VERIZON COMMUNICATIONS INC
Form 10-Q
May 04, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to
Commission file number 1-8606

Verizon Communications Inc.

(Exact name of registrant as specified in its charter)

Delaware	**23-2259884**
(State of Incorporation)	(I.R.S. Employer Identification No.)
140 West Street	**10007**
New York, New York	(Zip Code)
(Address of principal executive offices)	

Registrant s telephone number (212) 395-1000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

At March 31, 2007, 2,903,363,700 shares of the registrant s Common Stock were outstanding, after deducting 64,288,738 shares held in treasury.

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Part I - Financial Information

Item 1. Financial Statements

Condensed Consolidated Statements of Income

Verizon Communications Inc. and Subsidiaries

(Dollars in Millions, Except Per Share Amounts) (Unaudited)	Three Months Ended March 31,	
	2007	**2006**
Operating Revenues	$ 22,584	$ 21,231
Operating Expenses		
Cost of services and sales (exclusive of items shown below)	8,912	8,516
Selling, general and administrative expense	6,343	5,873
Depreciation and amortization expense	3,533	3,667
Total Operating Expenses	18,788	18,056
Operating Income	3,796	3,175
Equity in earnings of unconsolidated businesses	160	157
Other income and (expense), net	48	103
Interest expense	(485)	(636)
Minority interest	(1,154)	(866)
Income Before Provision For Income Taxes, Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change	2,365	1,933
Provision for income taxes	(881)	(651)
Income Before Discontinued Operations, Extraordinary Item and Cumulative Effect of Accounting Change	1,484	1,282
Income from discontinued operations, net of tax	142	392
Extraordinary item, net of tax	(131)	
Cumulative effect of accounting change, net of tax		(42)
Net Income	$ 1,495	$ 1,632
Basic Earnings Per Common Share[(1)]		
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ .51	$ .44
Income from discontinued operations, net of tax	.05	.13
Extraordinary item, net of tax	(.05)	
Cumulative effect of accounting change, net of tax		(.01)
Net Income	$ .51	$ .56
Weighted-average shares outstanding (in millions)	2,909	2,915

Diluted Earnings Per Common Share[1]				
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$	.51	$	.44
Income from discontinued operations, net of tax		.05		.13
Extraordinary item, net of tax		(.05)		
Cumulative effect of accounting change, net of tax				(.01)
Net Income	$	.51	$	.56
Weighted-average shares outstanding (in millions)		2,911		2,963
Dividends declared per common share	$	.405	$	.405

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

See Notes to Condensed Consolidated Financial Statements

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Condensed Consolidated Balance Sheets

Verizon Communications Inc. and Subsidiaries

(Dollars in Millions, Except Per Share Amounts) (Unaudited)	At March 31, 2007	At December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 1,301	$ 3,219
Short-term investments	2,149	2,434
Accounts receivable, net of allowances of $1,153 and $1,139	10,177	10,891
Inventories	1,780	1,514
Assets held for sale		2,592
Prepaid expenses and other	2,487	1,888
Total current assets	17,894	22,538
Plant, property and equipment	206,585	204,109
Less accumulated depreciation	123,607	121,753
	82,978	82,356
Investments in unconsolidated businesses	4,898	4,868
Wireless licenses	50,566	50,959
Goodwill	5,247	5,655
Other intangible assets, net	5,195	5,140
Other assets	17,506	17,288
Total assets	$ 184,284	$ 188,804
Liabilities and Shareowners Investment		
Current liabilities		
Debt maturing within one year	$ 6,604	$ 7,715
Accounts payable and accrued liabilities	13,309	14,320
Liabilities related to assets held for sale		2,154
Other	7,993	8,091
Total current liabilities	27,906	32,280
Long-term debt	28,073	28,646
Employee benefit obligations	29,743	30,779
Deferred income taxes	13,518	16,270
Other liabilities	7,025	3,957
Minority interest	29,237	28,337
Shareowners investment		
Series preferred stock ($.10 par value; none issued)		
Common stock ($.10 par value; 2,967,652,438 shares and 2,967,652,438 shares issued)	297	297

Contributed capital		40,122		40,124
Reinvested earnings		17,485		17,324
Accumulated other comprehensive loss		(7,136)		(7,530)
Common stock in treasury, at cost		(2,185)		(1,871)
Deferred compensation employee stock ownership plans and other		199		191
Total shareowners investment		48,782		48,535
Total liabilities and shareowners investment	$	184,284	$	188,804

See Notes to Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Cash Flows

Verizon Communications Inc. and Subsidiaries

(Dollars in Millions) (Unaudited)	Three Months Ended March 31, 2007	2006
Cash Flows from Operating Activities		
Net Income	$ 1,495	$ 1,632
Adjustments to reconcile net income to net cash provided by operating activities continuing operations:		
Depreciation and amortization expense	3,533	3,667
Employee retirement benefits	430	481
Deferred income taxes	222	(149)
Provision for uncollectible accounts	281	294
Equity in earnings of unconsolidated businesses	(160)	(157)
Extraordinary item, net of tax	131	
Cumulative effect of accounting change, net of tax		42
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses	(1,116)	(382)
Other, net	228	185
Net cash provided by operating activities continuing operations	5,044	5,613
Net cash provided by (used in) operating activities discontinued operations	(527)	453
Net cash provided by operating activities	4,517	6,066
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	(4,163)	(4,021)
Acquisitions, net of cash acquired, and investments	(124)	1,526
Net change in short-term investments	282	433
Other, net	61	313
Net cash used in investing activities continuing operations	(3,944)	(1,749)
Net cash provided by investing activities discontinued operations	757	1
Net cash used in investing activities	(3,187)	(1,748)
Cash Flows from Financing Activities		
Proceeds from long-term borrowings	1,424	3,971
Repayments of long-term borrowings and capital lease obligations	(3,314)	(6,129)
Increase in short-term obligations, excluding current maturities	141	14
Dividends paid	(1,179)	(1,185)
Proceeds from sale of common stock	110	64
Purchase of common stock for treasury	(427)	(398)
Other, net	(3)	(117)
Net cash used in financing activities continuing operations	(3,248)	(3,780)
Net cash used in financing activities discontinued operations		(50)
Net cash used in financing activities	(3,248)	(3,830)

Increase (decrease) in cash and cash equivalents	(1,918)	488
Cash and cash equivalents, beginning of period	3,219	760
Cash and cash equivalents, end of period	$ 1,301	$ 1,248

See Notes to Condensed Consolidated Financial Statements

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Notes to Condensed Consolidated Financial Statements

Verizon Communications Inc. and Subsidiaries

(Unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared based upon Securities and Exchange Commission (SEC) rules that permit reduced disclosure for interim periods. These financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial condition for the interim periods shown including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year. For a more complete discussion of significant accounting policies and certain other information, you should refer to the financial statements included in the Verizon Communications Inc. (Verizon) Annual Report on Form 10-K for the year ended December 31, 2006.

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

2. Discontinued Operations, Extraordinary Item and Sale of Businesses, net

Telecomunicaciones de Puerto Rico, Inc.

On March 27, 2007, the Federal Communications Commission approved the sale of Telecomunicaciones de Puerto Rico, Inc. (TELPRI) to América Móvil, S.A.B. de C.V. (América Móvil). On March 30, 2007, we completed the sale and received gross proceeds of approximately $980 million, $100 million of which was contributed to the Verizon Foundation. The sale resulted in a pretax gain of $120 million ($70 million after-tax). América Móvil purchased 100% of TELPRI, the holding company of Puerto Rico Telephone Company, including Verizon s 52% interest.

