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

CONDENSED STATEMENTS OF INCOME

		Three Months Ended June 30,			Six Months Ended June 30,	
(dollars in millions) (unaudited)		2010	2009	2010	2009	
Operating Revenues						
(including \$196, \$183, \$384 and \$370 from affiliates)	-\$	721 \$	747 \$	1,446 \$	1,498	
Operating Expenses						
(including \$205, \$204, \$398, and \$362 to affiliates)						
Cost of services and sales (exclusive of items shown below)		230	242	453	435	
Selling, general and administrative expense		126	289	266	434	
Depreciation and amortization expense		124	129	248	256	
Total Operating Expenses		480	660	967	1,125	
Operating Income		241	87	479	373	
Interest expense						
(including \$(15), \$(13), \$(30) and \$(19) to affiliates)		(18)	(21)	(36)	(36)	
Income Before Provision for Income Taxes		223	66	443	337	
Provision for income taxes		(91)	(25)	(209)	(126)	
Net Income	\$	132 \$	41 \$	234 \$	211	

CONDENSED BALANCE SHEETS

(dollars in millions) (unaudited)	At June 30, 2010	
Assets		
Current assets		
Accounts receivable:		
Trade and other, net of allowances for uncollectibles of \$30 and \$33	\$ 352	\$ 366
Affiliates	69	70
Prepaid expenses	11	
Deferred income taxes	48	48
Deferred charges and other	62	86
Total current assets	542	570
Plant, property and equipment	13,960	13,846
Less accumulated depreciation	9,570	9,410
•	4,390	4,436
Prepaid pension asset	2,587	2,535
Other assets	60	64
Total assets	\$ 7,579	\$ 7,605
Liabilities and Shareowner's Investment Current liabilities Debt maturing within one year: Notes payable to affiliates Other Accounts payable and accrued liabilities:	\$ 171 1	\$ 1,895
Affiliates	121	155
Other	172	166
Other current liabilities	186	186
Total current liabilities	651	2,402
Long-term debt		
Note payable to affiliate	1,000	1,000
Other	200	201
Employee benefit obligations	792	802
Deferred credits and other liabilities:		
Deferred income taxes	1,543	1,355
Other	122	108
	1,665	1,463
Shareowner's investment		
Common stock (one share, without par value)	1,400	1,400
Contributed capital	1,477	177
Reinvested earnings	394	160
Total shareowner's investment	3,271	1,737
Total liabilities and shareowner's investment	\$ 7,579	\$ 7,605

CONDENSED STATEMENTS OF CASH FLOWS

	Six Months	Six Months Ended June 30,			
(dollars in millions) (unaudited)	2010	2009			
Net Cash Provided by Operating Activities	\$ 604	\$ 686			
Cash Flows from Investing Activities					
Capital expenditures (including capitalized software)	(176)	(271)			
Net change in short-term investments		11			
Other, net	(2)				
Net cash used in investing activities	(178)	(260)			
Cash Flows from Financing Activities					
Proceeds from long-term notes payable to affiliate		1,000			
Repayment of borrowings		(225)			
Net change in short-term notes payable to affiliates	(1,724)	(667)			
Dividends paid		(530)			
Capital contribution from parent	1,300				
Net change in outstanding checks drawn on controlled disbursement accounts	(2)	(4)			
Net cash used in financing activities	(426)	(426)			
Net change in cash					
Cash, beginning of period					
Cash, end of period	\$	\$			

NOTES TO CONDENSED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation and Recent Accounting Standard Updates

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 27, 2010, the date these 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. Telephone Access Lines Spin-off

On May 13, 2009, Verizon announced a definitive agreement with Frontier Communications Corporation (Frontier) that resulted in Verizon establishing a separate entity, known as New Communications Holdings Inc. (Spinco), for the purpose of holding defined assets and liabilities of Verizon's local exchange business and related landline activities in 13 states and portions of California. On July 1, 2010, after receiving regulatory approval, Verizon completed the spin-off of the shares of Spinco to Verizon stockholders and the merger of Spinco with Frontier.

Prior to the closing of the Frontier Merger, Verizon California transferred the assets associated with its local exchange business and related landline activities in Arizona and Nevada, as well as in portions of California bordering Arizona, Nevada and Oregon, to a Verizon subsidiary which then became a subsidiary of Spinco, and, subsequently, Frontier at the closing of the Frontier Merger. The local exchange business and related landline assets that were not retained by Verizon California at the closing of the Frontier Merger comprised approximately 1% of Verizon California's total revenues and approximately 2% of its operating income for the year ended December 31, 2009. The long-term debt that was previously issued by Verizon California was not affected by the Frontier Merger and remains the obligation of Verizon California.

During the three and six months ended June 30, 2010, Verizon recorded charges of \$195 million and \$340 million, of which \$0.4 million and \$0.5 million were attributable to Verizon California, for costs incurred related to network, nonnetwork software and other activities to enable the markets to be divested to operate on a stand-alone basis subsequent to the closing of the transaction with Frontier.

3. Shareowner's Investment

	Common	Contributed	Reinvested
(dollars in millions)	Stock	Capital	Earnings
Balance at December 31, 2009	\$ 1,400	\$ 177	\$ 160
Net income			234
Capital contribution from parent		1,300	
Balance at June 30, 2010	\$ 1,400	\$ 1,477	\$ 394

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

During the second quarter, Verizon California received a \$1.3 billion capital contribution from its parent corporation. This capital contribution was used by the Company to reduce the principal amount outstanding under its short-term notes payable to affiliates.

4. 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 \$1,379 million and \$3,093 million at June 30, 2010 and December 31, 2009, respectively, as compared to the carrying value of approximately \$1,370 million and \$3,094 million at June 30, 2010 and December 31, 2009, respectively. The decrease in the fair value and carrying value of our long-term and short-term debt, excluding capital leases, was due to a decrease in notes payable to affiliates.

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 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. 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 \$31 million in the first quarter of 2010 to reflect the impact of this change.