Regional Bell (RBOC) Senior Management Compensation: A Primer in Corporate Greed

(2000-Second Quarter 2002)

(A separate report from)

Regional Bell Revenues, Expenditures and Profits

October 2002

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EXECUTIVE SUMMARY

This Report is a section of "**Regional Bell (RBOC) Revenues, Expenditures and Profits"**

NOTE: The Bell Companies are: BellSouth, Qwest (formerly US West), SBC (including Ameritech, Pac Bell and SNET) and Verizon (including Bell Atlantic, GTE and NYNEX)

Executive Compensation

- Since 1999, the **top executives** from the Bell companies received an estimated **54 million shares of stock options** with an estimated value of **$1 –$2.1 billion dollars** ---almost 10% of all stock options.
- As a group, the top **4 executives made $160 million dollars** in salaries and bonuses, and an additional **25.5 million shares** of stock options, worth an estimated **$404 –$818 million.**
- Since 1999**, Ivan Seidenberg**, Verizon's CEO, made **$54 million in salary**, bonus and retirement funds, as well as stock options of 2.6 million shares, estimated value between **$83-215 million dollars**.
- Ivan Seidenberg's base **salary went up 25%** over the last three years and his bonuses and **"awards" were 1045% above salary.** According to the BellTel Retirees, staffers with 30 years at the company haven't gotten a cost of living increase in a decade.
- **Edward Whitacre, Jr**. of SBC made **$115 million** in salary and stock options, which is **65% of all money** paid to SBC top executives.
- **Joseph Nacchio** of Qwest made **$36 million in salary** in the last three years and the stock options were valued from **$238 to $603 million.**
- The mergers of the various Bell companies have benefited the senior executives with bonuses and rewards worth millions per person.
- Executives can get **free personal use of aircraft**, **apartments,** spending money for "club" memberships, and "**golden parachutes"** worth millions of dollars.
- Who Controls the Board of Directors? The Bell Tell Retirees claim that Verizon's Board of Directors is **"infested with conflicts of interest",** who control the executive pay and perks.

1. Compensation of Bell Executives

The recent revelations about executive pay and perks at GE, TYCO, Global Crossing and Worldcom question the behavior of top executives at companies, rewarding themselves over the other employees or their shareholders.

The Bells' compensation plans for top executives appear to have the same foilables. To make matters worse, the question becomes whether companies that still serve utility functions (who are required to serve the public at 'fair and reasonable' rates because of their monopoly status) should be held to the same standard as 'free market' companies with competition?

We will look at both the top executives' salary, as well as the bigger picture, the overall executive management that controls the companies and their resources.

The exhibit below gives the number shares and estimated values of the Bell Executives' stock options for the last three years, 1999-2001. Based on the Bells' own valuations of the stock, the top executives in the four companies have options that are estimated in value between $1 billion and $2 billion dollars. (Please note that Verizon and Qwest have estimates of 5% and 10% increases, while BellSouth and SBC use are "accordance with the Black-Scholes option valuation model" method to calculate potential earnings.)

Bell Senior Management Stock Options, 1999-2001
($000 for Estimated Values)

	Shares	Estimated value	Estimated value
Verizon	14,756,166	$ 424,441	$ 1,019,324
Qwest	26,500,000	$ 428,270	$ 1,085,087
BellSouth	5,006,760	$58,111	
SBC	7,399,000	$ 93,392	
	53,661,926	$1,004,214	$ 2,104,411

This represents 7-10% of all stock options the companies give to employees.

This next exhibit gives the salary and stock options for the top executive at each of the four Bell companies. This group had approximately $160 million in salaries over the last three years and stock options with an estimated value of between $400-800 million dollars. (As we stated previously, the companies have different methods or representing the potential values of the stock.)

Bell Executive's Salary and Stock Options, 1999-2001

($000 for Salaries and Estimated Values)

	Salaries	Stock options	Est. Value	Est. Value
Joseph P. Nacchio, Qwest	$36,420	16,250,000	$237,956	$603,028
F. Duane Ackerman, BellSouth	$10,101	1,864,138	$22,570	
Ivan Seidenberg, Verizon	$54,495	2,552,560	$82,832	$214,660
Edward Whitacre, SBC	$ 58,934	4,814,000	$ 60,539	
Total	$159,950	25,480,698	$403,897	$817,688

(Note: This information does not contain all perks and stock awards.) In order to examine these issues more closely, we have included a discussion of each Bell company's executive salaries and stock options.

