FINAL TRANSCRIPT

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VZ - Verizon Conference Call to Discuss Changes in Benefit Plan Accounting

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PRESENTATION

Operator

Good morning and welcome to the Verizon conference call to discuss changes in benefit plan accounting. At this time all participants have been placed in a listen-only mode and the floor will be open for questions following the presentation. (Operator Instructions)

Today's conference is being recorded. If you have any objections to this, you may disconnect at this time. It is now my pleasure to turn the call over to your host, Mr. John Doherty, Senior Vice President, Investor Relations for Verizon.

John Doherty - *Verizon Communications, Inc. - SVP, IR*

Thanks, Brad. Good morning and welcome to our conference call to discuss changes to our accounting for pensions and retiree health benefits. Thanks for joining us on such short notice.

I am John Doherty. With me this morning is Fran Shammo, our Chief Financial Officer, and Bob Barish, Senior Vice President and Controller. Fran and Bob will cover the changes with you and then we will take a few questions.

Before we get started let me remind you that the press release, Form 8-K, and the presentation slides for this call, as well as adjusted historical financial information, are available on our Investor Relations website. This call is being webcast. If you would like to listen to a replay you can do so from our website.

I would also like to draw your attention to our Safe Harbor statement. Information in this presentation contains statements about expected future events and financial results that are forward looking and subject to risks and uncertainties. Discussion of factors that may affect future results is contained in Verizon's filings with the SEC, which are available on our website.

The purpose of this call is to discuss the accounting changes and to help you understand the impacts of the change. We will cover our fourth-quarter results next Tuesday morning, January 25, as well as provide a strategic and financial overview of the business. This will be a live event starting at 8.30 a.m. at Cipriani Wall Street in New York City. For those of you who plan to attend but have not yet RSVP'd, please do so from the invitation you received or kindly send an e-mail to the Investor Relations team.

With that I will now turn the call over to Fran Shammo, Verizon's Chief Financial Officer.

Fran Shammo - *Verizon Communications, Inc. - EVP & CFO*

Thank you, John, and good morning, everyone. As John stated, thank you for joining us on such short notice.

I am sure the purpose of this call is not a surprise to anyone. Before we get started I want to make you aware of our Form 8-K today that provides information on our decision to change the method of accounting for pensions and other post-employment benefits. Our decision to adopt this new accounting policy for benefit plans will make our financial reporting easier to understand and more transparent.

We are moving to a market value methodology in which all gains and losses are recognized in the year incurred instead of amortizing them over time. So effectively we will no longer be smoothing actuarial gains and losses. Expense recognition will be more tied to current market returns, interest rates, and healthcare cost experience. This is actually a preferable accounting method and one that aligns with the fair value accounting concepts and current IFRS proposals.

The other change we are making is where we record these benefit costs from a segment perspective. The actual service costs of providing benefits will be recorded at the business segment level as they are today. The difference is that interest costs, asset returns, and actuarial gains and losses will now be recorded at corporate and no longer included within the business segment.

So by making this change our business segment results will reflect only the total service costs for employees, which we believe provides a better picture of segment operating results based on the costs that are controllable. Our wireless segment is not impacted by this change.

As with any accounting change, we adjusted our historical financial statements to be consistent with this new policy. John referenced adjusted historical quarterly information that is now posted on our website. There is no impact to cash flow or pension funding requirements as a result of this accounting change and there is no change to our pension or OPEB liability.

To answer the question why are we doing this now, we have been considering this for quite a while, have had a lot of discussions with our Board, and our decision to change was more of a matter of timing. A when as opposed to an if, so to speak. Given what AT&T, Honeywell, and some other large-cap companies have recently announced relative to benefit accounting and reporting, we accelerated our action and adopted this change now instead of waiting until the end of 2011.

On slide four we have provided a methodology comparison to highlight the changes to benefit cost recognition under the old and new methods. In terms of ongoing costs, service costs, interest costs, and expected return on assets will continue to be booked on a quarterly basis. To repeat, service costs will continue to be booked at the business segment level while interest costs and the expected return on assets will be recorded at corporate.

