FIN684

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Industry: Communication Services

This report is published for educational purposed only by students in FIN684 in the St. John's University Tobin College of Business.

Verizon Communications Inc.

Ticker:	**VZ** *(NYSE)*	Recommendation:	**BUY**
Price:	**$ 38.47** *(as of May 7, 2008)*	Price Target:	**$ 42.00**

Earnings/Share

2007A	**0.51**	**0.58**	**0.44**	**0.37**	**1.90**	**23.4x**
2008E	**0.57**	**0.60**	**0.49**	**0.42**	**2.08**	**18.8x**
2009E	**0.60**	**0.80**	**0.55**	**0.55**	**2.40**	**18.0x**

www.verizon.com

Highlights:

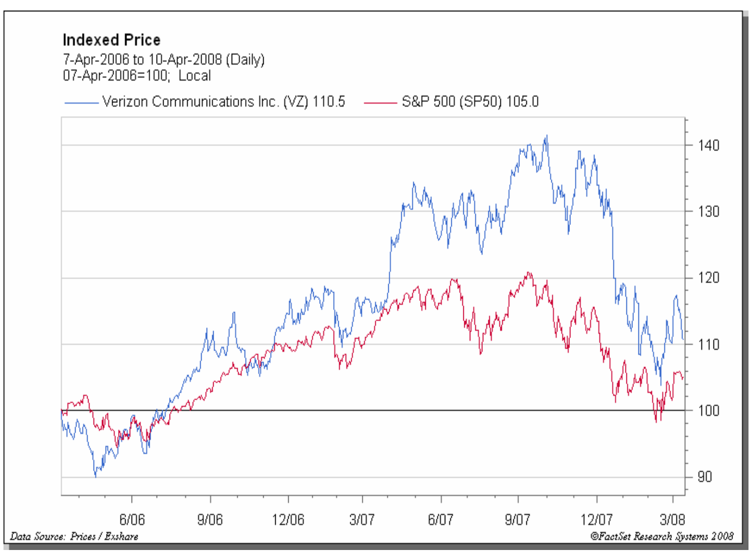
- **Buy Recommendation:** The team believes that Verizon has the probability to outperform average market performance over the next year. The DDM and FCF model showed the stock value is currently marginally undervalued.

- **Strong Financials:** Verizon Communications Inc., the second-largest U.S. phone company, said first-quarter profit jumped 9.8 percent as mobile-phone customers spent more on text messages and wireless Internet browsing.

- **Investment Strategy:** Verizon Wireless is planning to use the airwaves it won in a government auction last month for its next generation of high-speed wireless services, expected to debut around 2010. It promises faster access and better data transfer.

- **Performance of Stock:** Verizon has a higher return compared to the S&P500 index for the past two years

VZ Daily Price Indexed to S&P500



Market Profile	
52 Week Price Range	46.24-33.15
Average Daily Volume (3 months)	13.41M
Beta (3 years)	1.08
Dividend Yield	4.42%
Shares Outstanding (5/7/08)	2.85 Bn
Market Capitalization (5/7/08)	110.80 Bn
Institutional Holdings (as % shares outstanding)	27.17%
Insider Holdings	0.011%
Book value per Share (12/31/07)	$ 17.58
Debt to Total Capital	39%
Return on Equity	9.4%

Investment Summary

Our team has identified the following potential scenarios and the corresponding performance of the stock price.

Market Price			
	Base	Bust	Boom
2007	$ 44.50	$ 44.50	$ 44.50
2008	$ 42.93	$ 27.80	$ 54.42
2009	$ 43.97	$ 28.31	$ 65.05

Competitive Landscape: To counter Apple Inc.'s iPhone, the Web-browsing music phone that's been offered exclusively by AT&T since June, Verizon has introduced devices such as the Voyager by LG Electronics Inc. and the Juke by Samsung Electronics Co. Both play music, and the Voyager has a large touch screen similar to the iPhone's.

Strong Financials: Verizon Communications Inc., the second-largest U.S. phone company, said first-quarter profit jumped 9.8 percent as mobile-phone customers spent more on text messages and wireless Internet browsing.

FIOS Advantage: Verizon is spending $23 billion over seven years on its fiber-optic network, called FiOS, which can deliver TV programming. The company plans to make it available to 18 million homes by the end of 2010, up from about 9 million last year. Verizon added 263,000 new FiOS customers, compared with Hodulik's 270,000 estimate.

Figure 4: Two year VZ Daily Stock Price History

Valuation

Discounted Cash Flow to Equity

This is a measure of how much cash can be paid to the equity shareholders of the company after all expenses, reinvestment and debt repayment. Calculated as: FCFE = Net Income - Net Capital Expenditure - Change in Net Working Capital + Depreciation. Our team felt this model does not give an accurate representation of the value of the stock because the capital expenditure figures on the balance sheet were negative thus skewing the free cash flow to equity holders. This particular model yielded a stock price of $110.

Enterprise Valuation

Broadly speaking, a company's assets are financed by either debt or equity. WACC is the average of the costs of these sources of financing, each of which is weighted by its respective use in the given situation. By taking a weighted average, we can see how much interest the company has to pay for every dollar it finances. A firm's WACC is the overall required return on the firm as a whole and, as such, it is often used internally by company directors to determine the economic feasibility of expansionary opportunities and mergers. It is the appropriate discount rate to use for cash flows with risk that is similar to that of the overall firm.

The free cash flow approach used below accounts for a bust, boom, and base case. In addition, a multistage approach was used to forecast the stock price based on a increasing growth rate from 5% to 8% to 2012. After that, our team expects the company to grow at a rate of 3.5% indefinitely. Our team believes the growth rate used for the company is realistic and achievable by Verizon.

Dividend Discount Model (DDM)

The average dividend growth for the last five years was used to project the dividend distribution up to 2012. The payments were determined using average dividend growth of 1.38%. The values were then discounted to their present value for a total of $10.76.

After 2012, a constant dividend terminal growth rate of 3% is used. The target price came out to be $45.48.

Earnings Estimate (EPS & P/E)

Based on our pro forma income statement, we believe that Verizon looks like a healthy investment. Our common size numbers were evaluated by taking the average from the previous three years. In the situation that it wasn't an average we indicated it in our analysis and why we thought it helped our forecast.

Base Scenario

In the base scenario, we incorporated revenue growth of 7.5% in 2008, and 8% growth 2009. We based these growth numbers by averaging projected growth retrieved from Factset and estimating growth received from Thomson Baseline. After evaluating both figures, we felt that this growth rate would be a healthy evaluation. With recent first quarter numbers show a 5.5% increase in revenue, we feel a 7.5% revenue increase for the year 2008 is a very conservative approach for our evaluation. In our base scenario, we kept a steady cost of goods sold. We estimated the PE ratio to be 18.84 in 2008. This was derived from current financial data on Verizon.

Bust Scenario

In the base scenario, we incorporated revenue growth of 3% in 2008, and 3% growth 2009. We based these growth numbers by of the first quarter growth rate of 5.5%. In a bust scenario, a growth rate of under 5% would be a healthy projection. In our bust scenario, we increased the cost of goods sold each year. Our PE estimate of 15.00 was from growth numbers projected by Forbes. When doing our research, the PE ration of 15.00 was conservative projection in relation to the projected EPS.

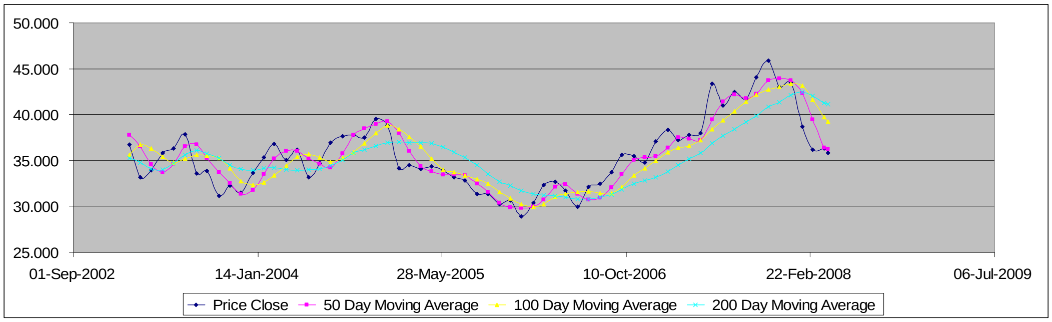
Boom Scenario

In the base scenario, we incorporated revenue growth of 12% in 2008, and 11% growth 2009. We based these growth numbers by of the first quarter analysis from Thomson Baseline. In a boom scenario, we decreased our cost of goods sold each year and minimized expenses. Our PE estimate of 19.84 in 2008 was based on the current PE ration of the security.

Stock Price Performance:

Verizon has a higher return compared to the S&P500 index for the past two years as shown in the figure on page 1 of the report. Our team have also analyzed the moving average technical analysis on Verizon and determined the average value of the company's stock price over a period of time. The moving average smoothes series of data and allowed our team to identify trends which is especially useful during volatile markets.

Also the moving average forms the building blocks for many technical indicators and overlays. 50 day MA, 100 day MA, and 200 day MA were used and is shown in the figure below for the past five years. In the figure, it is obvious that when the 50 day MA surpasses both the 100 day and 200 day MA, we see an upward trend in the price of the stock. Our team believe based on the valuation methods used to support the buy recommendation, the stock price will rebound in the short term and is currently undervalued.



Risks to Your Price Target:

There are risks to the price target projected by the models above.