1.1 Verizon' Senior Management

NOTE: Verizon was formed as the merger of Bell Atlantic (which previously merged with NYNEX) and GTE.

This first exhibit reveals that the top 6 Verizon managers received 2.9 million stock options in 2001 with a potential value of $102-$258 million dollars. This figure accounts for 8.7% of all options. Obviously the Verizon stock has suffered like so many other stocks, however, this exhibit appears in the Verizon 2001 Information Required In Proxy Statement (Schedule 14a.) This represents only one year, 2001.

Potential Realizable Value At Assumed Annual Rates Of Stock Price Appreciation For Option Term. 2001
($000 for Estimated Values)

	Stock	% options	5%	Est. value if increased 10%
Charles R. Lee, Chair, & Co-CEO	915,700	2.7%	$32,375	$82,04
Ivan G. Seidenberg, Pres., & Co-CEO	784,900	2.3%	$27,751	$70,32
Lawrence Babbio, Jr., Vice Chair, Pres.	419,727	1.3%	$13,305	$33,25
Michael T. Masin, Vice Chair & Pres.	302,500	0.9%	$10,695	$27,10
Frederic V. Salerno, Vice Chair & CFO	264,900	0.8%	$9,365	$23,73
Dennis F. Strigl, President & CEO	245,300	0.7%	$8,672	$21,97
	2,933,02 7	8.7%	$102,166	$258,44

During the Year 2000 when the GTE and Bell Atlantic merger was put into motion, these six individuals received 10.1% of all stock options with an estimated value of $151-380 million. Ivan Siedenberg's stock options for 2000 had a potential market value of $37-95 million dollars, according to Verizon.

Potential Realizable Value At Assumed Annual Rates Of Stock Price Appreciation For Option Term. 2000
($000 for Estimated Values)

	% options	5% increase	10% increase
Charles R. Lee	1.3%	$ 29,612	$75,043
Ivan G. Seidenberg	2.7%	$ 37,434	$94,864
Lawrence T. Babbio, Jr.	2.0%	$ 27,953	$69,599
Michael T. Masin	1.4%	$ 17,956	$45,504
Frederic V. Salerno	1.6%	$ 22,021	$55,807
Dennis F. Strigl	1.1%	$ 15,635	$39,621
	10.1%	$150,611	$380,438

Over the last three years this group has received a total of 9.8 million shares with an estimated value of $424 million to $1.1 billion. The group has made $194 million dollars in salaries and other perks.

Top 6 Verizon Executives, 1999-2001
($000 for Salaries and Estimated Values)

	Salaries	**Shares**	**Est. value**	**Est. value**
Verizon	$193,638	14,756,166	$ 424,441	$ 1,019,324

It should also be observed that there were overlapping functions of some of the executives – Charles Lee and Ivan Seidenberg were “Co-CEOs’ – and the company paid double for the CEO position.

Besides salaries and stocks, some of the perks were very sweet, such as reimbursements for personal use of the company aircraft: $675,000 dollars for six executives.

> “These amounts include incremental costs for personal use of Company aircraft by Messrs. Lee, Seidenberg, Babbio, Masin, Salerno, and Strigl in the amounts of: $72,085; $130,873; $97,605; $101,860; $140,752; and $151,525, respectively.

These are just a few of the perks. Lawrence T. Babbio JR, vice-chairman and president of Verizon, has a compensation agreement that gives him not only free personal use of the aircraft, but $31,000 to pay for club dues and memberships, a car with driver and an apartment. Some of the perks are listed below:

- **"Flexible Spending Account:** A flexible spending account of $31,000 per year shall be available for such items as club initiation fees, club memberships, and automobile payments.
- **Financial Planning:** You are eligible for reimbursement of the cost of using...up to an annual maximum of $9,000.
- **Company Aircraft:** You shall be eligible to use Company aircraft for business and personal travel, subject to the availability of the aircraft.
- **First-Class Air Travel:** When Company aircraft are not available for business travel, you shall be eligible for first-class commercial air travel.
- **Company Automobile:** You shall be eligible to use a Company automobile and driver for business and personal travel.
- **Home Office Equipment:** You shall be eligible for home office equipment (e.g., computer, fax machine, business line with long distance, and internet access) on an as-needed basis, consistent with Company policy as in effect from time to time.
- **Cellular Telephone:** You shall be provided with cellular telephone equipment and service.
- **Apartment:** You shall continue to be provided with your current apartment (or a similar apartment) in New York City.

