VERIZON COMMUNICATIONS

Annual Report 2000

[brand]

With a single brand for all products, we achieve leverage across both the wireline and wireless markets – giving us a key advantage in our drive to make Verizon the most respected name in communications.

[world-class networks]

Verizon has the best network assets in the United States, with the largest local transport and access business, the leading wireless network, and a relationship with a major Internet backbone company. We are extending our reach by assembling a global communications network that will link the United States with major cities in Europe, Asia, and Latin America.

[direct customer connections]

With 63 million access lines, 27.5 million wireless subscribers, and directories that reach 1.3 million small businesses nationwide, Verizon touches more customers than any other communications company. This positions us for growth, as we deliver more value, more applications – and, therefore, more revenue – over this crucial "last-mile" connection.

[national market presence]

To win at chess, you have to be strong in the center of the board. With telephone companies that reach one-third of U.S. households and Verizon Wireless covering nearly 90 percent of Americans, we have established our leadership in the North American market – the "center of the chessboard" for communications – and become the partner of choice for global carriers wishing to access the U.S. market.

[growth markets]

Growth businesses – wireless, data, and international – are a growing percentage of Verizon's revenue base. As we continue to change Verizon's growth profile, we also add to the range of products and services we can offer the information-age customer.

[product innovation]

For millions of households and businesses, our networks will be the platform for the next wave of digital applications, content and transactions. We are working, on our own and with partners, to develop these innovations, package them in compelling bundles, and deliver them over our broadband and wireless networks.

[quality service]

Operational excellence is the hallmark of our company, and service quality is at its heart. We offer customers highly reliable wireline and wireless networks, fully automated operating systems, and – most of all – the dedication of 260,000 employees for whom customer service is the highest and most overriding value.

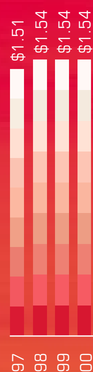
The 2000 Annual Report, printed on non-glossy, recycled paper, reflects our continuing commitment to provide concise and cost-effective reporting of financial performance to our shareowners.

Driven by our belief in the power of networks, the value of customer connections, and the magic of a unified brand, Verizon is becoming one of the world's leading communications companies. With our unparalleled national scale in landline and wireless networks and a significant global presence, Verizon delivers the benefits of communications – voice, high-speed data, Internet access, and wireless – to millions of customers every day.

Earnings per Share*

* Diluted basis, before special items

Dividends per Share



[Contents]

Highlights	3
Letter to Shareowners	4
Verizon at a Glance	6
Verizon Presence	8
A Promise About People	9
Selected Financial Data	10
Management's Discussion and Analysis	10
Report of Management	30
Report of Independent Accountants	30
Consolidated Financial Statements	32
Board of Directors	65
Executive Officers	66
Investor Information	67

Charles R. Lee   Ivan G. Seidenberg

Fellow Shareowners:

In the first year of a new millennium, Verizon Communications was born. Formed by the merger of GTE and Bell Atlantic and the creation of Verizon Wireless in a joint venture with Vodafone, we immediately established ourselves as one of the leading companies in the global communications industry. Our assets, financial strength and management focus will enable us to take advantage of the growth trends that are transforming our industry, as well as execute our game plan in an increasingly competitive marketplace.

Our new company is built on an age-old truth: Customer service and world-class technology produce real long-term winners.

Verizon turned in a solid financial performance in its first year, confirming the validity of our business model and our ability to execute on it. We registered 7.2 percent adjusted revenue growth and added thousands of customers from new and growing services such as long distance, DSL and wireless. Our reported earnings for 2000, which include the effects of certain gains, charges and other adjustments, were $11.8 billion or $4.31 per share, compared with $8.3 billion or $2.97 per share in 1999. Our adjusted earnings per share were $2.91, up from $2.84 in 1999, in line with investors' expectations.

We are disappointed in our stock performance in 2000, which – like that of most of the large-cap telecom companies – trailed the broader market. We believe our track record of meeting our financial and operational targets, achieving merger synergies, and generating cash for reinvestment will turn that around in 2001. Verizon's combination of a strong balance sheet, steady cash flow, and expanding top-line growth offers investors both stability and growth – a potent one-two punch in the increasingly competitive telecom space.

For all the uncertainty of the investment environment in 2000, the big story continues to be growth: the Internet is spreading faster than any "disruptive technology" in history, data communications is growing by 30 percent a year, and wireless continues its relentless drive toward a billion users worldwide by mid-decade. Verizon is in the middle of all these trends. Therefore, we have the opportunity to create shareowner value as the market places a more appropriate valuation on our assets and growth prospects.

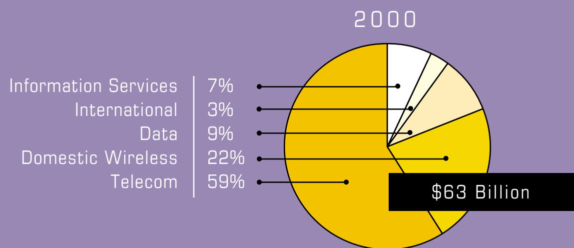
We wish to extend our thanks to the extraordinary management team who not only integrated these new companies, but also achieved excellent operating results in some of the most competitive markets in the country. We also want to commend the 260,000 women and men of Verizon who came together under the banner of a new company and worked tirelessly to deliver the benefits of communications to customers everywhere.

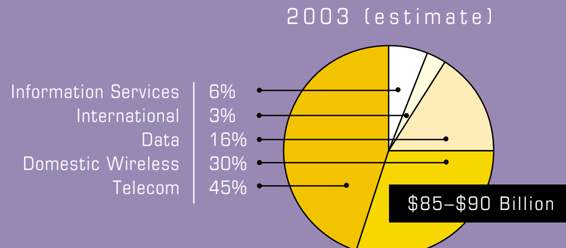
Together, we are committed to making Verizon the most respected name in communications.

We pursue this goal on the strength of some of the best assets in the industry:

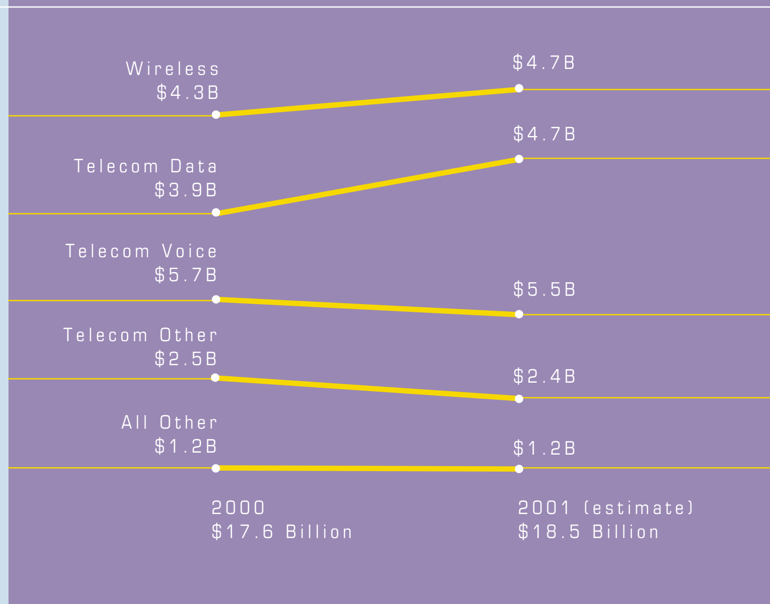
- One of every three telephone access lines in the country, covering two-thirds of the top 100 U.S. markets.
- Wireless services in 96 of the country's top 100 markets.
- One-third of all the directories published in the U.S., along with the leading online directory, SuperPages.
- International wireless and wireline investments in 19 countries.
- Access to and, ultimately, control of broadband transport through an ownership stake in a top-tier Internet backbone provider, Genuity.
- A growing global network that will position us to better serve the large business market.
- And the hardest asset of all for competitors to replicate: a huge base of skilled employees who collectively engage in millions of interactions with customers every day.

Revenue Outlook





Capital Expenditure Outlook



We brought these world-class networks and millions of customer connections together under a single brand and a unified management approach. More than that, we demonstrated our ability to compete, execute and grow.

We met or exceeded some ambitious operational goals for 2000. In our domestic telecom business, we successfully launched two businesses – long distance in New York and high-speed Internet access over DSL — and registered a third straight year of 30 percent growth in data. Verizon Wireless added 3.7 million new customers on the year – including 1.2 million in the fourth quarter alone — for an industry-leading total of 27.5 million, and made a strong push into wireless data. Our international investments contributed $2 billion in revenues, fueled by 47 percent growth in proportionate wireless subscribers. And Information Services continued to be a strong source of cash flow, and provides a foothold on the future as we shift increasingly to electronic and Web-based directory products.

We achieved this record of solid growth and operational excellence while continuing to invest for the future by directing capital toward new technologies and growth businesses. You can see the result of this focus on growth in the transformation of our revenue profile; 41 percent of our revenues derive from wireless, data, international and information services, and we expect that to grow to 55 percent by 2003.

Looking ahead to 2001 and beyond, we see continued strong demand for our services. We expect to expand the footprint of our long distance business, increase our DSL subscriber base, and make further inroads in the growing field of wireless data.

We also believe our premier position in the U.S. market will give us tremendous advantages as we further nationalize and globalize our business. Our focus will be on leveraging the huge amount of international traffic that originates in our territory and expanding our ability to serve the communications needs of our existing base of large business customers.

With strong core businesses, an expanding position in growth markets, and the financial strength and flexibility to reinvest and innovate, Verizon is well positioned to remain one of the flagship companies in our industry.

We recognize the obligations that go with being the market leader. We've stepped up our capital investment, accelerated the pace of innovation and transformed ourselves for the competitive era – all to make sure we're ready for the new technologies, applications and networked products that will ride our data-centric networks.

In the process, we have raised the bar of excellence for our competitors and redefined what it means to be a full-service, integrated communications company.

We wish to thank the Board of Directors for overseeing our amazing progress in 2000 and our fabulous employees for building the engine for growth.

In 2001, we will press on the accelerator. Our customers are hungry for the new services that will usher in the next phase of the broadband era, and we intend to deliver them with a level of service unparalleled in the industry.

That's the Verizon promise.

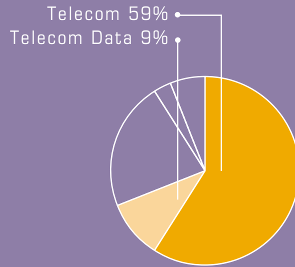
Charles R. Lee
Chairman
Co–Chief Executive Officer

Ivan G. Seidenberg
President
Co–Chief Executive Officer

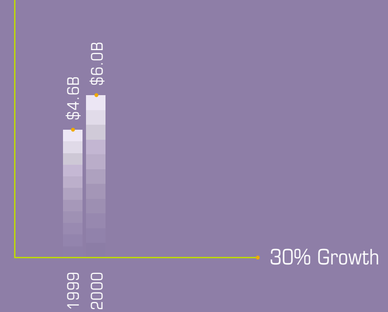
Verizon at a Glance

Domestic Telecom

With nearly109 million access line equivalents in 67 of the top 100 U.S. markets, and 9 of the top 10, Verizon reaches one-third of the nation's households, more than one-third of Fortune 500 company headquarters, as well as the Federal Government.

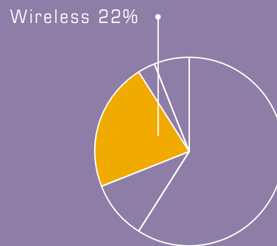


2000 Revenues of $43.3 Billion

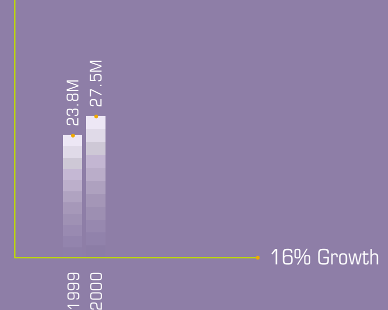


Domestic Wireless

Verizon Wireless is the nation's largest wireless communications provider with 27.5 million wireless voice and data customers. The company's footprint covers nearly 90% of the U.S. population, 49 of the top 50 and 96 of the top 100 U.S. markets.

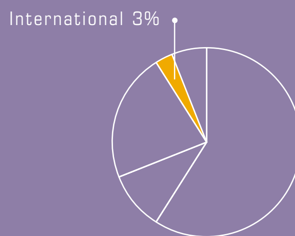


2000 Revenues of $14.2 Billion

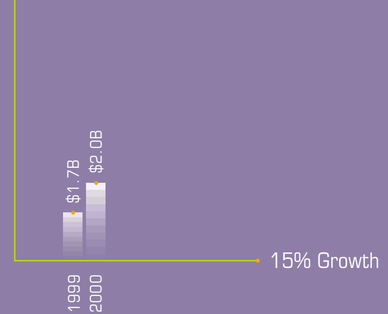


International

Verizon has wireline and wireless operations in the Americas, Europe,Asia and the Pacific, and a global presence, which extends to 44 countries, including FLAG, the world's longest undersea fiber optic cable.

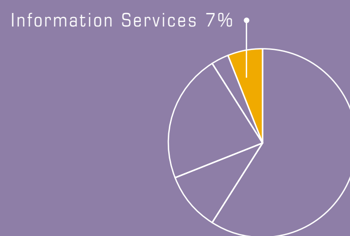


2000 Revenues of $2.0 Billion
Proportionate Revenues of $6.1 Billion



Information Services

Verizon Information Services is a world-leading print and online directory publisher and content provider. In addition to print directories, Information Services produces the Internet's preeminent online directory, SuperPages.com, and is the exclusive Yellow Pages provider on Excite, Lycos, AOL, Digital City, HotBot, and BigFoot.

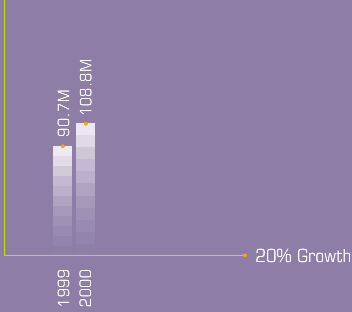


2000 Revenues of $4.1 Billion

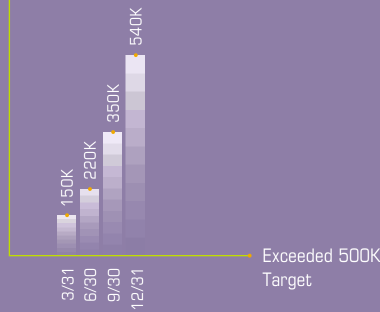
Information Services provides sales, publishing and other related services for nearly 2,300 directory titles in 48 states, the District of Columbia and 17 countries.

Total domestic circulation	110 million copies
Total international circulation	37 million copies
Total visits to SuperPages.com	4.2 million
Number of advertisers	1.8 million

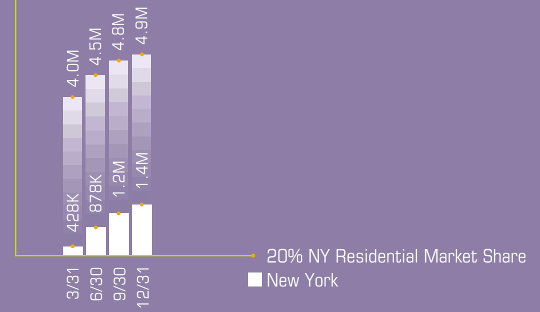
Voice Grade Equivalents



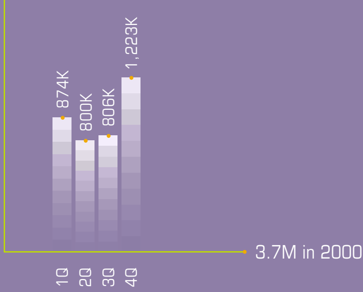
DSL Subscribers



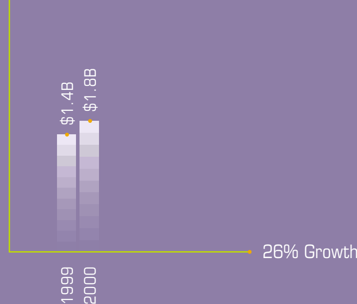
Long Distance Customers



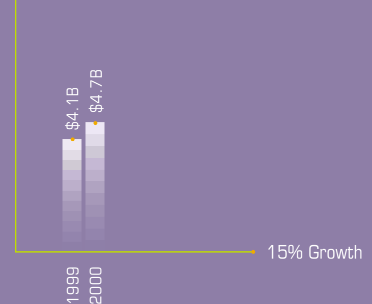
Subscriber Net Additions



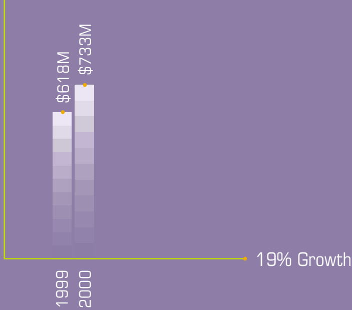
Operating Income



Operating Cash Flow

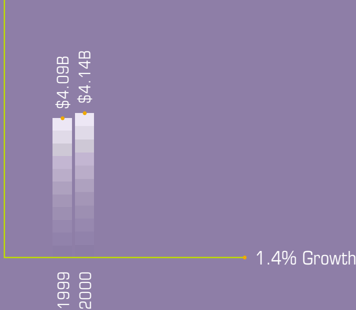


Net Income–International

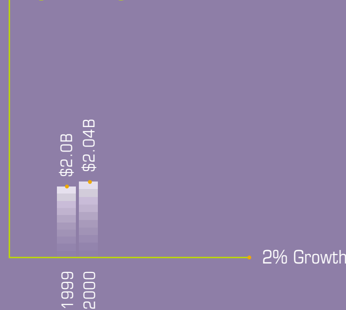


Investment	Ownership
Canada	
TELUS	22.0%
QuebecTel	30.2%
Latin America	
CANTV	28.5%
CTI	59.5%
Puerto Rico Telephone	40.0%
CODETEL	100%
Iusacell	37.2%
Europe	
Cable & Wireless	4.6%
NTL	9.1%
Omnitel	23.1%
GNC	50%
Stet Hellas	20.0%
EuroTel Praha	24.5%
EuroTel Bratislava	24.5%
Asia	
Taiwan Cellular	13.5%
Micronesian Telecom	100%
Excelcomindo	23.1%
CSM	36.7%
TelecomAsia	13.8%
BayanTel	19.4%
TCNZ	24.9%
Connectivity	
FLAG/Europe, Asia, Middle East	29.8%

Revenues



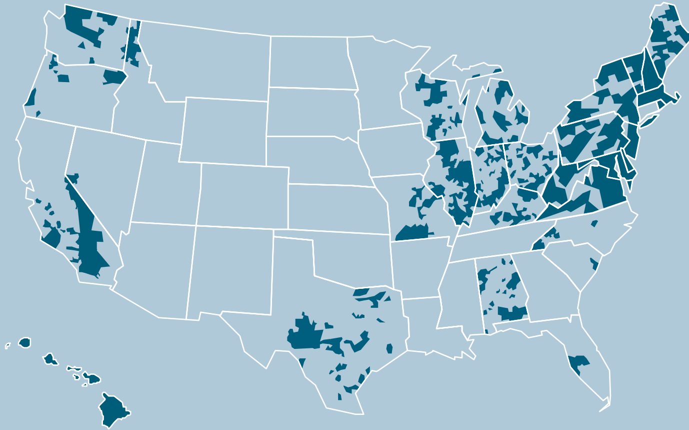
Operating Income



Verizon Presence

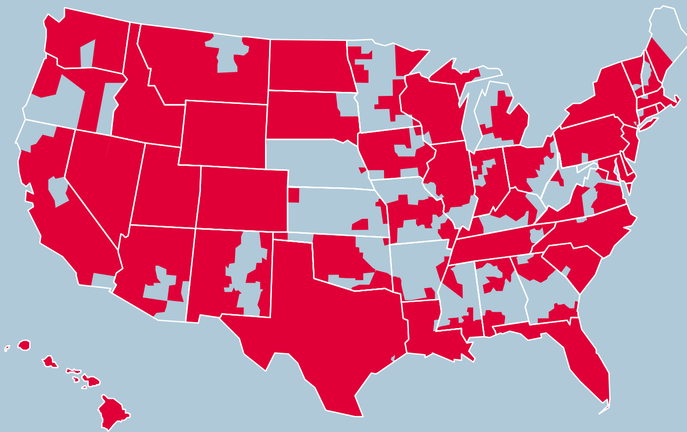
2000 Facts & Figures

Domestic Telecom



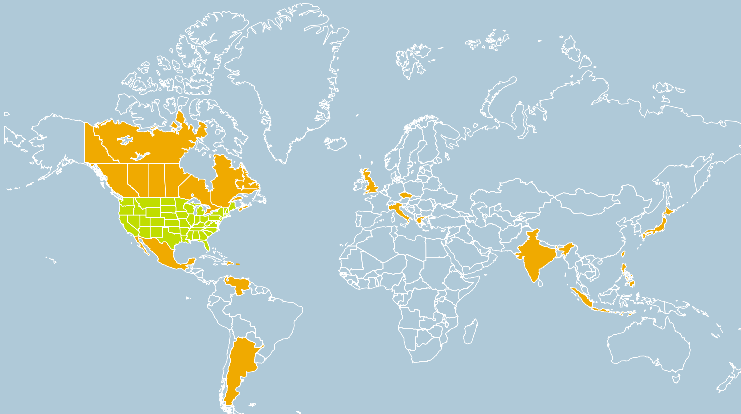
- 31 states and District of Columbia
- 67 of top 100 markets
- 63 million access lines
- 109 access line equivalents
- 33 million households

Verizon Wireless



- Footprint covers nearly 90% of U.S. population
- 96 of top 100 markets
- Nationwide network
- 27.5 million customers
- 16,000 retail points of presence

International



- Operations in 19 countries
- Presence in 44 countries
- Americas, Europe, and Asia
- Wireline and wireless investments
- On a proportionate basis, nearly 4 million access lines; more than 8 million wireless customers

A Promise About People

The Verizon Promise consists of our core purpose, values and goals, and vision of the future. More fundamentally, it identifies the relationship between our employees and our customers as the source of long-term value-creation and competitive advantage.