- Slowing economy: share prices could remain under pressure given slowing GDP growth and prolong disruption in the credit market
- Intense price competition on wireless plans from competitors
- Lower capital availability due to business expansion
- Laws and regulation restricting the wireless and FiOS business

Cost of Equity (COE) Determination

The cost of equity (COE) was calculated for Verizon by using the Capital Asset Pricing Model (CAPM). Based on the past three auctions on a 5-year Treasury note, the average rate (2.71%) was used as the risk-free rate. The beta was calculated based on a three year and also ten year monthly regression approach with the S&P 500. Our team decided to use the three-year beta of 1.088 because we think it accurately depicts the volatility of the company is current in as opposed to its long term beta of 0.711.

The cost of equity was computed to be 8.91%. A risk premium of 8.41% was used and is calculated by using the compound annual growth rate for the S&P500 for the past 15 years.

Business Description

Verizon Communications, Inc. (NYSE: VZ) is an American broadband and telecommunications company and a component of the Dow 30. It was formed in 2000 when Bell Atlantic, one of the Regional Bell Operating Companies, merged with GTE. Prior to its transformation into Verizon, Bell Atlantic had merged with another Regional Bell Operating Company, NYNEX, in 1997. The name is a portmanteau of veritas and horizon. Verizon Communications, Inc. provides communication services in the United States and internationally. The company was founded in 1983. The company is based in New York, New York. It operates in two segments, Wireline and Domestic Wireless.

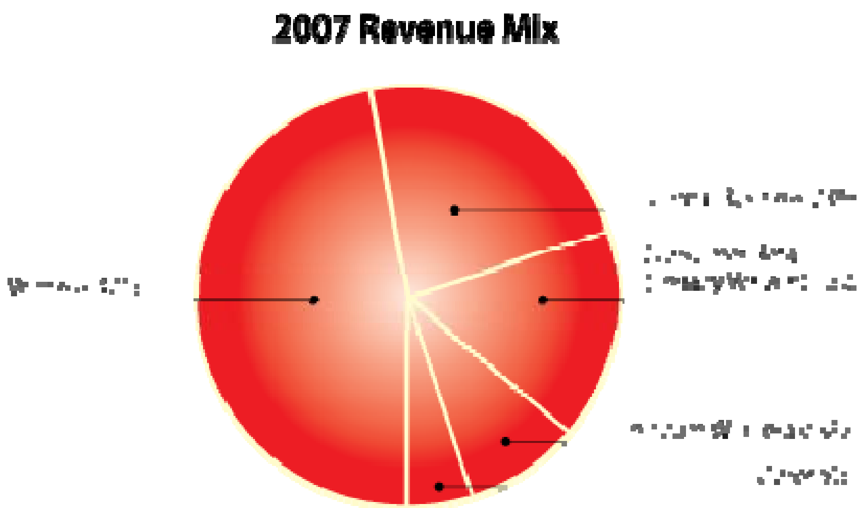
The Wireline segment provides voice, video, and data services to residential and small business customers in 28 states and Washington D.C. It can be broken down through telecommunications and business models. Verizon offers broadband and voice services to residential and small business customers. Broadband services include digital subscriber line (DSL) and FiOS data and television services. Voice services include long distance services, including calling cards, 800/888 and operator services, as well as services, such as voicemail, call waiting and caller identification.

It operates a Fiber-to-the-Premises (FTTP) network under the FiOS service mark. FTTP network offers bandwidth for voice, data, and video services, and FiOS provides broadband access speeds and digital voice services. This segment also offers voice, data, Internet communications, next-generation IP network, and information technology products and services to businesses and government customers, including multinational corporations and state and federal governments. As of December 31, 2007, its network operated approximately 41 million wireline access lines, 8.2 million broadband connections, and had 943,000 FiOS television TV customers.

Verizon 2008 first quarter results were relatively strong. They established 263,000 net new FiOS TV customers and 262,000 net new FiOS Internet customers, for a total of 1.2 million FiOS TV customers and 1.8 million FiOS Internet customers; 8.5 million total broadband customers, up 14.9 percent. They also had more than $1 billion in consumer and small-business broadband and video revenues, 9.6 percent increase in consumer ARPU in legacy telecom markets and 23.5 percent increase in Verizon Business strategic services revenues. All of these increases illustrate a strong future in the wireline segment of Verizon.

The Domestic Wireless segment provides wireless voice and data services across wireless networks in the United States. As of the above date, its network covered a population of approximately 263 million and provided service to 65.7 million customers. In 2007, revenues from domestic wireless have increased 13% from 2006. First quarter results from 2008, continued to show strong results. They acquire an industry leading 1.5 million addition customers, 67.2 million total customers; 65.2 million retail customers, up 11.5 percent. Financials show an Industry-leading churn -- 1.19 percent total churn and 0.93 percent retail post-paid churn. First quarter results showed 13.2 percent increase in total revenues; data revenues up 48.9 percent and 44.9 percent EBITDA margin on service revenues (non-GAAP).

Revenue contribution by business segment for fiscal year end December		
	2007	2006
Wireline	55%	58%
Domestic Wireless	45%	42%



Other Headings Relative to Company

- Verizon Wireless is planning to use the airwaves it won in a government auction last month for its next generation of high-speed wireless services, expected to debut around 2010. In a telephone conference with analysts, the company said the $9.36 billion worth of new 700 megahertz spectrum would give Verizon Wireless, the No. 2 U.S. mobile service, enough resources to build a faster wireless data network.
- Verizon has said it expects to start offering FiOS TV, which is delivered over an all-fiber network and aims to compete against cable television, in New York City later this year.
- Qwest Communications International Inc. will stop reselling Sprint Nextel Corp.'s wireless service and move its subscribers to Verizon Wireless' network, Qwest said Monday. The move means Sprint, which is already struggling with a dwindling customer base, will lose more subscribers. Qwest contributed 824,000 to Sprint's rolls of 53.8 million subscribers at the end of last year.
- Verizon Communications reported a rise in quarterly profit and stronger-than-expected growth in wireless subscribers, showing resilience in the face of a U.S. economic slowdown. Verizon said first-quarter profit rose to $1.6 billion, or 57 cents a share, from $1.5 billion, or 51 cents a share, in the year-ago quarter. Adjusted profit rose to 61 cents a share from 54 cents a year earlier, matching the average forecast on Wall Street according to Reuters Estimates. Revenue rose 5.5 percent to $23.8 billion from $22.6 billion.

Industry Overview and Competitive Positioning

Verizon Communications Inc can be considered to operate in several sectors. Different sources associate Verizon in different sectors. Google associates Verizon in the Service sector, while yahoo considers it in technology and Factset associates with Communications. However, in each source, Verizon is considered to be in the telecommunication industry.

Industry Outlook

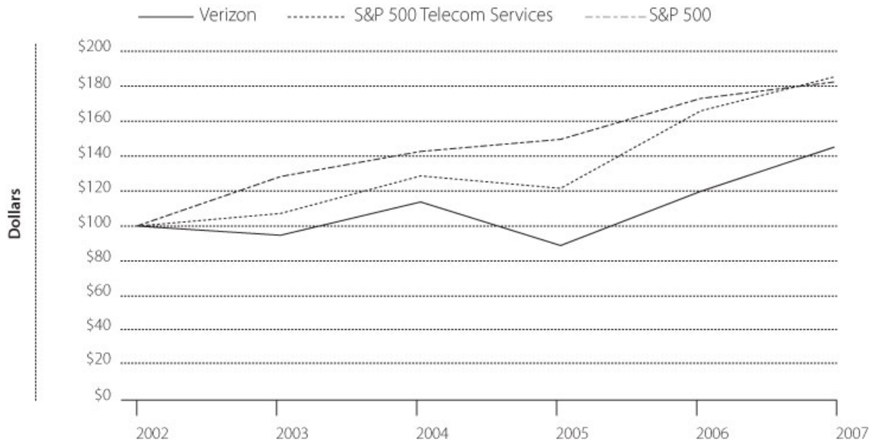
Verizon is a top US telecom services provider. Verizon operates through three divisions: Telecom, Business, and Wireless. Its telecom operations include about 45 million access lines in 28 states and Washington, DC. Verizon Wireless, the company's joint venture with Vodafone Group, is the #2 US wireless provider (after AT&T Mobility, formerly known as Cingular), with around 60 million customers. Verizon Business was formed in 2006 when Verizon bought MCI, creating a global advanced communications and information technology (IT) powerhouse to serve large business and government clients.

“Build it and they will come” was whispered throughout the telecommunications industry in the late 1990s. Following passage of the Telecommunications Act of 1996 and into the new millennium, the telecom sector rode the high-tech current of an economic expansion that, in retrospect, appears to have been built on blind faith.

Industry titans like AT&T and Verizon have spent enormous sums of money to protect their lead against a growing list of competitors and to keep up with technological advances in broadband data delivery, wireless communications, and fiber optics. This turn-of-the-century telecom boom has its roots in the courtroom with legal issues.

