EXHIBIT 8

Verizon New England Inc.

Financial Statements
As of December 31, 2006 and 2005
and for the years then ended

Verizon New England Inc.

Index to Financial Statements

REPORT OF INDEPENDENT AUDITORS

To The Board of Directors and Shareowner of
Verizon New England Inc.:

We have audited the accompanying balance sheets of Verizon New England Inc. (the Company) as of December 31, 2006 and 2005, and the related statements of operations, changes in shareowner's investment, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the company changed its method of accounting for stock-based compensation effective January 1, 2006 and pension and other postretirement obligations effective December 31, 2006.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Verizon New England Inc. at December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

New York, New York
March 9, 2007

STATEMENTS OF OPERATIONS

Years Ended December 31,	2006	2005
		(dollars in millions)
Operating Revenues	$ 3,852	$ 3,936
Operating Expenses		
Cost of services and sales (exclusive of items shown below)	1,684	1,744
Selling, general and administrative expense	1,055	879
Depreciation and amortization expense	946	1,005
Total Operating Expenses	3,685	3,628
Operating Income	167	308
Other income (expense), net	25	19
Interest expense	(175)	(172)
Income Before Provision for Income Taxes	17	155
Income tax (provision) benefit	(18)	(40)
Net Income (Loss)	$ (1)	$ 115

See Notes to Financial Statements.

Verizon New England Inc.

BALANCE SHEETS

ASSETS

At December 31,		2006		2005
				(dollars in millions)
Current assets				
Short-term investments	$	215	$	216
Accounts receivable:				
Trade and other, net of allowances for uncollectibles of $90 and $91		608		658
Affiliates		96		252
Material and supplies		22		26
Prepaid expenses		3		30
Deferred charges		104		104
Other		6		6
Total current assets		1,054		1,292
Plant, property and equipment		18,295		17,832
Less accumulated depreciation		12,130		11,686
		6,165		6,146
Intangible assets, net		20		39
Prepaid pension asset		135		102
Other assets		249		447
Total assets	$	7,623	$	8,026

See Notes to Financial Statements.

BALANCE SHEETS

LIABILITIES AND SHAREOWNER'S INVESTMENT

At December 31,		2006		2005
				(dollars in millions)
Current liabilities				
Debt maturing within one year:				
Note payable to affiliate	$	206	$	470
Other		127		1
Accounts payable and accrued liabilities:				
Affiliates		486		478
Other		348		324
Current deferred income tax liabilities		12		3
Other current liabilities		214		244
Total current liabilities		1,393		1,520
Long-term debt				
Note payable to affiliate		220		220
Other		2,354		2,482
Employee benefit obligations		1,625		1,892
Deferred credits and other liabilities				
Deferred income taxes		515		519
Unamortized investment tax credits		17		18
Other		110		147
		642		684
Shareowner's investment				
Common stock – one share, without par value		1		1
Contributed capital		1,222		1,239
Reinvested earnings		166		167
Accumulated other comprehensive loss		---		(179)
Total shareowner's investment		1,389		1,228
Total liabilities and shareowner's investment	$	7,623	$	8,026

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN SHAREOWNER'S INVESTMENT

Years Ended December 31,	2006	2005
	(dollars in millions)	
Common Stock		
Balance at beginning of year	$ 1	$ 1
Balance at end of year	1	1
Contributed Capital		
Balance at beginning of year	1,239	1,290
Capital (return)/contribution (with parent)	(17)	(51)
Balance at end of year	1,222	1,239
Reinvested Earnings		
Balance at beginning of year	167	112
Net income	(1)	115
Dividends declared	—	(60)
Balance at end of year	166	167
Accumulated Other Comprehensive Loss		
Balance at beginning of year	(179)	(219)
Minimum pension liability adjustment (net of income taxes of $116 and $27)	179	40
Balance at end of year	—	(179)
Total Shareowner's Investment	$ 1,389	$ 1,228
Comprehensive Income		
Net (loss) income	$ (1)	$ 115
Minimum pension liability adjustment (net of income taxes of $116 and $27)	179	40
Total Comprehensive Income	$ 178	$ 155

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

Years Ended December 31,	(dollars in millions) 2006	2005
Net Cash Provided by Operating Activities		
Net Income (loss)	$ (1)	$ 115
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	946	1,004
Employee retirement benefits	323	297
Deferred income taxes, net	(111)	(74)
Provision for uncollectible accounts	72	34
Equity loss (income) from affiliates	(14)	(23)
Dividends received from equity affiliates	14	31
Changes in current assets and liabilities:		
Accounts receivable	134	(64)
Other current assets	31	(25)
Accounts payable and accrued liabilities	(30)	(174)
Other current liabilities	42	(3)
Other, net	(194)	(287)
Net cash provided by operating activities	1,212	831
Cash Flows from Investing Activities		
Capital expenditures (including capitalized network and non-network software)	(933)	(755)
Purchases of short-term investments	(213)	(216)
Proceeds from sale of short-term investments	214	187
Other, net	13	---
Net cash used in investing activities	(919)	(784)
Cash Flows from Financing Activities		
Proceeds from borrowings	---	6
Early extinguishment of debt	---	(250)
Principal repayments of borrowings and capital lease obligations	(2)	---
Net change in note payable to affiliate	(264)	302
Dividends paid	---	(60)
Return of capital to parent	(17)	(51)
Other, net	(10)	6
Net cash used in financing activities	(293)	(47)
Net change in cash	---	---
Cash, beginning of year	---	---
Cash, end of year	$ ---	$ ---

