

AGENDA ITEM 25

Discuss and take appropriate action on proposals received for installation of fiber optic cabling and equipment.

Proposals were received from the following:

Avnet Enterprise Solutions, Austin, Texas
Capco Communications, Inc., Austin, Texas
Carroll Systems, Austin, Texas
Central Texas Cabling, Inc., Austin, Texas
Complete Communication Services, Inc., d/b/a Co Com Cabling Systems, Pflugerville, Texas
KST Electric, Manor, Texas
O'Neal & Associates, Lubbock, Texas
GTE Southwest Incorporated d/b/a Verizon, Irving, Texas
NetVersant, Pflugerville, Texas
Orius Corp., Austin, Texas
PRO INFO, Austin, Texas
Titan Solutions, Austin, Texas

Moved: **Judge Doerfler**

Seconded: **Commissioner Limmer**

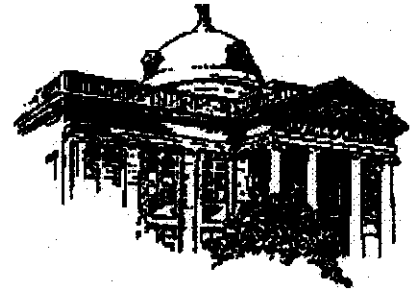
Motion: To approve 48-strand fiber optic cabling and to award proposal for installation of fiber optic cabling and equipment to Verizon.

Vote: **4 – 0. Commissioner Boatright was absent from the dais.**

< Attachment >



Information Technology Services



June 4, 2002

To: Judge John Doerfler
Commissioner Mike Heiligenstein
Commissioner Greg Boatright
Commissioner David Hays
Commissioner Frankie Limmer

From: Jay Schade, Information Technology Services

Subject: Fiber Optic Cable Connecting County Facilities

SUMMARY

After reviewing the proposals for running fiber between the county facilities in Georgetown, I recommend the Commissioners Court award the project to Verizon.

The total amount for the project, running 48-strands of fiber rather than 24-strands is \$289,214.

Should you decide to run only 24-strands of fiber, the cost is \$248,259.

This cost includes hanging the fiber, pole make-ready costs, burying 2.2 miles of fiber and connecting into each of the buildings (ie. EMS, Justice Center, Courthouse, Juvenile Center, and URS).

Equipment to be placed in each building to connect to the network will cost an additional \$35,529.

TOTAL COST OF PROJECT: \$324,743 (48-strand) or \$283,788 (24-strand).

(See discussion on following page)

DISCUSSION

We received 12 proposals for this project. The initial costs ranged from \$89,711.09 to \$488,600, with the average cost being \$217,544.98. After reviewing all of the proposals, we narrowed the field to three: Verizon, Carroll Systems, and Co-Com Cabling. After discussing the proposals with these three vendors, it became clear that there were two primary issues that separated the three vendors. These issues were the route along which the fiber would be run, and along how much of that route the fiber would be buried or hung aerially.

The Route

Carroll Systems and Co-Com Cabling proposed routes that were entirely aerially run on poles, which in and of itself is not a bad practice. The concern is that, in order to run the entire route along existing poles, a significant portion of the route must be “back-tracked” (the fiber would be run to a building and also from that same building along the same poles). This makes that portion of the route more vulnerable and the building involved susceptible to being severed from the rest of the network. It jeopardizes our disaster recovery strategy.

Verizon’s route is a much more preferred route for a variety of reasons. First of all, when the county builds future facilities on the Inner Loop, the fiber will be in place to connect them to the ring. Secondly, the route runs right next to the House of Hatton so the fiber will be accessible when we are ready to connect it as well. Thirdly, with the wireless technology the county already has in place (from the courthouse to URS), Verizon’s solution forms a true ring which facilitates our disaster recovery strategy.

Buried vs. Aerial

Another advantage Verizon’s proposal has over the other proposals is the fact that 2.2 miles of the route (the portion running along the Inner Loop) is buried. Having cable buried reduces the risk of it being severed due to an automobile or similar accident, or by a natural disaster, which seems to be the primary cause of cable damage.

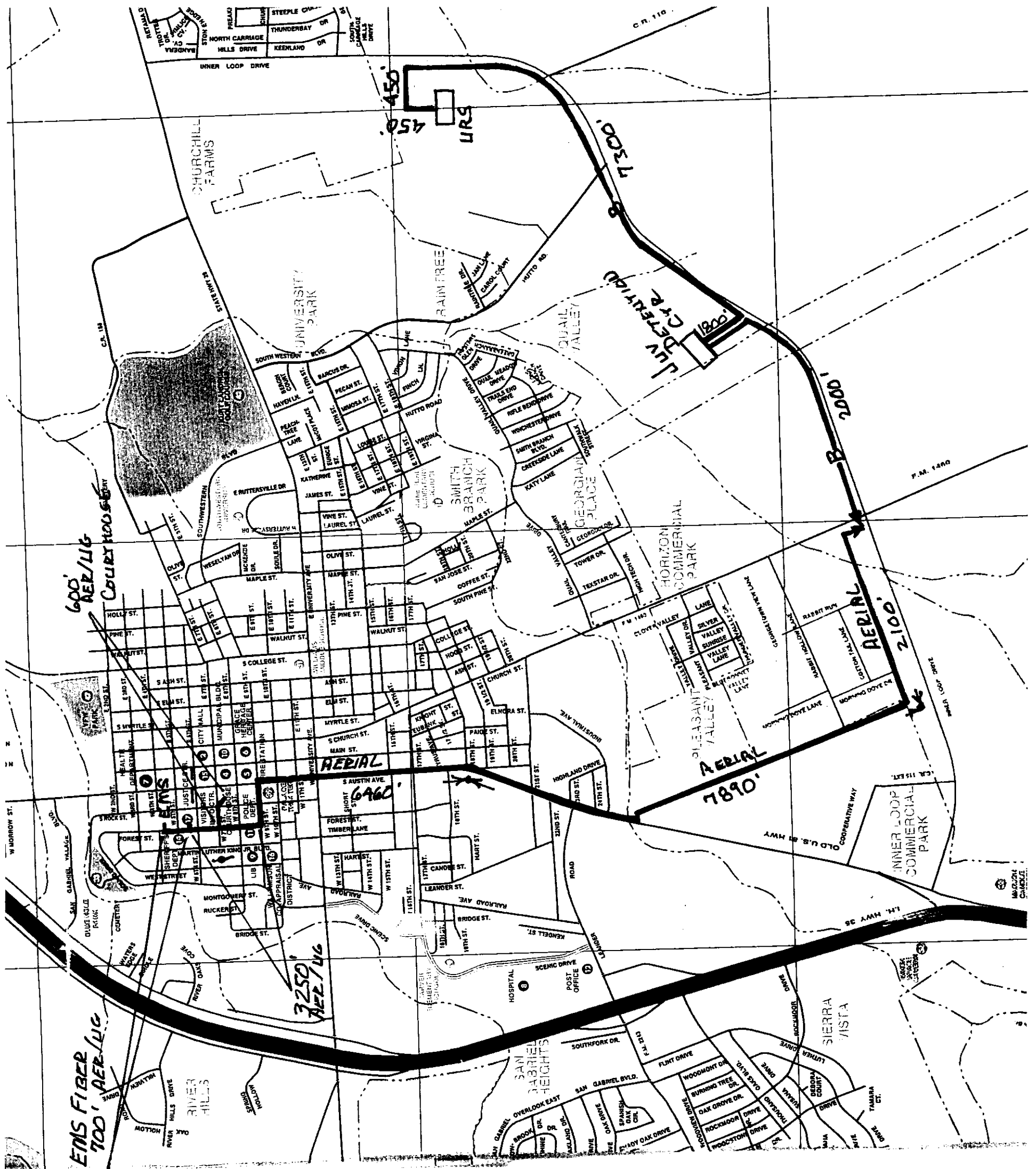
Cost

Verizon’s cost after negotiation was \$221,723. My major concern was the “unknown” costs such as pole-make-ready (estimated to be approximately 50 poles at between \$1500-\$2000/pole. Verizon has absorbed the costs of the pole make-ready, as well as any costs associated with crossing the railroad tracks. To the best of our research, all costs are now incorporated in Verizon’s proposal. To address Judge Doerfler’s desire to have ample bandwidth in case we have non-County enterprises wanting to lease fiber in the future, we also asked them to give us the cost to double the number of strands from 24 to 48. To double the number of fibers (\$40,955) and absorb the pole make-ready costs (\$26,736), the total cost of their proposal comes to \$289,214. With the necessary hardware to connect the fiber to our network (\$35,529), the total project cost comes to \$324,743.

To accomplish even minimal connectivity using T1s to these same locations would cost approximately \$26,000/year. As we look into other options such as Voice-Over-IP, as well as leasing a fiber from the phone company to our fiber rather than having individual T1s from the phone company to each of the county facilities, we can save another \$30,000 to \$75,000 per year. This project will easily pay for itself in five to seven years.

RECORDERS MEMORANDUM

All or parts of the text on this page was not clearly legible for satisfactory recordation.





Verizon Southwest
919 Congress Ave
Austin Tx 78701

April 22, 2002

Ms. Ginny Atkinson
Assistant Purchasing Director
Williamson County
710 Main Street Suite 303
Georgetown TX, 78626

Dear Ms. Atkinson.

Verizon is pleased to respond to Williamson County's request for proposal for Fiber Optic Cabling, RFP number 02WC805.

Verizon has taken into consideration that we will be networking the existing four locations, via fiber, at the Justice Center, Court House, URS Building, EMS and then onto the brand new Detention Center. Verizon is very familiar with the telecommunication workings and needs of Williamson County and therefore the most qualified vendor to implement a solution of this scope. Verizon has over 80 years of experience in the communications business and has excelled as a respected leader in the industry. We provide not only experience, stability, and strength, but also an unrivaled level of customer service that Williamson County should expect from their vendor of choice.

We welcome the opportunity to continue as your partner and you have my personal commitment that Verizon will excel in meeting your telecommunication needs. Should you have questions regarding this proposal, please contact me at (512) 249-6585. Thank you for allowing Verizon the continued opportunity to serve you.

Sincerely,

A handwritten signature in cursive script that reads "Colleen R Parker".

Colleen R Parker
Senior Account Manager
Verizon Enterprise Solutions Group
512 249 6585

**PROPOSAL
FOR SERVICES TO:**

Williamson County

For:

**Proposal # 02WC805
Installation of Fiber Optic Cabling and
Equipment**

By:



**GTE Southwest
D.B.A Verizon Southwest
500 East Carpenter Fwy
Irving TX 75062**

April 24, 2002

This proposal shall not be disclosed outside of the organization receiving this proposal and shall not be duplicated, used, or disclosed in whole or in part for any purpose other than its evaluation provided that if a contract is awarded to this offer or as a result of or in connection with the submission of this proposal, the organization receiving this proposal shall have the right to duplicate, use, or disclose it to the extent provided in the contract. This restriction does not limit the rights of the organization receiving this proposal to use information contained in the proposal if it is obtained from another source without restriction.



Table of Contents

Tab 1 Proposal Form

Tab 2 Proposal Specifications

Tab 3 Pricing

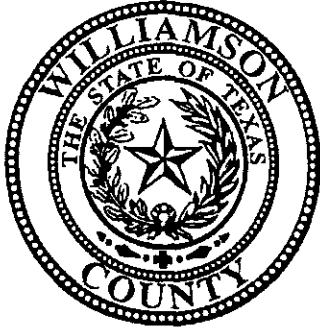
Tab 4 Attachment A

Tab 5 References and Resumes

Tab 6 Timeline

Tab 7 Verizon Annual Report

Tab 8 Verizon Contracts



**WILLIAMSON COUNTY AUDITOR'S OFFICE
PURCHASING DEPARTMENT
710 MAIN STREET - SUITE 303
GEORGETOWN, TEXAS 78626**

<http://www.williamson-county.org/Procurement>

WILLIAMSON COUNTY PURCHASING DEPARTMENT

FORMAL REQUEST FOR PROPOSALS

INSTALLATION OF FIBER OPTIC CABELING AND EQUIPMENT

PROPOSAL NUMBER: 02WC805

PROPOSAL OPENING DATE & TIME: APRIL 24, 2002 - 2:00 PM

PURCHASING CONTACT	TECHNICAL CONTACT
Ginny Atkinson Assistant Purchasing Director 710 Main Street – Suite 303 Georgetown, TX 78626 (512) 943-1554 gatkinson@williamson-county.org	Bill Bingham Telecommunications Manager 405 MLK – Suite 308 – Box 17 Georgetown, TX 78626 (512) 943-1463 bbingham@wilco.org

**FOR DETAILED SPECIFICATIONS AND QUESTIONS RELATING TO THE PROPOSAL PROCESS,
CONTACT GINNY ATKINSON.**

FOR TECHNICAL QUESTIONS CONTACT BILL BINGHAM.

Contents

Proposal Instructions/Requirements	Page 1 to 8
Public Notice	Page 9
Proposal Check List	Page 10
Official Proposal Form	Page 11
Proposal Specification(s)/Proposal Sheet(s)	Attached Pages 1 to 5

WILLIAMSON COUNTY PURCHASING DEPARTMENT

PROPOSAL INSTRUCTIONS/REQUIREMENTS

Proposals must be received in the Williamson County Auditor's Office **prior to 2:00 PM on Wednesday, April 24, 2002**. At which time the Proposals will be opened in the Williamson County Auditor's Office on the 3rd floor of the County Courthouse. Proposals received after that time will not be opened and will be considered **void and unacceptable**. As to each item, the Court may either reject all Proposals or award a contract to the lowest and best Proposal.

SEALED PROPOSALS may be hand-delivered to:
Williamson County Auditor's Office
Attn: Ginny Atkinson - Purchasing
Third (3rd) floor - Suite 303
Williamson County Courthouse (on the square)
710 Main Street, Georgetown, Texas
OR

SEALED PROPOSALS may be mailed to:
Williamson County Auditor's Office
Attn: Ginny Atkinson - Purchasing
710 Main Street - Suite 303
Georgetown, Texas 78626

ALL PROPOSALS MUST BE SUBMITTED ON THE FORMS PROVIDED IN THIS PROPOSAL DOCUMENT.

ALL INFORMATION REQUIRED BY THE PROPOSAL FORM MUST BE FURNISHED OR THE PROPOSAL MAY BE DEEMED NON RESPONSIVE. WHERE THERE IS AN ERROR IN THE EXTENSION OF PRICE, THE UNIT PRICE SHALL GOVERN.

ONE (1) ORIGINAL AND THREE (3) COPIES OF ALL PROPOSALS MUST BE SUBMITTED (THIS INCLUDES ALL DOCUMENTATION SUBMITTED WITH THE PROPOSAL). PROPOSALS MUST BE MARKED ORIGINAL OR COPY.

ALL PROPOSALS MUST BE RETURNED IN A SEALED ENVELOPE, MARKED WITH THE PROPOSAL NAME, PROPOSAL NUMBER, AND PROPOSAL OPENING DATE & TIME. IF AN OVERNIGHT DELIVERY SERVICE IS GOING TO DELIVER THE PROPOSAL THE PROPOSAL NAME, PROPOSAL NUMBER, AND PROPOSAL OPENING DATE & TIME MUST ALSO APPEAR ON THE OUTSIDE OF THE DELIVERY SERVICE ENVELOPE.

FACSIMILE AND ELECTRONIC MAIL TRANSMITTALS SHALL NOT BE ACCEPTED.

1. It is understood that the Commissioners Court of Williamson County, Texas, reserves the right to accept or reject any and/or all Proposals for any or all materials and/or services covered in this Proposal request, and to waive informalities or defects in the Proposal or to accept such Proposal it shall deem to be in the best interest of Williamson County.

Awards should be made within sixty (60) days after the Proposal opening date. To obtain results, or if you have any questions, please contact Ginny Atkinson at (512) 943-1544.

3. Funding: Funds for payment have been provided through the Williamson County budget approved by Commissioners Court for the October 1, 2001/September 30, 2002 fiscal year.
 4. Late Proposal: Proposals received after submission deadline shall be unopened and will be considered VOID AND UNACCEPTABLE. Williamson County is not responsible for lateness of mail, delivery carriers, etc.
 5. Altering Proposal: Proposals **cannot be altered or amended** after submission deadline.
 6. Sales Tax: Williamson County is by statute, exempt from the State Sales Tax and Federal Excise Tax.
 7. Contract: This Proposal, when properly accepted by Williamson County, shall constitute a contract equally binding between the successful proposer and Williamson County.
 8. Changes: No oral statement of any person shall modify or otherwise change, or affect the terms, conditions, plans and/or specifications stated in the Proposal Package and or Proposal Instructions/Requirements.
 9. Delivery Times and Locations: The commodity and/or service covered by this Proposal shall be as stated in the Proposal Package.
 10. Payments: Payment shall be made by check from the County upon satisfactory completion and acceptance of items and submission of the Invoice to the ordering department for work specified by this Contract Document. As a minimum, invoices shall include:
 - (1) Name, address, and telephone number of Contractor and similar information in the event the payment is to be made to a different address
 - (2) County contract, Purchase Order, and/or delivery order number
 - (3) Identification of items or service as outlined in the contract
 - (4) Quantity or quantities, applicable unit prices, total prices, and total amount
 - (5) Any additional payment information which may be called for by the contract
- Payment inquiries should be directed to the Auditor's Office, Accounts Payable Department: Donna McKittrick, 943-1558 or Kathy Blankenship, 943-1557.
11. Conflict of Interest: No public official shall have interest in a contract, in accordance with Vernon's Texas Codes Annotated, Local Government Code Title 5, Subtitle C, Chapter 171.
 12. Ethics: The proposer shall not accept or offer gifts or anything of value nor enter into any business arrangement with any employee, official or agent of Williamson County.
 13. Minimum Standards for Responsible Proposers: A prospective proposer must affirmatively demonstrate proposers responsibility. A prospective proposer must meet the following requirements:
 - a. have adequate financial resources, or the ability to obtain such resources as required;
 - b. be able to comply with the required or proposed delivery schedule;
 - c. have a satisfactory record of performance;
 - d. be otherwise qualified and eligible to receive an award.

Williamson County may request representation and other information sufficient to determine proposers ability to meet these minimum standards listed above.

14. References: Williamson County **REQUIRES** proposer to supply with this Proposal, a list of at least **three (3) references** where like services have been supplied by their firm. Include name of firm, address, telephone number and name of representative.
15. Proposer shall provide with this Proposal response, all documentation required by this Proposal. Failure to provide this information may result in rejection of the Proposal.
16. Termination for Default: Williamson County reserves the right to enforce the performance of this contract in any manner prescribed by law or deemed to be in the best interest of the County in the event of breach or default of this contract. Non-Performance of the proposer in terms of specifications shall be a basis for the termination of the contract by the County. The County shall not pay for commodities/services which are unsatisfactory. Contractors will be given a reasonable opportunity before termination to correct the deficiencies. This, however, shall in no way be construed as negating the basis for termination for non-performance.
17. Contract Administration: Under this contract, Jay Schade, County Information Technologies Services Director, shall be the contract administrator with designated responsibility to ensure compliance with contract requirements, such as but not limited to, acceptance, inspection and delivery. The contract administrator will serve as liaison between Williamson County Commissioners Court and the successful proposer.
18. Purchase Order: Williamson County shall generate a purchase order(s) to the successful proposer as products and/or services are required. The purchase order number must appear on all itemized invoices and/or request for payment.
19. Silence of Specifications: The apparent silence of these specifications as to any detail or to the apparent omission from it of a detailed description concerning any point, shall be regarded as meaning that only the best practices are to prevail. All interpretations of these specifications shall be made on the basis of this statement.
20. PROPOSALS MUST BE: legible and of a quality that can be reproduced.
21. Proposal forms that are included in the Proposal package shall be used. **CHANGES to Proposal forms made by proposers shall DISQUALIFY THE PROPOSAL**. Exceptions to the Proposal forms and or specifications shall be made on an **attachment** to the Proposal package. **Call Ginny Atkinson (512) 943-1554 for explanation if exceptions are needed.**
22. The Texas Labor Code, S406.096, requires workers' compensation insurance coverage for all persons providing services on a building or construction project for a governmental entity. The rule requires a governmental entity to timely obtain certificates of coverage and retain them for the duration of the project. The rule also sets out the language to be included in bid specifications and in contracts awarded by a governmental entity and the information required to be in the posted notice to employees. The rule is adopted under the Texas Labor Code, S402.061. The information provided below is a result of this rule. By submitting your bid to the county, you are acknowledging that this rule is a part of these bid specifications, and that you will observe and abide by all of the requirements outlined in the rule. You are further agreeing that should your bid or proposal be accepted by the Williamson County Commissioners' Court, the necessary certificates of coverage showing workers' compensation coverage, will be provided to the following name and address, prior to beginning work:

Ginny Atkinson
Williamson County Auditor's Office
Purchasing
710 Main Street - Suite 303
Georgetown, Tx. 78626

If you have any questions related to this ruling and/or requirement, you are encouraged to contact either the Williamson County Purchasing Department at (512) 943-1554, or you may call the Texas Workers' Compensation Commission at (512) 440-3789.

WORKERS' COMPENSATION INSURANCE COVERAGE.

- A. Definitions: Certificate of coverage ("certificate")-A copy of a certificate of insurance, a certificate of authority to self-insure issued by the commission, or a coverage agreement (TWCC-81, TWCC-82, TWCC-83, or TWCC-84), showing statutory workers' compensation insurance coverage for the person's or entity's employees providing services on a project, for the duration of the project.

Duration of the project - includes the time from the beginning of the work on the project until the contractor's/person's work on the project has been completed and accepted by the governmental entity.

Persons providing services on the project ("subcontractor" in S406.096) - includes all persons or entities performing all or part of the services the contractor has undertaken to perform on the project, regardless of whether that person contracted directly with the contractor and regardless of whether that person has employees. This includes, without limitation, independent contractors, subcontractors, leasing companies, motor carriers, owner-operators, employees of any such entity, or employees of any entity which furnishes persons to provide services on the project. "Services" include, without limitation, providing, hauling, or delivering equipment or materials, or providing labor, transportation, or other service related to a project. "Services" does not include activities unrelated to the project, such as food/beverage vendors, office supply deliveries, and delivery of portable toilets.

- B. The contractor shall provide coverage, based on proper reporting of classification codes and payroll amounts and filing of any coverage agreements, which meets the statutory requirements of Texas Labor Code, Section 401.011(44) for all employees of the contractor providing services on the project, for the duration of the project.
- C. The Contractor must provide a certificate of coverage to the governmental entity prior to being awarded the contract.
- D. If the coverage period shown on the contractor's current certificate of coverage ends during the duration of the project, the contractor must, prior to the end of the coverage period, file a new certificate of coverage with the governmental entity showing that coverage has been extended.
- E. The contractor shall obtain from each person providing services on a project, and provide to the governmental entity:
- (1) a certificate of coverage, prior to that person beginning work on the project, so the governmental entity will have on file certificates of coverage showing coverage for all persons providing services on the project;
 - (2) no later than seven (7) days after receipt by the contractor, a new certificate of coverage showing extension of coverage, if the coverage period shown on the current certificate of coverage ends during the duration of the project.
- F. The contractor shall retain all required certificates of coverage for the duration of the project and for one year thereafter.
- G. The contractor shall notify the governmental entity in writing by certified mail or personal delivery, within ten (10) days after the contractor knew or should have known, of any change that materially affects the provision of coverage of any person providing services on the project.

- H. The contractor shall post on each project site a notice, in the text, form and manner prescribed by the Texas Workers' Compensation Commission, informing all persons providing services on the project that they are required to be covered, and stating how a person may verify coverage and report lack of coverage.
- I. The contractor shall contractually require each person with whom it contracts to provide services on a project, to:
- (1) provide coverage, based on proper reporting of classification codes and payroll amounts and filing of any coverage agreements, which meets the statutory requirements of Texas Labor Code, Section 401.011(44) for all of its employees providing services on the project, for the duration of the project;
 - (2) provide to the contractor, prior to that person beginning work on the project, a certificate of coverage showing that coverage is being provided for all employees of the person providing services on the project, for the duration of the project;
 - (3) provide the contractor, prior to the end of the coverage period, a new certificate of coverage showing extension of coverage, if the coverage period shown on the current certificate of coverage ends during the duration of the project;
 - (4) obtain from each other person with whom it contracts, and provide to the contractor:
 - (a) a certificate of coverage, prior to the other person beginning work on the project; &
 - (b) a new certificate of coverage showing extension of coverage, prior to the end of the coverage period, if the coverage period shown on the current certificate of coverage ends during the duration of the project;
 - (5) retain all required certificates of coverage on file for the duration of the project and for one year thereafter;
 - (6) notify the governmental entity in writing by certified mail or personal delivery, within ten(10) days after the person knew or should have known, of any change that materially affects the provision of coverage of any person providing services on the project; and
 - (7) contractually require each person with whom it contracts, to perform as required by paragraphs (1) - (7), with the certificates of coverage to be provided to the person for whom they are providing services.
- J. By signing this contract or providing or causing to be provided a certificate of coverage, the contractor is representing to the governmental entity that all employees of the contractor who will provide services on the project will be covered by workers' compensation coverage for the duration of the project, that the coverage will be based on proper reporting of classification codes and payroll amounts, and that all coverage agreements will be filed with the appropriate insurance carrier or, in the case of a self-insured, with the commission's Division of Self-Insurance Regulation. Providing false or misleading information may subject the contractor to administrative penalties, criminal penalties, civil penalties, or other civil actions.
- K. The contractor's failure to comply with any of these provisions is a breach of contract by the contractor which entitles the governmental entity to declare the contract void if the contractor does not remedy the breach within ten (10) days after receipt of notice of breach from the governmental entity.

23. **PERFORMANCE AND PAYMENT BONDS:** Chapter 2253.021 of the Texas Government Code governs the requirements for performance and payment bonds for government entities making public work contracts. A performance bond is required if the contract is in excess of \$50,000 and is to be made for the full amount of the contract. A payment bond is required if the contract is in excess of \$25,000 and is to be made for the full amount of the contract. The bonds are to be executed within ten (10) days after receipt of written notification of award of contract prior to beginning work on the project and must be executed by a corporate surety or sureties in accordance with the Texas Insurance Code. In the event the bond exceeds \$100,000.00, the surety must also (1) hold a certificate of authority from the United States secretary of the treasury to qualify as a surety on obligations permitted or required under federal law; or (2) have obtained reinsurance for any liability in excess of \$100,000.00 from a reinsurer that is authorized and admitted as an insurer in this state and is the holder of a certificate of authority from the United States secretary of the treasury to qualify as a surety or reinsurer on obligations permitted or required under federal law.

In determining whether the surety or reinsurer holds a valid certificate of authority the County may rely on the list of companies holding certificates of authority as published in the Federal Register covering the date on which the bond is to be executed. If the public works contract is less than \$50,000 the performance bond will not be required as long as the contract provides that payment is not due until the work is completed and accepted by the county.

The purpose of a performance bond is for the protection of the government entity and is conditioned on the faithful performance of the work being done in accordance with the plans, specifications and contract documents. The payment bond is for the protection of persons supplying labor and materials to the contractor to ensure payment.

24. Prior to submitting any proposal, proposers are required to read the plans and specifications carefully; to inform themselves by their independent research, test and investigation of the difficulties to be encountered and judge for themselves of the accessibility of the work and all attending circumstances affecting the cost of doing the work and the time required for its completion and obtain all information required to make an intelligent proposal.
25. Should the proposer find discrepancies in, or omissions from the plans, specifications, or other documents, or should he/she be in doubt as to their meaning, he/she should notify at once Bill Bingham, County Telecommunications Manager, and obtain clarification or addendum prior to submitting any proposal.
26. In case of ambiguity or lack of clarity in the statement of prices in the proposals, the county reserves the right to consider the most favorable analysis thereof, or to reject the proposal. Unreasonable (or unbalanced) prices submitted in a proposal may result in rejection of such proposal or other proposals.
27. Award of the contract, if awarded, will be made within sixty (60) days after opening of the proposals and no bidder may withdraw his proposal within said sixty (60) day period of time unless a prior award is made.
28. Failure to execute the contract within ten (10) days of written notification of award or failure to furnish the performance bond, or letter of credit if applicable, and payment bond as required by item 23 above, shall be just cause for the annulment of the award.
29. The Contractor shall not commence work under this contract until he has furnished certification of all insurance required and such has been approved by Williamson County, nor shall the contractor allow any subcontractor to commence work on his subcontract until proof of all similar insurance that is required of the subcontractor has been furnished and approved.

30. Any quantities given in any portion of the contract documents, including the plans, are estimates only, and the actual amount of work required may differ somewhat from the estimates. The basis for the payment shall be the actual amount of work done and/or material furnished.
31. Proposals shall be submitted on a separated contract basis. No Texas sales tax shall be included in the prices proposed for materials consumed or incorporated into the finished product under this contract. This contract is issued by an organization which is qualified for exemption pursuant to the provisions of Section 151.309(5) of the Texas Tax Code. Williamson County will issue an exemption certificate to the Contractor. The Contractor must then issue a resale certificate to the material supplier for materials purchased. The Contractor must have a valid sales tax permit in order to issue a resale certificate.

In obtaining consumable materials, the Contractor will issue a resale certificate in lieu of payment of sales tax, and the following conditions shall be observed;

- 1) The contract will transfer title of consumable, but not incorporate, materials to Williamson County at the time and point of receipt by the Contractor;
- 2) The Contractor will be paid for these consumable materials by the County as soon as practicable. Payment will not be made directly but considered subsidiary to the pertinent proposed item. The Contractor's monthly estimate will state that the estimate includes consumables that were received during the month covered by the estimate; and
- 3) The designated representative of Williamson County must be notified as soon as possible of the receipt of these materials so that an inspection can be made by the representative. Where practical, the materials will be labeled as the property of the Williamson County.

2. **THE TEXAS HAZARD COMMUNICATION ACT**, Chapter 502 of the Health and Safety Code, Sec. 502.006, states that a chemical manufacturer or distributor shall provide appropriate Material Safety Data Sheets (MSDS) to employers who acquire hazardous chemicals in this state with each initial shipment and with the first shipment after a MSDS is updated. The MSDS must conform to the most current requirements of the OSHA standard in 29 CFR 1910.1200. By submitting your bid to the County you are acknowledging that this regulation is a part of this bid and that you will provide appropriate MSDS with each initial shipment and with the first shipment after a MSDS is updated.
33. **THE WILLIAMSON COUNTY HAZARD COMMUNICATION PROGRAM POLICY** Under Revised Texas Hazard Communication Act (THCA) of 1993 states that it is the responsibility of all contractor/sub-contractors who bring hazardous chemicals onto county property to provide appropriate MSDS to the county at the work site. When exposure to a hazardous chemical is expected each contractor/sub-contractor shall be responsible for the appropriate training of their employees. For a copy of the Williamson County Hazard Communication Program Policy contact the Williamson County Unified Road & Bridge System Safety/Training Coordinator at 512/930-3330. By submitting your bid to the County you are acknowledging that this policy is a part of this bid and that you will provide appropriate MSDS to the county work site and provide for appropriate training as applicable.

**PUBLIC NOTICE
WILLIAMSON COUNTY
REQUEST FOR PROPOSALS**

The Williamson County Commissioners Court invites the submission of sealed Proposals for:

INSTALLATION OF FIBER OPTIC CABELING AND EQUIPMENT

Sealed Proposals will be publicly opened in the County Auditor's Office, 3rd Floor, Williamson County Courthouse, Georgetown, Texas on Wednesday, April 24, 2002 at 2:00 PM.

Detailed specifications may be obtained by calling Ginny Atkinson at (512) 943-1554 or by visiting the Williamson County Procurement web site.

<http://www.williamson-county.org/Procurement>

Performance and Payment Bonds will be required as stated in the proposal documents.

REQUIRED WORKERS' COMPENSATION COVERAGE: "The law requires that each person working on this site or providing services related to this construction project must be covered by workers' compensation insurance. This includes persons providing hauling, or delivering equipment or materials, or providing labor or transportation or other service related to the project, regardless of the identity of their employer or status as an employee."

"Call the Texas Workers' Compensation Commission at (512) 440-3789 to receive information on the legal requirement for coverage, to verify whether your employer has provided the required coverage, or to report an employer's failure to provide coverage."

The Williamson County Commissioners Court reserves the right to accept the lowest and best proposal as deemed by the Court, or reject any and/or all proposals.

Issued by order of the Williamson County Commissioners Court on April 2, 2002.
John C. Doerfler, County Judge.

PROPOSAL CHECK LIST

Please check the following prior to sealing and submitting your proposal.

1. Official Williamson County Proposal Form Completed, signed, and enclosed?

YES X NO

2. All proposal specification sheets completed (including company name at bottom of each sheet) and attached?

YES X NO

3. Have you included and marked (original or copy) six (6) complete proposal sets as required?

YES X NO

4. Have you written the name of your business on the front of the sealed envelope?

YES X NO

5. Have you written the Proposal name, Proposal number, and Proposal opening date & time on the front of the sealed envelope?

YES X NO

6. Are you using an overnight delivery service to deliver your proposal? If you are have you written the Proposal name, Proposal number, and Proposal opening date & time on the outside of the delivery service envelope?

YES NO X

WILLIAMSON COUNTY PROPOSAL FORM
INSTALLATION OF FIBER OPTIC CABELING AND EQUIPMENT

PROPOSAL NUMBER: 02WC805

PROPOSAL OPENING DATE & TIME: APRIL 24, 2002 - 2:00 PM

The undersigned, by his/her signature, represents that he/she is authorized to bind the proposer to fully comply with the terms and conditions of the attached Request for Proposal, and Specifications for the amount(s) shown on the accompanying Proposal sheet(s). By signing below, you have read the entire document and agreed to the terms therein.


NAME OF PROPOSER: GTE Southwest Incorporated d/b/a Verizon

Mailing Address: 500 E. John Carpenter Freeway

City: Irving State: Texas Zip: 75062

Email Address: pamela.hughes@verizon.com

Telephone: (972) 719-3145 Fax: (972) 717-0284

 Mike M. Laughlin, Branch Sales and Marketing Mgr Date of Proposal: April 24, 2002
Signature of Person Authorized to Sign Proposal

Name and Title of Signer: Vice President – Branch Operations
(Please Print or Type)

PLEASE COMPLETE THE FOLLOWING:

☒ "all or none" basis. (Will accept award of "all" items only. If left blank, low item will apply.)

☐ low item basis. (Will accept award on "any or all" items.)

List Additional Limitations if applicable: _____

DO NOT SIGN OR SUBMIT THIS FORM
WITHOUT READING ENTIRE DOCUMENT

THIS FORM MUST BE COMPLETED, SIGNED AND RETURNED WITH BID

WILLIAMSON COUNTY
PROPOSAL SPECIFICATIONS/PROPOSAL SHEETS

INSTALLATION OF FIBER OPTIC CABELING & EQUIPMENT

PROPOSAL NUMBER: 02WC805

PROPOSAL OPENING DATE & TIME: APRIL 24, 2002 - 2:00 PM

1. **BACKGROUND:** The Williamson County Information Technologies Services Office, hereinafter referred to as "ITS", is seeking proposals from qualified vendors and suppliers for the installation of a Fiber Optic Cable to support new Voice and LAN communications services for Williamson County. The installation shall include, but is not limited to the installation of fiber optic cable, fiber patch panels, and free standing equipment racks.
2. **SCOPE OF WORK:** The vendor will be responsible for providing all labor and materials for the completion of the following –
 - 2.1. All necessary design and engineering.
 - 2.2. Installation, terminating and testing of 24-strand, single-mode fiber cable from the Justice Center in Georgetown, Texas to the County Court House, to the New Juvenile Detention Center, and then to the Unified Road & Bridge System (URS) Building.
 - 2.3. Installation, terminating and testing of 6-strand, single-mode fiber cable from the Justice Center in Georgetown, Texas to the Emergency Medical Services (EMS) Building.
 - 2.4. Installation of 19-inch equipment racks and 12-inch ladder rack in Main Distribution Frame (MDF) room and Intermediate Distribution Frame (IDF) rooms.
3. **DESIGN REVIEW:**
 - 3.1 Fiber cable runs shall be between the following locations in Georgetown, Texas:
 - 3.1.1 County Justice Center at 405 MLK Computer Room on the 3rd floor, Suite 308, and the County Court House at 710 Main Street Telephone Room in the basement.
 - 3.1.2 County Court House at 710 Main Street Telephone Room in the basement and the New Juvenile Detention Center at 1821 SE Inner Loop Road, Room 193.
 - 3.1.3 New Juvenile Detention Center at 1821 SE Inner Loop Road, Room 193, and the URS Building Computer Room at 3151 SE Inner Loop Road.
 - 3.1.4 County Justice Center at 405 MLK Computer Room on the 3rd floor, Suite 308, to the County EMS Building Computer Room at 307 MLK.

4. DOCUMENTATION REQUIREMENTS:

4.1. **Test Results** - The vendor shall provide all test results in hard copy (print out) as well as electronic format (Excel, Access, etc.). The test results shall include at a minimum the following: Building, Customer, Operator, Date and Time of test, Link Identification and test results.

4.2. **Other Documentation**

4.2.1. Materials Listing - Upon completion of system installation, vendor will provide Bill Bingham, County Telecommunications Manager with an itemized material listing (by description, brand, stock/part number and vendor source) of all cables, conduit, connectors, patch panels and equipment racks installed.

4.2.2. Vendor Qualifications - Vendor shall be required to submit all certifications, licenses, references, and other documentation in support of Section 9.

5. PERFORMANCE REQUIREMENTS:

5.1 **Other Standards** - The cabling system and labor shall be in compliance with all applicable ordinances, regulations or codes. See Section 8.

6. WARRANTY REQUIREMENTS:

6.1 **Vendor Warranty**

6.1.1. Workmanship - The County expects the successful vendor to implement standard quality control procedures as defined in this Request for Proposal (RFP) and as otherwise defined herein for installation of this fiber system. We further require the vendor to produce written criteria for quality control guidelines to be employed when such guidelines do not comply with this agreement. The successful vendor will be held responsible for the professional installation of all materials, including the neat and orderly routing.

6.1.2. Guarantee - The vendor shall provide the County with a lifetime guarantee on their workmanship.

6.1.3. Warranty Repairs - During the warranty period, twenty-five (25) years after date of acceptance, the successful vendor will repair or replace at no cost to Williamson County, all defective system components and/or correct deficiencies in workmanship within twenty-four (24) hours after receiving notification of such deficiency from the County.

7. OTHER REQUIREMENTS:

7.1 Materials Storage - Due to limited space availability the vendor will be responsible for providing adequate storage facilities for cabling tools, materials and test equipment.

- 7.2 Ceiling Grid, Ceiling Tile & Building Condition –The successful vendor shall be responsible for careful handling of ceiling tiles and existing cabling during the installation process. The successful vendor shall also be responsible for repairing or replacing any building component that the vendor, in the sole opinion of the County, has damaged. All such repairs or replacements shall return damaged components to "like new condition" without further cost to Williamson County. Any and all damage caused by the successful vendor (or designated subcontractor/representative) must be promptly repaired by the vendor.
- 7.3 Trash Removal - The successful vendor must provide his/her own clean up and trash removal services. The successful vendor will not be allowed to utilize the County's trash dumpster for clean up and trash removal services.
- 7.4 Variations in Installation and Design – The successful vendor shall be required to notify and obtain written approval from the County before deviating from any required installation design, materials, installation schedule, or installation implementation.
- 7.5 Security – Vendor employees who are assigned to work on-site at any Williamson County Facility will be required to undergo background checks and be assigned temporary Visitor badges prior to being granted access to any Williamson County Facility.

8. **APPLICABLE STANDARDS:**

- 8.1 All materials and workmanship shall be in accordance with the current applicable federal, state, and local regulations, ordinances, building codes and standards. These standards include, but are not limited to the following:

- 8.1.1 Electronic Industries Association/Telecommunications Industry Association (EIA/TIA) -568-A: Commercial Building Telecommunications Standard
- 8.1.2 EIA/TIA-569: Commercial Building Standard for Telecommunications Pathways and Spaces
- 8.1.3 EIA/TIA-606: Administration Standard for the Telecommunications Infrastructure for Commercial Buildings
- 8.1.4 EIA/TIA-607: Commercial Building Grounding and Bonding Requirements for Telecommunications.
- 8.1.5 12.6 National Fire Protection Association (NFPA)
- 8.1.6 American National Standards Institute (ANSI) /NFPA 70 Article 800-52 shall be applied for separation requirements from typical branch circuits (120/240V, 20A)
- 8.1.7 NFPA - National Electric Code (NEC)
- 8.1.8 Underwriters Laboratory (UL)
- 8.1.9 National Electrical Manufacturers Association (NEMA)
- 8.1.10 Bell Communications Research (Bellcore)
- 8.1.11 Federal Communications Commission (FCC), Title 47, Code of Federal Regulations, Part 68

9. VENDOR QUALIFICATIONS:

9.1 In order to qualify for installation of the communications system, the Vendor must possess and provide documentation of the following:

9.1.1. The vendor must have been in business and in the business of installing telecommunications systems, continuously, under the same company name, for a period of at least three (3) years, prior to the date of this proposal. Vendor must also provide a list of key installation personnel, their hire dates, and a resume of their experience. Key installation personnel shall include at least one (1) Foreman and one (1) Journeyman Level installer or technician. By submitting the names of these personnel, the Vendor is committing them to the execution of the project outlined in this specification.

9.1.2. The vendor must have successfully performed at least five (5) projects of similar scope that have been functional for at least one (1) year prior to the proposal opening date. Proof of performance shall be in the form of reference sheets which shall include a brief description of the project, starting and ending dates, the beginning and ending contract price, the project foreman or superintendent's name, and the name, address, and telephone number of a customer project contact.