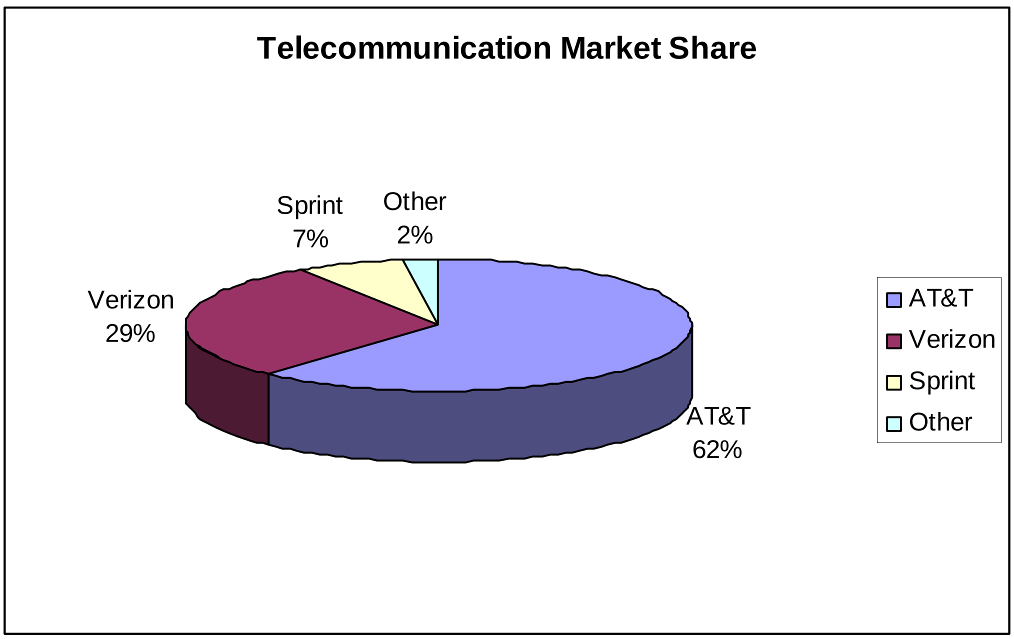
Stock Performance Graph

Comparison of Five-Year Total Return Among Verizon, S&P 500 Telecom Services Index and S&P 500 Stock Index



Data Points in Dollars	At December 31,					
	2002	2003	2004	2005	2006	2007
Verizon	100.0	94.5	113.6	88.5	119.1	145.4
S&P 500 Telecom Services	100.0	107.2	128.5	121.6	166.2	185.9
S&P 500	100.0	128.7	142.7	149.6	173.3	182.8

Competition



DIRECT COMPETITOR COMPARISON					
	VZ	T	Q	S	Industry
Market Cap:	110.88B	234.95B	8.91B	26.18B	564.87M
Employees:	235,000	309,050	36,843	60,000	986
Qtrly Rev Growth (yoy):	5.50%	6.10%	-1.50%	-5.70%	7.50%
Revenue (ttm):	94.72B	120.70B	13.78B	40.15B	385.79M
Gross Margin (ttm):	59.76%	61.39%	78.05%	57.18%	56.63%
EBITDA (ttm):	31.51B	42.38B	4.64B	10.45B	133.50M
Oper Margins (ttm):	18.03%	17.82%	15.81%	3.56%	18.30%
Net Income (ttm):	5.67B	12.56B	2.92B	-29.58B	10.64M
EPS (ttm):	1.961	2.057	1.519	-10.314	0.65
P/E (ttm):	19.83	19.23	3.32	N/A	16.3
PEG (5 yr expected):	1.71	1.2	1.81	8.86	2.75
P/S (ttm):	1.17	1.96	0.69	0.62	1.27

Verizon faces strong competition in the telecommunication industry. The domestic and international market in communications continues to grow. With technology continuing to be researched and developed in the telecommunication field, we expect this trend of growth and development to continue to grow in this industry. Verizon's main competition in the telecommunication industry is AT&T. Other companies like Sprint, T-mobile, and Qwest have minor market share compared to the two juggernauts in the industry. Recent 2008 first quarter reports turned out to be very positive for Verizon. Though AT&T, had a slightly higher revenue increase than Verizon (6.1% compared to 5.5%), Verizon had more wireless subscribers than AT&T (1.5 million compared to 1.3 million).

Financial Analysis

Verizon Communications Inc. is one of the world's leading providers of communication service. They emphasis is on revenue growth, devoting more resources to higher growth markets. They are also focused on gaining market share. The results in 2007 show that this focus on performance and execution is paying off, most notably in their revenue profile. The results in 2008 show that first-quarter earnings rose 9.8 percent as their wireless division signed up more new customers than rival carriers did. Verizon reported steady earnings in a stormy economy capture investors' attention.

Earnings:

Our analysis of the income statement of Q1 in 2008 show steady earning in the recession. Verizon earned $1.64 billion, or 57 cents per share, in the quarter that ended March 31, compared with $1.5 billion, or 51 cents per share, a year ago. Revenue rose 5.5 percent to $23.8 billion from $22.6 billion. Excluding one-time items, earnings were 61 cents per share, matching expectations of analysts polled by Thomson Financial. Verizon has weathered the current economic uncertainty with strong first-quarter results.

Based on the income statement from 2007, they report 5.8% revenue growth, 17.9% operating income growth, 6.2% increase in annual dividend, and $2.8 billion in share repurchases. Verizon's revenues were going up from 2005 to 2007. We just used recent three years to analyze because financial structure has changed due to the acquisition of MCI.

Revenues in 2007 increased by $5,287 million, or 6% compared to 2006. This result was primarily the result of continued strong growth at Domestic Wireless due to increase in service revenues, which include data revenues, and equipment and other revenue. In 2005, the increase was the result of significantly higher revenues at Wireless and Domestic Wireless due to the acquisition of MCI and, to a lesser extent, growth from broadband and ling distance service.

Cost of services and sale increased by $10,900 million, or 44.7% in 2006 compared to 2005. The increase was driven by higher costs attributable to the inclusion of the former MCI operations in the Wireline segment subsequent to the completion of the merger.

Cost of services and sales in 2007 increased $2,238 million, or 6.3% compared to 2006, primarily as a result of higher wireless network costs and wireless equipment costs, as well as higher costs associated with Wireline's growth businesses. The increase was offset by the impact of productivity improvement initiatives and decreases in net pension and other postretirement benefit costs.

Cash Flow:

Verizon primary source of funds continues to be cash generated from operations activities. Cash from operating activities in 2007 increased compared to the similar period of 2006. The increase was due to higher cash flow from continuing operations, offset by decreased cash flow from discontinued operations.

Capital expenditures in investing activities continue to be their primary use of cash flows from operations. Capital spending at Wireline is mainly driven by increased spending in high growth area and capital spending at Domestic Wireless represents their continuing effort to invest in high growth business. In 2008, we believe capital expenditures, including capitalized software, are expected to be lower than 2007 expenditures.

In financing activities, their total debt was reduced by $5.2 billion, due to the repayment of approximately $1.7 billion of Wireline debt. Ratio of debt to debt combined with shareholders' equity was 38.1% at December 31, 2007 compared to 42.8% at December 31, 2006. They used common stock to satisfy some of the funding requirements of employee and shareholder plans. In 2007, they repurchased $2,843 million of common stock. They plan to continue their share buyback program in 2008. Additionally, they received $1,274 million of cash proceeds from the sale of common stock, due to the exercise of stock options.

Balance Sheet:

Total debt at the end of the first quarter 2007 was $34.7 billion, down from $36.4 billion at year-end 2006. Verizon reduced its total debt by $7.7 billion year-over-year, largely as a result of the effect of last year's spin-off of the directories business.

Total Asset in 2007 was reduced by $1.8 billion, due to the decrease on cash and equivalents, such as highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Total liability in 2007 was reduced by 3.9 billion, due to the decrease of long-term debt and short-term debt. Total Shareholders' equity went up from $33.5 billion in 2003 to $50.6 billion in 2007.

They continue to drive value for shareholders. Their investment in advanced network platforms has been a foundation for product innovations and operating efficiencies. They also have divested non-strategic assets while maintaining strong balance sheet and returning capital to shareholders through dividends and share repurchases.

Pro Forma Balance Sheet

On February 14, 2005, acquirement with MCI, formerly WorldCom, has significantly changed Verizon's financial structure. In order to project balance sheet exactly, we used average common sizes or growth rates of the current years from 2005 to 2007 to project the following years. We project the total assets to others based on the average growth rate of 4.2%. We used average common size of 2.4 % plus 0.6% to project affiliate companies, based on Qwest Communications International Inc. and Verizon Wireless announced they have signed a 5-year agreement for Qwest to market and sell Verizon Wireless service beginning this summer. We project Goodwill based on average common size of 2006 and 2007, excluding 2005. We averaged the common sizes over pass three years on other asset items.

We project total liabilities & shareholders' equity according to total asset and. The proportion for total liabilities and shareholders was 7 to 3 based on historical data over the past five years. Due to the large fluctuation between 2005 and 2006 and the sharp decrease on the debt in 2007, we project other equity and liability items based on growth rate in 2007, excluding 2006.

Investment Risks

Industry specific risk

The communication industry is experiencing rapid change as new technologies are developed that offer consumers an array of choices for their communications needs. In order to grow and remain competitive, Verizon will need to utilize future changes in technology to enhance their existing offerings and introduce new offerings to address their customers' changing demands. If Verizon is unable to meet future advances in competing technologies in a timely manner or at an acceptable cost, they could lose customers to their competitors. In general, the development of new services in their industry requires them to anticipate and respond to the varied and continually changing demands of their customers. They may not be able to accurately predict technological trends or the success of new services in the market. In addition, there could be legal or regulatory restraints to the introduction of new services. If these services fail to gain acceptance in the marketplace, or if costs associated with implementation and completion of these services materially increase, their ability to retain and attract customers could be adversely affected.

