CWA

CWA REVIEW AND RECOMMENDATIONS:

VOTING ITEMS ON VERIZON PROXY STATEMENT

INTRODUCTION

In 2017, Verizon had revenues of $126.0 billion and net income of $30.5 billion with capital investment of $17.2 billion. Net income rose 129% over 2016. Verizon Wireless has the most customers in the U.S. wireless market, and the company is poised to launch into 5G technology with the potential to expand its role in the communications sector exponentially. Various acquisitions, including AOL and Yahoo, promise to make Verizon a major player in the digital world. Verizon is on a roll.

This company is growing, and CWA's bargaining units are the foundation upon which Verizon's future is being built. "We don't wait for the future. We build it," announces the 2018 Notice of Annual Meeting and Proxy Statement. The CWA members are on the frontlines of Verizon's growth, laying fiber, maintaining plant, installing and maintaining equipment, dealing with customers. We are the ones who build the networks and those customer relationships, and who create the needed stability for the company to grow.

For that reason, CWA members should engage in the opportunity to exercise their votes as shareholders, helping to shape the direction of the company and to establish principles that will govern the company. CWA has prepared this shareholders voting guide to offer some insight into the shareholder proposals in Verizon's 2018 proxy statement. We encourage you to exercise your right to vote on this company's future.

MANAGEMENT PROPOSALS

ITEM 1. ELECTION OF DIRECTORS

The Board of Directors consists of 11 individuals, all of whom are independent, except for Lowell McAdam, Verizon's CEO. The entire Board has been nominated for re-election.

RECOMMENDATION FOR ITEM 1: VOTE YOUR CONSCIENCE.

ITEM 2. RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS INDEPENDENT AUDITOR

Ernst & Young has been the auditor for Verizon since 2001. The Board's Audit Committee has re-appointed the firm for another fiscal year, through December 31, 2018. With this vote, shareholders are asked to affirm the Committee's decision. The wisdom in corporate governance circles is that such lengthy relationships can blur the independent perspective necessary for an uncompromised review of financial results.

RECOMMENDATION FOR ITEM 2: VOTE AGAINST.

ITEM 3. ADVISORY APPROVAL OF EXECUTIVE COMPENSATION

The proposal asks shareholders to approve a compensation program already in place. The vote is only advisory and would not be binding on the company. The proxy statement includes principles for setting pay and a detailed discussion of all aspects of executive pay. Of particular interest to CWA members will be the compensation of CEO Lowell McAdam. The proxy statement would have us believe that he received $17.9 million and that this was typical for a company the size of Verizon. In fact, McAdam has consistently received more in compensation than reported in the annual proxy statements. His total salary between 2011 and 2017 was $125.3 million according to the annual proxy statements. However, those proxy statements only show the <u>projected</u> payout of stock awards and options years down the road. Mr. McAdam actually received a much higher amount -- $179.6 million, 43% higher than what shareholders were told. What is going on here? We are not privy to the inner workings of the CEO's office, but it is likely that Mr. McAdam timed the cashing out of options and stock grants according to the behavior of the market for Verizon shares. Mr. McAdam's average gross pay of $25.6 million in the 2011-2017 dwarfs the pay of Verizon bargaining unit members. For example, an outside plant tech in Maryland averaged $73,000 a year between 2011 and 2017. Mr. McAdam's average pay is 350 times that amount.

RECOMMENDATION FOR ITEM 3: VOTE AGAINST.

STOCKHOLDER PROPOSALS

ITEM 4. EXPAND ABILITY TO CALL SPECIAL SHAREHOLDER MEETING

This proposal would allow shareholders who individually or collectively own 10% of the shares of Verizon to call a special meeting of shareholders. Activists believe that the ability to call shareholder meetings by a workable percentage of shareholders forces management to be more accountable. If enacted, the proposal would lower the threshold shareholders would need to demand a meeting. Currently a group of stockholders who together hold at least 25% of outstanding shares may call for a special meeting of shareholders to discuss and debate proposals. According to the company, the proposal submitted would be an expensive proposition, citing the cost of preparing, printing, and distributing the necessary documents for a special meeting. The company believes that too frequent special meetings would not be a wise use of company resources. We disagree. CWA believes that the expanded opportunities of calling for special meetings will allow greater participation by shareholders and can introduce some amount of democracy in corporate governance. This proposal received 49.85% of the votes in 2017.

RECOMMENDATION FOR ITEM 4: VOTE FOR.