9.1.3. The vendor must have a Registered Communications Distribution Design (RCDD) member on staff or on contract to provide approval on the final design, installation and documentation of this communications system. The vendor must submit certification of RCDD.

9.1.4. The vendor must have well documented in-house quality, safety and training programs.

9.1.5. The vendor must have uniformed employees with visible ID badges.

9.1.6. The vendor must be bonded.

10. INSTALLATION SCHEDULE:

10.1 Installation Schedule - Cabling must begin within seven (7) working days after performance and payment bonds have been accepted by the County and a Notice to Proceed has been issued. Prospective vendors, who are able to begin work in a shorter period of time, should so indicate accordingly. The vendor will have thirty (30) working days prior to the time cabling is required to begin to complete all ready work required for communications support services. Prospective vendors able to complete this project in a shorter period of time should so indicate and provide projected completion date.

10.2 Timeline Restrictions - The vendor must provide a timeline with his/her proposal. The contract award may be based in part upon the successful cable vendor's ability to deliver the cabling system in a timely manner, thirty (30) working days from when the order is placed.

10.3 Installation Time Frame - The successful vendor shall provide an installation schedule including proposed timelines for the completion of work outlined in Section 2 with an estimated "time-to-completion" (including finish out) stated in number of calendar days.

10.4 County Operations Schedule – Except as otherwise provided herein, all work shall be accomplished during the County business hours: Monday – Friday 7:45 AM through 4:45 PM, exclusive of holidays. By mutual agreement, successful vendor may complete specifically identified tasks outside of said hours with the written approval of Bill Bingham, County Telecommunications Manager.

10.5 Liquidated Damages – A fee of one hundred dollars (\$100.00) will be charged for each day beyond the specified number of days allowed for the completion of this project. A total of five (5) rain days will be allowed.

11. **ACCEPTANCE CRITERIA:** County Acceptance of the cable system shall be based on the results of the following:

11.1 Test Results - All cables shall be thoroughly tested.

11.2 Receipt of all documentation described in Section 4 above.

11.3 Receipt of all inspections, warranties, guarantees, registrations and/or assurances as required by this specification, applicable ordinances, regulations or codes or manufacturer, see Section 6.

11.4 A walk through shall be conducted between vendor and County personnel for inspection of all areas of installation. A punch list will be formulated by Bill Bingham, County Telecommunications Manager referencing all deficiencies. The vendor will be required to correct all deficiencies within five (5) working days in order to obtain acceptance.

11.5 Workmanship - The successful vendor must implement standard quality control procedures as defined in paragraph 9 of this performance specification and as otherwise defined herein for installation of this premise distribution system. We further require the vendor to produce written criteria for quality control guidelines to be employed when such guidelines do not comply with this agreement. The successful vendor will be held responsible for the professional installation of all materials, including the neat and orderly routing, machine-generated labeling.

12. **PAYMENT**

12.1 County Payment – Vendor may submit an invoice for payment to Bill Bingham, County Telecommunications Manager when all areas of the Acceptance Requirements (Section 11.0) have been fully met in accordance with this document.

12.2 Contract Modifications - Vendor must submit in writing to the County any proposed modifications with applicable pricing before a formal change in contract scope; terms or conditions will be authorized. The County will not reimburse the vendor for any additional work performed or materials supplied unless such additions have been specifically and formally authorized in writing by the County.

13. **EVALUATION CRITERIA**

Vendor Qualifications	25%
Vendor Experience	25%
Total Cost	25%
Project Timeline	25%



Pricing For Williamson County

Proposal # 02WC805

Material Termination Hardware

<u>Description</u>	<u>Manufacturer</u>	<u>Part #</u>	<u>Quantity</u>
19" Wall Mnt Rack	CPI	11632-718	1 ea
19" Free-Standing Rack	CPI	46353-703	4 ea
CCH Fiber Cabinet	Corning	CCH-02U	3 ea
12 fiber Pre-Loaded Pnls SC	Corning	CCH-CP12-59	12 ea
CCH Fiber Cabinet	Corning	CCH-01U	2 ea
6-fiber Preloaded Pnls SC	Corning	CCH-CP06-38	2 ea
Wall Mnt. Splice Cabinet	Corning	WSC-001	1 ea
Splice Trays	Corning	M67-048	3 ea
Splice Enclosure (underground)	Corning	SCF-6C22-01-72	1 ea
Cable Pathway Material			60 ea
24 Fiber Cable	Corning		36,000 ft.
6 Fiber All-Dielectric Cable	Corning		1,000 ft.

Material: \$ 70,032.00

Labor: \$144,587.00

Engineering: \$ 34,626.00

Bonds: \$ 1,938.00

TOTAL \$251,183.00



Attachment A Exceptions



Contractual Exceptions

After review of Bid # 02WC805, Verizon would like to note that there were no Terms and Conditions included with the RFP. Therefore, a copy of our contract is included as an exhibit under Tab 8 and this will form the basis for negotiations.

Verizon would also like to take exception to the following items within this bid.

Page 7, Item 28: Verizon requests to revise this clause to read as follows; "Failure to execute the contract within ten (10) days, or such other timeframe as mutually agreed to, of written notification...."

Page 8, Item 31.2: Verizon requests clarification of the implication of "Progress Payments"

Page 12, Item 6.1.2: Verizon must take exception to this clause. Please Refer to Engineering Notes and Conditions

Page 12, Item 6.1.3: Verizon must take exception to this clause. Please refer to Engineering Notes and Conditions

Page 12, Item 7.2: Verizon requests to revise this sentence to read as follows; "....replacing any building component that the vendor and the County agree was damaged by the vendor."

Page 15, Item 10.5: Due to the Exceptions to the outlined scope of work, we must take exception to this clause.



Exceptions to Outlined Scope of Work

Verizon has surveyed all of the sites identified in the Williamson County Proposal that require fiber optic cabling. Verizon understands the cabling requirements and has chosen both aerial and buried construction for the implementation. However, there are, at this time, certain costs which Verizon was unable to determine and which will be an additional cost factor to Williamson County. These costs are described in the following paragraphs.

Verizon has contacted the City of Georgetown Municipal Power to request pole contacts on behalf of Williamson County. Mark Miller and Michael Mayben, with the City of Georgetown, talked with Verizon on the possibility of Williamson County contacting the City poles and using the City right-of-ways. Mark and Mike looked at our proposed routes and made some suggestions on route changes. They also told us that the annual pole contact fee would be approximately \$7.50 per pole, and there will be approximately 100 poles that the fiber will attach. Also, the City will charge Williamson County a "make ready" charge of \$1,500.00 to \$2,000.00 per pole on approximately 50 poles. This make ready charge has not been included in Verizon's pricing. The make ready costs will be the responsibility of Williamson County. The City requested Verizon to submit a set of plans when we are ready to implement. The City at that time will approve or refuse the County's pole attachments. **The County will be responsible for these annual fees.** Verizon will prepare all permit submittals for the pole contacts. **The County will be responsible for any cost associated with these permit requests.**

As mentioned, most of the cabling inside of Georgetown will be aerial except where there will be underground "dips" into the building entrance conduit. Verizon is proposing approximately 2.2 miles of direct buried fiber cable on the Inner Loop Drive from F.M. 1460 to both the new Juvenile Detention Center and the URS Building. This buried construction, after conferring with the URS personnel, is on the County's property and would be their right of way.

Verizon has uncovered other concerns and possible additional costs where the cable will cross the Georgetown Railroad. Crossing the Railroad will require a permit, which Verizon will prepare, but we have not included the associated cost of this permit in the cable pricing. **Williamson County will be responsible for the costs of the Railroad permits.**

The Williamson County Courthouse will be difficult to access. The City of Georgetown has completed a beautification project of the Square. Verizon contacted Mark Miller and Michael Mayben with the City of Georgetown. They suggested, and told us that the City of Georgetown would approve open cutting the asphalt along 7th Street to Austin Ave where we could use the first two parking spots for a bore pit. The bore would be made from the Southwest corner of 7th Street, across Austin Ave, to the Northwest corner of the Courthouse Square. The cable would be buried from the end of the bore into the



Courthouse. The costs for open cutting and restoring has been included in Verizon's pricing.

The proposed pricing assumes the City of Georgetown, and the State of Texas provide access to all necessary right of ways and pole lines.



Engineering Notes and Conditions for Williamson County

All permit applications and fees are the responsibility of others.

The Installation Schedule (Outside Plant Portion) is controlled by the permitting agencies. Once the permits are approved we can order cable and start all prep work.

The construction days talked about in the Installation Schedule will not start until the cable has been pre-tested by Verizon and accepted by the customer.

Our prices are based on using existing conduit at all building entrances, place approximately 20,000 feet of aerial cable on existing poles, 9500 feet of buried cable, 800 feet of cut and restore asphalt.

Term of Warranty:

ISP Labor: 10 years

ISP Material: 5 years

OSP Labor and Material: Standard 1 year

1. Warranty

1.1. If within one (1) year from the date of installation or the date of substantial completion, whichever earlier, the cable fails due directly to a defect in workmanship, Verizon will, at its sole discretion, repair or replace the failed cable free of charge.

1.2. This warranty does not apply to:

- damage caused by accident, abuse, mishandling, or vandalism;
- cables that have been subject to repair by third parties;
- damage due to failure of electrical power, sprinkler or humidity control; and
- damage due to fire, water damage or Acts of God.

Under no circumstances shall Verizon be liable to purchaser or any other person for any indirect, special or consequential damages, including loss of use or loss of profits, whether arising out of breach of warranty, breach of contract or otherwise, nor shall it be liable for damages exceeding the amount charged by Verizon for the original cable installation.

1.3 Under no circumstances shall Verizon be liable to purchaser or any other person for any indirect or direct damages to installed components, including loss of use or loss of profits, whether arising out of breach of warranty, breach of contract or otherwise, nor shall it be liable for damages exceeding the amount charged by Verizon for the component.



1.4 Statements made relating to the cable or its installation, made prior to execution of this agreement, are not warranties. It is understood that such statements were not intended to, and did not, form a part of the agreement; they were merely made in the course of negotiations of the parties.

1.5 The warranty period for each site begins upon approval of the deliverable documentation.



REFERENCES & QUALIFICATIONS

Provided are three project references of substantial scope and size.

PREMISE/ CAMPUS WIRING SYSTEM REFERENCES:

<u>Reference Name</u>	Henderson County Courthouse
<u>Address</u>	100 East Tyler Athens, Tx. 75751
<u>Phone Number</u>	903-675-6172
<u>Contact Names</u>	Brad Burnett Network Administrator
<u>Installation Date</u>	1998-1999
<u>Description of Work</u>	Re-cabling of the Juvenile Center, Courthouse and re-model of the New Administration Building. Also installed fiber connectivity between the Courthouse and Admin Bldg.

CAMPUS WIRING SYSTEM REFERENCES:

<u>Reference Name</u>	Reliant Energy
<u>Address</u>	Houston, TX.
<u>Phone Number</u>	713-207-5646
<u>Contact Names</u>	Kevin Seat
<u>Installation Date</u>	2000 – 2001
<u>Description of Work</u>	Project consisted of the installation of 81 miles of optical fiber cabling to 77 Aldine ISD sites.

CAMPUS WIRING SYSTEM REFERENCES:

<u>Reference Name</u>	Reliant Energy
<u>Address</u>	Houston, TX.
<u>Phone Number</u>	713-207-5646
<u>Contact Names</u>	Kevin Seat
<u>Installation Date</u>	2001
<u>Description of Work</u>	Project consisted of the installation of 13 miles of optical fiber cabling to 17 Deer Park ISD sites.

Theodore A. Hussey
1903 Spring Valley Dr.
Denton, Texas 76208
(940) 484-1647

EDUCATION:

Basic Electric and Advanced Electrical Principles at Central Florida Community College.
Certificate of Authorization Lucent Systimax Structured Connectivity Solutions
BICSI Registered Installation Technician

EMPLOYMENT:

- 12/00 - Present **Henkels & McCoy, Inc.** Title: Area Manager of North Texas Region. Responsibilities: Insured margins are met from both the field and overhead. Also handle all hiring of personnel with-in our area.
- 6/95 – 12/00 **Henkels & McCoy, Inc.** Title: Estimator – Duties included, site surveys, estimating projects, insuring projects came in under-budget while still maintaining a high quality service.
- 9/91 – 6/95 **Henkels & McCoy, Inc.** Title: Lead Technician – Duties included site surveys, tracking job performance, insuring projects where brought in on time and under budget. Projects included: Bank of Mid-America – Oklahoma City, Okla. Installed 24 fiber cable to numerous IDF's through-out, Installed LAN cabling voice and data to approx. 2500 locations. Other projects included National roll-out for Chilies, Bennigans and Steak & Ale Restaurants. Installation of redundant fiber ring for Peterbilt Truck Manufacturer and Six Flags Over Texas. Installed Type I cabling for Sears national cabling project.
- 10/82 – 9/91 **Outside Plant Engineering and Construction:** Title: Forman – Duties included the over-seeing of 10 man crew in the installation of fiber optic cables and systems for the U.S. Government in locations the U.S. and countries abroad.

MILITARY SERVICE

6/76 – 9/82 UNITED STATES AIRFORCE

Rt. 1
Box 2068-C
Whitney, Texas 76692

Phone 254-694-3581

Keith Mowery

Summary Project Manager and Sr. Technician capable of managing large projects and experienced in all aspects of voice and data cable installations as well as fiber optic installations and termination. Current responsibilities include conducting surveys of potential customer job locations, analyze cable systems, procure correct cable and cabling components for installation. Follow up with change orders and invoices to be sent to Accounts Receivable, as well as provide technical advise to field installation crews.

Work experience **1988 - PresentHenkels and McCoy, Inc. Lewisville, Texas**
Project Manager and Sr. Technician
Managed numerous local and national accounts. Pertorm site surveyys, analyze existing cable systems. Perform installations of various networks and cabling. Assist in installation of hubs, routers, and various other electronic components.

1986-1987 Texas Utilities Electric Waxahachie, Texas
Utility Linemen

Education 1982 - 1984 **Hill College** Hillsboro, Texas
Major – Physical Education
1978 – 1982 **Iowa Park H.S.** Iowa Park, Texas
General Studies

Certifications Structured Cabling Systems for Voice and Data (CAT5) –Cabling Business Institute – 12/99

Seicor M77 Fusion Splicing Applications – Seicor – 6/98

Fluke Media Certification Training Course Certified Test Technician – Fluke – 5/98

3M Certification MS2 Installation Technician – 3M – 6/97

BICSI Cerfitied – BICSI – Expires 12/02

Thomas & Betts Registered Installer – Thomas & Betts – 6/95

Krone Products Installer – Krone – 7/95
Fiber Optic Installation and Splicing for LAN, Building and Campus

Applications – Seicor – 6/95

Ortronics CAT5 Networking Partner – Ortronics Open System
Architecture – 8/94

Avaya Certified – 2002

Siemens Certified - 2002

Other Skills

Trained CPR Emergency Provider

Licensed Fork Lift Operator

OSHA Respirator Certified

Certified Scissor and Boom Operator

Hilti Certified

Passport for Overseas Work

Personal info

I am a devoted family man, non-smoker, and drug free. I have a very strong work ethic. I like to work! I am willing to learn new skills and I am not afraid to work hard to achieve company goals as we all personal goals.

940-683-3149
harrison@wccs.net
972 539 1746 ext 258

Mike Harrison

Objective

Concept to Completion Project Management:

OSP/ISP Network/Infrastructure Design, Estimation/Proposal, Project Mngt.

Experience

1990-2001

Henkels and McCoy, Inc.

Lewisville, TX

Senior Tech, Estimator, Project Manager

- No non-profit jobs attributed to my management or crew leadership in 10 yrs.
- Increased recent sales per estimated project proposals submitted.
- Suggested new products and methods that could increase earnings and productivity.
- Led projects in excess of \$.25 mil.

1989-1990

Burnup & Sims

Tampa, FL

OSP Projects Supervisor

- Pole Line Telco and Distribution Power Line Restoration after Hurricane Hugo on St. Thomas, USVI.
- Supervised 25 power and telephone Linemen.
- Implemented orientation course for new recruits. Increased productivity.
- Our initial objective was telephone restoration , but we had several power lineman that were only slightly productive at phone line installations. I realized a need for power line repair ahead of our phone crews for safety reasons. We had the resources for this repair, so I negotiated a plan with the Virgin Islands Power Co. to clear and repair trouble areas, at a rate higher than the phone crew rates. This also eased tension between Vitelco, and WAPA.. This decreased construction downtime by 50% and increased sales by \$70,000.00 over three months.

1978-1989

Self Employed

Telecommunications and Electrical Contractor

- Aerial and underground OSP construction of Telephone, CATV, and power lines in a 500 mile radius of Ft. Worth.
- Contracts with REA, Contel, SWBT, United Telco, Guadalupe Valley Telco, Southwest Texas Telco, Fort Bend Telco, Teleprompter Cable, Warner Communications, People's Telco, Salina-Spavinaw Telco, South Western Engineering, CenTel, Exxon, Gulf, and Sohio Pipeline.
- Specialized in cross country, storm restoration, and difficult situations.

1971-1978

CCC and MWCC

Houston and Lufkin, TX

OSP Supervisor

- CATV and Telephone

Education	1968–1970	Henderson Co. Jr. College	Athens, TX
	<ul style="list-style-type: none">▪ A.A., Prerequisite to Mech.Eng. and Computer Science.▪ Graduated Dean's List.▪ Football Scholarship		

Interests	Outdoors/Wilderness Activities, Gourmet food, Home improvements, Technologies and Science.
------------------	--

ID	Task Name	Duration	W-2	W-1	W1	W2	W3	W4	W5	W6	W7	W8	W9	W10	W11	W12
1	Contract Award & Bonds Issued	6 days														
2	Begin Engineering / Permits	15 days														
3	Apply for Permits & Pole Attachments	12 days														
4	Order Materials after permits approval	9 days														
5	Justice Center to County Court House	29 days														
6	County Court House to Detention Center	15 days														
7	Detention Center to URS Building	10 days														
8	Justice Center to EMS Building	5 days														
9	Final Testing	3 days														

Project: Williamson County
Date: Fri 4/19/02

Task

Split

Progress

Milestone

Summary

Project Summary

External Milestone

Deadline

2001 ANNUAL REPORT

verizon

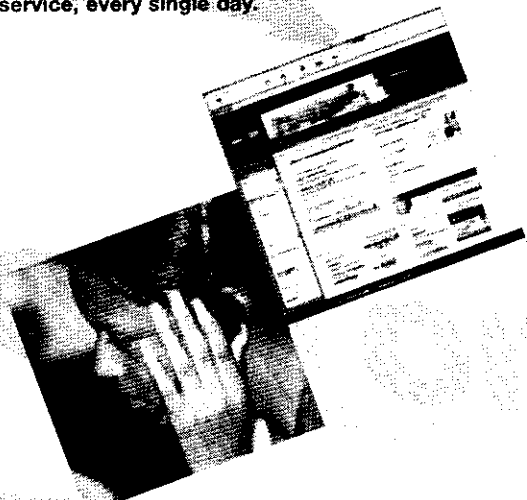


VERIZON DELIVERS TO OUR CUSTOMERS



With more than 31 million wireline households and nearly 30 million wireless customers, Verizon is one of the largest and most valuable consumer franchises in the world. We also serve nearly 4 million business customers. Delivering the next generation of innovation and technology to our millions of customers represents a tremendous growth opportunity.

Our business model for delivering value to customers is as simple as it is successful: deploy world-class wireless and landline networks; use them to deliver innovative products and services, bundled compellingly under the market-leading "Verizon" brand; and provide terrific customer service, every single day.



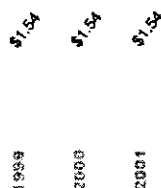
VERIZON DELIVERS TO OUR SHAREOWNERS

Our assets, financial strength and market leadership offer investors a unique combination of stability and growth. With our established track record of operating excellence and strong cash flows, Verizon has the ability to both reward shareowners with a competitive dividend and continue investing for growth. We have demonstrated our ability to meet financial targets year after year—proof-positive of our commitment to increasing shareowner value and transforming our company for long-term success.

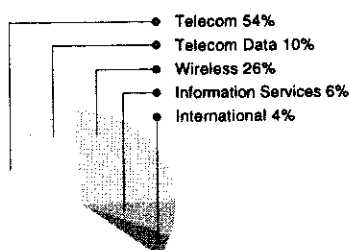
EARNINGS PER SHARE*



DIVIDENDS PER SHARE

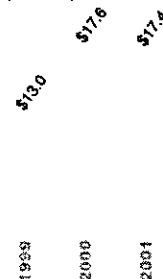


2001 REVENUES



Total \$67.2 Billion

CAPITAL SPENDING
(billions)



* Diluted basis, before special items

VERIZON DELIVERS TO THE COMMUNITIES WE SERVE

Verizon has a strong legacy of community support. Our investments in telecommunications networks make us a critical link in creating a vibrant economic infrastructure in every market we serve. Through the Verizon Foundation, we also make a difference on issues that matter most to our customers: creating an educated and literate workforce, closing the digital divide and promoting employee volunteerism by matching donations in both time and dollars.

Economic Development

- With nearly 250,000 employees, Verizon is one of the ten largest private employers in the nation.
- As part of our commitment to bridging the digital divide, Verizon has wired schools and libraries throughout our territory with high-speed connections to the Internet.
- In 2002, Verizon will invest more than \$15 billion in our wireline and wireless networks.

Philanthropy

- Through a special program that matched employee contributions three-to-one, Verizon raised \$14 million in donations to the September 11th Fund.
- Verizon's unique matching gift program — Verizon Volunteers, or "V-Squared" — allows employees to earn matching funds for their contributions to disaster relief, colleges and non-profit organizations.
- Verizon Wireless's HopelineSM program puts wireless services to work to combat domestic violence, donating wireless phones, airtime and monetary contributions to domestic violence shelters and prevention programs across the country.

Literacy

- As part of our commitment to be America's literacy champion, we launched the Verizon Literacy Network, the first national web-based network linking national and local literacy providers.
- During the holidays, employees supported our literacy efforts through a program called "Season's Readings" by contributing more than 68,000 books and volunteering more than 15,000 hours of time to read books to young people in the communities we serve.
- In 2001, Verizon contributed nearly \$20 million to local and national literacy organizations.



VERIZON DELIVERS ON THE VERIZON PROMISE

When disaster struck America on September 11th, the Verizon Promise didn't tell us exactly what to do at every minute and in every situation, but it gave us the goals and it gave us the inspiration. Those on-the-spot decisions have to be made by instinct, and that's where the strength of your values as an organization really gets tested. I am humbled by the way our values—our absolute commitment to serving customers and the community—guided us in everything we did.

Chuck Lee, Chairman and Co-CEO, Verizon



"Verizon has really done a tremendous job to get service back. I can't express to you how appreciative we are of what they're doing, including taking some real risks in order to make sure that we have at least emergency service, and that we keep our telephone service."

Rudolph Giuliani, Former Mayor, New York City



"It was a Herculean job on the part of the men and women of Verizon. I can't say enough about the wonderful Verizon people on the line who worked continuously, 24/7, from September 12th until the New York Stock Exchange re-opened September 17th."

Dick Grasso, Chairman & CEO, NYSE



"Inside our firm, we refer to Verizon as our business partner. We saw the true meaning of partnership over the last ten days in your employees' every word and deed."

Bill Harrison, Chairman, J.P. MorganChase



"I was a soldier and have seen troops in the field. I can recognize commitment to getting a tough job done. I can sense a genuine pride in the mission and sincere spirit in carrying it out. I saw all of these things in the Verizon employees toiling on the street, in the rubble and in the vaults. It made me immensely proud to be in the communications field."

Michael Powell, Chairman, Federal Communications Commission

"To the Verizon employees who sifted through the rubble, climbed through windows, hung wires through hallways and streets and worked till your fingers bled...Thank you."

Verizon Employee Email



"We lost some humanity here Tuesday. So I'm just trying to get my hands dirty here. Do my share. We're all trying to get a little of that humanity back."

James Ladich, Technician at Ground Zero

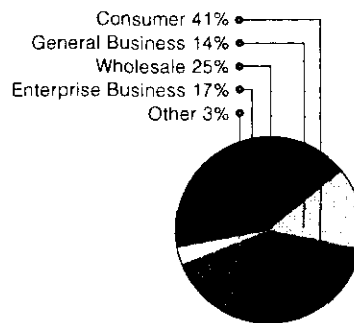
Verizon's building adjacent to the World Trade Center rises amid the devastation.



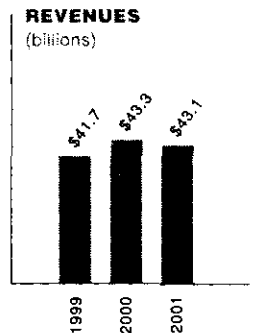
VERIZON AT A GLANCE

DOMESTIC TELECOM

Verizon serves residential and business wireline customers in 32 states and the District of Columbia. We have more than 61 million access lines and more than 132 million voice grade equivalent lines. Our wireline footprint includes 67 of the top 100 U.S. markets, 31 million households, more than one-third of Fortune 500 company headquarters and the Federal Government.

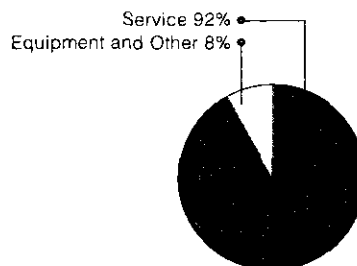


2001 Revenues of \$43.1 Billion

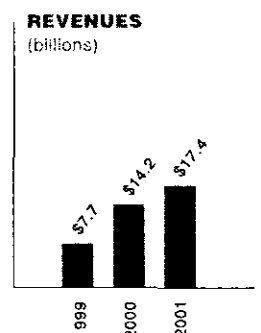


DOMESTIC WIRELESS

Verizon Wireless is the leading wireless communications provider in the U.S. with nearly 30 million customers. The company's footprint covers more than 90% of the nation's population and 97 of the top 100 U.S. markets. It was formed by the combination of the U.S. wireless businesses of Verizon and Vodafone in April 2000. Verizon currently owns 55% of Verizon Wireless, and Vodafone owns the remaining 45%.

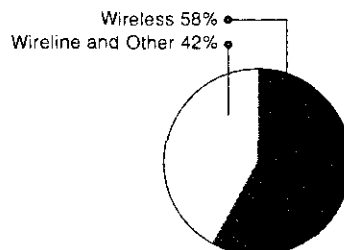


2001 Revenues of \$17.4 Billion

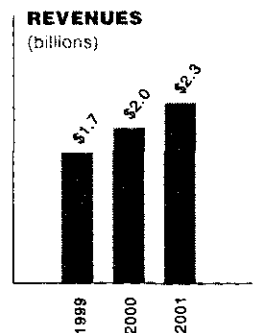


INTERNATIONAL

Verizon has international investment interests in 19 countries, with a global presence that extends to more than 40 countries in the Americas, Europe, Asia and the Pacific. Our Global Solutions network interconnects leading commercial centers in the world, and provides customers access to an extensive selection of voice, data and IP products and services.

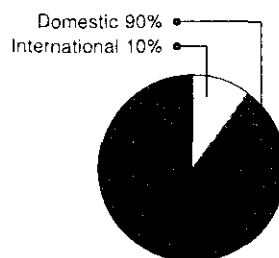


2001 International Revenues of \$2.3 Billion
Proportionate Revenues of \$5.9 Billion

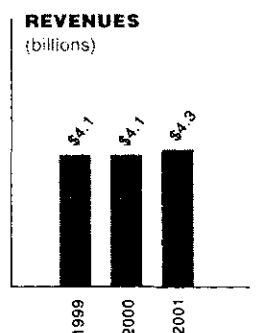


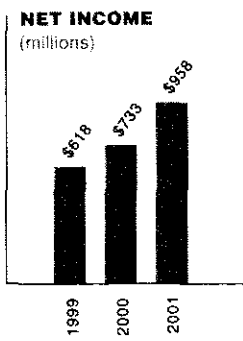
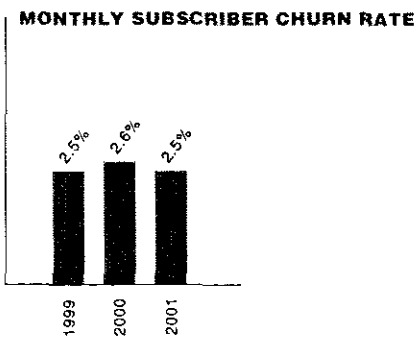
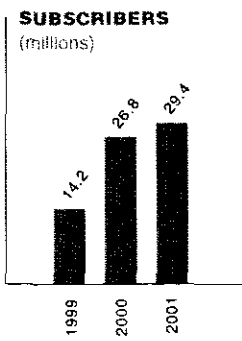
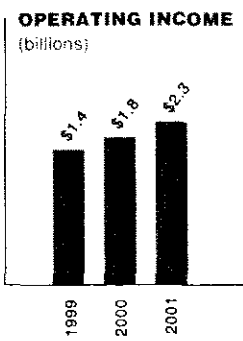
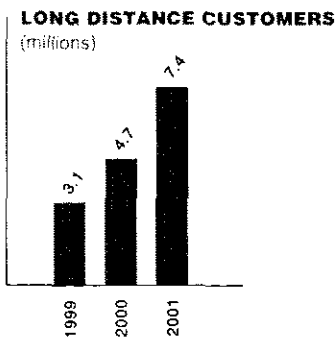
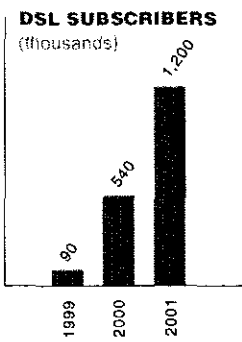
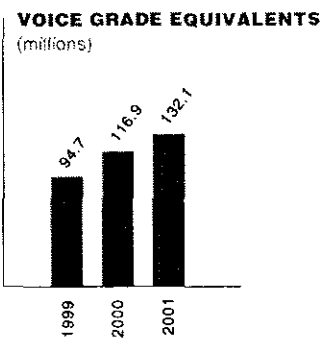
INFORMATION SERVICES

Verizon Information Services is the world's leading print and online directory publisher and content provider for communications products and services. A leader in linking buyers and sellers, Information Services' bundled print and electronic commerce products and services include SuperPages printed telephone directories and SuperPages.com, the Internet's preeminent online directory and directory services provider for MSN, InfoSpace, AltaVista, Excite, Lycos, Ask Jeeves, HotBot, BigFoot, Tripod and Angelfire.



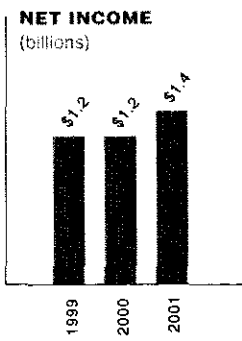
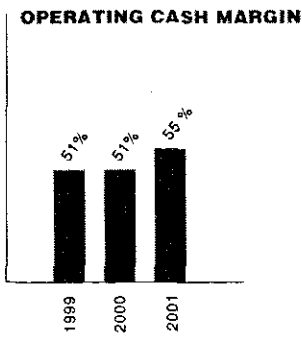
2001 Revenues of \$4.3 Billion





INVESTMENT	OWNERSHIP
Canada	
TELUS	23.7%
Latin America	
CANTV	28.5%
Compañía de Telefonos del Interior	65.3%
Telecomunicaciones de Puerto Rico, Inc. (1/02)	52%
CODETEL	100%
Grupo Iusacell	39.4%
Europe	
Cable & Wireless	4.6%
NTL Incorporated	8.9%
Omnitel	23.1%

INVESTMENT	OWNERSHIP
Gibraltar	50%
Stet Hellas	17.5%
EuroTel Praha	24.5%
EuroTel Bratislava	24.5%
Asia	
Taiwan Cellular	13%
Micronesian Telecom	100%
Excelcomindo	23.1%
PT Citra Sari Makmur	36.7%
TelecomAsia	12.5%
BayanTel	19.4%
Telecom Corp. of New Zealand	21.5%
Connectivity	
FLAG	18.6%
Global Solutions	100%



Information Services provides sales, publishing and other related services for nearly 2,300 directory titles in 48 states, the District of Columbia and 14 countries.

Domestic circulation	106 million
International circulation	44 million
Monthly visits to SuperPages.com	12 million
Number of advertisers	1.8 million

FELLOW SHAREOWNERS:

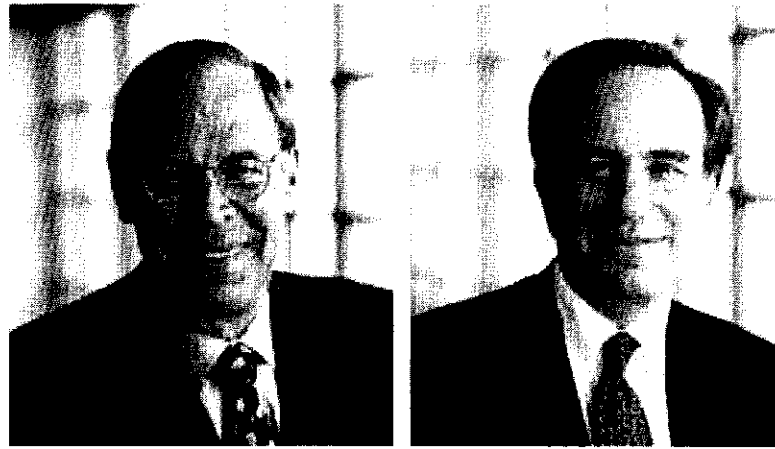
2001 was a year that tested the mettle of every company in America.

Ten years' worth of economic expansion gave way to recession. Stock values that seemed to float on helium suddenly fell to earth. Questions about the sustainability of "new economy" business models and the integrity of financial results undermined investor confidence in even the most stable of corporate franchises. And, on September 11th, an unprecedented attack on America caused extensive damage to our communications network, to say nothing of the national psyche.

In these difficult market conditions, Verizon delivered solid financial performance. More than that, we demonstrated that, in Verizon, we have created a company with the strength to sustain good operating results and build for the future in an extraordinarily challenging environment.

Our financial results for 2001 reflect both the strength of our operating units and the effects of a slow economy and an unsettled climate for investment. Revenues were \$67.2 billion, up 4.1 percent, driven by increased sales in wireless, long distance, data and high-speed Internet access. On an adjusted basis, net income grew nearly 3.0 percent, to \$8.2 billion, and earnings per share were \$3.00. Reported results, which include the effects of non-recurring or non-operational items such as investment losses, severance costs and asset sales, show net income of \$389 million for the year, or 14 cents per share.

We are, of course, unhappy with the performance of our stock, which lost 5.3 percent in value in 2001. Relative to the broader market, however, we fared somewhat better; as you see from the chart below, the S&P 500 Index declined 13 percent for the year and the S&P Telecom Services Index, which averages the per-

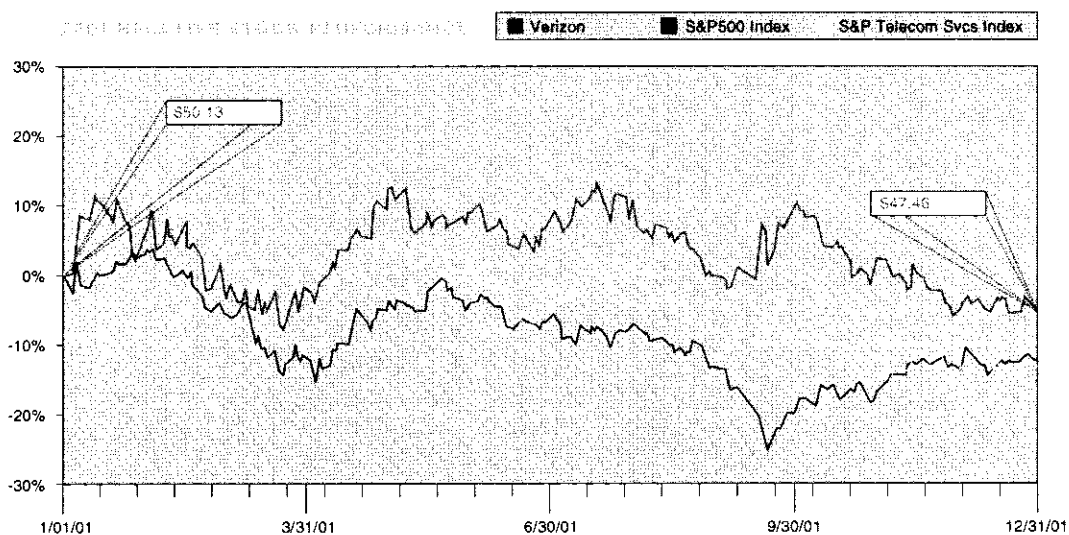


Charles R. Lee

Ivan G. Seidenberg

formance of the companies in our peer group, declined 13.7 percent. When dividends are factored in, Verizon's total return was down 2.5 percent—certainly not where we want to be but a relatively stable, high-quality investment in this difficult market.

Whatever the vagaries of the stock market, 2001 unambiguously demonstrated the wisdom of the merger that created Verizon and the power of the company we have built. Our increased scale and scope gave us the ability to absorb the pressures of a weak economy by using industry-leading cost savings and merger synergies to mitigate the effects of the economic downturn. Since the merger closed in June 2000, we have realized approximately \$1.4 billion in synergy savings, putting us well down the path toward our goal of \$2 billion within three years. Our core businesses—wireline, wireless and print and on-line directories—serve millions of customers across the country, giving us a stable source of revenues and cash flow, and our international investments continue to contribute to revenue and net income growth.



RECORDERS MEMORANDUM

All or parts of the text on this page was not clearly legible for satisfactory recordation.

Together, they represent the most strategically powerful collection of assets in the communications industry, which—for all the turmoil of 2001—remains a terrifically exciting growth market. No one is better positioned than Verizon to deliver a full bundle of communications services to customers. As communications and computing technologies converge, we have continued to invest in high-speed wireless and wireline access technologies so that our networks will remain a platform for growth in the Internet era. And we are continually reinventing our products, services and technology base around new opportunities—such as e-commerce, wireless data, voice-over-IP and broadband—that will fuel our growth for years to come.

Whatever the vagaries of the stock market, 2001 unambiguously demonstrated the wisdom of the merger that created Verizon and the power of the company we have built.

2001 Results

In a year when good news was hard to come by, our performance in the following growth areas was outstanding:

- We ended the year with 7.4 million long distance customers, a 59 percent increase over the prior year, which makes Verizon the nation's fourth largest long distance carrier. We now have the ability to offer long distance over two-thirds of our footprint and expect to receive FCC approval for long distance entry in all our remaining states by the end of the year.
- We also ended the year with 1.2 million customers for our high-speed Internet access service, DSL—a 122 percent increase over 2000—and dramatically improved customer service and provisioning.
- Data revenues were \$7 billion. Transport revenues were up 21.2 percent despite the weak economy. And, even as the number of traditional access lines declined due to competition and technology substitution, voice-grade equivalents—a better measure of the data-carrying capacity of our network—grew by 13 percent.
- Verizon Wireless added 2.6 million customers in 2001, for a total of nearly 30 million. With its unrivalled subscriber base, market coverage and network quality, Verizon Wireless is the leading wireless company in the country, by a wide margin. And with its expanding cash flow margins and outstanding expense controls, Verizon Wireless also leads the industry in profitability.



IN JUNE 2002, CHUCK LEE WILL RETIRE AS CO-CEO OF VERIZON. HE WILL REMAIN NON-EXECUTIVE CHAIRMAN OF THE BOARD UNTIL JUNE 2004.

DELIVERING ON A LEGACY FOR THE FUTURE

When Chuck and I started down this path together, we shared two important things: an unshakable belief in the vision of the company we were creating and a mutual respect that allowed us to work together to make it succeed. As much as anything, our success is a tribute to Chuck's character. He came to this venture—just as I did—with his own legacy, his own loyalties, and thousands of dedicated employees with a tremendous sense of pride in what they'd built at GTE. But along the way, he made a choice: to put the interests of Verizon ahead of anything else. He's been able to do it because, when it comes right down to it, he knows who he is, what he's accomplished, and what his own values—and those of his company—really are.

All the decisions to put us on the right side of technology, innovation and competition in our industry happened on Chuck Lee's watch. He has led his companies—first GTE, then Verizon—to strong positions in every important sector of communications: local, long distance, wireless, international and data. Everybody associated with Verizon owes him a debt of thanks.

I'm grateful to him, and I'm proud to be part of his legacy.

Wan

- Revenues from international operations were \$2.3 billion for the year, up 18.3 percent. Growth in equity income from unconsolidated businesses was 37 percent. All told, international contributed nearly \$1 billion in net income for the year. In addition, our Global Solutions business turned up four international gateway switches, which allows us to offer global customers a core set of voice and data products.
- And Verizon Information Services, our directory publishing and electronic commerce unit, increased revenues by 4.1 percent, to \$4.3 billion, and grew operating income by 11.2 percent. SuperPages.com, the industry's leading Internet directory service, grew more than 70 percent for the year.

Underlying all the accomplishments of 2001 is our unrelenting focus on the "blocking and tackling" of operational excellence that is the hallmark of our company: reducing costs, managing complex networks, introducing new products and—above all—delivering superior service to customers. We have succeeded not just in assembling the assets we need to compete, but in integrating them into strong national franchises and unifying our organization around a new identity and a shared value system. We made the tough decisions when we had to and took early, aggressive action to adapt to changing economic conditions.

And, even in a challenging operating environment, we have continued to transform ourselves around new opportunities and position our company for long-term market leadership.