1.2 Merger Related Executive Gifts

There was a number of other merger payout bonuses specifically for the executives of then Bell Atlantic. One was called an "Implementation Executive Incentive".

> "Upon completion of the Merger between Bell Atlantic and GTE, each of the above executives will become entitled to receive a merger implementation incentive. The projected amount of each implementation incentive is as follows:"

Implementation Executive Incentive

Mr. Babbio	$2,166,000
Mr. Cullen	$3,669,000
Mr. Salerno	$1,969,000
Mr. Seidenberg	$3,825,000
Mr. Young	$1,140,000
Total	$12,769,000

This merger benefit was not only in cash payments, but there was also something called a "Founders Grant".

> "Shortly following the close of the merger, the Human Resources Committee (HRC) approved a Founders' Grant of stock options to the Senior Manager Group and other employees of Verizon. The design

> and structure of the Founders' Grant was based on market data which indicated that many companies make special, broad-based equity grants and significant special management equity grants at the time of mergers. In conjunction with the Founders' Grant, all senior managers also received a grant of performance share retention units (PSRUs). These grants of options and PSRUs were made to recognize the creation of a new company -- Verizon -- and to retain, energize and motivate employees. "

These grants, options other perks were quite substantial --- Valued at $28,171,000 each executive.

> "In addition, on September 7, 2000, Mr. Lee and Mr. Seidenberg each received a Founders' Grant of 650,000 stock options and 150,000 PSRUs"

1.3 How the Executives Control the Environment

How do these company execs control this environment? They control the Board of Directors and therefore control the decisions, including the executive compensation plans. According to the BellTel Retirees who are comprised of the ex-employees of Verizon, they state:

> "Our Board's lack of independence is unusual among leading public companies. Among S&P 500 companies, 89% have a majority of independent directors, as defined by the Council of Institutional Investors. In contrast, at least eight of Verizon's 16 directors are non-independent. In addition to the two co-CEOs, six outside directors are viewed as non-independent due to board interlocks or because their own employer receives grants, fees, or business from the Company, or did in the recent past. While the Board claims it is sufficiently independent based on its own more permissive definition, we believe that a By-Law based on CII's definition of "independent" is needed to ensure the Board is at all times more accountable to stockholders than it is beholden to management. "

And in a 1999 Proxy Statement, (April 10, 2000) the BellTell retirees outlined just some of the existing conflicts of interest. (BellTel Retirees Item 5 on Proxy Card)

> "The Board has been infested with conflicts of interest. In addition to 5 employee directors, 6 of the outside directors on the current board were non- independent in 1999 due to board interlocks, or because their own organizations received substantial grants or fees from Bell Atlantic. With respect to interlocks, Ivan Seidenberg, our Company's

> CEO, sits on the board that employs and sets the salary of board member Stafford. Seidenberg also sits on the board of CVS, where board member Goldstein was chairman and CEO until he retired during 1999. A third outside director, Eckhard Pfeiffer, is now technically independent only because he stepped down last year as CEO of Compaq, where Company V.P. Babbio sat on Compaq's board of directors. Three other outside directors (Price, Kennan and Kean) head nonprofits that have received substantial grants from the Bell Atlantic Foundation. A seventh outside director (Kaplan) is Of Counsel to one of the Company's primary law firms.“

1.4 Ivan Seidenberg’s Compensation Plan

Anyone reading a compensation plan for the CEO will be struck by just how much money the executive receives in just how many ways. The following exhibit are just some of the revenues and perks received. Since 1999, Seidenberg has received approximately $42 million dollars in salary and other “incentives”. This includes $7 million in “Short Term Incentives”, “Stock Award” of $6.6 million dollars, “Long Term Incentives” of $6.2 million, and other compensation totally $17.8 million dollars. His ‘retirement package also includes approximately $12 million of contributions from Bell Atlantic/Verizon.

