VERIZON COMMUNICATIONS INC

FORM 10-K
(Annual Report)

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Industry	Communications Services
Sector	Services
Fiscal Year	12/31

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

To The Board of Directors and Shareowners of Verizon Communications Inc.:

We have audited Verizon Communications Inc. and subsidiaries' (Verizon) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992 (1992 framework) (the COSO criteria). Verizon's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Verizon maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Verizon as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows and changes in equity for each of the three years in the period ended December 31, 2013 of Verizon and our report dated February 27, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Ernst & Young LLP
New York, New York

February 27, 2014

Concentrations of Credit Risk

Financial instruments that subject us to concentrations of credit risk consist primarily of temporary cash investments, short-term and long-term investments, trade receivables, certain notes receivable, including lease receivables, and derivative contracts. Our policy is to deposit our temporary cash investments with major financial institutions. Counterparties to our derivative contracts are also major financial institutions with whom we have negotiated derivatives agreements (ISDA master agreement) and credit support annex agreements which provide rules for collateral exchange. We generally apply collateralized arrangements with our counterparties for uncleared derivatives to mitigate credit risk. We may enter into swaps on an uncollateralized basis in certain circumstances. While we may be exposed to credit losses due to the nonperformance of our counterparties, we consider the risk remote and do not expect the settlement of these transactions to have a material effect on our results of operations or financial condition.

Note 10

Stock-Based Compensation

Verizon Communications Long-Term Incentive Plan

The Verizon Communications Inc. Long-Term Incentive Plan (the Plan) permits the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance stock units and other awards. The maximum number of shares available for awards from the Plan is 119.6 million shares.

Restricted Stock Units

The Plan provides for grants of Restricted Stock Units (RSUs) that generally vest at the end of the third year after the grant. The RSUs are classified as equity awards because the RSUs will be paid in Verizon common stock upon vesting. The RSU equity awards are measured using the grant date fair value of Verizon common stock and are not remeasured at the end of each reporting period. Dividend equivalent units are also paid to participants at the time the RSU award is paid, and in the same proportion as the RSU award.

Performance Stock Units

The Plan also provides for grants of Performance Stock Units (PSUs) that generally vest at the end of the third year after the grant. As defined by the Plan, the Human Resources Committee of the Board of Directors determines the number of PSUs a participant earns based on the extent to which the corresponding performance goals have been achieved over the three-year performance cycle. The PSUs are classified as liability awards because the PSU awards are paid in cash upon vesting. The PSU award liability is measured at its fair value at the end of each reporting period and, therefore, will fluctuate based on the price of Verizon common stock as well as performance relative to the targets. Dividend equivalent units are also paid to participants at the time that the PSU award is determined and paid, and in the same proportion as the PSU award. The granted and cancelled activity for the PSU award includes adjustments for the performance goals achieved.

The following table summarizes Verizon's Restricted Stock Unit and Performance Stock Unit activity:

(shares in thousands)	**Restricted Stock Units**	**Performance Stock Units**
Outstanding January 1, 2011	20,923	32,380
Granted	6,667	10,348
Payments	(7,600)	(12,137)
Cancelled/Forfeited	(154)	(2,977)
Outstanding December 31, 2011	19,836	27,614
Granted	6,350	20,537
Payments	(7,369)	(8,499)
Cancelled/Forfeited	(148)	(189)
Outstanding December 31, 2012	18,669	39,463
Granted	**4,950**	**7,470**
Payments	**(7,246)**	**(22,703)**
Cancelled/Forfeited	**(180)**	**(506)**
Outstanding December 31, 2013	**16,193**	**23,724**

As of December 31, 2013, unrecognized compensation expense related to the unvested portion of Verizon's RSUs and PSUs was approximately $0.4 billion and is expected to be recognized over approximately two years.

The RSUs granted in 2013 and 2012 have weighted-average grant date fair values of $47.96 and $38.67 per unit, respectively. During 2013, 2012 and 2011, we paid $1.1 billion, $0.6 billion and $0.7 billion, respectively, to settle RSUs and PSUs classified as liability awards.

Verizon Wireless' Long-Term Incentive Plan

The Verizon Wireless Long-Term Incentive Plan (the Wireless Plan) provides compensation opportunities to eligible employees of Verizon Wireless (the Partnership). Under the Wireless Plan, Value Appreciation Rights (VARs) were granted to eligible employees. As of December 31, 2013, all VARs were fully vested. We have not granted new VARs since 2004.

