 percent, to $.46 per share – an expression of our Board's confidence in our future and commitment to returning value to shareowners.

In 2008, we remained focused on building and creating the premier assets in our industry and continued to shift our center of gravity toward the growing wireless and broadband markets. For example, we expanded our wireless footprint by acquiring Rural Cellular and by winning extremely valuable wireless spectrum in the FCC auction, which positions us strongly for the next phase of growth in the wireless market. Also, in a transaction that closed in January 2009, we acquired the nation's number-five wireless company, Alltel Corporation, making us the U.S. leader in wireless customers and revenues. At a time when even healthy companies found it difficult to tap into the credit markets, our ability to finance and execute a transaction of this magnitude affirms our financial solidity and healthy balance sheet. We also spun off some of our telephone properties in northern New England and merged them with Fairpoint Communications, a leading provider of local exchange services.

We continued to invest in the superior network technologies that are Verizon's hallmark. Our purchase of spectrum in the FCC auction expanded our inventory by 60 percent, which gives us additional capacity to accommodate the rapid growth of wireless data services such as text messaging, e-mail and Internet access. We passed more than 3 million additional homes with our industry-leading fiber-optic network, FiOS, and are now beginning to expand into big city markets like New York City, Philadelphia and Washington, D.C. Our fiber network now passes 12.7 million homes, or about 40 percent of the households in our footprint, putting us two-thirds of the way to our target of passing 18 million homes by 2010. In the business market, our high-speed networks provide a sophisticated communications and computing platform for multinationals and government customers, and in 2008 we added to the security and robustness of our network infrastructure in the U.S., Europe and the Asia-Pacific region. We also led a consortium that built a high-speed submarine fiber link connecting China, South Korea, Taiwan and the United States.

Transforming Verizon to Deliver the Best Wireless and

From
Voice and Data

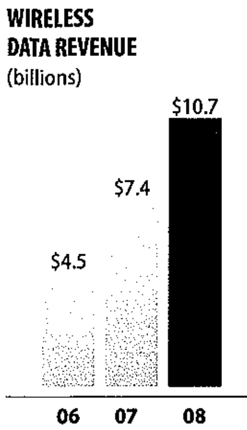
To
Content and Applications

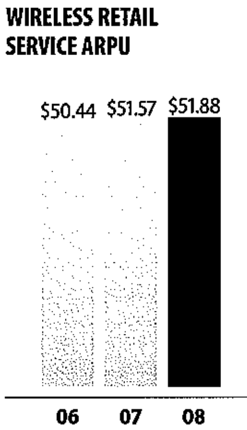
From
Separate Platforms

To
Unified Platforms

We've spent the last decade remaking our wireless, landline and Internet backbone networks and expanding the range of products, applications and services we can deliver to our customers. Today our customers do much more than make phone calls and send e-mail messages. They use our networks to watch high-definition (HD) TV, surf the Internet, share photos, watch videos online and conduct videoconferences around the globe. We're prepared for the next wave of growth that will come from a new generation of broadband devices, applications and services that will use our wireless and fiber networks to deliver advances in entertainment, education, commerce and health care.

One of the biggest challenges for customers is bringing together all their digital experiences to make their lives more convenient and productive. We'll soon be able to provide a technical solution to the challenge of convergence by designing applications that work across all our networks – broadband, global IP and wireless. Our customers will no longer be stranded on separate islands of technology because we'll be able to build an application once and have the network deliver it to customers anytime, anywhere, and on any device. Giving customers new tools to better manage their digital lives will be one of the great business opportunities in the coming years.





Our philosophy is that by investing in the best networks, we can offer the best and most innovative services and enhance our competitiveness across the board. That proved true in 2008. We saw solid revenue growth in all our strategic businesses in 2008: 12.4 percent in wireless, 42 percent in broadband and video, and 16 percent in strategic business services. We added more than 6 million new wireless customers, 956,000 FiOS Internet customers and 975,000 customers for FiOS TV. Rising monthly average-revenue-per-user for wireless and broadband shows that our customers are finding these products more and more vital and useful in their daily lives. And in the business market, nearly 70 percent of our customers have or are in the process of transitioning to private IP networks, making this service the fastest growing in this business.

In wireless, we launched 36 new devices in 2008. More than one-third of them were smart phones, which reflects the evolution of wireless from a voice-only product to a full-service platform that allows customers to surf the Internet, check e-mail, watch video, exchange pictures and more. This growing array of data services now generates nearly 27 percent of wireless service revenues. Going forward, we believe that wireless growth will increasingly be driven by mobile connections built into a wide variety of products such as cameras, energy systems, vehicles, buildings and appliances. To accommodate these new services, we are preparing to launch our fourth-generation wireless network, which we believe will make Verizon's wireless network the on-ramp for innovation in the next phase of this dynamic industry.

With FiOS, we are redefining the consumer telecom business as a broadband and video business. FiOS delivers ultra-fast Internet speeds and more high-definition video channels than any cable provider in the market today. These features have helped us achieve 25 percent market share for FiOS Internet and 21 percent for FiOS TV in four short years. We are well-positioned for the next wave of innovation in telecom, which will be driven by high-definition teleconferencing, three-dimensional video and other advanced services requiring the unique speed and capacity advantages of our all-fiber network.

In the global enterprise market, customers are looking for communications companies that can provide them with a full range of strategic capabilities – from security, professional services, information technology solutions, and private IP services to global networking. Verizon is one of

Broadband Experience

From
Providing Service

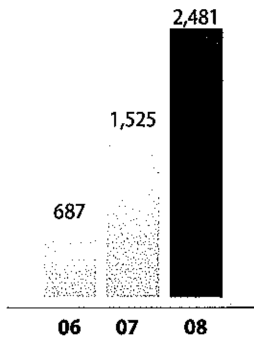
To
Offering Compelling Experiences

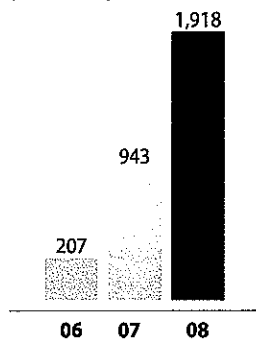
We're transforming our networks to provide for the bandwidth-intensive applications our customers will need in the future. Our all-fiber network will deliver all the advanced HD and Internet services that are being developed. You'll walk through virtual stores, attend classes held thousands of miles away, or consult with your doctor – all without leaving home. Wireless smart phones will provide advanced Internet, video and computer applications to keep customers informed and entertained on the go. And our global network will support a new wave of productivity-enhancing applications like secure global transactions, electronic supply chains and manufacturing processes, and virtual-reality videoconferencing.

From
Connecting Users

To
Creating Communities

Verizon is doing much more than simply connecting individuals. We're developing innovative network services that create communities where friends and neighbors, buyers and sellers, or teachers and students around the world can come together in unique and exciting ways. We're enabling these valuable social networks by providing our customers the tools to share experiences with each other whenever and wherever they happen. We're also helping address social issues that are critical to the well-being of our communities by building advanced broadband networks that are creating the jobs of the future, making communities more competitive and driving innovation and growth.





the world's premier providers of all these capabilities. We are also building relationships with world-class partners like Accenture to leverage our complementary capabilities and provide customers with superior solutions for their businesses. Looking ahead, we expect companies to look for ways to use communications to run their businesses more efficiently, reduce travel expenses, save energy costs and connect their increasingly global workforces and supply chains. With our global reach and networking expertise, we have a great opportunity to be a strategic partner in helping our major customers achieve these goals.

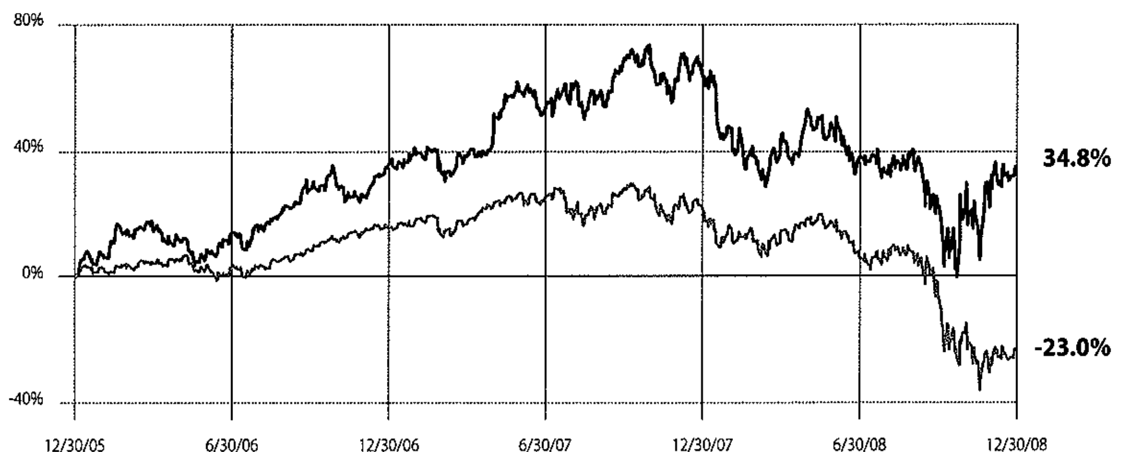
Once again in 2008, our products earned Verizon top marks for quality and customer satisfaction. *Consumer Reports* ranked us number-one among wireless companies in customer satisfaction in 87 percent of the cities it studied. (By the way, Alltel was number-one in the other 13 percent.) *PCMag.com* named FiOS Internet the fastest and most satisfying service in the U.S. and listed FiOS as one of its 100 best products of 2008. Industry analysts such as Gartner and Forrester have recognized Verizon Business as a leader for global networks and services.

What this shows is that the market is responding to Verizon's record of innovation.

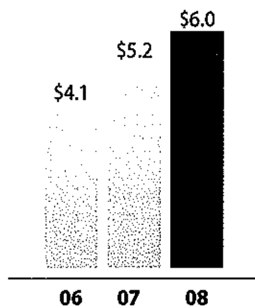
So we feel confident about our long-range growth opportunities. This is not to say we are unaffected by the economic slowdown or by the ongoing structural changes in the communications market. The traditional fixed-line telephone business continues to decline as customers disconnect their wired phones and shift to wireless, cable and other newer technologies. In addition, the faltering economy depressed volumes in the large-business market in the fourth quarter, as businesses began to curtail their spending and unemployment rose.

But all in all, 2008 was another year of operational excellence and strategic gains for our company. As for our stock performance, Verizon's total return for 2008 was down 18 percent, as compared with declines of 32 percent for the Dow Jones Industrial Average and 37 percent for the Standard & Poor's 500. If there's a silver lining in these numbers, it's that, on a relative basis, Verizon's performance was in the top one-third of both the S&P and the Dow 30, which says that the market recognizes our earnings and dividend stability. A longer-term view of our performance over the period from 2006 to 2008 shows Verizon's total return growing by 35 percent, as compared with a decline of 23 percent for the Standard & Poor's 500.

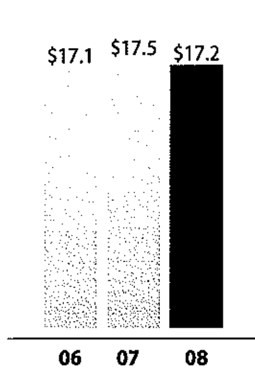
In other words, Verizon has outperformed the market on a relative basis over the past year and has generated attractive returns on an absolute basis over three years. This is cold comfort to investors suffering through the current market crisis. You can be assured that the leaders of our company are focused on what we control – productivity, innovation, customer service, and a



VERIZON BUSINESS STRATEGIC SERVICES REVENUE
(billions)



CAPITAL EXPENDITURES
(billions)



strong dividend – to translate the strength of our company into excellence for our customers and value for our investors.

I want to express my appreciation to our employees for their rock-solid dedication to our customers and sterling record of ethical management, diversity and volunteerism. In 2008, they volunteered 600,000 hours, contributed tens of millions of dollars to charities and community organizations, and responded with tremendous skill when ice storms, hurricanes and other emergencies threatened our customers' vital communications lines. Their adherence to our values continues in bad times as well as good and is one of the major reasons I'm optimistic about our future, despite the challenges of the current economic environment.

I also would like to cite our Board of Directors, whose forethought and steadfastness in pursuing our strategic goals has been critical to our success. Special thanks go to longtime board member Robert Storey, who retired in 2008 with 23 years of service.

Finally, all Verizon shareowners owe a debt of gratitude to two executives who have put their mark on our company and our industry. William Barr retired at the end of 2008, having served as Verizon's general counsel since our inception. Bill paved the way for a growing, competitive communications marketplace by leading the charge to reform the way our industry is regulated. He set the standard for what it means to be a superior general counsel. Our chief financial officer, Doreen Toben, will retire this year with decades of service to our company, the last seven as CFO. Doreen's contributions to Verizon are profound. You can see her imprint on our culture of financial discipline, our strong balance sheet, our diversified asset base, and our passion for execution. Her influence will be visible for many years to come.

For all the challenges in our environment, we approach the future with confidence. In fact, I believe Verizon will be one of the companies that will help put our economy back on the path to prosperity and growth. Our products and services are indispensable in the lives of millions of customers. Our services will be key tools for businesses looking to work smarter and faster. Our technologies can help solve the big social challenges of our time such as energy efficiency and health care reform. We have the financial strength to grow and invest in the future. And we have great people, who want to do right by our customers, our company, our communities and our country. I couldn't be more proud of their performance.