Positioned for the Future: Service + Innovation

As in any competitive business, the bar for being the market leader gets higher every year. Even if the economy recovers in the second half of 2002, as we expect, technological change and increasing competition from cable, Internet telephony and other full-service carriers will continue to accelerate—challenging us to execute our game plan faster, better and with a greater sense of urgency. So, in 2002, we will focus on the basics to solidify our position as the market leader—building on our world-class networks, respected brand, valuable customer relationships and the service ethic of our employees to earn our customers' confidence and loyalty.

Ultimately, innovation is the pulse of any technology-driven industry. Over time, Verizon's success will depend on our ability to bring to our customers the next generation of broadband, wireless data and many other products and services that technology innovation makes possible. Our people manage complex technologies better than just about anybody, and we are excited by the prospects of using that wealth of intellectual capital and technical expertise to make our customers' lives more convenient, more secure and more productive.

The Strength of Our People

Our ability to execute our plan for market leadership lies in the strength of the Verizon management team, one of the most seasoned and capable in the business. We also owe our success to the committed efforts of our Board of Directors, which continues to oversee our progress with diligence and foresight.

Above all else, our continued strength as a company derives from the efforts of nearly 250,000 dedicated employees, who come to work every day with the work ethic and unparalleled skills required to make a difference for our customers and our communities.

Perhaps that sounds trite. But on September 11th, these qualities were put to the test in the most excruciating circumstances imaginable. All three terrorist attacks—in Shanksville, Pennsylvania; at the Pentagon; and, most disastrously, at the World Trade Center—happened in Verizon territory. Our people worked heroically, under devastating conditions, to restore service and rebuild the communications network on which America depends. This spirit of patriotism and duty extended beyond the workers at Ground Zero to energize our entire employee body, which generously donated thousands of volunteer hours and millions of dollars to aid the victims and rebuild our communities.

Tragically, three Verizon employees lost their lives in the attacks. The actions of their fellow employees do honor to their memory.

Verizon employees showed America that, when it comes to managing networks and integrating technology, we wrote the book. And when it comes to quality of service and the ability to come through in the clutch, nobody does it better.

We could not be more proud of the character of the people of Verizon. We are confident that the steadiness, resourcefulness and commitment they demonstrated in this moment of national importance will see us through the more prosaic difficulties of a slow economy and competitive challenges. Our aim—and our continuing opportunity—is to use that excellence to set the standard for performance in our industry as we deliver the next generation of growth and innovation in this immensely valuable and vital business.



Charles R. Lee
Chairman
Co-Chief Executive Officer



Ivan G. Seidenberg
President
Co-Chief Executive Officer

FINANCIAL CONTENTS

Selected Financial Data	10
Management's Discussion and Analysis	10
Report of Management	31
Report of Independent Accountants	31
Consolidated Statements of Income	32
Consolidated Balance Sheets	33
Consolidated Statements of Cash Flows	34
Consolidated Statements of Changes in Shareowners' Investment	35
Notes to Consolidated Financial Statements	36
Board of Directors	64
Executive Officers	64
Investor Information	Inside Back Cover

SELECTED FINANCIAL DATA

	2001	2000	(dollars in millions, except per share amounts)		
			1999	1998	1997
Results of Operations					
Operating revenues	\$ 67,190	\$ 64,707	\$ 58,194	\$ 57,075	\$ 53,575
Operating income	11,532	16,758	15,953	11,756	10,881
Income before extraordinary items and cumulative effect of accounting change	590	10,810	8,296	5,326	5,181
Per common share—basic	.22	3.98	3.03	1.94	1.90
Per common share—diluted	.22	3.95	2.98	1.92	1.89
Net income	389	11,797	8,260	4,980	5,181
Net income available to common shareholders	389	11,787	8,260	4,948	5,181
Per common share—basic	.14	4.34	3.02	1.81	1.90
Per common share—diluted	.14	4.31	2.97	1.79	1.89
Cash dividends declared per common share	1.54	1.54	1.54	1.54	1.51
Financial Position					
Total assets	\$ 170,795	\$ 164,735	\$ 112,830	\$ 98,164	\$ 95,742
Long-term debt	45,657	42,491	32,419	33,064	27,759
Employee benefit obligations	11,898	12,543	13,744	14,788	14,760
Minority interest, including a portion subject to redemption requirements	22,149	21,830	1,900	2,490	3,338
Shareowners' investment	32,539	34,578	26,376	21,435	20,632

- Significant events affecting our historical earnings trends in 1999 through 2001 are described in Management's Discussion and Analysis of Results of Operations and Financial Condition.
- 1997 and 1998 data include retirement incentive costs, merger-related costs and other special items.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

OVERVIEW

Verizon Communications Inc. is one of the world's leading providers of communications services. Verizon companies are the largest providers of wireline and wireless communications in the United States, with 132.1 million access line equivalents and 29.4 million wireless customers. Verizon is also the largest directory publisher in the world. A Fortune 10 company with more than \$67 billion in annual revenues and approximately 247,000 employees, Verizon's global presence extends to more than 40 countries in the Americas, Europe, Asia and the Pacific.

We have four reportable segments, which we operate and manage as strategic business units: Domestic Telecom, Domestic Wireless, International and Information Services. Domestic Telecom includes local, long distance and other telecommunication services. Domestic Wireless products and services include wireless voice and data services, paging services and equipment sales. International operations include wireline and wireless communications operations, investments and management contracts in the Americas, Europe, Asia and the Pacific. Information Services publishes domestic and international print and electronic directories and Internet-based shopping guides, as well as includes website creation and other electronic commerce services.

Critical Accounting Policies: Significant accounting policies are highlighted in the applicable sections of this Management's Discussion and Analysis (see "Special Items," "Severance/Retirement Enhancement Costs and Settlement Gains,"

"Loss/(Gain) on Securities" and "Genuity Loss"). In addition, all of our significant accounting policies are described in Note 1 to the consolidated financial statements.

CONSOLIDATED RESULTS OF OPERATIONS

In this section, we discuss our overall reported results and high-light special and nonrecurring items. In the following section, we review the performance of our segments on an adjusted basis. We adjust the segments' reported results for the effects of these items, which management does not consider in assessing segment performance due primarily to their nonrecurring and/or non-operational nature. We believe that this presentation will assist readers in better understanding operating results and trends from period to period.

Reported consolidated revenues were \$67,190 million for the year ended December 31, 2001, compared to \$64,707 million and \$58,194 million for the years ended December 31, 2000 and 1999, respectively. Reported consolidated revenues were not adjusted for prior year sales of wireline operations and the deconsolidation of Genuity Inc. (Genuity). In addition, prior year revenues included the formation of the Verizon Wireless joint venture beginning in April 2000 and included overlapping wireless properties through June 30, 2000.

Adjusted for the items in the preceding paragraph, 2001 consolidated adjusted revenues were \$67,190 million, or 4.1% higher than 2000 adjusted revenue of \$64,550 million. In 1999, we reported consolidated adjusted revenue of \$59,181 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

We reported net income available to common shareowners of \$389 million, or \$.14 diluted earnings per share for the year ended December 31, 2001, compared to net income available to common shareowners of \$11,787 million, or \$4.31 diluted earnings per share for the year ended December 31, 2000. In 1999, we reported net income available to common shareowners of \$8,260 million, or \$2.97 diluted earnings per share.

Included in our 2001 reported and adjusted net income is a pretax charge of \$285 million (\$172 million after-tax, or \$.06 per diluted share) related to losses, and service disruption and restoration costs, associated with the September 11, 2001 terrorist attacks (also see "Segment Results of Operations - Domestic Telecom"). In 2002, we anticipate incurring similar costs of up to \$.04 per diluted share. The net income impact includes a reduction for a preliminary assessment of insurance recovery. Verizon's insurance policies are limited to losses of \$1 billion for each occurrence and include a deductible of \$1 million. The cost and insurance recovery were recorded in accordance with Emerging Issues Task Force Issue No. 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001." Additionally, governmental reimbursement mechanisms are under consideration but have not been finalized at this time and accordingly, we cannot determine the potential impact.

Our reported results for all three years were affected by special items. After adjusting for these items, net income would have been \$8,190 million, or \$3.00 diluted earnings per share in 2001, \$7,962 million, or \$2.91 diluted earnings per share in 2000, and \$7,895 million, or \$2.84 diluted earnings per share in 1999.

The table below summarizes reported and adjusted results of operations for each period.

(dollars in millions, except per share amounts)				
Years Ended December 31,	2001	2000	1999	
Reported operating revenues	\$ 67,190	\$ 64,707	\$ 58,194	
Reported operating expenses	55,658	47,949	42,241	
Reported operating income	11,532	16,758	15,953	
Reported Net Income Available to Common Shareowners	389	11,787	8,260	
Merger-related costs	-	749	-	
Transition costs	578	316	126	
Sales of assets, net	226	(1,987)	(819)	
Severance/retirement enhancement costs and settlement gains	1,001	(564)	(410)	
Loss/(gain) on securities	4,858	(1,941)	-	
Mark-to-market adjustment - financial instruments	179	(431)	432	
Genuity loss	-	281	325	
International restructuring	663	50	-	
Wireless joint venture	-	-	(173)	
NorthPoint investment write-off	-	153	-	
Other charges and special items	95	526	126	
Extraordinary items	19	(1,027)	36	
Cumulative effect of accounting change	182	40	(8)	
Redemption of subsidiary preferred stock	-	10	-	
Adjusted Net Income	\$ 8,190	\$ 7,962	\$ 7,895	
Diluted Earnings Per Share-Reported	\$.14	\$ 4.31	\$ 2.97	
Diluted Earnings Per Share-Adjusted	\$ 3.00	\$ 2.91	\$ 2.84	

Further explanation of the nature of these special items can be found on pages 17 to 21.

SEGMENT RESULTS OF OPERATIONS

We measure and evaluate our reportable segments based on adjusted net income, which excludes unallocated corporate expenses and other adjustments arising during each period. The other adjustments include transactions that management excludes in assessing business unit performance due primarily to their nonrecurring and/or non-operational nature. Although such transactions are excluded from business segment results, they are included in reported consolidated earnings. We previously highlighted the more significant of these transactions in the "Consolidated Results of Operations" section. Gains and losses that are not individually significant are included in all segment results, since these items are included in management's assessment of unit performance. These are mostly contained in International and Information Services since they actively manage investment portfolios.

Further information about our segments can be found in Note 21 to the consolidated financial statements.

Special items affected our segments as follows:

(dollars in millions)			
Years Ended December 31,	2001	2000	1999
Domestic Telecom			
Reported net income	\$ 3,364	\$ 6,057	\$ 5,664
Special items	1,546	(922)	(644)
Adjusted net income	\$ 4,910	\$ 5,135	\$ 5,020
Domestic Wireless			
Reported net income	\$ 430	\$ 854	\$ 614
Special items	107	(410)	14
Adjusted net income	\$ 537	\$ 444	\$ 628
International			
Reported net income (loss)	\$ (1,995)	\$ 2,547	\$ 608
Special items	2,953	(1,814)	10
Adjusted net income	\$ 958	\$ 733	\$ 618
Information Services			
Reported net income	\$ 1,271	\$ 1,098	\$ 1,197
Special items	81	140	14
Adjusted net income	\$ 1,352	\$ 1,238	\$ 1,211
Corporate and Other			
Reported net income (loss)	\$ (2,681)	\$ 1,241	\$ 177
Special items	3,114	(829)	241
Adjusted net income	\$ 433	\$ 412	\$ 418

Corporate and Other includes intersegment eliminations.

Domestic Telecom

Domestic Telecom provides local telephone services, including voice and data transport, enhanced and custom calling features, network access, directory assistance, private lines and public telephones in 32 states and the District of Columbia. This segment also provides long distance services, customer premises equipment distribution, data solutions and systems integration, billing and collections, Internet access services, research and development and inventory management services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued**Highlights****Operating Revenues**

Domestic Telecom ended the year 2001 with a slight decline in operating revenues of 0.6%, compared to an increase of 3.9% in 2000. In 2001, Domestic Telecom's revenue growth rates were pressured by several factors including the weakened U.S. economy, which has dampened demand for basic wireline and other services, and rate reductions mandated by regulators. In addition, Domestic Telecom continues to be affected by competition and technology substitution, as more customers are choosing wireless and Internet services in place of some basic wireline services.

Despite these challenges, our data transport and long distance businesses continued to show solid demand and revenue growth. Data transport revenues, which include our high-bandwidth, packet-switched and special access services, as well as Digital Subscriber Line (DSL) services, grew more than 21% over 2000 and 32% over 1999. We ended 2001 with data circuits in service equivalent to 71 million voice-grade access lines, up 31% from 2000. Data circuits now account for more than half of Verizon's 132 million access line equivalents, as more customers chose high-capacity, high-speed transport services. In 2000, data circuits in service were equivalent to 54 million voice-grade access lines, more than a 65% increase over 1999. Operating revenues were also fueled by strong growth in our interLATA long distance business. We ended the year 2001 with 7.4 million long distance customers nationwide, an increase of 2.7 million subscribers or 59% over 2000. We now offer long distance service to more than two-thirds of all Verizon access lines. In 2000, we entered the in-region long distance market in New York, and in 2001 we entered the Massachusetts, Connecticut and Pennsylvania in-region long distance markets. At year-end 2000, long distance subscribers totaled nearly 4.7 million nationwide, an increase of nearly 50% from the prior year. Our revenues were negatively affected by federal and state regulatory price reductions of approximately \$660 million in 2001, \$860 million in 2000 and \$660 million in 1999, primarily affecting our network access revenues.

Operating Expenses

Domestic Telecom's operating expenses were essentially flat in 2001 as a result of strong cost containment measures, merger-related savings and other cost reductions. Operating expenses in 2001 also included added costs related to the events of September 11th and increased costs associated with our growth businesses such as long distance and data services. These entry costs include customer acquisition expenses associated with the launch of long distance in several states and costs related to marketing, distribution and service installation of our DSL service. In 2000, increased operating expenses were principally due to higher costs associated with entering new businesses, partially offset by the effect of cost containment measures.

Wireline Property Sales

We have either sold or committed to sell wireline properties representing approximately 2.9 million access lines or 2.2% of the total Domestic Telecom access line equivalents. The effect of these dispositions largely depends on the timing of the sales and the reinvestment of the proceeds. As of December 31, 2001, we have sold all but approximately 1.2 million access lines that we commit-

ted to sell. Those remaining access lines are under definitive sale agreements. For comparability purposes, the adjusted results of operations shown in the table below exclude the operating revenues and expenses contributed by the properties that have been sold in 2000. No access lines were sold in 2001. These operating revenues were approximately \$766 million and \$1,151 million for the years 2000 and 1999, respectively. Operating expenses contributed by the sold properties were \$253 million and \$378 million for the years 2000 and 1999, respectively. Net income contributed by the sold properties was approximately \$314 million and \$475 million for the years 2000 and 1999, respectively. For additional information on wireline property sales, see Note 5 to the consolidated financial statements.

Additional financial information about Domestic Telecom's results of operations for 2001, 2000 and 1999 follows:

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Results of Operations—Adjusted Basis			
Operating Revenues			
Local services	\$ 21,918	\$ 22,033	\$ 20,733
Network access services	13,379	13,142	12,827
Long distance services	3,107	3,152	3,183
Other services	4,674	5,016	4,980
	<u>43,078</u>	<u>43,343</u>	<u>41,723</u>
Operating Expenses			
Operations and support	23,928	24,537	23,691
Depreciation and amortization	9,332	8,752	8,200
	<u>33,260</u>	<u>33,289</u>	<u>31,891</u>
Operating Income	<u>\$ 9,818</u>	<u>\$ 10,054</u>	<u>\$ 9,832</u>
Adjusted Net Income	<u>\$ 4,910</u>	<u>\$ 5,135</u>	<u>\$ 5,020</u>

Operating Revenues**Local Services**

Local service revenues are earned by our telephone operations from the provision of local exchange, local private line, wire maintenance, voice messaging and value-added services. Value-added services are a family of services that expand the utilization of the network, including products such as Caller ID, Call Waiting and Return Call. The provision of local exchange services not only includes retail revenue but also includes local wholesale revenues from unbundled network elements (UNEs), interconnection revenues from competitive local exchange carriers (CLECs), wireless interconnection revenues and some data transport revenues.

In 2001, local service revenues declined \$115 million, or 0.5% due to the effects of lower demand and usage of our basic local wireline services and mandated intrastate price reductions. Our switched access lines in service declined 2.1% from December 31, 2000, primarily reflecting the impact of an economic slowdown and competition for some local services. Technology substitution also affected local service revenue growth, as indicated by lower demand for additional residential access lines. These factors were partially offset by higher payments received from CLECs for interconnection of their networks with our network and by solid demand for our value-added services as a result of new packaging of services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

In 2000, growth in local service revenues of \$1,300 million, or 6.3% was driven by higher interconnection revenues from CLECs and higher usage of our network facilities. Volume-related growth, generated in part by an increase in switched access lines in service of 1.4% from December 31, 1999, reflected higher customer demand and usage of our data transport and digital services. Solid demand for our value-added services, as well as growth in wireless interconnection, inside wire maintenance, and national directory assistance services further contributed to higher local service revenues in 2000. Revenue growth was also partially attributable to the favorable resolution of various regulatory matters and the impact of implementing Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements." Revenue growth associated with SAB No. 101 was entirely offset by corresponding increases in operating expenses. Local service revenue growth in 2000 was partially offset by the effect of resold and UNE platforms, as well as the effect of net regulatory price reductions and customer rebates.

See "Other Factors That May Affect Future Results" for additional information on the Telecommunications Act of 1996 (1996 Act) and its impact on local services.

Network Access Services

Network access services revenues are earned from end-user subscribers and long distance and other competing carriers who use our local exchange facilities to provide usage services to their customers. Switched access revenues are derived from fixed and usage-based charges paid by carriers for access to our local network. Special access revenues originate from carriers and end-users that buy dedicated local exchange capacity to support their private networks. End-user access revenues are earned from our customers and from resellers who purchase dial-tone services.

Our network access revenues grew \$237 million, or 1.8%, in 2001 and \$315 million, or 2.5%, in 2000. This growth was mainly attributable to higher customer demand, primarily for special access services (including DSL) that grew approximately 24% in 2001 and 36% in 2000. Special access revenue growth in both years reflects strong demand in the business market for high-capacity, high-speed digital services. Revenue growth in 2001 was affected by the slowing economy, as reflected by a 1.0% decline in minutes of use from carriers and CLECs and a 2.1% reduction in switched access lines in service. In 2000, growth in minutes of use from carriers and CLECs of 5.7% and higher revenues received from customers for the recovery of local number portability also contributed to network access revenue growth.

Volume-related growth in both years was substantially offset by price reductions associated with federal and state price cap filings and other regulatory decisions. State public utility commissions regulate our telephone operations with respect to some intrastate rates and services and other matters. State rate reductions on access services were approximately \$165 million in 2001, \$285 million in 2000 and \$220 million in 1999.

The Federal Communications Commission (FCC) regulates the rates that we charge long distance carriers and end-user subscribers for interstate access services. We are required to file new access rates with the FCC each year. In July 2000, we imple-

mented the Coalition for Affordable Local and Long Distance Services (CALLS) plan. Rates included in the July 2000 CALLS plan were in effect through June 2001. Effective July 3, 2001, we implemented further rate reductions in accordance with the plan. Interstate price reductions on access services were approximately \$300 million in 2001, \$520 million in 2000 and \$380 million in 1999.

See "Other Factors That May Affect Future Results" for additional information on FCC rulemakings concerning federal access rates, universal service and unbundling of network elements.

Long Distance Services

Long distance service revenues include both intraLATA toll services and interLATA long distance voice and data services.

Long distance service revenues declined \$45 million, or 1.4%, in 2001 and \$31 million, or 1.0% in 2000 primarily due to competition and the effects of toll calling discount packages and product bundling offers of our intraLATA toll services. These reductions were largely offset by revenue growth from our interLATA long distance services, including significant customer win-backs resulting from the introduction of interLATA long distance services in New York in 2000 and in Massachusetts, Connecticut and Pennsylvania in 2001.

See also "Other Factors That May Affect Future Results" for a discussion of our plans to enter the interLATA long distance market in other states in our region.

Other Services

Our other services include such services as billing and collections for long distance carriers, public (pay) telephone and customer premises equipment services. Other services revenues also include services provided by most of our non-regulated subsidiaries such as inventory management and purchasing, Internet access and data solutions and systems integration businesses.

Revenues from other services declined \$342 million, or 6.8% in 2001 principally as a result of lower sales of customer premises equipment, a decline in public telephone revenues as more customers substituted wireless communications for pay telephone services, and lower billing and collection revenues reflecting the take-back of these services by interexchange carriers. Lower data solutions and systems integration revenues due to the slowing economy and the effect of closing our CLEC operation further contributed to the revenue decline in 2001. These revenue reductions were partially offset by higher revenues from other non-regulated services.

Revenues from other services grew \$36 million, or 0.7%, in 2000 primarily due to higher demand for such services as systems integration and data solutions and inventory management and purchasing services, principally due to new contracts with business customers. These factors were partially offset by lower demand for our billing and collection, public telephone and directory services.

Operating Expenses

Operations and Support

Operations and support expenses, which consist of employee costs and other operating expenses, decreased by \$609 million, or 2.5% in 2001 principally due to lower costs at our domestic

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

telephone operations. These reductions were attributable to lower overtime for repair and maintenance activity principally as a result of reduced volumes at our dispatch and call centers and lower employee costs associated with declining workforce levels. Operating costs have also decreased due to business integration activities and achievement of merger synergies. Other effective cost containment measures, including lower spending by non-strategic businesses and closing our CLEC operation, also contributed to cost reductions in 2001.

Cost reductions in 2001 were partially offset by additional charges related to the terrorist attacks on September 11th (see "Consolidated Results of Operations" section) and by higher costs associated with our growth businesses such as long distance and data services. Increased costs associated with uncollectible accounts receivable and higher employee benefit costs further offset cost reductions in 2001. The increase in employee benefit costs in 2001 was largely due to increased health care costs driven by inflation, higher savings plan costs and changes in some plan provisions. These factors were partially offset by favorable pension plan income, including gain amortization.

In 2000, operations and support expenses increased by \$846 million, or 3.6% principally as a result of higher costs associated with entering new growth businesses and higher interconnection payments to CLECs and other carriers to terminate calls on their networks (reciprocal compensation). Higher costs at our telephone operations, including salary and wage increases for management and non-management employees and the effect of higher work force levels also contributed to cost increases in 2000. Expense increases also reflect the implementation of SAB No. 101. Expense increases associated with SAB No. 101 were entirely offset by corresponding increases in operating revenues, as described earlier.

Cost increases in 2000 were partially offset by lower employee benefit costs. The decline in employee benefit costs in 2000 was chiefly due to favorable pension plan income and changes in actuarial assumptions. These factors were offset, in part, by changes in some plan provisions, increased health care costs caused by inflation, savings plan benefit improvements for some management employees, as well as benefit improvements provided for under new contracts with other employees. In 2000, we executed contracts with unions representing our employees. The new contracts provide for wage and pension increases and other benefit improvements, including annual wage increases of 4%, 3% and 5%, beginning in August 2000. Customer service representatives received an additional 4% wage increase. Pension benefits for active employees increased by 5% on July 1, 2001, and will increase by 5% on July 1, 2002 and 4% on July 1, 2003. The contracts also include team-based incentive awards for meeting higher service performance and other standards, increased funding for work and family programs, improvements to health and other benefits and provisions relating to overtime, access to work and employment security. In addition, all union-represented employees were granted options to purchase 100 shares of our common stock.

For additional information on reciprocal compensation refer to "Other Factors That May Affect Future Results – Compensation for Internet Traffic."

Depreciation and Amortization

Depreciation and amortization expense increased by \$580 million, or 6.6%, in 2001 and \$552 million, or 6.7%, in 2000. Expense increases in both years were principally due to growth in depreciable telephone plant and increased software amortization costs. These factors were partially offset by the effect of lower rates of depreciation.

Domestic Wireless

Our Domestic Wireless segment provides wireless voice and data services, paging services and equipment sales. This segment primarily represents the operations of the Verizon Wireless joint venture. Verizon Wireless was formed in April 2000 through the combination of our wireless properties with the U.S. properties and paging assets of Vodafone Group plc (Vodafone), including the consolidation of PrimeCo Communications (PrimeCo). Verizon owns a 55% interest in the joint venture and Vodafone owns the remaining 45%. The 2001 financial results included in the table below reflect the combined results of Verizon Wireless. The period prior to the formation of Verizon Wireless is reported on a historical basis, and therefore, does not reflect the contribution of the Vodafone properties and the consolidation of PrimeCo. In addition, the financial results of several overlap properties, that were subsequently sold, were included in Domestic Wireless's results through June 30, 2000.

Highlights

Our Domestic Wireless segment ended the year 2001 with 29.4 million customers, an increase of 9.8% over year-end 2000. At year-end 2000, customers totaled approximately 26.8 million, an increase of 83.4% over year-end 1999. At year-end 1999, customers totaled approximately 14.2 million. All customer counts have been restated for a first quarter 2001 customer base adjustment. The 2000 growth in customers is primarily attributable to the formation of Verizon Wireless in April 2000. Approximately 22 million, or almost 75%, of Verizon Wireless customers now subscribe to CDMA (Code Division Multiple Access) digital services, and generate more than 93% of our busy-hour usage, compared to 80% at year-end 2000. In addition, almost 850,000 customers subscribe to the company's wireless data services, including Mobile Web Internet access.

In December 2001, Verizon Wireless and Price Communications Corporation agreed to combine the business operations of Price Communications Wireless, Inc. and a portion of Verizon Wireless, in a transaction valued at \$1.7 billion, including \$550 million in net debt that will be assumed or redeemed. Under the terms of the transaction, which replaces an agreement announced by the companies in November 2000, Price Communications Wireless and Verizon Wireless will form a limited partnership consisting of substantially all of the assets of Price Communications' wireless operations and some of Verizon Wireless's assets. Verizon Wireless will control and manage the partnership. Price Communications' partnership interest will be exchangeable into Verizon Wireless or Verizon stock, subject to several conditions. The transaction, which remains subject to the approval of Price Communications' shareholders and other customary closing conditions, will significantly expand the company's footprint in the Southeastern U.S. and add approximately 560,000 customers.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

Additional financial information about Domestic Wireless results of operations for 2001, 2000 and 1999 follows:

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Results of Operations—Adjusted Basis			
Operating Revenues			
Wireless services	\$ 17,393	\$ 14,236	\$ 7,653
Operating Expenses			
Operations and support	11,379	9,563	5,166
Depreciation and amortization	3,709	2,894	1,100
	<u>15,088</u>	<u>12,457</u>	<u>6,266</u>
Operating Income	<u>\$ 2,305</u>	<u>\$ 1,779</u>	<u>\$ 1,387</u>
Minority Interest	\$ (788)	\$ (504)	\$ (76)
Adjusted Net Income	<u>\$ 537</u>	<u>\$ 444</u>	<u>\$ 628</u>

Operating Revenues

Revenues earned from our consolidated wireless businesses grew by \$3,157 million, or 22.2%, in 2001 and \$6,583 million, or 86.0%, in 2000. By including the revenues of the properties of the wireless joint venture and excluding the impact of wireless overlap properties on a basis comparable with 2001, revenues were \$2,030 million, or 13.2%, higher than 2000. On this comparable basis, revenue growth was largely attributable to customer additions and slightly higher revenue per customer per month. Our domestic wireless customer base grew to 29.4 million customers in 2001, compared to 26.8 million customers in 2000, an increase of nearly 10%.

Revenues for 2000 were \$14,236 million, an increase of \$6,583 million, or 86.0%, compared to 1999. By including the revenues of the properties of the wireless joint venture on a basis comparable with 2000, revenues were \$2,300 million, or 19.3%, higher than 1999. The revenue growth was due to the growth in the customer base and stable revenue per customer per month.

Operating Expenses*Operations and Support*

Operations and support expenses, which represent employee costs and other operating expenses, increased by \$1,816 million, or 19.0%, in 2001 and \$4,397 million, or 85.1%, in 2000. By including the expenses of the properties of the wireless joint venture on a basis comparable with 2001, operations and support expenses were \$1,186 million, or 11.6%, higher than 2000. Higher costs were attributable to the growth in the subscriber base described above, as well as the continuing migration of analog customers to digital.

The increased costs in 2000 were principally the result of the formation of the wireless joint venture in April 2000, as well as costs associated with customer growth and digital migration.

Depreciation and Amortization

Depreciation and amortization expense increased by \$815 million, or 28.2%, in 2001 and by \$1,794 million, or 163.1%, in 2000. The increase in 2001 over the prior year was primarily due to increased capital expenditures to support the increasing demand for wireless services. Adjusting for the joint venture in a manner similar to operations and support expenses above, depreciation and amortization was \$336 million, or 10.0%, higher than 2000. Capital

expenditures for our cellular network have increased in 2001 and 2000 to support increased demand in all markets.

The 2000 increase was mainly attributable to the formation of the wireless joint venture in April 2000, as well as increased capital expenditures to support the increasing demand for wireless services.

Minority Interest

The increases in minority interest in 2001 and 2000 were principally due to the increased income of the wireless joint venture and the significant minority interest attributable to Vodafone beginning in April 2000.

International

Our International segment includes international wireline and wireless telecommunication operations, investments and management contracts in the Americas, Europe, Asia and the Pacific. Our consolidated international investments as of December 31, 2001 included Grupo Iusacell (Iusacell) (Mexico), CODETEL (Dominican Republic), CTI Holdings, S.A. (CTI) (Argentina), Micronesia Telecommunications Corporation (Northern Mariana Islands) and Global Solutions Inc. Our international investments in which we have a less than controlling interest are accounted for on either the cost or equity method.

Highlights

International adjusted net income grew \$225 million, or 30.7%, in 2001 and \$115 million, or 18.6%, in 2000. This growth was aided by the continued worldwide demand for wireless services. The number of proportionate international wireless customers served by Verizon investments increased 1.8 million in 2001 to 9.6 million.

On January 25, 2002, Verizon exercised its option to purchase an additional 12% of Telecomunicaciones de Puerto Rico, Inc. (TELPRI) common stock from the government of Puerto Rico. Verizon obtained the option as part of the March 1999 TELPRI privatization. Accordingly, we now hold 52% of TELPRI stock, up from 40% and will begin consolidating TELPRI in 2002.

On June 6, 2001, we exercised an option to exchange 15 million shares in FLAG Telecom Holdings Ltd. (FLAG) for shares in Tyco International Ltd., which were subsequently exchanged for Tyco International Ltd. shares. As a result of this transaction, our interest in FLAG declined from 29.8% to 18.6%, and the investment is now accounted for on a cost basis.

In February 2001, Verizon launched an initiative designed to expand our presence in the carrier and large business market. The new business unit, Global Solutions, will offer a primarily facilities based network which connects commercial centers around the world and provides an array of voice, data and Internet services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Results of Operations—Adjusted Basis			
Operating Revenues			
Wireless services	\$ 1,358	\$ 1,218	\$ 974
Wireline and other services	979	758	740
	<u>2,337</u>	<u>1,976</u>	<u>1,714</u>
Operating Expenses			
Operations and support	1,622	1,359	1,195
Depreciation and amortization	422	355	264
	<u>2,044</u>	<u>1,714</u>	<u>1,459</u>
Operating Income	<u>\$ 293</u>	<u>\$ 262</u>	<u>\$ 255</u>
Equity in Income From			
Unconsolidated Businesses	\$ 919	\$ 672	\$ 547
Adjusted Net Income	<u>\$ 958</u>	<u>\$ 733</u>	<u>\$ 618</u>

The revenues and operating expenses for the International segment exclude QuébecTel, which was deconsolidated in the second quarter of 2000. QuébecTel's net results for all periods are included in Equity in Income From Unconsolidated Businesses.

Operating Revenues

Revenues earned from our international businesses grew by \$361 million, or 18.3%, in 2001 and by \$262 million, or 15.3%, in 2000. The increase in wireless revenues was primarily due to the increase in wireless subscribers of consolidated subsidiaries. CTI's Buenos Aires wireless operations, which commenced commercial operations in the second quarter of 2000, contributed \$108 million to the 2001 year over year wireless revenue increase. Revenues generated by Global Solutions, which began its operations in the first quarter of 2001, also contributed to the increase in wireline and other services in 2001.

Operating Expenses*Operations and Support*

Operations and support expenses, which represent employee costs and other operating expenses, increased by \$263 million, or 19.4%, in 2001 and by \$164 million, or 13.7%, in 2000. The higher costs in 2001 were primarily generated by the Global Solutions start-up and its continued expansion throughout 2001. In addition, CTI's Buenos Aires wireless operations contributed to higher costs in both years.

Depreciation and Amortization

Depreciation and amortization expense increased by \$67 million, or 18.9%, in 2001 and by \$91 million, or 34.5%, in 2000. The increase in both years was attributable to the capital expenditures necessary to support the growth in cellular subscribers and CODETEL's wireline customers. The build-out of CTI's Buenos Aires wireless operations also contributed to the increased depreciation for both years.

Equity in Income From Unconsolidated Businesses

Equity in income from unconsolidated businesses increased by \$247 million, or 36.8%, in 2001 and by \$125 million, or 22.9%, in 2000. The increase in 2001 was primarily due to improved operational growth at Omnitel Pronto Italia S.p.A. (Omnitel) and Compañía Anónima Nacional Teléfonos de Venezuela (CANTV).

Although CANTV's historical operational performance has improved, economic and political instability in Venezuela has had an adverse effect on CANTV's operations. This instability, along with significant devaluation of the currency that occurred subsequent to the government's recent decision to allow the currency to float freely, may impact our investment in CANTV if these conditions continue.

The increase in 2000 was primarily due to strong subscriber growth at Taiwan Cellular Corporation and Omnitel and a full twelve months of operations at TELPRI in 2000, as well as the cessation of recording equity losses from our investment in BayanTel, a Philippines-based telecommunications company. These increases in 2000 were partially offset by lower results at CANTV driven by the weakened Venezuelan economy and delayed tariff increases, as well as lower income from Telecom Corporation of New Zealand Limited (TCNZ) driven by a change from the equity to cost method of accounting and a reduction in the TCNZ dividend payout ratio.

Information Services

Our Information Services segment consists of our domestic and international publishing businesses, including print and electronic directories and Internet-based shopping guides, as well as website creation and other electronic commerce services. Our directory business uses the publication date method for recognizing revenues. Under that method, costs and advertising revenues associated with the publication of a directory are recognized when the directory is distributed. This segment has operations principally in North America, Europe and Latin America.

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Results of Operations—Adjusted Basis			
Operating Revenues			
Information services	\$ 4,313	\$ 4,144	\$ 4,086
Operating Expenses			
Operations and support	1,961	2,026	2,007
Depreciation and amortization	79	74	76
	<u>2,040</u>	<u>2,100</u>	<u>2,083</u>
Operating Income	<u>\$ 2,273</u>	<u>\$ 2,044</u>	<u>\$ 2,003</u>
Adjusted Net Income	<u>\$ 1,352</u>	<u>\$ 1,238</u>	<u>\$ 1,211</u>

Operating Revenues

Operating revenues from our Information Services segment increased \$169 million, or 4.1%, in 2001. The 2001 revenue increase was due primarily to growth in directory advertising revenues and extension revenues, continued growth of our Internet directory service, SuperPages.com®, and increased revenue from the 2001 acquisition of TELUS Corporation's (TELUS) advertising services business in Canada, offset by reductions in affiliated revenues from Domestic Telecom.

Operating revenues from our Information Services segment improved by \$58 million, or 1.4%, in 2000. The 2000 revenue increases were primarily generated by growth in print directory advertising revenue and expansion of our Internet directory service, SuperPages.com®, offset by reductions in affiliated revenues from Domestic Telecom.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued**Operating Expenses**

In 2001, total operating expenses decreased \$60 million, or 2.9%, largely due to the execution of cost reduction initiatives and merger synergies.

In 2000, total operating expenses increased \$17 million, or 0.8%, from the corresponding period in 1999. Cost control programs related to directory publishing limited expense increases in 2000.

SPECIAL ITEMS

Special items generally represent revenues and gains as well as expenses and losses that are nonrecurring and/or non-operational in nature. Several of these special items include impairment losses. These impairment losses were determined in accordance with our policy of comparing the fair value of the asset with its carrying value. The fair value is determined by quoted market prices, if available, or by estimates of future cash flows.

These special items are not considered in assessing operational performance, either at the segment level, or for the consolidated company. However, they are included in our reported results. This section provides a detailed description of these special items.

Completion of Mergers

In June 2000, Bell Atlantic Corporation and GTE Corporation completed a merger under a definitive merger agreement dated as of July 27, 1998 and began doing business as Verizon Communications.

The following table summarizes the pretax charges incurred for the Bell Atlantic-GTE merger. Amounts for 2001 and 2000 pertain to the Bell Atlantic-GTE merger. Transition costs for 1999 pertain to the Bell Atlantic-NYNEX merger, which was completed in August 1997.

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Direct Incremental Costs			
Compensation arrangements	\$ -	\$ 210	\$ -
Professional services	-	161	-
Shareowner-related	-	35	-
Registration, regulatory and other	-	66	-
Total Direct Incremental Costs	-	472	-
Employee Severance Costs	-	584	-
Transition Costs			
Systems modifications	401	99	186
Branding	112	240	1
Relocation, training and other	526	355	18
Total Transition Costs	1,039	694	205
Total Merger-Related Costs	\$ 1,039	\$ 1,750	\$ 205

Merger-Related Costs*Direct Incremental Costs*

Direct incremental costs related to the Bell Atlantic-GTE merger of \$472 million (\$378 million after-tax, or \$.14 per diluted share) include compensation, professional services and other costs. Compensation includes retention payments to employees that were contingent on the close of the merger and payments to employees to satisfy contractual obligations triggered by the

changes in control. Professional services include investment banking, legal, accounting, consulting and other advisory fees incurred to obtain federal and state regulatory approvals and take other actions necessary to complete the merger. Other includes costs incurred to obtain shareholder approval of the merger, register securities and communicate with shareholders, employees and regulatory authorities regarding merger issues.

Employee Severance Costs

Employee severance costs related to the Bell Atlantic-GTE merger of \$584 million (\$371 million after-tax, or \$.14 per diluted share) as recorded under Statement of Financial Accounting Standards (SFAS) No. 112, "Employers' Accounting for Postemployment Benefits," represent the benefit costs for the separation of approximately 5,500 management employees who were entitled to benefits under pre-existing separation plans, as well as an accrual for ongoing SFAS No. 112 obligations for GTE employees. Of these employees, approximately 5,200 were located in the United States and approximately 300 were located at various international locations. The separations either have or are expected to occur as a result of consolidations and process enhancements within our operating segments. The remaining severance liability under this program as of December 31, 2001 is \$220 million.

Transition Costs

In addition to the direct incremental merger-related and severance costs discussed above, we expect to incur a total of approximately \$2 billion of transition costs related to the Bell Atlantic-GTE merger and the formation of the wireless joint venture. These costs will be incurred to integrate systems, consolidate real estate, and relocate employees. They also include approximately \$500 million for advertising and other costs to establish the Verizon brand. For 2001 and 2000, transition costs related to the Bell Atlantic-GTE merger and the formation of the wireless joint venture were \$1,039 million (\$578 million after taxes and minority interest, or \$.21 per diluted share) and \$694 million (\$316 million after taxes and minority interest, or \$.12 per diluted share), respectively.

In connection with the Bell Atlantic-NYNEX merger, we recorded transition costs similar in nature to the Bell Atlantic-GTE merger transition costs of \$205 million (\$126 million after-tax, or \$.05 per diluted share) in 1999.

Sales of Assets, Net

During 2001, we recognized net losses in operations related to sales of assets, impairments of assets held for sale and other charges. During 2000 and 1999, we recognized net gains related to sales of assets and impairments of assets held for sale. These net gains and losses are summarized as follows:

Years Ended	(dollars in millions)					
December 31,	2001		2000		1999	
	Pretax	After-tax	Pretax	After-tax	Pretax	After-tax
Wireline property sales	\$ -	\$ -	\$ 3,051	\$ 1,856	\$ -	\$ -
Wireless overlap sales	(92)	(60)	1,922	1,156	-	-
Other, net	(258)	(166)	(1,180)	(1,025)	1,379	819
	\$ (350)	\$ (226)	\$ 3,793	\$ 1,987	\$ 1,379	\$ 819

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

As required, gains on sales of wireless overlap properties that occurred prior to the closing of the Bell Atlantic-GTE merger are included in operating income and in the table above. Gains on sales of significant wireless overlap properties that occurred after the Bell Atlantic-GTE merger are classified as extraordinary items. See "Extraordinary Items" below for gains on sales of significant wireless overlap properties subsequent to the Bell Atlantic-GTE merger.

Wireline Property Sales

During 1998, GTE committed to sell approximately 1.6 million nonstrategic domestic access lines. During 2000, access line sales generated combined cash proceeds of approximately \$4,903 million and \$125 million in convertible preferred stock. The pretax gain on the sales was \$3,051 million (\$1,856 million after-tax, or \$.68 per diluted share).

Wireless Overlap Sales

A U.S. Department of Justice (DOJ) consent decree issued on December 6, 1999 required GTE Wireless, Bell Atlantic Mobile, Vodafone and PrimeCo to resolve a number of wireless market overlaps in order to complete the wireless joint venture and the Bell Atlantic-GTE merger. As a result, during April 2000 we completed a transaction with ALLTEL Corporation that provided for the exchange of former Bell Atlantic Mobile and GTE Wireless markets for several of ALLTEL's wireless markets. These exchanges were accounted for as purchase business combinations and resulted in combined pretax gains of \$1,922 million (\$1,156 million after-tax, or \$.42 per diluted share).

