

Just Say "No" to Pay for Failure at Verizon Communications

AFL-CIO Office of Investment
BellTel Retirees
Communications Workers of America Research Dept.

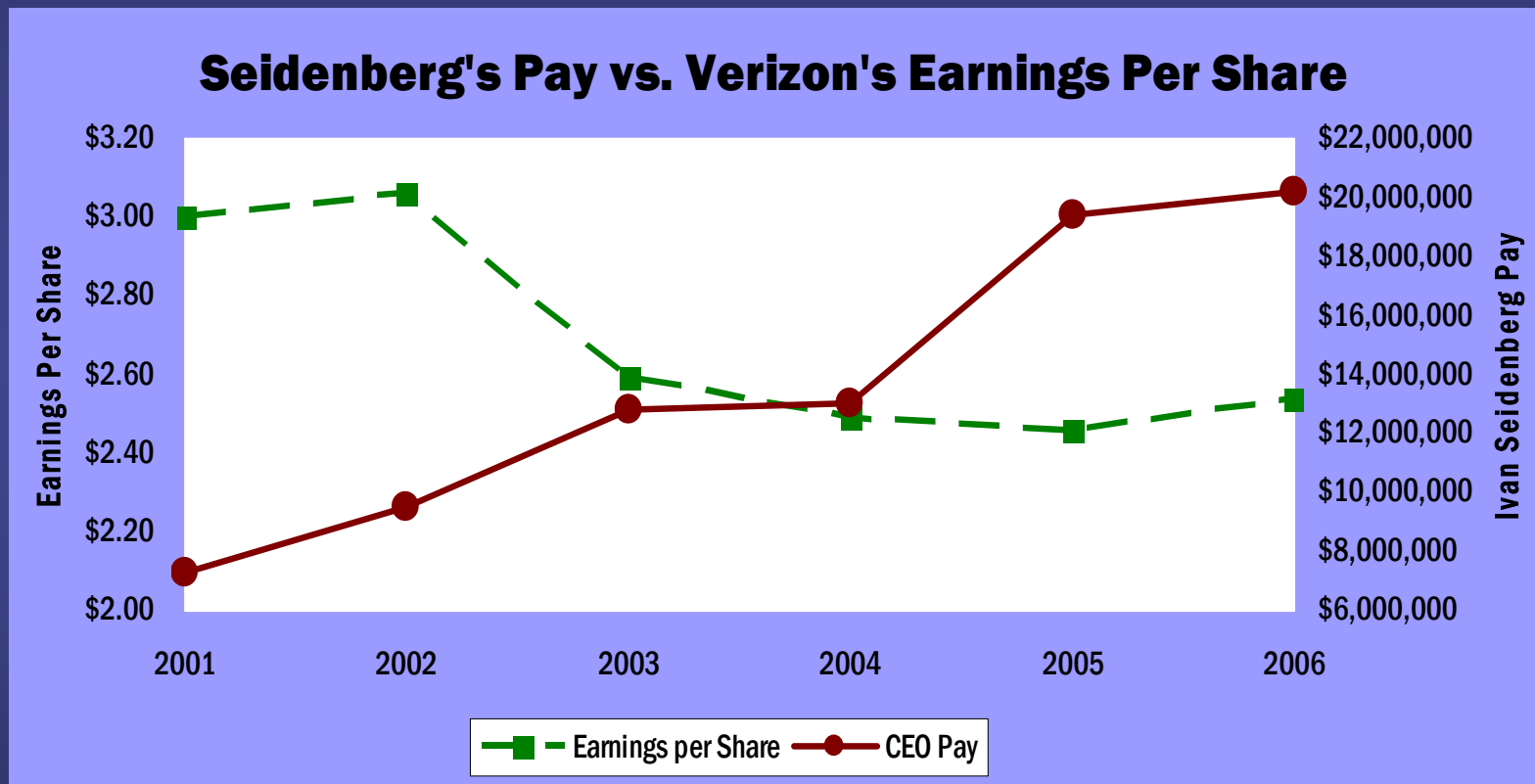
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The Test

“In judging whether Corporate America is serious about reforming itself, **CEO pay remains the test.**”

~ Warren Buffett

Verizon's CEO Pay vs. Performance



Sources: Verizon proxy statements and 10-K reports, various years.

Industry Experts Agree: Verizon's Pay Practices Are Excessive

“We think Verizon’s **stewardship is average** on the whole and relative to peers. Our biggest concern is executive compensation, which we think is excessive.”