In accordance with Statement of Financial Accounting Standard (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we have classified the results of operations of TELPRI as discontinued operations in the consolidated statements of income for all periods presented through the date of the sale. The assets and liabilities of TELPRI are disclosed as assets held for sale and liabilities related to assets held for sale in the condensed consolidated balance sheets as of December 31, 2006. Additional detail related to those assets and liabilities were as follows:

(Dollars in Millions)	At December 31, 2006
Current assets	$ 303
Plant, property and equipment, net	1,436
Other non-current assets	853
Total assets	$ 2,592
Current liabilities	$ 181
Long-term debt	575
Other non-current liabilities	1,398
Total liabilities	$ 2,154

Related to the assets and liabilities above was $241 million included as Accumulated Other Comprehensive Loss in the condensed consolidated balance sheets as of December 31, 2006.

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Income from discontinued operations, net of tax, for TELPRI, Verizon Dominicana and Verizon Information Services presented in the condensed consolidated statements of income was comprised of the following:

(Dollars in Millions)	Three Months Ended March 31, 2007	2006
Operating revenues	$ 306	$ 1,512
Income before provision for income taxes	$ 185	$ 618
Provision for income taxes	(43)	(226)
Income from discontinued operations, net of tax	$ 142	$ 392

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV)

In January 2007, the Bolivarian Republic of Venezuela (the Republic) declared its intent to nationalize certain companies, including CANTV. On February 12, 2007, we entered into a Memorandum of Understanding (MOU) with the Republic. The MOU provides that the Republic will 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 at a price equivalent to $17.85 per American Depository Share (ADS), subject to adjustment if CANTV declared and paid a dividend prior to the purchase of the equity securities in the tender offers. A dividend of 6,454.49 Bolivars per ADS (equivalent to $3.00 at the current official exchange rate) with an April 18, 2007 payment date was recommended by the CANTV Board and then approved by shareholders on March 30, 2007. The Republic launched the public tender offers on April 9, 2007 at a price equivalent to $14.85 per ADS. Unless extended, the offers will expire on May 8, 2007. The price is subject to further adjustment for any additional dividends declared and paid before the date the equity securities are accepted for payment, and in the event of a change in the official exchange rate, for changes to the equivalent dollar value of the April 18 dividend. The tender offers are subject to certain conditions including that a majority of the outstanding shares are tendered to the Republic. Based upon the terms of the MOU and our current investment balance in CANTV, we recorded an extraordinary loss on our investment of $131 million, net of tax in the first quarter of 2007. If the tender offers are completed, Verizon expects to receive an aggregate amount of $572 million through a combination of purchase price and the 2007 dividend.

Telephone Access Lines Spin-off

On January 16, 2007, we 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, spinning off that new entity to Verizon s shareowners, and immediately merging it with and into FairPoint. These local exchange and business assets are included in Verizon s continuing operations. The transaction is subject to the satisfaction of certain conditions, including receipt of state and federal telecommunications regulatory approvals. We expect this transaction to close within one year of the date of announcement.

Upon the closing of the transaction, Verizon shareowners will own approximately 60 percent of the new company and FairPoint stockholders will own approximately 40 percent. Verizon Communications will not own any shares in FairPoint after the merger. In connection with the merger, Verizon shareowners will receive one share of FairPoint stock for approximately every 55 shares of Verizon stock held as of the record date. Both the spin-off and merger are expected to qualify as tax-free transactions, except to the extent that cash is paid to Verizon shareowners in lieu of fractional shares.

The total value to be received by Verizon and its shareowners in exchange for these operations will be approximately $2,715 million. Verizon shareowners will receive approximately $1,015 million of FairPoint common stock in the merger, based upon FairPoint s recent stock price and the terms of the merger agreement. Verizon will receive $1,700 million in value through a combination of cash distributions to Verizon and debt securities issued to Verizon prior to the spin-off. Verizon may exchange these newly issued debt securities for certain debt that was previously issued by Verizon, which would have the effect of reducing Verizon s then-outstanding debt.

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3. Taxes

FASB Interpretation No. 48

Effective January 1, 2007, we adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which requires the use of a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in a tax return and disclosures regarding uncertainties in income tax positions. As a result of the implementation of FIN 48, we recorded adjustments to liabilities that resulted in a net $79 million increase in the liability for unrecognized tax benefits with an offsetting reduction to retained earnings as of January 1, 2007. The implementation of FIN 48 also resulted in adjustments to prior acquisitions accounted for under purchase accounting, resulting in a $635 million reduction in the liability for unrecognized tax benefits and corresponding reductions to goodwill and wireless licenses of $100 million and $535 million, respectively. The implementation impact included a reduction in Deferred income taxes of approximately $3 billion, offset with a similar increase in Other liabilities as of January 1, 2007.

The total amount of unrecognized tax benefits at January 1, 2007 is $2,958 million. Included in the total unrecognized tax benefits is $1,290 million that, if recognized, would favorably affect the effective tax rate. The remaining unrecognized tax benefits relate to temporary items that would not affect the annual effective tax rate and uncertain tax positions resulting from prior acquisitions which, pursuant to current purchase accounting tax rules, would adjust goodwill.

We recognize any interest and penalties accrued related to unrecognized tax benefits in income tax expense. We had approximately $444 million (after-tax) for the payment of interest and penalties accrued in the balance sheet at January 1, 2007, relating to the $2,958 million unrecognized tax benefits reflected above. We had approximately $486 million (after-tax) for the payment of interest and penalties accrued in the balance sheet at March 31, 2007.

Verizon or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state and local and foreign jurisdictions. The Company is generally no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2000. The Internal Revenue Service (IRS) is currently examining the Company s U.S. income tax returns for years 2000 through 2003. We do not anticipate any significant increase or decrease to the unrecognized tax benefits within the next twelve months.

FASB Staff Position FAS 13-2

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

4. Completion of Merger with MCI

On January 6, 2006, after receiving the required state, federal and international regulatory approvals, Verizon completed the acquisition of 100% of the outstanding common stock of MCI, Inc. (MCI) for a combination of Verizon common shares and cash. MCI was a global communications company that provided Internet, data and voice communication services to businesses and government entities throughout the world and consumers in the United States.

The merger was accounted for using the purchase method in accordance with SFAS No. 141, *Business Combinations*, and the aggregate transaction value was $6,890 million, consisting of the cash and common stock issued at closing ($5,829 million), the consideration for the shares acquired from the Carlos Slim Helú entities, net of the portion of the special dividend paid by MCI that was treated as a return of our investment ($973 million) and closing and other direct merger-related costs. The number of shares issued was based on the Average Parent Stock Price, as defined in the merger agreement. The consolidated financial statements include the results of MCI s operations from the date of the close of the merger.

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We recorded certain severance and severance-related costs and contract termination costs in connection with the merger, pursuant to the Emerging Issues Task Force Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*. The remaining severance and severance-related costs will be paid in 2007, and the remaining contract termination costs will be paid over the remaining contract periods through 2009. The following table summarizes the activity related to these obligations during 2007:

(Dollars in Millions)	At December 31, 2006	Payments	At March 31, 2007
Severance costs and contract termination costs	$ 376	$ (256)	$ 120

5. Strategic Actions and Other Special Items

During the first quarter of 2007, we recorded pretax charges of $14 million ($9 million after-tax) related to systems integration activities associated with the MCI acquisition, and, as a result of the sale of TELPRI, Verizon contributed $100 million to Verizon Foundation to fund its charitable activities and increase its self-sufficiency.