Core Purpose

Verizon is a positive force in the communities we serve, both through the communications solutions we offer and our charitable giving and community involvement.

The Verizon Foundation provides grants totaling $70 million a year, with an emphasis on programs that improve literacy, bridge the digital divide and develop tomorrow's skilled workforce. As the nation's first bi-lingual "cyber" foundation, we also help educate and equip non-profits to extend their community reach through Internet technologies. Our web-based employee giving program – "Verizon Volunteers" — provides matching gifts and grants to employees who volunteer time or money to non-profit organizations. All active Verizon employees can participate, making this one of the most inclusive employee volunteer programs in the world.

We also are committed to being America's literacy champion through "Verizon Reads," a national campaign in support of a diverse range of adult, child and family literacy programs. This program earned the Ron Brown Award for Corporate Leadership — the only Presidential Award honoring companies for outstanding achievements in employee and community relations.

Core Values

Among all our core values, the first among equals is service — the centerpiece of our measurement, compensation and reward systems.

Surveys show that we're delivering on our promise. For example, in the latest J.D. Power nationwide study, we were the only local phone company to improve its relative ranking from last year's results. In wireless, J.D. Power ranks Verizon Wireless highest in overall customer satisfaction among wireless users in nine U.S. markets, including seven of the top 10.

To give our employees a stake in our new company, Verizon awarded Founders' Grants, a one-time offering of 55 million stock options, the largest such grant ever associated with a merger.

Core Goal

Diversity – in our workforce, in our communities — is at the heart of the Verizon brand.

In recognition of our diversity initiatives, we appeared on *Fortune* magazine's list of America's 50 Best Companies for Minorities and were named one of the 100 Best Companies for Working Mothers by *Working Mother* magazine.

We also partnered with the Small Business Administration to increase our purchases with minority and women suppliers, with whom we expect to spend in the range of $2 billion over the next two years.

Promises to Keep

The purpose, values and aspirations expressed in the Verizon Promise guide our relationship with customers, shareowners, communities, and each other. Our vision of the future drives us to deliver:

To customers, the best service in the industry; to shareowners, growth in the value of their investment; to communities, a good corporate citizen;
and to employees, a great place to build a career.

THE VERIZON PROMISE

Our core PURPOSE:
We bring the benefits of communications to everybody

Our core VALUES:

Integrity
Respect
SERVICE
Imagination
Passion

Our core GOAL:
We will create the most respected brand in communications

(dollars in millions, except per share amounts)

	2000	1999	1998	1997	1996
Results of Operations					
Operating revenues	$ 64,707	$ 58,194	$ 57,075	$ 53,575	$ 50,411
Operating income	16,758	15,953	11,756	10,881	11,392
Income before extraordinary items and cumulative effect of changes in accounting principles	10,810	8,296	5,326	5,181	5,818
Per common share–basic	3.98	3.03	1.94	1.90	2.13
Per common share–diluted	3.95	2.98	1.92	1.89	2.12
Net income	11,797	8,260	4,980	5,181	6,091
Net income available to common shareowners	11,787	8,260	4,948	5,181	6,091
Per common share–basic	4.34	3.02	1.81	1.90	2.23
Per common share–diluted	4.31	2.97	1.79	1.89	2.22
Cash dividends declared per common share	1.54	1.54	1.54	1.51	1.44
Financial Position					
Total assets	$ 164,735	$ 112,830	$ 98,164	$ 95,742	$ 91,538
Long-term debt	42,491	32,419	33,064	27,759	28,496
Employee benefit obligations	12,543	13,744	14,788	14,760	14,276
Minority interest, including a portion subject to redemption requirements	21,830	1,900	2,490	3,338	4,456
Shareowners' investment	34,578	26,376	21,435	20,632	20,184

Note: All amounts have been restated to reflect financial information of Bell Atlantic and GTE as if they had been combined as of the beginning of the earliest period presented.

- Significant events affecting our historical earnings trends in 1998 through 2000 are described in Management's Discussion and Analysis of Results of Operations and Financial Condition.
- 1997 data includes retirement incentive costs, merger-related costs and other special items.
- 1996 data includes retirement incentive costs, other special items and the effect of the adoption of a change in accounting for directory publishing.

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

Overview

Verizon Communications Inc., formed in 2000 by the merger of Bell Atlantic Corporation and GTE Corporation, 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 nearly 109 million access line equivalents and more than 27.5 million wireless customers, as well as the world's largest provider of print and online directory information. With approximately 260,000 employees and nearly $65 billion in reported revenues, Verizon's global presence extends to over 40 countries in the Americas, Europe, Asia and the Pacific.

The merger of Bell Atlantic and GTE 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 presented in this report prior to the merger to reflect the combined results of Bell Atlantic and GTE as of the beginning of the earliest period presented.

Also in 2000, Verizon and Vodafone Group plc consummated the previously announced agreement to combine U.S. wireless assets, including cellular, Personal Communications Services (PCS) and paging operations. Vodafone contributed its U.S. wireless operations to a Verizon partnership in exchange for a 45% economic interest in the partnership. We accounted for this transaction as a purchase business combination.

We operate and manage around four segments: Domestic Telecom, Domestic Wireless, International and Information Services. Domestic Telecom provides local telephone services, including voice and data transport, enhanced and custom calling features, network access, long distance, directory assistance, private lines and public telephones. This segment also provides customer premises equipment distribution, data solutions and systems integration, billing and collections, Internet access services, research and development and inventory management services. Domestic Wireless products and services include cellular, PCS and 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 includes 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.

Consolidated Results of Operations

In this section, we discuss our overall reported results and highlight special and nonrecurring items. In the following section, we review the performance of our segments on what we call an adjusted basis. This means 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 trends from period to period.

We reported net income available to common shareowners of $11,787 million, or $4.31 diluted earnings per share for the year ended December 31, 2000, compared to net income available to common shareowners of $8,260 million, or $2.97 diluted earnings per share for the year ended December 31, 1999. In 1998, we reported net income available to common shareowners of $4,948 million, or $1.79 diluted earnings per share.

Our reported results for all three years were affected by special items. After adjusting for such items, net income would have been $7,962 million, or $2.91 diluted earnings per share in 2000, $7,895 million, or $2.84 diluted earnings per share in 1999, and $7,358 million, or $2.67 diluted earnings per share in 1998.

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

(dollars in millions, except per share amounts)

Years Ended December 31,	2000	1999	1998
Reported operating revenues	$ 64,707	$ 58,194	$ 57,075
Reported operating expenses	47,949	42,241	45,319
Reported operating income	16,758	15,953	11,756
Reported Net Income Available to Common Shareowners	11,787	8,260	4,948
Bell Atlantic-GTE merger-related costs	749	–	–
Merger transition and integration costs	316	126	121
Gains on sales of assets, net	(1,987)	(819)	222
Gain on CWC stock	(1,941)	–	–
Settlement gains and enhancement costs	(564)	(410)	645
Mark-to-market adjustment for C&W/NTL exchangeable notes	(431)	432	–
Genuity loss	281	325	258
Wireless joint venture	–	(173)	–
NorthPoint investment write-off	153	–	–
International restructuring	50	–	–
Other charges and special items	526	126	786
Extraordinary items	(1,027)	36	346
Impact of accounting change (SAB No. 101)	40	(8)	–
Redemption of minority interest and investee/subsidiary preferred stock	10	–	32
Adjusted Net Income	$ 7,962	$ 7,895	$ 7,358
Diluted Earnings Per Share–Reported	$ 4.31	$ 2.97	$ 1.79
Diluted Earnings Per Share–Adjusted	$ 2.91	$ 2.84	$ 2.67

The following is further explanation of the nature and timing of these special items.

Completion of Mergers

On June 30, 2000, Bell Atlantic and GTE completed a merger under a definitive merger agreement dated as of July 27, 1998 and began doing business as Verizon Communications. 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 August 1997, Bell Atlantic and NYNEX completed a merger of equals under a definitive merger agreement entered into on April 21, 1996 and amended on July 2, 1996. The merger qualified as a tax-free reorganization and has been accounted for as a pooling-of-interests.

The following table summarizes the one-time charges incurred for each merger. Amounts for 2000 pertain to the Bell Atlantic-GTE merger. Transition and integration costs for 1999 and 1998 pertain to the Bell Atlantic-NYNEX merger.

(dollars in millions)

Years Ended December 31,	2000	1999	1998
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 and Integration Costs			
Systems modifications	99	186	149
Branding	240	1	31
Relocation, training and other	355	18	16
Total Transition and Integration Costs	694	205	196
Total Merger-Related Costs	$ 1,750	$ 205	$ 196

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 are 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.

Transition and Integration Costs

In addition to the direct incremental merger-related and severance costs discussed above, from the date of the Bell Atlantic-GTE merger, we expect to incur a total of approximately $2.0 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 were $694 million ($316 million after taxes and minority interests, 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 and $196 million ($121 million after-tax, or $.04 per diluted share) in 1998.

Gains on Sales of Assets, Net

During 2000 and 1999, we recognized net gains related to sales of assets and impairments of assets held for sale. During 1998, we recognized net losses related to impairments of assets held for sale. Impairments were based on expected future cash flows. These net gains and losses are summarized as follows:

(dollars in millions)

Years Ended December 31,	2000		1999		1998	
	Pretax	After-tax	Pretax	After-tax	Pretax	After-tax
Wireline property sales	$ 3,051	$ 1,856	$ –	$ –	$ –	$ –
Wireless overlap sales	1,922	1,156	–	–	–	–
Other, net	(1,180)	(1,025)	1,379	819	(361)	(222)
	$ 3,793	$ 1,987	$ 1,379	$ 819	$ (361)	$ (222)

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 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 wireless overlap properties subsequent to the Bell Atlantic-GTE merger.

Wireline Property Sales

During 1998, GTE committed to sell approximately 1.6 million non-strategic domestic access lines located in Alaska, Arizona, Arkansas, California, Illinois, Iowa, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, Texas and Wisconsin. During 1999, definitive sales agreements were reached for the sale of all 1.6 million lines.

During 2000, we sold non-strategic access lines of former GTE properties listed above, except for those located in Arizona and California, for 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). The remaining sales are expected to close in 2001.

Wireless Overlap Sales

A U.S. Department of Justice consent decree issued on December 6, 1999 required GTE Wireless, Bell Atlantic Mobile, Vodafone Group plc and PrimeCo Personal Communications, L.P. 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 a former Bell Atlantic Mobile market cluster in the Southwestern U.S. for several of ALLTEL's wireless markets in Nevada and Iowa and cash. In a separate transaction entered into by GTE, in June 2000, we exchanged several former GTE markets in Florida, Alabama and Ohio, as well as an equity interest in South Carolina, for several ALLTEL interests in Pennsylvania, New York, Indiana and Illinois. 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). For a description of the resolution of the remaining service area conflicts, see "Extraordinary Items" below.

Other Transactions

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

(dollars in millions, except per share amounts)

Year Ended December 31, 2000	Pretax	After-tax	Per diluted share
GTE 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
	$ 1,180	$ 1,025	$ .37

In connection with our decisions to exit the video business and GTE 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 its 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 $1.0 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 Communications Inc. during the first quarter of 1999.

During the first quarter of 1998, we committed to a plan to sell or exit various business activities and reduce costs through employee reductions and related actions. Based on the decision to sell, we recorded a pretax charge of $200 million ($117 million after-tax, or $.04 per diluted share) to reduce the carrying value of the assets to estimated net sales proceeds.

Also in 1998, after completing a review of our operations, we decided to scale back the deployment of the hybrid fiber coax (HFC) video networks that we built in certain test markets. Due to the significant change in the scale of the HFC networks and the effect on future revenues and expenses, we recorded a pretax charge for impairment of approximately $161 million ($105 million after-tax, or $.04 per diluted share).

Gain on CWC Stock

In May 2000, Cable & Wireless plc (C&W), NTL Incorporated (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. 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 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.

Settlement Gains and Enhancement Costs

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, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." They relate to certain settlements of pension obligations for former GTE employees through direct payment, the purchase of annuities or otherwise.

In 1993, we announced a restructuring plan which included a pretax accrual of approximately $1.1 billion for severance and postretirement medical benefits under an involuntary force reduction plan. Since the inception of the retirement incentive program, we recorded additional pretax costs totaling approximately $3.0 billion through December 31, 1998, including $1,021 million ($651 million after-tax, or $.24 per diluted share) in 1998. The enhancement costs were comprised of special termination pension and postretirement benefit amounts, as well as employee costs for other items and have been presented net of 1998 settlement gains of $9 million ($6 million after-tax, or less than $.01 per diluted share).

Mark-to-Market Adjustment for C&W/NTL Exchangeable Notes

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 now 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.

The 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 stocks 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 a Federal Communications Commission (FCC) order in June 2000, Genuity Inc., 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 represents 9.5% 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. The impact of this change is that 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. As a result, 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, $325 million (or $.12 per diluted share) in 1999 and $258 million (or $.09 per diluted share) in 1998.

Wireless Joint Venture

On April 3, 2000, Verizon and Vodafone consummated the previously announced agreement to combine U.S. wireless assets, including cellular, PCS and paging operations. In July 2000, following the closing of the Bell Atlantic-GTE merger, interests in GTE's U.S. wireless assets 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 2000 and 1999 financial information is presented on a comparable basis.

Other Charges and Special Items

Other charges and special items recorded during 2000 include the write-off of our investment in NorthPoint Communications Corp. 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. We also 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 in 2000 include 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 the first quarter of 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.

In 1998, we recorded total pretax charges of $918 million ($786 million after-tax, or $.28 per diluted share) related to the write-down of assets, exit of business activities, consolidation of facilities, the elimination of employee functions and other actions as discussed below.

In 1998, we recorded pretax charges of $485 million to adjust the carrying values of two Asian investments, TelecomAsia, a wireline investment in Thailand, and Excelcomindo, a wireless investment in Indonesia. We account for these investments under the cost method. We continue to monitor the political, economic, and financial aspects of our remaining investments in Thailand and Indonesia, as well as other investments. The book value of our remaining Asian investments was approximately $179 million at December 31, 2000. Should we determine that any further decline in the fair values of these investments is other than temporary, the impact would be recorded in our results of operations.

During the first quarter of 1998, we also committed to a plan to exit a number of other non-strategic domestic business activities. As a result, we recorded a pretax charge of $156 million to reduce the carrying value of affected assets to expected net salvage value and to recognize costs resulting from the exit plan. The major components of the charge included the write-off of network equipment and supplies for discontinued wireless products and services ($81 million); the shutdown of business units developing interactive video products and services and excess printing facilities ($42 million); and the write-off of impaired assets in Latin America ($33 million).

During the first quarter of 1998, we consolidated facilities and centralized or eliminated a variety of employee functions and, as a result, recorded a $107 million pretax charge. During the second half of 1998, we closed several administrative facilities, including the former GTE corporate headquarters in Connecticut and approximately 140 domestic retail stores and other locations. The cost of these actions is composed primarily of employee severance, outplacement and benefit continuation costs for approximately 1,700 employees and other costs to exit locations we no longer use.

We also recorded a pretax charge of approximately $131 million in 1998 related to nonrecurring federal and state regulatory rulings affecting our Domestic Telecom segment. Approximately two thirds of this charge relates to nonrecurring access rate refunds applied by the FCC retroactively in 1997. In addition, the charge included the write-off of mandated costs, including generic software, and other costs we incurred for which revenue recovery was not allowable under the regulatory process.

Other items arising in 1998 included pretax charges totaling $39 million principally associated with the settlement of labor contracts in August 1998.

Extraordinary Items

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 "Gains on 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 pursuant to the consent decree and several 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 PCS (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 the first quarter of 2000, we retired $128 million of debt prior to the stated maturity date, resulting in a one-time, pretax extraordinary charge of $15 million ($9 million after-tax, or less than $.01 per diluted share). During the fourth quarter of 2000, we retired $61.6 million of debt prior to the stated maturity date, resulting in a one-time, pretax extraordinary charge of $4 million ($3 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 one-time, pretax extraordinary charge of $46 million ($30 million after-tax, or $.01 per diluted share). During the second quarter of 1999, we recorded a one-time, 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.

During 1998, we recorded pretax extraordinary charges of $616 million ($346 million after-tax, or $.13 per diluted share). Approximately $300 million of the after-tax charge related to the discontinuation of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," by our Canadian operations. The decision by our Canadian subsidiaries to discontinue using regulatory accounting practices was in response to rulings by the Canadian regulatory commission in March 1998 that opened the Canadian telecommunications market to full competition. Under SFAS No. 71, certain assets were depreciated and certain expenses were recognized over a longer period of time than would have been the case in a competitive environment. This charge includes a reduction in the net carrying value of property, plant and equipment of $270 million to reflect impairment based on the estimated cash flows that the assets are expected to generate in a competitive environment and a reduction in costs that had been capitalized based on the expectation of future recovery of approximately $30 million. In addition, during the first quarter of 1998, we called $800 million of high-coupon debt and preferred stock prior to their stated maturity date, resulting in a pretax extraordinary charge of $31 million ($20 million after-tax, or less than $.01 per diluted share). Also, in 1998, we recorded pretax extraordinary charges of $40 million ($26 million after-tax, or $.01 per diluted share) associated with the early extinguishment of debentures and refunding mortgage bonds of the operating telephone subsidiaries and debt issued by Fiberoptic Link Around the Globe Ltd. (FLAG), an investment accounted for under the equity method.

SAB No. 101 Impact

We adopted the provisions of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements" in the fourth quarter of 2000, retroactive to January 1, 2000, as required by the SEC. The impact to Verizon pertains to the deferral of certain 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 1999 adjusted results reflect the impact of newly effective accounting rules on revenue recognition, 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,	2000	1999	1998
Operating Revenues			
Operations sold	$ (874)	$ (1,390)	$ (1,346)
Deconsolidation of Genuity	(529)	(807)	(468)
Wireless joint venture	–	4,282	–
Deconsolidation of BC TELECOM	–	–	(2,153)
Impact of accounting change (SAB No. 101)	–	(117)	–
Other special Items	119	(981)	(934)
	(1,284)	987	(4,901)
Operations and Support Expense			
Operations sold	325	522	496
Bell Atlantic-GTE merger-related costs	1,056	–	–
Merger transition costs	694	205	196
Settlement gains	(911)	(663)	(9)
Deconsolidation of Genuity	829	1,123	761
Wireless joint venture	–	(2,695)	–
Deconsolidation of BC TELECOM	–	–	1,252
Retirement incentive costs	–	–	1,021
Impact of accounting change (SAB No. 101)	–	114	–
Other special items	639	1,164	1,352
Depreciation and Amortization			
Operations sold	19	46	243
Deconsolidation of Genuity	112	168	99
Wireless joint venture	–	(1,548)	–
Deconsolidation of BC TELECOM	–	–	312
Other special items	3	–	(19)
Gains on Sales of Assets, Net	(3,793)	(1,379)	361
	(2,311)	(1,956)	1,164
Operating Income Impact of Operations Sold	530	822	607
Equity in (Income) Loss From Unconsolidated Businesses			
Gain on CWC stock	(3,088)	–	–
International restructuring	50	–	–
Wireless joint venture	–	108	–
Deconsolidation of BC TELECOM	–	–	135
Impact of accounting change (SAB No. 101)	–	(5)	–
Other special items	155	1	511
Other (Income) and Expense, Net			
Total special items	18	(7)	(8)
Interest Expense			
Wireless joint venture	–	(100)	–
Deconsolidation of BC TELECOM	–	–	89
Other special items	35	2	11
Minority Interest			
Merger transition costs	(204)	–	–
Wireless joint venture	–	(379)	–
Deconsolidation of BC TELECOM	–	–	133
Other special items	–	–	(13)
Mark-to-Market Adjustment for C&W/NTL Exchangeable Notes	(664)	664	–
Total Special Items–Pretax	(5,479)	(850)	2,629
Tax effect of special items and other tax-related items	2,631	449	(597)
Total Special Items–After-Tax	(2,848)	(401)	2,032
Extraordinary Items, Net of Tax	(1,027)	36	346
Cumulative Effect of Change in Accounting Principle, Net of Tax	40	–	–
Redemption of Minority Interest and Investee/Subsidiary Preferred Stock	10	–	32
Total Special Items	$ (3,825)	$ (365)	$ 2,410

Deconsolidation of BC TELECOM

On December 31, 1998, we had a 50.8% ownership interest in BC TELECOM, a full-service telecommunications provider in the province of British Columbia, Canada. In January 1999, BC TELECOM and TELUS Corporation merged to form a new public company. Our ownership interest in the merged company, TELUS, was approximately 26.7% and, as such, we changed the accounting for our investment from consolidation to the equity method. Accordingly, BC TELECOM's results of operations for 1998 are reflected in reported revenues and expenses, while for 2000 and 1999 TELUS net results are reported as a component of Equity in Income (Loss) from Unconsolidated Businesses in the consolidated statements of income. In the preceding table, 1998 results of BC TELECOM are deconsolidated to be comparable with 2000 and 1999. Consolidated net income and earnings per share for 1998 are not affected by this change in accounting method.