VARs reflect the change in the value of the Partnership, as defined in the Wireless Plan. Similar to stock options, the valuation is determined using a Black-Scholes model. Once VARs become vested, employees can exercise their VARs and receive a payment that is equal to the difference between the VAR price on the date of grant and the VAR price on the date of exercise, less applicable taxes. All outstanding VARs are fully exercisable and have a maximum term of 10 years. All VARs were granted at a price equal to the estimated fair value of the Partnership, as defined in the Wireless Plan, at the date of the grant.

The following table summarizes the assumptions used in the Black-Scholes model during 2013:

	End of Period
Risk-free rate	0.11%
Expected term (in years)	0.12
Expected volatility	43.27%

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the measurement date. Expected volatility was based on a blend of the historical and implied volatility of publicly traded peer companies for a period equal to the VARs expected life ending on the measurement date.

The following table summarizes the Value Appreciation Rights activity:

(shares in thousands)	**VARs**	**Weighted-Average Grant-Date Fair Value**
Outstanding rights, January 1, 2011	11,569	$ 13.11
Exercised	(3,303)	14.87
Cancelled/Forfeited	(52)	14.74
Outstanding rights, December 31, 2011	8,214	12.39
Exercised	(3,427)	10.30
Cancelled/Forfeited	(21)	11.10
Outstanding rights, December 31, 2012	4,766	13.89
Exercised	**(1,916)**	**13.89**
Cancelled/Forfeited	**(3)**	**13.89**
Outstanding rights, December 31, 2013	**2,847**	**13.89**

During 2013, 2012 and 2011, we paid $0.1 billion, respectively, to settle VARs classified as liability awards.

Stock-Based Compensation Expense

After-tax compensation expense for stock-based compensation related to RSUs, PSUs, and VARs described above included in Net income attributable to Verizon was $0.4 billion, $0.7 billion and $0.5 billion for 2013, 2012 and 2011, respectively.

Stock Options

The Plan provides for grants of stock options to participants at an option price per share of no less than 100% of the fair market value of Verizon common stock on the date of grant. Each grant has a 10-year life, vesting equally over a three-year period, starting at the date of the grant. We have not granted new stock options since 2004.

The following table summarizes Verizon's stock option activity:

(shares in thousands)	Stock Options	Weighted-Average Exercise Price
Outstanding, January 1, 2011	56,844	$ 44.25
Exercised	(7,104)	35.00
Cancelled/Forfeited	(21,921)	51.06
Outstanding, December 31, 2011	27,819	41.24
Exercised	(7,447)	35.20
Cancelled/Forfeited	(17,054)	45.15
Outstanding, December 31, 2012	3,318	34.69
Exercised	**(2,253)**	**34.85**
Cancelled/Forfeited	**(82)**	**34.49**
Outstanding, December 31, 2013	**983**	**34.35**

All stock options outstanding at December 31, 2013, 2012 and 2011 were exercisable.

The following table summarizes information about Verizon's stock options outstanding as of December 31, 2013:

Range of Exercise Prices	Stock Options (in thousands)	Weighted-Average Remaining Life (years)	Weighted-Average Exercise Price
$30.00-39.99	969	0.1	$ 34.18
40.00-49.99	14	0.1	46.31
Total	**983**	**0.1**	**34.35**

The total intrinsic value for stock options outstanding as of December 31, 2013 is not significant. The total intrinsic value of stock options exercised was not significant in 2013 and the associated tax benefits were not significant in 2013, 2012 and 2011. The amount of cash received from the exercise of stock options was $0.1 billion in 2013, $0.3 billion in 2012 and $0.2 billion in 2011. There was no stock option expense for 2013, 2012 and 2011.

Note 11

Employee Benefits

We maintain non-contributory defined benefit pension plans for many of our employees. In addition, we maintain postretirement health care and life insurance plans for our retirees and their dependents, which are both contributory and non-contributory, and include a limit on our share of the cost for certain recent and future retirees. In accordance with our accounting policy for pension and other postretirement benefits, operating expenses include pension and benefit related credits and/or charges based on actuarial assumptions, including projected discount rates and an estimated return on plan assets. These estimates are updated in the fourth quarter to reflect actual return on plan assets and updated actuarial assumptions. The adjustment is recognized in the income statement during the fourth quarter or upon a remeasurement event pursuant to our accounting policy for the recognition of actuarial gains/losses.