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Verizon New England Inc. (Verizon New England or the Company) is a wholly owned subsidiary of NYNEX Corporation (NYNEX), which is a wholly owned subsidiary of Verizon Communications Inc. (Verizon). We presently serve a territory consisting of Local Access and Transport Areas (LATAs) in Maine, Massachusetts, New Hampshire, Rhode Island and Vermont. We have one reportable segment which provides domestic wireline telecommunications services. We currently provide two basic types of telecommunications services:

- *Exchange telecommunication service* is the transmission of telecommunications among customers located within a local calling area within a LATA. Examples of exchange telecommunications services include switched local residential and business services, local private line voice and data services and Centrex services. We also provide toll services within a LATA (intraLATA long distance).

- *Exchange access service* links a customer's premises and the transmission facilities of other telecommunications carriers, generally interLATA carriers. Examples of exchange access services include switched access and special access services.

The communications services we provide are subject to regulation by the state regulatory commissions of Maine, Massachusetts, New Hampshire, Rhode Island and Vermont with respect to intrastate rates and services and other matters. The Federal Communications Commission (FCC) regulates rates that we charge long distance carriers and end-user subscribers for interstate access services.

On April 16, 2001, February 22, 2002, April 17, 2002, June 19, 2002, and September 25, 2002, the FCC released orders approving our applications for permission to enter the in-region long distance markets in Massachusetts, Rhode Island, Vermont, Maine and New Hampshire, respectively. The United States Court of Appeals for the District of Columbia has remanded the Massachusetts order to the FCC for further explanation on one issue, but left our long distance authority in effect. Since April 26, 2001, March 7, 2002, April 30, 2002, July 1, 2002 and October 23, 2002 in-region long distance service is being offered in Massachusetts, Rhode Island, Vermont, Maine and New Hampshire, respectively, by a separate non-regulated subsidiary of Verizon as required by law.

Basis of Presentation

We prepare our financial statements using U.S. generally accepted accounting principles which require management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. Examples of significant estimates include the allowance for doubtful accounts, the recoverability of long-lived assets and valuation allowances on tax assets.

We have a 33-1/3% ownership interest in Telesector Resources Group, Inc. (d/b/a Verizon Services Group) and share voting rights equally with the other owner, Verizon New York Inc. (Verizon New York), which is a wholly owned subsidiary of NYNEX. Verizon Services Group operates in conjunction with Verizon Services Corp. and Verizon Corporate Services Group Inc. (collectively known as Verizon Services) to provide various centralized services on behalf of Verizon's subsidiaries. We use the equity method of accounting for our investment in Verizon Services Group. We also have a 4.57% ownership interest in SMS/800, a venture that is jointly owned by the Bell Operating Companies. SMS/800 administers the centralized national database system associated with toll free numbers. We use the equity method of accounting for our investment in SMS/800.

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

Revenue Recognition

We recognize service revenues based upon usage of our local exchange network and facilities and contract fees. Fixed fees for local telephone, long distance and certain other services are recognized in the month the service is provided. Revenue from other products that are not fixed fee or that exceed contracted amounts is recognized when such services are provided.

We recognize revenue for services, in which we bundle the equipment with maintenance and monitoring services, when the equipment is installed in accordance with contractual specifications and ready for the customer's use. The maintenance and monitoring services are recognized monthly over the term of the contract as we provide the services. Long-term contracts are accounted for using the percentage of completion method. We use the completed contract method if we cannot estimate the costs with a reasonable degree of reliability.

Customer activation fees, along with the related costs up to, but not exceeding the activation fees, are deferred and amortized over the customer relationship period.

Maintenance and Repairs

We charge the cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, to Cost of Services and Sales as these costs are incurred.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents, except cash equivalents held as short-term investments. Cash equivalents are stated at cost, which approximates market value.

Short-term Investments

Our short-term investments consist of cash equivalents held in trust to pay for certain employee benefits. Short-term investments are stated at cost, which approximates market value.

Trade and Other Accounts Receivable

Trade and other accounts receivable are stated at the amount we expect to collect. We maintain allowances for uncollectible accounts for estimated losses resulting from the inability of our customers to make required payments. In determining these estimates, we consider historical write-offs and the aging of the receivables, among other factors, such as overall economic conditions.