~ Morningstar, Analyst Note, 1/30/07

“Excessive CEO compensation and incentive policies that are **poorly linked to sustainable, long-term gains in shareholder value** remain our primary concerns at Verizon, directly resulting in the continuation of our overall D rating.”

~ The Corporate Library, 11/22/06

“They have a setup that allows them to **get paid out fairly well based on beating, only slightly, the median** for the telecom group even though it is D level performance over all.”

~ Brian Foley, independent compensation consultant,
“More Nuggets on Pay from Proxy Filings,” *New York Times*, 4/9/07

Verizon Executives Rewarded for Underperformance

- Verizon's 3-year performance is in the **bottom third of the S&P 500**
 - Yet Verizon awarded executives **82% of their target awards** under the long-term incentive plan*
- If executives meet short-term targets, they receive **150% of target awards**
 - In other words, they receive **100% of their target awards for underperforming****

Sources: *"More Nuggets on Pay from Proxy Filings," *New York Times*, 4/9/07; **The Corporate Library, 3/19/07.

Go Straight to the Source: Vote No on Verizon's HR Committee

“Shareholder pressures are making it into the boardroom. They are changing the dialogue and changing the answers, and **withhold votes are a big part of that.**”

~ Ira Kay, global director of compensation consulting,
Watson Wyatt Worldwide Inc.

Verizon's HR Committee Sets Executive Compensation

- **Walter V. Shipley, Chair**
 - Retired Chairman, Chase Manhattan
 - Director, Exxon Mobil; Wyeth
- **Richard L. Carrión**
 - Chairman/CEO/President, Popular, Inc.
 - Chairman/CEO, Banco Popular de Puerto Rico
 - Director, Telecomunicaciones de Puerto Rico
- **Robert W. Lane**
 - Chairman/CEO, Deere & Company
 - Director, General Electric
- **Joseph Neubauer**
 - Chairman/CEO, Aramark Holdings
 - Director, Federated Department Stores, Wachovia Corporation
- **Clarence Otis, Jr.**
 - Chairman/CEO, Darden Restaurants
 - Director, VF Corporation
- **John R. Stafford**
 - Retired Chairman/CEO, Wyeth
 - Director, Honeywell International

Of the 6 HR Committee Members....

- Five sit on boards with weak or average corporate governance ratings
 - Lane, Neubauer, Otis, Shipley, Stafford
- Two are serial over-payers
 - Shipley, Stafford
- Two have received excessive compensation as CEO's
 - Lane, Neubauer
- In addition, Verizon's HR committee has a history of board interlocks

See Appendix for sources and details.

Vote NO on the Human Resources Committee

- Richard L. Carrión
- Robert W. Lane
- Joseph Neubauer
- Clarence Otis, Jr.
- Walter V. Shipley, Chair
- John R. Stafford

Vote FOR Proposals 4, 5 & 6

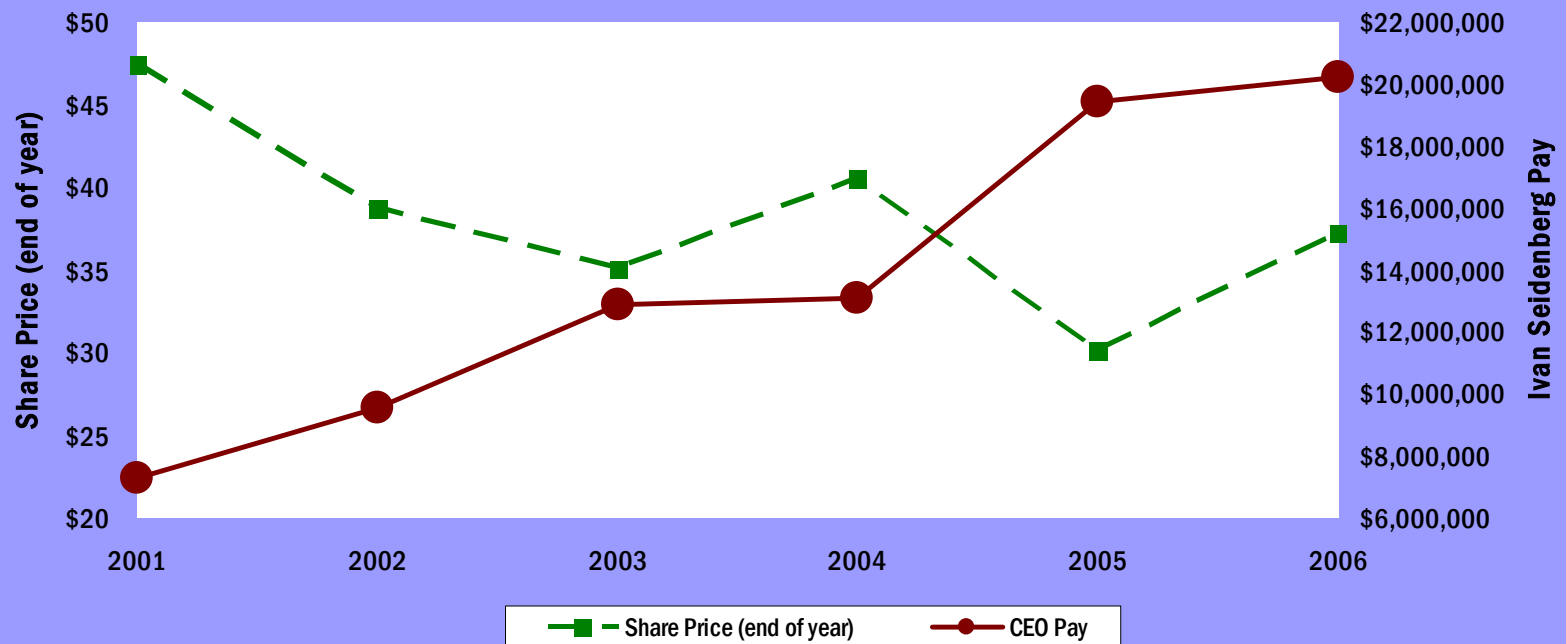
Improve Transparency and Accountability of Executive Compensation