Pension and Other Postretirement Benefits

Pension and other postretirement benefits for many of our employees are subject to collective bargaining agreements. Modifications in benefits have been bargained from time to time, and we may also periodically amend the benefits in the management plans. The following tables summarize benefit costs, as well as the benefit obligations, plan assets, funded status and rate assumptions associated with pension and postretirement health care and life insurance benefit plans.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.   )

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement

☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

☒ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to §240.14a-12

VERIZON COMMUNICATIONS INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.

☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

case of the proposal proponent runs counter to provision in SEC’s Rule 14a-8 (re shareholder requirements to use the proxy method to submit proposals) that requires, astonishingly, such proponents also be present at the meeting to again present their proposals. Accordingly, and not withstanding use of the proxy method and that the Company is required to also present the proposal as in the proxy form, should the proponent not be represented at the meeting to again present his/her proposal the Company is permitted by the SEC’s Rule to exclude the proposal in that and succeeding two years.

This ludicrous consequence may be simply averted, I’ve been told, if anyone else at the meeting qualified to do so should present the proposal instead. As the Company has expressed its adamant opposition to my proposal and that it would block vote on it if neither I nor my representative attend the annual meeting of shareholders, then in that event and to satisfy the form over substance requirement, I would be left only to ask, simply: “anyone?”

The Board of Directors recommends that you vote AGAINST this proposal for the following reasons:

This proposal requests that the Board of Directors eliminate the following provision from the proxy card:

“If you do not indicate how your shares are to be voted at the meeting or any adjournment or postponement of the meeting, the proxies will vote in accordance with the Director’s recommendations on the other matters listed on the reverse side of this card; and at their discretion on any other matter that may properly come before the meeting or any adjournment or postponement of the meeting.”

The Board of Directors believes that the proponent’s characterization of this provision as an unlawful taking of shareholder rights is misplaced. This provision, which has been included on the proxy cards of the vast majority of companies for many years, does not cause the voting rights of shareholders who sign a proxy to be “denied” or “diminished” in any way. It simply provides shareholders who wish to vote in accordance with management’s recommendations with a convenient method to vote by signing and mailing their proxy card without the need to check a box for every proposal. In addition, by authorizing the named proxies to vote at their discretion on other matters that may come before the meeting, this provision ensures an orderly conduct of the meeting. Any shareholder who does not wish to give the proxies this voting authority may simply cross out the provision on the proxy card, which some shareholders do routinely. Our proxy tabulation procedures are designed to take such striking-outs into account, and in such cases, no votes will be recorded on any matter before the meeting in the absence of specific instructions from the shareholder.

For these reasons, the Board believes that the proposal is not in the best interests of shareholders.

Compensation Committee Report

The Human Resources Committee has reviewed and discussed the Compensation Discussion and Analysis with management. Based on such review and discussions, the Committee recommended to the Board of Directors, and the Board has approved, the inclusion of the Compensation Discussion and Analysis in this proxy statement and the Company’s Annual Report on Form 10-K.

Respectfully submitted,

Human Resources Committee

Joseph Neubauer, Chairperson
Richard Carrión
Melanie Healey
M. Frances Keeth
Clarence Otis, Jr.
Gregory Wasson

Dated: February 25, 2014

Compensation Discussion and Analysis

The Human Resources Committee of the Board of Directors oversees the development and implementation of the total compensation program for Verizon's named executive officers. Throughout this discussion and analysis of compensation, we refer to the Board of Directors as the Board and the Human Resources Committee as the Committee.

For 2013, Verizon's named executive officers were:

Lowell C. McAdam	Chairman and Chief Executive Officer
Daniel S. Mead	Executive Vice President and President and Chief Executive Officer – Verizon Wireless
Francis J. Shammo	Executive Vice President and Chief Financial Officer
John G. Stratton	Executive Vice President and President – Verizon Enterprise Solutions
Randal S. Milch	Executive Vice President – Public Policy and General Counsel

Executive Summary

Verizon's strategy is to build on the strength of our network as a platform for future growth and innovation. To that end, in 2013 we focused on the growing areas of our business – mobility, broadband, video, cloud services and security. We also passed a strategic milestone, entering into a transaction that would give us sole ownership of Verizon Wireless, which we expect to enable us to better leverage our assets and capabilities across our business going forward. Under the leadership of our management team, our solid execution on our strategic initiatives and our disciplined focus on our financial objectives delivered strong results in 2013. These included:

Performance Metric [1]	2013 Result	Change from 2012
Adjusted EPS	$2.84	26.8%
Total Revenue	$120.6B	4.1%
Free Cash Flow	$22.2B	45.1%
Return on Equity	23.6%	654 bps

[1] A reconciliation of non-GAAP measures to the most directly comparable GAAP measures can be found in Appendix C to this proxy statement.