Under the new method, in the fourth quarter of every year, annual adjustments will be made to reflect changes in discount rates, actual return on plan assets, and any differences in actuarial assumptions. We will also discontinue the use of a corridor. In the past, these changes were amortized over a period of time and we recorded all at the business segment level. Now these annual adjustments will be done at the corporate level and not impact segment results.

With that as a quick overview of this accounting change, I will turn it over to Bob to provide some additional detail on the impacts of the change.

Bob Barish - *Verizon Communications, Inc. - SVP & Controller*

Thanks, Fran. I will begin on slide five which displays the impact of the changes to our 2010 benefit costs with the before and after display under the two different methodologies.

If we first look at the components of ongoing costs, you see that the service and interest costs are unaffected by the accounting change. The expected return on assets will be lower because it is based on the actual fair market value as compared with a smoothed value of assets.

The amortization of actuarial gains or losses is zero because we no longer amortize them but instead recognize them as part of our annual market-based adjustments. So essentially there is no impact on our 2010 ongoing costs in the aggregate.

Under prior accounting through September 30 of this year we already recorded $1.1 billion of the estimated $1.7 billion of actuarial losses in the form of settlements. Under our new accounting the $1.1 billion will be revised to $2.8 billion for the first nine months of 2010. Our latest actuarial estimates indicate that this $2.8 billion will decrease to approximately $600 million by year-end due to favorable investment returns that we have experienced in our benefit trusts and a change in the discount rate.

I would also point that since we are only booking service costs at the segment level Wireline margins will also improve. Impacts on 2009 and the first three quarters of 2010 are detailed in the adjusted historical information on our website.

On slide six we show more details on the actuarial gains and losses that we expect to recognize for the full year 2010. As I said a few minutes ago, for the full year 2010 we will recognize a net loss of $600 million in total. This charge is due primarily to a lower discount rate partially offset by higher-than-expected return on assets and favorable healthcare and other results.

The discount rate used to calculate our year-end liabilities was 5.75%. This 50 basis point change from 6.25% at the end of 2009 increased our pension and OPEB liability by $2.9 billion.

Our estimated return on assets in 2010 was about 14% compared with an expected long-term assumption of 8.5% resulting in a gain of approximately $1 billion. And our healthcare and other benefit costs were favorable compared to our assumptions resulting in a $1.3 billion reduction in retiree liabilities at the end of the year. For 2011 we are lowering our expected long-term return on pension assets to 8%, which represents a conservative assumption based on our current asset allocation among our various investments.

Next, let's take a look at how this accounting change affects costs over the last three years. Slide seven displays the impact of these adjustments from 2008 through 2010.

We have explained the reason for the changes to the ongoing benefit costs so I won't spend more time on them here. The cumulative effect adjustment and the annual adjustment in 2008 were large, reflecting the significant decline in the financial markets which resulted in negative asset returns as well as the immediate recognition of changes in the discount rate. In 2009 the annual adjustment was a benefit of $1.4 billion, due primarily to the fact that the actual return on plan assets was better than our assumed return at that time.

We expect that over the long term changes in the discount rate, asset returns, and actuarial gains and losses will even out. And in terms of setting the rates at the beginning of each year, we will continue to use reasonable actuarial assumptions and conservative expectations going forward.

That covers the impact of the benefit plan changes and I will now turn it back to Fran.

Fran Shammo - *Verizon Communications, Inc. - EVP & CFO*

Thank you, Bob. One additional item I would like to point out is that this change caused an incremental charge of about $0.01 per quarter in each of the first three quarters of 2010 after adjusting for non-operational items or, as we state in our quarterly disclosures, adjusted EPS. You can expect an additional $0.01 impact in the fourth quarter as well. I would point you to the last page of the 8-K for this illustration.

On Tuesday, when we cover our fourth-quarter results, you will be able to see the full picture of the effects of the annual adjustment. In particular, how it affects fourth-quarter reporting and adjusted results.

To wrap up I would like to emphasize the following points. We believe this change results in a better way to account for the impacts of benefit plans on our results. It's more straightforward, aligns with fair value accounting concepts, and is more transparent. Our accounting will reflect the impact of interest rate changes, asset returns, and healthcare claims experienced in the year in which they occur and not amortize them over time. And by changing where we record these adjustments it will provide a much better reflection of Wireline operational results without the volatility caused by market-based adjustments.