During the first quarter of 2006, we recorded pretax charges of $55 million ($35 million after-tax) related to integration costs associated with the MCI acquisition that primarily comprised of advertising and other costs related to re-branding initiatives and systems integration activities. Also during the first quarter of 2006, we recorded pretax charges of $46 million ($28 million after-tax) in connection with the continued relocation of employees and business operations to Verizon Center located in Basking Ridge, New Jersey.

6. Goodwill and Other Intangible Assets

Goodwill

Changes in the carrying amount of goodwill were as follows:

(Dollars in Millions)	Wireline	Domestic Wireless	Total
Balance at December 31, 2006	$ 5,310	$ 345	$ 5,655
Reclassifications and adjustments	(408)		(408)
Balance at March 31, 2007	$ 4,902	$ 345	$ 5,247

Reclassifications and adjustments to goodwill during the first quarter of 2007 reflects revised estimated tax bases of acquired assets and liabilities, as well as adjustments related to the adoption of FIN 48 (see Note 3).

Other Intangible Assets

The following table displays the details of other intangible assets:

	At March 31, 2007		At December 31, 2006	
(Dollars in Millions)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Finite-lived intangible assets:				
Customer lists (3 to 8 years)	$ 1,273	$ 309	$ 1,278	$ 270
Non-network internal-use software (1 to 7 years)	7,617	3,560	7,777	3,826

Other (1 to 25 years)	203	29	204	23
Total	$ 9,093	$ 3,898	$ 9,259	$ 4,119
Indefinite-lived intangible assets:				
Wireless licenses	$ 50,566		$ 50,959	

Wireless licenses reflected adjustments related to the adoption of FIN 48 (see Note 3), as well as acquisitions during the first quarter of 2007. Amortization expense was $343 million and $463 million for the three months ended March 31, 2007 and 2006 respectively. Amortization expense is estimated to be $1,006 million for the remainder of 2007, $1,174 million in 2008, $973 million in 2009, $749 million in 2010 and $584 million in 2011.

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7. Debt

Issuance of Debt

In February 2007, Verizon drew down on a $425 million floating rate vendor financing facility due 2013. In March 2007, Verizon issued $1,000 million of 13-month floating rate exchangeable notes with an original maturity of 2008. These notes are exchangeable periodically at the option of the note holder into similar notes until 2017.

On March 29, 2007, Verizon agreed to issue an aggregate $2,000 million of fixed and floating rate notes. On April 3, 2007, Verizon issued these notes, consisting of $750 million of 5.50% notes due 2017, $750 million of 6.25% notes due 2037, and $500 million of floating rate notes due 2009 resulting in cash proceeds of $1,978 million, net of discounts and issuance costs.

Redemption of Debt

Previously, Verizon issued $1,750 million in principal amount at maturity of floating rate notes due August 15, 2007, which were callable by Verizon on or after August 15, 2006. On January 8, 2007, we redeemed the remaining $1,580 million principal of the outstanding floating rate notes at a redemption price equal to 100% of the principal amount of the notes being redeemed plus accrued and unpaid interest on the principal amount of the notes being redeemed to the date of redemption. The total payment on the date of redemption was approximately $1,593 million.

During the first quarter of 2007, the $150 million GTE Southwest Inc. 6.23% notes and the $275 million Verizon California Inc. 7.65% notes matured and were repaid. In addition, we redeemed the $500 million of GTE Corporation 7.90% debentures due February 1, 2027 and the $300 million Verizon South Inc. 7.0% debentures, Series F, due 2041 at various redemption prices plus accrued and unpaid interest to the redemption dates. We recorded pretax charges of $28 million ($18 million after-tax) in connection with the early extinguishments of this debt.

Other Debt Extinguishment Costs

We recorded pretax charges of $26 million ($16 million after-tax) during the first quarter of 2006 resulting from the extinguishment of debt assumed in connection with the completion of the MCI merger.

Support Agreements and Guarantees

All of Verizon Global Funding s debt had the benefit of Support Agreements between us and Verizon Global Funding, which gave holders of Verizon Global Funding debt the right to proceed directly against us for payment of interest, premium (if any) and principal outstanding should Verizon Global Funding fail to pay. The holders of Verizon Global Funding debt did not have recourse to the stock or assets of most of our telephone operations; however, they did have recourse to dividends paid to us by any of our consolidated subsidiaries as well as assets not covered by the exclusion. On February 1, 2006, Verizon announced the merger of Verizon Global Funding into Verizon. As a result of the merger, all of Verizon Global Funding s debt has been assumed by Verizon by operation of law.

In addition, Verizon Global Funding had guaranteed the debt obligations of GTE Corporation (but not the debt of its subsidiary or affiliate companies) that were issued and outstanding prior to July 1, 2003. In connection with the merger of Verizon Global Funding into Verizon, Verizon has assumed this guarantee. As of March 31, 2007, $2,450 million principal amount of these obligations remained outstanding.

Verizon and NYNEX Corporation are the joint and several co-obligors of the 20-Year 9.55% Debentures due 2010 previously issued by NYNEX on March 26, 1990. As of March 31, 2007, $92 million principal amount of this obligation remained outstanding. NYNEX and GTE no longer issue public debt or file SEC reports. See Note 13 for information on guarantees of operating subsidiary debt listed on the New York Stock Exchange.

Debt Covenants

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

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8. Earnings Per Share

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

(Dollars and Shares in Millions, Except Per Share Amounts)	Three Months Ended March 31, 2007	2006
Net Income Used For Basic Earnings Per Common Share		
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ 1,484	$ 1,282
Income from discontinued operations, net of tax	142	392
Extraordinary item, net of tax	(131)	
Cumulative effect of accounting change, net of tax		(42)
Net income	$ 1,495	$ 1,632
Net Income Used For Diluted Earnings Per Common Share		
Income before discontinued operations and cumulative effect of accounting change	$ 1,484	$ 1,282
After-tax minority interest expense related to exchangeable equity interest		8
After-tax interest expense related to zero-coupon convertible notes		7
Income before discontinued operations, extraordinary item and cumulative effect of accounting change after assumed conversion of dilutive securities	1,484	1,297
Income from discontinued operations, net of tax	142	392
Extraordinary item, net of tax	(131)	
Cumulative effect of accounting change, net of tax		(42)
Net income after assumed conversion of dilutive securities	$ 1,495	$ 1,647
Basic Earnings Per Common Share[1]		
Weighted-average shares outstanding basic	2,909	2,915
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ .51	$ .44
Income from discontinued operations, net of tax	.05	.13
Extraordinary item, net of tax	(.05)	
Cumulative effect of accounting change, net of tax		(.01)
Net income	$ .51	$ .56
Diluted Earnings Per Common Share[1]		
Weighted-average shares outstanding	2,909	2,915
Effect of dilutive securities:		
Stock options	2	1
Exchangeable equity interest		30
Zero-coupon convertible notes		17
Weighted-average shares diluted	2,911	2,963
Income before discontinued operations, extraordinary item and cumulative effect of accounting change	$ .51	$ .44
Income from discontinued operations, net of tax	.05	.13
Extraordinary item, net of tax	(.05)	
Cumulative effect of accounting change, net of tax		(.01)

Net income	$ .51	$ .56

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

Certain outstanding options to purchase shares were not included in the computation of diluted earnings per common share because to do so would have been anti-dilutive for the period, including approximately 181 million shares and 236 million shares for the three months ended March 31, 2007 and 2006, respectively.

The zero-coupon convertible notes were retired on May 15, 2006. Additionally, the Price Communications Corp. exchangeable equity interest was converted on August 15, 2006 by issuing 29.5 million Verizon shares.