Last year in this space, I said Verizon's goal was to be the best company in the communications sector, period. To achieve that kind of sustained leadership requires several things. You need the right ideas about where the market is going and what differentiates your company in your industry. You need the right values to create the relationships on which long-term success is built. And you need the right culture of accountability to turn those ideas, beliefs and values into action and results.

That's how we run our business. Our idea of the future, our values, and our commitment to accountability will keep us focused on our pursuit of excellence, regardless of how rocky the road ahead.

Tough times give us the opportunity to lead. I am confident that we will rise to the challenge of delivering value for our shareowners and customers in 2009.

Ivan Seidenberg
Chairman and Chief Executive Officer

Any Time, Anywhere Broadband Connectivity

At Verizon, we saw early on that wireless customers wanted to do more than just make phone calls, so we invested in wireless broadband technology to provide them with the bandwidth, speed and mobility they desire. Today our customers can check e-mail, get driving directions, take photos, share videos and explore the Internet, all with their mobile phones. We have the largest high-speed third-generation (3G) wireless network in America. With its size, scope and reliability, this advanced network provides the best wireless broadband experience in the industry and strong growth opportunities for our company.

But as our customers' needs continue to evolve, they'll want new ways to communicate whenever and wherever they choose – anywhere around the globe. They'll need more bandwidth, innovative phones and other advanced services that enhance their mobile world. In fact, soon we won't think only in terms of a wireless "phone." The next generation of wireless broadband will be embedded into all kinds of consumer and business electronics including cameras, cars, credit cards, security systems, shipping containers, medical monitoring devices and even home appliances.

So in 2010, we'll roll out our fourth-generation (4G) wireless network using Long Term Evolution (LTE) technology. This will enable customers to access data at even faster speeds, and it will provide a common wireless technology platform with true global scale. LTE will create additional growth opportunities by delivering an unprecedented wireless broadband experience for high-performance mobile computing, advanced multimedia applications and sophisticated electronic devices.

We envision a future where a wide variety of wireless products and services from a growing portfolio of developers will be available for use on the Verizon Wireless network. To encourage this new round of innovation, Verizon Wireless is providing network options for using wireless devices, software and applications provided by third-party developers. Our Open Development Initiative is part of our strategy to expand the wireless market and offer our customers more wireless choices. Our goal is to create new opportunities for businesses, consumers and shareowners by driving broadband innovation deeper into the wireless marketplace.

To help deliver the broadband future, Verizon purchased valuable wireless spectrum from the FCC in 2008. This spectrum is a critical piece of our overall broadband strategy to take advantage of the enormous opportunity for growth in data services in the future. The spectrum will allow Verizon to capture the full potential of our 4G LTE network, our Open Development Initiative and the resulting next wave of wireless innovation.

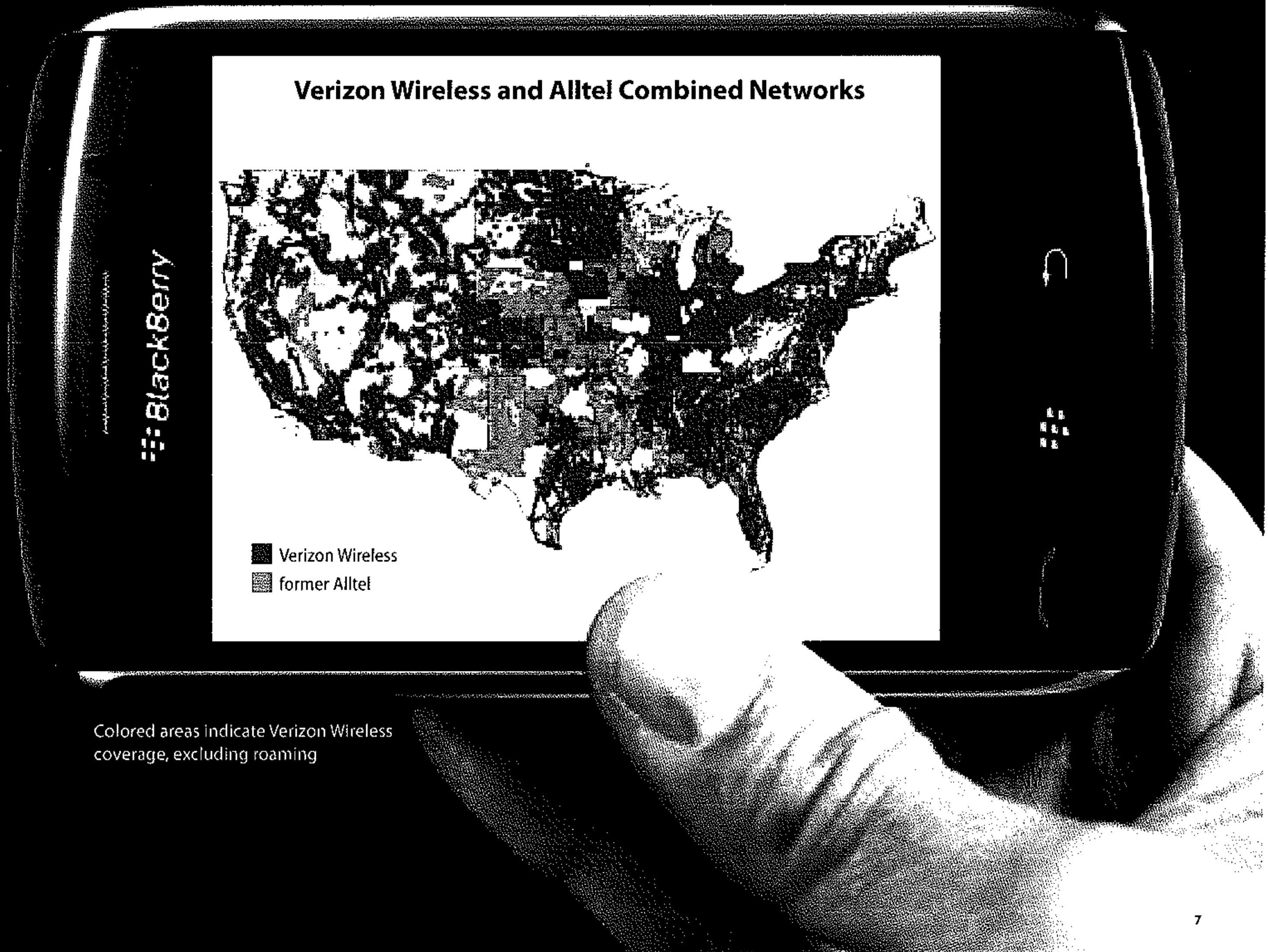
Our investments will help us continue to maintain our network superiority, satisfy our customers' broadband needs and provide additional value to our shareowners in the years ahead.

With the acquisition of Alltel in early 2009, Verizon Wireless now provides service to millions more customers across the United States on its own network. The merger created an enhanced platform of network coverage, spectrum and customer care to better serve the growing needs of both Alltel and Verizon Wireless customers for basic voice and advanced broadband wireless services. Our wireless network coverage now reaches approximately 288 million people – nearly the entire U.S. population – and our wireless customer base has increased to more than 80 million subscribers, making us the largest wireless carrier in the country.

Both Alltel and Verizon Wireless have long track records of delivering a high-quality customer experience in the marketplace, and the combination of the two companies will continue to improve on that heritage. Customers of both companies now have access to the country's largest mobile to mobile calling community. Alltel customers also will benefit from an expanded range of products and services, including a premier lineup of wireless devices and access to the nation's largest 3G high-speed wireless broadband network.

The transaction puts the Alltel markets and customers on a path to advanced 4G services as Verizon Wireless deploys LTE technology throughout its network over the next several years. In addition, Alltel's customers will reap the benefits of Verizon Wireless' Open Development initiative, which welcomes third-party devices and services on the Verizon Wireless network.

The acquisition also provides opportunities for enhanced value for our shareowners. Both companies use a common network technology, which provides advantages of a seamless transition for Alltel customers, ease in integrating the two companies' networks, and scale efficiencies in operating the larger integrated network.



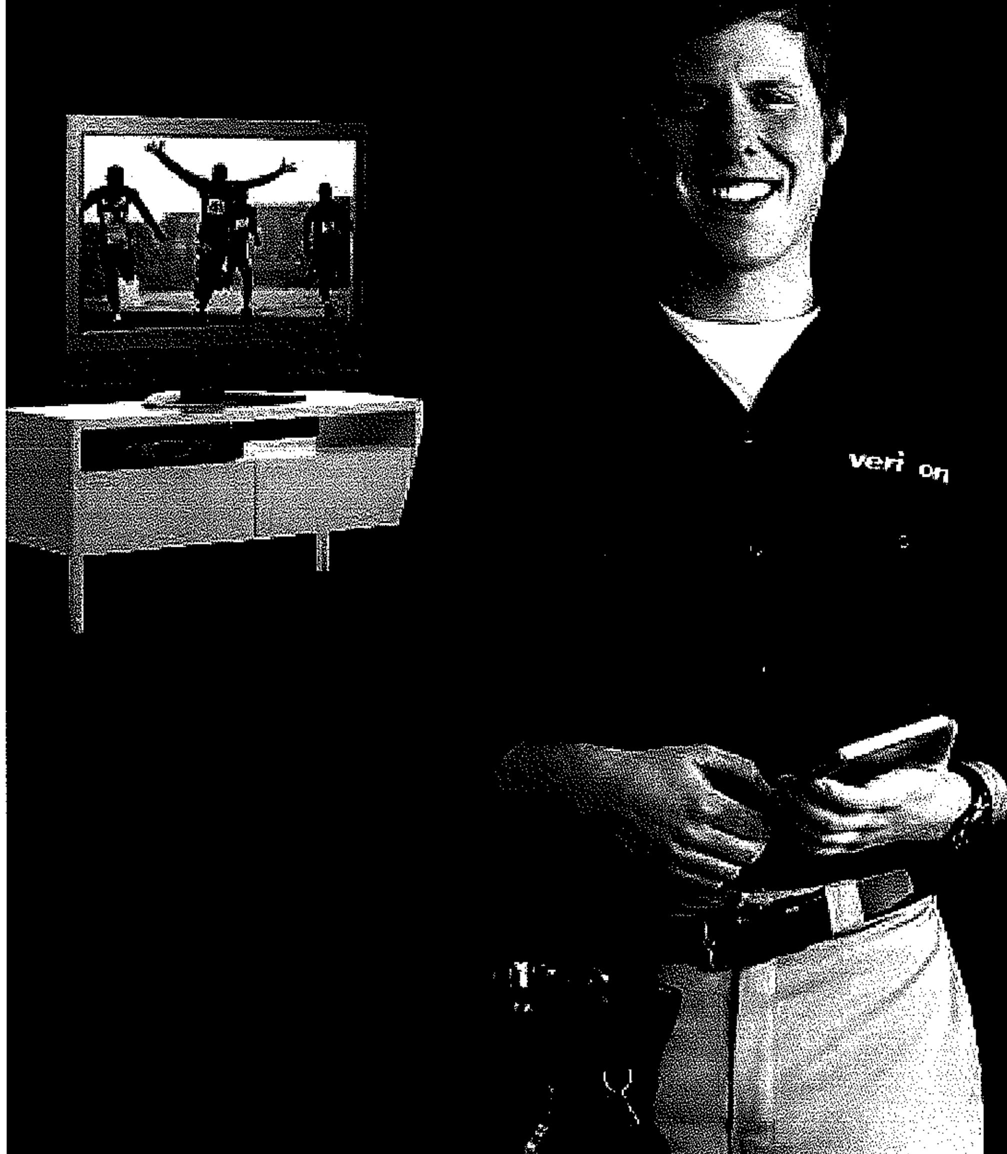
Colored areas indicate Verizon Wireless coverage, excluding roaming

As the nation's premier broadband and entertainment provider, Verizon leads the way in delivering ultra-fast broadband using fiber-optic technology. Other companies claim to use fiber, but only Verizon FiOS delivers 100% fiber-optics – providing virtually unmatched bandwidth – on hair-thin strands of glass directly to our customers' homes. Our all-fiber network offers an extraordinary experience in TV, Internet and phone, and provides immense capacity that will meet our customers' bandwidth needs well into the future.

Cable companies deliver their broadband and TV services over coaxial cable, which has a fraction of the bandwidth available on our all-fiber network. In addition, cable customers share their broadband with other subscribers in their neighborhood, causing users to compete for available bandwidth during periods of high usage.

Verizon's advanced technology and superior services have made FiOS the top-rated broadband service in America. Thanks to its unique architecture, Verizon's all-fiber network has virtually unlimited capacity, which delivers faster two-way speeds and better picture quality than cable companies can offer. Our FiOS TV and Internet services don't have to struggle for bandwidth, because they're delivered over separate high-capacity wavelengths of light. With the immense bandwidth of fiber, we can offer more HD channels than any cable provider, and our uncompressed HD signal guarantees pure HD picture and sound.

But as recent history has shown, the amount of bandwidth that people use today is far less than they will want tomorrow. This is good news for Verizon because bandwidth growth is what makes FiOS so appealing. Our fiber network can be easily expanded to provide additional capacity by simply upgrading the lasers on the end points of the fiber cable. We avoid the labor-intensive costs of replacing our infrastructure, and we can grow as our customers' broadband needs evolve, providing superior service and an efficient return on our network investment for years to come.