Verizon is subject to more regulation and have higher cost structures than many of its competitors due in part to the presence of a unionized workforce and a large retiree population in their wire line business. Accordingly, their competitors may be able to offer services at lower prices. The resulting pressure on the price of services they provide may result in reduced revenues and profits. In addition, while the workforce of their wireless business is almost entirely non-union, we cannot predict what level of success unions may have in organizing this workforce or the potentially negative impact of such labor organizing on our costs.

Market risk

Verizon is exposed to various types of market risk in the normal course of business, including the impact of interest rate changes, foreign currency exchange rate fluctuations, changes in equity investment and commodity prices and changes in corporate tax rates. Verizon employs risk management strategies using a variety of derivatives, including interest rate swap agreements, interest rate locks, foreign currency forwards and commodity swaps. They do not hold derivatives for trading purposes.

It is their general policy to enter into interest rate, foreign currency and other derivative transactions only to the extent necessary to achieve their desired objectives in limiting their exposure to the various market risks. Their objectives include maintaining a mix of fixed and variable rate debt to lower borrowing costs within reasonable risk parameters and to protect against earnings and cash flow volatility resulting from changes in market conditions. They do not hedge market risk exposure in a manner that would completely eliminate the effect of changes in interest rates, commodity prices and foreign exchange rates on our earnings. They do not expect that their net income, liquidity and cash flows will be materially affected by these risk management strategies.

Interest Rate Risk

The table that follows summarizes the fair values of our long-term debt and interest rate derivatives as of December 31, 2007 and 2006. The table also provides a sensitivity analysis of the estimated fair values of these financial instruments assuming 100-basis-point upward and downward shifts in the yield curve. The sensitivity analysis does not include the fair values of commercial paper and bank loans, if any, because they are not significantly affected by changes in market interest rates.

(dollars in millions)			
At December 31, 2007	Fair Value	Fair Value assuming +100 basis point shift	Fair Value assuming –100 basis point shift
Long-term debt and interest rate derivatives	$31,930	$30,154	$33,957
At December 31, 2006			
Long-term debt and interest rate derivatives	$33,569	$31,724	$35,607

Foreign Currency Translation

The functional currency for their foreign operations is primarily the local currency. The translation of income statement and balance sheet amounts of their foreign operations into U.S. dollars are recorded as cumulative translation adjustments, which are included in Accumulated Other Comprehensive Loss in the consolidated balance sheets. The translation gains and losses of foreign currency transactions and balances are recorded in the consolidated statements of income in Other Income and (Expense), Net Income from Discontinued Operations, and Net of Tax. On December 31, 2007, Verizon's primary translation exposure was to the British Pound and the Euro.

During 2007, they entered into foreign currency forward contracts to hedge a portion of their net investment in Vodafone Omnitel. Changes in fair value of these contracts due to Euro exchange rate fluctuations are recognized in Accumulated Other Comprehensive Loss and partially offset the impact of foreign currency changes on the value of their net investment. As of December 31, 2007, Accumulated Other Comprehensive Loss includes unrecognized losses of approximately $57 million ($37 million after-tax) related to these hedge contracts, which along with the unrealized foreign currency translation balance on the investment hedged, remain in Accumulated Other Comprehensive Loss until the investment is sold. They have not hedged our accounting translation exposure to foreign currency fluctuations relative to the carrying value of our other investments.

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Appendix A: SWOT Analysis

Strength	**Weakness**
• Strong growth • Decreasing Debt • Solid dividend • Continue R&D • Improving performance • Customer loyalty	• Tough Competition • International Market • Law Suits • Recent Market
Opportunity	**Threat**
• Gain Market share • International Expansion • Expansion of FiOS • Mergers and Acquisitions	• Market Risk • Interest Rate Risk • Foreign Currency Translation • Environmental Matters

Appendix B: Building Blocks

Short-term Liquidity Ratio								
Measure	2007	2006	2005	2004	2003	AT&T	Qwest	Sprint
Current Ratio	0.76	0.70	0.72	0.84	0.71	0.63	0.85	0.95
Quick Ratio(Acid-test ratio)	0.69	0.65	0.67	0.78	0.66	0.63	0.85	0.85
Accounts receivable turnover	8.26	9.08	7.58	6.69	6.04	6.63	8.68	8.31
Inventory turnover	32.02	32.84	24.88	25.41	25.59	N/A	N/A	24.80
Day's sales in receivables	45.20	44.46	44.19	53.66	52.58	54.26	41.18	41.14
Working capital	-6043	-9742	-7380	-3650	-7685	-14588	-636	-443
Day's purchases in accounts payable	31.09	25.67	26.15	35.39	46.66	N/A	N/A	40.03
Operating cycle	26.10	29.72	32.45	33.83	18.79	N/A	N/A	13.99
Cash provided by operations to average CL	0.90	0.82	0.88	0.88	0.82	0.85	0.65	0.98

Capital Structure and Solvency Ratios								
Measure	2007	2006	2005	2004	2003	AT&T	Qwest	Sprint
Total debt to equity	0.63	0.82	0.99	1.11	1.37	0.56	-32.32	0.59
Total debt ratio	0.17	0.20	0.23	0.24	0.27	0.23	0.65	0.27
Long-term debt to equity	0.56	0.59	0.80	0.95	1.18	0.21	0.61	0.93
Financial leverage index	0.55	0.73	0.95	1.12	0.58	0.78	-49.63	2.15
Financial leverage ratio	1.63	2.10	3.51	4.21	4.67	2.37	-49.63	2.15
Altman Z score	5.29	4.18	4.43	4.94	4.27	1.74	-1.39	-1.23

Profit Margin Ratio (%)									
Measure	2007	2006	2005	2004	2003	Industry	AT&T	Qwest	Sprint
Gross profit margin	44.45%	43.46%	45.30%	45.96%	47.67%	34.60%	37.02%	44.00%	34.70%
Operating profit margin	10.16%	9.25%	12.15%	12.13%	6.93%	5.50%	16.95%	4.82%	-74.59%
Net profit margin	5.91%	7.06%	10.73%	12.01%	4.68%	-15.10%	11.14%	21.17%	-73.68%

Return on Invested Capital Ratio								
Measure	2007	2006	2005	2004	2003	AT&T	Qwest	Sprint
Return on assets (ROA)	0.03	0.03	0.04	0.05	0.02	0.04	0.13	-0.37
Return on common equity (ROCE)	0.11	0.14	0.19	0.22	0.10	0.10	-6.61	-0.79
Return on long-term debt and equity	0.04	0.05	0.06	0.07	0.04	0.06	0.02	-0.40

Appendix C: Pro-Forma Income Statement

Report Basis: Annual	31-Dec-09		31-Dec-08		31-Dec-07		31-Dec-06		31-Dec-05		31-Dec-04		31-Dec-03	
Source Document:	Estimate		Estimate		10-K		10-K		10-K		10-K		10-K	
INCOME STATEMENT														
Operating Revenue	$ 115,153.81	**100%**	$ 104,685.28	**100%**	93,469.0	**100%**	88,182.0	**100%**	69,518.0	**100%**	65,751.0	**100%**	67,468.0	**100%**
Cost of Goods Sold	$ 64,364.13	**56%**	$ 58,199.46	**56%**	51,924.0	**56%**	49,854.0	**57%**	38,024.0	**55%**	35,535.0	**54%**	35,308.0	**52%**
Gross Income	$ 50,667.68	**44%**	$ 46,061.52	**44%**	41,545.0	**44%**	38,328.0	**43%**	31,494.0	**45%**	30,216.0	**46%**	32,160.0	**48%**
Selling, General & Admin Expense	$ 32,243.07	**28%**	$ 29,311.88	**28%**	25,967.0	**28%**	24,955.0	**28%**	19,443.0	**28%**	19,346.0	**29%**	24,894.0	**37%**
Other Operating Expenses														
Operating Inc Before Unusual Items	$ 18,509.30	**16%**	$ 17,156.80	**16%**	15,578.0	**17%**	13,373.0	**15%**	12,051.0	**17%**	10,870.0	**17%**	7,266.0	**11%**
Interest/Investment Income (Expense), Net	$ (7,288.61)	**-6%**	$ (6,599.61)	**-6%**	(6,115.0)	**-7%**	(5,416.0)	**-6%**	(4,330.0)	**-6%**	(2,975.0)	**-5%**	(2,771.0)	**-4%**
Interest Expense, Net	$ (2,756.65)	**-2%**	$ (2,681.03)	**-3%**	(1,829.0)	**-2%**	(2,349.0)	**-3%**	(2,129.0)	**-3%**	(2,336.0)	**-4%**	(2,797.0)	**-4%**
Interest/Investment Income	$ (4,531.96)	**-4%**	$ (3,918.58)	**-4%**	(4,286.0)	**-5%**	(3,067.0)	**-3%**	(2,201.0)	**-3%**	(639.0)	**-1%**	26.0	**0%**
Other Income (Expense), Net	$ 264.02	**0%**	$ 453.71	**0%**	29.0	**0%**	197.0	**0%**	727.0	**1%**	82.0	**0%**	178.0	**0%**
Income Before Income Taxes	$ 11,484.72	**10%**	$ 11,010.89	**11%**	9,492.0	**10%**	8,154.0	**9%**	8,448.0	**12%**	7,977.0	**12%**	4,673.0	**7%**
Income Taxes	$ 4,177.90	**4%**	$ 3,760.00	**4%**	3,982.0	**4%**	2,674.0	**3%**	2,421.0	**3%**	2,078.0	**3%**	1,213.0	**2%**
Income After Income Taxes	$ 6,909.23	**6%**	$ 6,281.12	**6%**	5,510.0	**6%**	5,480.0	**6%**	6,027.0	**9%**	5,899.0	**9%**	3,460.0	**5%**
Minority Interest														
Equity In Affiliates														
U.S. GAAP Adjustment														
Net Income Before Extraordinaries	$ 6,909.23	**6%**	$ 6,281.12	**6%**	5,510.0	**6%**	5,480.0	**6%**	6,027.0	**9%**	5,899.0	**9%**	3,460.0	**5%**
Total Shares Outstanding	2,876.8		2,876.8		2,876.8									
PER SHARE ANALYSIS														
Earnings Per Share														
Basic/Primary Excl Extraordinaries	*$ 2.40*		*$ 2.18*		*1.90*		*1.88*		*2.18*		*2.13*		*1.26*	
PE ratio	18.00		18.80		23.40									
Market Price	43.23		41.05		44.50									
Dividends Per Common Share														
Primary Issue					*1.67*		*1.62*		*1.62*		*1.54*		*1.54*	
Miscellaneous														
Book Value Per Share					*17.58*		*16.67*		*14.36*		*13.56*		*12.08*	
Cash Flow Per Share					*8.88*		*8.28*		*7.96*		*7.87*		*8.15*	
Free Cash Flow Per Share					*1.18*		*0.79*		*0.95*		*1.71*		*2.31*	
Sales Per Share					*32.25*		*30.28*		*25.13*		*23.74*		*24.48*	