As discussed in greater detail below, based on Verizon's strong financial performance in 2013 and total shareholder return over the past three years, the 2013 short-term incentive award was paid at 110% of its targeted level and the performance stock units granted in connection with the 2011-2013 long-term incentive award vested at the 100% level.

Summary of Executive Compensation Program and Practices

Our commitment to adopting industry-leading compensation and governance practices is reflected in the design of our compensation program. Some of these elements include:

Pay-for-Performance

Approximately 90% of our named executive officers' annual total compensation opportunity is variable, at risk and incentive-based. The primary components of our executive compensation program and their approximate percentage of the total compensation opportunity are as follows:

- 90% variable, incentive-based pay – comprised of an annual cash incentive based on achievement of pre-established performance goals and a long-term incentive in the form of an equity-based award that vests after three years and is composed of PSUs and RSUs
- 10% fixed pay – annual cash base salary

In addition, the compensation program does not include other forms of fixed, non-performance related pay, such as guaranteed pension and supplemental retirement benefits

Benchmarking Total Compensation	The Committee benchmarks each executive's total compensation opportunity against a single peer group, referred to as the Related Dow Peers and described beginning on page 31 and in Appendix B. The Committee references the 50 th percentile of the Related Dow Peers for total compensation opportunity, with further consideration given to the tenure and overall level of responsibility of a particular executive.
Evaluation of Potential Linkage between Compensation and Risk Taking	When reviewing the compensation program and the performance metrics used under the program, the Committee considers the impact of the compensation program on the Company's risk profile. The Committee believes that Verizon's compensation program has been structured to provide strong incentives for executives to appropriately balance risk and reward consistent with the Company's enterprise business risk management efforts.
Shareholder Outreach Program	At the request of the Committee, management and the Committee's compensation consultant, Pearl Meyer & Partners (the Consultant), engage in a semiannual shareholder outreach program with certain institutional investors to discuss the design and operation of Verizon's executive compensation program. Management and the Consultant provide a report to the Committee on the results of that outreach. The Committee believes this program provides opportunities for shareholders to provide input on Verizon's executive compensation program and policies in addition to the annual say-on-pay vote.

The Role of Shareholder Say-on-Pay Votes and Shareholder Outreach

The Company provides its shareholders with the opportunity to cast an annual advisory vote on executive compensation (say-on-pay). At the Company's Annual Meeting of Shareholders held in May 2013, approximately 89% of the votes cast on the say-on-pay proposal were voted in favor of the proposal. The Committee considered this vote as demonstrating strong shareholder support for the Company's executive compensation programs.

Based on the shareholders' strong support for the Company's say-on-pay proposal in 2013 as well as in each of the preceding years that a say-on-pay vote has been held and the discussions with the Company's investors during the semiannual shareholder outreach program described above, the Company continued to apply the same effective principles and philosophies highlighted above and described more fully below that have been applied in prior years when making compensation decisions for 2013.

Role of Benchmarking and Peer Group Selection

The Committee believes that it is appropriate to use the same peer group to benchmark executive pay opportunities and to evaluate Verizon's relative stock performance under its long-term incentive plan. For this purpose, the Committee uses a single peer group that includes the 29 companies (other than Verizon) in the Dow Jones Industrial Average, plus Verizon's four largest industry competitors that are not included in the Dow Jones Industrial Average. This group is referred to as the Related Dow Peers. The Committee believes that this group of companies, comprised of similarly-sized companies based on market capitalization, net income, revenue and total employees that are included in an established and recognizable index, as well as Verizon's four other largest industry competitors, is appropriate for the dual purpose of benchmarking executive pay opportunities and evaluating relative stock performance under the long-term incentive plan because the companies in the Related Dow Peers represent Verizon's primary competitors for executive talent and investor dollars. Moreover, this peer group is self-adjusting so that changes in the companies included in the Dow Jones Industrial Average are also reflected in the Related Dow Peers over time. For this reason, the Committee believes that the Related Dow Peers provides a consistent measure of Verizon's performance and makes it easier for shareholders to evaluate, monitor and understand Verizon's compensation program.