Segment Results of Operations

We have four reportable segments, which we operate and manage as strategic business units and organize by products and services. Our segments are Domestic Telecom, Domestic Wireless, International and Information Services. You can find additional information about our segments in Note 19 to the consolidated financial statements.

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 described the more significant of these transactions in the "Consolidated Results of Operations" section.

Special items affected our segments as follows:

(dollars in millions)

Years Ended December 31,	2000	1999	1998
Domestic Telecom			
Reported net income	$ 6,057	$ 5,664	$ 4,072
Special items	(922)	(644)	678
Adjusted net income	$ 5,135	$ 5,020	$ 4,750
Domestic Wireless			
Reported net income	$ 854	$ 614	$ 906
Special items	(410)	14	56
Adjusted net income	$ 444	$ 628	$ 962
International			
Reported net income (loss)	$ 2,547	$ 608	$ (381)
Special items	(1,814)	10	891
Adjusted net income	$ 733	$ 618	$ 510
Information Services			
Reported net income	$ 1,098	$ 1,197	$ 1,113
Special items	140	14	32
Adjusted net income	$ 1,238	$ 1,211	$ 1,145
Corporate and Other			
Reported net income (loss)	$ 1,241	$ 177	$ (730)
Special items	(829)	241	721
Adjusted net income (loss)	$ 412	$ 418	$ (9)

Corporate and Other includes intersegment eliminations.

Domestic Telecom

Our Domestic Telecom segment consists primarily of our 16 operating telephone subsidiaries that provide local telephone services in over 30 states. 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 customer premises equipment distribution, data solutions and systems integration, billing and collections, Internet access services, research and development and inventory management services. In addition, this segment includes our long distance service.

Highlights

Healthy demand for core communications services and robust demand for new data services enabled the Domestic Telecom group to increase total operating revenues 3.9% in 2000 and 3.3% in 1999 over the respective prior year. Much of this growth was generated by increased sales of core and advanced communications services, primarily our data services that grew 30% in 2000 and 32% in 1999. These revenues include our high-bandwidth, packet-switched and special access services, as well as our network integration business. We ended the year 2000 with 108.8 million access line equivalents in service, an increase of 20.0% from December 31, 1999. These include data circuits equivalent to 45.9 million voice-grade lines, 60% more than 1999, as more customers chose high-capacity, high-speed transport services, and 62.9 million access lines, a 1.4% increase. In 1999, access line equivalents in service were 90.7 million, an increase of 12.2% over 1998 and included data circuits equivalent to 28.7 million access lines, a 37.0% increase over 1998. Access minutes of use increased 4.2% in 2000 and 6.3% in 1999. Our interLATA long distance business showed strong growth in 2000, fueled by the introduction of interLATA long distance service in the State of New York at the beginning of the year. We ended the year 2000 with almost 1.4 million long distance subscribers in New York, representing approximately 20% of the consumer market, and nearly 4.9 million customers nationwide, an increase of more than 44% from the prior year. In 1999, long distance customers totaled 3.4 million, an increase of nearly 25% over 1998. Operating revenue growth in both years was negatively affected by federal and state regulatory rate reductions totaling approximately $860 million in 2000, $660 million in 1999 and $725 million in 1998, primarily affecting our network access revenues.

Higher costs associated with entering new businesses such as long distance and data services were the principal driver of increases in operating expenses of 4.4% in 2000 and 2.3% in 1999. These entry costs include customer acquisition expenses associated with the launch of long distance in New York in 2000 and costs related to marketing, distribution and service installation of our Digital Subscriber Line (DSL) service. The effect of cost containment measures partially offset expense increases in both years.

Wireline Property Sales

As discussed earlier under "Consolidated Results of Operations," we have either recently sold or committed to sell wireline properties representing approximately 1.7% of the total Domestic Telecom access lines. The effect of these dispositions largely depends on the timing of the sales and the reinvestment of the proceeds. As of December 31, 2000, we have sold all but approximately 65,000 access lines. 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 or will be sold in early 2001. These operating revenues were approximately $766 million, $1,151 million and $1,124 million for the years 2000, 1999 and 1998, respectively. Operating expenses contributed by the sold properties were approximately $253 million, $378 million and $566 million for the years 2000, 1999 and 1998, respectively. Net income contributed by the sold properties was approximately $314 million, $475 million and $345 million for the years 2000, 1999 and 1998, respectively. For additional information on wireline property sales, see Note 3 to the consolidated financial statements.

Additional financial information about Domestic Telecom's results of operations for 2000, 1999, and 1998 follows:

Years Ended December 31,			(dollars in millions)
Results of Operations–Adjusted Basis	**2000**	1999	1998
Operating Revenues			
Local services	$ 21,368	$ 20,600	$ 19,960
Network access services	13,142	12,827	12,434
Long distance services	3,153	3,183	3,288
Other services	5,680	5,113	4,713
	43,343	41,723	40,395
Operating Expenses			
Operations and support	24,537	23,691	23,449
Depreciation and amortization	8,752	8,200	7,711
	33,289	31,891	31,160
Operating Income	$ 10,054	$ 9,832	$ 9,235
Adjusted Net Income	$ 5,135	$ 5,020	$ 4,750

Operating Revenues

Local Services

Local service revenues are earned by our operating telephone subsidiaries 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. Local services also include wholesale revenues from unbundled network element (UNE) platforms, certain data transport revenues, and wireless interconnection revenues.

Growth in local service revenues of $768 million, or 3.7% in 2000 and $640 million, or 3.2% in 1999 was driven by higher usage of our network facilities. This growth, generated in part by an increase in access lines in service in each year, reflects strong customer demand and usage of our data transport and digital services. Both years also reflect solid demand for our value-added services as a result of new packaging of services, as well as growth in wireless interconnection, inside wire maintenance, and national directory assistance services. In 2000, revenue growth was partially attributable to the favorable resolution of certain regulatory matters and the impact of implementing SAB No. 101. Revenue growth associated with SAB No. 101 was entirely offset by corresponding increases in operating expenses.

Local service revenue growth was partially offset in both years 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 the local exchange market.

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 $315 million, or 2.5%, in 2000 and $393 million, or 3.2%, in 1999. This growth was mainly attributable to higher customer demand, primarily for special access services that grew approximately 36% in both 2000 and 1999. This volume growth reflects a continuing expansion of the business market, particularly for high-capacity, high-speed digital services. Growth in access minutes of use and higher revenues received from customers for the recovery of local number portability also contributed to network access revenue growth in both years.

Volume-related growth was substantially offset by price reductions associated with federal and state price cap filings and other regulatory decisions. State public utility commissions regulate our operating telephone subsidiaries with respect to certain intrastate rates and services and certain other matters. State rate reductions on access services were approximately $285 million in 2000, $220 million in 1999 and $180 million in 1998.

The 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 implemented the Coalition for Affordable Local and Long Distance Service (CALLS) plan. Rates included in the July 2000 CALLS plan will be in effect through June 2001. Interstate price reductions on access services were approximately $520 million in 2000, $380 million in 1999 and $360 million in 1998. Beginning in January 1998, the rates include amounts necessary to recover our operating telephone subsidiaries' contribution to the FCC's universal service fund and are subject to change every quarter due to potential increases or decreases in our contribution to the universal service fund. The subsidiaries' contributions to the universal service fund are included in Operations and Support Expense.

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 $30 million, or .9%, in 2000 and $105 million, or 3.2%, in 1999. Revenues in both periods reflect higher demand for interLATA long distance services throughout the region, including the introduction of our interLATA long distance service in the State of New York in the first quarter of 2000.

These revenue increases were offset by the competitive effects of presubscription, which enables customers to make intraLATA toll calls using a competing carrier without having to dial an access code. The negative effect of presubscription was partially mitigated by increased network access services revenues for usage of our network by alternative providers. In response to presubscription, we have implemented customer win-back and retention initiatives that include toll calling discount packages and product bundling offers.

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, collocation for competitive local exchange carriers, public (coin) telephone and customer premises equipment services. Other services revenues also include services provided by our non-regulated subsidiaries such as inventory management and purchasing, Internet access, and data solutions and systems integration businesses.

Revenues from other services grew $567 million, or 11.1%, in 2000 and $400 million, or 8.5%, in 1999. Revenue growth in both years was attributable to higher payments received from competitive local exchange carriers for interconnection of their networks with our network. Revenue growth was also boosted by higher demand for such services as systems integration and data solutions and inventory management and purchasing services, primarily due to new contracts with business customers. These factors were partially offset in both years by lower demand for our billing and collection, public telephone and directory services.

Operating Expenses

Operations and Support

Operations and support, which consists of employee costs and other operating expenses, increased by $846 million, or 3.6%, in 2000 and by $242 million, or 1.0%, in 1999. These expense increases were principally due to higher costs associated with entering new businesses such as long distance and data services and higher interconnection payments to competitive local exchange and other carriers to terminate calls on their networks (reciprocal compensation). Higher costs at our operating telephone subsidiaries, 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 both years. In 2000, expense increases 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. Higher costs associated with Year 2000 readiness also contributed to expense increases in 1999.

Cost increases in both years were partially offset by a decline in pension and benefit costs. The decline in pension and benefit costs was chiefly due to favorable pension plan investment returns and changes in actuarial assumptions. These factors were offset, in part, by changes in certain plan provisions, increased health care costs caused by inflation, savings plan benefit improvements for

certain management employees, as well as benefit improvements provided for under new contracts with other employees. In 2000, we executed new 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 will increase by 5% on July 1, 2001, 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 certain 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.

In 1999, the effect of a new accounting standard, Statement of Position (SOP) No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," further reduced operations and support expenses. Under SOP No. 98-1, we capitalize the cost of internal use software which has a useful life in excess of one year. Previously, we expensed most of these software purchases in the period in which they were incurred. For additional information on SOP No. 98-1, see Note 1 to the consolidated financial statements.

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 $552 million, or 6.7%, in 2000 and by $489 million, or 6.3%, in 1999. These expense increases were principally due to growth in depreciable telephone plant as a result of increased capital expenditures for higher growth services and the adoption of SOP No. 98-1. These factors were partially offset in both years by the effect of lower rates of depreciation.

Domestic Wireless

Our Domestic Wireless segment provides cellular, PCS and paging services and equipment sales. This segment primarily represents the operations of Verizon Wireless, a joint venture combining our merged wireless properties with the U.S. properties and paging assets of Vodafone, including the consolidation of PrimeCo. The formation of Verizon Wireless occurred in April 2000. Effective with the contribution of the GTE Wireless assets in July 2000, Verizon owns a 55% interest in the joint venture and Vodafone owns the remaining 45%. Accordingly, the information presented below reflects the combined results of Verizon Wireless. All periods prior to the formation of Verizon Wireless are reported on a historical basis and, therefore, do not reflect the contribution of the Vodafone properties and the consolidation of PrimeCo.

Highlights

Our Domestic Wireless segment ended the year 2000 with more than 27.5 million customers, an increase of 88.4% over year-end 1999. At year-end 1999, customers totaled approximately 14.6 million, an increase of 32.7% over year-end 1998. The 2000 growth in customers is primarily attributable to the formation of Verizon Wireless in 2000. In addition, more than half of Verizon Wireless customers now subscribe to CDMA (Code Division Multiple Access) digital services, and generate more than 80% of the company's busy-hour usage, compared to 65% at mid-year. More than 750,000 customers subscribe to the company's wireless data services, including Mobile Web Internet access.

During the fourth quarter of 2000, Verizon Wireless agreed to acquire Price Communications Wireless, a wholly owned subsidiary of Price Communications, for $1.5 billion in Verizon Wireless stock and the assumption of $550 million in net debt. The transaction is conditioned upon completion of the Verizon Wireless initial public offering. The deal will significantly expand the company's footprint in the Southeastern U.S. and add approximately 500,000 customers. See "Other Factors that May Affect Future Results – Recent Developments."

Verizon Wireless was the winning bidder for 113 licenses in the FCC's recently concluded auction of 1.9 GHz spectrum. The company added capacity for growth and advanced services in markets including New York, Boston, Los Angeles, Chicago, Philadelphia, Washington, D.C., Seattle and San Francisco, for a total price of approximately $8.8 billion. Verizon Wireless now has spectrum in all 50 of the top 50 Metropolitan Statistical Areas in the United States.

As discussed earlier under "Consolidated Results of Operations," we either have recently disposed of, or are committed to dispose of, certain wireless properties in order to resolve overlaps created by the Bell Atlantic-GTE merger and prohibited by the FCC. The effect of these dispositions will largely depend on the timing of the sales and the reinvestment of the proceeds. In some cases, these dispositions involve the exchanges of wireless properties that will be accounted for as purchase business combinations with a step-up in the carrying value of the assets received in the exchanges. For additional information on wireless property sales, see Note 3 and Note 5 to the consolidated financial statements.

Additional financial information about Domestic Wireless results of operations for 2000, 1999, and 1998 follows:

Years Ended December 31,			(dollars in millions)
Results of Operations–Adjusted Basis	**2000**	1999	1998
Operating Revenues			
Wireless services	$ 14,236	$ 7,653	$ 6,652
Operating Expenses			
Operations and support	9,563	5,166	4,174
Depreciation and amortization	2,894	1,100	959
	12,457	6,266	5,133
Operating Income	$ 1,779	$ 1,387	$ 1,519
Equity in Income (Loss) from Unconsolidated Businesses	$ 55	$ 1	$ (89)
Minority Interest	$ (504)	$ (76)	$ (93)
Adjusted Net Income	$ 444	$ 628	$ 962

Operating Revenues

Revenues earned from our consolidated wireless businesses grew by $6,583 million, or 86.0%, in 2000 and $1,001 million, or 15.0%, in 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. On this comparable basis, revenue growth was largely attributable to customer additions and stable revenue per customer per month. Our domestic wireless customer base grew to 27.5 million customers in 2000, compared to 23.8 million customers in 1999, an increase of nearly 16%. During the year, 1.1 million customers selected one of Verizon Wireless's new national SingleRate plans. Over 70% of national SingleRate subscribers are taking plans at $55 a month or higher.

Revenues for 1999 were $7,653 million, an increase of $1,001 million, or 15.0%, compared to 1998. The increase was primarily the result of an increase in the number of subscribers. Excluding acquisitions, revenues were $7,462 million, or 12.2% higher than 1998. The revenue growth was due to the growth in the customer base as well as the migration of analog subscribers to digital service.

Operating Expenses

Operations and Support

Operations and support expenses, which represent employee costs and other operating expenses, increased by $4,397 million, or 85.1%, in 2000 and $992 million, or 23.8%, in 1999. The increase in 2000 over the prior year is principally the result of the formation of the wireless joint venture in the second quarter of 2000. By including the expenses of the properties of the wireless joint venture on a basis comparable with 2000, operations and support expenses were $1,693 million, or 21.5%, higher than 1999. Higher costs were attributable to the significant growth in the subscriber base described above, as well as the continuing migration of analog customers to digital.

The increased costs in 1999 were primarily attributable to increased service costs due to the growth in our subscriber base, including additional costs of equipment, higher roaming payments to wireless carriers, and higher sales commissions.

Depreciation and Amortization

Depreciation and amortization expense increased by $1,794 million, or 163.1%, in 2000 and by $141 million, or 14.7%, in 1999. The increase in 2000 over the prior year was mainly attributable to the formation of the wireless joint venture in the second quarter of 2000. Adjusting for the joint venture in a manner similar to operations and support expenses above, depreciation and amortization was $246 million, or 9.3%, higher than 1999. Capital expenditures for our cellular network have increased in 2000 and 1999 to support increased demand in all markets.

The 1999 increase was mainly attributable to growth in depreciable cellular plant at Bell Atlantic Mobile and GTE Wireless. These increases were primarily due to increased capital expenditures to support the increasing demand for wireless services.

Equity in Income (Loss) From Unconsolidated Businesses

The variances in the 2000 and 1999 results from unconsolidated operations were principally due to the consolidation of PrimeCo in connection with the formation of the wireless joint venture.

The changes in equity in income (loss) from unconsolidated businesses in 1999 and 1998 were principally due to improved operating results from our wireless investments in PrimeCo, driven primarily by strong subscriber growth.

Minority Interest

The significant increase in minority interest in 2000 was principally due to the formation of the wireless joint venture and the significant minority interest attributable to Vodafone.

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 include Grupo Iusacell (Iusacell) (Mexico), CODETEL (Dominican Republic), CTI Holdings, S.A. (CTI) (Argentina) and Micronesian Telecommunications Corporation (Northern Mariana Islands). Our international investments in which we have less than a controlling interest are accounted for on either the cost or equity method.

Highlights

International adjusted net income grew $115 million, or 18.6%, in 2000 and $108 million, or 21.2%, in 1999. This growth was aided by the continued worldwide demand for wireless services. The number of proportionate international wireless customers served by Verizon investments increased 2.6 million in 2000 to more than 8.1 million.

In May 2000, Verizon affiliate, CTI commenced PCS operations in the Buenos Aires greater metropolitan area. CTI now provides wireless service throughout Argentina.

On January 31, 1999, BC TELECOM and TELUS Corporation, merged to form TELUS. TELUS is the premier telecommunications provider in British Columbia and Alberta and has begun to expand its services into Central and Eastern Canada. As a part of this expansion, TELUS acquired approximately 70% of the QuébecTel Group Inc., another Verizon investee, in May 2000 and 98.5% of Clearnet Communications Inc., a national digital wireless company in Canada, in October 2000. The combination of TELUS's and Clearnet's wireless operations created Canada's largest wireless company in terms of annual revenues.

Effective May 31, 1999, we took steps to disaffiliate from Telecom Corporation of New Zealand Limited (TCNZ). As a result, we no longer have significant influence over TCNZ's operating and financial policies and, therefore, have changed the accounting for our investment in TCNZ from the equity method to the cost method. The change in the method of accounting for this investment did not have a material effect on results of operations in 1999. We currently hold a 24.94% interest in TCNZ.

Years Ended December 31, Results of Operations–Adjusted Basis	2000	1999	1998
			(dollars in millions)
Operating Revenues			
Wireline services	$ 758	$ 740	$ 617
Wireless services	1,218	974	851
	1,976	1,714	1,468
Operating Expenses			
Operations and support	1,359	1,195	1,131
Depreciation and amortization	355	264	233
	1,714	1,459	1,364
Operating Income	$ 262	$ 255	$ 104
Equity in Income From Unconsolidated Businesses	$ 672	$ 547	$ 462
Adjusted Net Income	$ 733	$ 618	$ 510

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 $262 million, or 15.3%, in 2000 and by $246 million, or 16.8%, in 1999. The increase in revenues was primarily due to an increase in wireless subscribers of the consolidated subsidiaries and the start-up of CTI's Buenos Aires PCS operations in the second quarter of 2000, partially offset by lower revenue per customer per month of CTI.

Operating Expenses

Operations and Support

Operations and support expenses, which represent employee costs and other operating expenses, increased by $164 million, or 13.7%, in 2000 and by $64 million, or 5.7%, in 1999. The higher costs were driven primarily by customer acquisition costs associated with wireless customer growth and the start-up of CTI's Buenos Aires PCS operations.

Depreciation and Amortization

Depreciation and amortization expense increased by $91 million, or 34.5%, in 2000 and by $31 million, or 13.3%, in 1999. This increase reflects the continuing build-out of the Mexican and Argentine wireless networks necessary to meet customer demand.

Equity in Income From Unconsolidated Businesses

Equity in income from unconsolidated businesses increased by $125 million, or 22.9%, in 2000 and by $85 million, or 18.4%, in 1999 due to strong subscriber growth at Taiwan Cellular Corporation and Omnitel Pronto Italia S.p.A. and a full twelve months of operations at Telecomunicaciones de Puerto Rico (TELPRI) in 2000. In addition, we no longer record equity losses from our investment in BayanTel, a Philippines-based telecommunications company, since our investment in BayanTel has been written-down to zero and we have no further obligations. These increases were partially offset by lower results at Compañia Anónima Nacional Teléfonos de Venezuela (CANTV) driven by the weakened Venezuelan economy and delayed tariff increases, as well as lower income from our TCNZ investment driven by the above-mentioned 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. This segment has operations principally in North America, Europe, Asia and Latin America.

Years Ended December 31, Results of Operations–Adjusted Basis	2000	1999	1998
			(dollars in millions)
Operating Revenues			
Information services	$ 4,144	$ 4,086	$ 3,818
Operating Expenses			
Operations and support	2,026	2,007	1,878
Depreciation and amortization	74	76	77
	2,100	2,083	1,955
Operating Income	$ 2,044	$ 2,003	$ 1,863
Adjusted Net Income	$ 1,238	$ 1,211	$ 1,145

Operating Revenues

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 certain affiliated transactions.

In 1999, operating revenue increased by $268 million, or 7.0%, principally as a result of increased pricing for certain directory services and higher business volumes, including revenue from a new Internet-based shopping directory and electronic commerce services. Due to the deconsolidation of BC TELECOM in 1999, Verizon International Directories discontinued netting publication-right fees paid to TELUS against its Yellow Pages advertising revenues. This classification change in reporting increased both 1999 revenues and operating expenses by approximately $82 million, see "Operating Expenses" below. In addition, 1999 results include the activities of Axesa Informacion, Inc., a directory publication business in Puerto Rico in which we acquired a controlling interest in April 1999, as well as revenues from annual technology right-to-use fees paid to us.