Appendix D: Pro-Forma Balance Sheet

Report Basis: Annual	2010	2009	2008	2007	2006	2005	2004	2003
Assets								
Cash & Short Term Investments	**4,485.3**	**4,384.4**	**4,285.8**	**3,397.0**	**5,653.0**	**2,906.0**	**4,547.0**	**2,841.0**
Cash								
Cash & Equivalents	1,834.9	1,793.6	1,753.3	1,153.0	3,219.0	760.0	2,290.0	669.0
Short Term Investments	2,650.4	2,590.8	2,532.5	2,244.0	2,434.0	2,146.0	2,257.0	2,172.0
Receivables, Net	**12,455.2**	**12,144.6**	**11,840.7**	**11,736.0**	**10,891.0**	**8,534.0**	**9,801.0**	**9,854.0**
Accounts Receivable, Net	12,455.2	12,144.6	11,840.7	11,736.0	10,891.0	8,534.0	9,801.0	9,854.0
Accounts Receivable, Gross	13,455.8	13,153.3	12,857.5	12,761.0	12,030.0	9,634.0	11,471.0	12,236.0
Provision for Doubtful Accounts	(1,000.6)	(1,008.7)	(1,016.8)	(1,025.0)	(1,139.0)	(1,100.0)	(1,670.0)	(2,382.0)
Notes Receivable								
Other Receivables								
Inventories	**1,834.9**	**1,793.6**	**1,753.3**	**1,729.0**	**1,514.0**	**1,522.0**	**1,535.0**	**1,262.0**
Prepaid Expenses	**1,754.6**	**1,781.3**	**1,808.5**	**1,836.0**	**1,888.0**	**2,125.0**	**2,646.0**	**4,233.0**
Other Current Assets	**1,834.9**	**1,793.6**	**1,753.3**	**0.0**	**2,592.0**	**4,233.0**	**950.0**	**705.0**
Restricted Cash								
Deferred Income Tax								
Discontinued Operations							0.0	705.0
Other Current Assets	**1,834.9**	**1,793.6**	**1,753.3**	0.0	2,592.0	4,233.0	950.0	0.0
Total Current Assets	**22,364.8**	**21,897.6**	**21,441.7**	**18,698.0**	**22,538.0**	**19,320.0**	**19,479.0**	**18,895.0**
Property, Plant, & Equipment, Net	**94,554.6**	**91,346.0**	**88,242.4**	**85,294.0**	**82,356.0**	**72,987.0**	**74,124.0**	**75,302.0**
Property, Plant, & Equipment, Gross	233,150.5	226,561.5	220,159.9	213,994.0	204,109.0	187,761.0	185,522.0	180,940.0
Buildings	20,183.7	19,729.9	19,286.3	19,734.0	19,207.0	16,312.0	16,159.0	15,677.0
Land & Improvements	1,019.4	996.5	974.1	839.0	959.0	706.0	772.0	812.0
Machinery & Equipment	202,773.0	196,867.0	191,133.0	185,566.0	176,369.0	164,681.0	162,091.0	158,630.0
Construction in Progress	2,038.8	1,992.9	1,948.1	1,988.0	2,315.0	1,475.0	1,649.0	1,129.0
Leases	4,077.5	3,985.8	3,896.2	3,612.0	3,061.0	2,297.0	1,948.0	1,566.0
Other Property, Plant, & Equip	3,058.1	2,989.4	2,922.2	2,255.0	2,198.0	2,290.0	2,903.0	3,126.0
Accumulated Depreciation	(138,595.8)	(135,215.4)	(131,917.5)	(128,700.0)	(121,753.0)	(114,774.0)	(111,398.0)	(105,638.0)
Goodwill, Net	**5,566.0**	**5,456.9**	**5,349.9**	**5,245.0**	**5,655.0**	**315.0**	**837.0**	**835.0**

Report Basis: Annual	2010	2009	2008	2007	2006	2005	2004	2003
Goodwill, Gross								
Accumulated Goodwill Amortization								
Intangibles, Net	**59,531.7**	**58,193.2**	**56,884.9**	**55,784.0**	**56,099.0**	**51,849.0**	**46,611.0**	**45,609.0**
Long Term Investments	**6,116.3**	**5,978.8**	**5,844.3**	**3,372.0**	**4,868.0**	**4,602.0**	**5,855.0**	**5,789.0**
Affiliate Companies	6,116.3	5,978.8	5,844.3	3,372.0	4,868.0	4,602.0	5,855.0	5,789.0
Other Assets	**20,591.4**	**20,128.5**	**19,675.9**	**18,566.0**	**17,288.0**	**19,057.0**	**19,052.0**	**19,538.0**
Other	20,216.0	19,761.5	19,317.2	18,566.0	17,288.0	19,057.0	19,052.0	19,538.0
Total Assets	203,875.7	199,291.9	194,811.3	186,959.0	188,804.0	168,130.0	165,958.0	165,968.0
adjusted total Assets	**208,724.9**	**203,001.0**	**197,439.1**					
Liabilities								
Short Term Debt	**3,489.0**	**3,393.3**	**3,300.3**	**2,954.0**	**7,715.0**	**6,688.0**	**3,593.0**	**5,967.0**
Notes Payable/ST Debt	460.6	448.0	435.7	390.0	3,576.0	0.0	0.0	0.0
Current Portion LT Debt/Cap Leases	3,028.3	2,945.3	2,864.6	2,564.0	4,139.0	6,688.0	3,593.0	5,967.0
Accounts Payable & Accrued Payables	**5,304.3**	**5,158.8**	**5,017.5**	**4,491.0**	**4,392.0**	**2,620.0**	**2,827.0**	**4,116.0**
Accounts Payable	5,304.3	5,158.8	5,017.5	4,491.0	4,392.0	2,620.0	2,827.0	4,116.0
Accrued Payables								
Accrued Expenses	**9,095.6**	**8,846.2**	**8,603.8**	**7,701.0**	**7,171.0**	**6,643.0**	**7,024.0**	**7,816.0**
Other Current Liabilities	**11,332.6**	**11,021.8**	**10,719.9**	**9,595.0**	**13,002.0**	**10,749.0**	**9,685.0**	**8,681.0**
Income Taxes Payable	2,681.1	2,607.6	2,536.1	2,270.0	2,757.0	2,484.0	3,326.0	2,720.0
Other Current Liabilities	8,651.5	8,414.3	8,183.7	7,325.0	10,245.0	8,265.0	6,359.0	5,885.0
Total Current Liabilities	**29,221.5**	**28,420.1**	**27,641.5**	**24,741.0**	**32,280.0**	**26,700.0**	**23,129.0**	**26,580.0**
				0.2	0.2	0.2	0.2	0.2
Long Term Debt	**29,529.0**	**28,719.3**	**27,932.4**	**28,203.0**	**28,646.0**	**31,569.0**	**35,674.0**	**39,413.0**
Long Term Debt	29,529.0	28,719.3	27,932.4	28,203.0	28,646.0	31,569.0	35,674.0	39,413.0
Capital Lease Obligations								
Deferred Income Tax	**15,479.1**	**15,054.6**	**14,642.2**	**14,784.0**	**16,270.0**	**22,831.0**	**22,532.0**	**21,704.0**
Minority Interest	**33,806.1**	**32,879.0**	**31,978.2**	**32,288.0**	**28,337.0**	**26,433.0**	**25,053.0**	**24,348.0**
Other Liabilities	**38,071.7**	**37,027.6**	**36,013.1**	**36,362.0**	**34,736.0**	**20,917.0**	**22,010.0**	**20,457.0**
Reserves								
Pension Benefits	31,368.7	30,508.4	29,672.5	29,960.0	30,779.0	17,693.0	17,941.0	16,754.0
Discontinued Operations								
Other Long Term Liabilities	6,703.0	6,519.2	6,340.6	6,402.0	3,957.0	3,224.0	4,069.0	3,703.0
Total Liabilities	**146,107.4**	**142,100.7**	**138,207.4**	**136,378.0**	**140,269.0**	**128,450.0**	**128,398.0**	**132,502.0**
Total fixed liabilities	116,885.9	113,680.6	110,565.9	111,637.0	107,989.0	101,750.0	105,269.0	105,922.0

