

VERIZON COMMUNICATIONS INC

Form 11-K

June 29, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

OR

.. TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

COMMISSION FILE NUMBER 1-8606

FOR THE SIX MONTH PERIOD ENDED DECEMBER 31, 2006

THE VERIZON BUSINESS SAVINGS PLAN

VERIZON COMMUNICATIONS INC.

140 WEST STREET

NEW YORK, NEW YORK 10007

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THE VERIZON BUSINESS SAVINGS PLAN

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Verizon Employee Benefits Committee:

We have audited the accompanying statement of net assets available for benefits of the Verizon Business Savings Plan (the Plan) as of December 31, 2006 and the related statement of changes in net assets available for benefits for the six month period then ended. These financial statements are the responsibility of the Plan 's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We are not engaged to perform an audit of the Plan 's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan 's internal control over financial reporting. Accordingly, we express no such opinion. 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 net assets available for benefits of the Plan as of December 31, 2006 and the changes in its net assets available for benefits for the six month period then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Mitchell & Titus LLP

New York, New York

June 28, 2007

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VERIZON BUSINESS SAVINGS PLAN

Statement of Net Assets Available for Benefits

As of December 31, 2006

(thousands of dollars)

| | 2006 |
|--|-------------|
| Assets: | |
| Investments in Master Trusts (at fair value) | \$ 675,355 |
| Adjustment from fair value to contract value for fully benefit-responsive investment contracts | 710 |
| Net assets available for benefits | \$ 676,065 |

The accompanying notes are an integral part of the financial statements.

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VERIZON BUSINESS SAVINGS PLAN

Statement of Changes in Net Assets Available for Benefits

For the Six Month Period Ended December 31, 2006

(thousands of dollars)

| | |
|---|----------------|
| Additions: | |
| Contributions: | |
| Employee | \$ 80,504 |
| Employer | 66,211 |
| Total contributions | 146,715 |
| Transfers from other qualified plans, net | 506,753 |
| Net investment income | 66,320 |
| Total additions | 719,788 |
| Deductions: | |
| Benefits paid to participants | 43,570 |
| Administrative expenses | 153 |
| Total deductions | 43,723 |
| Net change | 676,065 |
| Net assets available for benefits: | |
| Beginning of year | |
| End of year | \$ 676,065 |

The accompanying notes are an integral part of the financial statements.

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VERIZON BUSINESS SAVINGS PLAN

Notes to Financial Statements

December 31, 2006

NOTE 1 DESCRIPTION OF THE PLAN

The following description of the Verizon Business Savings Plan (the Plan) provides only general information. Participants should refer to the Summary Plan Description for a more complete description of the Plan s provisions.

Overview

Effective July 1, 2006 the Plan was adopted by Verizon Business Inc. as a new plan. Also effective July 1, 2006, a portion of the Verizon Savings Plan for Management Employees was spun off and merged into the Plan. That portion relates to eligible employees as defined by the Plan document, as of July 1, 2006 who had accounts under the Verizon Savings Plan for Management Employees as of June 30, 2006.

Eligibility

The Plan is a defined contribution plan subject to the provisions of the Employee Retirement Income Security Act of 1974. The Plan provides eligible employees, as defined by the Plan Document, of Verizon Business Inc., (Verizon) and its subsidiaries (Participating Affiliates) with a convenient way to save for both medium and long-term needs.

Covered employees are eligible to make tax-deferred or after-tax contributions to the Plan and to receive matching employer contributions, upon completion of enrollment in the Plan, as soon as practicable following the date of hire.

An individual s active participation in the Plan shall terminate when the individual ceases to be an eligible employee; however, the individual shall remain a participant until the entire account balance under the Plan has been distributed or forfeited.

Investment Options

Participants shall direct their contributions to be invested in any of the current investment options, except for the Idearc Stock Fund, which does not allow additional contributions.

Participant Accounts

Each participant s account is credited with the participant s contributions, rollovers, matching contributions, and allocations of Plan income. Allocations of Plan income are based on participant account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account balance.

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VERIZON BUSINESS SAVINGS PLAN

Notes to Financial Statements

December 31, 2006

NOTE 1 DESCRIPTION OF THE PLAN *(continued)*

Payment of Benefits

Benefits are recorded when paid. Benefits are payable in a lump sum cash payment unless a participant elects, in writing, one of the three optional forms of benefit payment which include: (1) a lump sum in Verizon shares for investments in the Verizon Company Stock Fund with the balance in cash; (2) annual, semiannual, quarterly, or monthly installments in cash of approximately equal amounts to be paid out for a period of two to 20 years, as selected by the participant; or (3) for those participants eligible to receive their distribution in installments as described in (2) above, a pro rata portion of each installment payment in Verizon shares for investments in the Stock Fund, with the balance of each installment in cash.

