The Association and its board members have a long and successful history of promoting changes in Verizon, Bell Atlantic and NYNEX corporate governance. The record that the Association has achieved is unmatched by anyone that we know of in the history of corporate activism. It started in the fall of 1997 when the Association and a director filed two proposals, “Board Composition” and “Executive Severance Agreements.”

**Board Composition** – The Association was very concerned about the size and independence of the board. It consisted of 21 members, including six executive officers, two CEOs with company officers sitting on their board, and most of the rest had business relationships with the company. This “good old boy network” could not be counted on to properly carry out their fiduciary responsibility to the shareholders, employees and retirees.

The proposal called for a two-thirds majority of truly independent directors and was first voted on at the 1998 annual meeting. This proposal was voted on at every annual meeting up to and including 2006 and achieved votes that ranged from 18% to 30%. While a majority vote was never reached, the proposals did result in significant changes. First, the Corporate Guidelines for Selection of Board Members was revised in 2005 to agree in principle with our proposals. Further, the number of board members was reduced to as few as 12 and the company never added a new board member who did not meet the Association’s definition of “independence.”

The result is that the board, through attrition, has become independent as a result of the Association’s proposals.

**Executive Severance Agreements** – In 1998 this proposal was voted upon and called for a vote of the shareholders on any executive severance agreement (sometimes referred to as “Golden Parachutes” and “Golden Good-Byes”) that exceeds 2.99 times the executive’s base pay plus bonus. The company had in place outlandish employment agreements with senior officers at a time when employees and retirees were being subjected to eroding pensions and benefits.

The proposal appeared in every proxy statement from 1998 until 2003 when the shareholders voted 59% in favor of the proposal - the first time in the 100-year history of the former Bell System, all of its subsidiaries and all of its successors that a proposal opposed by the board won a majority vote. When the company failed to take action as a result of this shareholder mandate, the Association filed a “binding” Corporate By-Law change proposal.

The company then agreed to comply with the proposal, place a statement to that effect in the proxy and the Association withdrew its proposal.

**Calculation of Incentive Pay** – An Association’s director filed proposals starting in 2001 that called for the company to exclude the earnings from the pension funds in the
calculation of net income used to determine the incentive pay of senior executives. The ability of management to inflate reported earnings – and their own bonuses – with “pension credits” was a disincentive for the officers to use the pension fund for the purposes that it was designed and would encourage hoarding the funds to pump up incentive pay rather than distributing those funds to those for whom the trusts were designed.

This proposal was filed in 2001 and 2002 when it attracted a vote of 42.8%. While this was not a majority, the Association believed that it was a strong message and when the company failed to act they filed the proposal again to be voted upon at the 2003 annual meeting. At this point, the company capitulated and placed a statement in the proxy agreeing to exclude pension earnings from the calculation of incentive pay and the Association withdrew its proposal.

Supplemental Executive Retirement Plan (SERP) – A proposal, to be voted on at the 2004 annual meeting, was filed by the Association calling for a reduction of the amount deposited in a senior executive’s SERP to the same percentage that other management employees received for the qualified plan. That percentage was to be reduced from 32% to between 4 and 7 percent of their base pay plus bonus. It was incongruous why the officers, who were already being paid handsomely for questionable results, could receive eight times the percent of pay into their retirement account that other managers received.

That year the proposal received a vote of 37.2%. When the Association filed the proposal the following year, the company agreed to comply with the proposal, freezing the SERP and reducing the company matching contribution to 4 to 7 percent. The Association withdrew its proposal.

Performance-Based Equity Compensation – The Association President filed a proposal that required that at least 75% of future equity-based compensation awarded to senior executives be truly performance-based, with the performance criteria disclosed to shareholders. There appeared to be a complete disconnect between performance and the incentive equity-based compensation of the officers.

This proposal was to be voted upon at the 2006 annual meeting. Once again the company appealed to the SEC for a “no action letter.” The SEC found in favor of the Association. Prior to the meeting, the company changed its compensation policy to 100% performance-based equity. However, there was a serious question, in the minds of Association board members, as to how challenging the metrics were. The proposal vote was only 20.1% “For,” as a result of the company alteration of its policy prior to the annual meeting conforming, for the most part, with the proposal.

