GTE Southwest Inc.

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

GTE Southwest Inc.

CONDENSED STATEMENTS OF OPERATIONS

(dollars in millions) (unaudited)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Operating Revenues				
(including $77, $66, $152 and $137 from affiliates)	**$ 308**	$ 313	**$ 615**	$ 629
Operating Expenses				
(including $109, $113, $212, and $202 to affiliates)				
Cost of services and sales (exclusive of items shown below)	**125**	149	**246**	250
Selling, general and administrative expense	**71**	109	**141**	189
Depreciation and amortization expense	**70**	74	**137**	148
Total Operating Expenses	**266**	332	**524**	587
Operating Income (Loss)	**42**	(19)	**91**	42
Interest expense				
(including $(1), $(2), $(3) and $(5) to affiliates)	**(4)**	(5)	**(8)**	(10)
Income (Loss) Before Income Taxes	**38**	(24)	**83**	32
(Provision) benefit for income taxes	**(14)**	7	**(43)**	(8)
Net Income (Loss)	**$ 24**	$ (17)	**$ 40**	$ 24

See Notes to Condensed Financial Statements

GTE Southwest Inc.

CONDENSED BALANCE SHEETS

(dollars in millions) (unaudited)	At June 30, 2010	At December 31, 2009
Assets		
Current assets		
Accounts receivable:		
Trade and other, net of allowances for uncollectible of $9 and $13	**$ 138**	$ 143
Affiliates	**23**	27
Prepaid expenses	**76**	1
Deferred income taxes	**7**	8
Deferred charges and other	**21**	31
Total current assets	**265**	210
Plant, property and equipment	**6,282**	6,228
Less accumulated depreciation	**4,206**	4,096
	2,076	2,132
Intangible assets, net	**4**	4
Prepaid pension asset	**510**	502
Other assets	**20**	22
Total assets	**$ 2,875**	$ 2,870
Liabilities and Shareowner's Investment		
Current liabilities		
Debt maturing within one year:		
Notes payable to affiliates	**$ 754**	$ 870
Other	**1**	1
Accounts payable and accrued liabilities:		
Affiliates	**50**	65
Other	**64**	86
Other current liabilities	**63**	63
Total current liabilities	**932**	1,085
Long-term debt	**101**	102
Employee benefit obligations	**588**	588
Deferred credits and other liabilities:		
Deferred income taxes	**382**	274
Other	**56**	45
	438	319
Shareowner's investment		
Common stock (one share, without par value)	**650**	650
Contributed capital	**200**	200
Accumulated deficit	**(34)**	(74)
Total shareowner's investment	**816**	776
Total liabilities and shareowner's investment	**$ 2,875**	$ 2,870

See Notes to Condensed Financial Statements

GTE Southwest Inc.

CONDENSED STATEMENTS OF CASH FLOWS

(dollars in millions) (unaudited)	Six Months Ended June 30, 2010	2009
Net Cash Provided by Operating Activities	**$ 184**	$ 139
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	**(64)**	(108)
Net change in short-term investments	**---**	13
Other, net	**(2)**	(1)
Net cash used in investing activities	**(66)**	(96)
Cash Flows from Financing Activities		
Net change in short-term notes payable to affiliates	**(115)**	68
Dividends paid	**---**	(39)
Net change in outstanding checks drawn on controlled disbursement accounts	**(3)**	(1)
Return of capital to parent	**---**	(71)
Net cash used in financing activities	**(118)**	(43)
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 and Recent Accounting Standard Updates

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. We have evaluated subsequent events through August 27, 2010, 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, 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. Shareowner's Investment

(dollars in millions)	Common Stock	Contributed Capital	Accumulated Deficit
Balance at December 31, 2009	$ 650	$ 200	$ (74)
Net income	---	---	40
Balance at June 30, 2010	$ 650	$ 200	$ (34)

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

3. 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 short-term and long-term debt, excluding capital leases, was approximately $873 million and $985 million at June 30, 2010 and December 31, 2009, respectively, as compared to the carrying value of approximately $854 million and $969 million at June 30, 2010 and December 31, 2009, respectively.

4. 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.

5. 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 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 $11 million in the first quarter of 2010 to reflect the impact of this change.