An All-Fiber Network for the Ultimate Entertainment Experience

The explosion of entertainment and information services has given Verizon new opportunities for growth in the broadband market. As Internet and high-definition video use continues to grow, consumers are demanding more capacity, speed and interactivity to send and receive bandwidth-intensive videos, photo albums and music files. Today's digital home includes a wide variety of broadband devices, and the growth of Internet-capable consumer electronics will only increase future bandwidth demand. Tomorrow's digital home will include dozens of "smart" devices, including multiple HDTVs; networked PCs and gaming consoles; appliance monitoring services; remote lighting and temperature controls; and interactive security systems.

Because our 100% fiber-optic network delivers a broader, more vibrant entertainment experience than any other provider, our customers get the best TV viewing experience possible. The high-capacity of fiber allows us to deliver more than 100 HD channels in every FiOS TV market. We offer a vast selection of programming, with more than 245 all-digital channels and 14,000 video-on-demand titles each month, including more than 1,200 HD titles per month. Our Home Media Digital Video Recorder (DVR) technology allows customers to record programming on one DVR that can be watched on up to six TV sets throughout the home.

Fiber also allows Verizon customers to experience the fastest upload and download connection speeds. FiOS Internet is available with download speeds up to 50 megabits per second (Mbps) and upload speeds up to 20 Mbps. With these speeds customers no longer have to wait while large files are downloading, and they can upload 200 photos to their friends in about 90 seconds. Finally, in anticipation of the day when tomorrow's digital home requires even more bandwidth, we're already testing download speeds of 100 Mbps.

The immense bandwidth and two-way interactivity of Verizon's all-fiber network will help make the ultra-fast broadband future a reality because it's perfectly suited for our customers' evolving entertainment needs. As a result, the market penetration or our FiOS TV and Internet services continues to grow as more households opt for the superior bandwidth capacity of a direct fiber connection.

We're uniquely positioned to offer customers superior broadband and entertainment services that fit today's digital lifestyle, as well as the advanced applications our customers will require tomorrow.

Delivering
A World of Experience

The global marketplace continues to change, creating communication challenges for multinational corporations faced with widely dispersed employees, incompatible systems, limited resources and increasing competition. These organizations require a communications partner that can provide end-to-end solutions for the complex business needs of global enterprise customers.

As one of the leading providers of global communications, IT and security solutions, Verizon Business owns and maintains the world's most-connected public IP network. Our vast experience, global reach and advanced technologies provide governments and businesses innovative solutions for a rapidly changing global environment.

Our strategic IP-based services are the essential building blocks for the integrated communications and IT solutions that Verizon Business offers worldwide. Strategic services include security and IT solutions as well as a full spectrum of professional and managed IP services that help customers make the most of IP communications, infrastructure and technology. The ongoing strong demand for these advanced services underscores that multinational customers see superior value in services that can help them maintain their competitive edge under any market conditions.

The growth of strategic services shows that multinational corporations and government agencies continue to look for ways to communicate and collaborate more effectively with customers, employees, suppliers and other key stakeholders around the globe. Verizon Business offers a range of video-related products, including a telepresence solution. Telepresence is the next-generation virtual meeting service that goes beyond video conferencing by creating the impression that everyone is assembled face-to-face in a single conference room. Working with the industry's leading equipment manufacturers, Verizon Business provides the ideal telepresence platform through its Private IP and Ethernet offerings.

In 2008, we expanded and improved what was already one of the world's few truly global networks, resulting in enhanced speed, availability, diversity and resiliency for business and government customers worldwide. These improvements were part of approximately $17 billion we invested last year building, operating and integrating our advanced broadband wireless and wireline networks.

We continue to invest in global network enhancements and innovative technologies that give our customers a competitive edge, whether they are across town or around the globe.

Connecting Nations Across the Globe

To meet the needs of businesses that operate around the world, Verizon has made strategic investments to become a leading provider of global communications, IT and security solutions with the world's most connected public IP network. As a founding member of the Trans-Pacific Express (TPE) Cable Consortium, Verizon Business has played a key role in helping to design, engineer and build the 18,000 kilometer (11,000 mile) TPE cable network, which is now in service. The TPE cable connects the United States to mainland China, South Korea and Taiwan.

As the only U.S.-based founding member of the consortium, Verizon Business guided the direction of the TPE cable and provided all U.S. operational needs for the TPE Consortium. These include responsibility for activities at the cable station in Oregon, on the U.S. network cable routes and in the TPE network operations center, all of which allow us to provide a high level of network management functions for our customers. The next planned phase of the TPE system, with the addition of NTT Communications to the consortium, will provide new connections from Japan to China, Taiwan and South Korea.

Our involvement allows our customers to take full advantage of the cable system and the Verizon Business network, providing direct connectivity to our ultra-long haul and global mesh networks.

Making a Difference in Our Communities

At Verizon, we understand our reputation isn't limited to our performance in the marketplace. It also includes the quality of our products, our impact on the environment, the spirit of our employees and our standing in the community. We strive to make our broadband technologies as widely available as possible and to use our leadership and resources to create new solutions to the big problems facing our society. Even in these difficult economic times, we remain committed to using our signature programs to help create a better quality of life for the neighborhoods we live in and serve.

The Verizon Foundation connects our financial, technological and human resources with critical social issues that affect our employees, customers and communities. We focus on the issues of education and literacy, and safety and health. Our work is done through strategic partnerships with nonprofit organizations, informed grant-making that represents an investment in results, and the exceptional volunteer spirit of Verizon's 223,900 employees. Our goal is to help people achieve the skills they need to live, learn and work in the 21st Century.

Thinkfinity.org is the Verizon Foundation's free, comprehensive Web site containing more than 55,000 educational resources, including standards-based, grade-specific, K-12 lesson plans; online educational games; videos; and other materials provided in partnership with many of the nation's leading educational organizations. Since the Web site's launch in March 2007, the Verizon Foundation has committed more than $34 million to update and expand Thinkfinity.org and provide training to teachers.

The Verizon Wireless **HopeLine®** program collects no-longer-used phones, batteries and accessories from any wireless service provider at our Communications Stores nationwide. We then put the nation's most reliable wireless network to work in our communities by providing these phones as a vital link to emergency or support services for individuals who have suffered from abusive relationships. We also provide cash grants to local shelters and nonprofit organizations that focus on domestic violence prevention and awareness.

For more information on how Verizon is making a difference in our communities, please view our corporate responsibility report online at verizon.com/responsibility.

Selected Financial Data

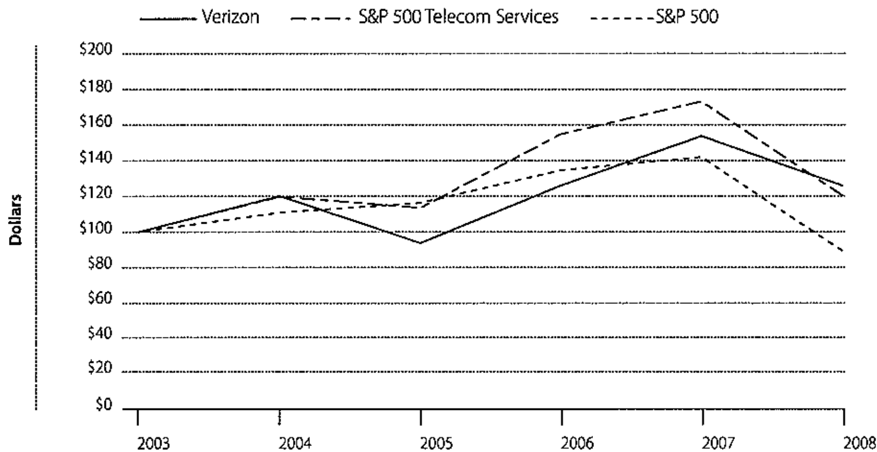
(dollars in millions, except per share amounts)

	2008	2007	2006	2005	2004
Results of Operations					
Operating revenues	**$ 97,354**	$ 93,469	$ 88,182	$ 69,518	$ 65,751
Operating income	**16,884**	15,578	13,373	12,581	10,870
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	**6,428**	5,510	5,480	6,027	5,899
Per common share – basic	**2.26**	1.90	1.88	2.18	2.13
Per common share – diluted	**2.26**	1.90	1.88	2.16	2.11
Net income available to common shareowners	**6,428**	5,521	6,197	7,397	7,831
Per common share – basic	**2.26**	1.91	2.13	2.67	2.83
Per common share – diluted	**2.26**	1.90	2.12	2.65	2.79
Cash dividends declared per common share	**1.78**	1.67	1.62	1.62	1.54
Financial Position					
Total assets	**$ 202,352**	$ 186,959	$ 188,804	$ 168,130	$ 165,958
Debt maturing within one year	**4,993**	2,954	7,715	6,688	3,476
Long-term debt	**46,959**	28,203	28,646	31,569	34,970
Employee benefit obligations	**32,512**	29,960	30,779	17,693	16,796
Minority interest	**37,199**	32,288	28,337	26,433	24,709
Shareowners' investment	**41,706**	50,581	48,535	39,680	37,560

- Significant events affecting our historical earnings trends in 2006 through 2008 are described in Management's Discussion and Analysis of Financial Condition and Results of Operations.
- 2005 data includes sales of business, lease impairment, severance, pension and benefit charges and other items.
- 2004 data includes sales of business, severance, pension and benefit charges and other items.

Stock Performance Graph

Comparison of Five-Year Total Return Among Verizon, S&P 500 Telecom Services Index and S&P 500 Stock Index



Data Points in Dollars	At December 31, 2003	2004	2005	2006	2007	**2008**
Verizon	100.0	120.2	93.7	126.0	153.9	**126.1**
S&P Telecom Services	100.0	119.9	113.5	155.0	173.4	**120.6**
S&P 500	100.0	110.9	116.3	134.7	142.1	**89.5**

The graph compares the cumulative total returns of Verizon, the S&P 500 Telecommunications Services Index, and the S&P 500 Stock Index over a five-year period, adjusted for the spin-off of our local exchange and related business assets in Maine, New Hampshire and Vermont and our domestic print and Internet yellow pages directories business. It assumes $100 was invested on December 31, 2003, with dividends reinvested.

Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Verizon Communications Inc., (Verizon or the Company) is one of the world's leading providers of communications services. Our domestic wireless business, operating as Verizon Wireless, provides wireless voice and data products and services across the United States (U.S.) using one of the most extensive and reliable wireless networks. Our wireline business provides communications services, including voice, broadband data and video services, 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. Stressing diversity and commitment to the communities in which we operate, we have a highly diverse workforce of approximately 223,900 employees.

In the sections that follow we provide information about the important aspects of our operations and investments, both at the consolidated and segment levels, and discuss our results of operations, financial position and sources and uses of cash. In addition, we highlight key trends and uncertainties to the extent practicable. The content and organization of the financial and non-financial data presented in these sections are consistent with information used by our chief operating decision makers for, among other purposes, evaluating performance and allocating resources. We also monitor several key economic indicators as well as the state of the economy in general, primarily in the United States where the majority of our operations are located, in evaluating our operating results and assessing the potential impacts of these trends on our businesses. While most key economic indicators, including gross domestic product, affect our operations to some degree, we historically have noted higher correlations to non-farm employment, personal consumption expenditures and capital spending, as well as more general economic indicators such as inflationary or recessionary trends and housing starts.

Our results of operations, financial position and sources and uses of cash in the current and future periods reflect our focus on the following strategic imperatives:

Revenue Growth – To generate revenue growth we are devoting our resources to higher growth markets such as the wireless voice and data markets, the broadband and video markets, and the provision of strategic services to business markets, rather than to the traditional wireline voice market. During 2008, revenues from these higher growth markets offset continuing declines in the traditional voice mass market, and we reported consolidated revenue growth of 4.2%. We continue developing and marketing innovative product bundles to include local, long-distance, wireless and broadband services for consumer and general business retail customers. We anticipate that these efforts will help counter the effects of competition and technology substitution that have resulted in access line losses, and will enable us to continue to grow consolidated revenues.

Market Share Gains – In our wireless business, our goal is to be the market leader in providing wireless voice and data communication services in the United States. To gain market share, we are focused on providing the highest network reliability and new and innovative products and services such as Mobile Broadband and our Evolution-Data Optimized (EV-DO) service. We also continue to expand our wireless data, messaging and multi-media offerings for both consumer and business customers. During 2008,

- our total number of customers increased 9.7% to 72.1 million; and
- average revenue per customer per month (ARPU) from service revenues increased by 1.2% to $51.59 from increased use of our messaging and other data services.

With our acquisition of Alltel Corporation (Alltel) in January 2009, we became the largest wireless provider in the U.S. as measured by the total number of customers.

In our wireline business, our goal is to become the leading broadband provider in every market in which we operate. During 2008,

- we passed 12.7 million premises with our high-capacity fiber optics network operated under the FiOS service mark;
- we added 660,000 net wireline broadband connections, for a total of 8,673,000 connections; and
- we added approximately 975,000 net new FiOS TV customers, for a total of 1,918,000 FiOS TV customers.

With FiOS, we have created the opportunity to increase revenue per customer as well as improve retention and profitability as the traditional fixed-line telephone business continues to decline as customers migrate to wireless, cable and other newer technologies. We are also focused on gaining market share in the enterprise business by the deployment of strategic service offerings – including expansion of our VoIP and international Ethernet capabilities, the introduction of video and web-based conferencing capabilities, and enhancements to our virtual private network portfolio. In 2008, revenues from strategic services grew 16.1%.

