GTE Southwest Inc.

Condensed Financial Statements
Three and Six Months Ended June 30, 2009 and 2008

GTE Southwest Inc.

CONDENSED STATEMENTS OF OPERATIONS

(dollars in millions) (unaudited)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Operating Revenues				
(including $66, $66, $137 and $132 from affiliates)	**$ 313**	$ 330	**$ 629**	$ 657
Operating Expenses				
(including $113, $87, $202 and $161 to affiliates)				
Cost of services and sales (exclusive of items shown below)	**149**	120	**250**	239
Selling, general and administrative expense	**109**	83	**189**	169
Depreciation expense	**74**	74	**148**	147
Total Operating Expenses	**332**	277	**587**	555
Operating Income (Loss)	**(19)**	53	**42**	102
Other income and (expense), net	**---**	1	**---**	2
Interest expense				
(including $(2), $(6), $(5) and $(15) from affiliates)	**(5)**	(9)	**(10)**	(20)
Income (Loss) Before Income Taxes	**(24)**	45	**32**	84
Income tax benefit (provision)	**7**	(15)	**(8)**	(30)
Net Income (Loss)	**$ (17)**	$ 30	**$ 24**	$ 54

See Notes to Condensed Financial Statements

GTE Southwest Inc.

CONDENSED BALANCE SHEETS

(dollars in millions) (unaudited)	At June 30, 2009	At December 31, 2008
Assets		
Current assets		
Short-term investments	**$ ---**	$ 13
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of $16 and $17	**132**	145
Affiliates	**41**	23
Materials and supplies	**14**	13
Prepaid expenses	**5**	1
Deferred income taxes	**12**	11
Deferred charges and other	**27**	29
Total current assets	**231**	235
Plant, property and equipment	**6,213**	6,145
Less accumulated depreciation	**4,026**	3,915
	2,187	2,230
Intangible assets, net	**3**	2
Prepaid pension asset	**518**	544
Other assets	**23**	18
Total assets	**$ 2,962**	$ 3,029
Liabilities and Shareowner's Investment		
Current liabilities		
Debt maturing within one year:		
Notes payable to affiliates	**$ 889**	$ 820
Other	**1**	1
Accounts payable and accrued liabilities:		
Affiliates	**69**	90
Other	**68**	97
Other current liabilities	**68**	85
Total current liabilities	**1,095**	1,093
Long-term debt	**101**	102
Employee benefit obligations	**507**	506
Deferred credits and other liabilities		
Deferred income taxes	**271**	245
Other	**43**	53
	314	298
Shareowner's investment		
Common stock (one share, without par value)	**650**	650
Contributed capital	**320**	391
Accumulated deficit	**(25)**	(11)
Total shareowner's investment	**945**	1,030
Total liabilities and shareowner's investment	**$ 2,962**	$ 3,029

See Notes to Condensed Financial Statements

GTE Southwest Inc.

CONDENSED STATEMENTS OF CASH FLOWS

(dollars in millions) (unaudited)	Six Months Ended June 30, 2009	2008
Net Cash Provided by Operating Activities	**$ 139**	$ 205
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	**(108)**	(125)
Net change in short-term investments	**13**	30
Other, net	**(1)**	---
Net cash used in investing activities	**(96)**	(95)
Cash Flows from Financing Activities		
Principal repayment of borrowings and capital lease obligations	**---**	(1)
Net change in notes payable to affiliates	**68**	(107)
Dividends paid	**(39)**	---
Net change in outstanding checks drawn on controlled disbursement accounts	**(1)**	(2)
Return of capital to Parent	**(71)**	---
Net cash used in financing activities	**(43)**	(110)
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. 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 August 28, 2009, the date these condensed 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, 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.

The adoption of the following accounting pronouncements during the first six months of 2009 did not result in a significant impact to our condensed financial statements:

On June 15, 2009, we adopted the accounting pronouncement regarding the general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before the financial statements are issued. This pronouncement was effective prospectively for interim and annual reporting periods ending after June 15, 2009.

On June 15, 2009, we adopted the accounting pronouncement that amends the requirements for disclosures about fair value of financial instruments, regarding the fair value of financial instruments for annual, as well as interim, reporting periods. This pronouncement was effective prospectively for all interim and annual reporting periods ending after June 15, 2009.

2. Shareowner's Investment

(dollars in millions)	Common Stock	Contributed Capital	Accumulated Deficit
Balance at December 31, 2008	$ 650	$ 391	$ (11)
Net income	---	---	24
Dividends	---	---	(39)
Return of capital	---	(71)	---
Other	---	---	1
Balance at June 30, 2009	$ 650	$ 320	$ (25)

Net income and comprehensive income were the same for the three and six months ended June 30, 2009 and 2008, respectively.

3. 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 $1,073 million and $937 million at June 30, 2009 and December 31, 2008, respectively, as compared to the carrying value of approximately $1,062 million and $920 million at June 30, 2009 and December 31, 2008, respectively.

4. Pension and Benefit Charges

During the second quarter of 2009, we recorded pension settlement losses of $36 million related to employees that received lump-sum distributions primarily resulting from our previous separation plans in which prescribed payment thresholds have been reached.

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, 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.

6. Subsequent Event

On August 3, 2009, we declared a dividend in the amount of $40 million, which represents return of capital to our parent, GTE.