Operating Expenses

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.

In 1999, total operating expenses increased $128 million, or 6.5%, largely due to the classification change related to publication-right fees mentioned above and higher costs associated with directory publishing expense.

Nonoperating Items

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

Years Ended December 31, Other Income and (Expense), Net	2000	1999	1998 (dollars in millions)
Interest income	$ 281	$ 101	$ 192
Foreign exchange gains (losses), net	(11)	11	47
Other, net	41	31	42
Total	$ 311	$ 143	$ 281

The change in other income and expense was the result of higher interest income in 2000 due to higher levels of short-term investments, income from our investment in Metromedia Fiber Network, Inc.'s (MFN's) subordinated debt securities and the favorable settlement of a tax-related matter. In 1998, we also recorded interest income in connection with the favorable settlement of tax-related matters.

Foreign exchange gains were affected in 2000 and 1999 primarily by Iusacell, which uses the Mexican peso as its functional currency. Effective January 1, 1999, highly inflationary accounting was discontinued by Iusacell. We expect that our earnings will continue to be affected by any foreign exchange gains or losses associated with the U.S. dollar denominated debt issued by Iusacell. In 1998 we recognized higher foreign exchange gains associated with other international investments.

Years Ended December 31, Interest Expense	2000	1999	1998 (dollars in millions)
Total interest expense – reported	$ 3,490	$ 2,616	$ 2,705
Write-down of assets	–	–	(47)
Other items	(42)	–	(46)
Subtotal	3,448	2,616	2,612
Capitalized interest costs	230	146	117
Total interest costs on debt balances	$ 3,678	$ 2,762	$ 2,729
Average debt outstanding	$ 51,987	$ 40,821	$ 38,626
Effective interest rate	7.1%	6.8%	7.1%

The rise in interest costs on debt balances in both 2000 and 1999 was principally due to higher average debt levels. The increase in debt levels in 2000 was mainly the result of the debt assumed by Verizon Wireless in connection with the formation of Verizon Wireless and higher capital expenditures in our Domestic Telecom and Domestic Wireless segments. The increase in 1999 was partially offset by the effect of lower interest rates.

Years Ended December 31,	2000	1999	1998 (dollars in millions)
Minority interest	$ (216)	$ (159)	$ (315)

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 our operations in Argentina. The decrease in minority interest in 1999 was largely due to operating losses at Iusacell and the fact that we no longer record a minority interest expense related to an outside party's share of one of our subsidiary's earnings in connection with the sale of our investment in Viacom Inc.

Years Ended December 31,	2000	1999	1998
Effective income tax rates	39.3%	37.0%	39.5%

The effective income tax rate is the provision for income taxes as a percentage of income before the provision for income taxes.

Our reported effective tax rate for 2000 was higher than 1999 primarily due to certain merger-related costs for which no tax benefits were recorded, the write-down of certain 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.

The lower reported effective income tax rate in 1999 as compared to 1998 was principally as a result of the write-down of certain foreign investments in 1998 for which no tax benefits were recorded.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for each period is included in Note 18 to the consolidated financial statements.

Consolidated Financial Condition

Years Ended December 31,	2000	1999	1998 (dollars in millions)
Cash Flows Provided By (Used In)			
Operating activities	$ 15,827	$ 17,017	$ 15,724
Investing activities	(16,055)	(17,420)	(12,956)
Financing activities	(1,048)	1,732	(2,938)
Increase (Decrease) in Cash and Cash Equivalents	$ (1,276)	$ 1,329	$ (170)

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, 2000 and 1999, 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 (including the purchase of wireless licenses obtained in the recent FCC auction, see "Other Factors That May Affect Future Results") or to maintain our capital structure to ensure our financial flexibility.

Cash Flows Provided By Operating Activities

Our primary source of funds continued to be cash generated from operations. 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" below for additional information on sales of businesses and assets. Improved cash flows from operations during 1999 and 1998 resulted from growth in operating income, partially offset by changes in certain assets and liabilities.

In 1999, the change in certain 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. The change in certain assets and liabilities in 1998 reflects the effect of our retirement incentive program that increased employee benefit obligations as a result of special charges recorded through the completion of the program in 1998. An increase in accounts receivable due to subscriber growth and greater usage of our networks, as well as timing differences in the payment of accounts payable and accrued liabilities also contributed to the change.

Cash Flows Used In Investing Activities

Capital expenditures continued to be our primary use of capital resources. We invested approximately $12,119 million in our Domestic Telecom business in 2000, compared to $10,087 million and $10,000 million in 1999 and 1998, 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 $4,322 million in our Domestic Wireless business in 2000, compared to $1,497 million and $1,160 million, respectively, in 1999 and 1998. The increase in 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 $18.0 billion to $18.5 billion in 2001, excluding the cost of wireless licenses obtained in the recent FCC auction (see "Other Factors That May Affect Future Results"), which is slightly higher than capital spending during 2000.

We invested $2,247 million in acquisitions and investments in businesses during 2000, 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, a full-service telecommunications provider serving the commonwealth of Puerto Rico, and $120 million for the purchase of the PCS license in Buenos Aires, Argentina. In 1998, we invested $784 million, which included an additional investment of $162 million in Omnitel to increase our ownership interest from 17.45% to 19.7%, $301 million in PrimeCo, and $140 million in our lease financing businesses.

In 2000, we also 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. In 1998, we received cash proceeds of $846 million in connection with the disposition of investments, including $564 million associated with Viacom's repurchase of one-half of our investment in Viacom and $73 million from the sales of our paging and other non-strategic businesses.

During 2000, we invested $975 million in subordinated convertible notes of MFN, in connection with our overall investment in MFN described above, as well as $45 million in OnePoint notes. The MFN notes are convertible at our option, upon receipt of necessary government approvals, into 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, 10% was paid in November 1999, 30% was paid in October 2000, and an additional 30% will be paid in both October 2001 and October 2002. These payments are included in cash provided by operating activities.

Our short-term investments include principally cash equivalents held in trust accounts for payment of certain employee benefits. In 2000 and 1999, we invested $1,204 million and $1,051 million, respectively, in short-term investments, primarily to pre-fund health and welfare benefits. Cash payments for short-term investments totaled $1,028 million in 1998, principally to pre-fund vacation pay and health and welfare benefit trusts. Beginning in 1999, we no longer fund the vacation pay trust for all employees. Proceeds from the sales of all short-term investments, principally for the payment of these benefits were $983 million, $954 million and $968 million in the years 2000, 1999 and 1998, respectively.

Other, net investing activities include capitalized non-network software of $1,044 million and $923 million in 2000 and 1999, respectively. In 1998, non-network software was expensed as incurred (see Note 1 to consolidated financial statements for additional information concerning the capitalization of software).

Cash Flows Provided By (Used In) Financing Activities

The net cash proceeds from increases in our total debt during 2000 of $5,058 million was primarily due to the issuance of $5,500 million of long-term notes issued by Verizon Global Funding Corp. The increase in total debt was also attributable to the issuance of $893 million of medium-term notes, $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 Iusacell in 1999. These factors were partially offset by the use of cash proceeds received from the disposition of our remaining investment in Viacom. During 1998, our debt level increased by $2,607 million, principally to fund the capital program and for continued investments in PrimeCo and Omnitel. The pre-funding of employee benefit trusts and purchases of shares to fund employee stock option exercises also contributed to the increase in debt levels in 2000, 1999 and 1998.

In February 1998, Verizon Global Funding issued $2,455 million in 5.75% exchangeable notes due on April 1, 2003 that are exchangeable into ordinary shares of TCNZ stock (TCNZ exchangeable notes).

In August 1998, Verizon Global Funding also issued $3,180 million of 4.25% senior exchangeable notes due on September 15, 2005 which are now 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. Proceeds of both offerings were used for the repayment of a portion of our short-term debt and other general corporate purposes.

Our operating telephone subsidiaries refinanced debentures totaling $275 million, $482 million and $2,490 million in the years 2000, 1999 and 1998, respectively.

As of December 31, 2000, we had in excess of $10.4 billion of unused bank lines of credit and $4.4 billion in bank borrowings outstanding. As of December 31, 2000, our operating telephone subsidiaries and financing subsidiaries had shelf registrations for the issuance of up to $3.5 billion of unsecured debt securities. The debt securities of our telephone and financing subsidiaries continue to be accorded high ratings by primary rating agencies.

We also have a $2.0 billion Euro Medium Term Note Program, under which we may issue notes that are not registered with the SEC. The notes may be issued from time to time by Verizon Global Funding and will have the benefit of a support agreement between Verizon Global Funding and us. There have been no notes issued under this program.

In 1999, we received cash proceeds totaling $119 million from the public offerings of Iusacell shares. See Note 9 to the consolidated financial statements for additional information on Iusacell and the share offerings.

In December 1998, we accepted an offer from Viacom to repurchase one-half of our investment in Viacom, or 12 million shares of their preferred stock (with a book value of approximately $600 million), for approximately $564 million in cash. The cash proceeds, together with additional cash, were used to purchase an outside party's interest in one of our fully consolidated subsidiaries. This transaction reduced Minority Interest by $600 million and included certain stock appreciation rights and costs totaling $32 million.

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 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 and 1998, we declared quarterly cash dividends of $.385 per share or $1.54 per share in each year.

In 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 2000, 35.1 million Verizon common shares were repurchased. 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, 2000 totaled $757 million, a decrease of $1,276 million over 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.

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 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 protecting 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 certain market risks associated with the exchangeable notes discussed below.

Exchangeable Notes

In 1998, we issued exchangeable notes as described in Note 8 to the consolidated financial statements and discussed earlier under "Mark-to-Market Adjustment for C&W/NTL Exchangeable Notes." 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.
- Interest rate risk, because the notes carry fixed interest rates.
- Foreign exchange rate risk, because the notes are exchangeable into shares that are denominated in a foreign currency.

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, 2000, the exchange price for the TCNZ shares (expressed as American Depositary Receipts) was $44.93. In May 2000, the underlying exchange property for the

$3,180 million exchangeable notes we issued in August 1998 changed from shares of CWC stock to shares of C&W and NTL stock. Therefore, the value of the stocks taken together determines the impact on our earnings in any given period. The notes 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, 2000 and 1999. 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)

At December 31, 2000	Fair Value	Fair Value assuming +100 basis point shift	Fair Value assuming -100 basis point shift
Long-term debt and interest rate derivatives	$ 38,117	$ 36,309	$ 39,990
Exchangeable notes	5,694	5,558	5,830
Total	$ 43,811	$ 41,867	$ 45,820
At December 31, 1999			
Long-term debt and interest rate derivatives	$ 31,051	$ 29,514	$ 32,611
Exchangeable notes	6,417	6,335	6,498
Total	$ 37,468	$ 35,849	$ 39,109

Equity Price Risk

The fair values of certain 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.

(dollars in millions)

At December 31, 2000	Fair Value	Fair Value assuming 10% decrease in equity price	Fair Value assuming 10% increase in equity price
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)
At December 31, 1999			
Equity price sensitive cost investments, at fair value and derivatives	$ 2,751	$ 2,469	$ 3,033
Exchangeable notes	(6,417)	(6,050)	(6,822)
Total	$ (3,666)	$ (3,581)	$ (3,789)

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 Income (Loss) in our consolidated balance sheets. At December 31, 2000, our primary translation exposure was to the Venezuelan bolivar, Italian lira and Canadian dollar. We have not hedged our accounting translation exposure to foreign currency fluctuations relative to these investments.

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 Canada, the Philippines and Slovakia.

For the period October 1, 1996 through December 31, 1998, we considered Iusacell to operate in a highly inflationary economy and utilized the U.S. dollar as its functional currency. Beginning January 1, 1999, we discontinued highly inflationary accounting for our Iusacell subsidiary and resumed using the Mexican peso as its functional currency. As a result, in 2000 and 1999 our earnings were affected by any foreign currency gains or losses associated with the U.S dollar denominated debt issued by Iusacell and our equity was affected by the translation from the Mexican peso.

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. Also, we used 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, 2000 and 1999. 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, 2000, the carrying value of our equity method international investments totaled approximately $5.4 billion.

(dollars in millions)

At December 31, 2000	Fair Value	Fair Value assuming 10% decrease in US$	Fair Value assuming 10% increase in US$
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)
At December 31, 1999			
Foreign exchange sensitive cost investments and foreign currency derivatives	$ 2,270	$ 2,464	$ 2,126
Exchangeable notes	(6,417)	(6,822)	(6,050)
Total	$ (4,147)	$ (4,358)	$ (3,924)

Other Factors That May Affect Future Results

Bell Atlantic – GTE Merger

Genuity Inc., 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 address 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 a 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 initial public offering. GTE retained 100% of Genuity's Class B common stock, which represents 9.5% of the voting equity in Genuity, as permitted by the 1996 Act. Our investment also includes a contingent conversion right.

Our contingent conversion right permits us to increase our ownership interest to as much as 82% of the total equity of Genuity, representing approximately 96% of Genuity's total voting rights (before giving effect to outstanding options granted to Genuity employees and additional shares of common stock that Genuity may issue in the future), 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 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.

The IPO transferred current ownership and control of Genuity to the public shareholders and, accordingly, we deconsolidated our investment in Genuity on June 30, 2000 and are accounting for our investment in Genuity using the cost method.

Federal and state regulatory conditions to the merger also included certain 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. We expect a similar impact in 2001 and 2002.

Recent Developments

Verizon Wireless

FCC Auctions

Verizon Wireless was the winning bidder for 113 licenses in the FCC's recently concluded auction of 1.9 GHz spectrum. Verizon Wireless added capacity for growth and advanced services in markets including New York, Boston, Los Angeles, Chicago, Philadelphia, Washington, D.C., Seattle and San Francisco, for a total price of approximately $8.8 billion, $1.6 billion of which was paid in February 2001 and the remainder will be paid when the FCC requires payment, which is expected to occur in 2001, and may be as early as March 2001. Verizon Wireless now has spectrum in all 50 of the top 50 Metropolitan Statistical Areas in the United States.

Timing of Initial Public Offering

On October 16, 2000, we announced that Verizon Wireless would defer its planned IPO of common stock. Verizon and Vodafone agreed that, despite Verizon Wireless's strong third quarter subscriber growth, the recent volatility of capital markets has created an environment in which it is prudent to defer the offering. We announced in February 2001 that we expect the IPO to occur during 2001.

Price Communications Wireless

During the fourth quarter of 2000, Verizon Wireless agreed to acquire Price Communications Wireless, a wholly owned subsidiary of Price Communications, for $1.5 billion in Verizon Wireless stock and the assumption of $550 million in net debt. The transaction is conditioned upon completion of a Verizon Wireless IPO. The deal will significantly expand the company's footprint in the Southeastern U.S. and add approximately 500,000 customers.

Regulatory and Competitive Trends

The Telecommunications Act of 1996 and Competition

The telecommunications industry is undergoing substantial changes as a result of the 1996 Act, other public policy changes and technological advances. These changes are bringing increased competitive pressures in our current business, but will also open new markets to us.

The 1996 Act became effective on February 8, 1996, and, with respect to the former Bell Atlantic operating telephone subsidiaries, replaced the Modification of Final Judgment, a consent decree that arose out of an antitrust action brought by the United States Department of Justice against AT&T. In general, the 1996 Act includes provisions that open local exchange markets to competition and permit Bell Operating Companies or their affiliates, including our former Bell Atlantic operating telephone subsidiaries, to engage in manufacturing and to provide long distance service under certain conditions.

Under the 1996 Act, our ability to offer in-region long distance services (that is, services originating in the states where the former Bell Atlantic operating telephone subsidiaries operate as local exchange carriers) is largely dependent on satisfying certain 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 through their own networks. We must also demonstrate to the FCC that our entry into the in-region long distance market would be in the public interest.

We are unable to predict definitively the impact that the 1996 Act 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.

We anticipate that these industry changes, together with the rapid growth, enormous size and global scope of these markets, will attract new entrants and encourage existing competitors to broaden their offerings. 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 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. In addition, a number of major industry participants have announced or recently consummated mergers, acquisitions and joint ventures which could substantially affect the development and nature of some or all of our markets.

In-Region Long Distance

On December 22, 1999, the FCC released an order approving our application for permission to enter the in-region long distance market in New York. The FCC concluded that Verizon New York (formerly New York Telephone Company) has satisfied the 14-point "competitive checklist" required under the 1996 Act for entry into the in-region long distance market, and that our entry into the long distance business in New York would benefit the public interest. Following the FCC's decision, AT&T and Covad appealed the FCC's order and sought a stay. The appeal and stay request were both denied by the U.S. Court of Appeals.

After an intensive review of our compliance with the long distance provisions of the 1996 Act by the Massachusetts Department of Telecommunications and Energy, on September 22, 2000, Verizon Massachusetts filed an application for long distance authority with the FCC. On December 18, 2000, we withdrew our application in order to address issues relating to the provision of DSL capable loops to other carriers in Massachusetts. We refiled our application on January 16, 2001, with additional data concerning our DSL capable loop performance for other carriers. Under the 1996 Act, the FCC's decision is due on or before April 16, 2001.

On January 8, 2001, Verizon Pennsylvania filed with the Pennsylvania Public Utility Commission (PPUC) a notice requesting state review of our compliance with the long distance provisions of the 1996 Act in preparation for a filing with the FCC. The PPUC has set a schedule that may allow completion of the state review, and filing of an application at the FCC, during the second quarter of 2001.

Like the New York, Massachusetts and Pennsylvania commissions before them, the New Jersey Board of Public Utilities is conducting a test of the Verizon New Jersey operations support systems (OSS). This test builds on the recently concluded third party testing of similar systems by the accounting and consulting firm KPMG in Pennsylvania. The Virginia State Corporation Commission has also retained KPMG for the same purpose. In connection with the KPMG testing in Virginia, KPMG is conducting a comparability assessment to advise the District of Columbia, Maryland and West Virginia commissions on the extent to which the systems in Virginia and their jurisdictions are the same.

FCC Regulation and Interstate Rates

The operating telephone subsidiaries are subject to the jurisdiction of the FCC with respect to interstate services and certain related matters. In 2000, 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

Interstate access charges are the rates long distance carriers pay for use and availability of our operating telephone subsidiaries' facilities for the origination and termination of interstate service. The FCC required a phased restructuring of access charges, from January 1998 until January 2000, pursuant to which the operating telephone subsidiaries recover non-usage-sensitive costs from long distance carriers and end-users through flat rate charges, and usage-sensitive costs from long distance carriers through usage-based rates.

On May 31, 2000, the FCC adopted a plan advanced by members of the industry (The Coalition for Affordable Local and Long Distance Service, or "CALLS") 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. Of that amount, we expect approximately $340 million to be used to support interstate access services in our service territory. 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.

As of September 14, 2000, we formally elected to participate in the full five-year term of the CALLS plan. As a result of this decision, price caps on our interstate access charges will be set according to the conditions of the FCC order on the CALLS plan. Under the plan, direct end-user access charges are increased while access charges to long distance carriers are reduced. While the plan continues the 6.5% (less inflation) annual reductions for most interstate access charges, it provides for a price freeze when switched access service prices reach $0.0055 per-minute. As a result of tariff adjustments which became effective in August 2000, our operating telephone subsidiaries in ten states in the former GTE territory and seven states in the former Bell Atlantic territory reached the $0.0055 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 certain 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 certain thresholds. In November and December 2000, we made filings to obtain this added pricing flexibility. This flexibility includes the ability to remove from price cap regulation those interstate special access services in Metropolitan Statistical Areas (MSAs) that meet the competitive thresholds. Of the 57 MSAs in the former Bell Atlantic area, 35 are included in the petition to remove price cap regulation for special access and dedicated transport. In addition, the petition identifies 10 MSAs where the stricter standards for special access connections to end-user customers are also met. The later petition, addressing the former GTE areas, seeks removal from price cap regulation for three additional MSAs. The FCC is expected to act on these filings in March 2001 for the filing for the former Bell Atlantic areas, and in April 2001 for the former GTE areas.

Universal Service

As a result of a July 1999 decision of the U.S. Court of Appeals, our contributions to the universal service fund were reduced by approximately $107 million annually beginning on November 1, 1999, and our interstate access rates were reduced accordingly because we will no longer have to recover these contributions in our rates. Last year, the petitions asking the U.S. Supreme Court to review the court of appeals decision were either withdrawn or rejected.

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 would have provided additional support for local telephone services in several states served by Verizon. This system has been superseded by the new FCC access charge plan described above.

On October 18, 2000, we asked the U.S. Supreme Court to dismiss its pending review of the FCC's use of a theoretical model as one factor to determine the appropriate size of federal support for a fund for intrastate high cost areas. The review was no longer necessary because, subsequent to our petition to the U.S. Supreme Court, the FCC expressly disclaimed supervisory authority over the states' universal service activities.

The FCC is currently considering two modifications to its universal service programs, both relating to support for rural carriers. The first, a proposal by an appointed policy task force, would provide additional support for intrastate services provided by rural carriers. The second, a proposal by a coalition of rural carriers, would make explicit support for interstate access services provided by rural carriers. The FCC is likely to address both these proposals in 2001.

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 certain 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. The court upheld the FCC's decision that UNEs be priced based on a forward-looking cost model that ignores actual historical costs. The U.S. Supreme Court has accepted this decision for review in a case to be heard in the fall term of 2001. That portion of the court of appeals' decision has been stayed pending that review.