Participant Loans

The Plan includes an employee loan provision authorizing participants to borrow an amount of up to 50% from their vested account balances in the Plan subject to certain limitations. Loans are generally repaid by payroll deductions. The term of repayment for loans generally will not be less than six months nor more than five years (15 years for a loan to purchase a principal residence). For loans up to five years, each new loan will bear interest at a rate based upon the prime rate as published in the Wall Street Journal on the last business day of the calendar quarter preceding the calendar quarter in which the loan is made.

Master Trusts

At December 31, 2006, the Plan participated in the Verizon Master Savings Trust (the Master Trust), and along with the Verizon Savings and Security Plan for West Region Employees (the West Region Plan), the Verizon Savings and Security Plan for Mid-Atlantic Employees (the Mid-Atlantic Plan), the Verizon Savings and Security Plan for New York and New England Associates (the North Plan), and the Verizon Savings Plan for Management Employees (the Management Plan) owned a percentage of the assets in the Master Trust. These percentages are based on a pro rata share of the Master Trust assets. The Plan owned approximately 4% of the assets in the Master Trust at December 31, 2006.

Fidelity Management Trust Company (Trustee) has been designated as the trustee of the Trust and is responsible for the investment, reinvestment, control, and disbursement of the funds and portfolios of the Plan. Expenses of administering the Plan, including fees and expenses of the Trustee, may be charged to the Plan. Investment fees are charged against the earnings of the funds and portfolios.

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VERIZON BUSINESS SAVINGS PLAN

Notes to Financial Statements

December 31, 2006

NOTE 1 DESCRIPTION OF THE PLAN *(continued)*

At December 31, 2006 the Plan also participated in an equity fund (the Mellon Fund) in the Bell Atlantic Master Trust, for which Mellon Bank is the Trustee and along with the Mid-Atlantic Plan, the West Region Plan, the North Plan, and the Management Plan owned a percentage of the Mellon Fund. This percentage was based on a pro rata share of the Mellon Fund. The Plan owned approximately 5% of the Mellon Fund at December 31, 2006.

Interest and dividends along with net appreciation (depreciation) in fair value of investments are allocated to the Plan on a daily basis based upon the Plan's participation in the various investment funds and portfolios that comprise the Master Trust and Mellon Funds as a percentage of the total participation in such funds and portfolios.

Plan Modification

Verizon Business Inc. and the most senior Human Resources officer of Verizon Business Inc. reserve the right to modify, alter, or amend the Plan at any time. Verizon reserves the right to terminate the Plan at any time.

Risks and Uncertainties

The Plan provides investment options for participants who can invest in combinations of stocks, bonds, fixed income securities, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, equity price, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

NOTE 2 ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. We have reclassified certain prior year amounts to conform to current year presentation.

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Notes to Financial Statements

December 31, 2006

NOTE 2 ACCOUNTING POLICIES *(continued)*

The statement of changes in net assets available for benefits reflects the net investment income (loss) of the Plan's investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) in fair value of those investments, as well as interest and dividends earned. Purchases and sales of investments are reflected as of the trade-date. Realized gains and losses on sales of investments are determined on the basis of average cost. Dividend income is recorded on the ex-dividend date. Interest earned on investments is recorded on the accrual basis.

The Financial Accounting Standards Board (FASB) issued FASB Staff Position AAG INV-1 and SOP 94-4-1, Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans (the FSP). The FSP, effective for financial statements for annual periods after December 15, 2006, requires investment contracts be reported at fair value. However, contract value is the relevant measurement of that portion of net assets attributable to fully benefit-responsive investment contracts, as that is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. As required by the FSP, the Statement of Net Assets Available for Benefits presents net assets at fair value, with an adjustment to contract value for the investment contracts. In addition, net assets available for benefits and the changes in net assets available for benefits per the financial statements will be different from those in the Form 5500 due to the adjustment from fair value to contract value for fully benefit-responsive investment contracts, as reflected in the financial statements.

