GTE Southwest Incorporated

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

GTE Southwest Incorporated

CONDENSED STATEMENTS OF INCOME

(Dollars in Millions) (Unaudited)	Three Months Ended March 31, 2009	2008
Operating Revenues		
(including $71 and $66 from affiliates)	**$ 316**	$ 327
Operating Expenses		
(including $89 and $74 to affiliates)		
Cost of services and sales (exclusive of items shown below)	**101**	119
Selling, general and administrative expense	**80**	86
Depreciation expense	**74**	73
Total Operating Expenses	**255**	278
Operating Income	**61**	49
Other income and (expense), net	**---**	1
Interest expense		
(including $(3) and $(9) to affiliates)	**(5)**	(11)
Income Before Provision for Income Taxes	**56**	39
Provision for income taxes	**(15)**	(15)
Net Income	**$ 41**	$ 24

See Notes to Condensed Financial Statements

GTE Southwest Incorporated

CONDENSED BALANCE SHEETS

(Dollars in Millions) (Unaudited)	At March 31, 2009	At December 31, 2008
Assets		
Current assets		
Short-term investments	**$ 2**	$ 13
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of $16 and $17	**143**	145
Affiliates	**30**	23
Materials and supplies	**13**	13
Prepaid expenses	**1**	1
Deferred income taxes	**15**	11
Deferred charges and other	**28**	29
Total current assets	**232**	235
Plant, property and equipment	**6,173**	6,145
Less accumulated depreciation	**3,968**	3,915
	2,205	2,230
Intangible assets, net	**3**	2
Prepaid pension asset	**549**	544
Other assets	**19**	18
Total assets	**$ 3,008**	$ 3,029
Liabilities and Shareowner's Investment		
Current liabilities		
Debt maturing within one year:		
Notes payable to affiliates	**$ 799**	$ 820
Other	**1**	1
Accounts payable and accrued liabilities:		
Affiliates	**78**	90
Other	**115**	97
Other current liabilities	**78**	85
Total current liabilities	**1,071**	1,093
Long-term debt	**101**	102
Employee benefit obligations	**509**	506
Deferred credits and other liabilities		
Deferred income taxes	**261**	245
Other	**35**	53
	296	298
Shareowner's investment		
Common stock (one share, without par value)	**650**	650
Contributed capital	**356**	391
Reinvested Earnings/Accumulated deficit	**25**	(11)
Total shareowner's investment	**1,031**	1,030
Total liabilities and shareowner's investment	**$ 3,008**	$ 3,029

See Notes to Condensed Financial Statements

GTE Southwest Incorporated

CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in Millions) (Unaudited)	Three Months Ended March 31, 2009	2008
Net Cash Provided by Operating Activities	**$ 105**	$ 97
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	**(52)**	(55)
Net change in short-term investments	**11**	9
Net cash used in investing activities	**(41)**	(46)
Cash Flows from Financing Activities		
Change in notes payable to affiliate	**(22)**	(57)
Dividends paid	**(5)**	---
Net change in outstanding checks drawn on controlled disbursement accounts	**(2)**	6
Return of capital to parent	**(35)**	---
Net cash used in financing activities	**(64)**	(51)
Net change in cash	**---**	---
Cash, beginning of period	**---**	---
Cash, end of period	**$ ---**	$ ---

See Notes to Condensed Financial Statements

NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

GTE Southwest Inc. (GTE Southwest 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	Accumulated Deficit/Reinvested Earnings
Balance at December 31, 2008	$ 650	$ 391	$ (11)
Net income	---	---	41
Dividends	---	---	(5)
Return of capital	---	(35)	---
Balance at March 31, 2009	$ 650	$ 356	$ 25

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, including environmental 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.

4. Subsequent Event

On May 1, 2009, we declared a dividend in the amount of $70 million to our parent, GTE.