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9. Stock-Based Compensation

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 Verizon Wireless, for which we recorded a $42 million 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.

Restricted Stock Units

The Verizon Communications Long Term Incentive Plan (the Plan) provides for grants of restricted stock units (RSUs) that vest at the end of the third year after the grant. The RSUs are classified as liability awards because the RSUs will be paid in cash upon vesting.

The following table summarizes Verizon s Restricted Stock Unit activity:

(Shares in Thousands)	**Restricted Stock Units**	**Weighted-Average Grant-Date Fair Value**
Outstanding, beginning of year	15,593	$ 33.67
Grants	5,959	37.87
Payments	(602)	36.75
Cancellations/Forfeitures	(20)	33.29
Outstanding restricted stock units, March 31, 2007	20,930	34.78

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 PSUs are classified as liability awards because the PSUs will be paid in cash upon vesting.

The following table summarizes Verizon s Performance Share Unit activity:

(Shares in Thousands)	**Performance Share Units**	**Weighted-Average Grant-Date Fair Value**
Outstanding, beginning of year	28,423	$ 34.22
Grants	9,204	37.87
Payments	(5,759)	36.75
Cancellations/Forfeitures	(661)	36.66
Outstanding performance share units, March 31, 2007	31,207	34.78

As of March 31, 2007, unrecognized compensation expense related to the unvested portion of Verizon s RSUs and PSUs was approximately $783 million and is expected to be recognized over a weighted-average period of approximately two years.

Verizon Wireless Long-Term Incentive Plan

The 2000 Verizon Wireless Long-Term Incentive Plan (the Wireless Plan) provides compensation opportunities to eligible employees and other participating affiliates of the Cellco Partnership, d.b.a. Verizon Wireless (the Partnership). The Wireless Plan provides rewards that are tied to the long-term performance of the Partnership. Under the Wireless Plan, Value Appreciation Rights (VARs) are granted to eligible employees. With the adoption of SFAS 123(R), the Partnership began estimating the fair value of VARs granted using a Black-Scholes option valuation model. As of March 31, 2007, substantially all VARs were fully vested.

The following table summarizes the VARs activity:

(Shares in Thousands)	**VARs**	**Weighted-Average Grant-Date Fair Value**
Outstanding, beginning of year	94,467	$ 16.99
Exercises	(2,124)	14.18
Cancellations/Forfeitures	(953)	23.16
Outstanding value appreciation rights, March 31, 2007	91,390	16.99

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Stock-Based Compensation Expense

After-tax compensation expense for stock-based compensation described above included in net income as reported for the three months ended March 31, 2007 and 2006 was $202 million and $102 million, respectively.

Stock Options

The Verizon Long Term Incentive Plan provides for grants of stock options to employees at an option price per share of 100% of the fair market value of Verizon stock on the date of grant. Each grant has a 10 year life, vesting equally over a three year period, starting at the date of the grant. We have not granted new stock options since 2004. We determined stock-option related employee compensation expense for the 2004 grant using the Black-Scholes option-pricing model.

The following table summarizes Verizon s stock option activity:

(Shares in Thousands)	**Stock Options**	**Weighted-Average Exercise Price**
Options outstanding, beginning of year	229,364	$ 46.48
Exercises	(3,019)	35.61
Cancellations	(10,419)	47.06
Options outstanding, March 31, 2007	215,926	46.61
Options exercisable, March 31, 2007	215,909	46.61

The weighted-average remaining contractual term was 3.6 years for stock options outstanding and exercisable as of March 31, 2007. The total intrinsic value was approximately $65 million for stock options outstanding and exercisable as of March 31, 2007. For the three months ended March 31, 2007 and 2006, the amount of cash received from the exercise of stock options was approximately $113 million and $6 million, respectively. The total intrinsic value for stock options exercised during the first quarter of 2007 and 2006 and the related tax benefits were not material.

For the three months ended March 31, 2007 and 2006, after-tax compensation expense for stock options was $2 million and $10 million, respectively.

10. Employee Benefits

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

Net Periodic Benefit (Income) Cost

The following table summarizes the benefit costs (income) related to our pension and postretirement health care and life insurance plans:

(Dollars in Millions)

	Pension		**Health Care and Life**	
Three Months Ended March 31,	**2007**	**2006**	**2007**	**2006**
Service cost	$ 111	$ 176	$ 88	$ 89
Interest cost	494	499	398	374
Expected return on plan assets	(794)	(793)	(79)	(82)

Amortization of prior service cost		11		11		98		89
Actuarial loss, net		24		45		79		73
Net periodic benefit (income) cost	$	(154)	$	(62)	$	584	$	543

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Employer Contributions

During the three months ended March 31, 2007, we contributed $489 million to our qualified pension trusts, $60 million to our nonqualified pension plans and $293 million to our other postretirement benefit plans. Our estimate of the amount and timing of required qualified pension trust contributions for 2007 is based on current regulations, including continued pension funding relief. The anticipated required qualified pension trust contributions disclosed in Verizon s Annual Report on Form 10-K for the year ended December 31, 2006 continue to be accurate.

Severance Benefits

During the three months ended March 31, 2007, we paid severance benefits of $98 million excluding amounts related to the MCI acquisition (see Note 4). At March 31, 2007, we had a remaining severance liability of $557 million, which includes future contractual payments to employees separated as of March 31, 2007.

11. Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting shareowners investment that, under accounting principles generally accepted in the United States, are excluded from net income.

Changes in the components of other comprehensive income were as follows:

(Dollars in Millions)	Three Months Ended March 31, 2007	2006
Net Income	$ 1,495	$ 1,632
Other Comprehensive Income (Loss), Net of Taxes		
Foreign currency translation adjustments	17	79
Unrealized derivative gains on cash flow hedges	6	12
Unrealized (loss) gains on marketable securities	(6)	24
Minimum pension liability adjustment		13
Defined benefit pension and postretirement plans	136	
Disposition of TELPRI and other	241	
	394	128
Total Comprehensive Income	$ 1,889	$ 1,760

The unrealized foreign currency translation gain in the first quarter of 2006 is primarily driven by the appreciation in the functional currencies on our investments in Vodafone Omnitel N.V. (Vodafone Omnitel) and Verizon Dominicana, C. por A. (Verizon Dominicana).

The components of accumulated other comprehensive loss were as follows:

(Dollars in Millions)	At March 31, 2007	At December 31, 2006
Foreign currency translation adjustments	$ 346	$ 329
Net unrealized losses on hedging	(5)	(11)
Unrealized gains on marketable securities	58	64
Defined benefit pension and postretirement plans	(7,535)	(7,671)
Other		(241)
Accumulated Other Comprehensive Loss	$ (7,136)	$ (7,530)

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12. Segment Information

We have two reportable segments, which we operate and manage as strategic business units and organize by products and services. Our segments are Wireline and Domestic Wireless. We measure and evaluate our reportable segments based on segment income. 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, primarily Vodafone Omnitel, lease financing, and asset impairments and expenses that are not allocated in assessing segment performance due to their non-recurring nature. These adjustments include transactions that the chief operating decision makers exclude in assessing business unit performance due primarily to their non-recurring and/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 unit performance.

Our segments and their principal activities consist of the following:

Segment	Description
Wireline	Wireline provides communications services including voice, broadband video and data, next generation IP network services, network access, long distance and other services to consumers, carriers, business and government customers both domestically and globally in 150 countries.
Domestic Wireless	Domestic Wireless s products and services include wireless voice and data products and other value added services and equipment sales across the United States.