NOTE 3 NON-PARTICIPANT DIRECTED INVESTMENTS

Information about the net assets and the significant components of the changes in net assets relating to the Plan's non-participant directed investments is as follows (in thousands):

| | As of December 31, 2006 | |
|---|--------------------------------|-------------------------------------|
| Net Assets: | | |
| Verizon common stock | \$ | 133,038 |
| | | |
| | | Year ended December 31, 2006 |
| Changes in net assets: | | |
| Employer contributions | \$ | 49,839 |
| Transfers in | | 111,843 |
| Net investment gain | | 17,294 |
| Benefits paid to participants | | (10,731) |
| (Increase) in diversification adjustment (Note 4) | | (30,990) |
| Other | | (4,217) |
| | | |
| Net | \$ | 133,038 |

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VERIZON BUSINESS SAVINGS PLAN

Notes to Financial Statements

December 31, 2006

NOTE 4 VESTING AND CONTRIBUTIONS

A participant shall be fully vested in the employer-matching contributions allocated to their account or ESOP account and any income thereon, upon completing three years of vesting service or upon their death, disability, retirement from Verizon or a Participating Affiliate, attainment of normal retirement age, or involuntary termination.

A terminated employee's non-vested employer matching contributions are forfeited and offset against subsequent employer matching contributions to the Plan.

The Plan is funded by employee contributions up to a maximum of 16% of compensation and by employer-matching contributions in shares of Verizon common stock, equivalent in value to 100% of the initial 6%, of the participants' contributions of eligible compensation for each payroll period. In addition, the Company may make a discretionary, performance-based contribution to the Plan in an amount up to 50% of the employee's matched contributions for the Plan year. Employees attaining the age of 50 or older, can elect to make additional before-tax catch-up contributions to the Plan.

Participant contributions may be from before tax (Elective Contributions) or from currently taxed compensation (After-Tax Contributions). Each participant's Elective Contributions for the 2006 Plan year were limited to \$15,000. The total amount of Elective Contributions, After-Tax Contributions and matching contributions and certain forfeitures that may be allocated to a Plan participant was limited to the lesser of (1) \$44,000 or (2) 100% of the participant's total compensation; and the compensation on which such contributions were based was limited to \$220,000. The elective deferral limit increases by \$5,000 for participants eligible to make catch-up contributions.

Employer matching contributions are made in Verizon common stock and, in general, participants cannot redirect these shares into other investment choices. The Verizon common stock is held by the Plan in a unitized fund, which means participants do not actually own shares of Verizon common stock but rather own an interest in the unitized funds.

In Note 3, the Diversification Adjustment reflects the employer matching contributions that a participant may elect to transfer into any investment option available under the Plan, subject to the provisions of the Plan Document. Participants age 50 and older with one year of service are permitted to redirect up to 50% of these employer matching contributions (100% after attaining age 55).

For the 2006 Plan year, total company matching contributions of 1.5 million shares of Verizon common stock were made with a fair value at date of contribution of \$50 million. A discretionary match was made in the amount of \$16 million.

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VERIZON BUSINESS SAVINGS PLAN

Notes to Financial Statements

December 31, 2006

NOTE 5 RELATED PARTY TRANSACTIONS

Verizon Investment Management Corp. (VIMCO), a wholly owned subsidiary of Verizon, is the investment advisor for certain investment funds and therefore qualifies as a party-in-interest. VIMCO received no compensation from the Plan other than reimbursement of certain expenses directly attributable to its investment advisory and investment management services rendered to the Plan.

NOTE 6 INCOME TAX STATUS

The Plan is intended to be a tax qualified 401(k) plan under section 401(a) of the Internal Revenue Code (the Code). The Company will request an IRS determination letter to this effect within the time limits established for such requests. The Plan administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes the Plan is tax-qualified and the related trust is tax-exempt.

NOTE 7 INVESTMENTS IN MASTER TRUSTS

Investments in securities traded on national and foreign securities exchanges are valued at the last reported sale prices on the last business day of the year or, if no sales were reported on that date, at the last reported bid prices. Over-the-counter securities and government obligations are valued at the bid prices or the average of the bid and ask prices on the last business day of the year from published sources where available or, if not available, from other sources considered reliable, generally broker quotes. Temporary cash investments are stated at redemption value, which approximates fair value.

Forward currency and index futures are accounted for as contractual commitments on a trade-date basis and are carried at fair value derived from their respective price prevailing on the last business day of the year. Foreign exchange rates and index futures prices are readily available from published sources.

At December 31, 2006, the Master Trust contained certain investments in futures and forwards contracts that are considered derivative investments. However, the total fair value and the net investment income or loss are not material to the Plan.