Seidenberg has had a 25% increase in salary over the last three years, his annual fees come to over $14 million, which is about 1145% higher than his base salary.

One of the reasons for this bizarre series of payouts, besides making it nearly impossible to track, is the saving in taxes. According to the SBC 2001 proxy statement, the IRS only allows deductions for salaries under $1 million dollars.

> “LIMIT ON DEDUCTIBILITY OF CERTAIN COMPENSATION—Federal income tax law prohibits publicly held companies, such as SBC, from deducting certain compensation paid to a Named Officer that exceeds one million dollars during the tax year. To the extent that compensation is based upon the attainment of performance goals set by the Committee pursuant to plans approved by the shareowners, the compensation is not included in the computation of the limit. Although the Committee intends, to the extent feasible and where it believes it is in the best interests of SBC and its shareowners, to attempt to qualify executive compensation as tax deductible, it does not intend to permit this arbitrary tax provision to distort the Committee's development and execution of effective compensation plans. Thus, the Committee will continue to exercise discretion in those instances where the mechanistic approaches necessary under tax law considerations could compromise the interests of shareholders.”

By dividing the money up into separate components, the company can deduct the parts differently than simply as a lump sum.

Ivan Seidenberg's Salary, Bonuses and Stock Awards
1999-2001 ($000)

	1999	**2000**	**2001**	**3 Year Total**
Salary	$1,200	$1,350	$1,500	$4,050
Short Term Incentive	$2,106	$2,577	$2,438	$ 7,121
Other Compensation	$228	$ 149	$ 190	$ 567
Stock Award		$6,563		$ 6,563
Long Term Incentive			$6,188	$6,188
Other Compensation	$9,620	$5,096	$3,132	$17,849
Annual	$13,155	$15,735	$13,448	$42,337
% Above Salary	1096%	1166%	897%	1045%
Retirement			$12,158	$ 54,495

It is the stock options that show a great deal more potential income. According to the 2000 and 20001 Proxy Statements, the potential value of the stock (which can be redeemed as late as 2010) can appreciate from $82 million to $215 million dollars in additional revenue.

Seidenberg Stock Options, 1999-2001
($000 for Estimated Values)

	Stock Options	**5% increase**	**10%**
2001	784,900	$27,751	$70,327
2000	1,179,420	$37,434	$94,864
1999	588,240	$17,647	$49,469
	2,552,560	$82,832	$ 214,660

1.5 Golden Parachutes

The BellTel Retirees put this issue into perspective. The top executives all have very large financial packages, which they can take when they leave the company for almost any reason.

> "Golden parachutes" and "golden good-bye" agreements are among the most costly, wasteful and anti-shareholder forms of executive compensation. Our Company's executive officers are covered by multi-million dollar parachute provisions that can be triggered not just

> by a hostile change of control, but even by voluntary resignation under a range of circumstances that we believe are contrary to stockholder interests.

For example, Ivan Seidenberg essentially continues to receive the same money for three years along with gifts of an annual grant of stock eight times his base salary and increases of 5% annually. (Source: proxy statement 2002)

> “If Mr. Seidenberg's employment is involuntarily terminated without cause or if he is constructively discharged, he will receive the following benefits for the period ending three years after his termination:

- “monthly payments based on his base salary increased by at least 5% annually;
- “annual payments equal to the short-term bonus he would have been entitled to receive;
- “vested rights in the remainder of his long-term performance incentive award;
- “an annual grant of stock options equal to 8 times his annual base salary increased by at least 5% annually; and
- “the excess, if any, of the compensation earned by the Company's Chief Executive Officer during this period over the amounts paid to Mr. Seidenberg pursuant to his agreement.”

And it is clear that these golden parachutes are not given to the overall majority of Verizon staff. According to the BellTel proxy filing, retirees, many with 30 years with the company, have not even received the cost of living adjustments for over a decade.