Material and Supplies

Material and supplies include new and reusable materials which are stated principally at average original cost, except that specific costs are used in the case of large individual items.

Plant and Depreciation

We record plant, property and equipment at cost. Depreciation expense is principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

The asset lives used are presented in the following table:

Average Lives (in years)	
Buildings	25-42
Central office equipment	5-11
Outside communications plant	
Copper cable	13-18
Fiber cable	20
Poles and conduit	30-50
Furniture, vehicles and other	3-15

When we replace or retire depreciable plant used in our wireline network, we deduct the carrying amount of such plant from the respective accounts and charge it to accumulated depreciation.

We capitalize network software purchased or developed in connection with related plant assets. We also capitalize interest associated with the acquisition or construction of plant assets. Capitalized interest is reported as a cost of plant and a reduction in interest cost.

In connection with our ongoing review of the estimated remaining useful lives of plant, property and equipment and associated depreciation rates, we determined that, effective January 1, 2005, the remaining useful lives of three categories of telephone assets would be shortened by 1 to 2 years. These changes in asset lives were based on Verizon's plans, and progress to date on those plans, to deploy fiber optic cable to homes, replacing copper cable. While the timing and extent of current deployment plans are subject to modification, Verizon management believes that current estimates of reductions in impacted asset lives is reasonable and subject to ongoing analysis as deployment of fiber optic lines continues. The asset categories impacted and useful life changes are as follows:

Average Lives (in years)	From	To
Central office equipment		
Digital switches	12	11
Circuit equipment	9	8-9
Outside plant		
Copper cable	15-19	13-18

In connection with our ongoing review noted above, we determined that, effective January 1, 2006, the remaining useful lives of circuit equipment would be shortened from 8-9 years to 8 years.

Impairment of Long-Lived Assets

Our plant, property, and equipment and intangible assets subject to amortization are reviewed for impairment in accordance with Statement Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Under SFAS No. 144, these assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. An impairment charge is recognized for the amount (if any) by which the carrying value of the asset exceeds its fair value.

Computer Software Costs

We capitalize the cost of internal-use network and non-network software which has a useful life in excess of one year in accordance with Statement of Position (SOP) No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Subsequent additions, modifications or upgrades to internal-use network and non-network software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of non-network internal-use software. Capitalized non-network internal-use computer software costs are amortized using the straight-line method over a period of 3 to 5 years.

Intangible Assets

Our intangible assets consist of non-network internal-use software as follows:

(dollars in millions)

	At December 31, 2006		At December 31, 2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-network internal-use software (3 to 5 years)	$ 128	$ 108	$ 148	$ 109

Intangible asset amortization expense was $19 million in 2006 and $22 million in 2005. Amortization expense is estimated to be $12 million in 2007, $7 million in 2008, and $1 million in 2009 related to our non-network internal-use software.

Advertising Costs

We expense advertising costs as they are incurred.

Stock-Based Compensation

We participate in the Verizon Communications Long Term Incentive Plan (the Plan). The Plan permits the grant of nonqualified stock options, incentive stock options, restricted stock, restricted stock units, performance shares, performance share units and other awards.

Restricted Stock Units

The Plan provides for grants of restricted stock units (RSUs) that vest at the end of the third year of the grant. The RSUs are classified as liability awards because the RSUs are paid in cash upon vesting. The RSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the performance of Verizon's stock.

Performance Share Units

The Plan also provides for grants of performance share units (PSUs) that vest at the end of the third year after the grant. The 2006, 2005 and 2004 performance share units will be paid in cash upon vesting. The 2003 PSUs were paid out in February 2006 in Verizon shares.

The target award is determined at the beginning of the period and can increase (to a maximum 200% of the target) or decrease (to zero) based on a key performance measure, Total Shareholder Return (TSR). At the end of the period, the PSU payment is determined by comparing Verizon's TSR to the TSR of a predetermined peer group and the S&P 500 companies. All payments are subject to approval by the Board's Human Resources Committee. The PSUs are classified as liability awards because the PSU awards are paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the performance of Verizon's stock as well as Verizon's TSR relative to the peer group's TSR and S&P 500 TSR.

Stock Options

The Plan provides for grants of stock options to employees at an option price per share of 100% of the fair market value of Verizon Stock on the date of grant. Each grant has a 10 year life, vesting equally over a three year period, starting at the date of the grant. We have not granted new stock options since 2004.

The structure of Verizon's stock incentive plans does not provide for the separate determination of certain disclosures for our company. The required information is provided on a consolidated basis in Verizon's Annual Report on Form 10-K for the year ended December 31, 2006.

