Verizon Pennsylvania Inc.

Condensed Consolidated Financial Statements
Three and Nine Months Ended September 30, 2010 and 2009

Verizon Pennsylvania Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars in millions) (unaudited)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating Revenues				
(including $81, $82, $240 and $258 from affiliates)	**$ 799**	$ 816	**$ 2,395**	$ 2,452
Operating Expenses				
(including $249, $343, $867, and $1,027 to affiliates)				
Cost of services and sales (exclusive of items shown below)	**371**	305	**1,148**	888
Selling, general and administrative expense	**218**	280	**776**	805
Depreciation and amortization expense	**162**	156	**473**	456
Total Operating Expenses	**751**	741	**2,397**	2,149
Operating Income (Loss)	**48**	75	**(2)**	303
Other income and (expense), net				
(including $1, $---, $4 and $3 from affiliates)	**-**	-	**3**	3
Interest expense				
(including $(29), $(21), $(80) and $(58) to affiliates)	**(44)**	(36)	**(125)**	(107)
Income (Loss) Before Income Taxes	**4**	39	**(124)**	199
(Provision) benefit for income taxes	**(5)**	(16)	**26**	(77)
Net Income (Loss)	**$ (1)**	$ 23	**$ (98)**	$ 122

See Notes to Condensed Consolidated Financial Statements

Verizon Pennsylvania Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(dollars in millions) (unaudited)	At September 30, 2010	At December 31, 2009
Assets		
Current assets		
Notes receivable from affiliates	**$ 1,048**	$ 522
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of $46 and $52	**413**	441
Affiliates	**175**	141
Prepaid expenses	**188**	16
Deferred income taxes	**59**	59
Deferred charges and other	**43**	73
Total current assets	**1,926**	1,252
Plant, property and equipment	**15,431**	15,119
Less accumulated depreciation	**10,436**	10,091
	4,995	5,028
Intangible assets, net	**15**	15
Prepaid pension asset	**624**	731
Other assets	**82**	104
Total assets	**$ 7,642**	$ 7,130
Liabilities and Shareowner's Investment		
Current liabilities		
Debt maturing within one year:		
Notes payable to affiliates	**$ 1,989**	$ 1,604
Other	**3**	3
Accounts payable and accrued liabilities:		
Affiliates	**317**	304
Other	**134**	137
Other current liabilities	**169**	203
Total current liabilities	**2,612**	2,251
Long-term debt	**1,460**	1,473
Employee benefit obligations	**1,421**	1,320
Deferred credits and other liabilities:		
Deferred income taxes	**725**	583
Unamortized investment tax credits	**14**	14
Other	**261**	242
	1,000	839
Shareowner's investment		
Common stock - $20 par value per share	**1,222**	1,222
Authorized shares: 80,210,000		
Outstanding shares: 79,732,681		
Reinvested earnings (accumulated deficit)	**(73)**	25
Total shareowner's investment	**1,149**	1,247
Total liabilities and shareowner's investment	**$ 7,642**	$ 7,130

See Notes to Condensed Consolidated Financial Statements

Verizon Pennsylvania Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in millions) (unaudited)	Nine Months Ended September 30, 2010	2009
Net Cash Provided by Operating Activities	**$ 540**	$ 570
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	**(408)**	(570)
Net change in short-term investments	**---**	15
Net change in notes receivable from affiliates	**(526)**	2
Other, net	**11**	1
Net cash used in investing activities	**(923)**	(552)
Cash Flows from Financing Activities		
Principal repayment of borrowings and capital lease obligations	**(3)**	(2)
Net change in short-term notes payable to affiliate	**385**	325
Dividends paid	**---**	(340)
Net change in outstanding checks drawn on controlled disbursement accounts	**1**	(1)
Net cash provided by (used in) financing activities	**383**	(18)
Net change in cash	**---**	---
Cash, beginning of period	**---**	---
Cash, end of period	**$ ---**	$ ---

See Notes to Condensed Consolidated Financial Statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation and Recent Accounting Standard Updates

Verizon Pennsylvania Inc. (Verizon Pennsylvania or the Company) is a wholly owned subsidiary of Verizon Communications Inc. (Verizon). The unaudited condensed consolidated financial statements include the accounts of Verizon Pennsylvania Inc. and its 95.34% owned subsidiary, Verizon Online Pennsylvania Partnership, a venture that is jointly owned by Verizon Pennsylvania and Verizon North Inc. The accompanying unaudited condensed consolidated 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. All significant intercompany accounts and transactions have been eliminated. We have evaluated subsequent events through November 30, 2010, the date these financial statements were issued. 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 July 2010, the accounting standard update regarding disclosures for finance receivables and allowances for credit losses was issued. This standard update requires that entities disclose information at more disaggregated levels than currently required. We will adopt this standard update during the fourth quarter of 2010. The adoption of this standard update is not expected to have a significant impact on our consolidated financial statements.

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 consolidated 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 consolidated financial statements.

2. Shareowner's Investment

(dollars in millions)	**Common Stock**	**Reinvested Earnings (Accumulated Deficit)**
Balance at December 31, 2009	$ 1,222	$ 25
Net loss	---	(98)
Balance at September 30, 2010	$ 1,222	$ (73)

Net income (loss) and comprehensive income (loss) were the same for the three and nine months ended September 30, 2010 and 2009, respectively.

3. Notes Receivable

The Financial Services agreement between Verizon Network Funding Corp. (VNFC) and us allows VNFC to collect funds on our behalf. These funds are assigned a variable interest rate and demand note basis, therefore, the carrying value of the notes receivable approximates its fair market value. As of September 30, 2010 and December 31, 2009, we had notes receivable in the amount of $1,048 million and $522 million from VNFC, respectively.

4. Fair Value Measurements

Assets measured at fair value on a recurring basis as of September 30, 2010 primarily include derivative contracts totaling $29 million that are comprised of interest rate swaps and are valued using models based on readily observable market parameters for all substantial terms of our derivative contracts and thus are classified within Level 2 and included within Other assets. We use mid-market pricing for fair value measurements of our derivative instruments.

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 $3,540 million and $3,130 million at September 30, 2010 and December 31, 2009, respectively, as compared to the carrying value of approximately $3,442 million and $3,067 million at September 30, 2010 and December 31, 2009, respectively. The increase in the carrying value of our long-term and short-term debt, excluding capital leases, was due to an increase in notes payable to affiliates.

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 required us to reduce the value of the related tax benefits recognized in our 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 $26 million in the first quarter of 2010 to reflect the impact of this change.

Severance, Pension and Benefit Charges

In April 2010, we reached an agreement with certain unions on temporary enhancements to the separation programs contained in their existing collective bargaining agreements. These temporary enhancements were intended to help address a previously declared surplus of employees and to help reduce the need for layoffs. Accordingly, during the three and nine months ended September 30, 2010, we recorded severance, pension and benefits charges of $64 million and $236 million, respectively, primarily associated with the union-represented employees who volunteered for the incentive offer. Included in these charges were non-cash pension settlement losses of $64 million related to employees who received lump-sum

distributions, as well as pension and postretirement curtailment losses of $16 million as workforce reductions caused the elimination of a significant amount of future service requiring us to recognize a portion of prior service costs and actuarial losses. The charges also included $123 million of severance charges and $33 million of special termination benefits for planned workforce reductions.