The following table provides operating financial information for our two reportable segments:

(Dollars in Millions)	Three Months Ended March 31, 2007	2006
External Operating Revenues		
Wireline	$ 12,166	$ 12,214
Domestic Wireless	10,282	8,796
Total segments	22,448	21,010
Reconciling items	136	221
Total consolidated reported	$ 22,584	$ 21,231
Intersegment Revenues		
Wireline	$ 310	$ 251
Domestic Wireless	25	17
Total segments	335	268
Reconciling items	(335)	(268)
Total consolidated reported	$	$
Total Operating Revenues		
Wireline	$ 12,476	$ 12,465
Domestic Wireless	10,307	8,813

Total segments		22,783		21,278
Reconciling items		(199)		(47)
Total consolidated reported	$	22,584	$	21,231
Operating Income				
Wireline	$	1,135	$	1,076
Domestic Wireless		2,729		2,115
Total segments		3,864		3,191
Reconciling items		(68)		(16)
Total consolidated reported	$	3,796	$	3,175

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(Dollars in Millions)	Three Months Ended March 31, 2007	2006
Segment Income		
Wireline	$ 365	$ 318
Domestic Wireless	874	631
Total segment income	1,239	949
Reconciling items	256	683
Total consolidated reported	$ 1,495	$ 1,632

	At March 31, 2007	At December 31, 2006
Assets		
Wireline	$ 90,467	$ 92,274
Domestic Wireless	82,078	81,989
Total segments	172,545	174,263
Reconciling items	11,739	14,541
Total consolidated reported	$ 184,284	$ 188,804

Major reconciling items between the segments and the consolidated results were as follows:

(Dollars in Millions)	Three Months Ended March 31, 2007	2006
Operating Revenues		
Corporate, eliminations and other	$ (199)	$ (47)
	$ (199)	$ (47)
Operating Income		
Verizon Center relocation, net (see Note 5)	$	$ (46)
Merger integration costs (see Note 4)	(14)	(55)
Verizon Foundation contribution (see Note 2)	(100)	
Corporate and other	46	85
	$ (68)	$ (16)
Net Income		
Debt extinguishment costs (see Note 7)	$	$ (16)
Verizon Center relocation, net (see Note 5)		(28)
Merger integration costs (see Note 4)	(9)	(35)
Cumulative effect of accounting change (see Note 9)		(42)
Verizon Foundation contribution (see Note 2)	(65)	
Sale of Puerto Rico, net (see Note 2)	70	
Extraordinary item, net of tax (see Note 2)	(131)	
Corporate and other	391	804

	$	256	$	683

We generally account for intersegment sales of products and services and asset transfers at current market prices. We are not dependent on any single customer.

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13. Guarantees of Operating Subsidiary Debt

Verizon has guaranteed $480 million 7% debentures series B, due 2042 issued by Verizon New England Inc., a wholly-owned operating subsidiary. This guarantee would require Verizon to make scheduled payments immediately if the subsidiary failed to do so. The debentures were issued in denominations of $25 and were sold primarily to retail investors and are listed on the New York Stock Exchange. SEC rules permit us to include condensed consolidating financial information for this subsidiary in our periodic SEC reports rather than filing separate subsidiary periodic SEC reports.

On March 23, 2007, Verizon redeemed the previously guaranteed $300 million 7% debentures series F issued by Verizon South Inc. due 2041. Accordingly, we are no longer required to disclose this financial information in the condensed consolidating financial information.

Below is the condensed consolidating financial information. Verizon New England is presented in a separate column. The column labeled Parent represents Verizon s investments in all of its subsidiaries under the equity method and the Other column represents all other subsidiaries of Verizon on a combined basis. The Adjustments column reflects intercompany eliminations.

Condensed Consolidating Statements of Income

Three Months Ended March 31, 2007

(Dollars in Millions)	Parent	Verizon New England	Other	Adjustments	Total
Operating revenues	$	$ 923	$ 21,827	$ (166)	$ 22,584
Operating expenses	72	874	18,008	(166)	18,788
Operating income (loss)	(72)	49	3,819		3,796
Equity in earnings of unconsolidated businesses	1,431		(276)	(995)	160
Other income and (expense), net	444	6	41	(443)	48
Interest expense	(267)	(45)	(180)	7	(485)
Minority interest			(1,154)		(1,154)
Income before provision for income taxes, discontinued operations and extraordinary item	1,536	10	2,250	(1,431)	2,365
Provision for income taxes	(41)	(2)	(838)		(881)
Income before discontinued operations and extraordinary item	1,495	8	1,412	(1,431)	1,484
Income from discontinued operations, net of tax			142		142
Extraordinary item, net of tax			(131)		(131)
Net income	$ 1,495	$ 8	$ 1,423	$ (1,431)	$ 1,495

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Condensed Consolidating Statements of Income

Three Months Ended March 31, 2006

(Dollars in Millions)	Parent	Verizon New England	Other	Adjustments	Total
Operating revenues	$	$ 938	$ 20,447	$ (154)	$ 21,231
Operating expenses	5	874	17,331	(154)	18,056
Operating income (loss)	(5)	64	3,116		3,175
Equity in earnings of unconsolidated businesses	1,554	3	(117)	(1,283)	157
Other income and (expense), net	296	2	83	(278)	103
Interest expense	(204)	(44)	(395)	7	(636)
Minority interest			(866)		(866)
Income before provision for income taxes, discontinued operations and cumulative effect of accounting change	1,641	25	1,821	(1,554)	1,933
Provision for income taxes	(9)	(7)	(635)		(651)
Income before discontinued operations and cumulative effect of accounting change	1,632	18	1,186	(1,554)	1,282
Income from discontinued operations, net of tax			392		392
Cumulative effect of accounting change, net of tax			(42)		(42)
Net income	$ 1,632	$ 18	$ 1,536	$ (1,554)	$ 1,632

Condensed Consolidating Balance Sheets

At March 31, 2007

(Dollars in Millions)	Parent	Verizon New England	Other	Adjustments	Total
Cash	$	$	$ 1,301	$	$ 1,301
Short-term investments		191	1,958		2,149
Accounts receivable, net	3	649	10,409	(884)	10,177
Other current assets	30,211	183	4,081	(30,208)	4,267
Total current assets	30,214	1,023	17,749	(31,092)	17,894
Plant, property and equipment, net	1	6,145	76,832		82,978
Investments in unconsolidated businesses	46,039	116	6,184	(47,441)	4,898
Other assets	4,946	300	73,498	(230)	78,514
Total assets	$ 81,200	$ 7,584	$ 174,263	$ (78,763)	$ 184,284
Debt maturing within one year	$ 5,922	$ 427	$ 30,761	$ (30,506)	$ 6,604
Other current liabilities	2,208	940	18,740	(586)	21,302
Total current liabilities	8,130	1,367	49,501	(31,092)	27,906
Long-term debt	11,754	2,574	13,975	(230)	28,073

Employee benefit obligations	12,223	1,595	15,925		29,743
Deferred income taxes	65	455	12,998		13,518
Other liabilities	246	252	6,527		7,025
Minority interest			29,237		29,237
Total shareowners investment	48,782	1,341	46,100	(47,441)	48,782
Total liabilities and shareowners investment	$ 81,200	$ 7,584	$ 174,263	$ (78,763)	$ 184,284

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Condensed Consolidating Balance Sheets