Effective January 1, 2006, Verizon adopted SFAS No. 123(R) *Share-Based Payment* utilizing the modified prospective method. SFAS No. 123(R) requires the measurement of stock-based compensation expense based on the fair value of the award on the date of grant. Under the modified prospective method, the provisions of SFAS No. 123(R) apply to all awards granted or modified after the date of adoption. The impact of Verizon's adoption was immaterial to our financial position and results of operations.

Previously, Verizon adopted the fair value recognition provisions of SFAS No. 123, using the prospective method (as permitted under SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*) for all new awards granted, modified or settled after January 1, 2003.

After-tax compensation expense for other stock-based compensation included in net income as reported for the years ended December 31, 2006 and 2005 was not material.

Employee Benefit Plans

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS No. 158). SFAS No. 158 requires the recognition of a defined benefit postretirement plan's funded status as either an asset or liability on the balance sheet. SFAS No. 158 also requires the immediate recognition of the unrecognized actuarial gains and losses and prior service costs and credits that arise during the period as a component of other accumulated comprehensive income, net of applicable income taxes. We adopted SFAS No. 158 effective December 31, 2006.

We participate in Verizon's benefit plans and the structure of these plans does not provide for the separate disclosure of the related pension and postretirement assets and obligations at a company level. The annual income and expense related to such assets and obligations are allocated to the Company and are reflected as prepaid pension assets and employee benefit obligations in the balance sheet. The SFAS No. 158 related adjustments recorded by Verizon to recognize the funded status are not reflected in the balance sheet, other than the reversal of the previously recorded additional minimum liability as of December 31, 2006. (see Note 6).

Income Taxes

Verizon and its domestic subsidiaries, including us, file a consolidated federal income tax return. We participate in a tax sharing agreement with Verizon and remit tax payments to Verizon based on the respective tax liability on a separate company basis. Current and deferred tax expense is determined by applying the provisions of SFAS No. 109, *Accounting for Income Taxes*, to us as if we were a separate taxpayer.

We use the deferral method of accounting for investment tax credits earned prior to the repeal of investment tax credits by the Tax Reform Act of 1986. We also defer certain transitional credits earned after the repeal. We amortize these credits over the estimated service lives of the related assets as a reduction to the Provision for income taxes.

Derivative Instruments

We employ risk management strategies to manage our exposure to fluctuations in interest rates. We do not hold derivatives for trading purposes.

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

Other Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. We are required to adopt FIN 48 effective January 1, 2007. The cumulative effect of initially adopting FIN 48 will be recorded as an adjustment to opening retained earnings in the year of adoption and will be presented separately. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized upon adoption of FIN 48. We are currently evaluating the impact this new standard will have on our future results of operations and financial position.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurement* (SFAS No. 157). SFAS No. 157 expands disclosures about fair value measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and establishes a hierarchy that categorizes and prioritizes the sources to be used to estimate fair value. We are required to adopt SFAS No. 157 effective January 1, 2008 on a prospective basis. We are currently evaluating the impact this new standard will have on our future results of operations and financial position.

2. PLANT, PROPERTY AND EQUIPMENT

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

At December 31,	(dollars in millions) 2006	2005
Land	$ 36	$ 37
Buildings	1,121	1,122
Central office equipment	7,817	7,785
Outside communications plant	8,127	7,725
Furniture, vehicles and other work equipment	740	747
Construction-in-progress	263	236
Other	191	180
	18,295	17,832
Less accumulated depreciation	12,130	11,686
Total	$ 6,165	$ 6,146

3. LEASES

We lease certain facilities and equipment for use in our operations under both capital and operating leases. We incurred $3 million in new initial capital lease obligations in 2006.

Capital lease amounts included in plant, property and equipment are as follows:

At December 31,	(dollars in millions) 2006	2005
Capital leases	$ 14	$ 5
Accumulated amortization	(4)	—
Total	$ 10	$ 5

Total rent expense amounted to $226 million in 2006 and $200 million in 2005. Of these amounts, $164 million in 2006 and $128 million in 2005 were lease payments to affiliated companies for land and buildings.

This table displays the aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2006, excluding those with affiliated companies:

Years	Capital Leases	(dollars in millions) Operating Leases
2007	$ 3	$ 42
2008	2	36
2009	3	33
2010	2	25
2011	2	18
Thereafter	3	13
Total minimum rental commitments	15	$ 167
Less interest and executory costs	(4)	
Present value of minimum lease payments	11	
Less current installments	(3)	
Long-term obligation at December 31, 2006	$ 8	

4. DEBT

Debt Maturing Within One Year

Debt maturing within one year consists of the following at December 31:

	(dollars in millions) 2006	2005
Note payable to affiliate (VNFC)	$ 206	$ 470
Long-term debt maturing within one year	127	1
Total debt maturing within one year	$ 333	$ 471
Weighted average interest rate for notes payable outstanding at year-end	5.44%	4.39%

We have a contractual agreement with an affiliated company, Verizon Network Funding Corp. (VNFC), for the provision of financing and cash management services.

