

**Verizon North Inc.**  
(Now known as Frontier North Inc.)

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Condensed Financial Statements  
Three and Six Months Ended June 30, 2010 and 2009

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Verizon North Inc.

CONDENSED STATEMENTS OF INCOME

(dollars in millions) (unaudited)	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Operating Revenues</b> (including \$243, \$257, \$486 and \$530 from affiliates)	\$ 648	\$ 713	\$ 1,299	\$ 1,445
<b>Operating Expenses</b> (including \$117, \$131, \$245, and \$239 to affiliates)				
Cost of services and sales (exclusive of items shown below)	197	160	428	308
Selling, general and administrative expense	108	229	234	342
Depreciation and amortization expense	213	246	427	492
<b>Total Operating Expenses</b>	<b>518</b>	<b>635</b>	<b>1,089</b>	<b>1,142</b>
<b>Operating Income</b>	<b>130</b>	<b>78</b>	<b>210</b>	<b>303</b>
Other income and (expense), net (including \$---, \$1, \$---, \$2 to affiliates)	---	1	---	2
Interest expense (including \$(4), \$(6), \$(8) and \$(15) to affiliates)	(8)	(14)	(17)	(29)
<b>Income Before Income Taxes</b>	<b>122</b>	<b>65</b>	<b>193</b>	<b>276</b>
Provision for income taxes	(44)	(24)	(102)	(97)
<b>Net Income</b>	<b>\$ 78</b>	<b>\$ 41</b>	<b>\$ 91</b>	<b>\$ 179</b>

See Notes to Condensed Financial Statements

Verizon North Inc.

CONDENSED BALANCE SHEETS

(dollars in millions) (unaudited)	At June 30, 2010	At December 31, 2009
<b>Assets</b>		
Current assets		
Notes receivable from affiliate	\$ 356	\$ ---
Accounts receivable:		
Trade and other, net of allowances for uncollectible of \$20 and \$25	194	204
Affiliates	108	174
Prepaid expenses	4	6
Deferred income taxes	22	29
Deferred charges and other	29	41
Total current assets	<u>713</u>	<u>454</u>
Plant, property and equipment	11,322	11,286
Less accumulated depreciation	8,764	8,629
	<u>2,558</u>	<u>2,657</u>
Intangible assets, net	947	1,163
Prepaid pension assets	2,136	2,244
Other assets	57	52
Total assets	<u>\$ 6,411</u>	<u>\$ 6,570</u>
<b>Liabilities and Shareowner's Investment</b>		
Current liabilities		
Debt maturing within one year:		
Notes payable to affiliate	\$ ---	\$ 2,184
Other	---	200
Accounts payable and accrued liabilities:		
Affiliates	56	194
Other	350	148
Other current liabilities	106	112
Total current liabilities	<u>512</u>	<u>2,838</u>
Long-term debt	200	200
Employee benefit obligations	1,070	1,072
Deferred credits and other liabilities:		
Deferred income taxes	1,202	1,334
Other	109	149
	<u>1,311</u>	<u>1,483</u>
Shareowner's investment		
Common stock (one share, without par value)	978	978
Contributed capital	2,264	14
Reinvested earnings (Accumulated deficit)	76	(15)
Total shareowner's investment	<u>3,318</u>	<u>977</u>
Total liabilities and shareowner's investment	<u>\$ 6,411</u>	<u>\$ 6,570</u>

See Notes to Condensed Financial Statements

**Verizon North Inc.**

**CONDENSED STATEMENTS OF CASH FLOWS**

(dollars in millions) (unaudited)	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 629</b>	<b>\$ 502</b>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures (including capitalized software)	(99)	(98)
Net change in short-term investments	---	20
Net change in notes receivable from affiliate	(356)	---
Other, net	(41)	(1)
Net cash used in investing activities	(496)	(79)
<b>Cash Flows from Financing Activities</b>		
Principal repayment of borrowings	(200)	---
Net change in short-term notes payable to affiliate	(2,184)	197
Dividends paid	---	(219)
Net change in outstanding checks drawn on controlled disbursement accounts	1	(2)
Capital contribution from parent	2,250	---
Return of capital to parent	---	(399)
Net cash used in financing activities	(133)	(423)
Net change in cash	---	---
Cash, beginning of period	---	---
Cash, end of period	\$ ---	\$ ---

See Notes to Condensed Financial Statements

## Verizon North Inc.

### NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

#### 1. Basis of Presentation and Recent Accounting Standard Updates

As of June 30, 2010, Verizon North Inc. (Verizon North or the Company) was 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. We have evaluated subsequent events through July 1, 2010, at which time the Company became a subsidiary of Frontier Communications Corporation (Frontier). The results for the interim periods are not necessarily indicative of results for the full year. The balance sheet at December 31, 2009 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, 2009 audited financial statements.