Report Basis: Annual	2010	2009	2008	2007	2006	2005	2004	2003
				0.7	0.7	0.8	0.8	0.8
Shareholders' Equity								
Preferred Stock				0.0	0.0	0.0		
Redeemable Preferred Stock				0.0	0.0	0.0		
Non Redeemable Preferred Stock								
Common Equity	**57,039.2**	**55,475.0**	**53,955.1**	**50,581.0**	**48,535.0**	**39,680.0**	**37,560.0**	**33,466.0**
Common Stock	367.7	357.6	347.8	297.0	297.0	277.0	277.0	277.0
Common Stock	367.7	357.6	347.8	297.0	297.0	277.0	277.0	277.0
Limited Partner								
Additional Paid-In Capital	49,909.8	48,541.1	47,211.1	40,316.0	40,124.0	25,369.0	25,404.0	25,363.0
Retained Earnings	22,139.8	21,532.6	20,942.7	17,884.0	17,324.0	15,905.0	12,984.0	9,409.0
Treasury Stock - Common	(4,319.3)	(4,200.8)	(4,085.7)	(3,489.0)	(1,871.0)	(353.0)	(142.0)	(115.0)
ESOP Debt Guarantee	97.8	95.1	92.5	79.0	191.0	265.0	90.0	(218.0)
Unrealized Gain/Loss								
Other Equity	(5,578.3)	(5,425.3)	(5,276.6)	(4,506.0)	(7,530.0)	(1,783.0)	(1,053.0)	(1,250.0)
Other Comprehensive Income	(5,578.3)	(5,425.3)	(5,276.6)	(4,506.0)	(7,530.0)	(1,783.0)	(1,053.0)	(1,250.0)
Total Shareholders' Equity	**62,617.5**	**60,900.3**	**59,231.7**	**50,581.0**	**48,535.0**	**39,680.0**	**37,560.0**	**33,466.0**
				0.3	0.3	0.2	0.2	0.2
Total Liabilities & Shareholders' Equity	208,724.9	203,001.0	197,439.1	186,959.0	188,804.0	168,130.0	165,958.0	165,968.0

Appendix E: Discounted Cash Flow to Equity

Year	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Net Income	$3,260	$3,622	$4,025	$4,472	$4,969	$5,521	$6,197	$7,397	$7,831	$3,077	$4,591	$584
Depreciation	$11,125	$11,710	$12,326	$12,975	$13,658	$14,377	$14,545	$13,615	$13,503	$13,607	$13,282	$13,523
Capital Expenditure	($7,782)	($9,155)	($10,771)	($12,671)	($14,907)	($17,538)	($17,101)	($14,964)	($12,794)	($11,874)	($13,052)	($18,369)
Change in Working Capital	$3,140	$2,855	$2,595	$2,360	$2,145	$1,950	$1,635	$2,099	$2,800	$1,740	$1,579	$2,667
Cash Flow to Equity Holders	$19,026	$21,632	$24,526	$27,759	$31,389	$35,486	$36,208	$33,877	$31,328	$26,818	$29,346	$29,809
Present value of cash flow	$12,417	$15,376	$18,986	$23,403	$28,821							
Cost of equity	8.91%											
Continuation value growth rate	3.00%											
Continuation value	$331,586											
Present value of continuation value	$216,400											
Present value of Equity Cash Flow	$99,002											
Equity Value	$315,402											
Stock price	$110											

Appendix F: Enterprise Valuation

Base	8.0%		7.5%		NA	
Source Document Date:	**2009**		**2008**		**2007**	
Operating Revenue	**$108,517.51**	**100.0%**	**$100,479.18**	**100.0%**	**$93,469.00**	**100%**
Cost of Goods Sold*	$59,684.63	**55.0%**	$55,464.50	**55.2%**	$51,924.00	**55.6%**
Gross Income	**$48,832.88**	**45.0%**	**$45,014.67**	**44.8%**	**$41,545.00**	**44.4%**
Selling, General & Admin Expenses	$29,299.73	**27.0%**	$27,129.38	**27.0%**	$25,967.00	**27.8%**
Investment/Interest Income	($4,340.70)	**-4.0%**	($4,019.17)	**-4.0%**	($4,286.00)	**-4.6%**
Other Operating Income (Expense)	$43.41	**0.0%**	$40.19	**0.0%**	$29.00	**0.0%**
EBITDA	$32,555.25	**30.0%**	$30,143.75	**30.0%**	**$27,039.00**	**28.9%**
EBIT	**$15,235.86**	**14.0%**	**$13,906.32**	**13.8%**	**$11,321.00**	**12.1%**
Interest Expense	$2,170.35	**2.0%**	$2,009.58	**2.0%**	$1,829.00	**2.0%**
Pretax Income	**$13,065.51**	**12.0%**	**$11,896.73**	**11.8%**	**$9,492.00**	**10.2%**
Income Taxes	$4,666.25	**4.3%**	$4,320.60	**4.3%**	$3,892.00	**4.2%**
Net Income Before Extraordinaries	**$8,399.26**	**7.7%**	**$7,576.13**	**7.5%**	**$5,510.00**	**5.9%**
EPS Diluted Before Extraordinaries	**2.44**		**2.28**		**1.90**	
Diluted Shares Outstanding	2,876.8		2,876.8		2,876.8	
PE Ratio	18.0		18.8		18.8	-
Price	**$43.92**		**$42.86**		**$44.50**	**-**
Net Investment	$2,354.83	2.17%	$2,180.40	2.17%	$2,024.00	2.17%
Changes in Working Capital	$2,170.35	2.00%	$2,009.58	2.00%	$1,950.00	2.09%
Free Cash Flow forecast	$6,044.43		$5,395.73		$3,455.00	
Present value	$5,245.45		$5,026.48		NA	

VZ terminal value	$162,657.76
Present value	$141,156.94
Total value-total debt	$120,271.87
Stock price	$41.81
39% debt, 61% equity, 30% tax rate	
Cost of debt	1.91%
Cost of equity	5.44%
Weighted Average Cost of Capital (WACC)=cost of debt + cost of equity	7.35%

Bust	3.0%		3.0%		NA	
Source Document Date:	**2009**		**2008**		**2007**	
Operating Revenue	**$99,161.26**	**100.0%**	**$96,273.07**	**100.0%**	**$93,469.00**	**100%**
Cost of Goods Sold*	$56,026.11	**56.5%**	$53,912.92	**56.0%**	$51,924.00	**55.6%**
Gross Income	**$43,135.15**	**43.5%**	**$42,360.15**	**44.0%**	**$41,545.00**	**44.4%**
Selling, General & Admin Expenses	$26,773.54	**27.0%**	$25,993.73	**27.0%**	$25,967.00	**27.8%**
Investment/Interest Income	($3,966.45)	**-4.0%**	($3,850.92)	**-4.0%**	($4,286.00)	**-4.6%**
Other Operating Income (Expense)	$39.66	**0.0%**	$38.51	**0.0%**	$29.00	**0.0%**
EBITDA	$29,748.38	**30.0%**	$28,881.92	**30.0%**	**$27,039.00**	**28.9%**
EBIT	**$12,434.82**	**12.5%**	**$12,554.01**	**13.0%**	**$11,321.00**	**12.1%**
Interest Expense	$1,983.23	**2.0%**	$1,925.46	**2.0%**	$1,829.00	**2.0%**
Pretax Income	**$10,451.60**	**10.5%**	**$10,628.55**	**11.0%**	**$9,492.00**	**10.2%**
Income Taxes	$4,263.93	**4.3%**	$4,139.74	**4.3%**	$3,892.00	**4.2%**
Net Income Before Extraordinaries	**$6,187.66**	**6.2%**	**$6,488.80**	**6.7%**	**$5,510.00**	**5.9%**
EPS Diluted Before Extraordinaries	**1.89**		**1.85**		**1.90**	
Diluted Shares Outstanding	2,876.8		2,876.8		2,876.8	
PE Ratio	15.0		15.0		18.8	-
Price	**$28.35**		**$27.75**		**$44.50**	-
Net Investment	$2,151.80	2.17%	$2,089.13	2.17%	$2,024.00	2.17%
Changes in Working Capital	$1,983.23	2.00%	$1,925.46	2.00%	$1,950.00	2.09%
Free Cash Flow forecast	$4,035.86		$4,399.68		$3,455.00	
Present value	$3,502.39		$4,098.59		NA	

VZ terminal value	$108,606.60
Present value	$94,250.51
Total value-total debt	$70,694.48
Stock price	$24.57
39% debt, 61% equity, 30% tax rate	
Cost of debt	1.91%
Cost of equity	5.44%
Weighted Average Cost of Capital (WACC)=cost of debt + cost of equity	7.35%