> “Compare this to the treatment of Company retirees, many with 30 or more years of loyal service. Most retirees have not received a pension cost-of-living adjustment in over 10 years, allowing inflation to steadily erode the purchasing power of pensions earned over long careers. This breaks with the Company's previous tradition of granting adjustments every two or three years at one half of the rate of inflation. Although the lump sum payments to some retirees in 2000 (which was not a pension increase nor inflation-related) were a step in the right direction, the Company's retirement benefits policy as a whole is inadequate and unfair to most retirees.”

It should be made clear that Verizon is not the only Bell company who has made “golden parachutes” for Senior Executives a standard. The Association Of US West Retirees (the original name for Qwest) in their 2001 proxy statement, stated that CEO Joe Nacchio received $96.2 million in 2000 alone.

> "We agree with Proponents' view that multi-million dollar parachute agreements like those at Qwest - - and particularly the provisions pertaining to CEO Nacchio, who received total compensation of $96.2 million in 2000 - - are contrary to shareholder interests because they may be triggered even by voluntary departures in situations that do not involve a hostile change in control of the company."

1.6 SBC Communications – Ed Whitacre's Company

Unlike Verizon's top heavy management, it is clear from the proxy statements and other documents that one person, Edward Whitacre, Jr. received the largest rewards, even compared to the other companies, such as Ameritech and Pac Bell, that the company merged with.

SBC Stock Options for Top Executives, 2001
($000 for Estimated Values)

	Stock Options	**Est. Value**
Edward E. Whitacre, **Jr.** Chairman, CEO	3,605,814	$43,675
Stanley T. Sigman, Group Pres., COO	368,771	$4,818
James D. Ellis, Senior Exec. VP	289,683	$4,531
Edward A. Mueller, Pres., CEO, Ameritech	226,783	$3,586
Rayford Wilkins, Jr. Pres. CEO, Pac Bell	229,083	$3,628
	4,720,134	$60,238
	76%	73%

Take, for example, the stock options that were given to the senior executives of SBC for 2001 The exhibit above shows that of the $60.2 million dollars in stock options for 2001, Ed Whitacre got options valued at $43.7 million which represented 73% of the total value.

Counting the last three years of salary, long-term compensation and awards, and the value of the stock options, Ed Whitacre made $115 million, as compared to the other executives who made as a group $60 million. Whitacre's compensation was approximately 66% of the total in salary and 65% of the total stock options to executives.

SBC Executive Compensation, 1999-2001
($000)

	Salaries	Stock options	Total
Edward E. Whitacre, Jr,	$54,120	$60,539	$114,659
Other Execs.	$27,322	$32,856	$60,178
Total	$81,442	$93,395	$174,837

66.5% 64.8%

1.7 BellSouth Senior Management

BellSouth is the only Bell that hasn't had a major merger with another Bell or outside company, though BellSouth has merged some of its wireless assets to form Cingular with SBC.

Compared to Verizon or SBC's Whitacre, BellSouth's senior management seems to have been held somewhat more accountable to shareholders. It can be argued that Verizon and SBC are combinations of other Bell companies and thus these executives should receive higher compensation. Also, we are not claiming that the compensation for BellSouth senior management is "fair and reasonable', considering that monopoly phone and data customers are paying these salaries.

The exhibit below details the "Salary", "Stock Options" and "Estimated Value" for the last three years. Combined, this group of five executives received $40 million in salaries for the last three years (1999-2001), and $58 million in stock options, the value stated in the companies' own proxy statements.

BellSouth's Senior Management Salary, Stock Options and Estimated Value, 1999-2001

($000 for Salaries and Estimated Values)

	Salary	Stock Options	Est. value
F. Duane Ackerman, Chairman, Pres., CEO	$ 10,101	1,864,138	$ 22,570
Jere A. Drummond Vice Chair Ext. Affairs	$ 4,545	1,051,338	$ 12,123
Ronald M. Dykes, CFO	$ 9,279	667,838	$ 8,965
Gary D. Forsee, Vice Chair, Domestic Ops.	$ 8,959	861,046	$ 7,563
Francis A. Dramis, Jr., CIO E-Commerce	$ 7,993	562,400	$ 6,889
	$ 40,876	5,006,760	$ 58,111

1.8 Qwest

Qwest was an independent phone and data company that merged with US West and it has been under scrutiny for some of its business transactions. Joseph Nacchio who ran Qwest has since left the company.