During 2001, we recorded a pretax gain of \$80 million (\$48 million after-tax, or \$.02 per diluted share) on the sale of the Cincinnati market and a pretax loss of \$172 million (\$108 million after-tax, or \$.04 per diluted share) related to the sale of the Chicago market.

Other Transactions

During 2001, we recorded charges totaling \$258 million pretax (\$166 million after-tax, or \$.06 per diluted share) related to exiting several businesses, including our video business and some leasing activities.

During 2000, we recorded charges related to the write-down of some impaired assets and other charges of \$1,180 million pretax (\$1,025 million after-tax, or \$.37 per diluted share), as follows:

Year Ended December 31, 2000	(dollars in millions, except per share amounts)		
	Pretax	After-tax	Per diluted share
Airfone and Video impairment	\$ 566	\$ 362	\$.13
CLEC impairment	334	218	.08
Real estate consolidation and other merger-related charges	220	142	.05
Deferred taxes on contribution to the wireless joint venture	-	249	.09
Other, net	60	54	.02
	<u>\$ 1,180</u>	<u>\$ 1,025</u>	<u>\$.37</u>

In connection with our decisions to exit the video business and Airfone (a company involved in air-to-ground communications), in the second quarter of 2000 we recorded an impairment charge to reduce the carrying value of these investments to their estimated net realizable value.

The CLEC impairment primarily relates to the revaluation of assets and the accrual of costs pertaining to some long-term contracts due to strategic changes in our approach to offering bundled services both in and out of franchise areas. The revised approach to providing such services resulted, in part, from post-merger integration activities and acquisitions.

The real estate consolidation and other merger-related charges include the revaluation of assets and the accrual of costs to exit leased facilities that are in excess of our needs as the result of post-merger integration activities.

The deferred tax charge is non-cash and was recorded as the result of the contribution in July 2000 of the GTE Wireless assets to Verizon Wireless based on the differences between the book and tax bases of assets contributed.

During 1999, we sold substantially all of GTE Government Systems to General Dynamics Corporation for \$1 billion in cash. The pretax gain on the sale was \$754 million (\$445 million after-tax, or \$.16 per diluted share). In addition, during 1999, we recorded a net pretax gain of \$112 million (\$66 million after-tax, or \$.02 per diluted share), primarily associated with the sale of the remaining major division of GTE Government Systems to DynCorp. The 1999 year-to-date net gains for asset sales also include a pretax gain of \$513 million (\$308 million after-tax, or \$.11 per diluted share) associated with the merger of BC TELECOM Inc. and TELUS during the first quarter of 1999.

Severance/Retirement Enhancement Costs and Settlement Gains

During the fourth quarter of 2001, we recorded a special charge of \$1,613 million (\$1,001 million after-tax, or \$.37 per diluted share) primarily associated with employee severance costs and related pension enhancements. The charge included severance and related benefits of \$765 million (\$477 million after-tax, or \$.18 per diluted share), as recorded under SFAS No. 112, for the voluntary and involuntary separation of approximately 10,000 employees. We also included a charge of \$848 million (\$524 million after-tax, or \$.19 per diluted share) recorded in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," which includes pension enhancements of \$813 million (\$504 million after-tax, or \$.18 per diluted share) and pension settlement losses of \$35 million (\$20 million after-tax, or \$.01 per diluted share), relating to lump sum settlements of some existing pension obligations.

In 2000 and 1999, we recorded pension settlement gains of \$911 million and \$663 million pretax (\$564 million and \$410 million after-tax, or \$.21 and \$.15 per diluted share), respectively, in accordance with SFAS No. 88. They relate to some settlements of pension obligations for former GTE employees through direct payment, the purchase of annuities or otherwise.

Pretax pension income, net of postretirement benefit costs, recorded by Verizon in 2001, 2000 and 1999 was \$1,320 million, \$3,095 million and \$1,440 million, respectively. Adjusting for the special items above, pretax pension income, net of postretirement benefit costs, was \$2,168 million, \$2,184 million and \$777 million in 2001, 2000 and 1999, respectively. The increase in 2000, after adjusting for the special items, is primarily the result of higher

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

returns on plan assets and actuarial gains. See Note 19 to the consolidated financial statements for additional information about our pension plans, accounting for defined benefit pension plans and significant actuarial assumptions, as well as changes in those assumptions.

Loss/(Gain) on Securities

We continually evaluate our investments in securities for impairment due to declines in market value considered to be other than temporary. That evaluation includes, in addition to persistent, declining stock prices, general economic and company-specific evaluations. In the event of a determination that a decline in market value is other than temporary, a charge to earnings is recorded for the loss and a new cost basis in the investment is established.

Prior to the second quarter of 2001, we considered the declines in the market values of our investments in securities to be temporary, due principally to the overall weakness in the securities markets as well as telecommunications sector share prices. However, included in our results for 2001 is the recognition of pretax losses recorded in June 2001 and December 2001 totaling \$4,686 million (\$3,607 million after-tax, or \$1.32 diluted loss per share) primarily relating to our investments in Cable & Wireless plc (C&W), NTL Incorporated (NTL) and Metromedia Fiber Network, Inc. (MFN). We determined, through the evaluation described above, that market value declines in these investments were considered other than temporary.

During 2001, we also recorded a pretax charge of \$1,251 million (\$1,251 million after-tax, or \$.46 per diluted share) related to our cost investment in Genuity. The charge was necessary because we determined that the decline in the estimated fair value of Genuity was other than temporary. Our investment in Genuity is not considered a marketable security given its unique characteristics and the associated contingent conversion right (see "Other Factors That May Affect Future Results" for additional information). However, we estimated fair value based on the number of shares of Genuity we would own, assuming the exercise of the contingent conversion right, and the market value of Genuity common stock.

In May 2000, C&W, NTL and Cable & Wireless Communications plc (CWC) completed a restructuring of CWC. Under the terms of the restructuring, CWC's consumer cable telephone, television and Internet operations were separated from its corporate, business, Internet protocol and wholesale operations. After the separation, the consumer operations were acquired by NTL and the other operations were acquired by C&W. In connection with the restructuring, we, as a shareholder in CWC, received shares in the two acquiring companies, representing approximately 9.1% of the NTL shares outstanding at the time and approximately 4.6% of the C&W shares outstanding at the time. Our exchange of CWC shares for C&W and NTL shares resulted in the recognition of a non-cash pretax gain of \$3,088 million (\$1,941 million after-tax, or \$.71 per diluted share) in Equity in Income (Loss) From Unconsolidated Businesses in the consolidated statements of income and a corresponding increase in the cost basis of the shares received.

Mark-to-Market Adjustment - Financial Instruments

During 2001, we began recording mark-to-market adjustments in earnings relating to some of our financial instruments in accordance with newly effective accounting rules on derivative financial instruments. Mark-to-market losses of \$182 million (\$179 million after taxes and minority interest, or \$.07 per diluted share) were recorded in 2001 due primarily to the change in the fair value of the MFN debt conversion option.

In 2000, we recorded a gain on a mark-to-market adjustment of \$664 million (\$431 million after-tax, or \$.16 per diluted share) related to our \$3,180 million of notes which are exchangeable into shares of C&W and NTL. Prior to the reorganization of CWC in May 2000, these notes were exchangeable into shares of CWC. In 1999, we recorded a loss on a mark-to-market adjustment of \$664 million (\$432 million after-tax, or \$.16 per diluted share) related to these notes. These mark-to-market adjustments are non-cash, non-operational transactions that result in either an increase or decrease in the carrying value of the debt obligation and a charge or credit to income. The mark-to-market adjustments are required because the carrying value of the notes is indexed to the fair market value of C&W's and NTL's common stock. If the combined fair value of the C&W and NTL common stock declines, our debt obligation is reduced (but not to less than its amortized carrying value) and income is increased. If the combined fair value of the C&W and NTL common stock increases, our debt obligation increases and income is decreased. The CWC exchangeable notes may be exchanged beginning in July 2002.

Genuity Loss

In accordance with the provisions of an FCC order in June 2000, Genuity, formerly a wholly owned subsidiary of GTE, sold in a public offering 174 million of its Class A common shares, representing 100% of the issued and outstanding Class A common stock and 90.5% of the overall voting equity in Genuity. GTE retained 100% of Genuity's Class B common stock, which currently represents 8.2% of the voting equity in Genuity and contains a contingent conversion feature. A complete description of the circumstances in which the conversion feature can be exercised is included in "Other Factors That May Affect Future Results."

In accordance with provisions of the FCC order, the sale transferred ownership and control of Genuity to the Class A common stockholders and, accordingly, we deconsolidated our investment in Genuity on June 30, 2000 and are accounting for our investment in Genuity using the cost method. Our accounting policy concerning the method of accounting applied to investments (consolidation, equity or cost) involves an evaluation of all significant terms of the investments that explicitly grant or suggest evidence of control or influence over the operations of the entity in which we have invested. Where control is determined, we consolidate the investment. If we determine that we have significant influence over the operating and financial policies of an entity in which we have invested, we apply the equity method. We apply the cost method in situations where we determine that we do not

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

have significant influence, such as our investment in Genuity. As a result, Genuity's revenues and expenses, as well as changes in balance sheet accounts and cash flows subsequent to June 30, 2000 are no longer included in our consolidated financial results. For comparability, we have adjusted the reported results for all periods prior to June 30, 2000 to exclude the results of Genuity. The after-tax losses were \$281 million (or \$.10 per diluted share) in 2000 and \$325 million (or \$.12 per diluted share) in 1999.

International Restructuring

In 2001, we recorded a pretax charge of \$672 million (\$663 million after-tax, or \$.24 per diluted share) primarily relating to our investment in CTI, our cellular subsidiary in Argentina. Given the current status of the Argentinean economy, the recent devaluation of the Argentinean peso as well as future economic prospects, including a worsening of the recession, we recorded an estimated loss of \$637 million (\$637 million after-tax, or \$.23 per diluted share) based on CTI's current financial position and revised expected results of operations. This loss was an estimation since the Argentinean economy deteriorated very rapidly at year-end and is continuing to reflect instability. This estimated loss may not be sufficient when our assessment of the economic impact on CTI, as well as the structure and nature of our continuing involvement in CTI, is completed. We also recorded a loss of \$35 million (\$26 million after-tax, or \$.01 per diluted share) related to international losses.

In 2000, we recorded a pretax charge of \$50 million (\$50 million after-tax, or \$.02 per diluted share) associated with our share of costs incurred at two of our international equity investees to complete employee separation programs.

Wireless Joint Venture

On April 3, 2000, Verizon and Vodafone consummated the previously announced agreement to combine U.S. wireless and paging operations. In July 2000, following the closing of the Bell Atlantic-GTE merger, interests in GTE's U.S. wireless operations were contributed to Verizon Wireless. As a result, Verizon owns an economic interest of 55% and Vodafone owns an economic interest of 45% in the wireless joint venture. Adjusted results of operations for 1999 reflect the impact of the wireless joint venture for the comparable period in 1999 so that the financial information is presented on a comparable basis with 2000.

Other Charges and Special Items

Other charges and special items recorded during 2001 include asset impairments related to property sales and facility consolidation of \$151 million (\$95 million after-tax, or \$.03 per diluted share).

Other charges and special items recorded during 2000 included the write-off of our investment in NorthPoint Communications Corp. (NorthPoint) of \$155 million (\$153 million after-tax, or \$.06 per diluted share) as a result of the deterioration in NorthPoint's business, operations and financial condition.

Other charges and special items in 2000 also included the cost of disposing or abandoning redundant assets and discontinued

system development projects in connection with the Bell Atlantic-GTE merger of \$287 million (\$175 million after-tax, or \$.06 per diluted share), regulatory settlements of \$98 million (\$61 million after-tax, or \$.02 per diluted share) and other asset write-downs of \$416 million (\$290 million after-tax, or \$.11 per diluted share).

During 1999, we recorded a special charge of \$192 million (\$119 million after-tax, or \$.04 per diluted share) primarily associated with employee separation programs. The charge included separation and related benefits such as outplacement and benefit continuation costs for approximately 3,000 employees. The programs were completed in early April 1999, as planned, consistent with the original cost estimates.

Extraordinary Items

During 2001, we retired \$726 million of debt prior to the stated maturity date, resulting in a pretax extraordinary charge of \$29 million (\$19 million after-tax, or \$.01 per diluted share).

In June 2000, we entered into a series of definitive sale agreements to resolve service area conflicts prohibited by FCC regulations as a result of the Bell Atlantic-GTE merger (see "Sales of Assets, Net - Wireless Overlap Sales"). These agreements, which were pursuant to the consent decree issued for the merger, enabled both the formation of Verizon Wireless and the closing of the merger. Since the sales were required by the consent decree and occurred after the merger, the gains on sales were recorded net of taxes as Extraordinary Items in the consolidated statements of income.

During the second half of 2000, we completed the sale of the Richmond (former PrimeCo) wireless market to CFW Communications Company in exchange for two wireless rural service areas in Virginia and cash. The sale resulted in a pretax gain of \$184 million (\$112 million after-tax, or \$.04 per diluted share). In addition, we completed the sales of the consolidated markets in Washington and Texas and unconsolidated interests in Texas (former GTE) to SBC Communications. The sales resulted in a pretax gain of \$886 million (\$532 million after-tax, or \$.19 per diluted share). Also, we completed the sale of the San Diego (former GTE) market to AT&T Wireless. The sale resulted in a pretax gain of \$304 million (\$182 million after-tax, or \$.07 per diluted share). In 2000, we also completed the sale of the Houston (former PrimeCo) wireless overlap market to AT&T Wireless, resulting in a pretax gain of \$350 million (\$213 million after-tax, or \$.08 per diluted share).

During 2000, we retired \$190 million of debt prior to the stated maturity date, resulting in a pretax extraordinary charge of \$19 million (\$12 million after-tax, or less than \$.01 per diluted share).

During the first quarter of 1999, we repurchased \$338 million of high-coupon debt through a public tender offer prior to stated maturity, resulting in a pretax extraordinary charge of \$46 million (\$30 million after-tax, or \$.01 per diluted share). During the second quarter of 1999, we recorded a pretax extraordinary charge of \$10 million (\$6 million after-tax, or less than \$.01 per diluted share) associated with the early extinguishment of debentures of our telephone subsidiaries.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued**Cumulative Effect of Accounting Change****Impact of SFAS No. 133**

We adopted the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" on January 1, 2001. The impact to Verizon pertains to the recognition of changes in the fair value of derivative instruments. Results for the year ended December 31, 2001 include the initial impact of adoption recorded as a cumulative effect of an accounting change of \$182 million after-tax (or \$.07 per diluted share) in the first quarter of 2001. This cumulative effect charge primarily relates to the change in the fair value of the MFN debt conversion option prior to January 1, 2001.

Impact of SAB No. 101

We adopted the provisions of SAB No. 101 in the fourth quarter of 2000, retroactive to January 1, 2000, as required by the SEC. The impact on our results pertains to the deferral of some non-recurring fees, such as service activation and installation fees, and associated incremental direct costs, and the recognition of those revenues and costs over the expected term of the customer relationship. Our 2000 results include the initial impact of adoption recorded as a cumulative effect of an accounting change of \$40 million after-tax (or \$.01 per diluted share). Our 1999 adjusted results reflect the impact of the new rules on revenue recognition as a gain of \$8 million after-tax (or less than \$.01 per diluted share), had the rules been effective January 1, 1999.

Special items are reflected in our consolidated statements of income for each period as follows:

(dollars in millions)			
Years Ended December 31,	2001	2000	1999
Operating Revenues			
Operations sold	\$ -	\$ (874)	\$ (1,390)
Deconsolidation of Genuity	-	(529)	(807)
Wireless joint venture	-	-	4,282
Other special items	-	119	(1,098)
	-	(1,284)	987
Operations and Support Expense			
Operations sold	-	325	522
Bell Atlantic-GTE merger-related costs	-	1,056	-
Merger transition costs	1,039	694	205
Severance/retirement enhancement costs and settlement gains	1,596	(911)	(663)
Deconsolidation of Genuity	-	829	1,123
International restructuring	672	-	-
Wireless joint venture	-	-	(2,695)
Other special items	219	639	1,278
Depreciation and Amortization			
Operations sold	-	19	46
Deconsolidation of Genuity	-	112	168
Wireless joint venture	-	-	(1,548)
Other special items	-	3	-
Sales of Assets, Net	350	(3,793)	(1,379)
	3,876	(2,311)	(1,956)
Operating Income Impact of Operations Sold			
	-	530	822
Equity in (Income) Loss From Unconsolidated Businesses			
Loss/(gain) on securities	5,869	(3,088)	-
Wireless joint venture	-	-	108
Other special items	12	205	(4)
Other (Income) and Expense, Net			
Total special items	(5)	18	(7)
Interest Expense			
Wireless joint venture	-	-	(100)
Other special items	-	35	2
Minority Interest			
Merger transition costs	(108)	(204)	-
Wireless joint venture	-	-	(379)
Mark-to-Market Adjustment - Financial Instruments			
	182	(664)	664
Total Special Items-Pretax	9,826	(5,479)	(850)
Tax effect of special items and other tax-related items	(2,226)	2,631	449
Total Special Items-After-Tax	7,600	(2,848)	(401)
Extraordinary Items, Net of Tax	19	(1,027)	36
Cumulative Effect of Accounting Change, Net of Tax	182	40	-
Redemption of Subsidiary Preferred Stock	-	10	-
Total Special Items	\$ 7,801	\$ (3,825)	\$ (365)

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

OTHER CONSOLIDATED RESULTS

The following discussion of nonoperating items is based on the amounts reported in our consolidated financial statements.

Other Income and (Expense), Net		(dollars in millions)		
Years Ended December 31,	2001	2000	1999	
Interest income	\$ 383	\$ 281	\$ 101	
Foreign exchange gains (losses), net	32	(11)	11	
Other, net	34	41	31	
Total	\$ 449	\$ 311	\$ 143	

The changes in other income and expense in 2001, compared to 2000, were primarily due to changes in interest income and foreign exchange gains and losses. We recorded additional interest income in 2001 primarily as a result of interest on several notes receivable, higher average cash balances and the settlement of tax-related matters. The change in interest income in 2000, compared to 1999, was the result of higher levels of short-term investments, income from our investment in MFN's subordinated debt securities and the favorable settlement of a tax-related matter.

Foreign exchange gains in 2001 and 2000 were driven primarily by Iusacell, which uses the Mexican peso as its functional currency. Foreign exchange gains or losses are largely associated with the U.S. dollar denominated debt issued by Iusacell.

Interest Expense		(dollars in millions)		
Years Ended December 31,	2001	2000	1999	
Total interest expense	\$ 3,369	\$ 3,490	\$ 2,616	
Capitalized interest costs	368	230	146	
Total interest costs on debt balances	\$ 3,737	\$ 3,720	\$ 2,762	
Average debt outstanding	\$ 62,622	\$ 51,987	\$ 40,821	
Effective interest rate	6.0%	7.2%	6.8%	

The rise in interest costs on debt balances in both 2001 and 2000 was principally due to higher average debt levels. The increase in debt levels for both years was mainly the result of funding for capital expenditures primarily in our Domestic Telecom and Domestic Wireless segments and the debt assumed by Verizon Wireless in connection with the formation of Verizon Wireless. The rise in interest costs in 2001 was partially offset by lower average interest rates.

		(dollars in millions)		
Years Ended December 31,	2001	2000	1999	
Minority interest	\$ (622)	\$ (216)	\$ (159)	

The increase in minority interest during 2001 compared to 2000 is due to higher earnings at Verizon Wireless and the significant minority interest attributable to Vodafone.

The increase in minority interest in 2000 was primarily due to the impact of the wireless joint venture with Vodafone. This increase was partially offset by the redemption in October 1999 and March 2000 of preferred securities issued by our subsidiary GTE Delaware, L.P. and higher operating losses at Iusacell and CTI.

Years Ended December 31,	2001	2000	1999	
Effective income tax rates	78.7%	39.3%	37.0%	

The effective income tax rate is the provision for income taxes as a percentage of income before the provision for income taxes. Our effective income tax rate for 2001 is not consistent with 2000 primarily because tax benefits were not available on many of the losses resulting from the other than temporary decline in market value of several of our investments during 2001.

Our reported effective tax rate for 2000 was higher than 1999 primarily due to some merger-related costs for which no tax benefits were recorded, the write-down of some investments for which no tax benefits were recorded, deferred taxes recorded in connection with the contribution of GTE Wireless assets to Verizon Wireless and higher state income taxes.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for each period is included in Note 20 to the consolidated financial statements.

CONSOLIDATED FINANCIAL CONDITION

		(dollars in millions)		
Years Ended December 31,	2001	2000	1999	
Cash Flows Provided By (Used In)				
Operating activities	\$ 19,773	\$ 15,827	\$ 17,017	
Investing activities	(21,626)	(16,055)	(17,420)	
Financing activities	2,075	(1,048)	1,732	
Increase (Decrease) in Cash and Cash Equivalents	\$ 222	\$ (1,276)	\$ 1,329	

We use the net cash generated from our operations and from external financing to fund capital expenditures for network expansion and modernization, pay dividends, and invest in new businesses. While current liabilities exceeded current assets at December 31, 2001 and 2000, our sources of funds, primarily from operations and, to the extent necessary, from readily available external financing arrangements, are sufficient to meet ongoing operating and investing requirements. We expect that capital spending requirements will continue to be financed primarily through internally generated funds. Additional debt or equity financing will be needed to fund additional development activities or to maintain our capital structure to ensure our financial flexibility.

Cash Flows Provided By Operating Activities

Our primary source of funds continues to be cash generated from operations. In 2001, the increase in cash from operations compared to 2000 primarily reflects improved results of operations before gains and losses on asset sales and the mark-to-market adjustments of financial instruments, which are adjusted in cash from operating activities, partially offset by an increase in working capital requirements.

Decreased cash flow from operations during 2000 resulted primarily from the payment of income taxes on the disposition of businesses and assets. See "Cash Flows Used In Investing Activities" for additional information on sales of businesses and assets. Improved cash flows from operations during 1999 resulted from growth in operating income, partially offset by changes in assets and liabilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

In 1999, the change in assets and liabilities largely reflects growth in customer accounts receivable and a reduction in employee benefit obligations primarily due to favorable investment returns and changes in plan provisions and actuarial assumptions.

Cash Flows Used In Investing Activities

Capital expenditures continue to be our primary use of capital resources. We invested approximately \$11,480 million in our Domestic Telecom business in 2001, compared to \$12,119 million and \$10,087 million in 2000 and 1999, respectively, to facilitate the introduction of new products and services, enhance responsiveness to competitive challenges and increase the operating efficiency and productivity of the network. We also invested approximately \$5,006 million in our Domestic Wireless business in 2001, compared to \$4,322 million and \$1,497 million, respectively, in 2000 and 1999. The increase in 2001 and 2000 is primarily due to the inclusion of both Vodafone and PrimeCo properties in Verizon Wireless in April 2000, as well as increased capital spending in existing Bell Atlantic and GTE wireless properties.

Capital spending is expected to be approximately \$15 billion to \$16 billion in 2002.

We invested \$3,142 million in acquisitions and investments in businesses during 2001, including \$1,691 million related to wireless licenses purchased in connection with an FCC auction (see "Recent Developments - FCC Auction" for additional information), \$410 million for additional wireless spectrum purchased from another telecommunications carrier and \$194 million in wireless properties. In addition, we invested \$497 million to acquire the directory business of TELUS. In 2000, we invested \$2,247 million in acquisitions and investments including approximately \$715 million in the equity of MFN and \$1,028 million in wireless properties. In 1999, we invested \$5,219 million in acquisitions and investments including \$3,250 million to acquire approximately half of the wireless properties of Ameritech Corporation, \$635 million to increase our ownership percentage in Omnitel from 19.7% to 23.1%, \$374 million to fully acquire the cellular properties of Frontier Cellular, \$200 million in PrimeCo, \$366 million for a 40% interest in TELPRI and \$120 million for the purchase of the wireless license in Buenos Aires, Argentina.

In 2001, we received cash proceeds on sales of businesses and assets of \$415 million, including cash proceeds of \$200 million and \$215 million in connection with sales of our Cincinnati and Chicago wireless overlap properties, respectively. In 2000, we received cash proceeds on sales of businesses and assets of \$6,794 million, including gross cash proceeds of \$4,903 million from the sale of non-strategic access lines and \$1,464 million from overlap wireless properties, as well as \$144 million from the sale of CyberTrust. In 1999, we received cash proceeds on sales of businesses and assets of \$1,813 million, including \$1,196 million from the sale of a substantial portion of GTE Government Systems and \$612 million from the disposition of our remaining investment in Viacom.

During 2000, we also invested \$975 million in subordinated convertible notes of MFN, in connection with our overall investment in MFN, as well as \$45 million in OnePoint Communications Corp. notes. The MFN notes were originally issued to be convert-

ible at our option, upon receipt of necessary government approvals, into MFN common stock at a conversion price of \$17 per share (after two-for-one stock split) or an additional 9.6% of the equity of MFN. This investment completed a portion of our previously announced agreement, as amended, with MFN, which included the acquisition of approximately \$350 million of long-term capacity in MFN's fiber optic networks, beginning in 1999 through 2002. Of the \$350 million, \$35 million was paid in November 1999, \$105 million was paid in October 2000 and \$95 million was paid in 2001, and these amounts are included in net cash provided by operating activities. However, in 2001 we renegotiated several significant terms of our MFN investment and commitments, in connection with a new financing arrangement. We purchased an additional \$50 million of subordinated convertible notes, that are convertible into MFN common stock at a conversion price of \$.53 per share. This new financing arrangement also repriced \$500 million of the subordinated convertible notes purchased in 2000 at a conversion price of \$3 per share (from \$17 per share). Furthermore, the remaining obligations under the long-term capacity agreement of \$115 million will be satisfied through purchases in the amount of \$90 million in 2002, \$10 million in 2003 and 2004, and \$5 million in 2005.

Our short-term investments include principally cash equivalents held in trust accounts for payment of employee benefits. In 2001, 2000 and 1999, we invested \$2,002 million, \$1,204 million and \$1,051 million, respectively, in short-term investments, primarily to pre-fund health and welfare benefits. Proceeds from the sales of all short-term investments, principally for the payment of these benefits, were \$1,595 million, \$983 million and \$954 million in the years 2001, 2000 and 1999, respectively.

In 2001, Other, net investing activities include loans to Genuity of \$1,150 million. In addition, we received a deposit of \$191 million related to a sale of telephone lines, \$167 million in connection with CANTV's share repurchase program and proceeds of \$515 million related to prior year wireless asset sales. Also, Other, net investing activities include capitalized non-network software of \$1,250 million, \$1,044 million and \$923 million in 2001, 2000 and 1999, respectively.

The loans to Genuity of \$1,150 million are a part of an agreement to provide up to \$2.0 billion in financing to Genuity with a maturity of 2005.

In addition, under the terms of an investment agreement, Vodafone may require us or Verizon Wireless to purchase up to \$20 billion worth of its interest in Verizon Wireless between 2003 and 2007 at its then fair market value. The purchase of up to \$10 billion may be required during July 2003 or July 2004 and the remainder during the following years.

Cash Flows Provided By (Used In) Financing Activities

The net cash proceeds from increases in our total debt during 2001 of \$6,064 million was primarily due to the issuance of \$7,002 million of long-term debt by Verizon Global Funding Corp., partially offset by repayments of \$980 million of maturities of corporate long-term debt. In addition, Verizon Wireless issued \$4,555 million of long-term debt and repaid \$4,690 million of

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

revolving loans, while Domestic Telecom incurred \$2,303 million of long-term debt, repaid \$573 million of net short-term debt and retired \$1,430 million of long-term debt. In 2000, the net cash proceeds from increases in our total debt of \$5,058 million was primarily due to the issuance of \$5,500 million of long-term notes issued by Verizon Global Funding. The increase in total debt was also attributable to the issuance of \$893 million of notes under a medium-term note program, \$657 million of financing transactions of cellular assets, \$398 million of long-term bank debt at Verizon Wireless and an increase in other short-term borrowings, partially offset by repayments of long-term debt. In 1999, we increased our total debt (including capital lease obligations) by approximately \$6,592 million, primarily due to the issuance of \$4,375 million of long-term debt issued by GTE. Our debt balance at December 31, 1999 also included \$456 million of additional debt issued by lusacell in 1999. These factors were partially offset by the use of cash proceeds received from the disposition of our remaining investment in Viacom. The pre-funding of employee benefit trusts also contributed to the increase in debt levels in 2001, 2000 and 1999. Additionally, the purchases of shares to fund employee stock option exercises contributed to the increase in debt levels in 2000 and 1999.

Our debt to equity ratio was 66.4% at December 31, 2001, compared to 62.4% at December 31, 2000.

As of December 31, 2001, we had approximately \$7.9 billion of unused bank lines of credit and \$449 million in bank borrowings outstanding. As of December 31, 2001, our telephone and financing subsidiaries had shelf registrations for the issuance of up to \$11.9 billion of unsecured debt securities. The debt securities of our telephone and financing subsidiaries continue to be accorded high ratings by primary rating agencies. However, in April 2001, Moody's Investors Service (Moody's) revised our credit rating outlook from stable to negative. Moody's cited concern about our ability to complete an initial public offering (IPO) of Verizon Wireless in a timely fashion in order to pay for the anticipated FCC spectrum auction purchases of \$8.8 billion (see "Other Factors That May Affect Future Results - FCC Auction" for additional information on the current status of the spectrum purchases). A change in an outlook does not necessarily signal a rating downgrade but rather highlights an issue whose final resolution may result in placing a company on review for possible downgrade.

As in prior years, dividend payments were a significant use of capital resources. We determine the appropriateness of the level of our dividend payments on a periodic basis by considering such factors as long-term growth opportunities, internal cash requirements, and the expectations of our shareowners. In 2001, we declared quarterly cash dividends of \$.385 per share. In the first, third and fourth quarters of 2000, we announced a quarterly cash dividend of \$.385 per share. In the second quarter of 2000, we announced two separate pro rata dividends to ensure that the respective shareowners of Bell Atlantic and GTE received dividends at an appropriate rate. In 1999, we declared quarterly cash dividends of \$.385 per share.

In 2001 and 2000, common stock repurchases were primarily the result of the two-year share buyback program approved by the Board of Directors in March 2000 and repurchase of GTE common

stock. In 2001 and 2000, .4 million and 35.1 million Verizon common shares were repurchased, respectively. In January 2002, the Board of Directors approved an extension of the existing buy-back program to February 2004. In August 1999, GTE announced the initiation of a share repurchase program to offset shares issued under its employee-benefit and dividend-reinvestment programs. Under the program, we repurchased approximately 17.7 million shares of GTE common stock in 1999, and completed the program with the purchase of an additional 8.4 million shares valued at approximately \$600 million through February 2000.

Increase (Decrease) in Cash and Cash Equivalents

Our cash and cash equivalents at December 31, 2001 totaled \$979 million, a \$222 million increase over cash and cash equivalents at December 31, 2000 of \$757 million. The December 31, 2000 balance decreased by \$1,276 million compared to 1999. This change is primarily attributable to the increase in cash at December 31, 1999 for the anticipated funding requirements in early 2000 for our investment in MFN, which occurred in March 2000.

Leasing Arrangements

We are the lessor in leveraged and direct financing lease agreements under which commercial aircraft and power generating facilities, which comprise the majority of the portfolio, along with industrial equipment, real estate property, telecommunications and other equipment are leased for remaining terms of 1 to 46 years as of December 31, 2001. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which holds a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with generally accepted accounting principles. All recourse debt is reflected in our consolidated balance sheets.

Contractual Obligations and Commercial Commitments

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

Contractual Obligations	(dollars in millions)				
	Payments Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt	\$51,215	\$5,787	\$11,322	\$10,028	\$24,078
Capital lease obligations	279	50	113	39	77
Operating leases	5,477	723	1,267	1,261	2,226
Other long-term obligations	115	90	20	5	-
Total contractual cash obligations	\$57,086	\$6,650	\$12,722	\$11,333	\$26,381

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued**MARKET RISK**

We are exposed to various types of market risk in the normal course of our business, including the impact of interest rate changes, foreign currency exchange rate fluctuations, changes in equity investment prices and changes in corporate tax rates. We employ risk management strategies using a variety of derivatives, including interest rate swap agreements, interest rate caps and floors, foreign currency forwards and options, equity options and basis swap agreements. We do not hold derivatives for trading purposes.

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

Exchangeable Notes

In 1998, we issued exchangeable notes as described in Notes 10 and 14 to the consolidated financial statements and discussed earlier under "Mark-to-Market Adjustment - Financial Instruments." These financial instruments expose us to market risk, including:

- Equity price risk, because the notes are exchangeable into shares that are traded on the open market and routinely fluctuate in value.
- Foreign exchange rate risk, because the notes are exchangeable into shares that are denominated in a foreign currency.
- Interest rate risk, because the notes carry fixed interest rates.

Periodically, equity price or foreign exchange rate movements may require us to mark-to-market the exchangeable note liability to reflect the increase or decrease in the current share price compared to the established exchange price, resulting in a charge or credit to income. The following sensitivity analysis measures the effect on earnings and financial condition due to changes in the underlying share prices of the TCNZ, C&W and NTL stock.

- At December 31, 2001, the exchange price for the TCNZ shares (expressed as American Depositary Receipts) was \$44.93. The C&W and NTL notes in the amount of \$3,180 million are exchangeable into 128.4 million shares of C&W stock and 24.5 million shares of NTL stock.
- For each \$1 increase in the value of the TCNZ shares above the exchange price, our pretax earnings would be reduced by approximately \$55 million. Assuming the aggregate value of the C&W and NTL stocks exceeds the value of the debt liability, each \$1 increase in the value of the C&W shares (expressed as American Depositary Receipts) or NTL shares

would reduce our pretax earnings by approximately \$43 million or \$24 million, respectively. A subsequent decrease in the value of these shares would correspondingly increase earnings, but not to exceed the amount of any previous reduction in earnings.

- Our cash flows would not be affected by mark-to-market activity relating to the exchangeable notes.
- If we decide to deliver shares in exchange for the notes, the exchangeable note liability (including any mark-to-market adjustments) will be eliminated and the investment will be reduced by the fair market value of the related number of shares delivered. Upon settlement, the excess of the liability over the book value of the related shares delivered will be recorded as a gain. We also have the option to settle these liabilities with cash upon exchange.

Interest Rate Risk

The table that follows summarizes the fair values of our long-term debt, interest rate derivatives and exchangeable notes as of December 31, 2001 and 2000. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming 100-basis-point upward and downward parallel shifts in the yield curve. Our sensitivity analysis did not include the fair values of our commercial paper and bank loans because they are not significantly affected by changes in market interest rates.

		(dollars in millions)	
		Fair Value assuming +100 basis point shift	Fair Value assuming -100 basis point shift
At December 31, 2001			
	Fair Value		
Long-term debt and interest rate derivatives	\$ 45,736	\$ 43,667	\$ 47,973
Exchangeable notes	5,678	5,538	5,786
Total	<u>\$ 51,414</u>	<u>\$ 49,205</u>	<u>\$ 53,759</u>
At December 31, 2000			
Long-term debt and interest rate derivatives	\$ 38,117	\$ 36,309	\$ 39,990
Exchangeable notes	5,694	5,558	5,830
Total	<u>\$ 43,811</u>	<u>\$ 41,867</u>	<u>\$ 45,820</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued**Equity Risk**

The fair values of some of our investments, primarily in common stock, expose us to equity price risk. These investments are subject to changes in the market prices of the securities. As noted earlier, the fair values of our exchangeable notes are also affected by changes in equity price movements. The table that follows summarizes the fair values of our investments and exchangeable notes and provides a sensitivity analysis of the estimated fair values of these financial instruments assuming a 10% increase or decrease in equity prices.

	Fair Value	(dollars in millions)	
		Fair Value assuming 10% decrease in equity price	Fair Value assuming 10% increase in equity price
At December 31, 2001			
Equity price sensitive cost investments, at fair value and derivatives	\$ 2,189	\$ 2,008	\$ 2,369
Exchangeable notes	(5,678)	(5,677)	(5,680)
Total	\$ (3,489)	\$ (3,669)	\$ (3,311)

At December 31, 2000

Equity price sensitive cost investments, at fair value and derivatives	\$ 4,715	\$ 4,239	\$ 5,191
Exchangeable notes	(5,694)	(5,604)	(5,799)
Total	\$ (979)	\$ (1,365)	\$ (608)

Foreign Currency Translation

The functional currency for nearly all of our foreign operations is the local currency. The translation of income statement and balance sheet amounts of these entities into U.S. dollars are recorded as cumulative translation adjustments, which are included in Accumulated Other Comprehensive Loss in our consolidated balance sheets. At December 31, 2001, our primary translation exposure was to the Mexican peso, Canadian dollar, Italian lira, and beginning January 1, 2002, the Euro. We have not hedged our accounting translation exposure to foreign currency fluctuations relative to the carrying value of these investments, except for \$167 million in hedges which protect a portion of U.S. dollar debt at lusacell from foreign currency fluctuations. In 2001, 2000 and 1999, our earnings were affected by foreign currency gains or losses associated with the unhedged portion of U.S. dollar denominated debt at lusacell.

Equity income from our international investments is affected by exchange rate fluctuations when an equity investee has assets and liabilities denominated in a currency other than the investee's functional currency. Several of our equity investees have assets and liabilities denominated in a currency other than the investee's functional currency, such as our investments in Venezuela, Canada, the Philippines and Slovakia.

Foreign Exchange Risk

The fair values of our foreign currency derivatives and investments accounted for under the cost method are subject to fluctuations in foreign exchange rates. We use forward foreign currency exchange contracts to offset foreign exchange gains and losses on British pound and Japanese yen denominated debt obligations.

The table that follows summarizes the fair values of our foreign currency derivatives, cost investments, and the exchangeable notes as of December 31, 2001 and 2000. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming a 10% decrease and increase in the value of the U.S. dollar against the various currencies to which we are exposed. Our sensitivity analysis does not include potential changes in the value of our international investments accounted for under the equity method. As of December 31, 2001, the carrying value of our equity method international investments totaled approximately \$5.7 billion.

	Fair Value	(dollars in millions)	
		Fair Value assuming 10% decrease in US\$	Fair Value assuming 10% increase in US\$
At December 31, 2001			
Foreign exchange sensitive cost investments and foreign currency derivatives	\$ 1,433	\$ 1,581	\$ 1,316
Exchangeable notes	(5,678)	(5,680)	(5,677)
Total	\$ (4,245)	\$ (4,099)	\$ (4,361)

At December 31, 2000

Foreign exchange sensitive cost investments and foreign currency derivatives	\$ 4,159	\$ 4,585	\$ 3,818
Exchangeable notes	(5,694)	(5,799)	(5,604)
Total	\$ (1,535)	\$ (1,214)	\$ (1,786)

OTHER FACTORS THAT MAY AFFECT FUTURE RESULTS**Genuity and Bell Atlantic - GTE Merger**

Genuity, formerly a wholly owned subsidiary of GTE, operates a tier-one interLATA Internet backbone and related data businesses. The transition of Genuity to a public company was part of a comprehensive proposal filed with the FCC on January 27, 2000, to permit the Bell Atlantic-GTE merger to close by addressing regulatory restrictions associated with Verizon's ability to provide long distance and Internet-related data service offerings that GTE had previously provided to consumers and businesses.

In accordance with the provisions of an FCC order, in June 2000 Genuity sold 174 million of its Class A common shares, representing 100% of the issued and outstanding Class A common stock and 90.5% of the overall voting equity in Genuity, in an IPO. GTE retained 100% of Genuity's Class B common stock, which currently represents 8.2% of the voting equity in Genuity, as permitted by the 1996 Act. Our investment also includes a contingent conversion right.

Our contingent conversion right currently permits us to increase our ownership interest to as much as 79.6% of the total equity of Genuity, representing 95.1% of Genuity's total voting rights

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

(before giving effect to outstanding options granted to Genuity employees), if we eliminate the applicable restrictions of Section 271 of the 1996 Act as to 100% of the total telephone access lines owned by Bell Atlantic in 1999 in its region. This option expires if we do not eliminate these restrictions within five years of the merger, subject to possible extension. If we eliminate Section 271 restrictions as to 95% of the former Bell Atlantic in-region lines, we may require Genuity to reconfigure its operations in one or more former Bell Atlantic in-region states where we have not eliminated those restrictions in order to bring those operations into compliance with Section 271. The FCC order also allows us to transfer our Class B common stock to a disposition trustee for sale to one or more third parties once we eliminate Section 271 restrictions on at least 50% of the former Bell Atlantic in-region access lines. As of December 31, 2001, we have eliminated Section 271 restrictions as to more than 50% of the former Bell Atlantic in-region access lines.

The IPO transferred the majority ownership and control of Genuity to the public shareholders and, accordingly, we deconsolidated our investment in Genuity on June 30, 2000. In addition to the transfer, we are also required to adhere to safeguards in the FCC's order that prohibit us from exercising influence over Genuity's operations. Therefore, we are accounting for our investment in Genuity using the cost method.

Federal and state regulatory conditions to the merger also included commitments to, among other things, promote competition and the widespread deployment of advanced services while helping to ensure that consumers continue to receive high-quality, low-cost telephone services. In some cases, there are significant penalties associated with not meeting these commitments. The cost of satisfying these commitments could have a significant impact on net income in future periods. The pretax cost to begin compliance with these conditions was approximately \$200 million in 2000 and approximately \$300 million in 2001. We expect an impact of \$200 million to \$300 million in 2002.