Compensation for Internet Traffic

In March 2000, the Washington, D.C. Circuit Court of Appeals reversed and remanded the FCC's February 1999 order that concluded that calls to the Internet through Internet service providers (ISP) do not terminate at the ISP but are single interstate calls. The court found that the FCC had inadequately explained why these Internet calls were not two calls. Under the FCC's decision, it was left to carrier agreements and state regulators to determine which traffic is subject to reciprocal compensation. The FCC is currently considering a new order to address the issue in light of the court remand.

State Regulation

Verizon Pennsylvania

In September 1999, the PPUC issued a decision in which it proposed to require Verizon Pennsylvania to split into separate retail and wholesale corporations. The matter was subsequently assigned to an administrative law judge of the PPUC for further proceedings to determine the form and nature of the structural separation. In January 2001, the Administrative Law Judge released a decision which recommends that the PPUC order Verizon Pennsylvania to establish a separate retail affiliate within one year of a final order by

the PPUC. That recommended decision must now be reviewed by the full PPUC before any final action is taken. Several parties have entered into a settlement with Verizon Pennsylvania, which, if adopted, would eliminate the full structural separation requirement and adopt other pro-competitive measures. That settlement is also under review by the PPUC. Further, the issue of the lawfulness of the structural separation requirement is on appeal before the Pennsylvania Supreme Court.

Other Matters

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivatives be measured at fair value and recognized as either assets or liabilities in our balance sheet. Changes in the fair values of derivative instruments not used as hedges will be recognized in earnings immediately. Changes in the fair values of derivative instruments used effectively as hedges will be recognized either in earnings for hedges of changes in fair value or in Other Comprehensive Income (Loss) for hedges of changes in cash flows. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amended SFAS No. 133. The amendments in SFAS No. 138 address certain implementation issues and relate to such matters as the normal purchases and normal sales exception, the definition of interest rate risk, hedging recognized foreign-currency-denominated assets and liabilities, and intercompany derivatives.

Effective January 1, 2001, we will adopt SFAS No. 133 and SFAS No. 138. The initial impact of adoption on our financial statements will be recorded as a cumulative effect of an accounting change in our first quarter 2001 SEC Form 10-Q. An after-tax charge of approximately $180 million will be recorded to earnings in our consolidated statements of income. The recognition of assets and liabilities in the consolidated balance sheets will be immaterial. The ongoing effect of adoption 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.

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:

- 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;
- 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, universal service, and unbundled network element and resale rates;
- the extent, timing, success, and overall effects of competition from others in the local telephone and intraLATA toll service markets;
- the timing and profitability of our entry into the in-region long-distance market;
- our ability to combine former Bell Atlantic and GTE operations, satisfy regulatory conditions and obtain revenue enhancements and cost savings;
- the profitability of our entry into the broadband access market;
- the ability of Verizon Wireless to combine operations and obtain revenue enhancements and cost savings;
- our ability to convert our ownership interest in Genuity into a controlling interest consistent with regulatory conditions, and Genuity's ensuing profitability; and
- changes in our accounting assumptions by regulatory agencies, including the SEC, or that result from changes in the accounting rules or their application, which could result in an impact on earnings.

Report of Management

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.

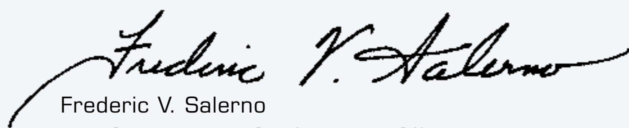
Management has established and maintained a system of internal control which is designed to provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period. The system of internal control includes 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 2000 financial statements have been audited by Ernst & Young LLP, independent accountants, and the 1999 and 1998 financial statements have been audited by PricewaterhouseCoopers LLP, independent accountants (based on reliance upon Arthur Andersen LLP, independent accountants, for work related to the financial statements of GTE Corporation). 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 Reports of Independent Accountants follow 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

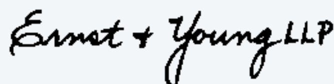
Reports of Independent Accountants

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

We have audited the accompanying consolidated balance sheet of Verizon Communications Inc. and subsidiaries (Verizon) as of December 31, 2000, and the related consolidated statements of income, cash flows and changes in shareowners' investment for the year 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

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



Ernst & Young LLP

New York, New York

February 1, 2001

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareowners' investment, and cash flows present fairly, in all material respects, the financial position of Verizon Communications Inc. and its subsidiaries at December 31, 1999, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of GTE Corporation, a wholly owned subsidiary of Verizon Communications Inc., which statements reflect total assets of $50,288 million as of December 31, 1999 and total revenues of $25,242 million and $25,672 million for each of the two years in the period ended December 31, 1999. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for GTE Corporation, is based solely on the report of the other auditors. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for computer software costs in accordance with AICPA Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" effective January 1, 1999.

PricewaterhouseCoopers LLP

New York, New York

February 14, 2000, except as to the pooling-of-interests with GTE Corporation, which is as of June 30, 2000.

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

We have audited the consolidated balance sheet of GTE Corporation (a New York corporation and wholly owned subsidiary of Verizon Communications Inc.) and subsidiaries as of December 31, 1999, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the two years in the period then ended, not separately presented herein. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of GTE Corporation and subsidiaries as of December 31, 1999, and the results of their operations and their cash flows for the two years in the period then ended, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for computer software costs in accordance with AICPA Statement of Position No. 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" effective January 1, 1999.

Arthur Andersen LLP

Dallas, Texas

June 30, 2000

(dollars in millions, except per share amounts)

Years Ended December 31,	2000	1999	1998
Operating Revenues	$ 64,707	$ 58,194	$ 57,075
Operations and support expense	39,481	33,730	35,313
Depreciation and amortization	12,261	9,890	9,645
Gains on sales of assets, net	(3,793)	(1,379)	361
Operating Income	16,758	15,953	11,756
Equity in income (loss) from unconsolidated businesses	3,792	511	(216)
Other income and (expense), net	311	143	281
Interest expense	(3,490)	(2,616)	(2,705)
Minority interest	(216)	(159)	(315)
Mark-to-market adjustment for C&W/NTL exchangeable notes	664	(664)	–
Income before provision for income taxes, extraordinary items and cumulative effect of change in accounting principle	17,819	13,168	8,801
Provision for income taxes	7,009	4,872	3,475
Income Before Extraordinary Items and Cumulative Effect of Change in Accounting Principle	10,810	8,296	5,326
Extraordinary items, net of tax	1,027	(36)	(346)
Cumulative effect of change in accounting principle, net of tax	(40)	–	–
Net Income	11,797	8,260	4,980
Redemption of minority interest	–	–	(30)
Redemption of investee/subsidiary preferred stock	(10)	–	(2)
Net Income Available to Common Shareowners	$ 11,787	$ 8,260	$ 4,948
Basic Earnings (Loss) Per Common Share:			
Income before extraordinary items and cumulative effect of change in accounting principle	$ 3.98	$ 3.03	$ 1.94
Extraordinary items, net of tax	.37	(.01)	(.13)
Cumulative effect of change in accounting principle, net of tax	(.01)	–	–
Net Income	$ 4.34	$ 3.02	$ 1.81
Weighted-average shares outstanding (in millions)	2,713	2,739	2,728
Diluted Earnings (Loss) Per Common Share:			
Income before extraordinary items and cumulative effect of change in accounting principle	$ 3.95	$ 2.98	$ 1.92
Extraordinary items, net of tax	.37	(.01)	(.13)
Cumulative effect of change in accounting principle, net of tax	(.01)	–	–
Net Income	$ 4.31	$ 2.97	$ 1.79
Weighted-average shares outstanding (in millions)	2,737	2,777	2,759

See Notes to Consolidated Financial Statements.

(dollars in millions, except per share amounts)

At December 31,	2000	1999
Assets		
Current assets		
Cash and cash equivalents	$ 757	$ 2,033
Short-term investments	1,613	1,035
Accounts receivable, net of allowances of $1,562 and $1,170	14,010	11,998
Inventories	1,910	1,366
Net assets held for sale	518	1,802
Prepaid expenses and other	3,313	1,761
Total current assets	22,121	19,995
Plant, property and equipment	158,957	142,989
Less accumulated depreciation	89,453	80,816
	69,504	62,173
Investments in unconsolidated businesses	13,115	10,177
Intangible assets	41,990	8,645
Other assets	18,005	11,840
Total assets	$ 164,735	$ 112,830
Liabilities and Shareowners' Investment		
Current liabilities		
Debt maturing within one year	$ 14,838	$ 15,063
Accounts payable and accrued liabilities	13,965	10,878
Other	5,433	3,809
Total current liabilities	34,236	29,750
Long-term debt	42,491	32,419
Employee benefit obligations	12,543	13,744
Deferred income taxes	15,260	7,288
Other liabilities	3,797	1,353
Minority interest, including a portion subject to redemption requirements	21,830	1,900
Shareowners' investment		
Series preferred stock ($.10 par value; none issued)	–	–
Common stock ($.10 par value; 2,751,650,484 shares and 2,756,484,606 shares issued)	275	276
Contributed capital	24,555	20,134
Reinvested earnings	14,667	7,428
Accumulated other comprehensive income (loss)	(2,176)	75
	37,321	27,913
Less common stock in treasury, at cost	1,861	640
Less deferred compensation-employee stock ownership plans and other	882	897
Total shareowners' investment	34,578	26,376
Total liabilities and shareowners' investment	$ 164,735	$ 112,830

See Notes to Consolidated Financial Statements.

(dollars in millions)

Years Ended December 31,	2000	1999	1998
Cash Flows from Operating Activities			
Income before extraordinary items and cumulative effect of change in accounting principle	$ 10,810	$ 8,296	$ 5,326
Adjustments to reconcile income before extraordinary items and cumulative effect of change in accounting principle to net cash provided by operating activities:			
Depreciation and amortization	12,261	9,890	9,645
Gains on sales of assets, net	(3,793)	(1,379)	361
Mark-to-market adjustment for C&W/NTL exchangeable notes	(664)	664	–
Employee retirement benefits	(3,340)	(1,707)	167
Deferred income taxes	3,434	2,148	639
Provision for uncollectible accounts	1,409	1,133	929
Equity in (income) loss from unconsolidated businesses	(3,792)	(511)	216
Changes in current assets and liabilities, net of effects from acquisition/disposition of businesses:			
Accounts receivable	(2,440)	(1,865)	(1,446)
Inventories	(530)	(146)	(111)
Other assets	(264)	(334)	17
Accounts payable and accrued liabilities	1,973	780	90
Other, net	763	48	(109)
Net cash provided by operating activities	15,827	17,017	15,724
Cash Flows from Investing Activities			
Capital expenditures	(17,633)	(13,013)	(12,820)
Acquisitions, net of cash acquired, and investments	(2,247)	(5,219)	(784)
Proceeds from disposition of businesses and assets	6,794	1,813	846
Investments in notes receivable	(1,024)	(1)	–
Purchases of short-term investments	(1,204)	(1,051)	(1,028)
Proceeds from sale of short-term investments	983	954	968
Other, net	(1,724)	(903)	(138)
Net cash used in investing activities	(16,055)	(17,420)	(12,956)
Cash Flows from Financing Activities			
Proceeds from long-term borrowings	8,781	5,299	10,262
Repayments of long-term borrowings and capital lease obligations	(7,238)	(2,873)	(2,639)
Increase (decrease) in short-term obligations, excluding current maturities	3,515	4,166	(5,016)
Dividends paid	(4,421)	(4,227)	(4,186)
Proceeds from sale of common stock	576	1,166	1,006
Purchase of common stock for treasury	(2,294)	(2,037)	(1,002)
Minority interest	3	122	(628)
Other, net	30	116	(735)
Net cash provided by (used in) financing activities	(1,048)	1,732	(2,938)
Increase (decrease) in cash and cash equivalents	(1,276)	1,329	(170)
Cash and cash equivalents, beginning of year	2,033	704	874
Cash and cash equivalents, end of year	$ 757	$ 2,033	$ 704

See Notes to Consolidated Financial Statements.

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

Years Ended December 31,	2000		1999		1998	
	Shares	Amount	Shares	Amount	Shares	Amount
Common Stock						
Balance at beginning of year	2,756,485	$ 276	2,757,203	$ 276	2,560,306	$ 206
Pooling-of-interests with GTE Corporation	–	–	–	–	184,506	68
Balance at beginning of year, restated	2,756,485	276	2,757,203	276	2,744,812	274
Shares issued-employee plans	5,533	–	20,918	2	12,391	2
Shares retired	(10,368)	(1)	(21,636)	(2)	–	–
Balance at end of year	2,751,650	275	2,756,485	276	2,757,203	276
Contributed Capital						
Balance at beginning of year		20,134		20,160		20,737
Pooling-of-interests with GTE Corporation		–		–		(1,218)
Balance at beginning of year, restated		20,134		20,160		19,519
Shares issued-employee plans		473		989		624
Shares retired		(577)		(1,314)		–
Issuance of stock by subsidiaries		171		44		13
Tax benefit from exercise of stock options		66		256		–
Gain on formation of wireless joint venture		4,271		–		–
Other		17		(1)		4
Balance at end of year		24,555		20,134		20,160
Reinvested Earnings						
Balance at beginning of year		7,428		3,754		3,634
Pooling-of-interests with GTE Corporation		–		–		(195)
Balance at beginning of year, restated		7,428		3,754		3,439
Net income		11,797		8,260		4,980
Dividends declared ($1.54, $1.54, and $1.54 per share)		(4,416)		(4,219)		(4,203)
Shares issued-employee plans		(160)		(359)		(443)
Other		18		(8)		(19)
Balance at end of year		14,667		7,428		3,754
Accumulated Other Comprehensive Income (Loss)						
Balance at beginning of year		75		(1,088)		(796)
Pooling-of-interests with GTE Corporation		–		–		1
Balance at beginning of year, restated		75		(1,088)		(795)
Foreign currency translation adjustment		(262)		(41)		(290)
Unrealized gains (losses) on marketable securities		(1,965)		1,197		14
Minimum pension liability adjustment		(24)		7		(17)
Other comprehensive income (loss)		(2,251)		1,163		(293)
Balance at end of year		(2,176)		75		(1,088)
Treasury Stock						
Balance at beginning of year	23,569	640	22,887	593	49,205	1,741
Pooling-of-interests with GTE Corporation	–	–	–	–	(26,253)	(1,150)
Balance at beginning of year, restated	23,569	640	22,887	593	22,952	591
Shares purchased	35,110	1,717	12,142	723	20,743	1,002
Shares distributed						
Employee plans	(9,444)	(495)	(11,446)	(675)	(20,779)	(999)
Shareowner plans	(20)	(1)	(14)	(1)	(26)	(1)
Acquisition agreements	–	–	–	–	(3)	–
Balance at end of year	49,215	1,861	23,569	640	22,887	593
Deferred Compensation–ESOPs and Other						
Balance at beginning of year		897		1,074		1,213
Amortization		(155)		(177)		(139)
Other		140		–		–
Balance at end of year		882		897		1,074
Total Shareowners' Investment		$ 34,578		$ 26,376		$ 21,435
Comprehensive Income						
Net income		$ 11,797		$ 8,260		$ 4,980
Other comprehensive income (loss) per above		(2,251)		1,163		(293)
Total Comprehensive Income		$ 9,546		$ 9,423		$ 4,687

See Notes to Consolidated Financial Statements.

Note 1

Description of Business and Summary of Significant Accounting Policies

Description of Business

Verizon Communications Inc. (Verizon), formed by the merger of Bell Atlantic Corporation (Bell Atlantic) and GTE Corporation (GTE), 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 operate and are managed around four segments: Domestic Telecom, Domestic Wireless, International and Information Services. For further information concerning our business segments, see Note 19.

Consolidation

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. 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.

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 adopted the provisions of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements" in the fourth quarter of 2000, retroactive to January 1, 2000, as required by the SEC. The impact to Verizon pertains to the deferral of certain 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. As of January 1, 2000, the total cumulative effect of the non-cash, after-tax charge was a decrease in net income of $40 million. The retroactive adoption of SAB No. 101 decreases revenues reported in our SEC Form 10-Q through September 30, 2000 by $59 million and reduces expenses by $52 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.

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.

Inventories

We include in inventory new and reusable materials of the operating telephone subsidiaries 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 operating telephone subsidiaries' depreciation expense is principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over the remaining asset lives. This method requires the periodic revision of depreciation rates.

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

Average Lives (in years)	
Buildings	20-60
Central office equipment	5-12
Outside communications plant	8-65
Furniture, vehicles and other equipment	3-15

When we replace or retire depreciable telephone plant, we deduct the carrying amount of such plant from the respective accounts and charge 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 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 5 years. The effect of adopting SOP No. 98-1 was an increase in net income of approximately $560 million in 1999.

Prior to adopting SOP No. 98-1, our operating telephone subsidiaries capitalized initial right-to-use fees for central office switching equipment, including initial operating system and initial application software costs. For non-central office equipment, only the initial operating system software was capitalized. Subsequent additions, modifications, or upgrades of initial software programs, whether operating or application packages, were expensed as incurred.

Goodwill and Other Intangibles

Goodwill is the excess of the acquisition cost of businesses over the fair value of the identifiable net assets acquired. We generally amortize goodwill, wireless licenses and other identifiable intangibles on a straight-line basis over their estimated useful life, not exceeding 40 years. Certain acquired customer bases are amortized in a manner consistent with historical attrition patterns. We assess 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 indicate that the carrying value may not be recoverable. A determination of impairment (if any) is made based on estimates of future cash flows. In instances where goodwill has been recorded for assets that are subject to an impairment loss, the carrying amount of the goodwill is eliminated before any reduction is made to the carrying amounts of impaired long-lived assets and identifiable intangibles. On a quarterly basis, we assess the impairment of enterprise level goodwill under Accounting Principles Board (APB) Opinion No. 17, "Intangible Assets." A determination of impairment (if any) is made based primarily on estimates of market value.

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 2), GTE filed a separate consolidated federal income tax return.

Our operating telephone subsidiaries 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 Income (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 Income (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. For the period October 1, 1996, through December 31, 1998, we considered Grupo Iusacell S.A. de C.V. (Iusacell) to operate in a highly inflationary economy. Beginning January 1, 1999, we discontinued highly inflationary accounting for this entity and resumed using the Mexican peso as its functional currency.

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.

Fair Value Method

We use the fair value method of accounting for our foreign currency derivatives, which requires us to record these derivatives at fair value in our consolidated balance sheets, and changes in value are recorded in income or Shareowners' Investment. Depending upon the nature of the derivative instruments, the fair value of these instruments may be recorded in Current Assets, Other Assets, Current Liabilities and Other Liabilities in our consolidated balance sheets.

Gains and losses and related discounts or premiums arising from foreign currency derivatives (which hedge our net investments in consolidated foreign subsidiaries and investments in foreign entities accounted for under the equity method) are included in Accumulated Other Comprehensive Income (Loss) and reflected in income upon sale or substantial liquidation of the investment. Certain of these derivatives also include an interest element, which is recorded in Interest Expense over the lives of the contracts. Gains and losses from derivatives which hedge our short-term transactions and cost investments are included in Other Income and (Expense), Net, and discounts or premiums on these contracts are included in income over the lives of the contracts. Gains and losses from derivatives hedging identifiable foreign currency commitments are deferred and reflected as adjustments to the related transactions. If the foreign currency commitment is no longer likely to occur, the gain or loss is recognized immediately in income.

Earnings generated from our leveraged lease portfolio may be affected by changes in corporate tax rates. In order to hedge a portion of this risk, we use basis swap agreements, which we account for using the fair value method of accounting. Under this method, these agreements are carried at fair value and included in Other Assets or Other Liabilities in our consolidated balance sheets. Changes in the unrealized gain or loss are included in Other Income and (Expense), Net.

Accrual Method

Interest rate swap agreements and interest rate caps and floors that qualify as hedges are accounted for under the accrual method. An instrument qualifies as a hedge if it effectively modifies and/or hedges the interest rate characteristics of the underlying fixed or variable interest rate debt. Under the accrual method, no amounts are recognized in our consolidated balance sheets related to the principal balances. The interest differential to be paid or received, which is accrued as interest rates change, and premiums related to caps and floors, is recognized as adjustments to Interest Expense over the lives of the agreements. These interest accruals are recorded in Current Assets and Current Liabilities in our consolidated balance sheets. If we terminate an agreement, the gain or loss is recorded as an adjustment to the basis of the underlying liability and amortized over the remaining original life of the agreement. If the underlying liability matures, or is extinguished and the related derivative is not terminated, that derivative would no longer qualify for accrual accounting. In this situation, the derivative is accounted for at fair value, and changes in the value are recorded in income.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires that all derivatives be measured at fair value and recognized as either assets or liabilities in our balance sheet. Changes in the fair values of derivative instruments not used as hedges will be recognized in earnings immediately. Changes in the fair values of derivative instruments used effectively as hedges will be recognized either in earnings for hedges of changes in fair value or in Other Comprehensive Income (Loss) for hedges of changes in cash flows. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," which amended SFAS No. 133. The amendments in SFAS No. 138 address certain implementation issues and relate to such matters as the normal purchases and normal sales exception, the definition of interest rate risk, hedging recognized foreign-currency-denominated assets and liabilities, and intercompany derivatives.

Effective January 1, 2001, we will adopt SFAS No. 133 and SFAS No. 138. The initial impact of adoption on our financial statements will be recorded as a cumulative effect of an accounting change in our first quarter 2001 SEC Form 10-Q. An after-tax charge of approximately $180 million will be recorded to earnings in our consolidated statements of income. The recognition of assets and liabilities in the consolidated balance sheets will be immaterial. The ongoing effect of adoption 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.