Boom	12.0%		11.0%		NA	
Source Document Date:	2009		2008		2007	
Operating Revenue	$116,200.66	100.0%	$103,750.59	100.0%	$93,469.00	100%
Cost of Goods Sold*	$63,910.36	55.0%	$57,270.33	55.2%	$51,924.00	55.6%
Gross Income	$52,290.30	45.0%	$46,480.26	44.8%	$41,545.00	44.4%
Selling, General & Admin Expenses	$31,374.18	27.0%	$28,012.66	27.0%	$25,967.00	27.8%
Investment/Interest Income	($4,648.03)	-4.0%	($4,150.02)	-4.0%	($4,286.00)	-4.6%
Other Operating Income (Expense)	$46.48	0.0%	$41.50	0.0%	$29.00	0.0%
EBITDA	$34,860.20	30.0%	$31,125.18	30.0%	$27,039.00	28.9%
EBIT	$16,314.57	14.0%	$14,359.08	13.8%	$11,321.00	12.1%
Interest Expense	$2,324.01	2.0%	$2,075.01	2.0%	$1,829.00	2.0%
Pretax Income	$13,990.56	12.0%	$12,284.07	11.8%	$9,492.00	10.2%
Income Taxes	$4,996.63	4.3%	$4,461.28	4.3%	$3,892.00	4.2%
Net Income Before Extraordinaries	$8,993.93	7.7%	$7,822.79	7.5%	$5,510.00	5.9%
EPS Diluted Before Extraordinaries	3.42		2.74		1.90	
Diluted Shares Outstanding	2,876.8		2,876.8		2,876.8	
PE Ratio	19.0		19.8		18.8	-
Price	$64.98		$54.36		$44.50	-

Net Investment	$2,521.55	2.17%	$2,251.39	2.17%	$2,024.00	2.17%
Changes in Working Capital	$2,324.01	2.00%	$2,075.01	2.00%	$1,950.00	2.09%
Free Cash Flow forecast	$6,472.38		$5,571.41		$3,455.00	
Present value	$5,616.83		$5,190.13		NA	

VZ terminal value	$174,174.10
Present value	$151,151.00
Total value-total debt	$130,800.97
Stock price	$45.47
39% debt, 61% equity, 30% tax rate	
Cost of debt	1.91%
Cost of equity	5.44%
Weighted Average Cost of Capital (WACC)=cost of debt + cost of equity	7.35%

Multistage Growth %	8%		6%		6%		5%		5%		NA
Source Document Date:	**2012**		**2011**		**2010**		**2009**		**2008**		**2007**
Operating Revenue	**$125,049.42**	**100.0%**	**$115,786.50**	**100.0%**	**$109,232.55**	**100.0%**	**$103,049.57**	**100.0%**	**$98,142.45**	**100.0%**	**$93,469.00**
Cost of Goods Sold*	$70,277.77	**56.2%**	$64,840.44	**56.0%**	$61,170.23	**56.0%**	$57,501.66	**55.8%**	$54,763.49	**55.8%**	$51,924.00
Gross Income	**$54,771.65**	**43.8%**	**$50,946.06**	**44.0%**	**$48,062.32**	**44.0%**	**$45,547.91**	**44.2%**	**$43,378.96**	**44.2%**	**$41,545.00**
Selling, General & Admin Expenses	$35,013.84	**28.0%**	$32,420.22	**28.0%**	$30,585.11	**28.0%**	$28,853.88	**28.0%**	$27,479.89	**28.0%**	$25,967.00
Investment/Interest Income	($2,500.99)	**-2.0%**	($3,473.59)	**-3.0%**	($3,276.98)	**-3.0%**	($4,121.98)	**-4.0%**	($3,925.70)	**-4.0%**	($4,286.00)
Other Operating Income (Expense)	$75.03	**0.1%**	$57.89	**0.1%**	$54.62	**0.1%**	$41.22	**0.0%**	$39.26	**0.0%**	$29.00
EBITDA	$40,015.81	**32.0%**	$37,051.68	**32.0%**	$34,954.41	**32.0%**	$30,914.87	**30.0%**	$29,442.74	**30.0%**	**$27,039.00**
EBIT	**$17,331.85**	**13.9%**	**$15,110.14**	**13.1%**	**$14,254.85**	**13.1%**	**$12,613.27**	**12.2%**	**$12,012.64**	**12.2%**	**$11,321.00**
Interest Expense	$2,500.99	**2.0%**	$2,315.73	**2.0%**	$2,184.65	**2.0%**	$2,060.99	**2.0%**	$1,962.85	**2.0%**	$1,829.00
Pretax Income	**$14,830.86**	**11.9%**	**$12,794.41**	**11.1%**	**$12,070.20**	**11.1%**	**$10,552.28**	**10.2%**	**$10,049.79**	**10.2%**	**$9,492.00**
Income Taxes	$5,627.22	**4.5%**	$5,210.39	**4.5%**	$4,915.46	**4.5%**	$4,431.13	**4.3%**	$4,220.13	**4.3%**	$3,892.00
Net Income Before Extraordinaries	**$9,203.64**	**7.4%**	**$7,584.02**	**6.5%**	**$7,154.73**	**6.6%**	**$6,121.14**	**5.9%**	**$5,829.66**	**5.9%**	**$5,510.00**
EPS Diluted Before Extraordinaries	**2.50**		**2.30**		**2.30**		**2.10**		**2.10**		**1.90**
Diluted Shares Outstanding	2,876.8		2,876.8		2,876.8		2,876.8		2,876.8		2,876.8
PE Ratio	18.8		18.8		18.8		18.8		18.8		18.8
Price	**$47.00**		**$43.24**		**$43.24**		**$39.48**		**$39.48**		**$44.50**
Net Investment	$2,713.57	2.17%	$2,512.57	2.17%	$2,370.35	2.17%	$2,236.18	2.17%	$2,129.69	2.17%	$2,024.00
Changes in Working Capital	$1,875.74	1.50%	$2,315.73	2.00%	$2,184.65	2.00%	$2,060.99	2.00%	$1,962.85	2.00%	$1,950.00
Free Cash Flow forecast	$7,115.31		$5,071.45		$4,784.39		$3,884.97		$3,699.97		$3,455.00
Present value	$4,991.86		$3,819.33		$3,867.83		$3,371.44		$3,446.77		NA

VZ terminal value	$191,475.73
Present value	$134,332.89
Total value-total debt	$122,673.12
Stock price	$42.64

Appendix G: Relative Valuation

Base Scenario

In the base scenario, we incorporated revenue growth of 7.5% in 2008, and 8% growth 2009. We based these growth numbers by averaging projected growth retrieved from Factset and estimating growth received from Thomson Baseline. After evaluating both figures, we felt that this growth rate would be a healthy evaluation. With recent first quarter numbers show a 5.5% increase in revenue, we feel a 7.5% revenue increase for the year 2008 is a very conservative approach for our evaluation. In our base scenario, we kept a steady cost of goods sold. We estimated the PE ratio to be 18.84 in 2008. This was derived from current financial data on Verizon.

Bust Scenario

In the base scenario, we incorporated revenue growth of 3% in 2008, and 3% growth 2009. We based these growth numbers by of the first quarter growth rate of 5.5%. In a bust scenario, a growth rate of under 5% would be a healthy projection. In our bust scenario, we increased the cost of goods sold each year. Our PE estimate of 15.00 was from growth numbers projected by Forbes. When doing our research, the PE ration of 15.00 was conservative projection in relation to the projected EPS.

Boom Scenario

In the base scenario, we incorporated revenue growth of 12% in 2008, and 11% growth 2009. We based these growth numbers by of the first quarter analysis from Thomson Baseline. In a boom scenario, we decreased our cost of goods sold each year and minimized expenses. Our PE estimate of 19.84 in 2008 was based on the current PE ration of the security.

Appendix H: WACC Calculations

WACC is the calculation of a firm's cost of capital in which each category of capital is proportionately weighted. WACC is calculated by multiplying the cost of each capital component by its proportional weight and then summing:

$$WACC = \frac{E}{V} * Re + \frac{D}{V} * Rd * (1 - Tc)$$

Where:
Re = cost of equity
Rd = cost of debt
E = market value of the firm's equity
D = market value of the firm's debt
V = E + D
E/V = percentage of financing that is equity
D/V = percentage of financing that is debt
Tc = corporate tax rate

39% debt, 61% equity, 30% tax rate	
Cost of debt (7% Effective Interest rate)	1.91%
Cost of equity	5.44%
Weighted Average Cost of Capital (WACC)= cost of debt + cost of equity	7.35%

Appendix I: Earnings Estimate

Market Price			
	Base	Bust	Boom
2007	$ 44.50	$ 44.50	$ 44.50
2008	$ 42.93	$ 27.80	$ 54.42
2009	$ 43.97	$ 28.31	$ 65.05

EPS			
	Base	Bust	Boom
2007	1.90	1.90	1.90
2008	2.28	1.85	2.74
2009	2.44	1.89	3.42

PE Ratio			
	Base	Bust	Boom
2007	23.40	23.40	23.40
2008	18.80	15.00	19.84
2009	18.00	15.00	19.00

Appendix J: Dividend Discount Model

	2001	2002	2003	2004	2005	2006	2007	Average
Dividend	$1.54	$1.54	$1.54	$1.54	$1.62	$1.62	$1.67	$1.58
Dividend Growth		$0.00	0.00%	0.00%	5.19%	0.00%	3.09%	1.38%

Year	Est Dividend	PV of Dividends
2007		$1.86
2008	$1.89	$1.73
2009	$1.91	$1.76
2010	$1.94	$1.78
2011	$1.96	$1.80
2012	$1.99	$1.83
	Present Value of Dividends (2007-2012)	$10.76
After 2012, we assume dividend grows 3% a year	Present Value of Dividends after 2012	$34.72
Present value=	$10.76 + $34.72	$45.48