Profitability Improvement – Our goal is to increase operating income and margins. In 2008,

- operating income rose 8.4% compared to 2007;
- income before provision for income taxes, discontinued operations and extraordinary item rose 2.8% compared to 2007; and
- operating income margin rose 4% to 17.3% compared to 2007.

To position our company for sustainable, long-term profitability, we are directing our capital spending primarily toward higher growth markets. High-speed wireless data services, fiber optics to the premises, as well as expanded services to enterprise customers, are examples of these growth markets. During 2008, capital expenditures were $17,238 million compared with capital expenditures of $17,538 million in 2007, excluding

discontinued operations. We expect 2009 capital expenditures, excluding amounts related to the acquisition of Alltel, to be lower than 2008 capital expenditures.

Operational Efficiency – While focusing resources on revenue growth and market share gains, we are continually challenging our management team to lower expenses, particularly through technology-assisted productivity improvements, including self-service initiatives. The effect of these and other efforts, such as real estate consolidations, call center routing improvements, the formation of a centralized shared services organization, and centralizing information technology and marketing efforts, has led to changes in our cost structure as well as maintaining and improving operating income margins. With our deployment of the FiOS network, we expect to realize savings annually in our ongoing operating expenses as a result of efficiencies gained from fiber network facilities. As the deployment of the FiOS network gains scale and installation and automation improvements occur, average costs per home connected are expected to decline.

Customer Service – Our goal is to be the leading company in customer service in every market we serve. We view superior product offerings and customer service experiences as a competitive differentiator and a catalyst to growing revenues and gaining market share. We are committed to providing high-quality customer service and continually monitoring customer satisfaction in all facets of our business. We believe that we have the most loyal customer base of any wireless service provider in the United States, as measured by customer churn.

Performance-Based Culture – We embrace a culture of accountability, based on individual and team objectives that are performance-based and tied to Verizon's strategic imperatives. Key objectives of our compensation programs are pay-for-performance and the alignment of executives' and shareowners' long-term interests. We also employ a highly diverse workforce, since respect for diversity is an integral part of Verizon's culture and a critical element of our competitive success.

We create value for our shareowners by investing the cash flows generated by our business in opportunities and transactions that support the aforementioned strategic imperatives, thereby increasing customer satisfaction and usage of our products and services. In addition, we use our cash flows to repurchase shares and maintain and grow our dividend payout to shareowners. Reflecting continued strong cash flows and confidence in Verizon's business model, Verizon's Board of Directors increased the Company's quarterly dividend 6.2% during the third quarter of 2007 and 7.0% during the third quarter of 2008. During 2008, we repurchased $1,368 million of our common stock as part of our previously announced share buyback program. Net cash provided by operating activities – continuing operations for the year ended December 31, 2008 of $26,620 million increased by $311 million from $26,309 million for the year ended December 31, 2007.

CONSOLIDATED RESULTS OF OPERATIONS

In this section, we discuss our overall results of operations and highlight items that are not included in our business segment results. We have two reportable segments, which we operate and manage as strategic business units and organize by products and services. Our segments are Domestic Wireless and Wireline.

This section and the following "Segment Results of Operations" section also highlight and describe those items of a non-recurring or non-operational nature separately to ensure consistency of presentation. In the following section, we review the performance of our two reportable segments. We exclude the effects of certain items that management does not consider in assessing segment performance, primarily because of their non-recurring and/or non-operational nature as discussed below and in the "Other Consolidated Results" and "Other Items" sections. We believe that this presentation will assist readers in better understanding our results of operations and trends from period to period.

On March 31, 2008, we completed the spin-off of our local exchange and related business assets in Maine, New Hampshire and Vermont. Accordingly, Wireline results from divested operations have been reclassified to Corporate and Other and reflect comparable operating results.

Consolidated Revenues

(dollars in millions)

Years Ended December 31,	2008	2007	% Change	2007	2006	% Change
Domestic Wireless	**$ 49,332**	$ 43,882	12.4	$ 43,882	$ 38,043	15.3
Wireline						
Verizon Telecom	**29,912**	30,780		30,780	31,759	
Verizon Business	**21,126**	21,109		21,109	20,546	
Intrasegment eliminations	**(2,824)**	(2,760)		(2,760)	(2,801)	
	48,214	49,129	(1.9)	49,129	49,504	(0.8)
Corporate and Other	**(192)**	458	nm	458	635	(27.9)
Consolidated Revenues	**$ 97,354**	$ 93,469	4.2	$ 93,469	$ 88,182	6.0

nm – not meaningful

2008 Compared to 2007

Consolidated revenues in 2008 increased by $3,885 million, or 4.2%, compared to 2007. This increase was primarily the result of continued strong growth at Domestic Wireless.

Domestic Wireless's revenues in 2008 increased by $5,450 million, or 12.4%, compared to 2007 due to increases in service revenues and equipment and other revenue. Service revenues during 2008 increased $4,619 million, or 12.2%, compared to 2007 primarily due to increases in data revenues and customers. Equipment and other revenue increased principally as a result of increases in the number of existing customers upgrading their wireless devices. Total data revenues increased by $3,265 million, or 44.2% in 2008 compared to 2007. There were 72.1 million total Domestic Wireless customers as of December 31, 2008, an increase of 9.7% from December 31, 2007. Domestic Wireless's retail customer base as of December 31, 2008 was approximately 70 million, a 9.9% increase from 2007, and represented approximately 97.2% of its total customer base. Service ARPU increased by 1.2% to $51.59 in 2008 compared to 2007, primarily attributable to increases in Data ARPU driven by increased use of our messaging and other data services. Retail Service ARPU increased by 0.6% to $51.88 in 2008 compared to 2007.

Wireline's revenues in 2008 decreased $915 million, or 1.9%, compared to 2007, primarily driven by lower demand and usage of our basic local exchange and accompanying services, partially offset by continued growth from broadband and strategic services. During 2008, we added 660,000 net new broadband connections, including 956,000 net new FiOS data connections, offset by a net decline of 296,000 high speed Internet connections. As of December 31, 2008 we served 8,673,000 connections, including 2,481,000 for FiOS Internet, representing an 8.2% increase in total broadband connections from December 31, 2007. In addition, we added 975,000 net new FiOS TV customers in 2008, for a total of 1,918,000 at December 31, 2008. The revenue growth at Verizon Telecom driven by broadband and video services was more than offset by a 3,722,000 decline in subscriber access lines resulting from competition and technology substitution, including wireless and VoIP. Revenues at Verizon Business increased primarily due to higher demand for Internet-related product offerings, specifically Private IP products and the impact of foreign currency exchange rates on services billed in local currencies, partially offset by lower voice revenues.

2007 Compared to 2006

Consolidated revenues in 2007 increased by $5,287 million, or 6.0%, compared to 2006. This increase was primarily the result of continued strong growth at Domestic Wireless.

Domestic Wireless's revenues in 2007 increased by $5,839 million, or 15.3%, compared to 2006 due to increases in service revenues and equipment and other revenue. Equipment and other revenue increased principally as a result of increases in the number of existing customers upgrading their wireless devices. Total data revenues increased by $2,911 million, or 65.0% in 2007 compared to 2006 driven by increased use of our messaging and other data services. There were approximately 65.7 million total Domestic Wireless customers as of December 31, 2007, an increase of 11.3% from December 31, 2006. Domestic Wireless's retail customer base as of December 31, 2007 was approximately 63.7 million, a 12.2% increase from 2006, and represented approximately 97% of its total customer base. Service ARPU increased by 2.3% to $50.96 in 2007 compared to 2006, primarily attributable to increases in data revenue per customer. Retail ARPU increased by 2.2% to $51.57 in 2007 compared to 2006.

Wireline's revenues in 2007 decreased $375 million, or 0.8%, compared to 2006, primarily driven by lower demand and usage of our basic local exchange and accompanying services, partially offset by continued growth from broadband and strategic services. During 2007, we added 1,227,000 new broadband connections, an increase of 18.1%, including 847,000 for FiOS, for a total of 8,013,000 lines at December 31, 2007. In addition, we added 736,000 FiOS TV customers in 2007, for a total of 943,000 at December 31, 2007. Revenues at Verizon Business increased during 2007 compared to 2006 primarily due to higher demand for strategic products. These increases were offset by a decline in voice revenues at Verizon Telecom due to a 3.5 million decline in subscribers resulting from competition and technology substitution, such as wireless and VoIP, including those subscribers who have migrated to our other service offerings.

Consolidated Operating Expenses

(dollars in millions)

Years Ended December 31,	2008	2007	% Change	2007	2006	% Change
Cost of services and sales	$ **39,007**	$ 37,547	3.9	$ 37,547	$ 35,309	6.3
Selling, general and administrative expense	**26,898**	25,967	3.6	25,967	24,955	4.1
Depreciation and amortization expense	**14,565**	14,377	1.3	14,377	14,545	(1.2)
Consolidated Operating Expenses	$ **80,470**	$ 77,891	3.3	$ 77,891	$ 74,809	4.1

2008 Compared to 2007

Cost of Services and Sales

Cost of services and sales includes the following costs directly attributable to a service or product: salaries and wages, benefits, materials and supplies, contracted services, network access and transport costs, wireless equipment costs, customer provisioning costs, computer systems support, costs to support our outsourcing contracts and technical facilities and contributions to the universal service fund. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expense.

Consolidated cost of services and sales in 2008 increased $1,460 million, or 3.9%, compared to 2007, primarily as a result of higher wireless network costs and wireless equipment costs. The increase was partially offset by the impact of productivity improvement initiatives and lower cost of services and sales driven by a decline in switched access lines in service and wholesale voice connections. The higher wireless network costs in 2008 were primarily caused by increased network usage for voice and data services, increased roaming, increased use of data services and applications and increased payments related to network leases. Cost of wireless equipment sales increased in 2008 compared to 2007 primarily as a result of an increase in the number of equipment upgrades by customers, combined with an increase in average cost per unit. The increase in cost of services and sales was also impacted by unfavorable foreign exchange rates, higher utility costs and the inclusion of the results of operations of a security services firm acquired on July 1, 2007.

Consolidated cost of services and sales in 2008 and 2007 include $24 million and $32 million, respectively, of costs primarily associated with the integration of MCI into our wireline business. Consolidated cost of services and sales in 2008 also included $16 million related to the spin-off of local exchange and related business assets in Maine, New Hampshire and Vermont and $65 million for severance, pension and benefits charges.

Selling, General and Administrative Expense

Selling, general and administrative expense includes salaries and wages and benefits not directly attributable to a service or product, bad debt charges, taxes other than income taxes, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space.

Consolidated selling, general and administrative expense in 2008 increased $931 million, or 3.6%, compared to 2007. The increase resulted from higher sales commission expense, bad debt expense and advertising and promotion costs, partially offset by lower salary and benefits related expense and the impact of productivity initiatives.

Consolidated selling, general and administrative expense in 2008 included $885 million for severance, pension and benefits charges (see "Other Items"), $150 million for merger integration costs, primarily comprised of Wireline systems integration activities related to businesses acquired and $87 million related to the spin-off of local exchange and related business assets in Maine, New Hampshire and Vermont.

Consolidated selling, general and administrative expense in 2007 included charges of $772 million for severance and related expenses (see "Other Items"), $146 million for merger integration costs, primarily comprised of Wireline systems integration activities related to businesses acquired and $84 million related to the spin-off of local exchange and related business assets in Maine, New Hampshire and Vermont. In addition, during 2007 we contributed $100 million of the proceeds from the sale of our investment in Telecomunicaciones de Puerto Rico, Inc. (TELPRI) to the Verizon Foundation.

Depreciation and Amortization Expense

Depreciation and amortization expense in 2008 increased $188 million, or 1.3%, compared to 2007. The increase was mainly driven by growth in depreciable telephone plant and non-network software from additional capital spending.

2007 Compared to 2006

Cost of Services and Sales

Consolidated cost of services and sales expense in 2007 increased $2,238 million, or 6.3%, compared to 2006, primarily as a result of higher wireless network costs and wireless equipment costs, as well as higher costs associated with Wireline's growth businesses. The increase was partially offset by the impact of productivity improvement initiatives and decreases in net pension and other postretirement benefit costs.

The higher wireless network costs were caused by increased network usage relating to both voice and data services in 2007 compared to 2006, partially offset by decreased local interconnection, long distance and roaming rates. Cost of wireless equipment sales increased in 2007 compared to 2006, primarily as a result of an increase in wireless devices sold due to an increase in equipment upgrades.

Consolidated cost of services and sales expense in 2007 and 2006 included $32 million and $25 million, respectively, of costs associated with the integration of MCI into our wireline business.

Selling, General and Administrative Expense
Consolidated selling, general and administrative expense in 2007 increased $1,012 million, or 4.1%, compared to 2006. The increase was primarily attributable to higher salary and benefits expenses. Also contributing to the increase was higher sales commission expense at Domestic Wireless and higher advertising costs at Wireline. Partially offsetting the increases were lower bad debt expenses and cost reduction initiatives.

Consolidated selling, general and administrative expense in 2007 included charges of $772 million for severance and related expenses (see "Other Items"), $146 million for merger integration costs, primarily comprised of Wireline systems integration activities related to businesses acquired and $84 million related to the spin-off of local exchange and related business assets in Maine, New Hampshire and Vermont. In addition, during 2007 we contributed $100 million of the proceeds from the sale of our investment in TELPRI to the Verizon Foundation.