Note 2

Completion of Mergers

On June 30, 2000, Bell Atlantic and GTE completed a merger under a definitive merger agreement dated as of July 27, 1998. With the 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:

(dollars in millions)

	Three Months Ended March 31, 2000	Years Ended December 31, 1999	1998
Operating Revenues	(Unaudited)		
Bell Atlantic	$ 8,534	$ 33,174	$ 31,566
GTE	6,100	25,336	25,473
Conforming adjustments, reclassifications and eliminations	(85)	(316)	36
Combined	$ 14,549	$ 58,194	$ 57,075
Net Income			
Bell Atlantic	$ 731	$ 4,202	$ 2,965
GTE	807	4,033	2,172
Conforming adjustments, reclassifications and eliminations	19	25	(157)
Combined	$ 1,557	$ 8,260	$ 4,980

In August 1997, Bell Atlantic and NYNEX Corporation (NYNEX) completed a merger of equals under a definitive merger agreement entered into on April 21, 1996 and amended on July 2, 1996. The merger qualified as a tax-free reorganization and has been accounted for as a pooling-of-interests.

The following table summarizes the one-time charges incurred for each merger. Amounts for 2000 pertain to the Bell Atlantic-GTE merger. Transition and integration costs for 1999 and 1998 pertain to the Bell Atlantic-NYNEX merger.

(dollars in millions)

Years Ended December 31,	2000	1999	1998
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 and Integration Costs			
Systems modifications	99	186	149
Branding	240	1	31
Relocation, training and other	355	18	16
Total Transition and Integration Costs	694	205	196
Total Merger-Related Costs	$ 1,750	$ 205	$ 196

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)

	1998				1999			2000			
	Beginning of Year	Payments	Asset Write-offs and Other	End of Year	Payments	Asset Write-offs and Other	End of Year	Charged to Expense	Payments	Asset Write-offs and Other	End of Year
Merger-Related											
Direct incremental costs	$ 35	$ (5)	$ (26)	$ 4	$ (1)	$ (3)	$ –	$ 472	$ (469)	$ –	$ 3
Employee severance costs	330	(61)	47	316	(35)	(15)	266	584	(120)	(68)	662
Other Initiatives											
Video-related costs	21	(3)	(12)	6	(2)	(4)	–	–	–	–	–
Write-down of fixed assets and real estate consolidation	43	–	(20)	23	(3)	(18)	2	–	–	(2)	–
Regulatory, tax and legal contingencies, and other special items	382	(108)	(25)	249	(4)	(40)	205	–	(14)	(73)	118
	$ 811	$ (177)	$ (36)	$ 598	$ (45)	$ (80)	$ 473	$1,056	$ (603)	$ (143)	$ 783

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. Substantially all of the Bell Atlantic-GTE merger direct incremental costs had been paid as of December 31, 2000.

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 are 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.

Employee severance costs related to the Bell Atlantic-NYNEX merger represent the benefit costs for the separation of approximately 3,100 management employees who are entitled to benefits under pre-existing separation pay plans. During 1999, 1998, and 1997, 231, 856, and 245 management employees, respectively, were separated with severance benefits. There were no Bell Atlantic-NYNEX merger-related separations in 2000. Accrued postemployment benefit liabilities were included in our consolidated balance sheets as a component of Employee Benefit Obligations at December 31, 1999. There is no remaining severance liability as of December 31, 2000.

Transition and Integration Costs

In addition to the direct incremental merger-related and severance costs discussed above, from the date of the Bell Atlantic-GTE merger, we expect to incur a total of approximately $2.0 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 were $694 million ($316 million after taxes and minority interests, 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 and $196 million ($121 million after-tax, or $.04 per diluted share) in 1998.

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 represents 9.5% of the voting equity in Genuity and contains a contingent conversion feature.

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 have deconsolidated our investment in Genuity and are accounting for it 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, if 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.

Genuity's revenues for the first six months of 2000 were $529 million and its net loss was $281 million. As previously discussed, beginning in the third quarter of 2000 our investment in Genuity is being accounted for under the cost method. Genuity's revenues and net loss for the period from July 1, 2000 to December 31, 2000 are $621 million and $513 million, respectively.

Note 3

Gains on Sales of Assets, Net

During 2000 and 1999, we recognized net gains related to sales of assets and impairments of assets held for sale. During 1998, we recognized net losses related to impairments of assets held for sale. Impairments were based on expected future cash flows. These net gains and losses are summarized as follows:

(dollars in millions)

Years Ended December 31,	2000		1999		1998	
	Pretax	After-tax	Pretax	After-tax	Pretax	After-tax
Wireline property sales	$ 3,051	$ 1,856	$ –	$ –	$ –	$ –
Wireless overlap sales	1,922	1,156	–	–	–	–
Other, net	(1,180)	(1,025)	1,379	819	(361)	(222)
	$ 3,793	$ 1,987	$ 1,379	$ 819	$ (361)	$ (222)

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 wireless overlap properties that occurred after the Bell Atlantic-GTE merger are classified as extraordinary items. See Note 5 for gains on sales of wireless overlap properties subsequent to the Bell Atlantic-GTE merger, reported as Extraordinary Items, Net of Tax.

Wireline Property Sales

During 1998, GTE committed to sell approximately 1.6 million non-strategic domestic access lines located in Alaska, Arizona, Arkansas, California, Illinois, Iowa, Minnesota, Missouri, Nebraska, New Mexico, Oklahoma, Texas and Wisconsin. During 1999, definitive sales agreements were reached for the sale of all 1.6 million access lines. The net plant, property and equipment of approximately $1.7 billion related to these access lines is classified as Net Assets Held for Sale in the consolidated balance sheets as of December 31, 1999. These access lines comprise approximately 1.7% of the total Domestic Telecom access lines. Operating revenues of the properties sold were approximately $766 million, $1,151 million and $1,124 million for the years 2000, 1999 and 1998, respectively. Net income contributed by the sold properties was approximately $314 million, $475 million and $345 million for the years 2000, 1999 and 1998, respectively.

During 2000, we sold non-strategic access lines of former GTE properties listed above, except for those located in Arizona and California, for 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). The remaining sales are expected to close in 2001.

Wireless Overlap Sales

A U.S. Department of Justice consent decree issued on December 6, 1999 approving the merger of Bell Atlantic and GTE required GTE Wireless, Bell Atlantic Mobile, Vodafone Group plc (Vodafone) and PrimeCo Personal Communications, L.P. (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 (ALLTEL) that provided for the exchange of a former Bell Atlantic Mobile market cluster in the Southwestern U.S. for several of ALLTEL's wireless markets in Nevada and Iowa and cash. In a separate transaction entered into by GTE, in June 2000, we exchanged several former GTE markets in Florida, Alabama and Ohio, as well as an equity interest in South Carolina, for several ALLTEL interests in Pennsylvania, New York, Indiana and Illinois. 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).

Other Transactions

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

(dollars in millions, except per share amounts)

Year Ended December 31, 2000	Pretax	After-tax	Per diluted share
GTE 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
	$ 1,180	$ 1,025	$ .37

In connection with our decisions to exit the video business and GTE 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 Verizon's approach to offering bundled services both in and out of its 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 Verizon's 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 $1.0 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 Communications, Inc. (TELUS) during the first quarter of 1999.

During the first quarter of 1998, we committed to a plan to sell or exit various business activities and reduce costs through employee reductions and related actions. Based on the decision to sell, we recorded a pretax charge of $200 million ($117 million after-tax, or $.04 per diluted share) to reduce the carrying value of the assets to estimated net sales proceeds.

Also in 1998, after completing a review of our operations, we decided to scale back the deployment of the hybrid fiber coax (HFC) video networks that we built in certain test markets. Due to the significant change in the scale of the HFC networks and the effect on future revenues and expenses, we recorded a pretax charge for impairment of approximately $161 million ($105 million after-tax, or $.04 per diluted share).

Note 4

Other Strategic Actions

Other charges and special items recorded during 2000 include 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. We also 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 in 2000 include 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 the first quarter of 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.

In 1998, we recorded total pretax charges of $918 million ($786 million after-tax, or $.28 per diluted share) related to the write-down of assets, exit of business activities, consolidation of facilities, the elimination of employee functions and other actions as discussed below.

In 1998, we recorded pretax charges of $485 million to adjust the carrying values of two Asian investments, TelecomAsia, a wireline investment in Thailand, and Excelcomindo, a wireless investment in Indonesia. We account for these investments under the cost method. We continue to monitor the political, economic, and financial aspects of our remaining investments in Thailand and Indonesia, as well as other investments. The book value of our remaining Asian investments was approximately $179 million at December 31, 2000. Should we determine that any further decline in the fair values of these investments is other than temporary, the impact would be recorded in our results of operations.

During the first quarter of 1998, we also committed to a plan to exit a number of other non-strategic domestic business activities. As a result, we recorded a pretax charge of $156 million to reduce the carrying value of affected assets to expected net salvage value and to recognize costs resulting from the exit plan. The major components of the charge included the write-off of network equipment and supplies for discontinued wireless products and services ($81 million); the shutdown of business units developing interactive video products and services and excess printing facilities ($42 million); and the write-off of impaired assets in Latin America ($33 million).

During the first quarter of 1998, we consolidated facilities and centralized or eliminated a variety of employee functions and, as a result, recorded a $107 million pretax charge. During the second half of 1998, we closed several administrative facilities, including the former GTE corporate headquarters in Connecticut and approximately 140 domestic retail stores and other locations. The cost of these actions is composed primarily of employee severance, outplacement and benefit continuation costs for approximately 1,700 employees and other costs to exit locations we no longer use.

We also recorded a pretax charge of approximately $131 million in 1998 related to nonrecurring federal and state regulatory rulings affecting our Domestic Telecom segment. Approximately two thirds of this charge relates to nonrecurring access rate refunds applied by the FCC retroactively in 1997. In addition, the charge included the write-off of mandated costs, including generic software, and other costs we incurred for which revenue recovery was not allowable under the regulatory process.

Other items arising in 1998 included pretax charges totaling $39 million principally associated with the settlement of labor contracts in August 1998.

Note 5

Extraordinary Items

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 3). These agreements, which were pursuant to the consent decree issued for the merger, enabled both the formation of Verizon Wireless (see Note 6) and the closing of the merger. Since the sales were required pursuant to the consent decree and several 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 PCS (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 the first quarter of 2000, we retired $128 million of debt prior to the stated maturity date, resulting in a one-time, pretax extraordinary charge of $15 million ($9 million after-tax, or less than $.01 per diluted share). During the fourth quarter of 2000, we retired $61.6 million of debt prior to the stated maturity date, resulting in a one-time, pretax extraordinary charge of $4 million ($3 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 one-time, pretax extraordinary charge of $46 million ($30 million after-tax, or $.01 per diluted share). During the second quarter of 1999, we recorded a one-time, 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.

During 1998, we recorded pretax extraordinary charges of $616 million ($346 million after-tax, or $.13 per diluted share). Approximately $300 million of the after-tax charge related to the discontinuation of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," by our Canadian operations. The decision by our Canadian subsidiaries to discontinue using regulatory accounting practices was in response to rulings by the Canadian regulatory commission in March 1998 that opened the Canadian telecommunications market to full competition. Under SFAS No. 71, certain assets were depreciated and certain expenses were recognized over a longer period of time than would have been the case in a competitive environment. This charge includes a reduction in the net carrying value of property, plant and equipment of $270 million to reflect impairment based on the estimated cash flows that the assets are expected to generate in a competitive environment and a reduction in costs that had been capitalized based on the expectation of future recovery of approximately $30 million. In addition, during the first quarter of 1998, we called $800 million of high-coupon debt and preferred stock prior to their stated maturity date, resulting in a pretax extraordinary charge of $31 million ($20 million after-tax, or less than $.01 per diluted share). Also, in 1998, we recorded pretax extraordinary charges of $40 million ($26 million after-tax, or $.01 per diluted share) associated with the early extinguishment of debentures and refunding mortgage bonds of the operating telephone subsidiaries and debt issued by Fiberoptic Link Around the Globe Ltd. (FLAG), an investment accounted for under the equity method.

Note 6

Wireless Joint Venture

On April 3, 2000, Verizon and Vodafone consummated the previously announced agreement to combine U.S. wireless assets, including cellular, Personal Communications Services (PCS) 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. In connection with the recent initial public offering filing by Verizon Wireless, the Division of Corporation Finance of the SEC has requested additional support for our use of a 40-year life for our wireless licenses. The SEC has questioned the use of a 40-year amortization period by other communications companies for purchased intangible assets similar to ours. In some cases, companies have shortened their amortization periods in response to these questions. In other cases, companies are continuing to use a 40-year life. We continue to believe licenses have an indefinite life, and therefore, continue to amortize the cost of licenses over 40 years.

In July 2000, following the closing of the Bell Atlantic-GTE merger, interests in GTE's U.S. wireless assets 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 the venture formation agreement, Vodafone has the right to 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.

Note 7

Marketable Securities

We have investments in marketable securities, primarily common stocks, which are considered "available-for-sale" under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities." 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) recorded in Accumulated Other Comprehensive Income (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, 2000				
Investments in unconsolidated businesses	$ 4,529	$ 559	$(1,542)	$ 3,546
Other assets	1,326	29	(241)	1,114
	$ 5,855	$ 588	$(1,783)	$ 4,660
At December 31, 1999				
Investments in unconsolidated businesses	$ 367	$ 1,892	$ –	$ 2,259
Other assets	401	8	(3)	406
	$ 768	$ 1,900	$ (3)	$ 2,665

Our investments in marketable securities increased from December 31, 1999 as a result of our Metromedia Fiber Network, Inc. (MFN) investment and our exchange of Cable & Wireless Communications plc (CWC) shares for Cable & Wireless plc (C&W) and NTL Incorporated (NTL) shares (see Note 8).

One half of our total MFN shares are deemed to be "available for sale" securities. Accordingly, this portion of our investment in MFN shares has been adjusted from a carrying value of $357 million to its fair value of $258 million at December 31, 2000. This decrease in the value of our investment has been recorded in Investments in Unconsolidated Businesses. The unrealized holding loss of $64 million (net of income tax benefit of $35 million) has been recognized in Accumulated Other Comprehensive Income (Loss). The remaining half of our investment in MFN shares is restricted, and being carried at cost.

Our investment in MFN's subordinated debt securities also qualifies as "available for sale" securities and, accordingly, this investment has been adjusted from a carrying value of $975 million to its fair value of $734 million at December 31, 2000. This decrease in the value of our investment has been recorded in Other Assets. The unrealized holding loss of $157 million (net of income tax benefit of $84 million) has also been recognized in Accumulated Other Comprehensive Income (Loss).

Certain other investments in marketable securities that we hold are not carried at their fair values because those values are not readily determinable. We have, however, adjusted the carrying values of these securities in situations where we believe declines in value below cost were other than temporary. The carrying values for these investments were $3,071 million at December 31, 2000 and $188 million at December 31, 1999. The increase from December 31, 1999 was principally due to our deconsolidation of Genuity effective June 30, 2000 (see Note 2) and the MFN shares not deemed to be "available for sale."

Note 8

Investments in Unconsolidated Businesses

Our investments in unconsolidated businesses are comprised of the following:

(dollars in millions)

At December 31,	2000 Ownership	2000 Investment	1999 Ownership	1999 Investment
Equity Investees				
CANTV	28.50%	$ 1,901	26.40%	$ 1,873
Omnitel Pronto Italia S.p.A	23.14	1,300	23.14	1,262
TELUS	22.00	1,258	26.70	1,175
Puerto Rico Telephone Company	40.00	427	40.00	380
FLAG	29.80	297	37.67	161
PrimeCo	–	–	50.00	1,078
CWC	–	–	18.59	643
Other	Various	1,325	Various	1,178
Total equity investees		6,508		7,750
Cost Investees				
Genuity	9.50	2,515	–	–
C&W	4.60	1,706	–	–
Telecom Corporation of New Zealand Limited	24.94	912	24.94	2,103
MFN	9.90	622	–	–
NTL	9.10	586	–	–
Other	Various	266	Various	324
Total cost investees		6,607		2,427
Total		$13,115		$10,177

Dividends received from investees amounted to $215 million in 2000, $336 million in 1999, and $353 million in 1998.

Equity Investees

CANTV

Compañia 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, 2000 and 1999, our investment in CANTV included unamortized goodwill, which is being amortized on a straight-line basis over a period of 40 years, of $715 million and $740 million, respectively.

Omnitel Pronto Italia S.p.A.

Omnitel Pronto Italia S.p.A. (Omnitel) operates a cellular mobile telephone network in Italy. Goodwill related to this investment totals approximately $995 million which is being amortized on a straight-line basis over a period of 25 years. At December 31, 2000 and 1999, remaining goodwill was approximately $779 million and $900 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 a public company now called 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. In 1998, our consolidated results include revenues of $2.2 billion, operating income of $589 million, total assets of $2.6 billion, including $1.7 billion of net property, plant and equipment, and long-term debt of $686 million related to BC TELECOM.

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, 2000 and 1999, our investment in TELUS included unamortized goodwill of $345 million and $432 million, respectively, which we are amortizing on a straight-line basis over a period of 40 years.

Puerto Rico Telephone Company

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, 2000 and 1999, our investment in TELPRI included unamortized goodwill, which is being amortized on a straight-line basis over a period of 25 years, of $211 million and $222 million, respectively.

FLAG

FLAG is an undersea fiber optic cable system, providing digital communications links between Europe and Asia. At December 31, 1999, our ownership interest was comprised of our interest in FLAG Ltd. and our interest in its parent company, FLAG Telecom Holdings Limited (FLAG Telecom). In January 2000, we exchanged our shares in FLAG for an interest in FLAG Telecom resulting in an aggregate interest in FLAG Telecom of approximately 38%. There was no impact to our financial statements or our effective ownership interest as a result of this transaction.

In February 2000, FLAG Telecom conducted an initial public offering. The primary offering consisted of 28 million newly issued common shares. Certain existing shareowners also participated in a secondary offering in which approximately 8 million of their common stock holdings were sold. We did not acquire any new shares in the primary offering, nor did we participate in the secondary offering. As a result, our current ownership interest has been reduced to approximately 30%.

PrimeCo Personal Communications, L.P.

PrimeCo was a partnership between Bell Atlantic and Vodafone, which provided PCS in major cities across the United States. In connection with the formation of the wireless joint venture (see Note 6), overlapping wireless properties were transferred out of PrimeCo and PrimeCo was contributed into the wireless joint venture. The overlapping wireless properties are being sold (see Note 5).

Cable & Wireless Communications

In the second quarter of 1997, 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. This transaction was accounted for as a nonmonetary

exchange of similar productive assets and, as a result, no gain or loss was recorded. We accounted for our investment in CWC under the equity method because we had significant influence over CWC's operating and financial policies. Prior to the transfer, we consolidated the results of these operations.

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 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.

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. Since the shares, which are reported as Investments in Unconsolidated Businesses, are being accounted for as cost investments, changes in their value since the date of the exchange have been recognized in Accumulated Other Comprehensive Income (Loss). At December 31, 2000, the cumulative decrease in the value of the shares since the date of the exchange of $1,407 million ($871 million after-tax, or $.32 per diluted share) has been recognized in Accumulated Other Comprehensive Income (Loss).

Other Equity Investees

We also have international wireless investments in the Czech Republic, Slovakia, Greece, 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 certain 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

Certain of our cost investments are carried at their fair value, principally our investment in Telecom Corporation of New Zealand Limited (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 fair value of an investment is other than temporary as described below under the section "Other Cost Investees."

Genuity

In June 2000, we issued common stock of our wholly owned Internet infrastructure subsidiary, Genuity, through an initial public offering, effectively reducing our common stock voting interest to 9.5%. 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. This transaction was a condition of the Bell Atlantic-GTE merger (see Note 2).

Telecom Corporation of New Zealand Limited

TCNZ is the principal provider of telecommunications services in New Zealand. Effective May 31, 1999, we took steps to disaffiliate from TCNZ. We no longer have significant influence over TCNZ's operating and financial policies. As a result, in 1999, we changed the accounting for our investment from the equity method to the cost method.

In February 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, 2000, no notes have been delivered for exchange. See Note 12 for additional information on the TCNZ exchangeable notes.

Agreement with Metromedia Fiber Network

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 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, 10% was paid in November 1999, 30% was paid in October 2000 and an additional 30% will be paid in both October 2001 and October 2002.

Viacom Inc.

Prior to 1998, we held an investment in Viacom Inc. (Viacom), an entertainment and publishing company. In December 1998, we accepted an offer from Viacom to repurchase one-half of our Viacom investment, or 12 million shares of the preferred stock (with a book value of approximately $600 million) for approximately $564 million in cash. This preferred stock had been held by a fully consolidated subsidiary, which had been created as part of a transaction to monetize a portion of our Viacom investment during 1995 and 1996. This monetization transaction involved entering into nonrecourse contracts whereby we raised $600 million based, among other things, on the value of our investment in Viacom. To accomplish the monetization, two fully consolidated subsidiaries were created to manage and protect certain assets for distribution at a later date. In addition, an outside party contributed $600 million in cash in exchange for an interest in one of these subsidiaries, and we contributed a $600 million note that was collateralized by certain financial assets, including the 12 million shares of Viacom preferred stock and 22.4 million shares of our common stock. The outside party's contribution was reflected in Minority Interest, and the issuance of common stock was reflected as Treasury Stock.