At December 31, 2006

(Dollars in Millions)	Parent	Verizon New England	Other	Adjustments	Total
Cash	$	$	$ 3,219	$	$ 3,219
Short-term investments		215	2,219		2,434
Accounts receivable, net	4	705	11,037	(855)	10,891
Other current assets	32,680	134	5,858	(32,678)	5,994
Total current assets	32,684	1,054	22,333	(33,533)	22,538
Plant, property and equipment, net	1	6,165	76,190		82,356
Investments in unconsolidated businesses	44,048	116	7,850	(47,146)	4,868
Other assets	5,045	288	73,939	(230)	79,042
Total assets	$ 81,778	$ 7,623	$ 180,312	$ (80,909)	$ 188,804
Debt maturing within one year	$ 6,735	$ 333	$ 33,527	$ (32,880)	$ 7,715
Other current liabilities	2,354	1,060	21,804	(653)	24,565
Total current liabilities	9,089	1,393	55,331	(33,533)	32,280
Long-term debt	11,392	2,573	14,911	(230)	28,646
Employee benefit obligations	12,419	1,625	16,735		30,779
Deferred income taxes	337	532	15,401		16,270
Other liabilities	6	111	3,840		3,957
Minority interest			28,337		28,337
Total shareowners investment	48,535	1,389	45,757	(47,146)	48,535
Total liabilities and shareowners investment	$ 81,778	$ 7,623	$ 180,312	$ (80,909)	$ 188,804

Condensed Consolidating Statements of Cash Flows

Three Months Ended March 31, 2007

(Dollars in Millions)	Parent	Verizon New England	Other	Adjustments	Total
Net cash from operating activities	$ 768	$ 129	$ 4,404	$ (784)	$ 4,517
Net cash from investing activities		(167)	(2,926)	(94)	(3,187)
Net cash from financing activities	(768)	38	(3,396)	878	(3,248)
Net decrease in cash	$	$	$ (1,918)	$	$ (1,918)

Condensed Consolidating Statements of Cash Flows

Three Months Ended March 31, 2006

(Dollars in Millions)	Parent	Verizon New England	Other	Adjustments	Total
Net cash from operating activities	$ 748	$ 433	$ 5,654	$ (769)	$ 6,066
Net cash from investing activities	(779)	(224)	(555)	(190)	(1,748)
Net cash from financing activities	31	(209)	(4,611)	959	(3,830)

Net increase in cash	$	$	$	488	$		$	488

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14. Other Recent Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of SFAS 115* (SFAS No. 159), which allows for the option to measure financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS No. 159 on our consolidated financial statements.

In September 2006, the FASB issued SFAS 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.

In June 2006, the Emerging Issues Task Force (EITF) reached a consensus on EITF No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement* (EITF No. 06-3). EITF No. 06-3 permits that such taxes may be presented on either a gross basis or a net basis as long as that presentation is used consistently. The adoption of EITF No. 06-3 on January 1, 2007 did not impact our condensed consolidated financial statements. We present the taxes within the scope of EITF No. 06-3 on a net basis.

15. Commitments and Contingencies

Several state and federal regulatory proceedings may require our telephone operations to pay penalties or to refund to customers a portion of the revenues collected in the current and prior periods. There are also various legal actions 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 actions, including environmental 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, including the Hicksville matters described below, will have a material effect on our financial condition, but it could have a material effect on our results of operations.

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

There are also litigation matters associated with the Hicksville site primarily involving personal injury claims in connection with alleged emissions arising from operations in the 1950s and 1960s at the Hicksville site. These matters are in various stages, and no trial date has been set.

In connection with the execution of agreements for the sales 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.

Under the terms of an investment agreement, as of December 31, 2006, Vodafone has the right to require the purchase of up to $10 billion worth of its interest in Verizon Wireless, during a 61-day period opening on June 10 and closing on August 9 in 2007, under its one remaining put window. Vodafone also may require that Verizon Wireless pay for up to $7.5 billion of the required repurchase through the assumption or incurrence of debt. In the event Vodafone fully exercises its one remaining put right, we (instead of Verizon Wireless) have the right, exercisable at our sole discretion, to purchase up to $2.5 billion of the $10 billion Vodafone interest for cash or Verizon stock at our option.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Verizon Communications Inc. (Verizon) is one of the world s leading providers of communications services. Verizon s wireline business provides telephone 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. Verizon s domestic wireless business, operating as Verizon Wireless, provides wireless voice and data products and services across the United States using one of the most extensive and reliable wireless networks. Stressing diversity and commitment to the communities in which we operate, Verizon has a highly diverse workforce of approximately 239,000 employees.

The sections that follow provide information about the important aspects of our operations and investments, both at the consolidated and segment levels, and include discussions of our results of operations, financial position and sources and uses of cash. In addition, we have highlighted 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 analyzing and understanding business trends. While most key economic indicators, including gross domestic product, impact our operations to some degree, we have noted higher correlations to housing starts, non-farm employment, personal consumption expenditures and capital spending, as well as more general economic indicators such as inflation and unemployment rates.

Our results of operations, financial position and sources and uses of cash in the current and future periods reflect Verizon management s focus on the following four key areas:

Revenue Growth Our emphasis is on revenue growth, devoting more resources to higher growth markets such as wireless, including wireless data, wireline broadband connections, including fiber optics to the premises (Verizon s high-capacity fiber network (FiOS) and TV services), digital subscriber lines (DSL) and other data services, long distance, as well as expanded strategic services to business markets, rather than to the traditional wireline voice market, where we have been experiencing access line losses. During the first quarter of 2007, we reported consolidated revenue growth of 6.4% compared to last year, primarily driven by 17% higher revenue at Domestic Wireless, where we added approximately 1.7 million total wireless customers, of which over 1.6 million were wireless retail customers. Wireline remained stable as growth in enterprise business and broadband offset declines in wholesale and access line losses. Verizon Telecom added 416,000 broadband connections during the quarter.

Operational Efficiency While focusing resources on growth, 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 and the formation of Verizon Services Organization, has been to change the company s cost structure and maintain stable operating income margins. Real estate consolidations include the establishment of the Verizon Center. The Verizon Services Organization provides centralized services across our business, including procurement, finance operations and real estate services. With our deployment of the FiOS network, we expect to realize savings in annual, ongoing operating expenses as a result of efficiencies gained from fiber network facilities. As the deployment of the FiOS network gains scale and installation automation improvements occur, costs per home connected are expected to decline. Since the merger with MCI, we have gained operational benefits from sales force and product and systems integration initiatives. Workforce levels in the first quarter of 2007 increased to 239,000 from 236,000, primarily from an increase in headcount at Domestic Wireless, partially offset by headcount reductions of about 8,000 in our wireline business, as a result of continued productivity improvements and merger synergy savings.

Capital Allocation Our capital spending continues to be directed toward growth markets. High-speed wireless data (Evolution-Data Optimized, or EV-DO) services, replacement of copper access lines with fiber optics to the premises, as well as expanded services to business markets are examples of areas of capital spending in support of these growth markets. Excluding discontinued operations, during the first quarter of 2007, capital expenditures were $4,163 million compared to capital expenditures of $4,021 million in the similar period in 2006. Of the increase, $140 million was attributable to the growth initiatives at Domestic Wireless. In 2007, Verizon management expects capital expenditures to be in the range of $17.5 billion to $17.9 billion. In addition to capital expenditures, Verizon Wireless continues to participate in the Federal Communications Commission s (FCC) wireless spectrum auctions and continues to evaluate spectrum acquisitions in support of expanding data applications and its growing customer base.