On the salary side, Joseph Nacchio was making considerably more than the other Qwest executives, with $36 million for the last three years.

Qwest Senior Executives Salaries and Bonuses, 1999-2001 ($000)

	Salaries
Joseph P. Nacchio, Chairman and CEO.	$36,420
Afshin Mohebbi, President and COO.	$4,139
Drake S. Tempest.	$5,456
James A. Smith, Exec VP	$6,892
Robin R. Szeliga, Executive Vice President	$2,216

1) For 2001 and 2000
2) For 2001 only

The stock options, however, were not in line with anything that might be considered ‘fair and reasonable’. This would not be a concern if it wasn’t for the fact the US West phone and directory properties have been the major funder of the company’s business profits.

Though there has been some personal changes, as a group, the top 6 executives received stock options with a potential value of $428 million to $1.1 billion dollars, representing some 26.5 million shares of stock. In 2001 alone, five of the executives received 35% of all options.

Stock Options for Qwest Executives, 1999-2001
($000 for Estimated Values)

	Stock Options	**Est. Value**	**Est. Value**
Joseph P. Nacchio	16,250,000	$237,956	$603,028
Afshin Mohebbi	5,600,000	$113,175	$ 286,809
Drake S. Tempest	1,200,000	$19,030	$48,227
James A. Smith	750,000	$2,642	$6,697
Robin R. Szeliga	1,000,000	$ 15,324	$ 38,605
Stephen Jacobsen (3)	1,700,000	$ 40,138	$ 101,718
	26,500,000	$428,269	$ 1,085,087

3) For the years 2000 and 1999

In 2001, Joe Nacchio received 7.25 million shares of stock options representing 22% of all options, with an estimated value of between $77 –194 million dollars. Over the last three years, he has been given 16.25 million shares, with an estimated value of $238 to 603 million dollars in options.

APPENDIX ONE Verizon Senior Management, 2001

Ivan Seidenberg is chief executive officer for Verizon. On March 11th, 2002, Verizon announced the acceleration of the transition of Mr. Seidenberg to sole CEO, effective April 1, 2002. As chief executive of Bell Atlantic, and previously of NYNEX, Ivan Seidenberg was instrumental in reshaping the communications industry through two of the largest mergers in its history: the merger of Bell Atlantic and NYNEX in 1997 and the Bell Atlantic merger with GTE in 2000.

Charles R. Lee is chairman of the Board of Verizon. Verizon announced on March 11, 2002, that the corporation would accelerate the leadership transition plan announced at the time of the Bell Atlantic and GTE merger, of Ivan Seidenberg to sole chief executive officer, effective April 1. Lee retired from Verizon on June 30, 2002. He will serve as non-executive chairman of the Board until June 2004. Prior to the announcement, Lee was Verizon's chairman and co-CEO. Before the merger, Lee was chairman and chief executive officer of GTE Corporation. Prior to that, he was chairman and chief executive officer-elect since December 1991.

Lawrence T. Babbio, Jr., is vice-chairman and president of Verizon, with responsibility for the company's domestic wireline business. He is also responsible for long distance, information technology, procurement services and technology research. Babbio is also a member of the board of directors of Verizon Wireless. Prior to the Bell Atlantic / GTE merger, Babbio was president and chief operating officer for Bell Atlantic.

Fred Salerno After two years as Verizon's vice chairman and chief financial officer, and more than 37 years of service to the business, Fred Salerno will retire at the end of September 2002. He plans to devote more of his time to other business interests, nonprofit activities and his family. Prior to the Bell Atlantic / GTE merger, Salerno was senior executive vice president and chief financial officer of Bell Atlantic.

Michael T. Masin is vice chairman and president of Verizon Communications, the company formed by the merger of GTE and Bell Atlantic. He is responsible for international wireline and wireless operations, international connectivity, domestic and international directories and information services. Before the merger, Masin was vice chairman of GTE since October 1993

Dennis F. Strigl is executive vice president of Verizon Communications, and president and CEO of its domestic wireless business, Verizon Wireless, which includes the U.S. assets of Bell Atlantic, GTE and Vodafone AirTouch. Prior to the Bell Atlantic / GTE merger in July 2000, Strigl was president and CEO of Bell Atlantic Global Wireless.