Recent Developments

Verizon Wireless

FCC Auction

On January 29, 2001, the bidding phase of the FCC reauction of 1.9 GHz C and F block broadband Personal Communications Services spectrum licenses, which began December 12, 2000, officially ended. Verizon Wireless was the winning bidder for 113 licenses. The total price of these licenses was \$8,781 million, \$1,822 million of which has already been paid. Most of the licenses that were reaucted relate to spectrum that was previously licensed to NextWave Personal Communications Inc. and NextWave Power Partners Inc. (collectively NextWave), which have appealed to the federal courts the FCC's action canceling NextWave's licenses and reclaiming the spectrum.

In a decision on June 22, 2001, the U.S. Court of Appeals for the D.C. Circuit ruled that the FCC's cancellation and repossession of NextWave's licenses was unlawful. The FCC sought a stay of the court's decision which was denied. The FCC subsequently reinstated NextWave's licenses, but it has neither returned Verizon Wireless's payment on the NextWave licenses nor has it acknowledged that the court's decision extinguished Verizon Wireless's obligation to purchase the licenses. On October 19, 2001 the FCC filed a petition with the U.S. Supreme Court to reverse the U.S. Court of Appeals for the D.C. Circuit's decision. On March 4, 2002, the U.S. Supreme Court granted the FCC's petition and agreed to hear the appeal.

Timing of Initial Public Offering

In November 2001, Verizon Wireless Inc. filed an amended registration statement with the SEC in connection with the proposed IPO of its common stock. Since August 2000, when the Verizon Wireless Inc. registration statement was initially filed with the SEC, we have periodically reiterated that the IPO would occur when market conditions are favorable.

Acquisition of Several Dobson's Wireless Operations

In November and December 2001, we announced that Verizon Wireless signed definitive agreements to acquire several of Dobson Communications Corporation's (Dobson) wireless operations in California, Georgia, Ohio, Tennessee and Arizona. The transactions closed in February 2002. The acquired Dobson properties serve a population of approximately 1.2 million.

Sale of Access Lines

In July 2001, we announced that we were exploring the sale of 1.2 million access lines in Alabama, Kentucky and Missouri.

In October 2001, we agreed to sell all 675,000 of our switched access telephone lines in Alabama and Missouri to CenturyTel Inc. for \$2.2 billion. The sale must be approved by the Missouri public service commission, the FCC and the DOJ. The Alabama public service commission approved the sale in December 2001. We expect to close the sale and transfer our operations to CenturyTel during the second half of 2002.

Also in October 2001, we agreed to sell approximately 600,000 access lines in Kentucky to ALLTEL for \$1.9 billion. The sale has been approved by the Kentucky public service commission, and remains subject to approval by the FCC and the DOJ. We expect to close the sale and transfer our operations to ALLTEL during the second half of 2002.

Regulatory and Competitive Trends

Competition and the Telecommunications Act of 1996

We face increasing competition in all areas of our business. The 1996 Act, regulatory and judicial actions and the development of new technologies, products and services have created opportunities for alternative telecommunication service providers, many of which are subject to fewer regulatory constraints. Current and potential competitors in telecommunication services include long distance companies, other local telephone companies, cable companies, wireless service providers, foreign telecommunications providers, electric utilities, Internet service providers and

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

other companies that offer network services. Many of these companies have a strong market presence, brand recognition and existing customer relationships, all of which contribute to intensifying competition and may affect our future revenue growth.

We are unable to predict definitively the impact that the ongoing changes in the telecommunications industry will ultimately have on our business, results of operations, or financial condition. The financial impact will depend on several factors, including the timing, extent and success of competition in our markets, the timing and outcome of various regulatory proceedings and any appeals, and the timing, extent and success of our pursuit of new opportunities resulting from the 1996 Act and technological advances.

In-Region Long Distance

We offer long distance service nationwide, except in those states served by the former Bell Atlantic telephone operations where we have not yet received authority to offer long distance service under the 1996 Act. Under the 1996 Act, our ability to offer in-region long distance services in the states where the former Bell Atlantic telephone subsidiaries operate as local exchange carriers is largely dependent on satisfying specified requirements. The requirements include a 14-point "competitive checklist" of steps which we must take to help competitors offer local services through resale, through purchase of unbundled network elements, or by interconnecting their own networks to ours. We must also demonstrate to the FCC that our entry into the in-region long distance market would be in the public interest.

We now have authority to offer in-region long distance service in five states in the former Bell Atlantic territory, accounting for more than half of the lines served by the former Bell Atlantic. In addition to its New York order released in December 1999, the FCC released orders on April 16, 2001, July 23, 2001, September 19, 2001 and February 22, 2002 approving our applications for permission to enter the in-region long distance market in Massachusetts, Connecticut, Pennsylvania and Rhode Island, respectively. Both the Massachusetts and Pennsylvania orders are currently on appeal to the U.S. Court of Appeals.

We have filed applications with the FCC to offer long distance service in New Jersey and Vermont. We expect the FCC to rule on those applications by March 20, 2002 and April 17, 2002, respectively. We have also filed state applications for support of anticipated applications with the FCC for permission to enter the in-region long distance market in New Hampshire, Maine and Delaware. Third-party testing of our operations support systems is in its final stages in Virginia, West Virginia, Maryland and the District of Columbia.

FCC Regulation and Interstate Rates

Our telephone operations are subject to the jurisdiction of the FCC with respect to interstate services and related matters. In 2001, the FCC continued to implement reforms to the interstate access charge system and to implement the "universal service" and other requirements of the 1996 Act.

Access Charges and Universal Service

On May 31, 2000, the FCC adopted the CALLS plan as a comprehensive five-year plan for regulation of interstate access charges. The CALLS plan has three main components. First, it establishes a portable interstate access universal service support of \$650 million for the industry. This explicit support replaces implicit support embedded in interstate access charges. Second, the plan simplifies the patchwork of common line charges into one subscriber line charge (SLC) and provides for de-averaging of the SLC by zones and class of customers in a manner that will not undermine comparable and affordable universal service. Third, the plan sets into place a mechanism to transition to a set target of \$.0055 per minute for switched access services. Once that target rate is reached, local exchange carriers are no longer required to make further annual price cap reductions to their switched access prices. The annual reductions leading to the target rate, as well as annual reductions for the subset of special access services that remain subject to price cap regulation was set at 6.5% per year.

On September 10, 2001, the U.S. Court of Appeals for the Fifth Circuit ruled on an appeal of the FCC order adopting the plan. The court upheld the FCC on several challenges to the order, but remanded two aspects of the decision back to the FCC on the grounds that they lacked sufficient justification. The court remanded back to the FCC for further consideration its decision setting the annual reduction factor at 6.5% and the size of the new universal service fund at \$650 million. The entire plan (including these elements) will continue in effect pending the FCC's further consideration of its justification of these components.

As a result of tariff adjustments which became effective in July 2001, approximately 80% of our access lines reached the \$.0055 benchmark.

The FCC has adopted rules for special access services that provide for pricing flexibility and ultimately the removal of services from price regulation when prescribed competitive thresholds are met. In order to use these rules, carriers must forego the ability to take advantage of provisions in the current rules that provide relief in the event earnings fall below prescribed thresholds. In 2001 we were authorized to remove special access and dedicated transport services from price caps in 35 of the 57 Metropolitan Statistical Areas (MSAs) in the former Bell Atlantic territory and in three additional MSAs in the former GTE territory. In addition, the FCC found that in 10 MSAs we have met the stricter standards to remove special access connections to end-user customers from price caps. We have an application pending that, if granted, would remove special access services from price cap regulation in 16 additional MSAs.

In November 1999, the FCC adopted a new mechanism for providing universal service support to high cost areas served by large local telephone companies. This funding mechanism provides additional support for local telephone services in several states served by our telephone operations. This system has been supplemented by the new FCC access charge plan described above. On July 31, 2001, the U.S. Court of Appeals for the Tenth Circuit reversed and remanded to the FCC for further proceedings. The court concluded that the FCC had failed to adequately explain some aspects of its decision and had failed to address

MANAGEMENT'S DISCUSSION AND ANALYSIS

OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION continued

any need for a state universal service mechanism. The current universal service mechanism remains in place pending the outcome of any FCC review as a result of these appeals.

Unbundling of Network Elements

In November 1999, the FCC announced its decision setting forth new unbundling requirements, eliminating elements that it had previously required to be unbundled, limiting the obligation to provide others and adding new elements. Appeals from this decision are pending.

In addition to the unbundling requirements released in November 1999, the FCC released an order in a separate proceeding in December 1999, requiring incumbent local exchange companies also to unbundle and provide to competitors the higher frequency portion of their local loop. This provides competitors with the ability to provision data services on top of incumbent carriers' voice services. Appeals from this order are also pending.

In July 2000, the U.S. Court of Appeals for the Eighth Circuit found that some aspects of the FCC's requirements for pricing UNEs were inconsistent with the 1996 Act. In particular, it found that the FCC was wrong to require incumbent carriers to base these prices not on their real costs but on the imaginary costs of the most efficient equipment and the most efficient network configuration. This portion of the court's decision has been stayed pending review by the U.S. Supreme Court. In addition, the court upheld the FCC's decision that UNEs should be priced based on a forward-looking cost model rather than historical costs. The U.S. Supreme Court currently has this case under review.

In December 2001, the FCC opened its triennial review of unbundled network elements. This rulemaking reopens the question of what network elements must be made available on an unbundled basis under the 1996 Act and will revisit the unbundling decisions described above. In this rulemaking, the FCC also will address other pending issues relating to unbundled elements, including the question of whether competing carriers may substitute combinations of unbundled loops and transport for already competitive special access services.

Compensation for Internet Traffic

On April 27, 2001, the FCC released an order addressing intercarrier compensation for dial-up connections for Internet-bound traffic. The FCC found that Internet-bound traffic is interstate and subject to the FCC's jurisdiction. Moreover, the FCC again found that Internet-bound traffic is not subject to reciprocal compensation under Section 251(b)(5) of the 1996 Act. Instead, the FCC established federal rates for this traffic that decline from \$0.0015 to \$0.0007 over a three-year period. The FCC order also sets caps on the total minutes of this traffic that may be subject to any intercarrier compensation and requires that incumbent local exchange carriers must offer to pay reciprocal compensation for local traffic at the same rate as they are required to pay on Internet-bound traffic. Several competing carriers and state regulators appealed this order to the U.S. Court of Appeals for the D.C. Circuit. The court denied a motion to stay the FCC order, and the order went into effect. The appeal remains pending.

State Regulation

On January 28, 2002, the New York Public Service Commission issued an order mandating reductions in the rates that Verizon New York Inc. may charge its local exchange competitors for access to unbundled network elements. Assuming current volumes, the revenue impact of the reductions is estimated to be \$200 million per year, although this amount may change if volumes change.

Verizon New York has separately been involved in proceedings before the New York Public Service Commission relating to an alternative regulation plan to replace and succeed the current Performance Regulation Plan, put in place in 1995. Under the new two year plan, Verizon New York would be permitted to exercise rate flexibility up to 3% of its total intrastate revenues annually, or approximately \$160 million.

OTHER MATTERS**Recent Accounting Pronouncements***Business Combinations*

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," which applies to business combinations occurring after June 30, 2001. SFAS No. 141 requires that the purchase method of accounting be used and includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in the combination.

Goodwill and Other Intangible Assets

In June 2001, the FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under prescribed conditions) for impairment in accordance with this statement. This impairment test uses a fair value approach rather than the undiscounted cash flows approach previously required by SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The goodwill impairment test under SFAS No. 142 requires a two-step approach, which is performed at the reporting unit level, as defined in SFAS No. 142. Step one identifies potential impairments by comparing the fair value of the reporting unit to its carrying amount. Step two, which is only performed if there is a potential impairment, compares the carrying amount of the reporting unit's goodwill to its implied value, as defined in SFAS No. 142. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized for an amount equal to that excess. The amortization of goodwill included in our investments in equity investees will also no longer be recorded upon adoption of the new rules. Intangible assets that do not have indefinite lives will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

We will adopt SFAS No. 142 effective January 1, 2002. In accordance with the standard, we are currently in the process of performing the transitional goodwill impairment tests and evaluat-

MANAGEMENT'S DISCUSSION AND ANALYSIS**OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION** continued

ing the impact of these tests on our results of operations and financial position. Any impairment resulting from our initial application of the standard will be recorded as a cumulative effect of a change in accounting principle as of January 1, 2002. We have estimated the impact of no longer amortizing goodwill and intangible assets with indefinite lives, including wireless licenses, under the new rules of SFAS No. 142 to be between approximately \$.07 per share and \$.14 per share. The range represents our continuing analysis of intangible assets with indefinite lives and intangible assets that do not have indefinite lives.

Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard provides the accounting for the cost of legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires that companies recognize the fair value of a liability for asset retirement obligations in the period in which the obligations are incurred and capitalize that amount as a part of the book value of the long-lived asset. That cost is then depreciated over the remaining life of the underlying long-lived asset. We are required to adopt SFAS No. 143 effective January 1, 2003. We are currently evaluating the impact this new standard will have on our future results of operations or financial position.

Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144. This standard supersedes SFAS No. 121 and the provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" with regard to reporting the effects of a disposal of a segment of a business. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale and addresses several SFAS No. 121 implementation issues. We are required to adopt SFAS No. 144 effective January 1, 2002. We do not expect the impact of the adoption of SFAS No. 144 to have a material effect on our results of operations or financial position.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

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

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

- the duration and extent of the current economic downturn;
- materially adverse changes in economic conditions in the markets served by us or by companies in which we have substantial investments;
- material changes in available technology;
- an adverse change in the ratings afforded our debt securities by nationally accredited ratings organizations;
- the final outcome of federal, state and local regulatory initiatives and proceedings, including arbitration proceedings, and judicial review of those initiatives and proceedings, pertaining to, among other matters, the terms of interconnection, access charges, and unbundled network element and resale rates;
- the extent, timing, success, and overall effects of competition from others in the local telephone and toll service markets;
- the timing and profitability of our entry and expansion in the national long distance market;
- our ability to satisfy regulatory merger conditions and obtain combined company revenue enhancements and cost savings;
- the profitability of our broadband operations;
- the ability of Verizon Wireless to achieve revenue enhancements and cost savings, and obtain sufficient spectrum resources;
- the continuing financial needs of Genuity, our ability to convert our ownership interest in Genuity into a controlling interest consistent with regulatory conditions, and Genuity's ensuing profitability;
- our ability to recover insurance proceeds relating to equipment losses and other adverse financial impacts resulting from the terrorist attacks on September 11, 2001; and
- changes in our accounting assumptions that regulatory agencies, including the SEC, may require or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

We, the management of Verizon Communications Inc., are responsible for the consolidated financial statements and the information and representations contained in this report. The financial statements have been prepared in conformity with generally accepted accounting principles and include amounts based on management's best estimates and judgments. Financial information elsewhere in this report is consistent with that in the financial statements.

Management has established and maintained a system of internal control which is designed to provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period. The system of internal control includes widely communicated statements of policies and business practices, which are designed to require all employees to maintain high ethical standards in the conduct of our business. The internal controls are augmented by organizational arrangements that provide for appropriate delegation of authority and division of responsibility and by a program of internal audits.

The 2001 and 2000 financial statements have been audited by Ernst & Young LLP, independent accountants, and the 1999 financial statements have been audited by other auditors. Their audits were conducted in accordance with generally accepted auditing standards and included an evaluation of our internal control structure and selective tests of transactions. The Report of Independent Accountants follows this report.

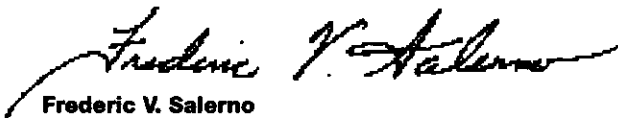
The Audit Committee of the Board of Directors, which is composed solely of outside directors, meets periodically with the independent accountants, management and internal auditors to review accounting, auditing, internal controls, litigation and financial reporting matters. Both the internal auditors and the independent accountants have free access to the Audit Committee without management present.



Charles R. Lee
Chairman of the Board and Co-Chief Executive Officer



Ivan G. Seidenberg
President and Co-Chief Executive Officer



Frederic V. Salerno
Vice Chairman and Chief Financial Officer



Lawrence R. Whitman
Senior Vice President and Controller

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

We have audited the accompanying consolidated balance sheets of Verizon Communications Inc. and subsidiaries (Verizon) as of December 31, 2001 and 2000, and the related consolidated statements of income, cash flows and changes in shareowners' investment for the years then ended. These financial statements are the responsibility of Verizon's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of Verizon for the year ended December 31, 1999 were audited by other auditors whose reports dated February 14, 2000 (except as to the pooling-of-interests with GTE Corporation, which is as of June 30, 2000) and June 30, 2000, expressed unqualified opinions and included explanatory paragraphs that disclosed a change in the method of accounting for the costs of computer software developed or obtained for internal use as required by AICPA Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use."

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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the 2001 and 2000 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Verizon at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 15 to the consolidated financial statements, Verizon changed its method of accounting for derivative instruments in accordance with Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" effective January 1, 2001.



Ernst & Young LLP
New York, New York

January 31, 2002

CONSOLIDATED STATEMENTS OF INCOME

(dollars in millions, except per share amounts)

Years Ended December 31,	2001	2000	1999
Operating Revenues	\$ 67,190	\$ 64,707	\$ 58,194
Operations and support expense	41,651	39,481	33,730
Depreciation and amortization	13,657	12,261	9,890
Sales of assets, net	350	(3,793)	(1,379)
Operating Income	11,532	16,758	15,953
Equity in income (loss) from unconsolidated businesses	(5,042)	3,792	511
Other income and (expense), net	449	311	143
Interest expense	(3,369)	(3,490)	(2,616)
Minority interest	(622)	(216)	(159)
Mark-to-market adjustment – financial instruments	(182)	664	(664)
Income before provision for income taxes, extraordinary items and cumulative effect of accounting change	2,766	17,819	13,168
Provision for income taxes	2,176	7,009	4,872
Income Before Extraordinary Items and Cumulative Effect of Accounting Change	590	10,810	8,296
Extraordinary items, net of tax	(19)	1,027	(36)
Cumulative effect of accounting change, net of tax	(182)	(40)	-
Net Income	389	11,797	8,260
Redemption of subsidiary preferred stock	-	(10)	-
Net Income Available to Common Shareowners	\$ 389	\$ 11,787	\$ 8,260
Basic Earnings (Loss) Per Common Share:			
Income before extraordinary items and cumulative effect of accounting change	\$.22	\$ 3.98	\$ 3.03
Extraordinary items, net of tax	(.01)	.37	(.01)
Cumulative effect of accounting change, net of tax	(.07)	(.01)	-
Net Income	\$.14	\$ 4.34	\$ 3.02
Weighted-average shares outstanding (in millions)	2,710	2,713	2,739
Diluted Earnings (Loss) Per Common Share:			
Income before extraordinary items and cumulative effect of accounting change	\$.22	\$ 3.95	\$ 2.98
Extraordinary items, net of tax	(.01)	.37	(.01)
Cumulative effect of accounting change, net of tax	(.07)	(.01)	-
Net Income	\$.14	\$ 4.31	\$ 2.97
Weighted-average shares outstanding (in millions)	2,730	2,737	2,777

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

(dollars in millions, except per share amounts)

At December 31,	2001	2000
Assets		
Current assets		
Cash and cash equivalents	\$ 979	\$ 757
Short-term investments	1,991	1,613
Accounts receivable, net of allowances of \$2,153 and \$1,562	14,254	14,010
Inventories	1,968	1,910
Net assets held for sale	1,199	518
Prepaid expenses and other	2,796	3,313
Total current assets	23,187	22,121
Plant, property and equipment	169,586	158,957
Less accumulated depreciation	95,167	89,453
	74,419	69,504
Investments in unconsolidated businesses	10,202	13,115
Intangible assets, net	44,262	41,990
Other assets	18,725	18,005
Total assets	\$ 170,795	\$ 164,735
Liabilities and Shareowners' Investment		
Current liabilities		
Debt maturing within one year	\$ 18,669	\$ 14,838
Accounts payable and accrued liabilities	13,947	13,965
Other	5,404	5,433
Total current liabilities	38,020	34,236
Long-term debt	45,657	42,491
Employee benefit obligations	11,898	12,543
Deferred income taxes	16,543	15,260
Other liabilities	3,989	3,797
Minority interest	22,149	21,830
Shareowners' investment		
Series preferred stock (\$.10 par value; none issued)	-	-
Common stock (\$.10 par value; 2,751,650,484 shares issued in both periods)	275	275
Contributed capital	24,676	24,555
Reinvested earnings	10,704	14,667
Accumulated other comprehensive loss	(1,187)	(2,176)
	34,468	37,321
Less common stock in treasury, at cost	1,182	1,861
Less deferred compensation-employee stock ownership plans and other	747	882
Total shareowners' investment	32,539	34,578
Total liabilities and shareowners' investment	\$ 170,795	\$ 164,735

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions)

Years Ended December 31,	2001	2000	1999
Cash Flows from Operating Activities			
Income before extraordinary items and cumulative effect of accounting change	\$ 590	\$ 10,810	\$ 8,296
Adjustments to reconcile income before extraordinary items and cumulative effect of accounting change to net cash provided by operating activities:			
Depreciation and amortization	13,657	12,261	9,890
Sales of assets, net	350	(3,793)	(1,379)
Mark-to-market adjustment – financial instruments	182	(664)	664
Employee retirement benefits	(1,327)	(3,340)	(1,707)
Deferred income taxes	1,065	3,434	2,148
Provision for uncollectible accounts	1,952	1,409	1,133
Equity in unconsolidated businesses	5,042	(3,792)	(511)
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses:			
Accounts receivable	(2,379)	(2,440)	(1,865)
Inventories	(47)	(530)	(146)
Other assets	(396)	(264)	(334)
Accounts payable and accrued liabilities	420	1,973	780
Other, net	664	763	48
Net cash provided by operating activities	19,773	15,827	17,017
Cash Flows from Investing Activities			
Capital expenditures	(17,371)	(17,633)	(13,013)
Acquisitions, net of cash acquired, and investments	(3,142)	(2,247)	(5,219)
Proceeds from disposition of businesses	415	6,794	1,813
Investments in notes receivable	(50)	(1,024)	(1)
Purchases of short-term investments	(2,002)	(1,204)	(1,051)
Proceeds from sale of short-term investments	1,595	983	954
Other, net	(1,071)	(1,724)	(903)
Net cash used in investing activities	(21,626)	(16,055)	(17,420)
Cash Flows from Financing Activities			
Proceeds from long-term borrowings	14,199	8,781	5,299
Repayments of long-term borrowings and capital lease obligations	(7,589)	(7,238)	(2,873)
Increase (decrease) in short-term obligations, excluding current maturities	(546)	3,515	4,166
Dividends paid	(4,168)	(4,421)	(4,227)
Proceeds from sale of common stock	501	576	1,166
Purchase of common stock for treasury	(18)	(2,294)	(2,037)
Minority interest	53	3	122
Other, net	(357)	30	116
Net cash provided by (used in) financing activities	2,075	(1,048)	1,732
Increase (decrease) in cash and cash equivalents	222	(1,276)	1,329
Cash and cash equivalents, beginning of year	757	2,033	704
Cash and cash equivalents, end of year	\$ 979	\$ 757	\$ 2,033

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREOWNERS' INVESTMENT

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

Years Ended December 31,	2001		2000		1999	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	2,751,650	\$ 275	2,756,485	\$ 276	2,757,203	\$ 276
Shares issued-employee plans	-	-	5,533	-	20,918	2
Shares retired	-	-	(10,368)	(1)	(21,636)	(2)
Balance at end of year	2,751,650	275	2,751,650	275	2,756,485	276
Contributed Capital						
Balance at beginning of year		24,555		20,134		20,160
Shares issued-employee plans		-		473		989
Shares retired		-		(577)		(1,314)
Issuance of stock by subsidiaries		-		171		44
Tax benefit from exercise of stock options		101		66		256
Gain on formation of wireless joint venture		-		4,271		-
Other		20		17		(1)
Balance at end of year		24,676		24,555		20,134
Reinvested Earnings						
Balance at beginning of year		14,667		7,428		3,754
Net income		389		11,797		8,260
Dividends declared (\$1.54, \$1.54, and \$1.54 per share)		(4,176)		(4,416)		(4,219)
Shares issued-employee plans		(188)		(160)		(359)
Other		12		18		(8)
Balance at end of year		10,704		14,667		7,428
Accumulated Other Comprehensive Income (Loss)						
Balance at beginning of year		(2,176)		75		(1,088)
Foreign currency translation adjustment		(40)		(262)		(41)
Unrealized gains (losses) on marketable securities		1,061		(1,965)		1,197
Unrealized derivative losses on cash flow hedges		(45)		-		-
Minimum pension liability adjustment		13		(24)		7
Other comprehensive income (loss)		989		(2,251)		1,163
Balance at end of year		(1,187)		(2,176)		75
Treasury Stock						
Balance at beginning of year	49,215	1,861	23,569	640	22,887	593
Shares purchased	395	18	35,110	1,717	12,142	723
Shares distributed						
Employee plans	(14,376)	(694)	(9,444)	(495)	(11,446)	(675)
Shareowner plans	(61)	(3)	(20)	(1)	(14)	(1)
Balance at end of year	35,173	1,182	49,215	1,861	23,569	640
Deferred Compensation-ESOPs and Other						
Balance at beginning of year		882		897		1,074
Amortization		(155)		(155)		(177)
Other		20		140		-
Balance at end of year		747		882		897
Total Shareowners' Investment		\$ 32,539		\$ 34,578		\$ 26,376
Comprehensive Income						
Net income		\$ 389		\$ 11,797		\$ 8,260
Other comprehensive income (loss) per above		989		(2,251)		1,163
Total Comprehensive Income		\$ 1,378		\$ 9,546		\$ 9,423

See Notes to Consolidated Financial Statements.

NOTE 1**DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****Description of Business**

Verizon Communications Inc. (Verizon) is one of the world's leading providers of communications services. Our company is the largest provider of wireline and wireless communications in the United States. Our global presence extends to over 40 countries in the Americas, Europe, Asia and the Pacific. We have four reportable segments, which we operate and manage as strategic business units: Domestic Telecom, Domestic Wireless, International and Information Services. For further information concerning our business segments, see Note 21.

Consolidation

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

All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

We prepare our financial statements using 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 and the recoverability of intangibles and other long-lived assets.

Revenue Recognition

We recognize wireline and wireless service revenues based upon usage of our network and facilities and contract fees. We recognize product and other service revenues when the products are delivered and accepted by the customers and when services are provided in accordance with contract terms. We recognize directory revenues, and associated costs, when the directories are published and distributed.

We adopted the provisions of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements" effective January 1, 2000, as required by the SEC. The impact to Verizon pertains to

the deferral of some non-recurring fees, such as service activation and installation fees, and associated incremental direct costs, and the recognition of those revenues and costs over the expected term of the customer relationship. The total cumulative effect of adopting SAB No. 101 was a non-cash, after-tax charge of \$40 million.

Maintenance and Repairs

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

Earnings Per Common Share

Basic earnings per common share are based on the weighted-average number of shares outstanding during the year. Diluted earnings per common share include the dilutive effect of shares issuable under our stock-based compensation plans, which represent the only potentially dilutive common shares.

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

Marketable Securities

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

Inventories

We include in inventory new and reusable supplies and network equipment of our telephone operations, which are stated principally at average original cost, except that specific costs are used in the case of large individual items. Inventories of our other subsidiaries are stated at the lower of cost (determined principally on either an average cost or first-in, first-out basis) or market.

Plant and Depreciation

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

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

Average Lives (in years)	
Buildings	35
Central office equipment	5-10
Outside communications plant	14-50
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.

Plant, property and equipment of our other subsidiaries is depreciated on a straight-line basis over the following estimated useful lives: buildings, 20 to 40 years; wireless plant equipment, 3 to 15 years; and other equipment, 1 to 20 years.

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

We capitalize 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.

Computer Software Costs

We capitalize the cost of internal-use 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 software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Also, we capitalize interest associated with the development of internal-use software. Capitalized computer software costs are amortized using the straight-line method over a period of 3 to 7 years.

Goodwill and Other Intangibles

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. For acquisitions prior to July 1, 2001, we generally amortized goodwill, wireless licenses and other identifiable intangibles on a straight-line basis over their estimated useful life, not exceeding 40 years. For acquisitions after June 30, 2001, we applied newly issued accounting rules on business combinations, goodwill and intangible assets, which no longer permit amortization of goodwill and indefinite-lived intangible assets. Most of our acquired customer bases are amortized in a manner consistent with historical attrition patterns. Through December 31, 2001 we assessed the impairment of other identifiable intangibles and goodwill related to our consolidated subsidiaries under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" whenever events or changes in circumstances indicated that the carrying value may not have been recoverable. A determination of impairment (if any) was made based on estimates of future cash flows. In instances where goodwill was

recorded for assets that were subject to an impairment loss, the carrying amount of the goodwill was eliminated before any reduction was made to the carrying amounts of impaired long-lived assets and identifiable intangibles. On a quarterly basis, we assessed the impairment of enterprise level goodwill under Accounting Principles Board (APB) Opinion No. 17, "Intangible Assets." A determination of impairment (if any) was made based primarily on estimates of market value.

In June 2001, the Financial Accounting Standards Board (FASB) issued new pronouncements which change our accounting policies for goodwill and other intangible assets and for impairments or disposals of long-lived assets (see "Recent Accounting Pronouncements" below).

Sale of Stock by Subsidiary

We recognize in consolidation changes in our ownership percentage in a subsidiary caused by issuances of the subsidiary's stock as adjustments to Contributed Capital.

Income Taxes

Verizon and its domestic subsidiaries file a consolidated federal income tax return. For periods prior to the Bell Atlantic-GTE merger (see Note 3), GTE filed a separate consolidated federal income tax return.

Our telephone operations 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.

Stock-Based Compensation

We account for stock-based employee compensation plans under APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, and follow the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

Foreign Currency Translation

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

When a foreign entity operates in a highly inflationary economy, we use the U.S. dollar as the functional currency rather than the local currency. We translate nonmonetary assets and liabilities and related expenses into U.S. dollars at historical exchange rates. We translate all other income statement amounts using average exchange rates for the period. Monetary assets and liabilities are

translated at end-of-period exchange rates, and any gains or losses are reported in income.

Employee Benefit Plans

Pension and postretirement health care and life insurance benefits earned during the year as well as interest on projected benefit obligations are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive benefits.

Derivative Instruments

We have entered into derivative transactions to manage our exposure to fluctuations in foreign currency exchange rates, interest rates, equity prices and corporate tax rates. We employ risk management strategies using a variety of derivatives including foreign currency forwards and options, equity options, interest rate swap agreements, interest rate caps and floors, and basis swap agreements. We do not hold derivatives for trading purposes.

Effective January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." SFAS No. 133 requires that all derivatives, including derivatives embedded in other financial instruments, be measured at fair value and recognized as either assets or liabilities on our balance sheet. Changes in the fair values of derivative instruments not qualifying as hedges under SFAS No. 133 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 loss, and recognized in earnings when the hedged item is recognized in earnings.

Prior to January 1, 2001, foreign currency derivatives and basis swap agreements were accounted for under the fair value method which required us to record these derivatives at fair value in our consolidated balance sheets, with any changes in value recorded in income or Shareowners' Investment. Gains, losses and related discounts or premiums related to foreign currency derivatives that hedged our investments in consolidated foreign subsidiaries or foreign equity method investments were included in Accumulated Other Comprehensive Loss and reflected in income upon sale or substantial liquidation of the investment. Gains or losses from foreign currency derivatives that hedged our short-term transactions and cost method investments were included in Other Income and (Expense), Net, and discounts or premiums on these contracts were included in income over the lives of the contracts. Gains or losses from identifiable foreign currency commitments were deferred and recognized in income when the future transaction occurred or at the time the transaction was no longer likely to occur. Interest rate swap agreements and interest rate caps and floors that qualified as hedges were accounted for under the accrual method. Under the accrual method, no amounts were recognized in our consolidated balance sheets related to the principal balances. The interest differential that was paid or received and the premiums related to caps and floors were recognized as

adjustments to Interest Expense over the life of the agreements. Gains or losses on terminated agreements were recorded as an adjustment to the basis of the underlying liability and amortized over the original life of the agreement.

Recent Accounting Pronouncements

Business Combinations

In June 2001, the FASB issued SFAS No. 141, "Business Combinations," which applies to business combinations occurring after June 30, 2001. SFAS No. 141 requires that the purchase method of accounting be used and includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in the combination.

Goodwill and Other Intangible Assets

In June 2001, the FASB also issued SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. This impairment test uses a fair value approach rather than the undiscounted cash flows approach previously required by SFAS No. 121. The goodwill impairment test under SFAS No. 142 requires a two-step approach, which is performed at the reporting unit level, as defined in SFAS No. 142. Step one identifies potential impairments by comparing the fair value of the reporting unit to its carrying amount. Step two, which is only performed if there is a potential impairment, compares the carrying amount of the reporting unit's goodwill to its implied value, as defined in SFAS No. 142. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized for an amount equal to that excess. The amortization of goodwill included in our investments in equity investees will also no longer be recorded upon adoption of the new rules. Intangible assets that do not have indefinite lives will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

We will adopt SFAS No. 142 effective January 1, 2002. In accordance with the standard, we are currently in the process of performing the transitional goodwill impairment tests and evaluating the impact of these tests on our results of operations and financial position. Any impairment resulting from our initial application of the standard will be recorded as a cumulative effect of a change in accounting principle as of January 1, 2002. We have estimated the impact of no longer amortizing goodwill and intangible assets with indefinite lives, including wireless licenses, under the new rules of SFAS No. 142 to be between approximately \$.07 per share and \$.14 per share. The range represents our continuing analysis of intangible assets with indefinite lives and intangible assets that do not have indefinite lives.

Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This standard provides the accounting for the cost of legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires that companies recognize the fair value of a liability for asset retire-

ment obligations in the period in which the obligations are incurred and capitalize that amount as a part of the book value of the long-lived asset. That cost is then depreciated over the remaining life of the underlying long-lived asset. We are required to adopt SFAS No. 143 effective January 1, 2003. We are currently evaluating the impact this new standard will have on our future results of operations or financial position.

Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144. This standard supersedes SFAS No. 121 and the provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" with regard to reporting the effects of a disposal of a segment of a business. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale and addresses several SFAS No. 121 implementation issues. We are required to adopt SFAS No. 144 effective January 1, 2002. We do not expect the impact of the adoption of SFAS No. 144 to have a material effect on our results of operations or financial position.

NOTE 2

ACCOUNTING FOR THE IMPACT OF THE SEPTEMBER 11, 2001 TERRORIST ATTACKS

The terrorist attacks on September 11th resulted in considerable loss of life and property, as well as exacerbate weakening economic conditions. Verizon was not spared any of these effects, given our significant operations in New York and Washington, D.C.

The primary financial statement impact of the September 11th terrorist attacks pertains to Verizon's plant, equipment and administrative office space located either in, or adjacent to the World Trade Center complex, and the associated service restoration efforts. During the period following September 11th, we focused primarily on service restoration in the World Trade Center area and incurred costs, net of estimated insurance recoveries, totaling \$285 million pretax (\$172 million after-tax, or \$.06 per diluted share) as a result of the terrorist attacks.

Verizon's insurance policies are limited to losses of \$1 billion for each occurrence and include a deductible of \$1 million. As a result, we accrued an estimated insurance recovery of approximately \$400 million in 2001, of which approximately \$130 million has been received. The costs and estimated insurance recovery were recorded in accordance with Emerging Issues Task Force Issue No. 01-10, "Accounting for the Impact of the Terrorist Attacks of September 11, 2001."

NOTE 3

COMPLETION OF MERGERS

On June 30, 2000, Bell Atlantic Corporation (Bell Atlantic) and GTE Corporation (GTE) completed a merger under a definitive merger agreement dated as of July 27, 1998. Upon closing of the merger, the combined company began doing business as Verizon. GTE shareowners received 1.22 shares of Bell Atlantic common

stock for each share of GTE common stock that they owned. The merger qualified as a tax-free reorganization and has been accounted for as a pooling-of-interests business combination. Under this method of accounting, Bell Atlantic and GTE are treated as if they had always been combined for accounting and financial reporting purposes. As a result, we have restated our consolidated financial statements for all dates and periods prior to the merger to reflect the combined results of Bell Atlantic and GTE as of the beginning of the earliest period presented.

In addition to combining the separate historical results of Bell Atlantic and GTE, the restated combined financial statements include the adjustments necessary to conform accounting methods and presentation, to the extent that they were different, and to eliminate significant intercompany transactions. The separate Bell Atlantic and GTE results of operations for periods prior to the merger were as follows:

	Three Months Ended March 31, 2000	(dollars in millions) Year Ended December 31, 1999
Operating Revenues	(Unaudited)	
Bell Atlantic	\$ 8,534	\$ 33,174
GTE	6,100	25,336
Conforming adjustments, reclassifications and eliminations	(85)	(316)
Accounting change	(17)	-
Combined	<u>\$ 14,532</u>	<u>\$ 58,194</u>
Net Income		
Bell Atlantic	\$ 731	\$ 4,202
GTE	807	4,033
Conforming adjustments, reclassifications and eliminations	19	25
Accounting change	(42)	-
Combined	<u>\$ 1,515</u>	<u>\$ 8,260</u>

The following table summarizes the pretax charges incurred for the Bell Atlantic-GTE merger. Amounts for 2001 and 2000 pertain to the Bell Atlantic-GTE merger. Transition costs for 1999 pertain to the Bell Atlantic-NYNEX Corporation (NYNEX) merger, which was completed in August 1997.

Years Ended December 31,	2001	2000	1999
(dollars in millions)			
Direct Incremental Costs			
Compensation arrangements	\$ -	\$ 210	\$ -
Professional services	-	161	-
Shareowner-related	-	35	-
Registration, regulatory and other	-	66	-
Total Direct Incremental Costs	-	<u>472</u>	-
Employee Severance Costs	-	584	-
Transition Costs			
Systems modifications	401	99	186
Branding	112	240	1
Relocation, training and other	526	355	18
Total Transition Costs	<u>1,039</u>	<u>694</u>	<u>205</u>
Total Merger-Related Costs	<u>\$ 1,039</u>	<u>\$ 1,750</u>	<u>\$ 205</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

The following table provides a reconciliation of the liabilities associated with Bell Atlantic-GTE merger-related costs, Bell Atlantic-NYNEX merger-related costs and other charges and special items described below:

(dollars in millions)

	1999				2000				2001			
	Beginning of Year	Payments	Asset Write-offs and Other	End of Year	Charged to Expense	Payments	Asset Write-offs and Other	End of Year	Payments	Asset Write-offs and Other	End of Year	
Merger-Related												
Direct incremental costs	\$ 4	\$ (1)	\$ (3)	\$ -	\$ 472	\$ (469)	\$ -	\$ 3	\$ (3)	\$ -	\$ -	
Employee severance costs	316	(35)	(15)	266	584	(120)	(68)	662	(310)	71	423	
Other Initiatives												
Video-related costs	6	(2)	(4)	-	-	-	-	-	-	-	-	
Write-down of fixed assets and real estate consolidation	23	(3)	(18)	2	-	-	(2)	-	-	-	-	
Regulatory, tax and legal contingencies, and other special items	249	(4)	(40)	205	-	(14)	(73)	118	-	(10)	108	
	\$ 598	\$ (45)	\$ (80)	\$ 473	\$ 1,056	\$ (603)	\$ (143)	\$ 783	\$ (313)	\$ 61	\$ 531	

Merger-Related Costs*Direct Incremental Costs*

Direct incremental costs related to the Bell Atlantic-GTE merger of \$472 million (\$378 million after-tax, or \$.14 per diluted share) include compensation, professional services and other costs. Compensation includes retention payments to employees that were contingent on the close of the merger and payments to employees to satisfy contractual obligations triggered by the change in control. Professional services include investment banking, legal, accounting, consulting and other advisory fees incurred to obtain federal and state regulatory approvals and take other actions necessary to complete the merger. Other includes costs incurred to obtain shareholder approval of the merger, register securities and communicate with shareholders, employees and regulatory authorities regarding merger issues. All of the Bell Atlantic-GTE merger direct incremental costs had been paid as of December 31, 2001.

Employee Severance Costs

Employee severance costs related to the Bell Atlantic-GTE merger of \$584 million (\$371 million after-tax, or \$.14 per diluted share), as recorded under SFAS No. 112, "Employers' Accounting for Postemployment Benefits," represent the benefit costs for the separation of approximately 5,500 management employees who were entitled to benefits under pre-existing separation plans, as well as an accrual for ongoing SFAS No. 112 obligations for GTE employees. Of these employees, approximately 5,200 were located in the United States and approximately 300 were located at various international locations. The separations either have or are expected to occur as a result of consolidations and process enhancements within our operating segments. Accrued postemployment benefit liabilities for those employees are included in our consolidated balance sheets as components of Other Current Liabilities and Employee Benefit Obligations. As of December 31, 2001, a total of approximately 5,400 employees have been separated with severance benefits in connection with the Bell Atlantic-GTE merger severance program and ongoing severance plans.

Employee severance costs related to the Bell Atlantic-NYNEX merger represented the benefit costs for the separation of approximately 3,100 management employees who were entitled to benefits under pre-existing separation pay plans. During 1999, 231 management employees were separated with severance benefits. There were no Bell Atlantic-NYNEX merger-related separations in 2000 and 2001. There was no remaining severance liability under this program as of December 31, 2000.