Long-Term Debt

Long-term debt consists principally of debentures and notes that we have issued. Interest rates and maturities of the amounts outstanding are as follows at December 31:

Description	Interest Rate	Maturity	(dollars in millions) 2006	2005
Ten year debenture	6.500%	2011	$ 1,000	$ 1,000
Ten year debenture	4.750	2013	300	300
Forty year debenture	7.875	2029	349	349
Forty year debenture	7.000	2042	480	480
Seven year note payable	7.650	2007	125	125
Ten year note payable	5.875	2009	200	200
			2,454	2,454
Interest rate swap liability			19	26
Other – long-term debt	8.000	2011	3	3
Unamortized discount and premium, net			(3)	(4)
Note payable with affiliate (VNSHI)	5.746	2009	220	220
Capital lease obligations			8	4
Total long-term debt, including current maturities			2,701	2,703
Less maturing within one year			(127)	(1)
Total long-term debt			$ 2,574	$ 2,702

The aggregate principal amount of bonds and debentures that may be issued is subject to the restrictions and provisions of our indentures. None of the securities shown above were held in sinking or other special funds or pledged by us. Debt discounts on our outstanding long-term debt are amortized over the lives of the respective issues.

We are in compliance with all of our debt covenants.

During the third quarter of 2005, we redeemed the entire outstanding principal amount of our $250 million 6 7/8% debentures due on October 1, 2023. We recorded a pretax loss of $10 million to other income and (expense), net due to this redemption.

We have a $220 million promissory note to an affiliated company Verizon NSI Holdings Inc. (VNSHI) that matures on January 30, 2009 and carries a floating interest rate priced at 3 month LIBOR plus 37bps, reset and paid quarterly.

Maturities of long-term debt outstanding at December 31, 2006, excluding capital lease obligations and unamortized discount and premium are as follows:

Years	(dollars in millions)
2007	$ 125
2008	---
2009	420
2010	---
Thereafter	2,132
Total long-term debt outstanding	$ 2,677

5. FINANCIAL INSTRUMENTS

Derivatives

The ongoing effect of SFAS No. 133 and related amendments and interpretations on our financial statements will be determined each quarter by several factors, including the specific hedging instruments in place and their relationships to hedged items, as well as market conditions at the end of each period. For the years ended December 31, 2006 and 2005, the mark to market of our interest rate swaps did not have a material effect on our results of operations or financial position.
We have entered into domestic interest rate swaps to achieve a targeted mix of fixed and variable rate debt. These swaps hedge against changes in the fair value of our debt portfolio. We record the interest rate swaps at fair value in our balance sheet as assets and liabilities and adjust debt for the change in its fair value due to changes in interest rates.

The counterparties to the interest rate swap agreements are major financial institutions. These financial institutions have been accorded high ratings by primary rating agencies. We limit the dollar amount of contracts entered into with any one financial institution and monitor the credit ratings of these counterparties. We generally do not give or receive collateral on an interest rate swap agreement due to our credit rating and those of our counterparties. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial position.

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of short-term investments, trade receivables and interest rate swap agreements. Concentrations of credit risk with respect to trade receivables, other than those from AT&T, are limited due to the large number of customers. We generated revenues from services provided to AT&T (primarily network access and billing and collection) of $189 million in 2006 and $205 million in 2005.

While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider this risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial position.

Fair Values of Financial Instruments

The table below provides additional information about our material financial instruments at December 31:

Financial Instrument	Valuation Method
Note payable to affiliate (VNFC) and short-term investments	Carrying amounts
Debt and interest rate swaps (excluding capital leases)	Future cash flows discounted at current rates

(dollars in millions)

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt, interest rate swaps and notes payable to affiliates	$ 2,879	$ 2,903	$ 3,144	$ 3,194

6. EMPLOYEE BENEFITS

We participate in Verizon's benefit plans. Verizon maintains noncontributory defined benefit pension plans for many of our employees. The postretirement health care and life insurance plans for our retirees and their dependents are both contributory and noncontributory and include a limit on the company's share of cost for certain recent and future retirees. We also sponsor defined contribution savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis. We use a measurement date of December 31 for our pension and postretirement health care and life insurance plans.

As of June 30, 2006 Verizon management employees no longer earned pension benefits or earned service towards the company retiree medical subsidy after June 30, 2006. In addition, new management employees hired after December 31, 2005 are not eligible for pension benefits and managers with less than 13.5 years of service as of June 30, 2006 are not eligible for company-subsidized retiree healthcare or retiree life insurance benefits. Beginning July 1, 2006, management employees received an increased company match on their savings plan contributions.

The structure of Verizon's benefit plans does not provide for the separate determination of certain disclosures for our company. The required information is provided on a consolidated basis in Verizon's Annual Report on Form 10-K for the year ended December 31, 2006.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for the majority of our employees are subject to collective bargaining agreements. Approximately 87% of our employees (associates) are covered by collective bargaining agreements. Modifications in benefits have been bargained from time to time, and Verizon may also periodically amend the benefits in the management plans.