The cash proceeds from the repurchase of the 12 million shares of Viacom preferred stock, together with additional cash, was used to repay the note that had been contributed to one of the subsidiaries.

The total amount of cash was distributed to the outside party, under a pre-existing agreement, to redeem most of that party's interest in the subsidiary. We then purchased the remaining portion of the outside party's interest. The transaction was accounted for as a charge to Reinvested Earnings and a reduction from Net Income in calculating Net Income Available to Common Shareowners in the amount of $30 million.

The remaining 12 million shares of preferred stock were repurchased by Viacom in a second transaction in January 1999 for approximately $612 million in cash. This transaction did not have a material effect on our consolidated results of operations.

Other Cost Investees

Other cost investments include our Asian investments - TelecomAsia, a wireline investment in Thailand, and Excelcomindo, a wireless investment in Indonesia. In the third quarter of 1998, we recorded pretax charges of $485 million to Equity in Income (Loss) from Unconsolidated Businesses to adjust our carrying values of TelecomAsia and Excelcomindo. The charges were necessary because we determined that the decline in the estimated fair values of these investments were other than temporary. We determined the fair values of these investments by discounting estimated future cash flows.

In the case of TelecomAsia, we recorded a charge of $348 million to adjust the carrying value of the investment to its estimated fair value. We considered the following factors in determining the charge:

- The continued weakness of the Thai currency as compared to historical exchange rates had placed additional financial burdens on the company in servicing U.S. dollar-denominated debt.
- The economic instability and prospects for an extended recovery period had resulted in weaker than expected growth in TelecomAsia's business. This was indicated by slower than expected growth in total subscribers and usage. These factors resulted in reduced expectations of future cash flows and, accordingly, a reduction in the value of our investment.
- The business plan for TelecomAsia contemplated cash flows from several lines of business. Given TelecomAsia's inclination to focus on its core wireline business, these other lines of business would not contribute future cash flows at previously expected levels.

In the case of Excelcomindo, we recorded a charge of $137 million to adjust the carrying value of the investment to its estimated fair value. We considered the following factors in determining this charge:

- The continued weakness of the Indonesian currency as compared to historical exchange rates had placed additional financial burdens on the company in servicing U.S. dollar-denominated debt. The political unrest in Indonesia contributed to the currency's instability.
- The economic instability and prospects for an extended recovery period had resulted in weaker than expected growth in Excelcomindo's business. One significant factor was the inflexible tariff regulation despite rising costs due to inflation. This and other factors resulted in reduced expectations of future cash flows and, accordingly, a reduction in the value of our investment.
- Issues with cash flow required Excelcomindo's shareholders to evaluate the future funding of the business.

Note 9

Minority Interest

Minority interests in equity of subsidiaries were as follows:

(dollars in millions)

At December 31,	2000	1999
Minority interests in consolidated subsidiaries:		
Wireless joint venture (see Note 6)	$ 20,894	$ –
Cellular partnerships and other	489	820
Iusacell (37.2% and 40.2%)		
Subject to redemption	102	102
Nonredeemable	30	50
CTI Holdings, S.A. (59.5% and 58.0%)	103	93
Preferred securities issued by subsidiaries	212	835
	$ 21,830	$ 1,900

Cellular Partnerships and Other

Cellular partnerships for 1999 include $286 million related to the October 1999 acquisition of several wireless properties from Ameritech Corporation, of which a 7% interest is owned by a minority shareholder. These properties, which were purchased for approximately $3.25 billion, are located in St. Louis, Chicago and Central Illinois and include approximately 1.7 million subscribers. As a result of this acquisition, we recorded goodwill and customer base of approximately $2.85 billion. Minority interest declined in 2000 as a result of organization structure changes initiated in connection with the formation of the wireless joint venture.

Iusacell

Since 1993, we have invested $1.2 billion in Iusacell, a wireless telecommunications company in Mexico. Since we control its board of directors, we consolidate Iusacell. Goodwill related to this investment totaled approximately $810 million and is being amortized on a straight-line basis over a period of 25 years. At December 31, 2000 and 1999, remaining goodwill, net of amortization and cumulative translation adjustments, was approximately $247 million and $260 million, respectively.

Iusacell and its principal shareholders entered into an agreement (the 1998 Restructuring Agreement) to reorganize ownership of the company. This reorganization provided for the formation of a new holding company, Nuevo Grupo Iusacell, S.A. de C.V. (New Iusacell), with two classes of shares, one of which is traded publicly. As contemplated in the reorganization plan, during 1999 and 1998, Iusacell borrowed $133 million from us, as a bridge loan, under a $150 million subordinated convertible debt facility that expired in June 1999 (the Facility). In accordance with the Facility and the 1998 Restructuring Agreement, we converted the debt into additional Series A shares at a price of $.70 per share. We also sold a portion of those shares to the Peralta Group, the other principal shareholder of Iusacell, for $.70 per share and received proceeds of approximately $15 million in 1999 and $15 million in 1998. As a result of these interim steps of the reorganization plan, our ownership of Iusacell temporarily increased to 47.2%.

On August 4, 1999, the reorganization plan was finalized when New Iusacell concluded an exchange and rights offering to existing Iusacell shareholders. In addition, New Iusacell launched primary and secondary share offerings. We and the Peralta Group participated in the secondary share offering. We received approximately $73 million of proceeds from the secondary share offering and New Iusacell received approximately $31 million of proceeds from the primary share and rights offerings. As a result of the reorganization, we recorded an adjustment to increase our contributed capital by $43 million which recognizes the ultimate change in our ownership percentage resulting from these transactions.

Under an agreement dated February 22, 1999, the Peralta Group can require 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.

CTI Holdings, S.A.

CTI Holdings, S.A. (CTI) provides wireless services in Argentina. During 1998, we increased our ownership interest in CTI and assumed management control through the conversion of debt to equity, and through the purchase of additional shares. As a result, in the fourth quarter of 1998, we changed the accounting for our investment in CTI from the equity method to consolidation. The consolidation of CTI increased our revenues and operating income by $126 million and $17 million, respectively, during 1998.

Preferred Securities Issued by Subsidiaries

At December 31, 1999, preferred securities of subsidiaries included $511 million of Series B, 8.75% Monthly Income Preferred Securities maturing in 2025. These securities, issued by GTE Delaware, a limited partnership holding solely GTE junior subordinated debentures, were redeemed in March 2000 at a price of $25 per share.

Note 10

Plant, Property and Equipment

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

(dollars in millions)

At December 31,	2000	1999
Land	$ 805	$ 796
Buildings and equipment	12,258	11,373
Network equipment	124,779	113,338
Furniture, office and data processing equipment	12,720	9,313
Work in progress	2,480	3,219
Leasehold improvements	1,563	1,389
Other	4,352	3,561
	158,957	142,989
Accumulated depreciation	(89,453)	(80,816)
Total	$ 69,504	$ 62,173

Note 11

Leasing Arrangements

As Lessor

We are the lessor in leveraged and direct financing lease agreements under which commercial aircraft, rail equipment, industrial equipment, power generating facilities, real estate property, and telecommunications and other equipment are leased for remaining terms of 1 to 47 years as of December 31, 2000. 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, the related principal and interest have been offset against the minimum lease payments receivable. Minimum lease payments receivable are subordinate to the debt and the holders of the debt have a security interest in the leased equipment.

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

(dollars in millions)

At December 31,	2000			1999		
	Leveraged Leases	Direct Finance Leases	Total	Leveraged Leases	Direct Finance Leases	Total
Minimum lease payments receivable	$ 3,625	$ 437	$ 4,062	$ 3,185	$ 359	$ 3,544
Estimated residual value	2,459	53	2,512	2,264	58	2,322
Unearned income	(2,374)	(66)	(2,440)	(2,151)	(82)	(2,233)
	$ 3,710	$ 424	4,134	$ 3,298	$ 335	3,633
Allowance for doubtful accounts			(46)			(53)
Finance lease receivables, net			$ 4,088			$ 3,580
Current			$ 126			$ 32
Noncurrent			$ 3,962			$ 3,548

Accumulated deferred taxes arising from leveraged leases, which are included in Deferred Income Taxes, amounted to $2,942 million at December 31, 2000 and $2,538 million at December 31, 1999.

As Lessor

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

(dollars in millions)

Years Ended December 31,	2000	1999	1998
Pretax lease income	$ 135	$ 138	$ 99
Income tax expense	46	49	47
Investment tax credits	3	2	5

The future minimum lease payments to be received from noncancelable 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, 2000, are as follows:

(dollars in millions)

Years	Capital Leases	Operating Leases
2001	$ 213	$ 45
2002	192	31
2003	147	17
2004	115	13
2005	142	8
Thereafter	3,253	49
Total	$ 4,062	$ 163

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 $1,052 million in 2000, $1,008 million in 1999 and $1,020 million in 1998.

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

(dollars in millions)

At December 31,	2000	1999
Capital leases	$ 283	$ 257
Accumulated amortization	(165)	(155)
Total	$ 118	$ 102

The aggregate minimum rental commitments under noncancelable leases for the periods shown at December 31, 2000, are as follows:

(dollars in millions)

Years	Capital Leases	Operating Leases
2001	$ 38	$ 571
2002	31	500
2003	24	416
2004	15	335
2005	15	254
Thereafter	76	1,224
Total minimum rental commitments	199	$ 3,300
Less interest and executory costs	(55)	
Present value of minimum lease payments	144	
Less current installments	(32)	
Long-term obligation at December 31, 2000	$ 112	

As of December 31, 2000, the total minimum sublease rentals to be received in the future under noncancelable operating subleases was $229 million.

Note 12

Debt

Debt Maturing Within One Year

Debt maturing within one year is as follows:

(dollars in millions)

At December 31,	2000	1999
Notes payable		
Commercial paper	$ 12,659	$ 8,725
Bank loans	151	143
Short-term notes	209	228
Long-term debt maturing within one year	1,819	5,967
Total debt maturing within one year	$ 14,838	$ 15,063
Weighted-average interest rates for notes payable outstanding at year-end	6.5%	6.1%

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, 2000, we had in excess of $10.4 billion of unused bank lines of credit. Certain of these lines of credit contain requirements for the payment of commitment fees.

Substantially all of the assets of Iusacell, totaling approximately $1,201 million at December 31, 2000, are subject to lien under credit facilities with certain bank lenders.

Long-Term Debt

Outstanding long-term debt obligations are as follows:

(dollars in millions)

At December 31,	Interest Rates %	Maturities	2000	1999
Notes payable	5.00 – 14.98	2001 – 2030	$ 10,667	$ 3,082
Telephone subsidiaries – debentures and first/refunding mortgage bonds	2.00 – 7.00	2001 – 2033	9,574	12,031
	7.125 – 7.75	2002 – 2033	3,990	2,465
	7.85 – 10.54	2008 – 2031	2,817	2,044
Other subsidiaries – debentures and other	6.36 – 14.00	2001 – 2028	5,558	10,454
Employee stock ownership plan loans:				
GTE guaranteed obligations	9.73	2005	388	453
NYNEX debentures	9.55	2010	256	281
Bell Atlantic senior notes	8.17	2000	–	70
Capital lease obligations (average rate 9.4% and 10.2%) and other (average rate 4.8% and 6.7%)			1,337	1,275
Exchangeable notes, net of unamortized discount of $180 and $212	4.25 – 5.75	2003 – 2005	5,710	6,341
Revolving loans expected to be refinanced on a long-term basis	6.86		4,120	–
Property sale holdbacks held in escrow	6.00		13	–
Unamortized discount, net of premium			(120)	(110)
Total long-term debt, including current maturities			44,310	38,386
Less maturing within one year			(1,819)	(5,967)
Total long-term debt			$ 42,491	$ 32,419

Telephone Subsidiaries' Debt

The telephone subsidiaries' debentures outstanding at December 31, 2000 include $1,567 million that are callable. The call prices range from 100.0% to 101.51% of face value, depending upon the remaining term to maturity of the issue. All of our refunding mortgage bonds are also callable as of December 31, 2000. Our first mortgage bonds also include $14 million that are callable as of December 31, 2000. In addition, our 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.

Exchangeable Notes

In February 1998, our wholly owned subsidiary Verizon Global Funding Corp. (formerly Bell Atlantic Financial Services, Inc.) (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, 2000, no notes have been delivered for exchange.

In August 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, 2000 and December 31, 1999, the notes had a carrying value of $3,255 million and $3,222 million, respectively.

In connection with a restructuring of CWC described in Note 8, 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, 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). During 1998, no mark-to-market adjustments were recorded on the CWC exchangeable notes. As of December 31, 2000, 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 our operating telephone subsidiaries 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 $12,505 million at December 31, 2000. The carrying value of the available assets reflected in our consolidated financial statements was approximately $64.8 billion at December 31, 2000.

In 1998, we established a $2.0 billion Euro Medium Term Note Program under which we may issue notes that are not registered with the SEC. The notes will be issued from time to time from Verizon Global Funding, and will have the benefit of a support agreement between Verizon Global Funding and us. There have been no notes issued under this program.

Refinancing of Short-Term Debt

Verizon has the ability and intent to extend $4,120 million of short-term revolving loans beyond one year. Consequently, this debt has been reclassified to Long-Term Debt as of December 31, 2000 in the consolidated balance sheets.

Maturities of Long-Term Debt

Maturities of long-term debt outstanding at December 31, 2000 are $1.8 billion in 2001, $6.9 billion in 2002, $4.5 billion in 2003, $2.2 billion in 2004, $5.6 billion in 2005 and $23.3 billion thereafter. These amounts include the redeemable debt at the earliest redemption dates.

Note 13

Financial Instruments

Derivatives

We limit our use of derivatives to managing risk that could negatively impact our financing and operating flexibility, making cash flows more stable over the long run and achieving savings over other means of financing. Our risk management strategy is designed to protect against adverse changes in interest rates, foreign currency exchange rates, equity prices and corporate tax rates, as well as facilitate our financing strategies. We use several types of derivatives in managing these risks, including interest rate swap agreements, interest rate caps and floors, foreign currency forwards and options, equity options and basis swap agreements. Derivative agreements are linked to specific liabilities or assets and hedge the related economic exposures. We do not hold derivatives for trading purposes.

The table that follows provides additional information about our risk management. The notional amounts shown are used to calculate interest payments, foreign currencies and stock to be exchanged. These amounts are not actually paid or received, nor are they a measure of our potential gains or losses from market risks. They do not represent our exposure in the event of nonperformance by a counterparty or our future cash requirements. Our financial instruments are grouped based on the nature of the hedging activity.

(dollars in millions)

At December 31,	Notional Amount	Maturities	Weighted-Average Rate Receive	Weighted-Average Rate Pay
Interest Rate Swap Agreements				
Foreign Currency Forwards/Interest Rate Swaps				
1999	$ 232	2000 – 2002	5.8%	6.6%
Other Interest Rate Swaps				
Pay fixed				
2000	$ 270	2001 – 2005	Various	6.3%
1999	$ 636	2000 – 2005	Various	6.2%
Pay variable				
2000	$ 901	2001 – 2007	7.0%	Various
1999	$ 753	2000 – 2006	6.2%	Various
Foreign Currency Contracts				
2000	$ 613	2001 – 2005		
1999	$ 517	2000 – 2004		
Interest Rate Cap/Floor Agreements				
2000	$ 147	2001 – 2002		
1999	$ 147	2001 – 2002		
Basis Swap Agreements				
2000	$ 1,001	2003 – 2004		
1999	$ 1,001	2003 – 2004		
Call Options on Common Stock				
2000	$ 80	2001 – 2006		
1999	$ 99	2000 – 2006		

Interest Rate Risk Management

In 1999, we used foreign currency forwards/interest rate swap agreements to hedge the value of certain international investments. The agreements generally required us to receive payments based on fixed interest rates and make payments based on variable interest rates.

Other interest rate swap agreements, which sometimes incorporate options and interest rate caps and floors are all used to adjust the interest rate profile of our debt portfolio and allow us to achieve a targeted mix of fixed and variable rate debt. We have entered into domestic interest rate swaps, where we principally pay floating rates and receive fixed rates, as indicated in the previous table, primarily based on six-month LIBOR. At December 31, 2000 and 1999, the six-month LIBOR was 6.2% and 6.1%, respectively.

Earnings generated from our leveraged lease portfolio may be affected by changes in corporate tax rates. In order to hedge a portion of this risk, we entered into several basis swap agreements which require us to receive payments based on a variable interest rate (LIBOR-based) and make payments based on a tax-exempt market index (J.J. Kenney). We account for these basis swap agreements at fair value and recognized income (expense) of $(5) million in 2000, $12 million in 1999, and $(4) million in 1998 related to mark-to-market adjustments.

Foreign Exchange Risk Management

Our foreign exchange risk management includes the use of foreign currency forward contracts, options and foreign currency swaps. Forward contracts and options call for the sale or purchase, or the option to sell or purchase, certain foreign currencies on a specified future date. 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. The total notional amounts of our foreign currency derivative contracts were $613 million at December 31, 2000 and $517 million at December 31, 1999. The contracts outstanding at December 31, 2000 have maturities ranging from approximately one month to four years. The contracts outstanding at December 31, 1999 had maturities ranging from three months to four years.

In 1999, certain of the interest rate swap agreements shown in the table contained both a foreign currency forward and a U.S. dollar interest rate swap component. These agreements required the exchange of payments in U.S. dollars based on specified interest rates in addition to the exchange of currencies at the maturity of the contract. The required payments for both components were based on the notional amounts of the contracts.

Our net equity position in unconsolidated foreign businesses as reported in our consolidated balance sheets totaled $5,386 million at December 31, 2000 and $5,778 million at December 31, 1999. Our most significant investments at December 31, 2000 had operations in Italy, Venezuela and Canada. As of December 31, 1999, we also had a significant operation in the United Kingdom (CWC) which was accounted for under the equity method. As of December 31, 2000, in connection with a restructuring of CWC described in Note 8, our post-restructuring investments in NTL and

C&W are accounted for under the cost method. We have not hedged our accounting translation exposure to foreign currency fluctuations relative to these investments.

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 $(2) million in 2000, $(9) million in 1999 and $7 million in 1998 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. In 1998, our consolidated subsidiaries in Canada and the Dominican Republic recognized losses totaling $11 million. Gains and losses from consolidated subsidiaries are recorded in Other Income and (Expense), Net.

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)

	2000		1999	
At December 31,	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short- and long-term debt	$51,475	$51,180	$41,008	$40,172
Exchangeable notes	5,710	5,694	6,341	6,417
Cost investments in unconsolidated businesses	6,607	6,607	2,427	2,450
Notes receivable, net	1,395	1,393	13	13

The increase in our cost investments in unconsolidated businesses resulted primarily from our investment in Genuity and our post-restructuring investments in C&W and NTL, which are now accounted for under the cost method.

Note 14

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, 2000, we had repurchased 35.1 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.

Common Stock Split

On May 1, 1998, the Board of Directors declared a two-for-one split of Bell Atlantic common stock, effected in the form of a 100% stock dividend to shareholders of record on June 1, 1998 and payable on June 29, 1998. Shareholders of record received an additional share of common stock for each share of common stock held at the record date. We retained the par value of $.10 per share for all shares of common stock. The prior period financial information (including share and per share data) contained in this report has been adjusted to give retroactive recognition to this common stock split.

Note 15

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,	2000	1999	1998
Net Income Available To Common Shareowners			
Income before extraordinary items and cumulative effect of change in accounting principle	$ 10,810	$ 8,296	$ 5,326
Redemption of minority interest	–	–	(30)
Redemption of investee/subsidiary preferred stock	(10)	–	(2)
Income available to common shareowners*	10,800	8,296	5,294
Extraordinary items, net	1,027	(36)	(346)
Cumulative effect of change in accounting principle, net	(40)	–	–
Net income available to common shareowners*	$ 11,787	$ 8,260	$ 4,948
Basic Earnings (Loss) Per Common Share			
Weighted-average shares outstanding	2,713	2,739	2,728
Income before extraordinary items and cumulative effect of change in accounting principle	$ 3.98	$ 3.03	$ 1.94
Extraordinary items, net	.37	(.01)	(.13)
Cumulative effect of change in accounting principle, net	(.01)	–	–
Net income	$ 4.34	$ 3.02	$ 1.81
Diluted Earnings (Loss) Per Common Share			
Weighted-average shares outstanding	2,713	2,739	2,728
Effect of dilutive securities	24	38	31
Weighted-average shares – diluted	2,737	2,777	2,759
Income before extraordinary items and cumulative effect of change in accounting principle	$ 3.95	$ 2.98	$ 1.92
Extraordinary items, net	.37	(.01)	(.13)
Cumulative effect of change in accounting principle, net	(.01)	–	–
Net income	$ 4.31	$ 2.97	$ 1.79

* 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 85.3 million shares during 2000, .3 million shares during 1999 and 1.5 million shares during 1998.

Note 16

Stock Incentive Plans

We have stock-based compensation plans consisting of fixed stock options and performance-based shares which include 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 $101 million in 2000, $61 million in 1999, and $35 million in 1998. 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,		2000	1999	1998
Net income available to common shareowners	As reported	$ 11,787	$ 8,260	$ 4,948
	Pro forma	11,445	8,075	4,842
Diluted earnings per share	As reported	$ 4.31	$ 2.97	$ 1.79
	Pro forma	4.19	2.91	1.76

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

	2000	1999	1998
Dividend yield	3.3%	3.4%	3.9%
Expected volatility	27.5%	20.0%	18.4%
Risk-free interest rate	6.2%	5.3%	5.6%
Expected lives (in years)	6	6	6

The weighted-average value of options granted during 2000, 1999 and 1998 was $13.09, $11.58 and $7.36, respectively.

