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

CONDENSED STATEMENTS OF INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(dollars in millions) (unaudited)	2009	2008	2009	2008
Operating Revenues				
(including \$183, \$174, \$370, and \$348 from affiliates)	\$ 747	\$ 758	\$ 1,498	\$ 1,522
Operating Expenses				
(including \$204, \$142, \$362 and \$273 to affiliates)				
Cost of services and sales (exclusive of items shown below)	242	195	435	409
Selling, general and administrative expense	289	142	434	284
Depreciation expense	129	131	256	261
Total Operating Expenses	660	468	1,125	954
Operating Income	87	290	373	568
Other income and (expense), net				2
Interest expense				
(including \$(13), \$(10), \$(19) and \$(23) to affiliates)	(21)	(22)	(36)	(48)
Income Before Provision for Income Taxes	66	268	337	522
Provision for income taxes	(25)	(104)	(126)	(206)
Net Income	\$ 41	\$ 164	\$ 211	\$ 316

See Notes to Condensed Financial Statements

CONDENSED BALANCE SHEETS

(dollars in millions) (unaudited)	At June 30, 2009	At December 31, 2008
Assets		
Current assets		
Short-term investments	\$	\$ 11
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of \$33 and \$34	345	366
Affiliates	62	28
Materials and supplies	29	30
Deferred income taxes	52	60
Deferred charges and other	108	93
Total current assets	596	588
Plant, property and equipment	13,652	13,492
Less accumulated depreciation	9,250	9,112
•	4,402	4,380
Prepaid pension asset	2,560	2,655
Other assets	60	57
Total assets	\$ 7,618	\$ 7,680
Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Notes payable to affiliates Other	\$ 925 300	\$ 1,592 525
Accounts payable and accrued liabilities:		
Affiliates	395	209
Other	197	220
Other current liabilities	199	230
Total current liabilities	2,016	2,776
Long-term debt		
Notes payable to affiliates	1,000	
Other	201	201
	1,201	201
Employee benefit obligations	722	720
Deferred credits and other liabilities		
Deferred income taxes	1,332	1,301
Other	97	114
	1,429	1,415
Shareowner's investment		
Common stock (one share, without par value)	1,400	1,400
Contributed capital	177	177
Reinvested earnings	673	991
Total shareowner's investment	2,250	2,568
Total liabilities and shareowner's investment	\$ 7,618	\$ 7,680

See Notes to Condensed Financial Statements

CONDENSED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,		
(dollars in millions) (unaudited)	2009	2008	
Net Cash Provided by Operating Activities	\$ 686	\$ 540	
Cash Flows from Investing Activities			
Capital expenditures (including capitalized software)	(271)	(311)	
Net change in short-term investments	11	45	
Other, net		(1)	
Net cash used in investing activities	(260)	(267)	
Cash Flows from Financing Activities			
Proceeds from long-term notes payable to affiliate	1,000		
Repayment of borrowings	(225)	(100)	
Change in notes payable to affiliates	(667)	22	
Dividends paid	(530)	(192)	
Net change in outstanding checks drawn on controlled disbursement accounts	(4)	(3)	
Net cash used in financing activities	(426)	(273)	
Net change in cash			
Cash, beginning of period			
Cash, end of period	<u> </u>	\$	

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. 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. Telephone Access Lines Spin-off

On May 13, 2009, Verizon announced a definitive agreement with Frontier Communications Corporation (Frontier) that will result in Verizon establishing a separate entity, known as New Communications Holdings Inc. (Spinco), for its local exchange and related business assets in 13 states and parts of California. 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 during the second quarter of 2010.

3. Shareowner's Investment

		Contributed	Reinvested
(dollars in millions)	Common Stock	Capital	Earnings
Balance at December 31, 2008	\$ 1,400	\$ 177	\$ 991
Net income			211
Dividends paid			(530)
Other			1
Balance at June 30, 2009	\$ 1,400	\$ 177	\$ 673

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

4. Debt

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

Notes Payable to Affiliates

On April 15, 2009, we entered into an internal 4.65% fixed rate, five year note with Verizon Investments Inc. for \$1 billion. The proceeds of the note were used to pay down our short-term debt balance with Verizon Network Funding.

Fair Market 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 \$2,416 million and \$2,306 million at June 30, 2009 and December 31, 2008, respectively, as compared to the carrying value of approximately \$2,424 million and \$2,316 million at June 30, 2009 and December 31, 2008, respectively.

5. Pension and Benefit Charges

During the second quarter of 2009, we recorded pension settlement losses of \$158 million related to employees that received lump-sum distributions primarily resulting from our previous separation plans in which prescribed payment thresholds have been reached.

6. 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.

7. Subsequent Event

On August 3, 2009, we declared a dividend in the amount of \$267 million to our parent, GTE.