

VERIZON COMMUNICATIONS INC
Form 11-K
June 28, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 11-K

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 1-8606

For the fiscal year ended December 31, 2003

VERIZON SAVINGS AND SECURITY PLAN FOR WEST REGION HOURLY EMPLOYEES

VERIZON COMMUNICATIONS INC.

1095 AVENUE OF THE AMERICAS

NEW YORK, NEW YORK 10036

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Verizon Employee Benefits Committee:

We have audited the accompanying statements of net assets available for benefits of the Verizon Savings and Security Plan for West Region Hourly Employees (the Plan) as of December 31, 2003 and 2002 and the related statement of changes in net assets available for benefits for the year ended December 31, 2003. These financial statements are the responsibility of the Plan 's administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2003 and 2002 and the changes in its net assets available for benefits for the year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ MITCHELL & TITUS, LLP

New York, New York

June 1, 2004

VERIZON SAVINGS AND SECURITY PLAN FOR WEST REGION HOURLY EMPLOYEES

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

AS OF DECEMBER 31, 2003 AND 2002

(thousands of dollars)

	<u>2003</u>	<u>2002</u>
ASSETS:		
Investments in Master Trusts	\$ 1,542,528	\$ 1,509,949
Net assets available for benefits	<u>\$ 1,542,528</u>	<u>\$ 1,509,949</u>

The accompanying notes are an integral part of the financial statements.

VERIZON SAVINGS AND SECURITY PLAN FOR WEST REGION HOURLY EMPLOYEES

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2003

(thousands of dollars)

Additions:	
Contributions:	
Employee	\$ 83,352
Employer	40,032
	<hr/>
Total contributions	123,384
Net investment gain	95,983
	<hr/>
Total additions	219,367
	<hr/>
Deductions:	
Benefits paid to participants	180,302
Transfers to other qualified plans, net	4,861
Administrative expenses	1,625
	<hr/>
Total deductions	186,788
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Net increase	32,579
Net assets available for benefits:	
Beginning of year	1,509,949
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End of year	\$ 1,542,528
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The accompanying notes are an integral part of the financial statements.

VERIZON SAVINGS AND SECURITY PLAN FOR WEST REGION HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

December 31, 2003

(1) Description of the Plan:

The following description of the Verizon Savings and Security Plan for West Region Hourly Employees (the Plan) provides only general information. Participants should refer to the Summary Plan Description for a more complete description of the Plan's provisions.

Eligibility

The Plan is a defined contribution plan subject to the provisions of the Employee Retirement Income Security Act of 1974. The Plan provides eligible employees, as defined in the Plan Document, of Verizon Communications Inc. (Verizon) and its subsidiaries (Participating Affiliates) with a convenient way to save for both medium and long-term needs.

The Plan is generally available to any eligible employee of Verizon or a Participating Affiliate, who either is in a unit covered by a collective bargaining agreement that provides for participation in the Plan, or is a nonunion hourly-paid employee that Verizon or a Participating Affiliate has agreed, by resolution of its board of directors, to co-sponsor under the Plan.

An individual's active participation in the Plan shall terminate when the individual ceases to be an eligible employee; but the individual shall remain a participant until the entire account balance under the Plan has been distributed or forfeited.

Investment Options

Participants shall direct their contributions to be invested in any of the current investment options.

Participant Accounts

Each participant's account is credited with the participant's contributions, rollovers, matching contributions and allocations of Plan income. Allocations of Plan income are based on participant account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account balance.

Payment of Benefits

Benefits are recorded when paid. Benefits are payable in a lump sum cash payment unless a participant elects, in writing, one of the three optional forms of benefit payment which include: (1) a lump sum in Verizon shares for investments in the Verizon Company Stock Fund (the Stock Fund), with the balance in cash, (2) annual, semiannual, quarterly, or monthly installments in cash of approximately equal amounts to be paid out for a period of 2 to 20 years, as selected by the participant; or (3) for those participants eligible to receive their distribution in installments as described in (2) above, a pro rata portion of each installment payment in Verizon shares for investments in the Stock Fund, with the balance of each installment in cash.

VERIZON SAVINGS AND SECURITY PLAN FOR WEST REGION HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(Continued)

Participant Loans

The Plan includes an employee loan provision authorizing participants to borrow an amount of up to 50% from their vested account balances in the Plan subject to certain limitations. Loans are generally repaid by payroll deductions. The term of repayment for loans generally will not be less than six months nor more than five years (fifteen years for a loan to purchase a principal residence). For loans up to five years, each new loan will bear interest at a rate based upon the prime rate as published in the Wall Street Journal on the last business day of the calendar month ending immediately prior to the first day of the new loan cycle. Loans for a period of longer than five years shall bear interest at such rate plus one percent.