- **Item #4:**
 - Verizon claims it implemented shareholder proposal requiring it to submit to shareholders future severance agreements exceeding 2.99 times base salary plus bonus
 - HOWEVER, policy does not include retirement benefits, stock awards or tax reimbursements
- **Item #5:**
 - Due to conflicts of interest, Verizon hired Pearl Meyer & Partners to replace Hewitt Associates as executive pay consultant
 - HOWEVER, Verizon refuses to implement policies to preserve consultants' independence
- **Item #6:**
 - Shareholder advisory vote on executive pay will give the Board an incentive to engage shareholders in meaningful conversations about appropriate pay packages, without allowing shareholders to micromanage the Company

Appendix

Disconnect Between CEO Pay and Verizon's Share Price

Seidenberg's Pay vs. Verizon's Share Price

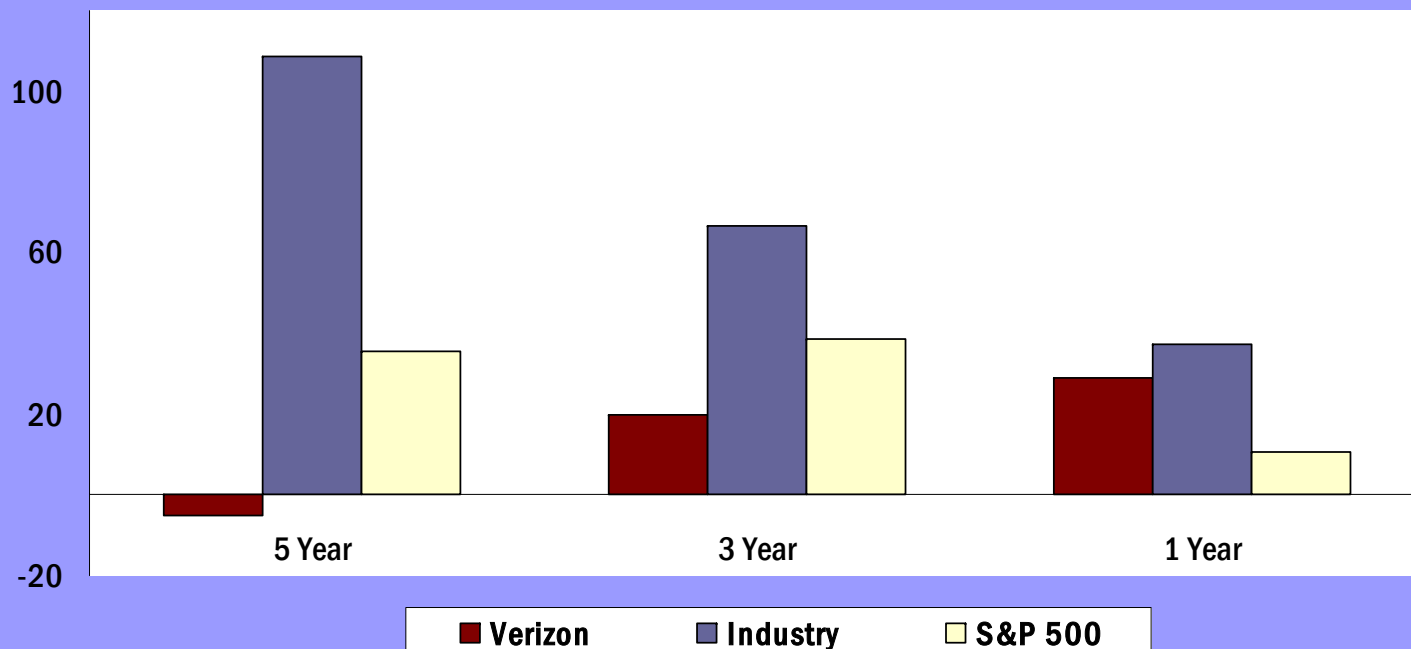


Sources: Verizon proxy statement, various years; closing prices NYSE as of 12/31.

Verizon Falls Short in Total Shareholder Return

Total Shareholder Return: VZ vs. Industry vs. S&P 500

as of 12/31/06



Exorbitant Compensation for Verizon Executives in 2006

- Ivan Seidenberg, Chairman & CEO: \$20.2 million
- Top 5 Verizon executives: \$68.0 million

Seidenberg's Compensation Far Exceeds Industry & Market Peers*

- VZ's Human Resources Committee looked at Industry & Market Peers to set 2006 pay . . .
- . . . but paid Verizon's CEO far above peers in 2005

	Industry Peers		Market Peers	
	Mean	Median	Mean	Median
	\$11.0	\$11.1	\$12.3	\$10.0
Seidenberg's pay compared to peers	75% above	75% above	50% above	94% above

Sources: Verizon proxy statement, 2007; CWA Research Department calculations. *See following page for list of peers.

Industry and Market Peers Used by Verizon's HR Committee

- 12 “Industry Peers”
 - Alltel, AT&T, BellSouth, Cablevision, CenturyTel, Charter Communications, Citizens Communications, Comcast, Level 3 Communications, Qwest, Sprint Nextel, Time Warner
- 34 “Market Peers”
 - 3M, Alltel, Altria, American Express, AT&T, BellSouth, Boeing, Bristol Myers Squibb, Cablevision, Cisco Systems, Citizens Communications, Coca Cola, Comcast, Ford, General Electric, General Motors, Hewlett Packard, Honeywell, Intel, IBM, Johnson & Johnson, Lucent, Merck, Microsoft, Motorola, Nortel, PepsiCo, Proctor & Gamble, Qwest, Sprint Nextel, Time Warner, United Technologies, Walt Disney, Wyeth

