Verizon California Inc.

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

Verizon California Inc.

CONDENSED STATEMENTS OF INCOME

(Dollars in Millions) (Unaudited)	Three Months Ended March 31, 2009	2008
Operating Revenues		
(including $187 and $174 from affiliates)	**$ 751**	$ 764
Operating Expenses		
(including $158 and $131 to affiliates)		
Cost of services and sales (exclusive of items shown below)	**193**	214
Selling, general and administrative expense	**145**	142
Depreciation expense	**127**	130
Total Operating Expenses	**465**	486
Operating Income	**286**	278
Other income and (expense), net	**---**	2
Interest expense		
(including $(6) and $(13) to affiliates)	**(15)**	(26)
Income Before Provision for Income Taxes	**271**	254
Provision for income taxes	**(101)**	(102)
Net Income	**$ 170**	$ 152

See Notes to Condensed Financial Statements

Verizon California Inc.

CONDENSED BALANCE SHEETS

(Dollars in Millions) (Unaudited)	At March 31, 2009	At December 31, 2008
Assets		
Current assets		
Short-term investments	**$ 4**	$ 11
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of $34 and $34	**341**	366
Affiliates	**68**	28
Materials and supplies	**31**	30
Deferred income taxes	**61**	60
Deferred charges and other	**79**	93
Total current assets	**584**	588
Plant, property and equipment	**13,569**	13,492
Less accumulated depreciation	**9,177**	9,112
	4,392	4,380
Prepaid pension asset	**2,686**	2,655
Other assets	**55**	57
Total assets	**$ 7,717**	$ 7,680
Liabilities and Shareowner's Investment		
Current liabilities		
Debt maturing within one year:		
Notes payable to affiliates	**$ 1,864**	$ 1,592
Other	**300**	525
Accounts payable and accrued liabilities:		
Affiliates	**193**	209
Other	**289**	220
Other current liabilities	**221**	230
Total current liabilities	**2,867**	2,776
Long-term debt	**201**	201
Employee benefit obligations	**729**	720
Deferred credits and other liabilities		
Deferred income taxes	**1,367**	1,301
Other	**79**	114
	1,446	1,415
Shareowner's investment		
Common stock (one share, without par value)	**1,400**	1,400
Contributed capital	**177**	177
Reinvested earnings	**897**	991
Total shareowner's investment	**2,474**	2,568
Total liabilities and shareowner's investment	**$ 7,717**	$ 7,680

See Notes to Condensed Financial Statements

Verizon California Inc.

CONDENSED STATEMENTS OF CASH FLOWS

(Dollars in Millions) (Unaudited)	Three Months Ended March 31, 2009	2008
Net Cash Provided by Operating Activities	**$ 354**	$ 303
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	**(138)**	(142)
Net change in short-term investments	**7**	14
Other, net	**(1)**	---
Net cash used in investing activities	**(132)**	(128)
Cash Flows from Financing Activities		
Repayment of borrowings	**(225)**	---
Change in notes payable to affiliates	**272**	(124)
Dividends paid	**(265)**	(65)
Net change in outstanding checks drawn on controlled disbursement accounts	**(4)**	14
Net cash used in financing activities	**(222)**	(175)
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 Pronouncements

Verizon California Inc. (Verizon California 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	Reinvested Earnings
Balance at December 31, 2008	$ 1,400	$ 177	$ 991
Net income	---	---	170
Dividends paid	---	---	(265)
Other	---	---	1
Balance at March 31, 2009	$ 1,400	$ 177	$ 897

Net income and comprehensive income were the same for the three months ended March 31, 2009 and 2008, respectively.

3. Debt

During the first quarter of 2009, the $225 million 5.50% note matured and was repaid.

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 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. Subsequent Events

Telephone Access Lines Spin-off

On May 13, 2009, Verizon announced a definitive agreement with Frontier Communications Corporation (Frontier) providing for Verizon to establish a separate entity, known as New Communications Holdings Inc. (Spinco), for its local exchange and related business assets in 14 states. At the closing of this transaction, Verizon will distribute all of the outstanding shares of Spinco to Verizon's stockholders, and then Spinco will immediately merge with and into Frontier (the Frontier Merger).

Prior to the closing of the Frontier Merger, Verizon California will transfer the assets associated with its local wireline operating territories in Arizona and Nevada, as well as a small number of exchanges in California bordering Arizona, Nevada and Oregon, to other Verizon subsidiaries which, together with Verizon West Coast Inc. and its access lines bordering Oregon, will then become subsidiaries of Spinco, and, subsequently, Frontier at the closing of the Frontier Merger. The local exchange and business assets that will not be retained by Verizon California at the closing of the Frontier Merger comprised only approximately 1% of Verizon California's access lines and approximately 1% of its total revenues as of and for the year ended December 31, 2008. The long-term debt that was previously issued by Verizon California will not be affected by the Frontier Merger.

The Frontier Merger is subject to the satisfaction of certain conditions, including receipt of state and federal telecommunications regulatory approvals. We anticipate the Frontier Merger will close in mid-2010.

Return of Capital

On May 1, 2009, we declared a dividend in the amount of $265 million to our parent, GTE.

Notes Payable to Affiliates

On April 15, 2009, we entered into an internal fixed rate, five year note with Verizon Investments Inc. for $1 billion. The proceeds of the note were used to paydown our short term debt balance with Verizon Network Funding.