Limit Service on Outside Boards – An Association officer filed a proposal to be voted on at the 2007 annual meeting that would limit the number of other boards on which a Verizon director could serve. At the time, ten board members served on at least two other boards and two served on four or more boards. These directors each get paid
over a quarter of a million dollars for a part-time job, in addition to their own full-time job, and could not possibly devote sufficient time to due diligence to our company.

At the January board meeting, prior to the annual meeting, the company changed its policy and adopted our proposal in part, thus improving their corporate governance on a going-forward basis. As a result, the proposal received only a 12% vote “For” in large part because the company had already made the modification to tighten the number of boards a director may serve upon.

**Advisory Vote on Executive Compensation** – This proposal, sometimes referred to as, “Say on Pay,” was submitted by the Association President for inclusion on the 2007 Proxy Statement. The Association and other shareholders were not pleased with the apparent dichotomy between financial performance, senior executive compensation and the treatment of employees and retirees.

The company appealed in vain to the SEC to obtain a “no action letter.” The SEC upheld the Association’s right to have a vote on the proposal. The proposal called for the company to include on its ballot a non-binding vote, “For” or “Against,” on senior executive compensation. This would result in the Human Resources Committee of the board having a sense of the shareholder’s agreement or disagreement with their handling of executive compensation and how it relates to performance.

At the annual meeting the vote was too close to call and the votes had to be recounted. Subsequently, shareholders were notified that the proposal received a majority vote of 50.18%. Verizon became the first Fortune 100 Company where shareholders approved a say-on-pay proposal. After the Association requested that the Board implement the proposal, the company responded that, “the board was reviewing its policies in light of the shareholder vote on your proposal…”

When no action was announced by the company, the Association President filed a proposal demanding a bylaw change to force the company to have a vote on executive compensation. This was filed prior to the November 2007 date required to submit proposals. In January the company announced that the board had agreed to implement the proposal effective with the 2009 annual meeting. Shortly thereafter the company appealed for a “no action letter” to the SEC. In February, the proposal was withdrawn by the Association President, since the Board had finally agreed to implement it.

At the 2009 Annual Meeting shareholders were given the opportunity to vote on the executive compensation for the first time. The Association attempted to convince shareholders to vote against the package. The company also lobbied hard to gain approval. In doing so, they made two changes in the executive compensation package in order to gain support. They eliminated the tax gross ups on company-paid premiums for life insurance and banned personal use of company aircraft after retirement.

**Separation of the Chairman and CEO** – In 2007, the Association of BellTel Retirees filed a proposal that would separate the Chairman and the CEO positions. The
Chairman would be an independent board member. This proposal was voted on at the
2008 annual meeting and received a vote of 20% for the proposal.

In 2008 Association President, C. William Jones, filed the same proposal and it was
voted on at the May 7, 2009 Verizon annual shareholders meeting. The vote for this
proposal was 23% for separation. The outcome was, no doubt, the low because the
company changed its Corporate Governance Guidelines adopting an empowered
independent Presiding Director who was elected annually to provide independent
leadership and oversight that ensures that an employee Chairman is fully accountable to
the independent directors.

**Performance Stock Unit Thresholds** - In 2009 and 2010 the Association filed a
proposal that urged shareholders to vote in favor of raising the minimum performance
level for the executive officer’s long-term Performance Stock Unit (PSU) awards from
the bottom 25th percentile among the Dow peer group, selected by the company, to the
50th percentile for Total Shareholder Return. The existing plan awarded 50% of the target
payout for performance as low as ninth from the bottom among the 34 company peer
group – and even if TSR is negative – essentially a pay for failure. For the Chairman,
this amounted to $5.5 million, hardly a minor amount. He could earn $11 million for
average performance. It was our position that paying millions of dollars for just above
the bottom 25th percentile gave senior executives little incentive to excel.

In 2009 the company appealed to the SEC for a “no action letter” to exclude our
proposal, but the SEC found in favor of the Association. Shareholders, at the Annual
Meeting in Little Rock, Arkansas, voted 30% in favor of our resolution. In March 2010,
Crain’s New York Business reported on, “…the Association of BellTel Retirees, which
has proved to be one of the noisiest – and most effective – shareholder advocacy groups
around.”