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VERIZON BUSINESS SAVINGS PLAN

Notes to Financial Statements

December 31, 2006

NOTE 7 INVESTMENTS IN MASTER TRUSTS *(continued)*

A portion of certain funds in the Master Trust is invested in synthetic wrap investment contracts (wrap contract) held with five insurance companies and banks. In a typical wrap contract, the wrap issuer agrees to pay the fund the difference between the contract value and the fair value of the covered assets once the fair value has been totally exhausted. Though relatively unlikely, this could happen if the fund experiences significant redemptions during a time when the fair value of the fund's covered assets is below their contract value and fair value is ultimately reduced to zero. Standard & Poor's, as of December 31, 2006 rated the issuers of these contracts and the contracts underlying the securities AA- or better.

Contract value represents contributions made under the contracts, plus accrued interest, less withdrawals and administrative expenses. The contracts are included in the Master Trust assets at contract value, which, as reported by the insurance companies and banks, was approximately \$2.1 million at December 31, 2006.

Certain events limit the ability of the Plan to transact at contract value with the issuer. These events include: (1) substantive modification of the Plan, including complete or partial plan termination or merger with another plan; (2) any change in law, regulation, or administrative ruling that could have a material adverse effect on the fund's cashflow; (3) the Plan's failure to qualify under section 401(k) of the Internal Revenue Code; and (4) bankruptcy of the plan sponsor or other plan sponsor events which cause a significant withdrawal from the Plan. The Plan Administrator does not believe the occurrence of any such event is probable at this time.

Wrap contracts accrue interest using a formula called the crediting rate. Wrap contracts use the crediting rate formula to convert market changes in the covered assets into income distributions in order to minimize the difference between the fair and contract value over time. The crediting rate is reset quarterly and has a floor rate of zero.

The contracts had an average yield of 4.35% at December 31, 2006. The crediting interest rate for the wrap contracts was 4.57% at December 31, 2006. No valuation reserve was recorded, or is deemed necessary, at December 31, 2006 to adjust contract amounts.

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Notes to Financial Statements

December 31, 2006

NOTE 7 INVESTMENTS IN MASTER TRUSTS (continued)

The following schedules reflect the Master Trust net investments by investment type as of December 31, 2006 and investment income (loss) for the year ended December 31, 2006 (in thousands):

| | Investments in Master Trust (at fair value) | Net Investment Income (Loss) In Master Trust | |
|------------------------------|---|---|--------------------------------|
| | | Year Ended December 31, 2006 Net | |
| | December 31, 2006 | Interest & Dividends | Appreciation (Depreciation) |
| Verizon common stock | \$ 5,868,870 | \$ 34,077 | \$ 1,355,892 |
| Investment contracts | 2,128,490 | | 38,649 |
| Commingled funds | 4,957,518 | | 718,911 |
| Mutual funds | 2,683,564 | 239,816 | 73,929 |
| Money market fund | 235,023 | 29,481 | |
| Common stock | 559,610 | 208,922 | 16,935 |
| Participant loans | 580,069 | 30,874 | |
| Fixed income | 123,993 | | 4,582 |
| Total | 17,137,137 | | |
| Adjustment to contract value | 18,771 | | |
| Total investments | \$ 17,155,908 | \$ 543,170 | \$ 2,208,898 |

The Mellon Fund is primarily comprised of common stock with a fair value at December 31, 2006 of approximately \$258 million. The Mellon Fund had dividend and interest earnings of approximately \$5 million and a net investment gain of approximately \$51 million for the year.

The Plan's interest in the carrying value of the Master Trust and Mellon Fund and the related investment income (loss) are reported in the investment in Master Trusts in the statements of net assets available for benefits and net investment income (loss) in the statement of changes in net assets available for benefits, respectively.

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Notes to Financial Statements

December 31, 2006

NOTE 8 SUBSEQUENT EVENTS

Effective January 1, 2007 several enhancements were made to the Plan. These include: (1) employer matching contributions are made 50% in cash and 50% in employer stock; (2) a Roth 401(k) feature is available; (3) increased opportunity to diversify matching contributions made in Company stock; (4) additional investment options are available and (5) the allowable contribution percentage for non-highly compensated employees will be increased to 25%. In addition, as of January 1, 2007, additional investments in five retail mutual funds offered by the Plan were no longer permitted. The frozen funds will remain open throughout 2007. Participants can move money out of a frozen option at any time.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Verizon Employee Benefits Committee has duly caused this annual report to be signed by the undersigned thereunto duly authorized.

VERIZON BUSINESS SAVINGS PLAN

By: /s/ Robert A. Toohey
Robert A. Toohey
(Senior Vice-President Human Resources)
Date: June 28, 2007