Consolidated selling, general and administrative expense in 2006 included $56 million related to pension settlement losses incurred in connection with our benefit plans and a pretax charge of $369 million for employee severance and severance-related activities in connection with the involuntary separation of approximately 4,100 employees who were separated in 2006. Consolidated selling, general and administrative expense in 2006 also included $207 million of merger integration costs, primarily for advertising and other costs related to re-branding initiatives and systems integration activities, and a pretax charge of $184 million for Verizon Center relocation costs.

Depreciation and Amortization Expense
Depreciation and amortization expense in 2007 decreased $168 million, or 1.2%, compared to 2006. The decrease was primarily due to lower rates of depreciation as a result of changes in the estimated useful lives of certain asset classes at Wireline and fully amortized customer lists at Domestic Wireless, partially offset by growth in depreciable telephone plant as a result of increased capital expenditures.

Other Consolidated Results

Equity in Earnings of Unconsolidated Businesses

			(dollars in millions)
Years Ended December 31,	**2008**	2007	2006
Vodafone Omnitel	**$ 655**	$ 597	$ 703
CANTV	**–**	–	182
Other	**(88)**	(12)	(112)
Total	**$ 567**	$ 585	$ 773

Equity in earnings of unconsolidated businesses in 2008 decreased by $18 million, or 3.1%, compared to 2007. The decrease was primarily driven by the gain on the sale of an international investment in 2007, partially offset by higher earnings at Vodafone Omnitel N.V. (Vodafone Omnitel) in 2008.

Equity in earnings of unconsolidated businesses in 2007 decreased by $188 million, or 24.3%, compared to 2006. The decrease was primarily driven by the nationalization of Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) during 2007, as well as the effect of lower tax benefits at Vodafone Omnitel.

Other Income and (Expense), Net

			(dollars in millions)
Years Ended December 31,	**2008**	2007	2006
Interest income	**$ 362**	$ 168	$ 201
Foreign exchange gains (losses), net	**(46)**	14	(3)
Other, net	**(34)**	29	197
Total	**$ 282**	$ 211	$ 395

Other Income and (Expense), Net in 2008 increased $71 million, or 33.6%, compared to 2007. The increase was primarily attributable to higher interest income, primarily from our investment in Alltel's debt obligations. Partially offsetting the increase were foreign exchange losses at our international Wireline operations and an impairment charge of $48 million recorded during the fourth quarter of 2008 related to an other-than-temporary decline in fair value of our investments in certain marketable securities.

Other Income and (Expense), Net in 2007 decreased $184 million, or 46.6%, compared to 2006. The decline was primarily attributable to a gain on the sale of a Wireline investment in 2006, as well as decreased interest income as a result of lower average cash balances.

Interest Expense

			(dollars in millions)
Years Ended December 31,	**2008**	2007	2006
Total interest costs on debt balances	**$ 2,566**	$ 2,258	$ 2,811
Less capitalized interest costs	**747**	429	462
Interest expense	**$ 1,819**	$ 1,829	$ 2,349
Weighted average debt outstanding	**$ 41,064**	$ 32,964	$ 41,500
Effective interest rate	**6.25%**	6.85%	6.78%

Total interest costs in 2008 increased $308 million, compared to 2007, due to an increase in the weighted average debt level, partially offset by lower interest rates compared to last year. Interest Expense in 2008 decreased $10 million compared to 2007 primarily due to higher capitalized interest costs. Capitalized interest costs include approximately $557 million related to the development of wireless licenses for commercial service, primarily as a result of the spectrum acquired in the 700 MHz auction. The increase in weighted average debt outstanding was primarily driven by the issuance of $8,000 million of fixed rate notes with varying maturities, in the first half of 2008, and to a lesser extent, the Verizon Wireless borrowings during the second half of 2008 (see "Consolidated Financial Condition"). Partially offsetting this increase in the weighted average debt outstanding were debt reductions.

Total interest costs in 2007 decreased $553 million, compared to 2006, primarily due to a decrease in average debt levels, partially offset by slightly higher interest rates. Debt levels decreased primarily as a result of the approximately $7,100 million reduction from the spin-off of our domestic print and Internet yellow pages directories business in November 2006, as well as from debt redemptions and retirements funded by proceeds from the spin-off and the divestiture of our Caribbean and Latin American investments during 2006 and the first quarter of 2007.

Minority Interest

			(dollars in millions)
Years Ended December 31,	**2008**	2007	2006
Minority interest	**$ 6,155**	$ 5,053	$ 4,038

The increase in minority interest in 2008 compared to 2007, and in 2007 compared to 2006, was due to the higher earnings in our Domestic Wireless segment, which has a significant minority interest attributable to Vodafone Group Plc (Vodafone).

Provision for Income Taxes

(dollars in millions)			
Years Ended December 31,	**2008**	2007	2006
Provision for income taxes	**$ 3,331**	$ 3,982	$ 2,674
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.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for each period is included in Note 16 to the consolidated financial statements.

Discontinued Operations

In accordance with Statement of Financial Accounting Standard (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we have classified TELPRI, Verizon Dominicana and our former domestic print and Internet yellow pages directories publishing operations as discontinued operations in the consolidated financial statements for all periods presented through the date of the divestiture or spin-off.

On March 30, 2007, after receiving Federal Communications Commission (FCC) approval, we completed the sale of our 52% interest in TELPRI and received gross proceeds of approximately $980 million. The sale resulted in a pretax gain of $120 million ($70 million after-tax, or $.02 per diluted share). Additionally, $100 million of the proceeds were contributed to the Verizon Foundation.

The sale of Verizon Dominicana closed in December 2006, and primarily due to taxes on previously unremitted earnings, a pretax gain of $30 million resulted in an after-tax loss of $541 million ($.18 per diluted share).

We completed the spin-off of our domestic print and Internet yellow pages directories business to our shareowners on November 17, 2006, which resulted in an $8,695 million increase to contributed capital in shareowner's investment. In addition, we recorded pretax charges of $117 million ($101 million after-tax, or $.03 per diluted share) for costs related to this spin-off. These costs primarily consisted of debt retirement costs, costs associated with accumulated vested benefits of employees, investment banking fees and other transaction costs related to the spin-off, which are included in discontinued operations.

Income from discontinued operations, net of tax, decreased by $617 million, or 81.3%, in 2007 compared to 2006. The decrease was primarily driven by the assets disposed of in 2006, partially offset by the after-tax gain recorded in 2007 on the sale of our investment in TELPRI.

Extraordinary Item

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, or $.05 per diluted share.

Cumulative Effect of Accounting Change

Effective January 1, 2006, we adopted SFAS No. 123(R), *Share-Based Payments*, utilizing the modified prospective method. The impact to Verizon primarily resulted from Domestic Wireless, for which we recorded a $42 million ($.01 per diluted share) cumulative effect of accounting change, net of taxes and after minority interest, to recognize the effect of initially measuring the outstanding liability for awards granted to Domestic Wireless employees at fair value utilizing a Black-Scholes model.

SEGMENT RESULTS OF OPERATIONS

We have two reportable segments, Domestic Wireless and Wireline, which we operate and manage as strategic business units and organize by products and services. We previously measured and evaluated our reportable segments based on segment income. Beginning in 2008, we measure and evaluate our reportable segments based on segment operating income, which is reflected in all periods presented. The use of segment operating income is consistent with the chief operating decision makers' assessment of segment performance. You can find additional information about our segments in Note 17 to the consolidated financial statements.

Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses such as our investments in unconsolidated businesses, lease financing, and other adjustments and gains and losses that are not allocated in assessing segment performance due to their non-recurring or non-operational nature. Although such transactions are excluded from the business segment results, they are included in reported consolidated earnings. Gains and losses that are not individually significant are included in all segment results, since these items are included in the chief operating decision makers' assessment of segment performance.

Domestic Wireless

Our Domestic Wireless segment provides wireless voice and data services, other value-added services and equipment sales across the United States. This segment primarily represents the operations of our joint venture with Vodafone, operating as Verizon Wireless. We own a 55% interest in the joint venture and Vodafone owns the remaining 45%. All financial results included in the tables below reflect the consolidated results of Verizon Wireless.

Operating Revenue

(dollars in millions) Years Ended December 31,	2008	2007	2006
Service revenue	**$ 42,635**	$ 38,016	$ 32,796
Equipment and other	**6,697**	5,866	5,247
Total Domestic Wireless Operating Revenue	**$ 49,332**	$ 43,882	$ 38,043

Domestic Wireless's total operating revenue in 2008 increased by $5,450 million, or 12.4%, compared to 2007. Service revenue increased by $4,619 million, or 12.2%, in 2008 compared to 2007. The increase in service revenue was primarily driven by an increase in data revenue in 2008 compared to 2007, and to a lesser extent, an increase in customers as of December 31, 2008 compared to December 31, 2007. Equipment and other revenue increased by $831 million, or 14.2%, in 2008 compared to 2007, primarily as a result of an increase in the number of customers upgrading their wireless devices. Other revenue also increased due to increases in cost recovery surcharges and regulatory fees.

Total data revenue in 2008 was $10,651 million and accounted for 25.0% of service revenue, compared to $7,386 million and 19.4% of service revenue in 2007. Total data ARPU increased by 30.2% to $12.89 in 2008, compared to $9.90 in 2007, primarily as a result of increased use of our messaging service, Mobile Broadband and e-mail services, data transport charges, and newer data services such as *VZ Navigator*.

Service ARPU increased by 1.2% to $51.59 in 2008, compared to $50.96 in 2007. Retail Service ARPU increased by 0.6% to $51.88 in 2008, compared to $51.57 in 2007.

Domestic Wireless had approximately 70 million retail customers as of December 31, 2008, an increase of 6.3 million, or 9.9%, compared to approximately 63.7 million retail customers as of December 31, 2007. Retail (non-wholesale) customers are customers who are directly served and managed by Verizon Wireless and who buy its branded services. Domestic Wireless had 72.1 million total customers as of December 31, 2008, of which 97.2% were retail customers, compared to approximately 65.7 million total customers as of December 31, 2007, of which 97.0% were retail customers. Our Domestic Wireless customer base as of December 31, 2008 was 92.9% retail postpaid, unchanged compared to December 31, 2007. Customer acquisitions and adjustments during 2008 included approximately 650,000 net total customer additions, after conforming adjustments, acquired from Rural Cellular Corporation (Rural Cellular). As a result of the exchange with AT&T consummated on December 22, 2008, Domestic Wireless transferred a net of approximately 122,000 total customers. The total average monthly customer churn rate was 1.25% in 2008, compared to 1.21% in 2007. The average monthly retail postpaid customer churn rate was 0.96% in 2008, compared to 0.91% in 2007.

Domestic Wireless's total operating revenue in 2007 increased by $5,839 million, or 15.3%, compared to 2006. Service revenue in 2007 increased by $5,220 million, or 15.9%, compared to 2006. The service revenue increase was primarily due to an 11.3% increase in customers as of December 31, 2007 compared to December 31, 2006, and increased average revenue per customer. Equipment and other revenue in 2007 increased by $619 million, or 11.8%, compared to 2006, principally as a result of increases in the number of customers upgrading their wireless devices. Other revenue in 2007 also increased due to increases in cost recovery surcharges and regulatory fees.

Total data revenue in 2007 was $7,386 million and accounted for 19.4% of service revenue, compared to $4,475 million and 13.6% of service revenue in 2006. Total data ARPU increased by 45.8% to $9.90 in 2007, compared to $6.79 in 2006, as a result of increased use of messaging service, Broadband Access and e-mail services, and other data services.

Service ARPU increased by 2.3% to $50.96 in 2007 compared to $49.80 in 2006. Retail Service ARPU increased by 2.2% to $51.57 in 2007 compared to $50.44 in 2006.

Operating Expenses

(dollars in millions) Years Ended December 31,	2008	2007	2006
Cost of services and sales	**$ 15,660**	$ 13,456	$ 11,491
Selling, general and administrative expense	**14,273**	13,477	12,039
Depreciation and amortization expense	**5,405**	5,154	4,913
Total Operating Expenses	**$ 35,338**	$ 32,087	$ 28,443

Cost of Services and Sales

Cost of services and sales includes costs to operate the wireless network as well as the cost of roaming and long distance, the cost of data services and applications and the cost of equipment sales. Cost of services and sales in 2008 increased by $2,204 million, or 16.4%, compared to 2007. The increase in cost of services was driven by higher wireless network costs on increased network usage for voice and data services, increased roaming, increased use of data services and applications, as well as increased payments related to network related leases. Cost of equipment sales increased by 18.9%, in 2008 compared to 2007. This increase was primarily attributable to an increase in the number of equipment upgrades by customers combined with an increase in average cost per unit.

Cost of services and sales in 2007 increased by $1,965 million, or 17.1%, compared to 2006, primarily due to higher wireless network costs in 2007 caused by increased network usage, partially offset by lower rates for long distance, roaming and local interconnection. Cost of equipment sales grew by 20.2% in 2007 compared to 2006. The increase was primarily attributed to an increase in equipment upgrades, together with an increase in cost per unit as a result of increased sales of higher cost advanced wireless devices.

Selling, General and Administrative Expense

Selling, general and administrative expense in 2008 increased by $796 million, or 5.9%, compared to 2007. This increase was primarily due to an increase in sales commission expense, primarily from an increase in equipment upgrades in our indirect channel, as well as higher advertising and promotion expense, bad debt expense and regulatory fees. The increases in selling, general and administrative expense were partially offset by a decrease in salary and benefits related expense.