In the 2010/2011 season the company put up a furious attack on the Association letters to
shareholders and a press release. When the Association only agreed to change one word
in the press release and responded that all other attacks were unfounded, the company
filed a complaint with the SEC. Association lawyers responded to this complaint with a
13-page response. The SEC dismissed the complaint. The proposal received a 31.4%
vote in favor at the Verizon Annual Meeting.

In the 2011/2012 season the proposal was not challenged by the company. However, the
company changed its PSU policy, reducing the payout at the low end of the scale. Since
this change caused our proposal to be technically inaccurate, and the company refused to allow us to update our proposal, the Association chose to withdraw it and we declared a partial victory by forcing the company to reduce payouts at the very lowest levels of the performance thresholds.

**Proxy Access For Director Nominations** – The Association’s proposal to create a process for shareholder-nominated candidates for the Board won a majority vote in 2013, culminating an effort that began 7 years earlier. Two Association directors filed a proposal for the 2005 annual meeting that required the company to include, in its proxy materials, a limited number of qualified candidates for the board who were nominated by shareholders. Allowing shareholders to nominate candidates using the company’s proxy saves shareholders the considerable expense of a separate solicitation and mailings.

The company appealed to the SEC for a “no action letter” and in spite of a strong case put forth by Association attorneys, the SEC agreed to exclude the proposal.

Again in 2007, since the SEC was considering its own proposal to require proxy access, the Association’s Chief Financial Officer filed a proposal calling for shareholders, in limited circumstances, to put forth nominations for directors. The company appealed to the SEC for a “no action letter.” Subsequently, the SEC issued a ruling that made the proposal moot and the proposal was then withdrawn.

The Association was a trail blazer on this issue – the first to file a proxy proposal on this historic reform. In May 2009, the Wall Street Journal reported that the SEC had a new proposal that would allow shareholder groups holding 1% or more of a company’s shares to nominate director candidates on the proxy – a very close version of the Association proxy proposal filed in 2005 and 2007. The Association filed comments with the SEC in support of this latest proposal. The SEC adopted the rule with a stricter 3% ownership threshold, but it was vacated by the D.C. Circuit Court of Appeals.

In 2012, the Association decided to file its proposal again, adopting the SEC’s eligibility thresholds that had received strong support at a few other companies. Our proposal required that nominators must own 3% or more of the company’s common stock for at least three years and the proposal limited the number of shareholder nominees each year to 20% of the number of directors then serving. This proposal won a majority vote of 53.2% at the 2013 meeting, thus notching the third majority vote for the Association.

**Severance Approval Policy** – Since the Association’s majority vote win in 2003 that limited severance agreements, referred to as “Golden Parachutes or Golden Good-Byes,” to 2.99 times base pay plus bonuses, the company has invented a way to circumvent the spirit of the restriction by accelerating the vesting of outstanding Restricted Stock Units (RSUs). Mr. Seidenberg’s termination payments amounted to six times his base pay plus short-term bonus, with a value exceeding 2.99 times base salary plus target bonus. The vote FOR this proposal at the 2013 annual meeting was 38.6%.
Summary – It is clear that the Association of BellTel Retirees and its directors have had a profound influence on the policies and corporate governance of Verizon and its predecessors. Eleven different proposals have been filed: one was excluded two times as a result of SEC rulings but won by a majority vote in 2013, one was withdrawn because the company changed its policy and made the proposal moot, ten were voted upon a total of 27 times. Three proposals have received a majority shareholder vote. Eight have resulted in the company agreeing, in part or completely, with the proponents and have resulted in very substantial changes in Verizon’s executive compensation and corporate governance policies.

Interesting Aside - The Association leaders have traveled the country to participate at the company annual meetings as follows: 1996 Boston, MA; 1996 New York, NY Special Merger Meeting; 1997 no meeting; 1998 Wilmington, DE; 1999 Atlanta, GA – Bell Atlantic and GTE meetings; 2000 Denver, CO; 2001 Memphis, TN; 2002 Minneapolis, MN; 2003 Fort Wayne, IN; 2004 Richmond, VA; 2005 Houston, TX; 2006 Overland Park, KS; 2007 Pittsburgh, PA; 2008 Lincoln, NE; Southlake, TX (Idearc) 2008; 2009 Louisville, KY; 2010 Little Rock, AR; 2011 Indianapolis, IN; 2012 Huntsville, AL and 2013 Tulsa, Oklahoma.

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