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

##### *Recent Accounting Standards*

In September 2009, the accounting standard update regarding revenue recognition for multiple deliverable arrangements was issued. This update requires the use of the relative selling price method when allocating revenue in these types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. This standard update is effective January 1, 2011 and may be adopted prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. We are currently evaluating the impact that this standard update will have on our financial statements.

In September 2009, the accounting standard update regarding revenue recognition for arrangements that include software elements was issued. This update requires tangible products that contain software and non-software elements that work together to deliver the products' essential functionality to be evaluated under the accounting standard regarding multiple deliverable arrangements. This standard update is effective January 1, 2011 and may be adopted prospectively for revenue arrangements entered into or materially modified after the date of adoption or retrospectively for all revenue arrangements for all periods presented. We are currently evaluating the impact that this standard update will have on our financial statements.

#### 2. Telephone Access Lines Spin-off

On May 13, 2009, Verizon announced a definitive agreement with Frontier that resulted in Verizon establishing a separate entity, known as New Communications Holdings Inc. (Spinco), for the purpose of holding defined assets and liabilities of Verizon's local exchange business and related landline activities in 13 states and portions of California. On July 1, 2010, the Company became a subsidiary of Spinco, Verizon distributed all of the outstanding shares of Spinco to Verizon's stockholders, and Spinco merged with and into Frontier (the Frontier Merger).

Prior to the closing of the Frontier Merger, Verizon North transferred its assets to other Verizon subsidiaries except for those assets associated with its local exchange business and related landline activities in Illinois, Indiana, Michigan, Ohio and Wisconsin. As a result of the Frontier Merger, the Company became a wholly owned subsidiary of Frontier. Frontier subsequently changed the name of the Company to Frontier North Inc. The local exchange business and related landline assets that were retained by Verizon North at the closing of the Frontier Merger comprised approximately 83% of the Company's access lines, 69% of total assets and 67% of total revenues as of and for the year ended December 31, 2009.

All outstanding long-term debt of the Company prior to the Frontier merger remained the obligation of the Company following the Frontier Merger and is payable by the Company in accordance with its terms. All intercompany debt between the Company and Verizon or any of its subsidiaries was eliminated prior to the closing of the Frontier Merger.

During the three and six months ended June 30, 2010, Verizon recorded charges of \$195 million and \$340 million for costs incurred related to network, non-network software and other activities to enable the markets to be divested to operate on a

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stand-alone basis subsequent to the closing of the transaction with Frontier. Of this amount, we recorded \$12 million and \$18 million, respectively.

### 3. Shareowner's Investment

(dollars in millions)	Common Stock	Contributed Capital	Reinvested Earnings (Accumulated Deficit)
Balance at December 31, 2009	\$ 978	\$ 14	\$ (15)
Capital contribution from parent	---	2,250	---
Net income	---	---	91
Balance at June 30, 2010	\$ 978	\$ 2,264	\$ 76

Net income and comprehensive income were the same for the three and six months ended June 30, 2010 and 2009, respectively.

During the second quarter, Verizon North received a \$2,250 million capital contribution from its parent corporation. This capital contribution was used by the Company to reduce the principal amount outstanding under its short-term notes payable to affiliate.

### 4. Debt

During the six months ended June 30, 2010, a \$200 million 6.375% twelve year debenture matured and was repaid.

#### *Fair Value of Debt*

The fair value of our short-term and long-term debt, excluding capital leases, is determined based on market quotes for similar terms and maturities or future cash flows discounted at current rates. The fair value of our long-term and short-term debt excluding capital leases was approximately \$200 million and \$2,583 million at June 30, 2010 and December 31, 2009, respectively, as compared to the carrying value of approximately \$200 million and \$2,584 million at June 30, 2010 and December 31, 2009, respectively. The decrease in the carrying value of our long-term and short-term debt, excluding capital leases, was primarily due to the decrease in notes payable to affiliates and the repayment of the debenture.

### 5. 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.

### 6. Other Items

#### *Medicare Part D Subsidy*

Under the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, both of which became law in March 2010 (collectively the Health Care Act), beginning in 2013, Verizon and other companies that receive a subsidy under Medicare Part D to provide retiree prescription drug coverage will no longer receive a federal income tax deduction for the expenses incurred in connection with providing the subsidized coverage to the extent of the subsidy received. Because future anticipated retiree prescription drug plan liabilities and related subsidies are already reflected in our financial statements, this change requires us to reduce the value of the related tax benefits recognized in our

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financial statements in the period during which the Health Care Act was enacted. As a result, we recorded a one-time, non-cash income tax charge of \$32 million in the first quarter of 2010 to reflect the impact of this change.

*Severance, Pension and Benefit Charges*

During the three and six months ended June 30, 2010, we recorded non-cash pension settlement losses of \$46 million and \$158 million, respectively, related to employees that received lump-sum distributions, primarily resulting from our previously announced separation plans in which prescribed payment thresholds were reached.