Selling, general and administrative expense in 2007 increased by $1,438 million, or 11.9%, compared to 2006. This increase was primarily due to an increase in salary and benefits expense, resulting from an increase in employees in the sales and customer care areas, and higher per employee salary and benefit costs.

Depreciation and Amortization Expense

Depreciation and amortization expense in 2008 increased by $251 million, or 4.9%, compared to 2007 and increased by $241 million, or 4.9%, in 2007 compared to 2006. These increases were primarily due to an increase in depreciable assets. Partially offsetting this increase in 2007 was lower amortization expense resulting from customer lists becoming fully amortized during 2006.

Operating Income

Years Ended December 31,	2008	2007	2006
			(dollars in millions)
Operating Income	**$ 13,994**	$ 11,795	$ 9,600

Operating income in 2008 increased by $2,199 million, or 18.6%, compared to 2007 and increased by $2,195 million, or 22.9%, in 2007 compared to 2006, primarily due to the impact of operating revenue and operating expenses described above.

Wireline

The Wireline segment consists of the operations of Verizon Telecom, which provides communication services, including voice, broadband video and data, network access, long distance, and other services to residential and small business customers and carriers, and Verizon Business, which provides voice, data and Internet communications services as well as next-generation IP network services to medium and large business customers, multi-national corporations, and state and federal government customers globally. The results of operations presented below exclude the local exchange and related businesses in Maine, New Hampshire and Vermont that were spun-off on March 31, 2008.

Operating Revenues

Years Ended December 31,	2008	2007	2006
			(dollars in millions)
Verizon Telecom			
Mass Markets	**$ 20,974**	$ 21,289	$ 21,542
Wholesale	**7,571**	7,774	8,017
Other	**1,367**	1,717	2,200
Verizon Business			
Enterprise Business	**14,411**	14,550	14,164
Wholesale	**3,341**	3,345	3,281
International and Other	**3,374**	3,214	3,101
Intrasegment eliminations	**(2,824)**	(2,760)	(2,801)
Total Wireline Operating Revenues	**$ 48,214**	$ 49,129	$ 49,504

Verizon Telecom

Mass Markets

Verizon Telecom's Mass Markets revenue includes local exchange (basic service and end-user access), value-added services, long distance, broadband services for residential and small business accounts and FiOS TV services. Long distance includes both regional toll services and long distance services. Broadband services include high speed Internet and FiOS Internet.

Our Mass Markets revenue in 2008 decreased by $315 million, or 1.5%, compared to 2007 and decreased by $253 million, or 1.2% in 2007, compared to 2006. These decreases were primarily driven by lower demand and usage of our basic local exchange and accompanying services, attributable to consumer subscriber line losses driven by competition and technology substitution, including wireless and VoIP. These decreases were partially offset by growth from broadband and video services.

Declines in switched access lines in service of 9.3% in 2008 and 8.1% in 2007 were mainly driven by the effects of competition and technology substitution. Residential retail access lines declined 11.4% in 2008 and 9.5% in 2007, as customers substituted wireless, VoIP, broadband and cable services for traditional voice landline services. At the same time, small business retail access lines declined 5.0% in 2008 and 4.0% in 2007, primarily reflecting competition and a shift to high-speed access lines. The resulting total retail access line loss was 9.1% and 7.6% in 2008 and 2007, respectively.

We added 660,000 net new broadband connections, including 956,000 net new FiOS Internet connections, in 2008. We ended 2008 with 8,673,000 net broadband connections, including 2,481,000 for FiOS Internet, representing an 8.2% increase in total broadband connections compared to 8,013,000 connections at December 31, 2007. In addition, we added approximately 975,000 FiOS TV customers in 2008 and ended the year with a total of 1,918,000, an increase of approximately 103.4% compared to 943,000 FiOS TV customers at December 31, 2007. As of December 31, 2008, for FiOS Internet and FiOS TV, we achieved penetration rates of 24.9% and 20.8%, respectively, across all markets where we have been selling these services.

Wholesale

Wholesale revenues are earned from long distance and other carriers who use our local exchange facilities to provide services to their customers. Switched access revenues are generated from fixed and usage-based charges paid by carriers for access to our local network. Special access revenues are generated from carriers that buy dedicated local exchange capacity to support their private networks. Wholesale services also include local wholesale revenues from unbundled network elements (UNEs) and interconnection revenues from competitive local exchange carriers (CLECs) and wireless carriers.

Wholesale revenues in 2008 decreased by $203 million, or 2.6%, compared to 2007 and by $243 million, or 3.0% in 2007 compared to 2006, due to declines in switched access revenues and local wholesale revenues. These declines were partially offset by increases in special access revenues. Switched minutes of use (MOUs) declined in 2008 and 2007, reflecting the impact of access line loss and wireless substitution. Wholesale lines decreased by 16.0% in 2008 due to the continued impact of competitors deemphasizing their local market initiatives coupled with the impact of technology substitution compared to a 16.1% decline in 2007. Special access revenue growth reflects continuing demand for high-capacity, high-speed digital services, partially offset by lower demand for older, low-speed data products and services. As of December 31, 2008, customer demand, as measured in DS1 and DS3 circuits, for high-capacity and digital data services increased 5.1% compared to an increase of 8.2% in 2007.

The FCC regulates the rates charged to customers for interstate access services. See "Other Factors That May Affect Future Results – Regulatory and Competitive Trends – FCC Regulation" for additional information on FCC rulemaking concerning federal access rates, universal service and certain broadband services.

Other Revenues

Other revenues include such services as operator services (including deaf relay services), public (coin) telephone, card services and supply sales, as well as dial around services including 10-10-987, 10-10-220, 1-800-COLLECT and Prepaid Cards. Verizon Telecom's revenues from other services decreased by $350 million, or 20.4% in 2008, and by $483 million, or 22.0% in 2007, mainly due to the discontinuation of non-strategic product lines and reduced business volumes.

Verizon Business

Enterprise Business

Our Enterprise Business channel offers voice, data and Internet communications services to medium and large business customers, multi-national corporations, and state and federal government customers. In addition to traditional voice and data services, Enterprise Business offers managed and advanced products and solutions through our Strategic Services. This encompasses our focus areas of growth, including IP services and value-added solutions that make communications more secure, reliable and efficient. Enterprise Business also provides managed network services for customers that outsource all or portions of their communications and information processing operations and data services such as Private IP, Private Line, Frame Relay and ATM services, both domestically and internationally. In addition, Enterprise Business offers professional services in more than 30 countries around the world, supporting a range of solutions including network service, managing a move to IP-based unified communications and providing application performance support.

Enterprise Business revenues in 2008 decreased by $139 million, or 1.0%, compared to 2007. The revenue decline is due to certain customers moving traffic off of our network, partially offset by increases in customer premise equipment revenue and security solutions revenue. The IP and services suite of products continues to be Enterprise Business' fastest growing and includes Private IP, IP, VPN, Managed Services, Web Hosting and VoIP. Enterprise Business revenues in 2007 increased by $386 million, or 2.7%, compared to 2006, primarily reflecting growth in demand for our strategic products, specifically IP services, Managed Services and security, as well as the inclusion of the results of operations of the former MCI business subsequent to the close of the merger on January 6, 2006.

Wholesale

Our Wholesale revenues relate to domestic wholesale services and include all interexchange wholesale traffic sold in the United States, as well as internationally destined traffic that originates in the United States. The Wholesale line of business is comprised of numerous large and small customers that predominately resell voice services to their own customer base. A portion of this revenue is generated by a few large telecommunication carriers, many of whom compete directly with Verizon.

Verizon Business Wholesale revenues in 2008 decreased by $4 million, or 0.1%, compared to 2007, primarily due to continued rate compression due to competition in the marketplace partially offset by increased MOUs in traditional voice products. Verizon Business Wholesale revenues in 2007 increased by $64 million, or 2.0% as compared to 2006, primarily due to increased MOUs in traditional voice products, partially offset by continued rate compression due to competition in the marketplace, as well as the inclusion of the results of operations of the former MCI business subsequent to the close of the merger on January 6, 2006.

International and Other

Our International operations serve retail and wholesale customers, including enterprise businesses, government entities and telecommunication carriers outside of the United States, primarily in Europe, the Middle East, Africa, the Asia Pacific region, Latin America and Canada. These operations provide telecommunications services, which include voice, data services, Internet and managed network services.

International and other revenue in 2008 increased by $160 million, or 5.0%, compared to 2007, reflecting strong growth in our Internet suite of products, specifically Private IP products, and the impact of favorable foreign currency exchange rates on services billed in local currencies. International and other revenue in 2007 increased by $113 million, or 3.6%, compared to 2006 as a result of higher revenue growth in our strategic products, specifically IP services. This increase was partially offset by competitive rate compression and lower volumes with respect to our voice products.

Operating Expenses

(dollars in millions)

Years Ended December 31,	**2008**	2007	2006
Cost of services and sales	**$ 24,274**	$ 24,181	$ 23,806
Selling, general and administrative expense	**11,047**	11,527	11,998
Depreciation and amortization expense	**9,031**	8,927	9,309
Total Operating Expenses	**$ 44,352**	$ 44,635	$ 45,113

Cost of Services and Sales

Cost of services and sales includes costs directly attributable to a service or product, including salaries and wages, benefits, materials and supplies, contracted services, network access and transport costs, customer provisioning costs, computer systems support, costs to support our outsourcing contracts and technical facilities, contributions to the universal service fund, and cost of products sold. Aggregate customer care costs, which include billing and service provisioning, are allocated between cost of services and sales and selling, general and administrative expense.

Cost of services and sales in 2008 increased by $93 million, or 0.4%, compared to 2007. These increases were primarily due to higher costs associated with our growth businesses, primarily FiOS services, including TV and Internet services, and IP services, partially offset by productivity improvement initiatives, headcount reductions and lower switched access lines in service as well as lower wholesale voice connections. The increase in cost of services and sales expense was also impacted by unfavorable foreign exchange rate changes, higher utility costs and the inclusion of the results of operations of a security services firm acquired on July 1, 2007.

Cost of services and sales in 2007 increased by $375 million, or 1.6%, compared to 2006. This increase was primarily due to higher costs associated with our growth businesses, annual wage increases and higher customer premise equipment costs, partially offset by productivity improvement initiatives, headcount reductions and lower switched access lines in service, as well as lower wholesale voice connections.

Selling, General and Administrative Expense

Selling, general and administrative expense includes salaries, wages and benefits not directly attributable to a service or product, bad debt charges, taxes other than income, advertising and sales commission costs, customer billing, call center and information technology costs, professional service fees and rent for administrative space.

Selling, general and administrative expenses in 2008 decreased by $480 million or 4.2%, compared to 2007. This decrease was primarily due to declines in compensation expense, in part driven by headcount reductions, cost reduction initiatives and lower bad debt costs, partially offset by the inclusion of the results of operations of a security services firm acquired on July 1, 2007.

Selling, general and administrative expenses in 2007 decreased by $471 million or 3.9%, compared to 2006. The decrease was primarily due to headcount reductions, cost reduction initiatives, as well as the impact of gains from real estate sales and lower bad debt costs, partially offset by higher advertising costs and the inclusion of the results of operations of the former MCI business subsequent to the close of the merger on January 6, 2006.

Depreciation and Amortization Expense
Depreciation and amortization expense in 2008 increased $104 million, or 1.2%, compared to 2007, mainly driven by growth in depreciable telephone plant and non-network software from additional capital spending, partially offset by lower rates of depreciation as a result of changes in the estimated useful lives of certain asset classes. Depreciation and amortization expense in 2007 decreased $382 million, or 4.1%, compared to 2006, mainly driven by lower rates of depreciation as a result of changes in the estimated useful lives of certain asset classes, partially offset by growth in depreciable telephone plant from increased capital spending.

Operating Income

(dollars in millions)			
Years Ended December 31,	**2008**	2007	2006
Operating Income	**$ 3,862**	$ 4,494	$ 4,391

Segment operating income in 2008 decreased by $632 million, or 14.1%, compared to 2007 and increased by $103 million, or 2.3% in 2007 compared to 2006, due to the impact of operating revenues and operating expenses described above. Non-recurring or non-operational items not included in Verizon Wireline's segment income totaled $993 million, $726 million and $458 million in 2008, 2007 and 2006, respectively.

Non-recurring or non-operational items in 2008 primarily included severance and severance-related costs, pension settlement losses, costs associated with continued merger integration initiatives, the results of operations spun-off during the first quarter of 2008 and the costs incurred in connection with the spin-off related to network, non-network software, and other activities (see "Recent Developments").

Non-recurring or non-operational items in 2007 included costs associated with severance and other related charges, costs incurred related to network, non-network software, and other activities in connection with the spin-off of local exchange assets in Maine, New Hampshire and Vermont, as well as costs associated with merger integration initiatives, principally related to the acquisition of MCI and other items.

Non-recurring or non-operational items in 2006 included costs associated with severance activity, pension settlement losses, Verizon Center relocation-related costs and merger integration costs. Merger integration costs primarily included costs related to advertising and re-branding initiatives, facility exit costs, severance costs, labor and contractor costs related to information technology integration initiatives and employee retention expenses.