HR Committee Has Authorized Excessive Severance

- If Verizon's Board terminated Ivan Seidenberg's employment without cause as of April 2007:
 - Seidenberg would go home with benefits over 5 times the amount permitted by the 2004 policy
 - \$6.3 million = Severance permitted by proposal
(2006 salary + bonus = \$2,100,000 x 2.99)
 - \$32.4 million = Value of benefits
 - In addition, Seidenberg would take home:
 - \$14.2 million = Company contributions to Deferred Compensation account over 40 years (not including \$32.75 million of his own contributions)
 - 4,623,495 options = No. of unexercised options expiring 2007-14
 - ??? = Value of Equity Incentive Awards that have not yet vested

Total Compensation: HR Committee's Benchmarks Are Too Loose

- The HR Committee says its benchmarks target annual compensation levels “**approximately at the 50th percentile**” compared with Market Peers
- But in 2005 and 2006, Verizon was **actually at the 79th percentile**

Verizon Claims 89% of CEO Compensation Performance Based

- Verizon claims 89% of CEO compensation is performance based and therefore “at risk”*
 - Annual incentive: 21% of compensation
 - Long-term incentive: 68% of compensation
- However, both annual and long-term “incentives” require minimal performance

Annual Incentive: Appears Weakly Tied to Performance

- Annual incentive based in part on EPS and revenue vs. industry peers
- **PROBLEM:** Below-median performance may be rewarded
 - If executives meet short-term targets, they receive **150% of target awards**
 - **PERVERSE EFFECT:** Bonuses can be paid when performance goals not met

Annual Incentive: Convoluted Language Permits Generous Awards for Top 5

Historically, Actual Awards Have Been Above “Target Award”

Convoluted Language Makes Award Structure Difficult to Follow

	Target awards as a % of base salary	But: HR Cmte. can double target awards	If performance goals met, multiple of 150% of target award “is appropriate”	If performance goals not met, executives may get “lower payouts”	Actual awards have been 61%-98% of maximum
Seidenberg	125%	250%	187.5%-250%	Not specified	152.5%-245%
Babbio, Strigl	100%	200%	150%-200%	Not specified	122%-196%
Toben, Barr	75%	150%	112.5%-150%	Not specified	91.5%-147%

All percentages refer to percentage of base salary.