Transition Costs

In addition to the direct incremental merger-related and severance costs discussed above, we expect to incur a total of approximately \$2 billion of transition costs related to the Bell Atlantic-GTE merger and the formation of the wireless joint venture. These costs will be incurred to integrate systems, consolidate real estate, and relocate employees. They also include approximately \$500 million for advertising and other costs to establish the Verizon brand. Transition costs related to the Bell Atlantic-GTE merger and the formation of the wireless joint venture were \$1,039 million (\$578 million after taxes and minority interest, or \$.21 per diluted share) in 2001 and \$694 million (\$316 million after taxes and minority interest, or \$.12 per diluted share) in 2000.

In connection with the Bell Atlantic-NYNEX merger, we recorded transition costs similar in nature to the Bell Atlantic-GTE merger transition costs of \$205 million (\$126 million after-tax, or \$.05 per diluted share) in 1999.

Genuity

In accordance with the provisions of a Federal Communications Commission (FCC) order approving the merger of Bell Atlantic and GTE, in June 2000 Genuity Inc. (Genuity), formerly a wholly owned subsidiary of GTE, sold in a public offering 174 million of its Class A common shares, representing 100% of Genuity's issued and outstanding Class A common stock and 90.5% of its overall voting equity. The issuance resulted in cash proceeds to Genuity of \$1.9 billion. GTE retained 100% of Genuity's Class B common stock, which currently represents 8.2% of the voting equity in Genuity and contains a contingent conversion feature.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

In accordance with provisions of the FCC order, the sale transferred the majority ownership and control of Genuity to the Class A common stockholders and, accordingly, we deconsolidated our investment in Genuity effective June 30, 2000. In addition to the sale, we are also required to adhere to safeguards in the FCC's order that prohibit us from exercising influence over Genuity's operations. Therefore, we are accounting for our investment in Genuity using the cost method.

The Class B common stock's conversion rights are dependent on the percentage of certain of Verizon's access lines that are compliant with Section 271 of the Telecommunications Act of 1996 (Section 271). Under the FCC order, once we eliminate the applicable Section 271 restrictions as to at least 50% of the former Bell Atlantic in-region access lines, we can transfer our Class B common stock to a disposition trustee for sale to one or more third parties. If we eliminate the applicable Section 271 restrictions as to 100% of the former Bell Atlantic in-region access lines, we can convert our Class B common stock into 800 million shares of Genuity's Class A common stock or Class C common stock, subject to the terms of the FCC order. This conversion feature expires if we do not eliminate the applicable Section 271 restrictions as to 100% of the former Bell Atlantic in-region access lines by the fifth anniversary of the Bell Atlantic-GTE merger, subject to extension under certain circumstances. In addition, if we eliminate Section 271 restrictions as to 95% of the former Bell Atlantic in-region lines, we may require Genuity to reconfigure its operations in one or more former Bell Atlantic in-region states where we have not eliminated those restrictions in order to bring those operations into compliance with Section 271 under certain circumstances. As of December 31, 2001, we have eliminated Section 271 restrictions as to more than 50% of the former Bell Atlantic in-region access lines.

For further information related to our investment in Genuity, see Note 10.

NOTE 4

NET ASSETS HELD FOR SALE

In December 2001, we agreed to sell Telecommunication Services Inc. (TSI), for approximately \$800 million. The transaction closed on February 14, 2002.

During the third quarter of 2001, we announced that we were exploring the sale of approximately 1.2 million switched telephone access lines in Alabama, Kentucky and Missouri, and during the quarter we committed to sell those access lines. In October 2001, we agreed to sell all 675,000 of our access lines in Alabama and Missouri to CenturyTel Inc. (CenturyTel) for \$2.2 billion. The sale must be approved by the Missouri public service commission, the FCC and the U.S. Department of Justice (DOJ). The Alabama public service commission approved the sale in December 2001. We expect to close the sale and transfer our operations to CenturyTel during the second half of 2002. Also in October 2001, we agreed to sell approximately 600,000 access lines in Kentucky to ALLTEL Corporation (ALLTEL) for \$1.9 billion. The sale has been approved by the Kentucky public service commission, and remains subject to approval by the FCC and the DOJ. We expect

to close the sale and transfer our operations to ALLTEL during the second half of 2002. The net assets pertaining to those access lines, principally plant, property and equipment of approximately \$1.2 billion, are classified in the consolidated balance sheets as Net Assets Held for Sale as of December 31, 2001. At December 31, 2001, these access lines represent less than 2% of Verizon's total switched access lines in service.

NOTE 5

SALES OF ASSETS, NET

During 2001, we recognized net losses in operations related to sales of assets, impairments of assets held for sale and other charges. During 2000 and 1999, we recognized net gains related to sales of assets and impairments of assets held for sale. These net gains and losses are summarized as follows:

(dollars in millions)

Years Ended	2001		2000		1999	
December 31,	Pretax	After-tax	Pretax	After-tax	Pretax	After-tax
Wireline property sales	\$ -	\$ -	\$ 3,051	\$ 1,856	\$ -	\$ -
Wireless overlap sales	(92)	(60)	1,922	1,156	-	-
Other, net	(258)	(166)	(1,180)	(1,025)	1,379	819
	<u>\$ (350)</u>	<u>\$ (226)</u>	<u>\$ 3,793</u>	<u>\$ 1,987</u>	<u>\$ 1,379</u>	<u>\$ 819</u>

As required, gains on sales of wireless overlap properties that occurred prior to the closing of the Bell Atlantic-GTE merger are included in operating income and in the table above. Gains on sales of significant wireless overlap properties that occurred after the Bell Atlantic-GTE merger are classified as extraordinary items. See Note 7 for gains on sales of significant wireless overlap properties subsequent to the Bell Atlantic-GTE merger.

Wireline Property Sales

During 1998, GTE committed to sell approximately 1.6 million nonstrategic domestic access lines. During 2000, access line sales generated combined cash proceeds of approximately \$4,903 million and \$125 million in convertible preferred stock. The pretax gain on the sales was \$3,051 million (\$1,856 million after-tax, or \$.68 per diluted share).

Wireless Overlap Sales

A DOJ consent decree issued on December 6, 1999 required GTE Wireless, Bell Atlantic Mobile, Vodafone Group plc (Vodafone) and PrimeCo Communications (PrimeCo) to resolve a number of wireless market overlaps in order to complete the wireless joint venture and the Bell Atlantic-GTE merger. As a result, during April 2000 we completed a transaction with ALLTEL that provided for the exchange of former Bell Atlantic Mobile and GTE Wireless markets for several of ALLTEL's wireless markets. These exchanges were accounted for as purchase business combinations and resulted in combined pretax gains of \$1,922 million (\$1,156 million after-tax, or \$.42 per diluted share).

During 2001, we recorded a pretax gain of \$80 million (\$48 million after-tax, or \$.02 per diluted share) on the sale of the Cincinnati market and a pretax loss of \$172 million (\$108 million after-tax, or \$.04 per diluted share) related to the sale of the Chicago market.

Other Transactions

During 2001, we recorded charges totaling \$258 million pretax (\$166 million after-tax, or \$.06 per diluted share) related to exiting several businesses, including our video business and some leasing activities.

During 2000, we recorded charges related to the write-down of certain impaired assets and other charges of \$1,180 million pretax (\$1,025 million after-tax, or \$.37 per diluted share), as follows:

Year Ended December 31, 2000	(dollars in millions, except per share amounts)		
	Pretax	After-tax	Per diluted share
Airfone and Video impairment	\$ 566	\$ 362	\$.13
CLEC impairment	334	218	.08
Real estate consolidation and other merger-related charges	220	142	.05
Deferred taxes on contribution to the wireless joint venture	-	249	.09
Other, net	60	54	.02
	<u>\$ 1,180</u>	<u>\$ 1,025</u>	<u>\$.37</u>

In connection with our decisions to exit the video business and Airfone (a company involved in air-to-ground communications), in the second quarter of 2000 we recorded an impairment charge to reduce the carrying value of these investments to their estimated net realizable value.

The competitive local exchange carrier (CLEC) impairment primarily relates to the revaluation of assets and the accrual of costs pertaining to certain long-term contracts due to strategic changes in our approach to offering bundled services both in and out of franchise areas. The revised approach to providing such services resulted, in part, from post-merger integration activities and acquisitions.

The real estate consolidation and other merger-related charges include the revaluation of assets and the accrual of costs to exit leased facilities that are in excess of our needs as the result of post-merger integration activities.

The deferred tax charge is non-cash and was recorded as the result of the contribution in July 2000 of the GTE Wireless assets to Verizon Wireless based on the differences between the book and tax bases of assets contributed.

During 1999, we sold substantially all of GTE Government Systems to General Dynamics Corporation for \$1 billion in cash. The pretax gain on the sale was \$754 million (\$445 million after-tax, or \$.16 per diluted share). In addition, during 1999, we recorded a net pretax gain of \$112 million (\$66 million after-tax, or \$.02 per diluted share), primarily associated with the sale of the remaining major division of GTE Government Systems to DynCorp. The 1999 year-to-date net gains for asset sales also include a pretax gain of \$513 million (\$308 million after-tax, or \$.11 per diluted share) associated with the merger of BC TELECOM Inc. (BC TELECOM) and TELUS Corporation during the first quarter of 1999.

NOTE 6**OTHER STRATEGIC ACTIONS**

During the fourth quarter of 2001, we recorded a special charge of \$1,613 million (\$1,001 million after-tax, or \$.37 per diluted share) primarily associated with employee severance costs and related pension enhancements. The charge included severance and related benefits of \$765 million (\$477 million after-tax, or \$.18 per diluted share), as recorded under SFAS No. 112, for the voluntary and involuntary separation of approximately 10,000 employees. We also included a charge of \$848 million (\$524 million after-tax, or \$.19 per diluted share) recorded in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits," which includes pension enhancements of \$813 million (\$504 million after-tax, or \$.18 per diluted share) and pension settlement losses of \$35 million (\$20 million after-tax, or \$.01 per diluted share), relating to lump sum settlements of some existing pension obligations.

In 2001, we recorded a pretax charge of \$672 million (\$663 million after-tax, or \$.24 per diluted share) primarily relating to our investment in CTI Holdings, S.A. (CTI), our cellular subsidiary in Argentina. Given the current status of the Argentinean economy, the recent devaluation of the Argentinean peso as well as future economic prospects, including a worsening of the recession, we recorded an estimated loss of \$637 million (\$637 million after-tax, or \$.23 per diluted share) based on CTI's current financial position and revised expected results of operations. This loss was an estimation since the Argentinean economy deteriorated very rapidly at year-end and is continuing to reflect instability. This estimated loss may not be sufficient when our assessment of the economic impact on CTI, as well as the structure and nature of our continuing involvement in CTI, is completed. We also recorded a loss of \$35 million (\$26 million after-tax, or \$.01 per diluted share) related to international losses.

In 2000, we recorded a pretax charge of \$50 million (\$50 million after-tax, or \$.02 per diluted share) associated with our share of costs incurred at two of our international equity investees to complete employee separation programs.

Other charges and special items recorded during 2001 include asset impairments related to property sales and facility consolidation of \$151 million (\$95 million after-tax, or \$.03 per diluted share).

Other charges and special items recorded during 2000 included the write-off of our investment in NorthPoint Communications Corp. (NorthPoint) of \$155 million (\$153 million after-tax, or \$.06 per diluted share) as a result of the deterioration in NorthPoint's business, operations and financial condition.

Other charges and special items in 2000 also included the cost of disposing or abandoning redundant assets and discontinued system development projects in connection with the Bell Atlantic-GTE merger of \$287 million (\$175 million after-tax, or \$.06 per diluted share), regulatory settlements of \$98 million (\$61 million after-tax, or \$.02 per diluted share) and other asset write-downs of \$416 million (\$290 million after-tax, or \$.11 per diluted share).

During 1999, we recorded a special charge of \$192 million (\$119 million after-tax, or \$.04 per diluted share) associated with employee separation programs. The charge included separation

and related benefits such as outplacement and benefit continuation costs for approximately 3,000 employees. The programs were completed in early April 1999, as planned, consistent with the original cost estimates.

NOTE 7**EXTRAORDINARY ITEMS**

During 2001, we retired \$726 million of debt prior to the stated maturity date, resulting in a pretax extraordinary charge of \$29 million (\$19 million after-tax, or \$.01 per diluted share).

In June 2000, we entered into a series of definitive sale agreements to resolve service area conflicts prohibited by FCC regulations as a result of the Bell Atlantic-GTE merger (see Note 5). These agreements, which were pursuant to the consent decree issued for the merger, enabled both the formation of Verizon Wireless and the closing of the merger. Since the sales were required pursuant to the consent decree and occurred after the merger, the gains on sales were recorded net of taxes as Extraordinary Items in the consolidated statements of income.

During the second half of 2000, we completed the sale of the Richmond (former PrimeCo) wireless market to CFW Communications Company in exchange for two wireless rural service areas in Virginia and cash. The sale resulted in a pretax gain of \$184 million (\$112 million after-tax, or \$.04 per diluted share). In addition, we completed the sales of the consolidated markets in Washington and Texas and unconsolidated interests in Texas (former GTE) to SBC Communications. The sales resulted in a pretax gain of \$886 million (\$532 million after-tax, or \$.19 per diluted share). Also, we completed the sale of the San Diego (former GTE) market to AT&T Wireless. The sale resulted in a pretax gain of \$304 million (\$182 million after-tax, or \$.07 per diluted share). In 2000, we also completed the sale of the Houston (former PrimeCo) wireless overlap market to AT&T Wireless, resulting in a pretax gain of \$350 million (\$213 million after-tax, or \$.08 per diluted share).

During 2000, we retired \$190 million of debt prior to the stated maturity date, resulting in a pretax extraordinary charge of \$19 million (\$12 million after-tax, or less than \$.01 per diluted share).

During the first quarter of 1999, we repurchased \$338 million of high-coupon debt through a public tender offer prior to stated maturity, resulting in a pretax extraordinary charge of \$46 million (\$30 million after-tax, or \$.01 per diluted share). During the second quarter of 1999, we recorded a pretax extraordinary charge of \$10 million (\$6 million after-tax, or less than \$.01 per diluted share) associated with the early extinguishment of debentures of our telephone subsidiaries.

NOTE 8**WIRELESS JOINT VENTURE**

On April 3, 2000, Verizon and Vodafone consummated the previously announced agreement to combine U.S. wireless and paging operations. Vodafone contributed its U.S. wireless operations, including its interest in PrimeCo, to an existing Bell Atlantic partnership in exchange for a 65.1% economic interest in the partnership. Bell Atlantic retained a 34.9% economic interest and control pursuant to the terms of the partnership agreement. We accounted for this transaction as a purchase business combination. The total consideration for the U.S. wireless operations of Vodafone was approximately \$34 billion, resulting in increases in intangible assets of approximately \$31 billion, minority interest of approximately \$21 billion and debt of approximately \$4 billion included in the consolidated balance sheets. Since the acquisition was effected through the issuance of partnership interests, the \$4,271 million after-tax gain on the transaction was reported as an adjustment to contributed capital in accordance with our accounting policy for recording gains on the issuance of subsidiary stock. The appraisal and the allocation of the purchase price to the tangible and identifiable intangible assets were completed in the fourth quarter of 2000. A substantial portion of the excess purchase price over the tangible assets acquired was identified with wireless licenses, which will be amortized over a period up to 40 years since they are renewable on an indefinite basis, and therefore, have an indefinite life. We are currently evaluating the appropriate accounting for our wireless licenses in connection with our adoption of SFAS No. 142.

In July 2000, following the closing of the Bell Atlantic-GTE merger, interests in GTE's U.S. wireless operations were contributed to Verizon Wireless in exchange for an increase in our economic ownership interest to 55%. This transaction was accounted for as a transfer of assets between entities under common control and, accordingly, was recorded at the net book value of the assets contributed.

The following represents Verizon's historical results for 1999 adjusted to include the wireless joint venture on a pro forma basis comparable with 2000 results. No other pro forma adjustments were made to the historical results.

	(dollars in millions, except per share amount)	
Revenues	\$	62,504
Net income	\$	8,101
Diluted earnings per common share	\$	2.92

Under the terms of an investment agreement, Vodafone may require us or Verizon Wireless to purchase up to \$20 billion worth of its interest in Verizon Wireless between 2003 and 2007 at its then fair market value. The purchase of up to \$10 billion may be required during July 2003 or July 2004 and the remainder during the following years.

NOTE 9**MARKETABLE SECURITIES**

We have investments in marketable securities, primarily common stocks, which are considered "available-for-sale" under SFAS No. 115. These investments have been included in our consolidated balance sheets in Investments in Unconsolidated Businesses and Other Assets.

Under SFAS No. 115, available-for-sale securities are required to be carried at their fair value, with unrealized gains and losses (net of income taxes) that are considered temporary in nature recorded in Accumulated Other Comprehensive Loss. The fair values of our investments in marketable securities are determined based on market quotations.

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

	(dollars in millions)			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2001				
Investments in unconsolidated businesses	\$ 1,337	\$ 578	\$ (80)	\$ 1,835
Other assets	243	26	-	269
	<u>\$ 1,580</u>	<u>\$ 604</u>	<u>\$ (80)</u>	<u>\$ 2,104</u>
At December 31, 2000				
Investments in unconsolidated businesses	\$ 4,529	\$ 559	\$ (1,542)	\$ 3,546
Other assets	1,326	29	(241)	1,114
	<u>\$ 5,855</u>	<u>\$ 588</u>	<u>\$ (1,783)</u>	<u>\$ 4,660</u>

Prior to 2001, we considered the declines in the market values of our marketable securities investments to be temporary, due principally to the overall weakness in the securities markets as well as telecommunications sector share prices. However, during 2001, we recognized a pretax loss of \$4,686 million (\$3,607 million after-tax, or \$1.32 diluted loss per share) in Equity in Income (Loss) From Unconsolidated Businesses in the consolidated statements of income primarily relating to our investments in Cable & Wireless plc (C&W), NTL Incorporated (NTL) and Metromedia Fiber Network, Inc. (MFN). We determined, through the evaluations described in Note 1, that market value declines in these investments during 2001 were considered other than temporary. (See Note 10 for more information on these and other of our investments in unconsolidated businesses.)

During 2000, we recognized a pretax gain of \$3,088 million (\$1,941 million after-tax, or \$.71 per diluted share) related to the restructuring of our equity investment in Cable & Wireless Communications plc (CWC). In exchange for our equity investment in CWC, we received shares of C&W and NTL. In 2000, half of our shares in MFN were restricted and carried at cost. In 2001, those shares became unrestricted and all of our MFN shares were recorded at fair value. (See Note 10.)

The unrealized gains on marketable securities at December 31, 2001 and 2000 relate primarily to our investment in Telecom Corporation of New Zealand Limited (TCNZ).

Certain other investments in securities that we hold are not adjusted to market values because those values are not readily determinable and/or the securities are not marketable. We have, however, adjusted the carrying values of these securities in situations where we believe declines in value below cost were other than temporary. During 2001, we recognized a pretax loss of \$1,251 million (\$1,251 million after-tax, or \$.46 loss per diluted share) in Equity in Income (Loss) From Unconsolidated Businesses in the consolidated statements of income relating to our investment in Genuity (see Note 10). The carrying values for investments not adjusted to market value were \$1,558 million at December 31, 2001 and \$3,071 million at December 31, 2000.

NOTE 10**INVESTMENTS IN UNCONSOLIDATED BUSINESSES**

Our investments in unconsolidated businesses are comprised of the following:

	(dollars in millions)			
	2001		2000	
At December 31,	Ownership	Investment	Ownership	Investment
Equity Investees				
CANTV	28.5%	\$ 1,869	28.5%	\$ 1,901
Omnitel	23.1	1,574	23.1	1,300
TELUS	23.7	1,363	22.0	1,258
TELPRI	40.0	446	40.0	427
Other	Various	1,560	Various	1,622
Total equity investees		<u>6,812</u>		<u>6,508</u>
Cost Investees				
Genuity	8.2	1,264	9.5	2,515
C&W	4.6	634	4.6	1,706
NTL	8.9	-	9.1	586
TCNZ	21.5	840	24.9	912
MFN	6.6	230	9.9	622
Other	Various	422	Various	266
Total cost investees		<u>3,390</u>		<u>6,607</u>
Total		<u>\$10,202</u>		<u>\$13,115</u>

Dividends received from investees amounted to \$244 million in 2001, \$215 million in 2000 and \$336 million in 1999.

Equity Investees**CANTV**

Compañía Anónima Nacional Teléfonos de Venezuela (CANTV) is the primary provider of local telephone service and national and international long-distance service in Venezuela. CANTV also provides wireless, Internet-access and directory advertising services. At December 31, 2001 and 2000, our investment in CANTV included unamortized goodwill, which is being amortized on a straight-line basis over a period of 40 years, of \$673 million and \$715 million, respectively.

In October 2001, shareholders of CANTV approved an extraordinary dividend of approximately \$550 million, to be paid in two installments in December 2001 and March 2002, and a share repurchase program of up to 15% of CANTV's shares. During December 2001, we received approximately \$167 million from the repurchase program and \$85 million in dividends.

Omnitel

Omnitel Pronto Italia S.p.A. (Omnitel) operates a cellular mobile telephone network in Italy. Goodwill related to this investment totals \$995 million which is being amortized on a straight-line basis over a period of 25 years. At December 31, 2001 and 2000, remaining goodwill was approximately \$703 million and \$779 million, respectively.

TELUS

Prior to 1999, we had a 50.8% ownership interest in BC TELECOM, a full-service telecommunications provider in the province of British Columbia, Canada. On January 31, 1999, BC TELECOM and TELUS Corporation merged to form TELUS Corporation (TELUS). Our ownership interest in TELUS at the time of the merger was approximately 26.7%. Accordingly, we changed the accounting for our investment from consolidation to the equity method effective January 1, 1999.

On October 20, 2000, TELUS acquired 98.5% of Clearnet Communications Inc., a leading Canadian wireless company through the issuance of non-voting TELUS shares, creating Canada's largest wireless company in terms of annual revenue. The issuance of additional TELUS shares diluted Verizon's interest in TELUS from 26.7% to approximately 22.0%.

At December 31, 2001 and 2000, our investment in TELUS included unamortized goodwill of \$55 million and \$345 million, respectively, which we are amortizing on a straight-line basis over a period of 20 years.

TELPRI

In March 1999, we completed our 40% investment in Telecomunicaciones de Puerto Rico, Inc. (TELPRI), which provides local, wireless, long-distance, paging, and Internet-access services in Puerto Rico. At December 31, 2001 and 2000, our investment in TELPRI included unamortized goodwill, which is being amortized on a straight-line basis over a period of 25 years, of \$206 million and \$211 million, respectively.

On January 25, 2002, Verizon exercised its option to purchase an additional 12% of TELPRI common stock, from PRTA Holdings Corporation, an entity of the government of Puerto Rico. Verizon obtained the option as part of the March 1999 TELPRI privatization. We now hold 52% of TELPRI stock, up from 40%. As a result, Verizon changed the accounting for its investment in Puerto Rico from equity method to full consolidation, effective January 1, 2002.

Other Equity Investees

We also have international wireless investments in the Czech Republic, Slovakia, Greece, Taiwan and Indonesia. These investments are in joint ventures to build and operate cellular networks in these countries. We also have an investment in a company in the Philippines which provides telecommunications services in some regions of that country. The remaining investments include wireless partnerships in the U.S., real estate partnerships, publishing joint ventures, and several other domestic and international joint ventures.

Cost Investees

Some of our cost investments are carried at their current market value, principally our investment in TCNZ, as described below. Other cost investments are carried at their original cost, except in cases where we have determined that a decline in the estimated market value of an investment is other than temporary as described in Note 9.

Genuity

In June 2000, Genuity, which had formerly been a wholly-owned subsidiary, issued common stock through an initial public offering. As a result, our common stock voting interest was reduced, and is at a current level of 8.2%. As we no longer have the ability to exercise significant influence over operating and financial policies of Genuity, we changed the accounting for our investment from full consolidation of its financial results to the cost method. The FCC required the sale as a condition of the Bell Atlantic-GTE merger (see Note 3).

Genuity's revenues for the first six months of 2000, the period prior to deconsolidation, were \$529 million and its net loss was \$281 million. Genuity's revenues and net loss for the period from July 1, 2000 to December 31, 2000 were \$621 million and \$513 million, respectively. For the year ended December 31, 2001, Genuity's revenues and net loss were \$1,221 million and \$3,960 million respectively. Genuity's results of operations after June 30, 2000 are not included in our results, consistent with the cost method of accounting.

If, in the future, we meet the criteria necessary to exercise our conversion right and regain control of Genuity, we would be required by generally accepted accounting principles to restate our financial results to include our share of Genuity's losses.

During 2001, we recorded a pretax charge of \$1,251 million (\$1,251 million after-tax, or \$.46 per diluted share) related to our cost investment in Genuity. The charge was necessary because we determined that the decline in the estimated fair value of Genuity was other than temporary. Our investment in Genuity is *not considered a marketable security given its unique characteristics and the associated contingent conversion right* (see Note 3 for additional information). However, we estimated fair value based on the number of shares of Genuity we would own, assuming the exercise of the contingent conversion right, and the market value of Genuity common stock.

C&W / NTL

Prior to 2000, we transferred our interests in cable television and telecommunications operations in the United Kingdom to CWC in exchange for an 18.5% ownership interest in CWC, an international telecommunications service provider. In May 2000, C&W, NTL and CWC completed a restructuring of CWC. Under the terms of the restructuring, CWC's consumer cable telephone, television and Internet operations were separated from its corporate, business, Internet protocol and wholesale operations. Once separated, the consumer operations were acquired by NTL and the other operations were acquired by C&W. In connection with the restructuring, we, as a shareholder in CWC, received shares in the two acquiring companies, representing approximately 9.1% of the NTL shares outstanding at the time and approximately 4.6% of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

the C&W shares outstanding at the time. Based on this level of ownership, our investments in NTL and C&W are accounted for under the cost method. See Note 9 for information regarding a gain on the restructuring of CWC and declines in market value considered other than temporary.

TCNZ

TCNZ is the principal provider of telecommunications services in New Zealand. In 1998, we issued \$2,455 million of 5.75% senior exchangeable notes due on April 1, 2003. The notes were exchangeable into 437.1 million ordinary shares of TCNZ stock at the option of the holder, beginning September 1, 1999. As of December 31, 2001, \$8,000 in principal amount of notes has been delivered for exchange. See Note 14 for additional information on the TCNZ exchangeable notes.

Agreement with MFN

On March 6, 2000, we invested approximately \$1.7 billion in MFN, a domestic and international provider of dedicated fiber optic networks in major metropolitan markets. This investment included \$715 million to acquire approximately 9.5% of the equity of MFN through the purchase of newly issued shares at \$14 per share (after two-for-one stock split). We also purchased approximately \$975 million in subordinated debt securities convertible at our option, upon receipt of necessary government approvals, into MFN common stock at a conversion price of \$17 per share (after two-for-one stock split) or an additional 9.6% of the equity of MFN. This investment completed a portion of our previously announced agreement, as amended, with MFN, which included the acquisition of approximately \$350 million of long-term capacity on MFN's fiber optic networks, beginning in 1999 through 2002. Of the \$350 million, \$35 million was paid in November 1999, \$105 million was paid in October 2000 and \$95 million was paid in 2001. However, in 2001 we renegotiated several significant terms of our MFN investment and commitments, in connection with a new financing arrangement. We purchased an additional \$50 million of subordinated convertible notes, that are convertible into MFN common stock at a conversion price of \$.53 per share. This new financing arrangement also repriced \$500 million of the subordinated convertible notes purchased in 2000 at a conversion price of \$3 per share (from \$17 per share). Furthermore, the remaining obligations under the long-term capacity agreement of \$115 million will be satisfied through purchases in the amount of \$90 million in 2002, \$10 million in 2003 and 2004, and \$5 million in 2005. See Note 9 for information regarding declines in market value considered other than temporary.

Other Cost Investees

Other cost investments include a variety of domestic and international investments primarily involved in providing telecommunication services.

NOTE 11**MINORITY INTEREST**

Minority interests in equity of subsidiaries were as follows:

At December 31,	(dollars in millions)	
	2001	2000
Minority interests in consolidated subsidiaries:		
Wireless joint venture (see Note 8)	\$ 21,243	\$ 20,894
Cellular partnerships and other	329	489
Iusacell (39.4% and 37.2%)	234	132
CTI Holdings, S.A. (65.3% and 59.5%)	124	103
Preferred securities issued by subsidiaries	219	212
	<u>\$ 22,149</u>	<u>\$ 21,830</u>

Iusacell

Iusacell is a wireless telecommunications company in Mexico. Since we control its board of directors, we consolidate Iusacell. Through March 2001, Peralta Group was another large shareholder of Iusacell. Under an agreement dated February 22, 1999, the Peralta Group could have required us to purchase from it approximately 517 million Iusacell shares for \$.75 per share, or approximately \$388 million in the aggregate, by giving notice of exercise between November 15 and December 15, 2001. However, in April 2001, Peralta Group sold its 34.5% interest in Iusacell to Vodafone and is no longer a principal shareholder, which invalidated the share agreements we had with the Peralta Group.

In November 2001, Iusacell completed a \$100 million rights offering to holders of outstanding stock. We purchased a prorata interest for \$37.2 million, Vodafone purchased a prorata interest for \$34.5 million and the public purchased \$18.9 million. Verizon purchased the additional shares the public elected not to purchase for \$9.4 million. As a result of this transaction, our ownership percentage in Iusacell increased to 39.4% in 2001.

CTI

CTI provides wireless services in Argentina. During 2001, we purchased additional equity in CTI through equity contributions, which increased our ownership percentage to 65.3%. See Note 6 for additional information pertaining to a charge recorded in 2001 relating to our interest in CTI.

NOTE 12**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)	
	2001	2000
Land	\$ 850	\$ 805
Buildings and equipment	13,285	12,258
Network equipment	132,035	124,779
Furniture, office and data processing equipment	15,568	12,720
Work in progress	1,970	2,480
Leasehold improvements	1,516	1,563
Other	4,382	4,352
	<u>169,586</u>	<u>158,957</u>
Accumulated depreciation	(95,167)	(89,453)
Total	<u>\$ 74,419</u>	<u>\$ 69,504</u>

NOTE 18**LEASING ARRANGEMENTS****As Lessor**

We are the lessor in leveraged and direct financing lease agreements under which commercial aircraft and power generating facilities, which comprise the majority of the portfolio, along with industrial equipment, real estate property, telecommunications and other equipment are leased for remaining terms of 1 to 46 years as of December 31, 2001. Minimum lease payments receivable represent unpaid rentals, less principal and interest on third-party nonrecourse debt relating to leveraged lease transactions. Since we have no general liability for this debt, which holds a senior security interest in the leased equipment and rentals, the related principal and interest have been offset against the minimum lease payments receivable in accordance with generally accepted accounting principles. All recourse debt is reflected in our consolidated balance sheets.

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

At December 31,	2001			(dollars in millions)		
	Leveraged Leases	Direct Finance Leases	Total	Leveraged Leases	Direct Finance Leases	Total
Minimum lease payments receivable	\$ 3,645	\$ 321	\$ 3,966	\$ 3,625	\$ 437	\$ 4,062
Estimated residual value	2,499	42	2,541	2,459	53	2,512
Unearned income	(2,355)	(47)	(2,402)	(2,374)	(66)	(2,440)
	<u>\$ 3,789</u>	<u>\$ 316</u>	<u>4,105</u>	<u>\$ 3,710</u>	<u>\$ 424</u>	<u>4,134</u>
Allowance for doubtful accounts			(53)			(46)
Finance lease receivables, net			<u>\$ 4,052</u>			<u>\$ 4,088</u>
Current			<u>\$ 71</u>			<u>\$ 126</u>
Noncurrent			<u>\$ 3,981</u>			<u>\$ 3,962</u>

Accumulated deferred taxes arising from leveraged leases, which are included in Deferred Income Taxes, amounted to \$3,079 million at December 31, 2001 and \$2,942 million at December 31, 2000.

As Lessor

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

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Pretax lease income	\$ 64	\$ 135	\$ 138
Income tax expense /(benefit)	(32)	46	49
Investment tax credits	3	3	2

The future minimum lease payments to be received from noncancellable leases, net of nonrecourse loan payments related to leveraged and direct financing leases in excess of debt service requirements, for the periods shown at December 31, 2001, are as follows:

Years	(dollars in millions)	
	Capital Leases	Operating Leases
2002	\$ 192	\$ 44
2003	155	31
2004	123	27
2005	145	23
2006	97	20
Thereafter	3,254	62
Total	<u>\$ 3,966</u>	<u>\$ 207</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued**As Lessee**

We lease certain facilities and equipment for use in our operations under both capital and operating leases. Total rent expense under operating leases amounted to \$1,282 million in 2001, \$1,052 million in 2000 and \$1,008 million in 1999.

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

At December 31,	(dollars in millions)	
	2001	2000
Capital leases	\$ 482	\$ 283
Accumulated amortization	(263)	(165)
Total	\$ 219	\$ 118

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2001, are as follows:

Years	(dollars in millions)	
	Capital Leases	Operating Leases
2002	\$ 71	\$ 723
2003	67	655
2004	84	612
2005	29	566
2006	23	695
Thereafter	99	2,226
Total minimum rental commitments	373	\$ 5,477
Less interest and executory costs	(94)	
Present value of minimum lease payments	279	
Less current installments	(50)	
Long-term obligation at December 31, 2001	\$ 229	

As of December 31, 2001, the total minimum sublease rentals to be received in the future under noncancelable operating and capital subleases were \$187 million and \$6 million, respectively.

NOTE 14**DEBT****Debt Maturing Within One Year**

Debt maturing within one year is as follows:

At December 31,	(dollars in millions)	
	2001	2000
Notes payable		
Commercial paper	\$ 12,781	\$ 12,659
Bank loans	39	151
Short-term notes	12	209
Long-term debt maturing within one year	5,837	1,819
Total debt maturing within one year	\$ 18,669	\$ 14,838
Weighted-average interest rates for notes payable outstanding at year-end	2.1%	6.5%

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

At December 31, 2001, we had approximately \$7.9 billion of unused bank lines of credit. Certain of these lines of credit contain requirements for the payment of commitment fees.

Assets of Iusacell and CTI, totaling approximately \$1,427 million and \$747 million, respectively, at December 31, 2001, are subject to lien under credit facilities with certain bank lenders, equipment suppliers and other financial institutions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued**Long-Term Debt**

Outstanding long-term debt obligations are as follows:

At December 31,	Interest Rates %	Maturities	(dollars in millions)	
			2001	2000
Notes payable	1.93 – 18.75	2002–2030	\$ 18,377	\$ 10,667
Telephone subsidiaries – debentures and first/refunding mortgage bonds	2.00 – 7.00	2002–2041	11,408	9,574
	7.13 – 7.75	2002–2033	3,590	3,990
	7.85 – 9.67	2009–2031	2,383	2,817
Other subsidiaries – debentures and other	6.36 – 14.00	2002–2028	5,062	5,558
Zero-coupon convertible notes, net of unamortized discount of \$2,386	3.0% yield	2021	3,056	–
Employee stock ownership plan loans:				
GTE guaranteed obligations	9.73	2005	311	388
NYNEX debentures	9.55	2010	230	256
Capital lease obligations (average rate 9.4% and 9.4%) and other lease-related debt (average rate 4.8% and 4.8%)			1,392	1,337
Exchangeable notes, net of unamortized discount of \$146 and \$180	4.25 – 5.75	2003–2005	5,744	5,710
Revolving loans expected to be refinanced on a long-term basis	6.86		–	4,120
Property sale holdbacks held in escrow and other	4.86 – 6.00	2002–2003	39	13
Unamortized discount, net of premium			(98)	(120)
Total long-term debt, including current maturities			51,494	44,310
Less maturing within one year			(5,837)	(1,819)
Total long-term debt			\$ 45,657	\$ 42,491

Telephone Subsidiaries' Debt

The telephone subsidiaries' debentures outstanding at December 31, 2001 include \$1,542 million that are callable. The call prices range from 100% to 106% of face value, depending upon the remaining term to maturity of the issue. All of our refunding mortgage bonds of \$305 million are also callable as of December 31, 2001. Our first mortgage bonds also include \$18 million that are callable as of December 31, 2001. Also, our notes payable includes a senior note of \$11 million that is callable as of December 31, 2001. The call price for this security is 101.4% of face value. Of this total callable amount of \$1,876 million, \$1,536 million was called subsequent to December 31, 2001. In addition, our telephone subsidiaries' long-term debt includes \$350 million that will become redeemable in 2002 at the option of the holders. The redemption prices will be 100.0% of face value plus accrued interest. Refunding mortgage bonds and first mortgage bonds of \$636 million are secured by certain telephone operations assets.

Zero-Coupon Convertible Notes

In May 2001, Verizon Global Funding Corp. (Verizon Global Funding) issued approximately \$5.4 billion in principal amount at maturity of zero-coupon convertible notes due 2021, resulting in gross proceeds of approximately \$3 billion. The notes are convertible into shares of our common stock at an initial price of \$69.50 per share if the closing price of Verizon common stock on the New York Stock Exchange exceeds specified levels or in other specified circumstances. The conversion price increases by at least 3% a year. The initial conversion price represents a 25% premium over the May 8, 2001 closing price of \$55.60 per share. There are no scheduled cash interest payments associated with

the notes. The zero-coupon convertible notes are callable by Verizon Global Funding on or after May 15, 2006. In addition, the notes are redeemable at the option of the holders on May 15th in each of the years 2004, 2006, 2011 and 2016.

Exchangeable Notes

In 1998, Verizon Global Funding issued \$2,455 million of 5.75% senior exchangeable notes due on April 1, 2003 (TCNZ exchangeable notes). The TCNZ exchangeable notes are exchangeable into 437.1 million ordinary shares of TCNZ stock at the option of the holder, beginning on September 1, 1999. The exchange price was established at a 20% premium to the TCNZ share price at the pricing date of the offering. Upon exchange by investors, we retain the option to settle in cash or by delivery of TCNZ shares. During the period from April 1, 2001 to March 31, 2002, the TCNZ exchangeable notes are callable at our option at 102.3% of the principal amount and, thereafter and prior to maturity at 101.15%. As of December 31, 2001, \$8,000 in principal amount of notes has been delivered for exchange.

Also in 1998, Verizon Global Funding issued \$3,180 million of 4.25% senior exchangeable notes due on September 15, 2005 (CWC exchangeable notes). When issued, the CWC exchangeable notes were exchangeable into 277.6 million ordinary shares of CWC stock at the option of the holder beginning on July 1, 2002. The exchange price was established at a 28% premium to the CWC share price at the pricing date of the offering. The CWC exchangeable notes were issued at a discount, and as of December 31, 2001 and December 31, 2000, the notes had a carrying value of \$3,289 million and \$3,255 million, respectively. In connection with a restructuring of CWC described in Note 10, the

CWC exchangeable notes are now exchangeable into 128.4 million shares of C&W and 24.5 million shares of NTL. The CWC exchangeable notes are redeemable at our option, beginning September 15, 2002, at escalating prices from 104.2% to 108.0% of the principal amount. If the CWC exchangeable notes are not called or exchanged prior to maturity, they will be redeemable at 108.0% of the principal amount at that time.

The TCNZ exchangeable notes are indexed to the fair market value of the TCNZ common stock and the CWC exchangeable notes are indexed to the fair market value of the C&W and NTL common stock. If the price of the shares exceeds the exchange price established at the offering date, a mark-to-market adjustment is recorded, recognizing an increase in the carrying value of the debt obligation and a charge to income. If the price of the shares subsequently declines, the debt obligation is reduced (but not to less than the amortized carrying value of the notes).

At December 31, 2001 and 2000, the exchange price exceeded the combined value of the C&W and NTL share prices, resulting in the notes recorded at their amortized carrying value with no mark-to-market adjustments. The decrease in the debt obligation since December 31, 1999 of \$664 million was recorded as an increase to income in 2000 (\$431 million after-tax, or \$.16 per diluted share). For 1999, the CWC share price exceeded the exchange price and we recorded an increase in the carrying value of the CWC exchangeable notes of \$664 million and a corresponding charge to income (\$432 million after-tax, or \$.16 per diluted share). As of December 31, 2001, we have recorded no mark-to-market adjustments for the TCNZ exchangeable notes.

Support Agreements

All of Verizon Global Funding's debt has the benefit of Support Agreements between us and Verizon Global Funding, which guarantee payment of interest, premium (if any) and principal outstanding should Verizon Global Funding fail to pay. The holders of Verizon Global Funding debt do not have recourse to the stock or assets of most of our telephone operations or TCNZ; however, they do have recourse to dividends paid to us by any of our consolidated subsidiaries as well as assets not covered by the exclusion. Verizon Global Funding's long-term debt, including current portion, aggregated \$19,591 million at December 31, 2001. The carrying value of the available assets reflected in our consolidated financial statements was approximately \$66.0 billion at December 31, 2001.

Refinancing of Short-Term Debt

As of December 31, 2000, Verizon had the ability and intent to extend \$4,120 million of short-term revolving loans beyond one year. Consequently, this debt was reclassified to Long-Term Debt in the consolidated balance sheets. As of December 31, 2001, these revolving loans have been replaced with other floating and fixed rate long-term debt.

Maturities of Long-Term Debt

Maturities of long-term debt outstanding at December 31, 2001 are \$5.8 billion in 2002, \$6.0 billion in 2003, \$5.4 billion in 2004, \$5.8 billion in 2005, \$4.3 billion in 2006 and \$24.2 billion thereafter. These amounts include the redeemable debt at the earliest redemption dates.