OTHER ITEMS

Facility and Employee-Related Items

During 2008, we recorded net pretax severance, pension and benefits charges of $950 million ($588 million after-tax, or $.21 per diluted share). 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, *Employers' Accounting for Postemployment Benefits*. 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, or $.16 per diluted share) 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, or $.09 per diluted share). 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.

During 2006, we recorded pretax charges of $184 million ($118 million after-tax, or $.04 per diluted share) in connection with the relocation of employees and business operations to Verizon Center in Basking Ridge, New Jersey.

Merger Integration Costs

In 2008, 2007, and 2006, we recorded pretax charges of $172 million ($107 million after-tax, or $.03 per diluted share), $178 million ($112 million after-tax, or $.04 per diluted share) and $232 million ($146 million after-tax, or $.05 per diluted share), respectively, primarily related to the MCI acquisition that were comprised mainly of systems integration activities.

Telephone Access Lines Spin-off

In 2008 and 2007, we recorded pretax charges of $103 million ($81 million after-tax, or $.03 per diluted share) and $84 million ($80 million after-tax, or $.03 per diluted share), respectively, for costs incurred related to network, non-network software, and other activities to enable the operations in Maine, New Hampshire and Vermont to operate on a stand-alone basis subsequent to the spin-off of our telephone access line operations in those states, as well as professional advisory and legal fees in connection with this transaction.

Investment Impairment Charges

During 2008, we recorded a pretax charge of $48 million ($31 million after-tax, or $.01 per diluted share) related to an other-than-temporary decline in the fair value of our investments in certain marketable securities.

International Taxes

In December 2007, Verizon received a net distribution from Vodafone Omnitel of approximately $2,100 million and received an additional $670 million net distribution in April 2008. During 2007, we recorded $610 million ($.21 per diluted share) of foreign and domestic taxes and expenses specifically relating to our share of Vodafone Omnitel's distributable earnings.

Other

In 2006, we recorded pretax charges of $26 million ($16 million after-tax, or $.01 per diluted share) resulting from the extinguishment of debt assumed in connection with the MCI merger.

CONSOLIDATED FINANCIAL CONDITION

(dollars in millions)			
Years Ended December 31,	**2008**	2007	2006
Cash Flows Provided By (Used In)			
Operating Activities:			
Continuing operations	**$ 26,620**	$ 26,309	$ 23,030
Discontinued operations	**–**	(570)	1,076
Investing Activities:			
Continuing operations	**(31,579)**	(16,865)	(17,422)
Discontinued operations	**–**	757	1,806
Financing activities:			
Continuing operations	**13,588**	(11,697)	(5,752)
Discontinued operations	**–**	–	(279)
Increase (Decrease) In Cash and Cash Equivalents	**$ 8,629**	$ (2,066)	$ 2,459

We use the net cash generated from our operations to fund network expansion and modernization, repay external financing, pay dividends, purchase Verizon common stock for treasury and invest in new businesses. Additional external financing is obtained when necessary. While our current liabilities typically exceed current assets, our sources of funds, primarily from operations and, to the extent necessary, from readily available external financing arrangements, are sufficient to meet ongoing operating and investing requirements. We expect that capital spending requirements will continue to be financed primarily through internally generated funds. Additional debt or equity financing may be needed to fund additional development activities or to maintain our capital structure to ensure our financial flexibility.

Although conditions in the credit markets through December 31, 2008 did not have a significant impact on our ability to obtain financing, such conditions resulted in higher fixed interest rates on borrowings than those we have paid in recent years. The recent disruption in the global financial markets has also affected some of the financial institutions with which we do business. A continuing sustained decline in the stability of financial institutions could affect our access to financing. We completed $21.9 billion of new financing in 2008, including the issuance of $9.2 billion of new notes during the fourth quarter of 2008. As of December 31, 2008, more than two-thirds in aggregate principal amount of our total debt portfolio consisted of fixed rate indebtedness (including the effect of all interest rate swap agreements on our debt portfolio). Furthermore, we have had, and continue to have, access to the commercial paper markets, although we were required during a brief period of time in the third quarter of 2008 to pay interest rates on our commercial paper that were significantly higher than the rates we have paid in recent years. If the national or global economy or credit market conditions in general were to deteriorate further, it is possible that such changes could adversely affect our cash flows through increased interest costs or our ability to obtain external financing or to refinance our existing indebtedness.

Cash Flows Provided By (Used In) Operating Activities

Our primary source of funds continues to be cash generated from operations. Net cash provided by operating activities – continuing operations in 2008 increased $0.3 billion, compared to 2007, primarily due to higher earnings, partially offset by lower dividends received from Vodafone Omnitel. The increase in Net cash provided by operating activities – continuing operations in 2007, compared to 2006, was primarily due to the distributions from Vodafone Omnitel and CANTV, increased operating cash flows from Domestic Wireless and lower interest payments on outstanding debt, partially offset by changes in working capital.

The net changes in cash flow from operating activities – discontinued operations for the periods presented were primarily due to income taxes paid in 2007 related to the fourth quarter 2006 disposition of Verizon Dominicana, as well as the disposal of the discontinued operations in the fourth quarter of 2006.

Cash Flows Provided By (Used In) Investing Activities

Capital expenditures continue to be our primary use of cash flows from operations, as they facilitate the introduction of new products and services, enhance responsiveness to competitive challenges and increase the operating efficiency and productivity of our networks. Capital spending at Domestic Wireless represents our continuing effort to invest in this high growth business. We invested $6.5 billion in our Domestic Wireless business in 2008, compared to $6.5 billion and $6.6 billion in 2007 and 2006, respectively. We invested $9.8 billion in our Wireline business in 2008, compared to $11.0 billion and $10.3 billion in 2007 and 2006, respectively.

In 2008, we invested $15.9 billion in acquisitions and investments in businesses and wireless licenses. We invested $9.4 billion to acquire twenty-five 12 MHz licenses in the A block, seventy-seven 12 MHz licenses in the B Block and seven 22 MHz (nationwide, except Alaska) licenses in the C block resulting from participation in the FCC's Auction 73. On August 7, 2008, Verizon Wireless completed its acquisition of Rural Cellular for cash consideration of $0.9 billion, net of cash acquired after an exchange transaction with another carrier to complete the required divestiture of certain markets. In connection with the Alltel transaction, 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. On January 9, 2009, Verizon Wireless paid approximately $5.9 billion for the equity of Alltel (see "Recent Developments"). In 2007, we paid $0.4 billion, net of cash received, to acquire a network security business and $0.2 billion to purchase several wireless properties and licenses. In 2006, we invested $1.4 billion in acquisitions and investments in businesses, including $2.8 billion to acquire thirteen 20 MHz licenses in connection with the FCC Advanced Wireless Services auction, as well as the acquisition of other wireless properties. This was offset by MCI's cash balances of $2.4 billion we acquired at the date of the merger.

Our short-term investments include cash equivalents held in trust accounts for payment of employee benefits. In 2008, we decreased our annual trust funding to $0.1 billion, which is included in Short-term investments in the consolidated balance sheets. In 2007 and 2006, we invested $1.7 billion and $1.9 billion, respectively, in short-term investments, primarily to pre-fund active employees' health and welfare benefits. Proceeds from the sales of all short-term investments, principally for the payment of these benefits, were $1.8 billion, $1.9 billion and $2.2 billion in the years 2008, 2007 and 2006, respectively.

Other, net investing activities in 2008 primarily include cash proceeds of $0.3 billion from the sale of properties and sale of select non-strategic assets, a cash payment of $0.2 billion in connection with the settlement of foreign currency forward contracts and $0.1 billion receivable from a money market fund managed by a third party, which is in the process of being liquidated and returned to Verizon. Other, net investing activities in 2007 primarily included cash proceeds of $0.8 billion from property sales and sales of select non-strategic assets, as well as $0.5 billion from the disposition of our interest in CANTV. Other, net investing activities in 2006 primarily included cash proceeds of $0.3 billion from property sales.

In 2007, investing activities of discontinued operations primarily included gross proceeds of approximately $1.0 billion in connection with the sale

of our investment in TELPRI. In 2006, investing activities of discontinued operations included net pretax cash proceeds of $2.0 billion in connection with the sale of Verizon Dominicana.

Cash Flows Provided By (Used In) Financing Activities

During 2008, net cash provided by financing activities was $13.6 billion, compared with the net cash used in financing activities of $11.7 billion in 2007. Proceeds from borrowings during 2008 were approximately $24.0 billion. Cash flow used in financing activities primarily included net debt repayments of $4.1 billion, dividend payments of $5.0 billion, and purchases of Verizon common stock for treasury of $1.4 billion.

Our total debt increased by $20.8 billion in 2008. Verizon Communications issued $11.5 billion of fixed rate debt with varying maturities. Domestic Wireless issued $10.4 billion of debt for the purchase of Alltel's debt obligations acquired in the second quarter, the purchase of Rural Cellular and subsequent repayment of Rural Cellular debt, and to raise cash to finance a portion of the purchase price of the Alltel acquisition which closed on January 9, 2009. Partially offsetting the increase in total debt, including an increase in commercial paper outstanding, was the repayment of $4.1 billion of term debt.

In November 2008, Verizon issued $2.0 billion of 8.75% notes due 2018 and $1.3 billion of 8.95% notes due 2039, which resulted in cash proceeds of $3.2 billion net of discount and issuance costs. In April 2008, Verizon issued $1.3 billion of 5.25% notes due 2013, $1.5 billion of 6.10% notes due 2018, and $1.3 billion of 6.90% notes due 2038, resulting in cash proceeds of $4.0 billion, net of discounts and issuance costs. In February 2008, Verizon issued $0.8 billion of 4.35% notes due 2013, $1.5 billion of 5.50% notes due 2018, and $1.8 billion of 6.40% notes due 2038, resulting in cash proceeds of $4.0 billion, net of discounts and issuance costs. In January 2008, Verizon utilized a $0.2 billion fixed rate vendor financing facility due 2010.

Verizon Wireless's financing activities included:

- On December 19, 2008, Verizon Wireless and Verizon Wireless Capital LLC as the borrowers, entered into a $17.0 billion credit facility (Bridge Facility) in order to complete the acquisition of Alltel and repay certain of Alltel's outstanding debt. On December 31, 2008, the Bridge Facility was reduced to $12.5 billion. On January 9, 2009, Verizon Wireless borrowed $12.4 billion under the Bridge Facility and the unused 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 Standard and Poor's Rating Service (S&P). If the aggregate outstanding principal amount under the Bridge Facility is greater than $6.0 billion on July 8, 2009 (the 180th day after the closing date 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 remaining aggregate outstanding principal amount must be repaid on the maturity date. We expect to refinance or repay the borrowings under the Bridge Facility within the next 12 months by utilizing a combination of internally generated free cash flows, net proceeds from the required disposition of assets in connection with the Alltel acquisition and new borrowings.
- In December 2008, Verizon Wireless obtained net proceeds of $2.4 billion from the issuance of €0.7 billion of 7.625% notes due 2011, €0.5 billion of 8.750% notes due 2015 and £0.6 billion of 8.875% notes due 2018. Concurrent with the borrowings, Verizon Wireless entered into cross currency swaps primarily to exchange the proceeds from British Pound Sterling and Euros into U.S. dollars and fix its future interest and principal payments in U.S. dollars. As a result of these swaps, Verizon Wireless exchanged the aggregate principal amounts for cash proceeds of $2.4 billion, which were used to finance a portion of the purchase price of the Alltel acquisition on January 9, 2009.
- In November 2008, Verizon Wireless obtained proceeds of $3.5 billion, net of discounts and issuance costs, from the issuance in a private placement of $1.3 billion of 7.375% notes due November 2013 and $2.3 billion of 8.500% notes due November 2018.
- On September 30, 2008, Verizon Wireless and Verizon Wireless Capital LLC entered into a $4.4 billion 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 $4.4 billion under the Three-Year Term Facility in order to repay a portion of the 364-Day Credit Agreement as described below. Of the $4.4 billion, $0.4 billion must be repaid at the end of the first year, $2.0 billion at the end of the second year, and $2.0 billion 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 S&P 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 $7.6 billion 364-Day Credit Agreement with Morgan Stanley Senior Funding Inc. as Administrative Agent, which included a $4.8 billion term facility and a $2.8 billion delayed draw facility. On June 10, 2008, Verizon Wireless borrowed $4.8 billion under the 364-Day Credit Agreement in order to purchase the Alltel debt obligations acquired in the second quarter and, during the third quarter, borrowed $2.8 billion under the delayed draw facility to complete the purchase of Rural Cellular and to repay Rural Cellular's debt and pay fees and expenses incurred in connection therewith. During 2008, $4.4 billion of the 364-Day Credit Agreement was repaid using proceeds from the Three-Year Term Loan Facility; the remainder of the borrowings under the 364-Day Credit Agreement was also repaid during 2008.
- On February 4, 2009, Verizon Wireless and Verizon Wireless Capital LLC co-issued in a private placement $3.5 billion of 5.55% notes due 2014 and $0.8 billion of 5.25% notes due 2012, resulting in cash proceeds of $4.2 billion, net of discounts and issuance costs. Verizon Wireless will use the net proceeds from the sale of these notes to repay a portion of the borrowings outstanding under the Bridge Facility described above.

As of December 31, 2008, we had current assets of $26.1 billion, including cash and cash equivalents of $9.8 billion and short-term investments of $0.5 billion. Our current liabilities of $25.9 billion included debt maturing within one year of $5.0 billion.