Long-Term Incentive: Closer to “Pay for Pulse” than “Pay for Performance”

- Long-Term Incentive Program (LTIP) awards made in stock units:
 - CEO: 100% of award in performance stock units (PSU’s)
 - Other named executives: 60% of LTIP in PSU’s; 40% in restricted stock units (RSU’s)
- **PROBLEM: Weakly tied to performance**
 - PSU’s tied to Total Shareholder Return for Industry & Market Peers
 - Again, pay for inferior performance: possible payout of 21.25% of target for being in lowest 25th percentile
 - RSU’s not related to performance
 - Instead, time-vested, paid in cash, immediately vest on retirement

Long-Term Incentive: Awarded for Being Average

- LTIP target award values:
 - Seidenberg, Babbio, Strigl: 625% of base salary
 - Barr, Toben: 525% of base salary
- But HR Committee can exceed target awards
 - HR Committee doubled Seidenberg's 2006 LTIP opportunity to 1,250% of base salary (up to \$26.25 million in PSU's)
- PSU's tied to three-year TSR compared to companies in S&P 500 Index and Industry Peer Group
 - HOWEVER, with a TSR in the 50th percentile, Seidenberg could receive \$11.2 million, or 85% of LTIP target award
 - ALSO: "Each PSU ... is also credited with dividend equivalent units that correspond to dividends paid"

Others Get It; This Committee Doesn't

- 76% of money managers and financial analysts favor “say on pay” (nonbinding vote on compensation packages)
 - But the Verizon Human Resources Committee recommended unanimously against Item #6 on the Proxy Card*
- 40% of board members at major public companies think CEO pay is too high**
- 81% want to increase link between pay and performance**

Sources: *"Investment Professionals: Give Holders a Say on Pay," *Wall Street Journal*, 4/4/07; **CFO.com, 10/12/06.

5 Members Sit on Boards with Weak or Average Corporate Governance Ratings

Corporate Governance Ratings from The Corporate Library		
Lane	General Electric	D
	Deere	C
Shiple	Exxon Mobil	D
Neubauer	Federated	C
	Wachovia	D
Otis	Darden Restaurants	B
	VF Corporation	C
Shiple	Exxon Mobil	D
	Wyeth	C
Stafford	Honeywell	D

Average rating:

C-

Sources: Board Analyst, The Corporate Library; various reports.

2 Members Are Serial Over-Payers

- John Stafford
 - Sat on the Honeywell compensation committee
 - CEO Pay: \$30 million in 2006
 - Performance: **Underperformance** against industry peers and S&P 500 in terms of total shareholder return under CEO's tenure
- Walter Shipley
 - Sat on the Wyeth compensation committees
 - CEO Pay: \$32.8 million in 2006
 - Performance: **Below average** shareholder return compared to industry peers and the S&P 500
 - Sat on the Exxon Mobil compensation committee
 - CEO Pay: \$48.9 million in 2005; \$351.2 million in severance payments when he left in 2006
 - Performance: 3- and 5-year **underperformance** compared to industry peers

2 Members Have Received Excessive Compensation as CEO's

- Joseph Neubauer
 - Received \$1 billion in equity compensation when Aramark went private in January 2007 (Associated Press, 2/3/07)
- Robert Lane
 - Received 18% pay increase (2004-06) while Deere & Co. slightly underperformed industry peers
 - Increase in total shareholder return
 - Deere: 47.98%
 - S&P Construction & Farm Machinery Index: 49.34%

Committee Has History of Interlocking Directors

- **Interlock with Wyeth**
 - Currently, Seidenberg and Shipley serve as directors
 - Stafford still active
 - Carrión was on the board through 2005
- **Interlock with Honeywell**
 - Currently, Seidenberg and Stafford serve as directors
- **Interlock with Aramark**
 - Lawrence Babbio sat on Compensation Committee and set Neubauer's pay through 2003
- **Carrión is CEO of a bank that co-invested with VZ (52%) in Puerto Rico Telephone**
 - VZ sold interest in 2007