Master Trusts

At December 31, 2003, the Plan participated in the Verizon Master Savings Trust (the Master Trust), and along with the Verizon Savings Plan for Management Employees (the Management Plan), the Verizon Savings and Security Plan for Mid-Atlantic Associates (the Mid-Atlantic Plan) and the Verizon Savings and Security Plan for New York and New England Associates (the North Plan), owned a percentage of the assets in the Master Trust. At December 31, 2002, only the Plan, the Mid-Atlantic Plan and the Management Plan owned percentage interests in the Master Trust. These percentages are based on a pro rata share of the Master Trust assets. The Plan owned approximately 10% and 12% of the assets in the Master Trust at December 31, 2003 and 2002, respectively.

At December 31, 2003 and 2002, the Plan also participated in certain equity funds in the Bell Atlantic Master Trust (the Equity Funds) and, along with the Mid-Atlantic Plan, the Management Plan and the North Plan, owned a percentage of the Equity Funds. This percentage was based on a pro rata share of the Equity Funds. The Plan owned approximately 4% of the Equity Funds at December 31, 2003 and 2002.

Interest and dividends along with net appreciation/depreciation in the fair value of investments are allocated to the Plan on a daily basis based upon the Plan's participation in the various investment funds and portfolios that comprise the Master Trust and Equity Funds as a percentage of the total participation in such funds and portfolios.

Trustee

Fidelity Management Trust Company (the Trustee) has been designated as the Trustee under the Plan and is responsible for the investment, reinvestment, control and disbursement of the funds and portfolios of the Plan. Expenses of administering the Plan, including fees and expenses of the Trustee, may be charged to the Plan. Investment fees are charged against the earnings of the funds and portfolios.

VERIZON SAVINGS AND SECURITY PLAN FOR WEST REGION HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(Continued)

Plan Modification

Verizon and the most senior Human Resources officer of Verizon reserve the right to modify, alter or amend the Plan at any time. Verizon reserves the right to terminate the Plan at any time.

Risks and Uncertainties

The Plan provides for participant investment options, which can invest in combinations of stocks, bonds, fixed income securities, and other investment securities. Investment securities are exposed to various risks, such as interest rate, market, equity price, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

(2) Accounting Policies:

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which requires management to make estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The statement of changes in net assets available for benefits reflects the net investment income (loss) of the Plan's investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) in value of those investments, as well as interest and dividends earned. Purchases and sales of investments are reflected as of the trade-date. Realized gains and losses on sales of investments are determined on the basis of average cost. Dividend income is recorded on the ex-dividend date. Interest earned on investments is recorded on the accrual basis.

(3) Non-Participant Directed Investments:

Information about the net assets and the significant components of the changes in net assets relating to the Plan's non-participant directed investments is as follows (in thousands):

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	<u>As of December 31,</u>	
	<u>2003</u>	<u>2002</u>
<u>Net assets:</u>		
Verizon common stock	\$ 265,963	\$ 174,722

	<u>Year ended December 31, 2003</u>	
<u>Changes in net assets:</u>		
Employer contributions		\$ 40,157
Net investment loss		(25,922)
Benefits paid to participants		(55,672)
(Increase)/decrease in Diversification Adjustment (Note 4) and Other		132,678
		<u> </u>
Net increase		\$ 91,241
		<u> </u>

VERIZON SAVINGS AND SECURITY PLAN FOR WEST REGION HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(Continued)

(4) Vesting and Contributions:

The Plan is funded by employee contributions up to a maximum of 16% of compensation and by employer matching contributions in shares of Verizon common stock ranging from 50% to 82%, depending as specified in the participant's collective bargaining agreement, of the initial 6% of the participant's contributions of eligible compensation for each payroll period.

Participant contributions may be before tax (Elective Contributions) or from currently taxed compensation (After-Tax Contributions). Each participant's Elective Contributions for the 2003 Plan year was limited to \$12,000. The total amount of Elective Contributions, After-Tax Contributions and employer matching contributions and certain forfeitures that may be allocated to a Plan participant was limited to the lesser of (1) \$40,000 or (2) 100% of the participant's total compensation; and the compensation on which such contributions were based was limited to \$200,000.

Employer matching contributions are made in Verizon common stock and in general, participants cannot redirect these shares into other investment choices. The Verizon common stock is held by the Plan in a unitized fund, which means participants do not actually own shares of Verizon common stock but rather own an interest in the unitized funds.

In Note 3 above, the Diversification Adjustment reflects employer matching contributions that a participant may elect to transfer into any investment option available under the Plan, subject to the provisions of the Plan Document. Participants age fifty and older with one year of service are permitted to redirect up to 50% of these employer matching contributions (100% after attaining age 55).

The Plan provides for 100% vesting of employer matching contributions upon attaining three years of service. A terminated employee's non-vested employer matching contributions are forfeited and offset against the participating company's obligation to make subsequent contributions to the Plan.

For the 2003 Plan year, total company matching contributions of 1.1 million shares of Verizon common stock were made with a fair value at date of contribution of \$40 million.