NOTE 15

FINANCIAL INSTRUMENTS

Derivatives – Effective January 1, 2001

We adopted the provisions of SFAS No. 133 effective January 1, 2001. The initial impact of adoption of SFAS No. 133 on our consolidated financial statements was recorded as a cumulative effect of an accounting change resulting in a charge of \$182 million to current earnings and income of \$110 million to other comprehensive income (loss). The recognition of assets and liabilities was immaterial to our financial position. The ongoing effect of SFAS No. 133 on our consolidated 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 year ended December 31, 2001, we recorded a charge to current earnings of \$182 million and a loss of \$43 million to other comprehensive income (loss).

Interest Rate Risk Management

We have entered into domestic interest rate swaps, to achieve a targeted mix of fixed and variable rate debt, where we principally receive fixed rates and pay variable rates based on LIBOR. These swaps 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 ineffective portions of these hedges at January 1, 2001 and December 31, 2001 were immaterial to our operating results.

Foreign Exchange Risk Management

Our foreign exchange risk management includes the use of foreign currency forward contracts and cross currency interest rate swaps with foreign currency forwards. These contracts are typically used to hedge short-term foreign currency transactions and commitments, or to offset foreign exchange gains or losses on the foreign currency obligations and are designated as cash flow hedges. The contracts have maturities ranging from approximately one month to four years. We record these contracts at fair value as assets or liabilities and the related gains or losses are deferred in shareowners' investment as a component of other comprehensive income (loss). We have recorded \$43 million in other comprehensive losses at December 31, 2001.

Other Derivatives

Conversion Option

In 2001 and 2000, we invested a total of approximately \$1.7 billion in MFN (see Note 10 for additional information), including \$1,025 million in convertible debt securities. The conversion options on the MFN debt securities have, as their underlying risk, changes in the MFN stock price. This risk is not clearly and closely related to the change in interest rate risk underlying the debt securities. Under SFAS No. 133 we are required to separate the conversion options, considered embedded derivatives, from the debt securities in order to account for changes in the fair value of the conversion options separately from changes in the fair value of the debt securities. The debt securities will retain their classification as available-for-sale with any temporary changes to fair value being recorded to other comprehensive income (loss). The fair

value of the conversion options are recognized as assets in our balance sheet and we record the mark-to-market adjustment in current earnings. The fair value of the debt securities and the conversion options are recorded in Investments in Unconsolidated Businesses in the consolidated balance sheets.

A net charge of \$186 million related to the conversion options was included as part of the cumulative effect of the accounting change recorded on January 1, 2001. A net charge of \$163 million was recorded as a mark-to-market adjustment for the year ended December 31, 2001. As of December 31, 2001, the value of the conversion options on our consolidated balance sheet is approximately \$48 million.

Warrants

On October 10, 2000, we received warrants giving us the right to obtain 3.1 million shares of Interland, Inc. common stock for an exercise price of \$18 per share in association with an agreement to purchase an ownership interest in a business. SFAS No. 133 requires that these warrants be recorded at fair value in the balance sheet with mark-to-market adjustments recorded in current earnings. A gain of \$3 million was recorded as the cumulative effect of an accounting change on January 1, 2001 and a \$2 million charge was recorded for the year ended December 31, 2001 as a mark-to-market adjustment.

Call Options

We previously entered into several long-term call options on our common stock to hedge our exposure to compensation expense related to stock-based compensation. Prior to the adoption of SFAS No. 133, we recognized gains and losses in current earnings based on changes in the intrinsic values of the options caused by changes in the underlying stock price. SFAS No. 133 requires that we record the fair value of the options as assets and recognize the mark-to-market adjustments as gains or losses in current earnings. As such, we included income of \$3 million as part of the cumulative effect of an accounting change on January 1, 2001 and recorded a charge of \$13 million as a mark-to-market adjustment for the year ended December 31, 2001.

Japanese Leveraged Leases

We previously entered into several long-term foreign currency forward contracts to offset foreign exchange gains or losses associated with Japanese yen denominated capitalized lease payments. In accordance with SFAS No. 133, these contracts were designated as effective cash flow hedges; however, late in 2000, we sold a location which held some of the capital leased assets. The assets and corresponding capital lease obligations were transferred to the purchaser as part of the sale. The forward contracts associated with the sold assets no longer qualify for hedge accounting under SFAS No. 133, and are recorded at fair value with mark-to-market adjustments recognized in current earnings. We recorded a charge of \$4 million as part of the cumulative effect of an accounting change on January 1, 2001 and recorded a charge of \$4 million in mark-to-market adjustment for the year ended December 31, 2001. We have recorded \$2 million in other comprehensive losses at December 31, 2001 for the contracts designated as effective cash flow hedges.

Derivatives – Prior to January 1, 2001

Prior to January 1, 2001, we applied several accounting principles pertaining to our investments in derivatives, which have been superseded by SFAS No. 133. The table that follows provides additional information about our risk management in accordance with those principles. The notional amounts shown were used to calculate interest payments, foreign currencies and stock to be exchanged. These amounts were not actually paid or received, nor were they a measure of our potential gains or losses from market risks. They did not represent our exposure in the event of nonperformance by a counterparty or our future cash requirements. Our financial instruments were grouped based on the nature of the hedging activity.

			(dollars in millions)	
At December 31, 2000	Notional Amount	Maturities	Weighted-Average Rate Receive	Weighted-Average Rate Pay
Interest Rate Swap Agreements				
Pay fixed	\$ 270	2001 – 2005	Various	6.3%
Pay variable	\$ 901	2001 – 2007	7.0%	Various
Foreign Currency Contracts				
	\$ 613	2001 – 2005		
Interest Rate Cap/Floor Agreements				
	\$ 147	2001 – 2002		
Basis Swap Agreements				
	\$ 1,001	2003 – 2004		
Call Options on Common Stock				
	\$ 80	2001 – 2006		

Interest Rate Risk Management

Interest rate swap agreements, which sometimes incorporated options and interest rate caps and floors were all used to adjust the interest rate profile of our debt portfolio and allowed us to achieve a targeted mix of fixed and variable rate debt. We entered into domestic interest rate swaps, where we principally paid floating rates and received fixed rates, as indicated in the previous table, primarily based on six-month LIBOR. At December 31, 2000, the six-month LIBOR was 6.2%.

Foreign Exchange Risk Management

Our foreign exchange risk management included the use of foreign currency forward contracts, options and foreign currency swaps. Forward contracts and options called for the sale or purchase, or the option to sell or purchase, certain foreign currencies on a specified future date. These contracts were typically used to hedge short-term foreign currency transactions and commitments, or to offset foreign exchange gains or losses on the foreign currency obligations. The contracts outstanding at December 31, 2000 had maturities ranging from approximately one month to four years.

Our net equity position in unconsolidated foreign businesses as reported in our consolidated balance sheets totaled \$5,386 million at December 31, 2000. Our most significant investments at December 31, 2000 had operations in Italy, Venezuela and Canada.

Our equity income is subject to exchange rate fluctuations when our equity investees have balances denominated in currencies other than the investees' functional currency. We recognized losses of \$2 million in 2000 and \$9 million in 1999 related to such fluctuations in Equity in Income (Loss) from Unconsolidated Businesses. In 2000, our consolidated subsidiaries recognized a net loss of \$23 million related to balances denominated in currencies other than their functional currencies. Our consolidated subsidiaries recognized a net gain of \$14 million in 1999, primarily due to a \$15 million gain recognized by Iusacell related to balances denominated in a currency other than its functional currency, the Mexican peso.

We continually monitor the relationship between gains and losses recognized on all of our foreign currency contracts and on the underlying transactions being hedged to mitigate market risk.

Concentrations of Credit Risk

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

Fair Values of Financial Instruments

The tables that follow provide additional information about our material financial instruments:

Financial Instrument	Valuation Method
Cash and cash equivalents and short-term investments	Carrying amounts
Short- and long-term debt (excluding capital leases and exchangeable notes)	Market quotes for similar terms and maturities or future cash flows discounted at current rates
Exchangeable notes	Market quotes
Cost investments in unconsolidated businesses and notes receivable	Future cash flows discounted at current rates, market quotes for similar instruments or other valuation models

(dollars in millions)

At December 31,	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short- and long-term debt	\$ 58,303	\$ 58,613	\$ 51,475	\$ 51,180
Exchangeable notes	5,744	5,678	5,710	5,694
Cost investments in unconsolidated businesses	3,390	3,390	6,607	6,607
Notes receivable, net	1,299	1,299	1,395	1,393

The decrease in our cost investments in unconsolidated businesses resulted primarily from declines in the market values of our investments in Genuity, C&W, NTL and MFN, as previously discussed.

NOTE 16

SHAREOWNERS' INVESTMENT

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

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

Common Stock Buyback Program

On March 1, 2000, our Board of Directors authorized a new two-year share buyback program through which we may repurchase up to 80 million shares of common stock in the open market. As of December 31, 2001, we had repurchased 35.5 million shares principally under this program. The Board of Directors also rescinded a previous authorization to repurchase up to \$1.4 billion in Verizon shares. On January 24, 2002, our Board of Directors approved the extension of the stock repurchase program to the earlier of the date on which the aggregate number of shares purchased under the program after March 1, 2000 reaches 80 million shares, or the close of business on February 29, 2004. All other terms of the prior resolutions dated March 1, 2000 remain in full force and effect.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued**NOTE 17****EARNINGS PER SHARE**

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

(dollars and shares in millions, except per share amounts)				
Years Ended December 31,	2001	2000	1999	
Net Income Available To Common Shareowners				
Income before extraordinary items and cumulative effect of accounting change	\$ 590	\$ 10,810	\$ 8,296	
Redemption of subsidiary preferred stock	-	(10)	-	
Income available to common shareowners*	590	10,800	8,296	
Extraordinary items, net	(19)	1,027	(36)	
Cumulative effect of accounting change, net	(182)	(40)	-	
Net income available to common shareowners*	\$ 389	\$ 11,787	\$ 8,260	

Basic Earnings (Loss) Per Common Share

Weighted-average shares outstanding	2,710	2,713	2,739	
Income before extraordinary items and cumulative effect of accounting change	\$.22	\$ 3.98	\$ 3.03	
Extraordinary items, net	(.01)	.37	(.01)	
Cumulative effect of accounting change, net	(.07)	(.01)	-	
Net income	\$.14	\$ 4.34	\$ 3.02	

Diluted Earnings (Loss) Per Common Share

Weighted-average shares outstanding	2,710	2,713	2,739	
Effect of dilutive securities	20	24	38	
Weighted-average shares - diluted	2,730	2,737	2,777	
Income before extraordinary items and cumulative effect of accounting change	\$.22	\$ 3.95	\$ 2.98	
Extraordinary items, net	(.01)	.37	(.01)	
Cumulative effect of accounting change, net	(.07)	(.01)	-	
Net income	\$.14	\$ 4.31	\$ 2.97	

* Income and Net income available to common shareowners is the same for purposes of calculating basic and diluted earnings per share.

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 115.7 million shares during 2001, 85.3 million shares during 2000 and .3 million shares during 1999.

NOTE 18**STOCK INCENTIVE PLANS**

We have stock-based compensation plans, which permit the issuance of stock-based instruments, including fixed stock options, performance-based shares, restricted stock and phantom shares. We recognize no compensation expense for our fixed stock option plans. Compensation expense charged to income for our performance-based share plans was \$66 million in 2001, \$101 million in 2000, and \$61 million in 1999. If we had elected to recognize compensation expense based on the fair value at the date of grant for the fixed and performance-based plan awards consistent with the provisions of SFAS No. 123, net income and earnings per share would have been changed to the pro forma amounts below:

(dollars in millions, except per share amounts)				
Years Ended December 31,		2001	2000	1999
Net income (loss) available to common shareowners	As reported	\$ 389	\$ 11,787	\$ 8,260
	Pro forma	(109)	11,445	8,075
Diluted earnings (loss) per share	As reported	\$.14	\$ 4.31	\$ 2.97
	Pro forma	(.04)	4.19	2.91

We determined the pro forma amounts using the Black-Scholes option-pricing model based on the following weighted-average assumptions:

	2001	2000	1999
Dividend yield	2.7%	3.3%	3.4%
Expected volatility	29.1%	27.5%	20.0%
Risk-free interest rate	4.8%	6.2%	5.3%
Expected lives (in years)	6	6	6

The weighted-average value of options granted during 2001, 2000 and 1999 was \$15.24, \$13.09 and \$11.58, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

Our stock incentive plans are described below:

Fixed Stock Option Plans

We have fixed stock option plans for substantially all employees. Options to purchase common stock were granted at a price equal to the market price of the stock at the date of grant. The options generally vest over three years and have a maximum term of ten years.

This table summarizes our fixed stock option plans:

	Stock Options (in thousands)	Weighted-Average Exercise Price
Outstanding, January 1, 1999	135,053	\$ 36.01
Granted	55,423	55.21
Exercised	(30,189)	34.05
Canceled/forfeited	(4,123)	43.19
Outstanding, December 31, 1999	156,164	42.76
Granted	98,022	48.93
Exercised	(14,663)	35.57
Canceled/forfeited	(6,955)	51.39
Outstanding, December 31, 2000	232,568	45.58
Granted	34,217	55.93
Exercised	(15,358)	35.64
Canceled/forfeited	(6,219)	47.82
Outstanding, December 31, 2001	245,208	47.60
Options exercisable, December 31,		
1999	94,719	35.79
2000	111,021	40.97
2001	131,924	45.29

The following table summarizes information about fixed stock options outstanding as of December 31, 2001:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Shares (in thousands)	Weighted-Average Remaining Life	Weighted-Average Exercise Price	Shares (in thousands)	Weighted-Average Exercise Price
\$ 20.00 - 29.99	13,905	2.1 years	\$ 25.41	13,905	\$ 25.41
30.00 - 39.99	32,073	4.7	34.76	32,073	34.76
40.00 - 49.99	82,409	7.9	44.08	29,066	45.35
50.00 - 59.99	114,784	8.0	56.13	55,243	55.86
60.00 - 69.99	2,037	7.8	62.44	1,637	62.69
Total	245,208	7.2	47.60	131,924	45.29

Performance-Based Shares

Performance-based share programs provided for the granting of awards to certain key employees of the former Bell Atlantic, which are now fully vested. Certain key employees of the former GTE participated in the Equity Participation Program (EPP). Under EPP, a portion of their cash bonuses were deferred and held in restricted stock units for a minimum of three years. In 2000, certain key Verizon employees were granted restricted stock units that vest over a three to five year period.

The number of shares outstanding in the performance-based share programs were 4,507,000, 4,387,000 and 2,133,000 at December 31, 2001, 2000 and 1999, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued**NOTE 19****EMPLOYEE BENEFITS**

We maintain noncontributory defined benefit pension plans for substantially all employees. The postretirement healthcare 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.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for the majority of our employees are subject to collective bargaining agreements. Modifications in benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans. At December 31, 2001, shares of our common stock accounted for less than 1% of the assets held in the pension and postretirement benefit trusts.

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

Benefit Cost

Years Ended December 31,	Pension			(dollars in millions) Healthcare and Life		
	2001	2000	1999	2001	2000	1999
Service cost	\$ 665	\$ 612	\$ 675	\$ 128	\$ 121	\$ 149
Interest cost	2,490	2,562	2,485	965	909	822
Expected return on plan assets	(4,811)	(4,686)	(4,089)	(461)	(441)	(373)
Amortization of transition asset	(112)	(127)	(150)	-	-	-
Amortization of prior service cost	(44)	(66)	(94)	(26)	(28)	(22)
Actuarial gain, net	(878)	(623)	(241)	(78)	(124)	(83)
Net periodic benefit (income) cost	(2,690)	(2,328)	(1,414)	528	437	493
Termination benefits, curtailments and other, net	807	(250)	152	-	-	-
Settlement loss (gain)	35	(911)	(663)	-	(43)	(8)
Subtotal	842	(1,161)	(511)	-	(43)	(8)
Total (income) cost	\$ (1,848)	\$ (3,489)	\$ (1,925)	\$ 528	\$ 394	\$ 485

Assumptions

The actuarial assumptions used are based on market interest rates, past experience, and management's best estimate of future economic conditions. Changes in these assumptions may impact future benefit costs and obligations. The weighted-average assumptions used in determining expense and benefit obligations are as follows:

	Pension			Healthcare and Life		
	2001	2000	1999	2001	2000	1999
Discount rate at end of year	7.25 %	7.75 %	8.00 %	7.25 %	7.75 %	8.00 %
Long-term rate of return on plan assets for the year	9.25	9.25	9.00	9.10	9.10	8.90
Rate of future increases in compensation at end of year	5.00	5.00	4.80	4.00	4.00	4.20
Medical cost trend rate at end of year				10.00	5.00	5.75
Ultimate (year 2005)				5.00	5.00	5.15

The medical cost trend rate significantly affects the reported postretirement benefit costs and obligations. A one-percentage-point change in the assumed healthcare cost trend rate would have the following effects:

One-Percentage-Point	(dollars in millions)	
	Increase	Decrease
Effect on 2001 total service and interest cost	\$ 85	\$ (67)
Effect on postretirement benefit obligation as of December 31, 2001	957	(794)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

At December 31,	Pension		Healthcare and Life	
	2001	2000	2001	2000
Benefit Obligation				
Beginning of year	\$ 33,136	\$ 32,996	\$ 12,397	\$ 11,168
Service cost	665	612	128	121
Interest cost	2,490	2,562	965	909
Plan amendments	721	564	(601)	33
Actuarial loss, net	1,888	1,275	2,394	1,067
Benefits paid	(3,851)	(3,371)	(988)	(828)
Termination benefits	813	-	-	-
Acquisitions (divestitures)	70	(215)	15	(43)
Settlements and curtailments	15	(1,407)	-	(30)
Other	444	120	-	-
End of year	36,391	33,136	14,310	12,397
Fair Value of Plan Assets				
Beginning of year	55,225	59,141	5,236	5,580
Actual return on plan assets	(3,063)	1,294	(252)	(128)
Company contributions	81	138	253	243
Benefits paid	(3,851)	(3,371)	(517)	(457)
Settlements	-	(1,764)	-	(2)
Acquisitions (divestitures)	167	(216)	-	-
Other	(1)	3	-	-
End of year	48,558	55,225	4,720	5,236
Funded Status				
End of year	12,167	22,089	(9,590)	(7,161)
Unrecognized				
Actuarial (gain) loss, net	(4,547)	(15,153)	1,121	(2,019)
Prior service (benefit) cost	817	54	(980)	(407)
Transition asset	(160)	(272)	-	-
Net amount recognized	\$ 8,277	\$ 6,718	\$ (9,449)	\$ (9,587)
Amounts recognized on the balance sheet				
Prepaid pension cost	\$ 9,738	\$ 8,626	\$ -	\$ -
Employee benefit obligation	(1,601)	(1,981)	(9,449)	(9,587)
Other assets	108	21	-	-
Accumulated other comprehensive loss	32	52	-	-
Net amount recognized	\$ 8,277	\$ 6,718	\$ (9,449)	\$ (9,587)

Changes in benefit obligations were caused by factors including changes in actuarial assumptions (see "Assumptions"), plan amendments and special termination benefits. In 2000 and 1999, the former GTE's lump-sum pension distributions surpassed the settlement threshold equal to the sum of service cost and interest cost requiring settlement gain recognition for all cash settlements for each year. In 2001, Verizon announced an employee severance plan (see Note 6). As a result, we recorded pension termination benefits of \$813 million for related pension enhancements.

Savings Plan and Employee Stock Ownership Plans

We maintain four leveraged employee stock ownership plans (ESOP); two were established by Bell Atlantic and one each by GTE and NYNEX. Under these plans, we match a certain percentage of eligible employee contributions to the savings plans with shares of our common stock from these ESOPs. At the date of the respective mergers, NYNEX and GTE common stock outstanding was converted to Bell Atlantic shares using an exchange ratio of 0.768 and 1.22 per share of Bell Atlantic common stock to one share of NYNEX and GTE common stock, respectively. Common stock is allocated from all leveraged ESOP trusts based on the proportion of principal and interest paid on ESOP debt in a year to the remaining principal and interest due over the term of the debt. At December 31, 2001, the number of unallocated and allocated shares of common stock was 21 million and 60 million, respectively. All leveraged ESOP shares are included in earnings per share computations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

We recognize leveraged ESOP cost based on the modified shares allocated method for the Bell Atlantic and GTE leveraged ESOP trusts which purchased securities before December 15, 1989 and the shares allocated method for the NYNEX leveraged ESOP trust which purchased securities after December 15, 1989.

ESOP cost and trust activity consist of the following:

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Compensation	\$ 121	\$ 161	\$ 176
Interest incurred	61	69	86
Dividends	(36)	(43)	(50)
Net leveraged ESOP cost	146	187	212
Additional (reduced) ESOP cost	90	(19)	(74)
Total ESOP cost	\$ 236	\$ 168	\$ 138
Dividends received for debt service	\$ 87	\$ 87	\$ 134
Total company contributions to leveraged ESOP trusts	\$ 259	\$ 151	\$ 265

In addition to the ESOPs described above, we maintain savings plans for non-management employees and employees of certain subsidiaries. Compensation expense associated with these savings plans was \$252 million in 2001, \$219 million in 2000, and \$161 million in 1999.

NOTE 20**INCOME TAXES**

The components of income tax expense from continuing operations are as follows:

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Current			
Federal	\$ 759	\$ 3,165	\$ 2,612
Foreign	94	105	83
State and local	258	657	379
	1,111	3,927	3,074
Deferred			
Federal	898	2,969	1,708
Foreign	(16)	(60)	148
State and local	232	553	338
	1,114	3,462	2,194
Investment tax credits	(49)	(28)	(46)
Other credits	-	(352)	(350)
Total income tax expense	\$ 2,176	\$ 7,009	\$ 4,872

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

Years Ended December 31,	2001	2000	1999
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income tax, net of federal tax benefits	11.5	4.3	3.5
Loss on investments	40.2	.3	-
Equity in income (loss) from unconsolidated businesses	(11.1)	(1.2)	(.3)
Other, net	3.1	.9	(1.2)
Effective income tax rate	78.7%	39.3%	37.0%

The increase in our effective income tax rate in 2001 is primarily because tax benefits are not currently and may never be available on many of the losses resulting from the other than temporary decline in market value of our investments during 2001 (see Note 9).

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

At December 31,	(dollars in millions)	
	2001	2000
Depreciation	\$ 6,171	\$ 5,360
Employee benefits	(533)	(1,623)
Leasing activity	3,060	2,953
Net unrealized losses on marketable securities	(1,124)	(515)
Wireless joint venture	7,287	5,925
Exchange of CWC stock	-	1,147
Other-net	(459)	589
	14,402	13,836
Valuation allowance	1,574	441
Net deferred tax liability	\$ 15,976	\$ 14,277

At December 31, 2001, undistributed earnings of our foreign subsidiaries amounted to approximately \$4 billion. Deferred income taxes are not provided on these earnings as it is intended that the earnings are indefinitely invested outside of the U.S. It is not practical to estimate the amount of taxes that might be payable upon the remittance of such earnings.

The valuation allowance primarily represents the tax benefits of certain state net operating loss carryforwards and other deferred tax assets which may expire without being utilized. During 2001, the valuation allowance increased \$1,133 million. This increase primarily relates to the write-down of investments for which tax benefits may never be realized.

NOTE 21**SEGMENT INFORMATION**

We have four reportable segments, which we operate and manage as strategic business units and organize by products and services. We measure and evaluate our reportable segments based on adjusted net income, which excludes unallocated corporate expenses and other adjustments arising during each period. The other adjustments include transactions that management excludes in assessing business unit performance due primarily to their nonrecurring 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 management's assessment of unit performance. These are mostly contained in International and Information Services since they actively manage investment portfolios.

Our segments and their principal activities consist of the following:

Segment	Description
Domestic Telecom	Domestic wireline communications services, principally representing our telephone operations that provide local telephone services in 32 states and the District of Columbia. These services include voice and data transport, enhanced and custom calling features, network access, directory assistance, private lines and public telephones. This segment also provides long distance services, customer premises equipment distribution, data solutions and systems integration, billing and collections, Internet access services, research and development and inventory management services.
Domestic Wireless	Domestic wireless products and services include wireless voice and data services, paging services and equipment sales.
International	International wireline and wireless communications operations, investments and management contracts in the Americas, Europe, Asia and the Pacific.
Information Services	Domestic and international publishing businesses, including print and electronic directories and Internet-based shopping guides, as well as website creation and other electronic commerce services. This segment has operations principally in North America, Europe and Latin America.

Geographic Areas

Our foreign investments are located principally in Europe, the Americas and Asia. Domestic and foreign operating revenues are based on the location of customers. Long-lived assets consist of plant, property and equipment (net of accumulated depreciation) and investments in unconsolidated businesses. The table below presents financial information by major geographic area:

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Domestic			
Operating revenues	\$ 64,649	\$ 62,066	\$ 55,802
Long-lived assets	74,462	71,180	61,944
Foreign			
Operating revenues	2,541	2,641	2,392
Long-lived assets	10,159	11,439	10,406
Consolidated			
Operating revenues	67,190	64,707	58,194
Long-lived assets	84,621	82,619	72,350

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued**Reportable Segments**

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

	(dollars in millions)				
	Domestic Telecom	Domestic Wireless	International	Information Services	Total Segments Adjusted
2001					
External revenues	\$ 42,600	\$ 17,352	\$ 2,281	\$ 4,267	\$ 66,500
Intersegment revenues	478	41	56	46	621
Total operating revenues	43,078	17,393	2,337	4,313	67,121
Depreciation & amortization	9,332	3,709	422	79	13,542
Equity in income from unconsolidated businesses	4	5	919	-	928
Interest income	133	12	93	22	260
Interest expense	(1,787)	(577)	(439)	(39)	(2,842)
Income tax expense	(3,262)	(413)	(31)	(892)	(4,598)
Net income	4,910	537	958	1,352	7,757
Assets	82,635	60,262	14,324	4,160	161,381
Investments in unconsolidated businesses	69	285	7,317	10	7,681
Capital expenditures	11,480	5,006	704	93	17,283
2000					
External revenues	\$ 42,597	\$ 14,194	\$ 1,976	\$ 4,031	\$ 62,798
Intersegment revenues	746	42	-	113	901
Total operating revenues	43,343	14,236	1,976	4,144	63,699
Depreciation & amortization	8,752	2,894	355	74	12,075
Equity in income from unconsolidated businesses	35	55	672	5	767
Interest income	116	66	28	13	223
Interest expense	(1,767)	(617)	(398)	(25)	(2,807)
Income tax (expense) benefit	(3,311)	(345)	53	(788)	(4,391)
Net income	5,135	444	733	1,238	7,550
Assets	78,112	56,029	14,466	3,148	151,755
Investments in unconsolidated businesses	24	133	8,919	28	9,104
Capital expenditures	12,119	4,322	586	48	17,075
1999					
External revenues	\$ 41,075	\$ 7,632	\$ 1,714	\$ 3,971	\$ 54,392
Intersegment revenues	648	21	-	115	784
Total operating revenues	41,723	7,653	1,714	4,086	55,176
Depreciation & amortization	8,200	1,100	264	76	9,640
Equity in income (loss) from unconsolidated businesses	10	1	547	(1)	557
Interest income	54	5	17	15	91
Interest expense	(1,623)	(247)	(268)	(20)	(2,158)
Income tax (expense) benefit	(3,249)	(443)	9	(780)	(4,463)
Net income	5,020	628	618	1,211	7,477
Assets	69,997	16,590	12,543	2,829	101,959
Investments in unconsolidated businesses	23	1,464	7,936	35	9,458
Capital expenditures	10,087	1,497	521	50	12,155

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued**Reconciliation To Consolidated Financial Information**

A reconciliation of the adjusted results for the operating segments to the applicable line items in the consolidated financial statements is as follows:

	(dollars in millions)		
	2001	2000	1999
Operating Revenues			
Total reportable segments	\$ 67,121	\$ 63,699	\$ 55,176
Genuity and GTE Government Systems	-	529	1,789
Domestic Telecom operations sold (see Note 5)	-	766	1,151
Merger-related regulatory settlements	-	(69)	-
Impact of accounting change (SAB No. 101)	-	-	117
Corporate, eliminations and other	69	(218)	(39)
Consolidated operating revenues - reported	<u>\$ 67,190</u>	<u>\$ 64,707</u>	<u>\$ 58,194</u>
Net Income			
Total reportable segments	\$ 7,757	\$ 7,550	\$ 7,477
Merger-related costs	-	(749)	-
Transition costs	(578)	(316)	(126)
Sales of assets, net	(226)	1,987	819
(Loss)/gain on securities	(4,858)	1,941	-
Settlement gains	-	564	410
Mark-to-market adjustment - financial instruments	(179)	431	(432)
Genuity loss	-	(281)	(325)
NorthPoint investment write-off	-	(153)	-
Severance/retirement enhancement	(1,001)	-	-
International restructuring	(663)	(50)	-
Wireless joint venture	-	-	173
Other charges and special items	(95)	(526)	(126)
Extraordinary items	(19)	1,027	(36)
Cumulative effect of accounting change	(182)	(40)	8
Corporate and other	433	412	418
Consolidated net income - reported	<u>\$ 389</u>	<u>\$ 11,797</u>	<u>\$ 8,260</u>
Assets			
Total reportable segments	\$161,381	\$151,755	\$101,959
Reconciling items	9,414	12,980	10,871
Consolidated assets	<u>\$170,795</u>	<u>\$164,735</u>	<u>\$112,830</u>

Pension settlement gains before tax of \$911 million and \$663 million (\$564 million and \$410 million after-tax) were recognized for the years ended December 31, 2000 and 1999, respectively. These gains were recorded in accordance with SFAS No. 88. They relate to the settlement of pension obligations for former GTE employees through the purchase of annuities or otherwise. There were no similar pension settlement gains recorded during 2001.

As described in Note 1, Verizon adopted the provisions of SAB No. 101 effective January 1, 2000. The revenue reclassification in 1999 that would have been recorded had SAB No. 101 been effective January 1, 1999 would have been a reduction of revenues of \$117 million and a reduction of operating costs and expenses of \$109 million.

Corporate, eliminations and other includes unallocated corporate expenses, intersegment eliminations recorded in consolidation, the results of other businesses such as lease financing, and asset impairments and expenses that are not allocated in assessing segment performance due to their nonrecurring nature.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued**NOTE 22****COMPREHENSIVE INCOME**

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

Changes in the components of other comprehensive income (loss), net of income tax expense (benefit), are as follows:

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Foreign Currency Translation Adjustments , net of taxes of \$--, \$1 and \$1	\$ (40)	\$ (262)	\$ (41)
Unrealized Gains (Losses) on Marketable Securities			
Unrealized gains (losses), net of taxes of \$(403), \$(1,077) and \$648	(2,402)	(1,877)	1,198
Less: reclassification adjustments for gains (losses) realized in net income, net of taxes of \$(1,059), \$51 and \$--	(3,351)	88	1
Add: reclassification of earnings due to accounting change for derivatives	112	-	-
Net unrealized gains (losses) on marketable securities	1,061	(1,965)	1,197
Unrealized Derivative Losses on Cash Flow Hedges			
Cumulative effect of accounting change	(2)	-	-
Unrealized losses	(68)	-	-
Less: reclassification adjustments for losses realized in net income	(25)	-	-
Net unrealized derivative losses on cash flow hedges	(45)	-	-
Minimum Pension Liability Adjustment , net of taxes of \$7, \$(13) and \$5	13	(24)	7
Other Comprehensive Income (Loss)	\$ 989	\$ (2,251)	\$ 1,163

The reclassification adjustments for losses realized in net income on marketable securities in 2001 primarily relate to the other than temporary decline in market value of certain of our investments in marketable securities (see Note 9). The unrealized derivative losses result from our hedges of foreign exchange risk (see Note 15). The net unrealized losses on marketable securities in 2000 primarily relate to our investments in C&W, NTL and MFN. The increase in unrealized gains on marketable securities for 1999 is principally due to the change in accounting for our investment in TCNZ from the equity method to the cost method in 1999.

The components of accumulated other comprehensive loss are as follows:

At December 31,	(dollars in millions)	
	2001	2000
Foreign currency translation adjustments	\$ (1,448)	\$ (1,408)
Unrealized gains (losses) on marketable securities	327	(734)
Unrealized derivative losses on cash flow hedges	(45)	-
Minimum pension liability adjustment	(21)	(34)
Accumulated other comprehensive loss	\$ (1,187)	\$ (2,176)

NOTE 23**ADDITIONAL FINANCIAL INFORMATION**

The tables that follow provide additional financial information related to our consolidated financial statements:

Income Statement Information

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Depreciation expense	\$ 11,155	\$ 10,276	\$ 9,550
Taxes other than income	2,246	2,210	2,218
Interest expense incurred	3,737	3,720	2,762
Capitalized interest	(368)	(230)	(146)
Advertising expense	1,454	1,399	796

Balance Sheet Information

At December 31,	(dollars in millions)	
	2001	2000
Intangible Assets, Net		
Intangible assets	\$ 49,081	\$ 44,605
Accumulated amortization	(4,819)	(2,615)
	<u>\$ 44,262</u>	<u>\$ 41,990</u>

Accounts Payable and Accrued Liabilities

Accounts payable	\$ 5,171	\$ 6,247
Accrued expenses	3,224	3,063
Accrued vacation pay	1,086	1,043
Accrued salaries and wages	1,985	1,346
Interest payable	626	574
Accrued taxes	1,855	1,692
	<u>\$ 13,947</u>	<u>\$ 13,965</u>

Other Current Liabilities

Advance billings and customer deposits	\$ 1,640	\$ 1,162
Dividends payable	1,061	1,053
Other	2,703	3,218
	<u>\$ 5,404</u>	<u>\$ 5,433</u>

Cash Flow Information

Years Ended December 31,	(dollars in millions)		
	2001	2000	1999
Cash Paid			
Income taxes, net of amounts refunded	\$ 945	\$ 3,201	\$ 1,997
Interest, net of amounts capitalized	3,289	3,414	2,628
Supplemental investing and financing transactions:			
Assets acquired in			
business combinations	3,075	6,944	3,960
Liabilities assumed in			
business combinations	37	3,667	259
Debt assumed in			
business combinations	215	4,387	490

NOTE 24**COMMITMENTS AND CONTINGENCIES**

Several state and federal regulatory proceedings may require our telephone operations 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 will have a material effect on our financial condition, but it could have a material effect on our results of operations.

On January 29, 2001, the bidding phase of the FCC reauction of 1.9 GHz C and F block broadband Personal Communications Services spectrum licenses, which began December 12, 2000, officially ended. Verizon Wireless was the winning bidder for 113 licenses. The total price of these licenses was \$8,781 million, \$1,822 million of which has already been paid. Most of the licenses that were reauctioned relate to spectrum that was previously licensed to NextWave Personal Communications Inc. and NextWave Power Partners Inc. (collectively NextWave), which have appealed to the federal courts the FCC's action canceling NextWave's licenses and reclaiming the spectrum.

In a decision on June 22, 2001, the U.S. Court of Appeals for the D.C. Circuit ruled that the FCC's cancellation and repossession of NextWave's licenses was unlawful. The FCC sought a stay of the court's decision which was denied. The FCC subsequently reinstated NextWave's licenses, but it has neither returned Verizon Wireless's payment on the NextWave licenses nor has it acknowledged that the court's decision extinguished Verizon Wireless's obligation to purchase the licenses. On October 19, 2001 the FCC filed a petition with the U.S. Supreme Court to reverse the U.S. Court of Appeals for the D.C. Circuit's decision. On March 4, 2002, the U.S. Supreme Court granted the FCC's petition and agreed to hear the appeal.

During the fourth quarter of 2000, Verizon Wireless agreed to acquire the wireless business of Price Communications Corp. (Price) in exchange for Verizon Wireless stock and the repayment by Verizon Wireless of net debt. The transaction was conditioned upon completion of a Verizon Wireless initial public offering. The agreement permitted either party to terminate the agreement if the closing did not occur by September 30, 2001. Because that deadline was not met, Verizon Wireless began discussing alternative forms of consideration and other terms with Price for acquiring Price's wireless business. In December 2001, Verizon Wireless and Price announced that an agreement had been reached combining Price's wireless business with a portion of Verizon Wireless in a transaction valued at approximately \$1.7 billion, including \$550 million of net debt. The resulting limited partnership will be controlled and managed by Verizon Wireless. Price's partnership interest will be exchangeable into Verizon Wireless or Verizon stock, subject to several conditions. Price's wireless operations serve approximately 560,000 customers in the Southeastern U.S. We expect the transaction to close during the second quarter of 2002, subject to Price shareholder approval and other customary closing conditions.

In 2001, we agreed to provide up to \$2.0 billion in financing to Genuity with a maturity in 2005. As of December 31, 2001, \$1,150 million of that commitment had been loaned to Genuity, and is reported in Other Assets in the consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS continued

NOTE 25

QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Quarter Ended	Operating Revenues	Operating Income	(dollars in millions, except per share amounts)			
			Income (Loss) before Extraordinary Items and Cumulative Effect of Accounting Change		Per Share—Diluted	Net Income (Loss)
			Amount	Per Share—Basic		
2001						
March 31	\$ 16,266	\$ 3,607	\$ 1,754	\$.85	\$.65	\$ 1,572
June 30 (a)	16,909	3,801	(1,021)	(.38)	(.38)	(1,021)
September 30	17,004	3,677	1,883	.69	.69	1,875
December 31 (b)	17,011	447	(2,026)	(.75)	(.75)	(2,037)
2000						
March 31 (c)	\$ 14,532	\$ 3,828	\$ 1,564	\$.56	\$.56	\$ 1,515
June 30 (d)	16,769	4,609	4,904	1.80	1.79	4,904
September 30 (e)	16,533	4,942	2,640	.97	.97	3,466
December 31	16,873	3,379	1,702	.63	.62	1,912

(a) Results of operations for the second quarter of 2001 include a \$2,926 million after-tax loss on securities.

(b) Results of operations for the fourth quarter of 2001 include a \$1,932 million after-tax loss on securities, a \$1,001 million after-tax charge for severance benefits, and a \$663 million after-tax charge related to international operations, including CTI.

(c) Results of operations for the first quarter of 2000 include a \$536 million after-tax loss on mark-to-market adjustment for CWC exchangeable notes.

(d) Results of operations for the second quarter of 2000 include a \$722 million after-tax gain on mark-to-market adjustment for CWC exchangeable notes, a \$1,941 million after-tax gain on exchange of CWC stock, and a \$1,811 million after-tax gain related to the sale of overlapping wireless properties and non-strategic domestic access lines, partially offset by a \$1,032 million after-tax charge for direct merger, severance and transition costs related to the Bell Atlantic-GTE merger.

(e) Results of operations for the third quarter of 2000 include a \$245 million after-tax gain on mark-to-market adjustment for CWC exchangeable notes, a \$1,085 million after-tax gain on the sale of non-strategic domestic access lines and an extraordinary gain of \$826 million after-tax as a result of wireless properties sold.

Income (loss) before extraordinary items and cumulative effect of accounting change per common share is computed independently for each quarter and the sum of the quarters may not equal the annual amount.

BOARD OF DIRECTORS

EXECUTIVE OFFICERS

James R. Barker
Chairman
 Interlake Steamship Co.
and Vice Chairman
 Mormac Marine Group, Inc. and Moran
 Towing Corporation

Edward H. Budd
Retired Chairman
 Travelers Corporation

Richard L. Carrion
Chairman, President and
Chief Executive Officer
 Popular, Inc.
and Chairman, President and
Chief Executive Officer,
 Banco Popular de Puerto Rico

Robert F. Daniell
Retired Chairman
 United Technologies Corporation

Helene L. Kaplan
Of Counsel, law firm of
 Skadden, Arps, Slate, Meagher & Flom LLP

Charles R. Lee
Chairman and
Co-Chief Executive Officer
 Verizon Communications Inc.

Sandra O. Moose
Senior Vice President and Director of
 The Boston Consulting Group, Inc.

Joseph Neubauer
Chairman and Chief Executive Officer
 ARAMARK Corporation

Thomas H. O'Brien
Retired Chairman
 The PNC Financial Services Group, Inc.

Russell E. Palmer
Chairman and Chief Executive Officer
 The Palmer Group

Hugh B. Price
President and Chief Executive Officer
 National Urban League

Ivan G. Seidenberg
President and
Co-Chief Executive Officer
 Verizon Communications Inc.

Walter V. Shipley
Retired Chairman
 The Chase Manhattan Corporation

John W. Snow
Chairman, President and
Chief Executive Officer
 CSX Corporation

John R. Stafford
Chairman
 American Home Products Corporation

Robert D. Storey
Partner, law firm of
 Thompson, Hine & Flory LLP

Charles R. Lee
Chairman and
Co-Chief Executive Officer

Ivan G. Seidenberg
President and
Co-Chief Executive Officer

Lawrence T. Babbio, Jr.
Vice Chairman and President

Michael T. Masin
Vice Chairman and President

Frederic V. Salerno
Vice Chairman and
Chief Financial Officer

Dennis F. Strigl
Executive Vice President and President and
Chief Executive Officer -
 Verizon Wireless Joint Venture

William P. Barr
Executive Vice President and
General Counsel

Mary Beth Bardin
Executive Vice President -
 Public Affairs and Communications

David H. Benson
Executive Vice President -
 Strategy, Development and Planning

John W. Diercksen
Senior Vice President -
 Investor Relations

Marianne Drost
Senior Vice President, Deputy General
Counsel and Corporate Secretary

William F. Heitmann
Senior Vice President and Treasurer

Joleen D. Moden
Vice President -
 Internal Auditing

Ezra D. Singer
Executive Vice President -
 Human Resources

Thomas J. Tauke
Senior Vice President -
 Public Policy and External Affairs

Lawrence R. Whitman
Senior Vice President and Controller

INVESTOR INFORMATION

Registered Shareowner Services

Questions, Changes, Stock Transfers and Assistance—with regard to your registered stock ownership, should be directed to our transfer agent, EquiServe Trust Company, N.A. at:

Verizon Communications Shareowner Services
c/o EquiServe
P.O. Box 43005
Providence, RI 02940-3005
Phone 800 631-2355
Website: www.equiserve.com
Email: verizon@equiserve.com

Persons outside the U.S. may call collect: 781 575-3994

Persons using a telecommunications device for the deaf (TDD) may call: 800 524-9955

On-line Account Access—registered shareowners can view account information on-line at:
www.verizon.com/investor/accountaccess

You will need your account number, password and taxpayer identification number. For more information, contact EquiServe.