The GTE stock options outstanding and exercisable at the date of the Bell Atlantic-GTE merger were converted to Verizon stock options. The GTE option activity and share prices have been restated, for all years presented, to Verizon shares using the exchange ratio of 1.22 per share of Verizon common stock to one share of GTE common stock.

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.

We have several plans for employees not otherwise covered under the plans above, including the 1985 Incentive Stock Option Plan, the 1994 Option Plus Plan, the 1990 and 1995 Stock Option Plans and the Long-Term Incentive Plan.

We have established several broad-based stock option plans covering substantially all employees, other than key employees. These include the 1992, 1994 and 1996 NYNEX plans, the 1996 GTE Partnership Shares Plan and the 2000 Verizon Founders' Grant.

This table summarizes our fixed stock option plans:

	Stock Options (in thousands)	Weighted-Average Exercise Price
Outstanding, December 31, 1997	131,753	$ 31.24
Granted	41,999	45.48
Exercised	(33,953)	30.02
Canceled/forfeited	(4,746)	36.77
Outstanding, December 31, 1998	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
Options exercisable, December 31,		
1998	76,819	31.53
1999	94,719	35.79
2000	111,021	40.97

The following table summarizes information about fixed stock options outstanding as of December 31, 2000:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Shares (in thousands)	Weighted-Average Remaining Life	Weighted-Average Exercise Price	Shares (in thousands)	Weighted-Average Exercise Price
$ 20.00 – 29.99	18,702	2.9 years	$ 25.40	18,702	$ 25.40
30.00 – 39.99	38,805	5.7	34.77	38,805	34.77
40.00 – 49.99	87,847	8.8	44.10	24,970	45.44
50.00 – 59.99	85,107	8.6	56.05	27,267	55.35
60.00 – 69.99	2,107	8.8	62.42	1,277	63.05
Total	232,568	7.7	45.58	111,021	40.97

Performance-Based Share Plans

Performance-based share plans 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 which vest over a three to five year period.

The number of shares outstanding in the performance-based share plans were 4,387,000, 2,133,000 and 1,985,000 at December 31, 2000, 1999 and 1998, respectively.

Note 17

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 and to encourage employees to acquire and maintain an equity interest in our company.

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, 2000, shares of our common stock accounted for less than 1% of the plan assets.

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

(dollars in millions)

	Pension			Healthcare and Life		
Years Ended December 31,	**2000**	1999	1998	**2000**	1999	1998
Service cost	$ 612	$ 675	$ 682	$ 121	$ 149	$ 145
Interest cost	2,562	2,485	2,506	909	822	827
Expected return on plan assets	(4,686)	(4,089)	(3,852)	(441)	(373)	(326)
Amortization of transition asset	(127)	(150)	(158)	–	–	–
Amortization of prior service cost	(66)	(94)	(107)	(28)	(22)	(26)
Actuarial (gain), net	(623)	(241)	(171)	(124)	(83)	(111)
Net periodic benefit (income) cost	(2,328)	(1,414)	(1,100)	437	493	509
Termination benefits, curtailments and other, net	(250)	152	849	–	–	3
Settlement gains	(911)	(663)	(9)	(43)	(8)	148
Subtotal	(1,161)	(511)	840	(43)	(8)	151
Total (income) cost	$ (3,489)	$ (1,925)	$ (260)	$ 394	$ 485	$ 660

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		
	2000	1999	1998	**2000**	1999	1998
Discount rate at end of year	7.75 %	8.00 %	7.00 %	7.75 %	8.00 %	7.00 %
Long-term rate of return on plan assets for the year	9.25	9.00	8.95	9.10	8.90	8.80
Rate of future increases in compensation at end of year	5.00	4.80	4.45	4.00	4.20	4.00
Medical cost trend rate at end of year				5.00	5.75	6.20
Ultimate (year 2001)				5.00	5.15	5.15
Dental cost trend rate at end of year				3.50	3.50	3.50
Ultimate (year 2002)				3.00	3.00	3.00

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:

(dollars in millions)

One-Percentage-Point	Increase	Decrease
Effect on 2000 total service and interest cost	$ 87	$ (71)
Effect on postretirement benefit obligation as of December 31, 2000	904	(745)

(dollars in millions)

At December 31,	Pension 2000	Pension 1999	Healthcare and Life 2000	Healthcare and Life 1999
Benefit Obligation				
Beginning of year	$ 32,996	$ 36,869	$ 11,168	$ 12,764
Service cost	612	675	121	149
Interest cost	2,562	2,485	909	822
Plan amendments	564	433	33	(1)
Actuarial (gain) loss, net	1,275	(3,208)	1,067	(1,741)
Benefits paid	(3,371)	(3,023)	(828)	(851)
Termination benefits	–	148	–	–
Divestitures	(215)	(538)	(43)	(2)
Settlements and curtailments	(1,407)	(922)	(30)	25
Other	120	77	–	3
End of year	33,136	32,996	12,397	11,168
Fair Value of Plan Assets				
Beginning of year	59,141	54,915	5,580	5,019
Actual return on plan assets	1,294	9,129	(128)	692
Company contribution	138	115	243	386
Benefits paid	(3,371)	(3,023)	(457)	(518)
Settlements	(1,764)	(1,359)	(2)	–
Divestitures	(216)	(683)	–	–
Other	3	47	–	1
End of year	55,225	59,141	5,236	5,580
Funded Status				
End of year	22,089	26,145	(7,161)	(5,588)
Unrecognized				
Actuarial (gain), net	(15,153)	(21,973)	(2,019)	(3,748)
Prior service (benefit) cost	54	(560)	(407)	(452)
Transition asset	(272)	(427)	–	–
Net amount recognized	$ 6,718	$ 3,185	$ (9,587)	$ (9,788)
Amounts recognized on the balance sheet				
Prepaid pension cost	$ 8,626	$ 6,218	$ –	$ –
Employee benefit obligation	(1,981)	(3,072)	(9,587)	(9,788)
Other assets	21	24	–	–
Accumulated other comprehensive loss	52	15	–	–
Net amount recognized	$ 6,718	$ 3,185	$ (9,587)	$ (9,788)

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 or loss recognition for all cash settlements for each year.

Retirement Incentives

In 1993, the former Bell Atlantic announced a restructuring plan which included an accrual of approximately $1.1 billion (pretax) for severance and postretirement medical benefits under an involuntary force reduction plan.

Since the inception of the retirement incentive program, Bell Atlantic had recorded additional costs totaling approximately $3.0 billion (pretax) through December 31, 1998. The retirement incentive costs are included in Operations and Support Expense in our consolidated statements of income and the accrued liability is a component of Employee Benefit Obligations reported in our consolidated balance sheets. The additional costs were comprised of special termination pension and postretirement benefit amounts, as well as employee costs for other items. In 1998, we recorded $1,021 million for costs associated with 7,299 employees accepting the retirement incentive offer.

The retirement incentive program covering management employees ended on March 31, 1997 and the program covering other employees was completed in September 1998.

Savings Plan and Employee Stock Ownership Plans

We maintain four leveraged employee stock ownership plans (ESOPs). Under these plans, we match a certain percentage of eligible employee contributions with shares of our common stock. In 1989, two leveraged ESOPs were established by Bell Atlantic and one leveraged ESOP was established by GTE to purchase Bell Atlantic and GTE common stock to fund matching contributions. In 1990, NYNEX established a leveraged ESOP to fund matching contributions to management employees and purchased shares of NYNEX common stock. 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, 2000, the number of unallocated and allocated shares of common stock was 25 million and 56 million, respectively. All leveraged ESOP shares are included in earnings per share computations.

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

ESOP cost and trust activity consist of the following:

(dollars in millions)

Years Ended December 31,	2000	1999	1998
Compensation	$ 161	$ 176	$ 145
Interest incurred	69	86	102
Dividends	(43)	(50)	(61)
Net leveraged ESOP cost	187	212	186
Reduced ESOP cost	(19)	(74)	(13)
Total ESOP cost	$ 168	$ 138	$ 173
Dividends received for debt service	$ 87	$ 134	$ 113
Total company contributions to leveraged ESOP trusts	$ 151	$ 265	$ 197

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 $219 million in 2000, $161 million in 1999, and $107 million in 1998.

Note 18

Income Taxes

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

(dollars in millions)

Years Ended December 31,	2000	1999	1998
Current			
Federal	$ 3,165	$ 2,612	$ 2,237
Foreign	105	83	325
State and local	657	379	513
	3,927	3,074	3,075
Deferred			
Federal	2,969	1,708	562
Foreign	(60)	148	(14)
State and local	553	338	142
	3,462	2,194	690
Investment tax credits	(28)	(46)	(51)
Other credits	(352)	(350)	(239)
Total income tax expense	$ 7,009	$ 4,872	$ 3,475

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,	2000	1999	1998
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income tax, net of federal tax benefits	4.3	3.5	4.8
Write-down of foreign investments	–	–	2.2
Other, net	–	(1.5)	(2.5)
Effective income tax rate	39.3%	37.0%	39.5%

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:

(dollars in millions)

At December 31,	2000	1999
Depreciation	$ 5,360	$ 6,128
Employee benefits	(1,623)	(3,378)
Leasing activity	2,953	2,776
Net unrealized gains (losses) on marketable securities	(515)	664
Partnership investments	5,925	593
Exchange of CWC stock	1,147	–
Other–net	589	(425)
	13,836	6,358
Valuation allowance	441	326
Net deferred tax liability	$ 14,277	$ 6,684

At December 31, 2000, undistributed earnings of our foreign subsidiaries amounted to approximately $3.6 billion. Deferred income taxes are not provided on these earnings as it is intended that the earnings are indefinitely invested in these entities. It is not practical to estimate the amount of taxes that might be payable upon the remittance of the undistributed 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 2000, the valuation allowance increased $115 million. This increase primarily relates to state net operating loss carryforwards and the write-down of investments for which tax benefits may never be realized.

Note 19

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.

Our segments and their principal activities consist of the following:

Segment	Description
Domestic Telecom	Domestic wireline communications services, principally representing our 16 operating telephone subsidiaries that provide local telephone services in over 30 states. 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 customer premises equipment distribution, data solutions and systems integration, billing and collections, Internet access services, research and development and inventory management services. In addition, this segment includes our long distance services.
Domestic Wireless	Domestic wireless products and services including cellular, PCS and 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, Asia 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:

(dollars in millions)

Years Ended December 31,	2000	1999	1998
Domestic			
Operating revenues	$ 62,066	$ 55,802	$ 53,343
Long-lived assets	71,180	61,944	60,049
Foreign			
Operating revenues	2,641	2,392	3,732
Long-lived assets	11,439	10,406	7,672
Consolidated			
Operating revenues	64,707	58,194	57,075
Long-lived assets	82,619	72,350	67,721

Reportable Segments

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

(dollars in millions)

2000	Domestic Telecom	Domestic Wireless	International	Information Services	Total Segments Adjusted
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
1998					
External revenues	$ 39,924	$ 6,634	$ 1,468	$ 3,692	$ 51,718
Intersegment revenues	471	18	–	126	615
Total operating revenues	40,395	6,652	1,468	3,818	52,333
Depreciation & amortization	7,711	959	233	77	8,980
Equity in income (loss) from unconsolidated businesses	16	(89)	462	22	411
Interest income	106	–	33	8	147
Interest expense	(1,665)	(203)	(223)	(22)	(2,113)
Income tax expense (benefit)	2,938	174	(35)	724	3,801
Net income	4,750	962	510	1,145	7,367
Assets	66,008	11,447	10,210	2,738	90,403
Investments in unconsolidated businesses	17	1,413	3,864	34	5,328
Capital expenditures	10,000	1,160	930	62	12,152

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)

	2000	1999	1998
Operating Revenues			
Total reportable segments	$ 63,699	$ 55,176	$ 52,333
Genuity and GTE Government Systems	529	1,789	1,773
Domestic Telecom operations sold (see Note 3)	766	1,151	1,124
Deconsolidation of BC TELECOM	–	–	2,153
Merger-related regulatory settlements	(69)	–	–
Impact of accounting change (SAB No. 101)	–	117	–
Corporate, eliminations and other	(218)	(39)	(308)
Consolidated operating revenues – reported	$ 64,707	$ 58,194	$ 57,075
Net Income			
Total reportable segments	$ 7,550	$ 7,477	$ 7,367
Corporate and other	98	116	(354)
Domestic Telecom operations sold	314	475	345
Bell Atlantic-GTE merger-related costs	(749)	–	–
Merger transition and integration costs	(316)	(126)	(121)
Gains on sales of assets, net	1,987	819	(222)
Gain on CWC stock	1,941	–	–
Settlement gains and enhancement costs	564	410	(645)
Mark-to-market adjustment for C&W/NTL exchangeable notes	431	(432)	–
Genuity loss	(281)	(325)	(258)
NorthPoint investment write-off	(153)	–	–
International restructuring	(50)	–	–
Other charges and special items	(526)	(126)	(786)
Extraordinary items	1,027	(36)	(346)
Impact of accounting change (SAB No. 101)	(40)	8	–
Consolidated net income – reported	$ 11,797	$ 8,260	$ 4,980
Assets			
Total reportable segments	$151,755	$101,959	$ 90,403
Reconciling items	12,980	10,871	7,761
Consolidated assets	$164,735	$112,830	$ 98,164

Pension settlement gains before tax of $911 million, $663 million and $9 million ($564 million, $410 million and $6 million after-tax) were recognized for the twelve month periods ended December 31, 2000, 1999 and 1998, respectively. These gains were recorded in accordance with SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." They relate to the settlement of pension obligations for former GTE employees through the purchase of annuities or otherwise.

Prior to 1998, we announced a restructuring plan which included an accrual of approximately $1.1 billion (pretax) for severance and postretirement medical benefits under an involuntary force reduction plan. Since the inception of the retirement incentive program, we recorded additional costs totaling approximately $3.0 billion (pretax) through December 31, 1998. In 1998, we recorded a pretax charge of $1,021 million ($651 million after-tax). The additional costs were comprised of special termination pension and postretirement benefit amounts, as well as employee costs for other items.

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.

Note 20

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:

(dollars in millions)

Years Ended December 31,	2000	1999	1998
Foreign Currency Translation Adjustments, net of taxes of $1, $1 and $2	$ (262)	$ (41)	$ (290)
Unrealized Gains (Losses) on Marketable Securities			
Unrealized gains (losses), net of taxes of $(1,077), $648 and $22	(1,877)	1,198	24
Less: reclassification adjustments for gains realized in net income, net of taxes of $51, $– and $13	88	1	10
Net unrealized gains (losses) on marketable securities	(1,965)	1,197	14
Minimum Pension Liability Adjustment, net of taxes of $(13), $5 and $(10)	(24)	7	(17)
Other Comprehensive Income (Loss)	$ (2,251)	$ 1,163	$ (293)

The net unrealized losses on marketable securities in 2000 primarily relate to our investments in MFN, C&W and NTL (see Note 7). 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 (see Note 8).

The components of accumulated other comprehensive income (loss) are as follows:

(dollars in millions)

At December 31,	2000	1999
Foreign currency translation adjustments	$ (1,408)	$ (1,146)
Unrealized gains (losses) on marketable securities	(734)	1,231
Minimum pension liability adjustment	(34)	(10)
Accumulated other comprehensive income (loss)	$ (2,176)	$ 75

Note 21

Additional Financial Information

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

Income Statement Information

(dollars in millions)

Years Ended December 31,	2000	1999	1998
Depreciation expense	$ 10,276	$ 9,550	$ 9,402
Taxes other than income	2,210	2,218	2,018
Interest expense incurred	3,720	2,762	2,822
Capitalized interest	(230)	(146)	(117)
Advertising expense	1,399	796	853

Balance Sheet Information

(dollars in millions)

At December 31,	2000	1999
Accounts Payable and Accrued Liabilities		
Accounts payable	$ 6,247	$ 5,165
Accrued expenses	3,063	1,466
Accrued vacation pay	1,043	945
Accrued salaries and wages	1,346	943
Interest payable	574	556
Accrued taxes	1,692	1,803
	$ 13,965	$ 10,878
Other Current Liabilities		
Advance billings and customer deposits	$ 1,162	$ 1,123
Dividends payable	1,053	1,061
Other	3,218	1,625
	$ 5,433	$ 3,809

Cash Flow Information

(dollars in millions)

Years Ended December 31,	2000	1999	1998
Cash Paid			
Income taxes, net of amounts refunded	$ 3,201	$ 1,997	$ 2,223
Interest, net of amounts capitalized	2,065	2,628	2,522
Supplemental investing and financing transactions:			
Assets acquired in business combinations	6,944	3,960	–
Liabilities assumed in business combinations	3,667	259	–
Debt assumed in business combinations	4,387	490	–

Note 22

Commitments and Contingencies

In connection with certain state regulatory incentive plan commitments, we have deferred revenues, which will be recognized as the commitments are met or obligations are satisfied under the plans. In addition, several state and federal regulatory proceedings may require our telephone subsidiaries to refund 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 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.

Verizon Wireless was the winning bidder for 113 licenses in the FCC's recently concluded auction of 1.9 GHz spectrum. Verizon Wireless added capacity for growth and advanced services in markets including New York, Boston, Los Angeles, Chicago, Philadelphia, Washington, D.C., Seattle and San Francisco, for a total price of approximately $8.8 billion, $1.6 billion of which was paid in February 2001 and the remainder will be paid when the FCC requires payment, which is expected to occur in 2001, and may be as early as March 2001.

During the fourth quarter of 2000, Verizon Wireless agreed to acquire Price Communications Wireless, a wholly owned subsidiary of Price Communications, for $1.5 billion in Verizon Wireless stock and the assumption of $550 million in net debt. The transaction is conditioned upon completion of a Verizon Wireless IPO. The deal will significantly expand the company's footprint in the Southeastern U.S. and add approximately 500,000 customers.

Note 23

Quarterly Financial Information (Unaudited)

(dollars in millions, except per share amounts)

Quarter Ended	Operating Revenues*	Operating Income	Income before Extraordinary Items and Cumulative Effect of Change in Accounting Principle: Amount	Per Share– Basic	Per Share– Diluted	Net Income
2000						
March 31 (a)	$ 14,532	$ 3,828	$ 1,564	$ .57	$ .56	$ 1,515
June 30 (b)	16,769	4,609	4,904	1.80	1.79	4,904
September 30 (c)	16,533	4,943	2,640	.97	.97	3,466
December 31	16,873	3,378	1,702	.63	.62	1,912
1999						
March 31 (d)	$ 13,761	$ 3,787	$ 2,072	$ .76	$ .75	$ 2,042
June 30	14,513	3,624	1,948	.71	.70	1,942
September 30 (e)	14,655	4,548	2,538	.92	.91	2,538
December 31 (f)	15,265	3,994	1,738	.64	.63	1,738

* The impact of adopting SAB No. 101 on previously reported revenues in 2000 is as follows:

Quarters Ended	March 31	June 30	September 30
Previously reported	$ 14,549	$ 16,787	$ 16,557
Impact of SAB No. 101	(17)	(18)	(24)
Currently reported	$ 14,532	$ 16,769	$ 16,533

(a) 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.

(b) 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.

(c) 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 the wireless properties sold.

(d) Results of operations for the first quarter of 1999 include a $308 million (after-tax) gain on the merger of BC TELECOM and TELUS in January 1999.

(e) Results of operations for the third quarter of 1999 include a $445 million (after-tax) gain associated with the sale of substantially all of the GTE Government Systems business to General Dynamics.

(f) Results of operations for the fourth quarter of 1999 include a $432 million (after-tax) loss on mark-to-market adjustment for CWC exchangeable notes.

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

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Senior Vice President and Controller

Investor Information

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Questions about stock-related matters including account changes, stock transfers and other requests for assistance with regard to your stock ownership should be directed to our transfer agent, Fleet National Bank, c/o EquiServe:

Verizon Communications Shareowner Services
c/o EquiServe
P.O. Box 43005
Providence, RI 02940–3005
Phone 800 631-2355

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

Shareowners with e-mail addresses can send inquiries to:
Verizon@EquiServe.com

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Form 10–K
To receive a copy of the 2000 Verizon Annual Report on Form 10–K, which is filed with the Securities and Exchange Commission, contact Investor Relations:

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

Stock Market Information
Shareowners of record at December 31, 2000: **1,335,000**

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

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

Common Stock Price and Dividend Information

	Market Price		Cash Dividend
	High	Low	Declared
2000			
First Quarter	$ 63 3/16	$ 47 3/8	$ 0.385
Second Quarter	66	49 1/2	0.385
Third Quarter	56 7/8	39 1/16	0.385
Fourth Quarter	59 3/8	45 3/16	0.385
1999			
First Quarter	$ 60 7/16	$ 50 5/8	$ 0.385
Second Quarter	65 3/8	50 15/16	0.385
Third Quarter	68 3/16	60 1/4	0.385
Fourth Quarter	69 1/2	59 3/16	0.385

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The Company maintains a long-standing commitment to equal opportunity and valuing the diversity of its employees, suppliers, and customers. The Company strives to create a working environment free of discrimination with respect to age, color, disability, gender, national origin, race, religion, citizenship status, sexual orientation, disabled veteran and veteran of the Vietnam era status.

For a summary of annual profile reports filed with the EEOC, contact:

Ms. Lavone Norwood
Executive Director
750 Canyon Drive
Coppell, TX 75019

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