Historically, we fund our operations primarily with cash from operations, cash on hand, and access to the commercial paper markets. However, if the economic conditions should worsen or we do not maintain our cash flows from operations, we could see a negative impact on our liquidity in 2009. We believe we can meet our debt service requirements in the next twelve months as we expect to continue to generate free cash flow and maintain access to the commercial paper markets.

As of December 31, 2008, we had approximately $5.6 billion of unused bank lines of credit consisting of a three-year committed facility that expires in September 2009. We also entered into a vendor provided credit facility that provided $0.2 billion of financing capacity. We have a shelf registration available for the issuance of up to $6.8 billion of additional unsecured debt or equity securities.

In addition to the repayments of the $7.6 billion 364-Day Credit Agreement, we made other debt repayments of approximately $4.1 billion in 2008, including $0.2 billion of 5.55% notes issued by Verizon Northwest Inc., $0.1 billion of 6.0% notes issued by Verizon South Inc., $0.3 billion of 6.0% notes issued by Verizon New York, $0.1 billion of 7.0% notes issued by Verizon California Inc., $0.3 billion of 6.9% notes issued by Verizon North Inc., $0.3 billion of 5.65% notes issued by Verizon North Inc., and $3.0 billion of other corporate borrowings, which included the repayment of Rural Cellular's debt and $1.0 billion of Verizon Communications Inc. 4.0% notes. As a result of the spin-off of our local exchange business and related activities in Maine, New Hampshire and Vermont, in March 2008, our net debt was reduced by approximately $1.4 billion.

Our total debt was reduced by $5.2 billion in 2007. We repaid approximately $1.7 billion of Wireline debt, including the early repayment of previously guaranteed $0.3 billion 7.0% debentures issued by Verizon South Inc. and $0.5 billion 7.0% debentures issued by Verizon New England Inc., as well as approximately $1.6 billion of other borrowings. Also, we redeemed $1.6 billion principal of our outstanding floating rate notes, which were called on January 8, 2007, and the $0.5 billion 7.9% debentures issued by GTE Corporation. Partially offsetting the reduction in total debt were cash proceeds of $3.4 billion in connection with fixed and floating rate debt issued during 2007.

Cash of $1.9 billion was used to reduce our debt in 2006. We repaid $6.8 billion of Wireline debt, including premiums associated with the retirement of $5.7 billion of aggregate principal amount of long-term debt assumed in connection with the MCI merger. The Wireline repayments also included the early retirement/prepayment of $0.7 billion of long-term debt and $0.2 billion of other long-term debt at maturity. We repaid approximately $2.5 billion of Domestic Wireless 5.375% fixed rate notes that matured on December 15, 2006. Also, we redeemed the $1.4 billion accreted principal of our remaining zero-coupon convertible notes and retired $0.5 billion of other corporate long-term debt at maturity. These repayments were partially offset by our issuance of long-term debt resulting in cash proceeds of approximately $4.0 billion, net of discounts, issuance costs and the receipt of cash proceeds related to hedges on the interest rate of an anticipated financing. In connection with the spin-off of our domestic print and Internet yellow pages directories business, we received net cash proceeds of approximately $2.0 billion and retired debt in the aggregate principal amount of approximately $7.1 billion.

Our ratio of debt to debt combined with shareowners' equity was 55.5% at December 31, 2008 compared to 38.1% at December 31, 2007.

The amount of cash that we need to service our debt substantially increased with the acquisition of Alltel. Our ability to make payments on our debt will depend largely upon our cash balances and future operating performance. While we anticipate the challenging credit environment to continue in 2009, we do not expect this to have a material impact on our ability to obtain financing due to our investment grade ratings which we expect to maintain. The debt securities of Verizon Communications and its subsidiaries continue to be accorded high ratings by the three primary rating agencies.

S&P assigns an 'A' Corporate Credit Rating and an 'A-1' short-term debt rating to Verizon Communications. In early June 2008 S&P revised its outlook on Verizon's ratings to negative from stable following the announcement of the agreement to acquire Alltel. At the same time, S&P affirmed all Verizon's ratings, including its 'A' Corporate Credit Rating, 'A-1' short-term rating and the 'A' Corporate Credit Rating on Cellco Partnership (d/b/a Verizon Wireless). In November 2008 S&P affirmed the 'A' Corporate Credit Rating with a negative outlook on Cellco Partnership and Verizon Communications.

Moody's Investors Service (Moody's) assigns an 'A3' long-term debt rating and a 'P-2' short-term debt rating to Verizon Communications. In June 2008 Moody's placed Verizon on "Review for Possible Downgrade" following the announcement of the agreement to acquire Alltel. In October 2008 Moody's concluded its review and revised the outlook on Verizon Communication's ratings from stable to negative. The 'P-2' short-term rating was affirmed. In November 2008 Moody's initiated a Cellco Partnership (d/b/a Verizon Wireless) long-term debt rating of 'A2' with a negative outlook.

Fitch Ratings (Fitch) assigns an 'A' long-term Issuer Default Rating and an 'F1' short-term rating with stable outlook to Verizon Communications. In June 2008 Fitch placed Verizon Communications on "Rating Watch Negative" following the announcement of the Alltel acquisition. In November 2008 Fitch downgraded the long-term debt rating of Verizon to 'A' from 'A+' with a stable outlook, affirmed the 'F1' short-term rating and removed Verizon's ratings from "Rating Watch Negative". In that same action, Fitch initiated a Cellco Partnership (d/b/a Verizon Wireless) rating at 'A' with a stable outlook.

While we do not anticipate a ratings downgrade, the three primary rating agencies have identified factors which they believe could result in a ratings downgrade for Verizon Communications and/or Cellco Partnership in the future including sustained leverage levels at Verizon Communications and/or Cellco Partnership resulting from: (i) diminished wireless operating performance as a result of a weakening economy and competitive pressures; (ii) failure to achieve significant synergies in the Alltel integration; (iii) accelerated wireline losses; or (iv) a material acquisition or sale of operations that causes a material deterioration in its credit metrics. A ratings downgrade would increase the cost of refinancing existing debt and might constrain Verizon Communications' access to certain short-term debt markets.

Both the Verizon Wireless Three-Year Term Credit Facility and $12.5 billion Bridge Facility contain covenants including a Leverage Ratio of 3.25:1 as defined in the agreement. Each also contains events of default that are customary for companies maintaining an investment grade credit rating. As of December 31, 2008, we and our consolidated subsidiaries were in compliance with all of our debt covenants.

Common stock has been used from time to time to satisfy some of the funding requirements of employee and shareowner plans. On February 7, 2008, the Board of Directors replaced the current share buy back program with a new program for the repurchase of up to 100 million common shares terminating no later than the close of business on February 28, 2011. The Board also determined that no additional shares were to be purchased under the prior program. We repurchased $1.4 billion, $2.8 billion and $1.7 billion of our common stock during 2008, 2007 and 2006, respectively.

As in prior periods, dividend payments were a significant use of cash flows from operations in 2008. We determine the appropriateness of the level of our dividend payments on a periodic basis by considering such fac-

tors as long-term growth opportunities, internal cash requirements and the expectations of our shareowners. During the third quarter of 2008, Verizon's Board of Directors increased the Company's quarterly dividend payments 7.0% to $.460 per share from $.430 per share in 2007, with a goal of moving to an annual dividend increase model. In the third quarter of 2007, we increased our dividend payments 6.2% to $.430 per share from $.405 per share in the first two quarters of 2007.

Increase (Decrease) In Cash and Cash Equivalents

Our Cash and cash equivalents at December 31, 2008 totaled $9.8 billion, an $8.6 billion increase compared to Cash and cash equivalents at December 31, 2007. Our Cash and cash equivalents at December 31, 2007 totaled $1.2 billion, a $2.1 billion decrease compared to Cash and cash equivalents at December 31, 2006.

Employee Benefit Plan Funded Status and Contributions

We operate numerous qualified and nonqualified pension plans and other postretirement benefit plans. These plans primarily relate to our domestic business units. We contributed $332 million, $612 million and $451 million in 2008, 2007 and 2006, respectively, to our qualified pension plans. We also contributed $155 million, $125 million and $117 million to our nonqualified pension plans in 2008, 2007 and 2006, respectively.

Based on the funded status of the plans at December 31, 2008, we anticipate making qualified pension trust contributions of $300 million in 2009. Our estimate of required qualified pension trust contributions for 2010 is approximately $800 million. The estimated contribution in 2010 is based on a range of $600 million to $900 million which depends primarily upon asset returns and interest rates in 2009. Nonqualified pension contributions are estimated to be approximately $120 million for 2009 and $130 million for 2010, respectively.

Contributions to our other postretirement benefit plans generally relate to payments for benefits on an as-incurred basis since the other postretirement benefit plans do not have funding requirements similar to the pension plans. We contributed $1,227 million, $1,048 million and $1,099 million to our other postretirement benefit plans in 2008, 2007 and 2006, respectively. Contributions to our other postretirement benefit plans are estimated to be approximately $1,770 million in 2009 and $1,890 million in 2010.

Refer to Note 1 in the consolidated financial statements for a discussion of the adoption of 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)*, which was effective December 31, 2006.

Leasing Arrangements

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.

Off Balance Sheet Arrangements and Contractual Obligations

Contractual Obligations and Commercial Commitments

The following table provides a summary of our contractual obligations and commercial commitments at December 31, 2008. Additional detail about these items is included in the notes to the consolidated financial statements.

(dollars in millions)

	Payments Due By Period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt[1]	$ 50,075	$ 3,443	$ 10,533	$ 9,854	$ 26,245
Capital lease obligations (see Note 9)	390	63	132	90	105
Total long-term debt, including current maturities	50,465	3,506	10,665	9,944	26,350
Interest on long-term debt[1]	36,426	3,080	5,786	4,430	23,130
Operating leases (see Note 9)	7,302	1,620	2,378	1,309	1,995
Purchase obligations (see Note 20)	737	435	237	55	10
Income tax audit settlements[2]	97	97	–	–	–
Other long-term liabilities[3]	4,950	2,160	2,790	–	–
Total contractual obligations	$ 99,977	$ 10,898	$ 21,856	$ 15,738	$ 51,485

(1) Long-term debt includes a $4,440 million Three-Year Term Facility Agreement which currently bears interest based on LIBOR plus 100 basis points (see Note 10).

(2) Income tax audit settlements includes gross unrecognized tax benefits of $40 million as determined under Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48) and related gross interest of $57 million. We are not able to make a reliable estimate of when the balance of $2,582 million of unrecognized tax benefits and related interest and penalties will be settled with the respective taxing authorities until issues or examinations are further developed (see Note 16).

(3) Other long-term liabilities include estimated qualified pension plan contributions of $300 million in 2009 and $800 million in 2010. The estimated contribution in 2010 is based on a range of $600 million to $900 million which depends primarily upon asset returns and interest rates in 2009 (see Note 15).

Guarantees

In connection with the execution of agreements for the sale of businesses and investments, Verizon ordinarily provides representations and warranties to the purchasers pertaining to a variety of nonfinancial matters, such as ownership of the securities being sold, as well as financial losses.

As of December 31, 2008, letters of credit totaling approximately $200 million were executed in the normal course of business, which support several financing arrangements and payment obligations to third parties.

MARKET RISK

We are exposed to various types of market risk in the normal course of business, including the impact of interest rate changes, foreign currency exchange rate fluctuations, changes in equity investment and commodity prices and changes in corporate tax rates. 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.

It is our general policy to enter into interest rate, foreign currency and other derivative transactions only to the extent necessary to achieve our desired objectives in limiting our exposure to the various market risks. Our objectives include maintaining a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. We do not hedge our market risk exposure in a manner that would completely eliminate the effect of changes in interest rates and foreign exchange rates on our earnings. We do not expect that our net income, liquidity and cash flows will be materially affected by these risk management strategies.

Interest Rate Risk

The table that follows summarizes the fair values of our long-term debt and interest rate and cross currency swap derivatives as of December 31, 2008 and 2007. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming 100-basis-point upward and downward shifts in the yield curve. Our sensitivity analysis does not include the fair values of our commercial paper and bank loans, if any, because they are not significantly affected by changes in market interest rates.

(dollars in millions)

At December 31, 2008	Fair Value	Fair Value assuming +100 basis point shift	Fair Value assuming –100 basis point shift
Long-term debt and related derivatives	**$ 51,258**	**$ 48,465**	**$ 54,444**
At December 31, 2007			
Long-term debt and related derivatives	$ 31,930	$ 30,154	$ 33,957

Alltel Interest Rate Swaps

In connection with the Alltel acquisition (see "Recent Developments"), Verizon Wireless acquired seven interest rate swap agreements with a notional value of $9.5 billion that pay fixed and receive variable rates based on three-month and one-month LIBOR with maturities ranging from 2009 to 2013. Until they are terminated, the swap agreements are guaranteed by Verizon Wireless. Upon closing of the acquisition, these swap agreements will be recorded at fair value as of the closing date as part of the purchase price allocation and subsequent changes in the fair value will be recorded in earnings. Based on recent trends in the credit markets, changes in interest rates may have a significant impact on our earnings as long as the contracts are outstanding. We estimate that a 10-basis point change in rates can result in an approximately $30 million impact on pretax earnings. We anticipate that these contracts will be settled during the first half of 2009.

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. At December 31, 2008, our primary translation exposure was to the British Pound Sterling, the Euro and the Australian Dollar.

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 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 these contracts will, over time, offset the gains or losses on the underlying debt obligations.

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.