Electronic Delivery of Proxy Materials—registered shareowners can receive their Annual Report, Proxy Statement, and Proxy Card electronically, instead of receiving printed materials by mail. Enroll at www.econsent.com/vz

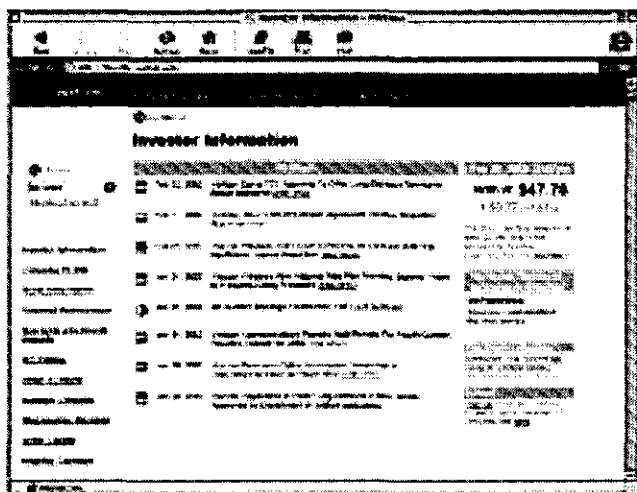
Direct Dividend Deposit Service—Verizon Communications offers electronic funds transfer to registered shareowners wishing to deposit dividends directly into checking or savings accounts on dividend payment dates. For more information, contact EquiServe.

Direct Invest Stock Purchase and Ownership Plan—Verizon Communications offers a direct stock purchase and share ownership plan. The plan allows current and new investors to purchase Verizon Communications common stock and to reinvest the dividends towards the purchase of additional shares. To receive a Plan Prospectus and enrollment form, contact EquiServe.

Investor Services

Shareowner Newsline—For recorded earnings highlights, dividend announcements and other pertinent information, you may call our newsline at: 800 235-5595

VZ Mail—Get the latest investor information delivered directly to your desktop. Subscribe to VZ mail at our investor information website—www.verizon.com/investor

**Stock Market Information**

Shareowners of record at December 31, 2001: **1,197,000**

Verizon is listed on the New York Stock Exchange (ticker symbol: **VZ**)

Also listed on the Philadelphia, Boston, Chicago, Pacific, London, Swiss, Euronext Amsterdam, and Frankfurt exchanges.

Common Stock Price and Dividend Information

	Market Price		Cash Dividend Declared
	High	Low	
2001			
First Quarter	\$ 57.13	\$ 43.80	\$ 0.385
Second Quarter	56.99	47.00	0.385
Third Quarter	57.40	48.32	0.385
Fourth Quarter	55.99	46.90	0.385
2000			
First Quarter	\$ 63.19	\$ 47.38	\$ 0.385
Second Quarter	66.00	49.50	0.385
Third Quarter	56.88	39.06	0.385
Fourth Quarter	59.38	45.19	0.385

Form 10-K

To receive a copy of the 2001 Verizon Annual Report on Form 10-K, which is filed with the Securities and Exchange Commission, contact Investor Relations:

Verizon Communications
Investor Relations
1095 Avenue of the Americas
36th Floor
New York, New York 10036
Phone 212 395-1525
Fax 212 921-2917

Corporate Governance

To receive a copy of the Verizon Communications Corporate Governance Guidelines, contact the Corporate Secretary:

Verizon Communications
Corporate Secretary
1095 Avenue of the Americas
38th Floor
New York, New York 10036

Equal Opportunity Policy

The Company maintains a long-standing commitment to equal employment opportunity and valuing the diversity of its employees, suppliers and customers. Verizon is fully committed to a workplace free from discrimination and harassment for all persons without regard to race, color, religion, age, gender, national origin, sexual orientation, marital status, citizenship status, veteran status, disability or other protected classifications.

RECORDERS MEMORANDUM

All or parts of the text on this page was not clearly legible for satisfactory recordation.

Verizon Communications Inc.
1095 Avenue of the Americas
New York, New York 10036
212 395-2121

www.verizon.com



Printed on recycled paper

Communications System Agreement

Form 90004060 (8/2000)

DISTRIBUTION:

Original - Business Operations & Billing
Copy - Customer
Copy - Maintenance Contract Control Center
File/Sales



1		THIS AGREEMENT IS MADE BETWEEN	
A Customer (subsequently referred to as "Customer"):		B Verizon Entity (subsequently referred to as "Verizon"):	
CUSTOMER NAME		VERIZON ENTITY NAME	
EQUIPMENT LOCATION STREET ADDRESS		STREET ADDRESS	
CITY STATE ZIP CODE		CITY STATE ZIP CODE	
BILLING STREET ADDRESS		CUSTOMER HELPLINE TELEPHONE NUMBER	
CITY STATE ZIP CODE		REPAIR SERVICE TELEPHONE NUMBER	
CONTACT NAME CONTACT TELEPHONE NUMBER		VERIZON REPRESENTATIVE NAME TELEPHONE NUMBER	
2 PURCHASE CHOICES		3 PRICE	
<input type="checkbox"/> Direct Purchase Or <input type="checkbox"/> Third Party Lease/Finance Leasing Company Name: _____ <input type="checkbox"/> E-Rate/USF Funding Application No.: _____ <input type="checkbox"/> Verizon Installation of the System included <input type="checkbox"/> System/Equipment replaces existing Verizon equipment <input type="checkbox"/> Tax Exempt Number: _____		System Price \$ _____ Supplemental Warranty Coverage* \$ _____ Prepaid Maintenance \$ _____ Third Party Vendor Maintenance \$ _____ Applicable Taxes (estimate) \$ _____ TOTAL PRICE \$ <input type="text"/> Down Payment \$ _____ Balance Due \$ _____ * Extends Office Hours warranty coverage to 24-hour coverage for major failures during the Warranty Period	
4 AGREEMENT			
Verizon sells and Customer purchases the communications system (the "System") and the installation, warranty and maintenance services shown on pages 1, 2 and 3 and described more fully on pages 4, 5 and 6 and referenced attachments. This agreement includes the terms and conditions on pages 4, 5 and 6. This agreement is effective on the date accepted by Verizon.			
A Agreed to by Customer:		B Accepted by Verizon:	
SIGNATURE		SIGNATURE	
PRINTED NAME		PRINTED NAME	
TITLE DATE		TITLE DATE	
FOR VERIZON USE ONLY			
Customer Account Number		Service Order Number	
		Customer P.O. Number (if applicable)	

THE TERMS AND CONDITIONS PRINTED ON PAGES 4, 5 AND 6 ARE PART OF THIS AGREEMENT.

<div>5</div> <div>MAINTENANCE SERVICES</div>	
<div>A</div> <div>Verizon Maintenance Plan</div>	
<div>Voice Equipment</div> <p>Customer purchases after-warranty maintenance services for voice equipment under the Verizon Maintenance Plan as checked below and under the Payment Option selected in Section B.</p> <div><input type="checkbox"/> Office Hours</div> <div><input type="checkbox"/> Around-the-Clock</div> <div><input type="checkbox"/> Voice Service Plus</div> <div><input type="checkbox"/> Contract Labor</div> <div>Maintenance Plans are described on Page 4</div>	<div>Data and Video Equipment</div> <p>Customer purchases maintenance services for data and/or video equipment under the Verizon Data Service Plus Maintenance Plan as checked below and under the Payment Option selected in Section B.</p> <div><input type="checkbox"/> On-Site Office Hours</div> <div><input type="checkbox"/> On-Site Around-the-Clock</div> <div><input type="checkbox"/> Tele-Maintenance</div> <div><input type="checkbox"/> Video On-Site</div> <div><input type="checkbox"/> Video Tele-Maintenance</div> <div>Maintenance Plans are described on Page 4</div>
<div>Verizon's Maintenance Services Guarantee</div> <p>If, for any reason, you are not satisfied with Verizon Maintenance Services selected above, and wish to cancel maintenance coverage, Verizon will refund the unused portion of prepaid Maintenance Services. Simply notify Verizon in writing at least thirty (30) days prior to cancellation.</p>	
<div>B</div> <div>Verizon's Maintenance Plan Payment Options</div>	
<div><input type="checkbox"/> Prepaid Maintenance – Discounted maintenance paid in advance: _____ years \$ _____ (Annual Rate)</div> <div><input type="checkbox"/> Deferred Billing – Billing for maintenance is deferred until warranty expiration: ____ Years \$ _____ (Year 1) \$ _____ (Year 2) \$ _____ (Year 3) \$ _____ (Year 4) \$ _____ (Year 5)</div> <div>Bill my deferred payment (check one): <input type="checkbox"/> annually <input type="checkbox"/> semi-annually <input type="checkbox"/> quarterly <input type="checkbox"/> monthly</div>	
<div>C</div> <div>Third Party Vendor Maintenance Plan</div>	
<div><input type="checkbox"/> Customer purchases maintenance services provided by the following third party vendor:</div> <div>Vendor Name: _____</div> <div>Vendor Service Part No.: _____</div> <div>Vendor Contract Reference Number: _____</div> <div>When Customer purchases Vendor Maintenance, the maintenance services and the terms and conditions of those services are specified by the Vendor and are not specified in this agreement.</div>	
<div>6</div> <div>ATTACHMENTS</div>	
<div>Attachment : _____</div> <div>Attachment : _____</div> <div>Attachment : _____</div> <div>Attachment : _____</div> <div>Attachment : _____</div> <div>Attachment : _____</div>	<div>Attachment : _____</div> <div>Attachment : _____</div> <div>Attachment : _____</div> <div>Attachment : _____</div> <div>Attachment : _____</div> <div>Attachment : _____</div>

PART I - INSTALLATION SERVICES

1. INSTALLATION: When installation by Verizon is requested, Verizon will deliver, install and test the System so that it operates in accordance with manufacturer's specifications. When Customer requests that installation be performed outside Verizon's normal work hours, Customer shall pay Verizon its premium time charges. Unless Customer otherwise requests in writing, Verizon will, at Customer's expense, apply for permits necessary for installation of the System. Verizon shall provide Customer written notice indicating the date the System becomes operational (the "In-Service Date"). Should Customer request delay of installation, Verizon may store components of the System at Customer's risk and expense.

2. SYSTEM ACCEPTANCE: The System is accepted by Customer on the In-Service Date, and Customer agrees to execute a certificate of acceptance upon request by Verizon.

3. TRAINING: Within 30 days following the In-Service Date of voice equipment, Verizon will provide training on how to use the voice equipment. The number of hours allocated for training is shown on page 3, item 7. For data and video equipment, Verizon will provide training on installation, configuration and performance tuning at Verizon's then prevailing rates.

4. CHANGES: Verizon will reasonably accommodate Customer requested changes prior to the In-Service Date pursuant to a written change order executed by both parties reflecting an appropriate adjustment in the System price and installation date.

5. CUSTOMER RESPONSIBILITIES: Customer will:

- (a) Allow Verizon access for installation, inspection, testing, maintenance and repair of the System and performance of any required activity.
- (b) Provide suitable building facilities for the System in accordance with local codes (i.e., ducting, conduit, structural borings, etc. for cable and conductors in floors, ceilings and walls); electrical service with suitable terminals and power surge protection devices; and metallic grounds with sufficient slack in the equipment room, installed in conformity with the National Electrical Code and local codes.
- (c) Provide necessary heating, cooling, humidity and dust control and satisfy any additional environmental specifications attached to this Agreement.
- (d) Remove existing equipment or cable that interferes with System installation.
- (e) Identify and disclose to Verizon concealed equipment, wiring or conditions which might be affected by or might affect the installation of the System. Customer shall defend and hold Verizon harmless from any claim, damage or liability resulting from a failure to disclose this information.
- (f) Authorize Verizon, at Customer's expense, to make service requests upon third parties for System interconnection requirements, including obtaining telephone service for testing where necessary.
- (g) Designate trash deposit points on each floor on which the System is to be installed where Verizon will place waste for removal by Customer.
- (h) Cooperate with Verizon's requests for assistance in testing or installation.
- (i) Designate and identify to Verizon an individual to serve as a System Administrator and primary contact.
- (j) Immediately notify Verizon of any anticipated delay in building availability or inability to meet any of the above-listed requirements.

PART II - WARRANTY AND MAINTENANCE SERVICES

1. MAINTENANCE SERVICES: For Systems installed by Verizon, during the Warranty Period (if any) and during the term of a Verizon Maintenance Plan purchased by the Customer and checked on page 2, item 5-A, Verizon will maintain the System in good working order, or, for Verizon's Tele-Maintenance Plan and Verizon's Video Tele-Maintenance Plan, Verizon will provide customer support by telephone to assist the Customer to maintain the System in good working order in accordance with the Warranty and/or the Maintenance Plan. For Warranty and those Maintenance Plans for which Verizon maintains the System, Verizon will replace or repair, at Verizon's option, any materials or equipment necessary for operation of the System. These services are the "Maintenance Services".

2. WARRANTY PERIOD: For Systems installed by Verizon, the "Warranty Period" begins on the In-Service Date and continues for the applicable Warranty Period shown on page 3, item 7. Unless otherwise stated in the Warranty Period column, data and video equipment is sold with Maintenance Services in lieu of warranty.

3. MAINTENANCE SERVICES TERM AND RENEWAL: Verizon Maintenance Plans for equipment sold with Warranty begin at the end of the Warranty Period. Verizon Maintenance Plans for equipment sold without Warranty begin at the In-Service Date. Initial Maintenance Services are provided in multiples of one year. At the end of the initial maintenance period, Verizon Maintenance Services will thereafter renew on a year-to-year basis at Verizon's rates prevailing at the beginning of each maintenance year (the "Renewal Date"). Customer may terminate Verizon Maintenance Services at any time upon 30 days' prior written notice. Verizon may terminate the Maintenance Services at the end of a maintenance year upon written notice given to the Customer at least 60 days prior to the Renewal Date. Verizon will give Customer written notice of price changes at least 60 days prior to the Renewal Date.

4. MAINTENANCE SERVICES FOR ADDITIONS: Verizon Maintenance Services include maintenance for additions to the System which are purchased from and installed by Verizon during the term of this Agreement. If Customer purchases Verizon Maintenance Services for the System and later during the term of this Agreement purchases from Verizon an addition(s) to the System and Verizon installs such addition(s), the Verizon warranty, if any, for such addition(s) shall run until the next Maintenance Services Renewal Date, so that the warranty period for the addition(s) will be coterminal with the Maintenance Services for the System.

5. MAINTENANCE PLANS: Verizon will provide Maintenance Services under the Maintenance Plan selected by Customer. Maintenance Services customers receive priority in repair service dispatching over time and material customers. Once any major on-site maintenance has started, it will continue uninterrupted during the hours for the applicable Verizon Maintenance Plan. At Customer's request, Verizon will continue the maintenance activity beyond the plan hours. Labor provided outside of plan hours will

be billed at the current Verizon labor rates. "Office Hours" are 8:00 a.m. to 5:00 p.m. (7:30 a.m. to 4:15 p.m. in Hawaii), local time, Monday through Friday, excluding Verizon-observed holidays.

6. AFTER-WARRANTY MAINTENANCE FOR VOICE EQUIPMENT:

(a) **Office Hours Plan:** This plan provides labor and material repair coverage during Office Hours. PBX systems with remote monitoring capability will be monitored from Verizon's Network Operations Center ("NOC") 8:00 a.m. to 5:00 p.m., Monday through Friday only, in Customer's time zone with this coverage plan. Additional equipment and services may be required from Customer for such monitoring. Problems that cause PBX alarms to be received in the NOC will be repaired remotely when possible. When trouble is found to be outside the System and to be Verizon network related, a Verizon Field Services Technician will coordinate necessary repair activities to expedite the problem resolution. PBX systems monitored by the NOC will have their system clocks remotely reset twice a year in accordance with Daylight Savings Time changes where applicable. Standard warranty coverage on voice products receives the Office Hours Plan coverage unless the Customer purchases Supplemental Warranty Coverage to extend coverage for major system failures to 24 hours a day during the Warranty Period.

(b) **Around-the-Clock Plan:** This plan provides the same coverage as the Office Hours Plan with the following additions or changes: Around-the-Clock coverage provides repair coverage for major failures, 24 hours a day, seven days a week. Holidays are included. PBX systems with remote monitoring capability will be monitored from the NOC seven days a week, 24 hours a day, including holidays, with this coverage plan (additional equipment and services may be required from the Customer). During the Warranty Period, Supplemental Warranty Coverage provides the same coverage as the Around-the-Clock Plan.

(c) **Voice Service Plus Plan:** Voice Service Plus coverage is only available on specified Verizon PBX and Hybrid systems. This plan provides the same coverage as the Around-the-Clock Plan with the following additions or changes: (1) Verizon will provide the Customer a rate reduction from Verizon standard hourly labor rates for move, add and change (MAC) activity. This rate will be stated in the current Voice Service Plus maintenance procedures or in an attachment to this agreement.

(2) Verizon will provide six instructor-hours of end user training annually (in increments of 2 hours minimum).

(3) Verizon will provide two customer system traffic studies annually (additional equipment may be required from the Customer).

(4) Verizon will provide quarterly Customer system performance reports.

(5) Verizon will provide system alarm monitoring and reporting.

(6) Verizon will provide Customer disaster recovery information storage.

(7) Verizon will provide daily Customer system health checks.

(8) Verizon will provide toll fraud surveillance (additional equipment may be required from the Customer). Toll fraud surveillance is the detection of a suspicious call(s) based upon a Customer-defined set of parameters and notification to the Customer. This is NOT Toll Fraud Prevention.

(9) Verizon will provide hacker notification (additional equipment may be required from the Customer). Hacker notification is the detection of a specified number of unsuccessful attempts to access the System from a single source, immediate cancellation of subsequent access attempts from that source, and notification to the Customer.

(d) **Contract Labor Plan:** Contract Labor Plan provides a certified Verizon technician on the Customer's site for a specified period of time. Days and times are specified in an attachment. Vehicle and tools are included in the base labor rate. Repair material coverage is negotiated separately.

7. MAINTENANCE FOR DATA AND VIDEO EQUIPMENT:

(a) **All Data Service Plus Maintenance Plans include:** Telephone technical support is provided during plan hours from the NOC and, when deemed appropriate by Verizon, from Verizon's vendors. Vendor software updates and fixes are distributed from the NOC. Software updates, version releases and maintenance releases provided to Verizon from Verizon's vendors at no additional cost are provided to Verizon's customers at no additional cost. Additional charges apply for other releases and revisions. Hardware upgrades necessary to support new software are not included and must be purchased by the Customer.

(b) **All Video Data Service Plus Maintenance Plans include:** access to a Verizon help desk during plan hours to answer operational questions.

(c) **On-Site Office Hours, On-Site Around-the-Clock and Video On-Site Plans:** These plans provide Verizon customers with an alternative to a full-time technical staff. These plans include:

(1) The On-Site Office Hours and Video On-Site Plans provide labor and material repair coverage for hardware and/or system software failures during Office Hours.

(2) The On-Site Around-the-Clock Plan provides the Office Hours coverage described in the preceding subsection, plus labor and material repair coverage for major hardware and/or system software failures 24 hours a day, seven days a week. Holidays are included.

(3) Verizon makes every effort to provide repair parts by the next business day.

(d) **Tele-Maintenance and Video Tele-Maintenance Plans:** These plans provide customer support by telephone for those customers who have their own staff to perform hardware maintenance. These plans include:

(1) The NOC takes phone calls from Customer's subject matter expert and offers technical support.

(2) When part replacement is necessary, Verizon contacts the appropriate vendor and orders replacement parts for fastest delivery to the Customer's site. Verizon makes every effort to provide replacement parts by the next business day. Customer must return the replaced part to the vendor within ten days or Customer will be billed for the part.

8. REPAIR RESPONSE: Response is acknowledgment of a problem and work toward its resolution, involving one or more of the following: remote diagnostics, telephone consultation, remote work to correct a problem with notification to Customer that on-site work is unnecessary, or dispatch of technician(s) to Customer's premises. The type of repair response will depend on Customer's equipment and the available remote connections. Response times are determined by categorizing the System failure as either a major failure or a minor failure. Major and minor failures are the only categories used. Response time for major failures will be:

- (a) Two hours for voice equipment failure.
- (b) Four hours for data or video equipment failure.

9. MAJOR/MINOR SYSTEM FAILURE: Verizon will respond to major System failures within the time specified in the preceding section (Part II, Section 8), subject to coverage of the selected Maintenance Plan. A major System failure is one or more of the following:

- (a) Total inability to originate voice and/or data communications.
- (b) Total inability to process incoming voice and/or data communications.
- (c) Total inability to process voice and/or data communications within the System.
- (d) Total inability to establish the audio and/or video segment of interactive video conferencing.
- (e) Attendant console and/or night answer position failure.
- (f) Twenty percent (20%) or more of trunks out of service.
- (g) Twenty percent (20%) or more of stations and/or ports out of service.
- (h) Hotel/motel call accounting system failure.
- (i) Any other failure mutually agreed to in writing by Customer and Verizon.

A minor System failure is any other System failure or malfunction. Verizon will respond to minor System failures within one (1) business day of receipt of a request for service. Verizon will charge its then prevailing rates for repair of minor System failures that Customer requests be performed outside of Office Hours.

10. EXCLUSIONS: Warranty and Maintenance Services do not include:

- (a) Additions, changes, relocations, removals, operating supplies or accessories.
- (b) Operator, System Administrator and user training except as specifically identified in this Agreement and attachments.
- (c) Services necessitated by accident, casualty, neglect, misuse, intentional acts or any cause other than normal use of the System.
- (d) Repairs or replacements necessitated by lightning, radio frequency interference, power disturbances, fire, flood, earthquake, excessive moisture or any event occurring external to the System that directly or indirectly causes a malfunction in the System, a private network to which the System is connected, or in telephone lines, cable or other equipment connecting the System to the public telephone network.
- (e) Services necessitated by use of the System with any other device or system not supplied or approved as to such combined use by Verizon, or use of any part of the System in a manner not specified by Verizon.
- (f) Repair or maintenance or increase in normal service time resulting from Customer's failure to provide a suitable environment for the System or any other failure of Customer to perform its responsibilities.
- (g) Repair or replacement of Customer-owned outside plant cable unless specifically included on the Equipment Description list.
- (h) Loss or recovery of Customer data. (Customer is responsible for providing adequate back-up of data and for restoring data to repaired equipment.)
- (i) Upgrades, enhancements or new releases of software or firmware, except as specifically indicated in this Agreement and attachments.

11. SYSTEM OPERATION: Customer shall operate the System in the manner prescribed by Verizon and/or the equipment manufacturer and shall not alter the System in any way without the prior written consent of Verizon. Customer shall pay for repairs necessitated by unauthorized alteration and such alteration may void the warranty and/or cause Verizon to terminate Maintenance Services. During the period Verizon provides Maintenance Services, Verizon may install new or updated software to maintain a System in current edition without charge to Customer other than for additional memory capacity, hardware and installation. Customer may use additional features of such new or updated software for a telecommunications System upon payment of the applicable fee for such use.

12. SYSTEM CHANGES AND RELOCATIONS: Customer shall not move the System switching equipment or major System components without the prior written consent of Verizon, which consent shall not be withheld unreasonably, but may be conditioned upon modification of the terms of warranties and Maintenance Services to reflect changed circumstances and location. If relocation, removal or rearrangement requires relocation of the System to a different service address, Verizon may modify its charges or terminate the Maintenance Services, provided that the unused portion of prepaid Maintenance Services shall be refunded.

PART III - GENERAL TERMS AND CONDITIONS

1. ADDITIONAL PURCHASES: During the period this Agreement is in effect, to include Renewal Terms for Maintenance Services, Customer may order additional equipment and services pursuant to purchase orders or similar documents that reference this Agreement and that are accepted by Verizon. Such additional purchases shall be governed by this Agreement. Purchase orders issued by Customer and accepted by Verizon are effective solely to specify goods and services ordered. Any provisions contained in the Customer's purchase order or other similar document that would add to, delete or vary Verizon's obligations or rights under this Agreement are hereby rejected and shall not become part of the transaction without Verizon's specific written consent.

2. PRICE AND PAYMENT TERMS:

- (a) Unless otherwise stated, prices include delivery to the System address. If Customer and Verizon agree on any change to the System before the In-Service Date, Verizon will adjust the total purchase price and installation date accordingly.
- (b) Customer shall pay all applicable sales, use or excise taxes on the same terms as other charges pursuant to this Agreement.

(c) The down payment shall accompany the signed Agreement. Payment(s) of the balance shall be made upon invoice by Verizon. Payments are due upon receipt of invoice and are considered past due 30 days after invoice date. Customer shall pay interest on any past due balance at 1.5% per month (not to exceed the maximum rate allowed under state law). If any payment for purchase of the System is not received within 45 days of the invoice date, Verizon may remove the System and seek all appropriate legal remedies. If payment for Maintenance Services is not received within 45 days of the invoice date, Verizon may cease performing Maintenance Services and terminate the Agreement.

(d) If Customer cancels this Agreement before the In-Service Date, cancellation must be in writing and Customer shall pay Verizon's charges for preparation of the System, installation and removal at Verizon's then current rates plus a restocking charge of 15% of the System price. Verizon will apply any payment received from Customer to these charges and will refund any balance. If a deficiency results, Verizon will invoice the Customer, and Customer shall pay such deficiency within 45 days of the invoice date.

(e) If Customer finances this purchase, Verizon will refund amounts paid by Customer upon receipt of payment in full from the third party lessor or lender. Customer may assign its rights and obligations under this Agreement to a third party lessor or lender acceptable to Verizon or may cause the third party lessor or lender to issue a purchase order in a form acceptable to Verizon. Notwithstanding such assignment or third party purchase order, Customer shall have the right to enforce Verizon's obligations and will remain responsible for performance of Customer's obligations under this Agreement, including payment for the System.

(f) As stated in Part II, Section 3, the term of Maintenance Services will renew for successive one-year renewal terms unless terminated by Customer upon thirty (30) days written notice or unless terminated by Verizon at the end of the applicable term upon sixty (60) days written notice prior to the end of the term. Verizon may change the Maintenance Services prices for a renewal term by providing Customer with written notice of the price change at least sixty (60) days prior to the end of the then-current term. Such new prices become effective at the beginning of the renewal term, without additional amendment to this Agreement.

3. SOFTWARE LICENSE: Software provided in conjunction with the System is licensed to Customer under the license provided by the software publisher or equipment manufacturer. Customer may be required to execute a separate software license agreement furnished by the software provider or equipment manufacturer.

4. RISK OF LOSS: Risk of loss or damage to the System that is not caused by Verizon passes to Customer on delivery to the System address if Verizon installs the System or upon delivery to the carrier or pickup by Customer if Verizon does not install.

5. TITLE AND SECURITY INTEREST: Until the full payment has been made, Customer grants Verizon a purchase money security interest in the System, agrees to execute all documents necessary to perfect that interest, and, to the extent permitted by law, grants Verizon a special power-of-attorney for the purpose of executing said documents. Upon final payment, title passes to Customer and Verizon will release its security interest.

6. WARRANTIES:

(a) If Verizon does not install the System, such warranties as may be provided by the manufacturers or Verizon's suppliers shall be the sole and exclusive warranties for the System, except as provided in (c) below. In such cases, Customer is responsible for returning defective equipment and parts to the manufacturer.

(b) When Verizon installs the System, warranties provided by the manufacturers or suppliers apply to the System for the Warranty Period stated in the Equipment Description, and Verizon also warrants for the Warranty Period that the installation work of Verizon will be free from defects in material and workmanship.

(c) Verizon warrants that good title to the System will be conveyed to Customer upon full payment.

(d) These warranties do not cover damage to or malfunction of the System caused in whole or in part by Customer or third parties through other than normal use of the System or caused by events external to the System.

(e) Customer's sole and exclusive remedy for breach of Verizon's warranties shall be limited to repair or replacement, at Verizon's option, of any defective part or installation work, provided that Verizon shall have no liability unless Customer provides Verizon written notice within the Warranty Period of the specific defect.

THE WARRANTIES STATED IN THIS SECTION ARE IN LIEU OF ALL OTHER WARRANTIES FROM VERIZON, EXPRESS OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE. VERIZON MAKES NO WARRANTY FOR USE OF THE SYSTEM AS A COMPONENT IN LIFE SUPPORT DEVICES OR SYSTEMS. VERIZON MAKES NO WARRANTY WITH RESPECT TO THE PERFORMANCE OF ANY SOFTWARE OR FIRMWARE.

7. LIMITATION OF LIABILITY: UNDER NO CIRCUMSTANCES SHALL VERIZON, ITS SUPPLIERS OR SUBCONTRACTORS BE LIABLE FOR INCIDENTAL, INDIRECT, CONSEQUENTIAL OR SPECIAL DAMAGES, WHETHER ARISING IN CONTRACT, TORT OR OTHERWISE, NOTWITHSTANDING THEIR FORESEEABILITY OR DISCLOSURE BY CUSTOMER TO VERIZON, INCLUDING, BUT NOT LIMITED TO, DAMAGES ARISING FROM DELAY, LOSS OF DATA, PROFITS OR GOODWILL, EXCEPT WITH RESPECT TO THE INDEMNIFICATIONS SET OUT IN PART III, SECTION 8. VERIZON'S LIABILITY, WHETHER IN CONTRACT, TORT OR OTHERWISE, SHALL NOT EXCEED THE PURCHASE PRICE FOR THE SYSTEM. VERIZON SHALL BEAR NO LIABILITY FOR USE OF EQUIPMENT OR SERVICES PROVIDED UNDER THIS AGREEMENT IN CONNECTION WITH LIFE SUPPORT SYSTEMS OR DEVICES. IN ADDITION, VERIZON SHALL HAVE NO LIABILITY OR RESPONSIBILITY FOR INTEROPERABILITY OR COMPATIBILITY OF THE SYSTEM WITH THIRD-PARTY PRODUCTS OR SYSTEMS THAT CUSTOMER MAY UTILIZE IN CONJUNCTION WITH THE SYSTEM OR TO WHICH CUSTOMER MAY CONNECT THE SYSTEM. VERIZON MAY FROM TIME TO TIME PROVIDE ADVICE, MAKE RECOMMENDATIONS OR SUPPLY OTHER ANALYSIS RELATED TO THE SYSTEM, EQUIPMENT AND SERVICES DESCRIBED IN THIS AGREEMENT, AND CUSTOMER ACKNOWLEDGES AND AGREES THAT THIS LIMITATION OF LIABILITY SHALL APPLY TO PROVISION OF SUCH ADVICE, RECOMMENDATIONS AND ANALYSIS.

8. INDEMNIFICATION:

(a) Subject to the conditions and exceptions recited in this section, Verizon will defend and indemnify Customer against so much of any claim, suit, action or proceeding ("Claim") alleging that the System in the form supplied to Customer infringes a valid U.S. patent or copyright, and Verizon agrees to pay all reasonable litigation and settlement costs and attorney's fees incurred by Customer in connection with any such Claim. If the use of the System is enjoined or threatened by a Claim as described above, Verizon may, at its option and expense, procure for Customer the right to use the System, replace the System or relevant component with an equivalent, non-infringing System or component, modify the System or relevant component so that it becomes non-infringing, or remove the System and refund the purchase price, less depreciation based on a five-year straight-line basis commencing on the In-Service Date. Verizon shall have no obligation for any costs, fees or expenses incurred by Customer without Verizon's prior written consent, any Claim arising out of "music on hold" or similar service, or any indirect, special, consequential or incidental damages arising out of any Claim. The indemnity will not apply unless Customer (1) gives written notice to Verizon within 15 days of receipt of service of any such Claim and shall inform Verizon in writing of any subsequent communications regarding same, (2) fully cooperates with Verizon in the defense of the Claim, and (3) provides Verizon with information and assistance in defending the Claim. Verizon shall have sole control of the defense of the Claim and of all negotiations for its settlement or compromise. This indemnity shall not apply to any Claim, or portion thereof, that arises from any negligent or willful act or omission by or attributable to Customer, use or operation of the System in combination with materials, data or programming of others, or any addition to or modification of the System, or use of other than the current unaltered release of any software used in the System. The foregoing states the entire obligation of Verizon to Customer, and is Customer's sole and exclusive remedy, with respect to any Claim of infringement of any intellectual property right of any kind, and Verizon disclaims all other warranties and obligations with respect to any such Claims.

(b) Verizon will defend and indemnify Customer against any claim, suit, action or proceeding arising out of bodily injury, death or damage to tangible property to the extent proximately caused by the negligence or willful misconduct of Verizon's employees or agents in performing services under this Agreement. This indemnity does not extend to any portion of the injury, death or damage caused by either the sole or contributing negligence of Customer or third parties. Verizon's obligation with respect to damage to the System is limited to repair or replacement, at Verizon's option, of the damaged items.

9. COMPLIANCE WITH LAW:

(a) The parties shall comply with applicable laws, regulations and ordinances with respect to fulfilling their obligations under this Agreement. The specifications and requirements of the System, its price and installation are based on compliance with applicable laws, regulations and ordinances in effect on the date the price is quoted to Customer. If subsequent changes to applicable laws, regulations or ordinances result in a change to Verizon's costs, Verizon may adjust the price.

(b) Restrictions or prohibition on the export of the System may be imposed by Verizon's suppliers or by the U.S. Government. If Customer exports any part of the System, Customer shall, in its own name, apply for any required U.S. export license and assumes full responsibility for compliance with all U.S. and foreign country laws applicable to the export of the equipment from the United States and import into other countries.

10. RESPONSIBILITY FOR TELECOMMUNICATIONS CHARGES: The System is intended to be connected to the public switched telephone network. Customer is solely responsible for selection, implementation and maintenance of security features for defense against unauthorized long distance calling. Customer is solely responsible for payment of long distance, toll and other telecommunications charges incurred through use of the System.

11. HAZARDOUS SUBSTANCES: Except as disclosed to and acknowledged in writing by Verizon, Customer certifies that it is not aware of the presence of any asbestos or other hazardous substance (as defined by any applicable state, federal or local hazardous waste or environmental law or regulation) at any location where Verizon is to perform services under this Agreement. If during such performance Verizon employees or agents encounter any such substance, Customer agrees to take all necessary steps, at its own expense, to remove or contain the asbestos or other hazardous substance and to test the premises to ensure that exposure does not exceed the lowest exposure limit for the protection of workers. Verizon may suspend performance under this Agreement until the removal or containment has been completed and approved by the appropriate governmental agency and Verizon. Performance obligations under this Agreement shall be extended for the delay caused by said cleanup or removal. Customer's failure to remove or contain hazardous substances shall entitle Verizon to terminate this Agreement without further liability. If Verizon so terminates, Customer shall permit Verizon to remove any equipment that has not been accepted, shall reimburse Verizon for expenses incurred in performing this Agreement until termination (including expenses of removing equipment), and shall complete payment for any portion of the System that has been accepted; and Verizon shall refund to Customer any down payment for the System if the System has not been accepted, and shall refund the unused portion of any prepaid Maintenance Service.

12. DELAYED PERFORMANCE: If performance under this Agreement is interfered with by acts of God, war, riot, embargo, acts of the Government in its sovereign capacity, labor difficulties, unavailability of equipment or parts from vendors, changes requested by Customer, or any other circumstances beyond the reasonable control and without the fault of the party affected, such party, upon giving prompt notice to the other party, shall be excused from such performance on a day-to-day basis to the extent of such interference (and the other party shall likewise be excused from its performance), provided that the party so affected shall use reasonable efforts to remove such causes of nonperformance and both parties shall proceed whenever such causes are removed or cease. If performance of either party is prevented or delayed by circumstances as described in this section for more than ninety (90) days, either party may terminate this

Agreement. If this Agreement is so terminated, Customer shall permit Verizon to remove any equipment that has not been accepted, shall reimburse Verizon for expenses incurred in performing this Agreement until termination (including expenses of removing equipment), and shall complete payment for any portion of the System that has been accepted; and Verizon shall refund to Customer any down payment for the System if the System has not been accepted, and shall refund the unused portion of any prepaid Maintenance Service.

13. DEFAULT: If either party fails to perform any material obligation under this Agreement or violates any material term or condition of this Agreement, and such failure or violation is not cured within 30 days following receipt of a written notice of default from the other party, then the other party shall have the right to terminate this Agreement upon written notice to the defaulting party.

14. RESOLUTION OF DISPUTES:

(a) The parties desire to resolve disputes arising out of this Agreement without litigation. Accordingly, except for action seeking a temporary restraining order or injunction related to the purposes of this Agreement, or suit to compel compliance with this dispute resolution process, the parties agree to use the following alternative dispute resolution procedure as their sole remedy with respect to any controversy or claim arising out of or relating to this Agreement or its breach.

(b) At the written request of a party, each party will appoint a knowledgeable, responsible representative to meet and negotiate in good faith to resolve any dispute arising under this Agreement. The parties intend that these negotiations be conducted by non-lawyer, business representatives. The location, format, frequency, duration and conclusion of these discussions shall be left to the discretion of the representatives. Upon agreement, the representatives may utilize other alternative dispute resolution procedures such as mediation to assist in the negotiations. Discussions and correspondence among the representatives for purposes of these negotiations shall be treated as confidential information developed for purposes of settlement, exempt from discovery and production, which shall not be admissible in the arbitration described below or in any lawsuit without the concurrence of all parties. Documents identified in or provided with such communications, which are not prepared for purposes of the negotiations, are not so exempted and may, if otherwise admissible, be admitted in evidence in the arbitration or lawsuit.

(c) If the dispute is not resolved under the preceding subsection within 60 days of the initial written notice, the dispute shall be submitted to binding arbitration by a single arbitrator. Either party may demand arbitration by submitting written notice to the American Arbitration Association, with a copy to the other party. The dispute shall then be administered according to the American Arbitration Association's Commercial Arbitration Rules, with the following modifications: (1) the arbitration shall be held in the city where this Agreement was executed by Verizon; (2) the arbitrator shall be licensed to practice law and shall preferably have former judicial experience; (3) the arbitrator shall conduct the arbitration as if it were a bench trial and shall use, apply and enforce the Federal Rules of Civil Procedure; (4) the arbitrator shall have no power or authority to make any award that provides for consequential, incidental, indirect, punitive or exemplary damages; (5) the arbitrator shall control the scheduling so that the hearing is completed no later than 120 days after the date of demand for arbitration; (6) the arbitrator shall rule on the dispute by issuing a written decision within 30 days after the close of the hearing; and (7) the arbitrator's decision shall follow the plain meaning of this Agreement and the relevant documents. Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction over the parties.

(d) Each party shall bear its own costs of these procedures. A party seeking discovery shall reimburse the responding party the costs of production of documents (to include search time and reproduction costs). The parties shall equally split the fees of the arbitration and the arbitrator.

15. MISCELLANEOUS:

(a) No action or demand for arbitration arising out of this Agreement may be brought by a party more than 2 years after the cause of action has accrued. The parties waive the right to invoke any different limitation on the bringing of actions under state law.

(b) Verizon may assign this Agreement without restriction, but Customer may not assign this Agreement without Verizon's written consent, which shall not unreasonably be withheld.

(c) Either party's failure to enforce any of the provisions of this Agreement, or to exercise any right or option is not a waiver of any such provision, right or option, and shall not affect the validity of this Agreement.

(d) Notices required by this Agreement shall be in writing and shall be sent by a method which obtains a written receipt. Notices shall be sent to the address listed on the front of this Agreement until such address is changed by written notice.

(e) This Agreement is to be governed and construed according to the substantive law of the state in which this Agreement is accepted by Verizon.

(f) Any provision of this Agreement prohibited by applicable law shall be ineffective without invalidating the remaining provisions of this Agreement, unless the general intent of this Agreement would be negated.

(g) The section headings in this Agreement are for convenience only and shall not be considered in its interpretation.

(h) No subsequent agreement shall change, modify or discharge this Agreement, in whole or in part, unless such agreement is in writing and signed by the party against whom enforcement of the change, modification or discharge is sought.

(i) This Agreement, including attachments, constitutes the entire agreement of the parties pertaining to the subject matter herein and supersedes all prior agreements, negotiations and representations, whether written or oral, concerning such subject matter. No representations or warranties, express or implied, have been made or relied upon in the making of this Agreement other than those specifically contained in this Agreement.

AGENDA ITEM 26

Discuss and take appropriate action on bids received for bridge replacement on CR 390, 406, and 427.

Bids were received from the following:

Bland/Schroeder/Archer, L.P., Austin, Texas

Dayco Construction Co., Austin, Texas

Capital Excavation Co., Austin, Texas

Ellis-McGinnis Construction Co., Ennis, Texas

FTWOODS Construction Services, Inc., Georgetown, Texas

Moved: **Commissioner Limmer**

Seconded: **Commissioner Hays**

Motion: To award bid for bridge replacement on CR 390, 406 and 427 to Ellis-McGinnis Construction Company, as recommended by Project Manager George Tillett of HDR Engineering.

Vote: **5 - 0**

< Attachment >