Appendix K: Cost of Equity (COE) Calculation

R_f = 2.71% 5-year T-note average interest rate from past 3 auction

$E(R_m)$ = 8.41 % Compound Annual Growth Rate from past 15-year of S&P 500 returns (1993-2007)

β = 1.088 historical stock prices for past 3 years

β = 0.711 historical stock prices for past 10 years

<u>Expected return of equity (COE)</u>

$k = R_f + \beta\,[E(R_m) - R_f] = 2.71 + 1.088 * (8.41-2.71) = 8.91\%$

Appendix L: Beta Calculation (past 3 years)

Month	S&P 500	VZ
1 (oldest)	1142.62	34.09
2	1152.12	34.38
3	1156.85	36.05
4	1171.35	34.56
5	1154.05	34.25
6	1189.28	35.27
7	1198.78	35.43
8	1196.02	35.12
9	1198.11	34.8
10	1216.96	35
11	1191.57	34.52
12	1194.44	34.58
13	1211.86	34.15
14	1227.92	34.58
15	1233.68	34.35
16	1234.18	34.2
17	1226.42	33.32
18	1230.4	33.05
19	1219.71	33.15
20	1205.1	32.22
21	1218.02	32.54
22	1241.48	32.67
23	1237.91	32.73
24	1215.29	32.4
25	1228.81	32.59
26	1195.9	30.67
27	1186.57	29.87
28	1179.59	29.9
29	1198.41	31.95
30	1220.14	30.97
31	1234.72	31.54
32	1248.27	31.9
33	1268.25	32.07
34	1265.08	32.03
35	1259.37	31.08
36	1267.32	30.45
37	1268.66	30.51
38	1248.29	30.2
39	1285.45	31.39
40	1287.61	31.92
41	1261.49	31.05
42	1283.72	32.25
43	1264.03	31.71
44	1266.99	32.98
45	1287.24	34.83
46	1289.43	34

Returns	
S&P 500	VZ
0.83%	0.85%
0.41%	4.86%
1.25%	-4.13%
-1.48%	-0.90%
3.05%	2.98%
0.80%	0.45%
-0.23%	-0.87%
0.17%	-0.91%
1.57%	0.57%
-2.09%	-1.37%
0.24%	0.17%
1.46%	-1.24%
1.33%	1.26%
0.47%	-0.67%
0.04%	-0.44%
-0.63%	-2.57%
0.32%	-0.81%
-0.87%	0.30%
-1.20%	-2.81%
1.07%	0.99%
1.93%	0.40%
-0.29%	0.18%
-1.83%	-1.01%
1.11%	0.59%
-2.68%	-5.89%
-0.78%	-2.61%
-0.59%	0.10%
1.60%	6.86%
1.81%	-3.07%
1.19%	1.84%
1.10%	1.14%
1.60%	0.53%
-0.25%	-0.12%
-0.45%	-2.97%
0.63%	-2.03%
0.11%	0.20%
-1.61%	-1.02%
2.98%	3.94%
0.17%	1.69%
-2.03%	-2.73%
1.76%	3.86%
-1.53%	-1.67%
0.23%	4.01%
1.60%	5.61%
0.17%	-2.38%

Beta	
S&P 500	VZ
1.000	1.088

CAPM	
Beta	1.088
RF Rate	2.71%
Erm	8.44%
k	8.94%

Month	S&P 500	VZ	Returns	
47	1287.23	33.7	-0.17%	-0.88%
48	1281.58	34.38	-0.44%	2.02%
49	1307.25	34.35	2.00%	-0.09%
50	1302.95	34.97	-0.33%	1.80%
51	1302.88	34.25	-0.01%	-2.06%
52	1295.51	33.77	-0.57%	-1.40%
53	1289.12	32.75	-0.49%	-3.02%
54	1311.28	32.5	1.72%	-0.76%
55	1310.61	33.05	-0.05%	1.69%
56	1325.76	33.13	1.16%	0.24%
57	1291.19	31.61	-2.61%	-4.59%
58	1267.03	30.8	-1.87%	-2.56%
59	1280.04	31.31	1.03%	1.66%
60	1288.16	31.76	0.63%	1.44%
61	1252.27	31.66	-2.79%	-0.31%
62	1251.54	32.5	-0.06%	2.65%
63	1244.5	32.84	-0.56%	1.05%
64	1270.06	33.63	2.05%	2.41%
65	1265.46	32.89	-0.36%	-2.20%
66	1236.2	31.71	-2.31%	-3.59%
67	1240.25	32	0.33%	0.91%
68	1278.53	33.77	3.09%	5.53%
69	1279.31	33.82	0.06%	0.15%
70	1266.67	34.16	-0.99%	1.01%
71	1302.3	34.3	2.81%	0.41%
72	1295.09	34.59	-0.55%	0.85%
73	1310.94	35.54	1.22%	2.75%
74	1298.86	35.4	-0.92%	-0.39%
75	1319.85	35.73	1.62%	0.93%
76	1314.78	37.34	-0.38%	4.51%
77	1335.82	37.2	1.60%	-0.37%
78	1349.58	36	1.03%	-3.23%
79	1365.61	37.05	1.19%	2.92%
80	1368.58	37.8	0.22%	2.02%
81	1377.3	38.78	0.64%	2.59%
82	1364.27	36.96	-0.95%	-4.69%
83	1380.58	35.5	1.20%	-3.95%
84	1401.17	34.82	1.49%	-1.92%
85	1400.95	34.75	-0.02%	-0.20%
86	1396.67	34.81	-0.31%	0.17%
87	1409.81	35.5	0.94%	1.98%
88	1427.08	36.6	1.22%	3.10%
89	1410.75	36.51	-1.14%	-0.25%
90	1418.03	37.63	0.52%	3.07%
91	1409.26	36.95	-0.62%	-1.81%
92	1430.73	37.41	1.52%	1.24%
93	1430.47	37.11	-0.02%	-0.80%
94	1422.03	37.42	-0.59%	0.84%
95	1448.33	38.02	1.85%	1.60%

Month	S&P 500	VZ	Returns	
96	1438	37.7	-0.71%	-0.84%
97	1455.53	38.55	1.22%	2.25%
98	1451.04	38.44	-0.31%	-0.29%
99	1387.11	36.29	-4.41%	-5.59%
100	1402.8	36.45	1.13%	0.44%
101	1386.95	36.45	-1.13%	0.00%
102	1436.11	38.03	3.54%	4.33%
103	1420.83	37.4	-1.06%	-1.66%
104	1443.77	38.01	1.61%	1.63%
105	1452.84	37.49	0.63%	-1.37%
106	1484.33	37.9	2.17%	1.09%
107	1494.07	38.25	0.66%	0.92%
108	1505.57	40.55	0.77%	6.01%
109	1505.76	41.3	0.01%	1.85%
110	1522.75	42.5	1.13%	2.91%
111	1515.55	42.58	-0.47%	0.19%
112	1536.28	43.11	1.37%	1.24%
113	1507.64	42.95	-1.86%	-0.37%
114	1532.9	42.91	1.68%	-0.09%
115	1502.56	41.64	-1.98%	-2.96%
116	1504.66	41.38	0.14%	-0.62%
117	1530.43	41.68	1.71%	0.72%
118	1552.5	42.34	1.44%	1.58%
119	1534.06	42.45	-1.19%	0.26%
120	1458.93	41.84	-4.90%	-1.44%
121	1433.04	42.71	-1.77%	2.08%
122	1453.42	41.81	1.42%	-2.11%
123	1445.94	40.79	-0.51%	-2.44%
124	1479.36	42.46	2.31%	4.09%
125	1473.96	41.97	-0.37%	-1.15%
126	1453.5	41.52	-1.39%	-1.07%
127	1484.24	42.5	2.11%	2.36%
128	1525.75	44.25	2.80%	4.12%
129	1527.29	44.46	0.10%	0.47%
130	1556.51	45.07	1.91%	1.37%
131	1562.25	45.49	0.37%	0.93%
132	1497.79	43.8	-4.13%	-3.72%
133	1536.92	45.8	2.61%	4.57%
134	1505.61	44.35	-2.04%	-3.17%
135	1453.66	42.8	-3.45%	-3.49%
136	1456.7	43.5	0.21%	1.64%
137	1440.74	42.63	-1.10%	-2.00%
138	1479.63	43.08	2.70%	1.06%
139	1505.11	45.31	1.72%	5.18%
140	1465.05	44.09	-2.66%	-2.69%
141	1484.55	43.61	1.33%	-1.09%
142	1475.25	44.5	-0.63%	2.04%
143	1414.07	42.78	-4.15%	-3.87%
144	1402.91	42.76	-0.79%	-0.05%

Month	S&P 500	VZ		Returns	
145	1312.94	37.2		-6.41%	-13.00%
146	1330.7	37.3		1.35%	0.27%
147	1395.38	38.7		4.86%	3.75%
148	1331.92	36.4		-4.55%	-5.94%
149	1355.86	38.19		1.80%	4.92%
150	1352.75	36		-0.23%	-5.73%
151	1330.45	36.33		-1.65%	0.92%
152	1293.16	35.05		-2.80%	-3.52%
153	1283.21	33.34		-0.77%	-4.88%
154	1330.29	36.6		3.67%	9.78%
155	1315.92	36.06		-1.08%	-1.48%
156	1373.69	37.37		4.39%	3.63%
157 (newest)	1332.2	35.84		-3.02%	-4.09%