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Cash Flow Generation and Shareowner Value Creation The financial statements reflect the emphasis of management on not only directing resources to growth markets, but also creating value for shareowners through the use of cash provided by our operating and investing activities for the repayment of debt, share repurchases and providing a stable dividend to our shareowners, in addition to returning value to shareowners through spin-off and other strategic transactions. Verizon s total debt decreased by $1,684 million to $34,677 million as of March 31, 2007 from December 31, 2006, primarily as a result of debt repayments from the utilization of proceeds generated through strategic asset dispositions during 2006 and the first quarter of 2007. Verizon s ratio of debt to debt combined with shareowners equity was 41.5% as of March 31, 2007 compared with 42.8% as of December 31, 2006. During the first quarter of 2007, we repurchased $427 million of our common stock as part of our previously announced program, and we plan to continue our share buyback program at similar levels to 2006 during 2007. Verizon s balance of cash and cash equivalents at March 31, 2007 of $1,301 million decreased by $1,918 million from $3,219 million at December 31, 2006.

Supporting these key focus areas are continuing initiatives to enhance the value of our products and services through well-managed deployment of proven advanced technology and through competitive products and services packaging. At Wireline, as of March 31, 2007, we passed 6.8 million premises with our high-capacity fiber network. We added 177,000 new FiOS data connections in the first quarter of 2007. In 2005, we began offering video on the FiOS network in three markets. By the end of the first quarter of 2007, Verizon had obtained over 760 video franchises covering 10.1 million households with service available for sale to 3.1 million premises. We had 348,000 FiOS TV customers by the end of the first quarter of 2007. We are also developing and marketing innovative product bundles to include local wireline, long distance, wireless and broadband services for consumer and general business retail customers. These efforts will also help counter the effects of competition and technology substitution that have resulted in access line losses, and will enable us to grow revenues by becoming a leading video provider.

Also at Wireline, we will continue to focus investments in strategic areas by rolling-out next generation global IP networks to meet the ongoing global enterprise market shift to IP-based products and services. Deployment of new strategic service offerings, including expansion of our voice over IP (VoIP) and international Ethernet capabilities, introduction of cutting edge video and web-based conferencing capabilities and enhancements to our virtual private network portfolio, will allow us to continue to gain share in the enterprise market. Additionally, we will continue to integrate the business of the former MCI to drive continued growth in synergy, supporting a focus on operational efficiency and continued creation of shareowner value.

At Verizon Wireless, we will continue to execute on the fundamentals of our network superiority and value proposition to deliver growth for the business and provide new and innovative products and services for our customers such as Broadband Access, our EV-DO service. To accomplish our goal of being the acknowledged market leader in providing wireless voice and data communication services in the U.S., we will continue to implement the following key elements of our business strategy: provide the highest network reliability through our code division multiple access (CDMA) 1XRTT technology and EV-DO (Revision A) infrastructure, which significantly increases data transmission rates; profitably acquire, satisfy and retain our customers; and increase the value of our service offerings to customers while achieving revenue and net income growth. We also continue to expand our wireless data, messaging and multi-media offerings for both consumer and business customers and take advantage of the growing demand for wireless data services and focus on operating margins and capital efficiency by driving down costs and leveraging our scale.

In January 2007, Verizon announced a definitive agreement with FairPoint Communications, Inc. (FairPoint) that will result in Verizon establishing a separate entity for its local exchange access lines and related business assets in Maine, New Hampshire and Vermont, spinning off that new entity to Verizon s shareowners, and immediately merging it with and into FairPoint. The total value to be received by Verizon and its shareowners in exchange for these operations will be approximately $2,715 million. We expect this transaction to close within one year of the date of announcement.

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Consolidated Results of Operations

We have two reportable segments, which we operate and manage as strategic business units and organize by products and services. Our segments are Wireline and Domestic Wireless. Prior period amounts and discussions are revised to reflect this change. We include in our results of operations the results of the former MCI business subsequent to the close of the merger on January 6, 2006.

This section on consolidated results of operations carries forward the segment results, which exclude the special and non-recurring items, and highlights and describes those items separately to ensure consistency of presentation in this section and the Segment Results of Operations section. In the following section, we review the performance of our two reportable segments. We exclude the effects of the special and non-recurring items from the segments results of operations since management does not consider them in assessing segment performance, due primarily to their non-recurring and/or non-operational nature. We believe that this presentation will assist readers in better understanding our results of operations and trends from period to period.

Consolidated Revenues

	Three Months Ended March 31,		
(Dollars in Millions)	2007	2006	% Change
Wireline			
Verizon Telecom	$ 7,984	$ 8,265	(3.4)
Verizon Business	5,219	4,924	6.0
Intrasegment eliminations	(727)	(724)	0.4
	12,476	12,465	0.1
Domestic Wireless	10,307	8,813	17.0
Corporate & Other	(199)	(47)	nm
Consolidated Revenues	$ 22,584	$ 21,231	6.4

nm Not meaningful

Consolidated revenues in the first quarter of 2007 were higher by $1,353 million, or 6.4% compared to the similar period in 2006. This increase was primarily the result of continued strong growth at Domestic Wireless.

Wireline s revenues during the first quarter of 2007 increased by $11 million, or 0.1% compared to last year, partly due to a full quarter of results for the former MCI operations and growth from broadband and long distance services. We added 416,000 new broadband connections, including 177,000 for FiOS, in the first quarter of 2007, for a total of 7,398,000 lines at March 31, 2007, representing a 30.1% increase from March 31, 2006. In addition, we added 141,000 FiOS TV customers in the first quarter of 2007, for a total of 348,000 at March 31, 2007. These increases were partially offset by a decline in voice revenues at Verizon Telecom due to subscriber losses resulting from technology substitution, including wireless and VoIP. Revenues at Verizon Business increased primarily due to the acquisition of MCI and the higher demand for Internet related product offerings.

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Domestic Wireless s revenues increased by $1,494 million, or 17.0% compared to the similar period in 2006 due to increases in service revenues, including data revenues, and equipment and other revenues. Data revenues increased by $697 million or 80% compared to the similar period last year. Domestic Wireless customers at March 31, 2007 were approximately 61 million, an increase of 14.5% over last year. Domestic Wireless s retail customer base as of March 31, 2007 was approximately 58 million, a 15.4% increase from March 31, 2006, and comprised approximately 96.3% of our total customer base. Average service revenue per customer (ARPU) increased by 2.9% to $50.06 in the first quarter of 2007 compared to 2006, primarily attributable to increases in data revenue per customer driven by increased use of our messaging and other data services. Retail ARPU increased by 2.8% to $50.73 for the first quarter of 2007 compared to 2006. Increases in wireless devices sold and revenue per unit sold drove increases in equipment and other revenue during the first quarter of 2007 compared to 2006.

Consolidated Operating Expenses

(Dollars in Millions)	Three Months Ended March 31, 2007	2006	% Change
Cost of services and sales	$ 8,912	$ 8,516	4.7
Selling, general and administrative expense	6,343	5,873	8.0
Depreciation and amortization expense	3,533	3,667	(3.7)
Consolidated Operating Expenses	$ 18,788	$ 18,056	4.1

Cost of Services and Sales

Consolidated cost of services and sales in first quarter 2007 increased $396 million, or 4.7% compared to the similar period in 2006 primarily as a result of higher wireless network costs and increases in wireless equipment costs, partially offset by decreases in pension and other postretirement benefit costs and the impact of productivity improvement initiatives.