Benefit Cost

(dollars in millions)

	Pension		Health Care and Life	
Years ended December 31,	2006	2005	2006	2005
Net periodic benefit cost	$ 22	$ 1	$299	$ 283
Settlement loss	1	---	---	---
Curtailment loss (gain)	---	36	---	(23)
Termination benefits	1	---	---	---
Subtotal	2	36	---	(23)
Total cost	$24	$ 37	$299	$ 260

In 2005, as a result of our announcement regarding management retiree benefits, we recorded expense of $36 million for pension curtailments and income of $23 million for retiree medical curtailments. The settlement and curtailment of pension and retiree medical obligations are recorded in accordance with SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Pension Plans and for Termination Benefits* and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions.*

Amounts recognized in the balance sheets at December 31 consist of:

(dollars in millions)

	Pension		Health Care and Life	
	2006	2005	2006	2005
Prepaid pension asset	$135	$102	$ ---	$ ---
Employee benefit obligations	163	641	1,399	1,201
Other assets	---	140	---	---
Accumulated other comprehensive loss	---	295	---	---

The changes in the employee benefit asset and obligations from year to year were caused by a number of factors, including changes in actuarial assumptions (see Assumptions), curtailments and settlements.

As a result of Verizon's adoption of SFAS No. 158, we no longer record an additional minimum pension liability. In prior years, as a result of changes in interest rates and investment returns, an adjustment to the additional minimum pension liability was required for the North Associate Plan. The adjustment in the liability is recorded as a charge or (credit) to Accumulated Other Comprehensive Loss, net of tax, in shareowner's investment in the consolidated balance sheets. If we had recorded an Additional Minimum Pension Liability at December 31, 2006, it would have been $34 million ($20 million after tax).

	(dollars in millions) Pension	
Years ended December 31,	2006	2005
Increase (decrease) in minimum liability included in other comprehensive income (loss), net of tax	(179)	$ (40)

Assumptions

The weighted-average assumptions used in determining benefit obligations at December 31,

	Pension		Health Care and Life	
	2006	2005	2006	2005
Discount rate	6.00%	5.75%	6.00%	5.75%
Rate of future increases in compensation	4.00	4.00	4.00	4.00

The weighted-average assumptions used in determining net periodic cost for years ended December 31,

	Pension		Health Care and Life	
	2006	2005	2006	2005
Discount rate	5.75%	5.75%	5.75%	5.75%
Expected return on plan assets	8.50	8.50	8.25	7.75
Rate of compensation increase	4.00	5.00	4.00	4.00

In order to project the long-term target investment return for the total portfolio, estimates are prepared for the total return of each major asset class over the subsequent 10-year period, or longer. Those estimates are based on a combination of factors including the following: current market interest rates and valuation levels, consensus earnings expectations, historical long-term risk premiums and value-added. To determine the aggregate return for the pension trust, the projected return of each individual asset class is then weighted according to the allocation to that investment area in the trust's long-term asset allocation policy.

The assumed Health Care Cost Trend Rates at December 31,

	Health Care and Life	
	2006	2005
Health care cost trend rate assumed for next year	10.00%	10.00%
Rate to which cost trend rate gradually declines	5.00%	5.00%
Year the rate reaches level it is assumed to remain thereafter	2011	2010

Savings Plans and Employee Stock Ownership Plans

Substantially all of our employees are eligible to participate in savings plans maintained by Verizon. Verizon maintains four leveraged employee stock ownership plans (ESOPs). Under these plans, a certain percentage of eligible employee contributions are matched with shares of Verizon's common stock. We recognize savings plan cost based on our matching obligation attributed to our participating employees. In addition to the ESOPs, Verizon also maintains a savings plan for associate employees. We recorded total savings plan costs of $36 million in 2006 and $34 million in 2005.

Severance Benefits

We maintain ongoing severance plans for both management and associate employees, which provide benefits to employees that are terminated. The costs for these plans are accounted for under SFAS No. 112, *Employers' Accounting for Postemployment Benefits—an amendment of FASB Statements No. 5 and 43*. We accrue for severance benefits based on the terms of our severance plan over the estimated service periods of the employees. The accruals are also based on the historical run-rate of actual severances and expectations for future severances. Severance costs are included in selling, general and administrative expense in our statements of income.

The following table provides an analysis of our severance liability:

(dollars in millions)

Year	Beginning of Year	Charged to Expense (a)	Payments	End of Year
2005	$ 66	$ 5	$ (33)	$ 38
2006	38	10	(25)	23

(a) Includes accruals for ongoing employee severance costs and special charges of $5 million in 2006.