(5) Related Party Transactions:

Verizon Investment Management Corp. (VIMCO), a wholly owned subsidiary of Verizon, is the investment advisor for certain investment funds and therefore qualifies as a party-in-interest. VIMCO received no compensation from the Plan other than reimbursement of certain expenses

directly attributable to its investment advisory and investment management services rendered to the Plan.

VERIZON SAVINGS AND SECURITY PLAN FOR WEST REGION HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(Continued)

(6) Income Tax Status:

The Plan has received a determination letter from the Internal Revenue Service dated January 12, 1998, stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (the Code) and therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Plan has been amended since receiving the determination letter. However, the Plan Administrator believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes the Plan is qualified and the related trust is tax exempt.

(7) Investment in Master Trusts:

Investments in securities traded on national and foreign securities exchanges are valued at the last reported sale prices on the last business day of the year or, if no sales were reported on that date, at the last reported bid prices. Over-the-counter securities and government obligations are valued at the bid prices or the average of the bid and ask prices on the last business day of the year from published sources where available or, if not available, from other sources considered reliable, generally broker quotes. Temporary cash investments are stated at redemption value, which approximates fair value.

Forward currency and index futures are accounted for as contractual commitments on a trade-date basis and are carried at fair value derived from their respective price prevailing on the last business day of the year. Foreign exchange rates and index futures prices are readily available from published sources.

At December 31, 2003, the Master Trust contained certain investments in futures and forwards contracts that are considered derivative investments. However, the total fair value and the net investment income or loss are not material to the Plan.

A portion of certain funds in the Master Trust is invested in 44 contracts held with 15 insurance companies and banks. Standard & Poor's, as of December 31, 2003 and 2002, rated the issuers of these contracts and the contracts underlying the securities AA- or better. The contracts are included in the financial statements at contract value, approximately \$2.6 and \$2.1 billion, which approximates fair value, as reported by the insurance companies and banks at December 31, 2003 and 2002, respectively.

Contract value represents contributions made under the contracts, plus accrued interest, less withdrawals and administrative expenses. Investment contracts are normally set at a fixed rate through maturity, which is also the minimum crediting rate. The repayment of principal when the contract matures is solely the general debt obligation of the contract issuer. Synthetic contracts combine investments in fixed income securities with wrap contracts to provide a crediting rate. There is no immediate recognition of investment gains and losses on the fixed income securities. Instead, the gain or loss is recognized over time by adjusting the interest rate credited under the wrap contract. The crediting rate is typically reset quarterly and has a floor rate of zero. The repayment of principal depends on the creditworthiness of the underlying fixed income

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securities. The contract value of the synthetic investment contracts was approximately \$2.2 and \$1.6 billion at December 31, 2003 and 2002, respectively.

VERIZON SAVINGS AND SECURITY PLAN FOR WEST REGION HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(Continued)

The contracts had average yields of 5.16% and 5.77% at December 31, 2003 and 2002, respectively. The crediting interest rate for the contracts had a range from 4.68% to 7.50% and 5.15% to 7.50% at December 31, 2003 and 2002, respectively. The contracts have scheduled maturities from January 2, 2004 to July 5, 2006 at December 31, 2003. No valuation reserve was recorded, or deemed necessary, at December 31, 2003 and 2002 to adjust contract amounts.

The following schedules reflect the Master Trust net investments by investment type as of December 31, 2003 and 2002, and investment income (loss) for the year ended December 31, 2003 (in thousands):

	Investments in		Net Investment Income (Loss)	
	Master Trust		in Master Trust	
	December 31,		Year Ended December 31, 2003	
	2003	2002	Interest & Dividends	Net appreciation (depreciation)
Verizon common stock	\$ 6,468,345	\$ 5,971,643	\$ 306,391	\$ (656,050)
Investment contracts	2,629,868	2,135,323		142,928
Commingled funds	2,083,726	1,483,099		571,936
Mutual funds	2,137,362	1,623,493	48,674	347,063
Money market fund	599,606	639,957	6,712	
Common stock	265,174	167,825		
Loans to participants	557,823	403,122	29,682	
Total	\$ 14,741,904	\$ 12,424,462	\$ 391,459	\$ 405,877

The Equity Funds are primarily comprised of common stock with a fair value at December 31, 2003 and 2002 of approximately \$1.8 billion and \$1.5 billion, respectively. The Equity Funds had dividend and interest earnings of approximately \$2.5 million, and a net investment gain of approximately \$428 million for the year.

The Plan's interest in the carrying value of the Master Trust and Equity Funds and the related investment income (loss) are reported in the investment in Master Trusts in the statements of net assets available for benefits and net investment income (loss) in the statement of changes in net assets available for benefits, respectively.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Verizon Employee Benefits Committee has duly caused this annual report to be signed by the undersigned thereunto duly authorized.

VERIZON SAVINGS AND SECURITY PLAN FOR WEST REGION HOURLY EMPLOYEES

By: /s/ MARC C. REED

Marc C. Reed
(Chairperson, Verizon Employee Benefits Committee)

Date: June 28, 2004