The higher wireless network costs were caused by increased network usage relating to both voice and data services in the first quarter of 2007 compared to the similar period in 2006, partially offset by decreased local interconnection, long distance and roaming rates. Cost of wireless equipment sales increased in the first quarter of 2007 compared to the similar period in 2006 primarily as a result of an increase in wireless devices sold due to an increase in gross retail activations and equipment upgrades in the first quarter of 2007 compared to the similar period in 2006. Costs in this period were also impacted by decreased net pension and other postretirement benefit costs. As of December 31, 2006, we evaluated key employee benefit plan assumptions in response to current conditions in the securities markets. The overall impact of the 2007 assumptions, combined with the impact of the management pension freeze, effective June 30, 2006, resulted in pension and other postretirement benefit expense of $323 million (primarily in cost of services and sales) in the first quarter of 2007 compared to $370 million in the first quarter of 2006.

Selling, General and Administrative Expense

Consolidated selling, general and administrative expense in first quarter 2007 increased by $470 million, or 8% compared to the similar period in 2006. This increase was primarily attributable to higher salary and benefits expense, primarily driven by an increase in costs related to the employees long-term incentive program and an increase in employees at Domestic Wireless, as well as higher sales commission expense as a result of a strong increase in customer additions, renewals and upgrades. Partially offsetting the increase were lower bad debt expenses and other cost reduction initiatives across all segments.

Special and non-recurring items in the first quarter of 2007 included $14 million of merger integration costs, primarily comprised of Wireline systems integration activities and a $100 million contribution to Verizon Foundation, as a result of the sale of TELPRI, to fund its charitable activities and increase its self-sufficiency.

Special and non-recurring items in the first quarter of 2006 included $55 million of continued merger integration costs and other costs related to re-branding initiatives and $46 million related to Verizon Center relocation costs.

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Depreciation and Amortization Expense

Depreciation and amortization expense decreased by $134 million, or 3.7% in the first quarter of 2007 compared to the similar period last year. This decrease was primarily due to lower rates of depreciation as a result of changes in the estimated useful lives of certain asset classes and fully amortized customer lists, partially offset by growth in depreciable telephone plant and increased capital expenditures.

Other Consolidated Results

Other Income and (Expense), Net

(Dollars in Millions)	Three Months Ended March 31, 2007	2006	% Change
Interest income	$ 44	$ 55	(20.0)
Foreign exchange gains, net	8	10	(20.0)
Other, net	(4)	38	nm
Total	$ 48	$ 103	(53.4)

nm Not meaningful

Other Income and (Expense), Net for the first quarter of 2007 decreased $55 million, or 53.4% compared to the similar period last year. The decline was primarily due to decreased interest income as a result of lower average cash balances.

Interest Expense

(Dollars in Millions)	Three Months Ended March 31, 2007	2006	% Change
Interest expense	$ 485	$ 636	(23.7)
Capitalized interest costs	109	108	0.9
Total interest costs on debt balances	$ 594	$ 744	(20.2)
Weighted-average debt outstanding	$ 35,216	$ 42,839	
Effective interest rate	6.7%	7.0%	

During the first quarter of 2007, total interest costs decreased $150 million, compared to the similar period in 2006, primarily due to a decrease in the weighted-average debt level and lower interest rates compared to last year. The weighted-average debt level decreased primarily as a result of the approximately $7.1 billion reduction from the spin-off of Idearc as well as from the proceeds from the sale of Verizon Dominicana in the fourth quarter of 2006.

Minority Interest

(Dollars in Millions)	Three Months Ended March 31, 2007	2006	% Change
Minority interest	$ 1,154	$ 866	33.3

The increase in minority interest expense in the first quarter of 2007 compared to similar periods in 2006 was primarily due to the higher earnings at Domestic Wireless, which has a significant minority interest attributable to Vodafone Group Plc (Vodafone).

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Provision for Income Taxes

(Dollars in Millions)	Three Months Ended March 31, 2007	2006	% Change
Provision for income taxes	$ 881	$ 651	35.3
Effective income tax rate	37.3%	33.7%	

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 tax rate for the first quarter of 2007 compared to the similar period of 2006 was higher due to the larger favorable tax reserve adjustments and income tax credits recorded in 2006. In addition, the 2007 effective tax rate was higher compared to 2006 as a result of a larger impact in 2007 of the Wireless minority interest as well as lower tax benefits from foreign operations in 2007 compared to 2006.

Discontinued Operations

On March 27, 2007, the Federal Communications Commission approved the sale of Telecomunicaciones de Puerto Rico, Inc. (TELPRI) to América Móvil, S.A.B. de C.V. (América Móvil). On March 30, 2007, we completed the previously announced sale of our interest in TELPRI to a subsidiary of América Móvil and recorded a pretax gain of $120 million ($70 million after-tax, or $.02 per diluted share). América Móvil purchased 100% of TELPRI, the holding company of Puerto Rico Telephone Company, including Verizon s 52% interest. Accordingly, discontinued operations in the consolidated statements of income for the three months ended March 31, 2007 includes the results of operations of TELPRI through the completion of the sale.

Discontinued operations for the three months ended March 31, 2006 includes our former U.S. print and Internet yellow pages directories business and Verizon Dominicana in the condensed consolidated statements of income, both of which were disposed of during the fourth quarter of 2006.

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. The MOU provides that the Republic will 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 at a price equivalent to $17.85 per American Depository Share (ADS), subject to adjustment if CANTV declared and paid a dividend prior to the purchase of the equity securities in the tender offers. A dividend of 6,454.49 Bolivars per ADS (equivalent to $3.00 at the current official exchange rate) with an April 18, 2007 payment date was recommended by the CANTV Board and then approved by shareholders on March 30, 2007. The Republic launched the public tender offers on April 9, 2007 at a price equivalent to $14.85 per ADS. Unless extended, the offers will expire on May 8, 2007. The price is subject to further adjustment for any additional dividends declared and paid before the date the equity securities are accepted for payment, and in the event of a change in the official exchange rate, for changes to the equivalent dollar value of the April 18 dividend. The tender offers are subject to certain conditions including that a majority of the outstanding shares are tendered to the Republic. Based upon the terms of the MOU and our current investment balance in CANTV, we recorded an extraordinary loss on our investment of $131 million, net of tax, or $.05 per diluted share, in the first quarter of 2007. If the tender offers are completed, Verizon expects to receive an aggregate amount of $572 million through a combination of purchase price and the 2007 dividend.

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 Verizon Wireless, for which we recorded a $42 million 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.

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Segment Results of Operations

We have two reportable segments, which we operate and manage as strategic business units and organize by products and services. Our segments are Wireline and Domestic Wireless. You can find additional information about our segments in Note 12 to the consolidated financial statements.

We measure and evaluate our reportable segments based on segment income. 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, primarily Vodafone Omnitel N.V. (Vodafone Omnitel), lease financing, and asset impairments and expenses that are not allocated in assessing segment performance due to their non-recurring nature. These adjustments include transactions that the chief operating decision makers exclude in assessing business unit performance due primarily to their non-recurring and/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 unit performance.

Wireline

The Wireline segment consists of the operations of Verizon Telecom, a provider of communications services, including voice, broadband video and data, network access, long distance, and other services to consumer and small business customers and carriers, and Verizon Business, a provider of next-generation IP network services globally to medium and large businesses and government customers. Operating results shown for 2006 exclude the results of the former MCI prior to the date of the merger (January 6, 2006).

Operating Revenues

(Dollars in Millions)	Three Months Ended March 31, 2007	2006	% Change
Verizon Telecom			
Mass Markets	$ 5,506	$ 5,584	(1.4)
Wholesale	1,997	2,064	(3.2)
Other	481	617	(22.0)
Verizon Business			
Enterprise Business	3,571	3,383	5.6
Wholesale	850	804	5.7
International and			