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

7. INCOME TAXES

The components of income tax expense (benefit) are presented in the following table:

(dollars in millions)

Years ended December 31,	2006	2005
Current:		
Federal	$ 113	$ 96
State and local	16	18
	129	114
Deferred:		
Federal	(96)	(64)
State and local	(14)	(9)
	(110)	(73)
Investment tax credits	(1)	(1)
Total income tax expense	$ 18	$ 40

The following table shows the primary reasons for the difference between the effective income tax and the statutory federal income tax:

(dollars in millions)

Years ended December 31,	2006	2005
Federal income tax at statutory rate	$ 6	$ 54
State income taxes, net of federal tax benefits	2	6
Investment tax credits	(1)	(1)
Equity investments	(5)	(8)
Medicare subsidy	(7)	(7)
Non-deductible expenses	27	-
Other, net	(4)	(4)
Income tax expense	$ 18	$ 40

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

At December 31,	(dollars in millions) 2006	2005
Depreciation	$ 1,130	$ 1,197
Employee benefits	(556)	(621)
Allowance for uncollectible accounts	(40)	(42)
Other, net	(7)	(12)
Net deferred tax liability	$ 527	$ 522

8. TRANSACTIONS WITH AFFILIATES

Our financial statements include transactions with the following affiliates:

Years Ended December 31,	2006	(dollars in millions) 2005
Operating revenues:		
Verizon Internet Services Inc.	$ 290	$ 244
Verizon Wireless Inc.	50	43
Verizon Long Distance	52	50
Verizon Business	210	55
Verizon Services	37	26
Verizon Operating Telephone Companies	4	2
Other	4	6
	$ 647	$ 426
Operating expenses:		
Verizon Services	$ 887	$ 814
Verizon Data Services Inc.	64	52
Verizon Business	7	---
Verizon Wireless Inc.	1	2
Verizon Operating Telephone Companies	3	3
GTE Communications Systems Corporation – Logistics (Supply)	2	2
Other	0	---
	$ 964	$ 873
Other income and (expense), net:		
Equity income (loss) from investees	$ 14	$ 23
Interest income from Verizon Services	3	2
	$ 17	$ 25
Interest expense:		
Interest expense to Verizon Network Funding Corp.	$ 10	$ 9
Interest expense to Verizon Services	2	---
Interest expense to Verizon NSI Holdings Inc.	12	8
	$ 24	$ 17
Capital contribution from NYNEX	$ ---	$ 111
Return of capital to NYNEX	$ 17	$ 162
Dividends paid to NYNEX	$ ---	$ 60
Dividends received from affiliates	$ 14	$ 31

Outstanding balances with affiliates are reported on the balance sheets at December 31, 2006 and 2005 as Accounts Receivable - Affiliates, Note Payable to Affiliate, Accounts Payable and Accrued Liabilities – Affiliates and Long – term Debt – Note Payable to Affiliate.

Verizon Services

Our operating revenues include transactions with Verizon Services (including Verizon Services Corp., Verizon Services Group and Verizon Corporate Services Group Inc.) for the provision of local telephone service and for the rental of facilities and equipment.

We have contractual arrangements with Verizon Services for the provision of various centralized services. These services are divided into two broad categories. The first category is comprised of network related services which generally benefit only Verizon's operating telephone subsidiaries. These services include marketing, sales, legal, accounting, finance, data processing, materials management, procurement, labor relations, and staff support for various network operations. The second category is comprised of overhead and support services which generally benefit all subsidiaries of Verizon. Such services include corporate governance, corporate finance, external affairs, legal, media relations, employee communications, corporate advertising, human resources, and treasury. Costs may be either directly assigned to one subsidiary or allocated to more than one subsidiary based on functional reviews of the work performed.

Verizon Internet Services Inc.

Our operating revenues include transactions with Verizon Internet Services Inc. (Verizon Internet Services) associated with the provision of network access and billing and collection services. These revenues are earned from Verizon Internet Services who utilizes our facilities to provide Internet access services to their customers.

Verizon Wireless Inc.

Our operating revenues include transactions with Verizon Wireless Inc. (Verizon Wireless) associated with the provision of local and network access services, billing and collection services and from interconnection agreements. These revenues are earned from Verizon Wireless who provides wireless voice and data services, paging services and equipment sales to their customers.

Our operating expenses also include transactions with Verizon Wireless. We recognize costs associated with wireless voice and data services, paging services and for interconnection agreements.

Verizon Long Distance

Our operating revenues include transactions with Verizon Long Distance who utilizes our facilities to provide long distance services to their customers. We record revenue in connection with the provision of billing and collection services, including programming charges associated with billing system changes.

Verizon Business

Our operating revenues include transactions with Verizon Business associated with the provision of network access services, wholesale interconnection service agreements and from billing and collection services.

Our operating expenses also include transactions with Verizon Business. We recognize costs associated with interconnection agreements and capacity services agreements.