ITEM 5. PREPARE LOBBYING REPORT

The proposal requests the company produce an annual report on lobbying activities and expenditures, including policies, procedures and payments related to direct and indirect lobbying and grassroots communications. In addition, the proposed report would disclose information related to Verizon's membership in and payments to organizations that write and endorse model legislation. The report would disclose the corporate decision-making process regarding the payments. Management recommends against the proposal, saying it publishes and submits reports on its lobbying expenses and that this additional report would not be a good use of resources. CWA believes that this proposal would provide additional information not already disclosed by Verizon – in particular, its association with organizations and its rationale for lobbying expenses. For example, Verizon is a member of ALEC, the American Legislative Exchange Council. ALEC is a corporate-funded, conservative think-tank that brings together corporate lobbyists and right-wing politicians to share legislative strategies. ALEC is notorious for propagating anti-union and so-called Right to Work legislation that has led to the dismantling of public sector unions in Wisconsin and other states; it has promoted the repeal of prevailing wage laws; it supports the privatization of public services; and it has crafted legislation to undermine the Consumer Financial Protection Board (CFPB). This is a good governance proposal that will lead to needed transparency to assure that Verizon is aligning its resources with best interests of all its stakeholders.

RECOMMENDATION FOR ITEM 5: VOTE FOR.

ITEM 6. INDEPENDENT CHAIR

This proposal from the AFL-CIO Reserve Fund requests that the Chair of Verizon's Board of Directors be independent – that is, not employed by Verizon. This proposal is supported by institutional shareholders because it is a structure designed to assure greater board oversight of management. Both the Council of Institutional Investors and CalPERS – the California Public Employee Retirement System – recommend independent Board Chairs. Currently Lowell McAdam is both Chairman of the Board and Chief Executive Officer of the corporation. The company argues that the "high level of competition in the wireless industry and [its] digital media strategy" demand a corporate structure in which both the head of the company (CEO) and head of the Board (Chair) have a deep understanding of the company. In fact, we believe the challenge of keeping a leading edge in this dynamic industry is such that two individuals – one with a deep understanding of the company and another with a deep and broader understanding of the overall industry will better serve the interests of stakeholders. Verizon also raises an objection on the grounds that the company already has a lead director (Frances Keeth). CWA believes that a lead director is not an adequate substitute for an independent chair because the position does not afford sufficient distance to oversee management.

RECOMMENDATION FOR ITEM 6: VOTE FOR.

ITEM 7. CYBER SECURITY AND DATA PRIVACY

This proposal asks the Board to author a report on the feasibility of integrating company success in protecting data privacy into the executive compensation process. Verizon has expanded its digital media capacity with the acquisitions of AOL and Yahoo! These purchases have brought increased risk for Verizon. The company also admitted in July 2017 that 14 million Verizon customer data their data exposed by a vendor. In October 2017, the company admitted that three billion accounts in Yahoo! had been breached before its acquisition by Verizon. The company takes data privacy seriously. The proposal, however, seeks to incentivize management to devote more resources to cyber security by tying data privacy to executive compensation.

RECOMMENDATION FOR ITEM 7: VOTE FOR.

ITEM 8. EXECUTIVE COMPENSATION AND CLAWBACK

This proposal seeks to strengthen the existing "clawback" policy of the company. Current policy allows recoupment of senior executive remuneration for "willful" financial misconduct. This proposal extends this policy to reputational harm to the company. It also forces the company to disclose the circumstances of any recoupment and of any reason not to claw back compensation. The proponent cites the Wells Fargo case as a reason to strengthen Verizon's policy. The Wells Fargo affair showed that it is difficult to constrain the growth of executive pay even when those executives engaged in or supervised employees engaged in behavior detrimental to consumers and ultimately the company itself. The company created 1.5 million unauthorized bank accounts for customers that subsequently racked up fees. It consequently fired 5,300 employees but not the senior executives who supervised these employees, although the CEO eventually resigned. Instead, it recouped performance pay of senior executives, but the next year increased the pay of the new CEO and other senior executives. The goal with this proposal is to discourage senior executives from taking unnecessary risks to boost short-term profitability. The proponents are Jack and Ilene Cohen. Jack Cohen is Chairman of the Association of BellTel Retirees. He attended the 2016 Verizon annual meeting and spoke very eloquently from the floor in support of striking Verizon workers.

RECOMMENDATION FOR ITEM 8: VOTE FOR.

ITEM 9. NONQUALIFIED SAVINGS PLAN

This proposal asks the Board to develop rules to limit the use of savings plans for top executives. As they have frozen defined benefit plans, many large companies have developed savings plans apart from standard 401(k) plans because the IRS limits the amounts that employers may contribute to 401(k) plans. These "nonqualified" savings plans (nonqualified because contributions are not tax exempt for the employer) are designed to channel more money into these executives' retirements. In addition, in contrast to most Fortune 500 companies, Verizon pays above-market rates of interest on balances in its executive savings plans. Thus, the plan serves to widen the disparities of income within the company. The proponent is the Association of BellTel Retirees.

RECOMMENDATION FOR ITEM 9: VOTE FOR.