Lastly and importantly, this accounting change does not impact cash flow in any way nor does it change the funding status of any of our pension plans. John, I will turn it back to you and we will take a few questions.

John Doherty - *Verizon Communications, Inc. - SVP, IR*

Thanks, Fran. Brad, let's open it up for a few questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Barden, Bank of America.

David Barden - *BofA Merrill Lynch - Analyst*

Thanks for taking the question and apologies if it kind of washes into this fourth-quarter call that we are going to have. But just as an anchor point for our forward-looking expectations, I think we have gone back to those comments about the first half of 2010 when John Killian was talking about ex-ALLTEL, ex-Frontier there was about $1.01 of adjusted pro forma historical earnings in the first half of 2010 and then you guys gave guidance at the high end of a 5% to 10% growth rate for the second half, which you kind of put the full year at kind of a $2.11 number. And then from that number we have been trying to project into the future.

Could you kind of reset those numbers now for the new accounting treatment and what that would look like with the new accounting looking backward so we could kind of get a sense as to where our starting point is now for the year? Thanks.

Fran Shammo - *Verizon Communications, Inc. - EVP & CFO*

So, David, thank you for the question. If you go to the last page of the 8-K, the answer to your question is if you look at the first three quarters of 2010 it would cumulative be a $0.03 reduction off of those adjusted EPS numbers. So you can assume that the fourth quarter will be a $0.01 impact.

David Barden - *BofA Merrill Lynch - Analyst*

And is that adjusted for the ALLTEL and the Frontier divestitures?

Fran Shammo - *Verizon Communications, Inc. - EVP & CFO*

Yes, that is after the ALLTEL divestitures and the Frontier divestitures. And if you want to take a look at 2011, because I am sure everybody is going to ask the question, if you take the full pension and OPEB expense charges in 2010 and we look at 2011, all-in I would say we are going to be zero to slightly positive from this entire accounting change and all the other assumptions and things that go into that.

But also I think it's critical that, John committed and I reinforced it in some of my meetings with everyone, the fact that we stated that we would grow EPS of the back half of the year by 5% to 10%. And we will be on the upper end of that range.

David Barden - *BofA Merrill Lynch - Analyst*

Okay, that is super helpful. Thanks a lot, guys.

Operator

Michael Rollins, Citi.

Michael Rollins - *Citi - Analyst*

Thanks for taking the question. I guess when you look at CapEx there is a certain amount that gets capitalized and I would just have thought a part of that would have included some of the pension expenses. Was there a reason why depreciation wasn't affected by the change in the accounting? Thanks.

Fran Shammo - *Verizon Communications, Inc. - EVP & CFO*

Bob, do you want to take this question?

Bob Barish - *Verizon Communications, Inc. - SVP & Controller*

I think when Fran referenced that the results for 2010 had a $0.01 impact on the negative side in each of the three quarters and the expectation in the fourth quarter that is effectively the change in the capitalization methodology which basically went down that will force more of the overall pension expense to be cleared to expense.

And what was the other part of your question?

Michael Rollins - *Citi - Analyst*

Well, just if some of the pension was capitalized, I was just wondering why there wasn't an effect to depreciation.

Bob Barish - *Verizon Communications, Inc. - SVP & Controller*

There is an impact to depreciation.

Michael Rollins - *Citi - Analyst*

Okay.

Bob Barish - *Verizon Communications, Inc. - SVP & Controller*

It's a small impact and that is what you are really seeing in there. If you look through the 8-K you will see that there is an impact where the overall depreciation is impacted for the change in the capitalization policy. So if you look at the balance sheet you will see an impact on both the gross plant and the depreciation reserve and the corresponding net plant balance. And that will flow through on the income statement.

Michael Rollins - *Citi - Analyst*

Okay, thanks very much.

Fran Shammo - *Verizon Communications, Inc. - EVP & CFO*

Thank you, Michael. I understand there is nobody else in the queue, so with that, Brad, we are going to end the call. I appreciate everybody dialing in on such short notice and we really look forward to seeing you on the 25th in New York.

Operator

Ladies and gentlemen, that does conclude the conference call for today. Thank you for your participation and for using Verizon conference services. You may now disconnect.