Verizon Operating Telephone Companies

Our operating revenues and expenses include transactions with other Verizon Operating Telephone Companies. Revenues associated with transactions with these affiliates are primarily earned from the rental of our facilities and equipment. We also earn revenue from fees associated with the termination of their customer's calls on our network. In addition, we also recognize expenses associated with transactions with these affiliates. These costs are primarily associated with the rental of their facilities and equipment.

Verizon Data Services Inc.

Verizon Data Services Inc. provides data processing services, software application development and maintenance, which generally benefit Verizon's operating telephone subsidiaries, including us. We are charged for these affiliated transactions based on proportional cost allocation methodologies.

Verizon Network Funding Corp. and Verizon NSI Holdings Inc.

We recognize interest expense in connection with a contractual agreement with an affiliated company, Verizon Network Funding Corp. (VNFC), for the provision of short-term financing, short-term investing and cash management services. We also recognized interest expense related to a promissory note held by Verizon NSI Holdings Inc.

Other Affiliates

Other operating revenues and expenses include miscellaneous items of income and expense resulting from transactions with other affiliates. These transactions include the provision of local and network access services, billing and collection services, rental of facilities and equipment, electronic repair services, and sales and purchases of material and supplies.

9. ADDITIONAL FINANCIAL INFORMATION

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

	(dollars in millions)	
Years ended December 31,	2006	2005
Statements of Cash Flows:		
Cash paid during the year for:		
Income taxes, net of amounts refunded	$ 78	$ 175
Interest, net of amounts capitalized	150	156
Statements of Income:		
Interest expense incurred	192	184
Capitalized interest	(17)	(12)
Advertising expense	27	19
Depreciation expense	927	982

Advertising expense includes $27 million in 2006 and $19 million in 2005 allocated to us by Verizon Services.

10. STRATEGIC ACTIONS

Severance, Pension, Benefit and Other Charges

For the twelve months ended December 31, 2006, we recorded pretax employee severance and severance related charges of $7 million (excluding amounts allocated from affiliates). For the twelve months ended December 31, 2006, we recorded pretax charges of $74 million ($73 million after-tax) in selling, general and administrative expenses for miscellaneous adjustments for accounts receivable and other related items. Since the tax deductibility of $72 million of these charges is uncertain, we recorded no tax benefit on this portion of the charges. This is reflected as non-deductible expenses in the effective tax reconciliation in Note 7. There were no similar charges incurred during the comparable periods in 2005.

During the third quarter of 2005, we redeemed the entire outstanding principal amount of our $250 million 6 7/8% debentures due on October 1, 2023. We recorded a pretax loss of $10 million to other income and (expense), net due to this redemption.

11. COMMITMENTS AND CONTINGENCIES

Various legal actions and regulatory proceedings are pending to which we are a party and claims which, if asserted, may lead to other legal actions. We have established reserves for specific liabilities in connection with regulatory and legal matters that we currently deem to be probable and estimable. We do not expect that the ultimate resolution of pending regulatory and legal matters in future periods will have a material effect on our financial condition, but it could have a material effect on our results of operations.

From time to time, state regulatory decisions require us to assure customers that we will provide a level of service performance that falls within prescribed parameters. There are penalties associated with failing to meet those service parameters and we, from time to time, pay such penalties. We do not expect these penalties to have a material effect on our financial condition, but they could have a material effect on our results of operations.

12. SUBSEQUENT EVENTS

Telephone Access Lines Spin-off

On January 16, 2007, Verizon announced a definitive agreement with FairPoint Communications, Inc. (FairPoint) that will result in Verizon establishing a separate entity for its local exchange and related business assets in Maine, New Hampshire and Vermont (Northern New England Spinco), spinning off Northern New England Spinco to Verizon's stockholders, and immediately merging it with and into FairPoint. None of the Company's outstanding debt securities will be transferred to or assumed by either Northern New England Spinco or FairPoint in connection with the merger. The Northern New England Spinco operations comprise approximately 30% of Verizon New England's access lines and revenues, 27% of total assets and 28% of cash flow from operating activities as of and for the year-ended December 31, 2006.

As a result of the transaction, Verizon's stockholders will receive an ownership interest in FairPoint, and the Company or Verizon will receive $1,700 million in value through a combination of cash distributions and debt securities issued by Northern New England Spinco prior to the spin-off. The Company may seek to exchange these newly issued Northern New England Spinco debt securities for certain debt securities that were previously issued by the Company, which would have the effect of reducing the Company's then-outstanding debt on its balance sheet. Verizon may also exchange these newly issued Northern New England Spinco debt securities for certain debt that was previously issued by Verizon, which would have the effect of reducing Verizon's then-outstanding debt on its balance sheet. The transaction is expected to close within one year of reaching the definitive agreement, subject to regulatory approvals.

Return of Capital

On February 1, 2007, we declared and paid a dividend in the amount of $50 million to our parent, NYNEX.