

Verizon North Inc.

Condensed Financial Statements
Three Months Ended March 31, 2009 and 2008

Verizon North Inc.

CONDENSED STATEMENTS OF INCOME

(Dollars in Millions) (Unaudited)	Three Months Ended March 31,	
	2009	2008
Operating Revenues		
(including \$273 and \$286 from affiliates)	\$ 732	\$ 786
Operating Expenses		
(including \$108 and \$98 to affiliates)		
Cost of services and sales (exclusive of items shown below)	148	177
Selling, general and administrative expense	113	112
Depreciation and amortization expense	246	257
Total Operating Expenses	507	546
Operating Income	225	240
Other income and (expense), net		
(including \$(1) and \$(---) to affiliates)	1	1
Interest expense		
(including \$(9) and \$(8) to affiliates)	(16)	(23)
Income Before Provision for Income Taxes	210	218
Provision for income taxes	(73)	(83)
Net Income	\$ 137	\$ 135

See Notes to Condensed Financial Statements

Verizon North Inc.

CONDENSED BALANCE SHEETS

(Dollars in Millions) (Unaudited)	At March 31, 2009	At December 31, 2008
Assets		
Current assets		
Short-term investments	\$ 4	\$ 20
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of \$29 and \$28	209	237
Affiliates	190	176
Materials and supplies	15	12
Prepaid expenses	13	8
Deferred income taxes	44	38
Deferred charges and other	44	48
Total current assets	<u>519</u>	<u>539</u>
Plant, property and equipment	11,260	11,259
Less accumulated depreciation	<u>8,437</u>	<u>8,373</u>
	<u>2,823</u>	<u>2,886</u>
Intangible assets, net	1,553	1,686
Prepaid pension asset	2,482	2,456
Other assets	28	30
Total assets	<u>\$ 7,405</u>	<u>\$ 7,597</u>
Liabilities and Shareowner's Investment		
Current liabilities		
Debt maturing within one year:		
Notes payable to affiliate	\$ 2,046	\$ 1,979
Other	200	---
Accounts payable and accrued liabilities:		
Affiliates	255	260
Other	344	223
Other current liabilities	<u>169</u>	<u>188</u>
Total current liabilities	<u>3,014</u>	<u>2,650</u>
Long-term debt	198	397
Employee benefit obligations	1,032	1,021
Deferred credits and other liabilities		
Deferred income taxes	1,533	1,564
Other	<u>80</u>	<u>104</u>
	<u>1,613</u>	<u>1,668</u>
Shareowner's investment		
Common stock (one share, without par value)	978	978
Contributed capital	478	838
Reinvested earnings	<u>92</u>	<u>45</u>
Total shareowner's investment	<u>1,548</u>	<u>1,861</u>
Total liabilities and shareowner's investment	<u>\$ 7,405</u>	<u>\$ 7,597</u>

See Notes to Condensed Financial Statements

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CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in Millions) (Unaudited)	Three Months Ended March 31,	
	2009	2008
Net Cash Provided by Operating Activities	\$ 414	\$ 393
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	(46)	(69)
Purchase of non-network software from affiliates	---	(20)
Net change in short-term investments	16	15
Net cash used in investing activities	(30)	(74)
Cash Flows from Financing Activities		
Principal repayment of borrowings	---	(1)
Change in notes payable to affiliate	67	(14)
Dividends paid	(90)	(303)
Net change in outstanding checks drawn on controlled disbursement accounts	(1)	(1)
Return of capital to parent	(360)	---
Net cash used in financing activities	(384)	(319)
Net change in cash	---	---
Cash, beginning of period	---	---
Cash, end of period	\$ ---	\$ ---

See Notes to Condensed Financial Statements

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NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation and Recent Accounting Pronouncements

Verizon North Inc. (Verizon North or the Company) is a wholly owned subsidiary of GTE Corporation (GTE), which is a wholly owned subsidiary of Verizon Communications Inc. (Verizon). The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim periods. These condensed financial statements reflect all adjustments that are necessary for a fair presentation of results of operations and financial position for the interim periods shown including normal recurring accruals and other items. The results for the interim periods are not necessarily indicative of results for the full year. The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. For a more complete discussion of significant accounting policies and certain other information, you should refer to our December 31, 2008 audited financial statements.

In April 2009, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) FAS No. 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1), which amends Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about the fair value of financial instruments for interim reporting periods, as well as annual reporting periods. FSP FAS 107-1 and APB 28-1 are effective for all interim and annual reporting periods ending after June 15, 2009 and shall be applied prospectively. We do not expect that the adoption of FSP FAS 107-1 and APB 28-1 will have a significant impact on our condensed financial statements.

2. Shareowner's Investment

(Dollars in Millions)	Common Stock	Contributed Capital	Reinvested Earnings
Balance at December 31, 2008	\$ 978	\$ 838	\$ 45
Net income	---	---	137
Dividends paid	---	---	(90)
Return of capital	---	(360)	---
Balance at March 31, 2009	\$ 978	\$ 478	\$92

Net income and comprehensive income were the same for the three months ended March 31, 2009 and 2008, respectively.

3. Commitments and Contingencies

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

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

Verizon North Inc.

4. Subsequent Events

Telephone Access Lines Spin-off

On May 13, 2009, Verizon announced a definitive agreement with Frontier Communications Corporation (Frontier) providing for Verizon to establish a separate entity, known as New Communications Holdings Inc. (Spinco), for its local exchange and related business assets in 14 states. At the closing of this transaction, Verizon will distribute all of the outstanding shares of Spinco to Verizon's stockholders, and then Spinco will immediately merge with and into Frontier (the Frontier Merger).

Prior to the closing of the Frontier Merger, Verizon North will transfer its assets to other Verizon subsidiaries except for those assets associated with its local wireline operating territories in Illinois, Indiana, Michigan, Ohio and Wisconsin. Verizon North will then become a wholly owned subsidiary of Spinco, and Verizon North will become a wholly owned subsidiary of Frontier at the closing of the Frontier Merger. The local exchange and business assets that will be retained by Verizon North at the closing of the Frontier Merger will be included in Verizon North's continuing operations and comprise approximately 84% of Verizon North's access lines, 65% of total assets and 66% of total revenues as of and for the year ended December 31, 2008.

All outstanding long-term debt of Verizon North will continue to remain the obligation of Verizon North and be payable by Verizon North in accordance with its terms both prior to and following the Frontier Merger. All inter-company debt between Verizon North and Verizon or any of its subsidiaries will be eliminated prior to the closing of the Frontier Merger.

The Frontier Merger is subject to the satisfaction of certain conditions, including receipt of state and federal telecommunications regulatory approvals. We anticipate that the Frontier Merger will close in mid-2010.

Return of Capital

On May 1, 2009, we declared a dividend in the amount of \$169 million to our parent, GTE.