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# Verizon's Proposed Sale to Frontier is a Bad Deal for West Virginia Consumers, Workers, and Communities



Verizon's proposed sell off of its operations in West Virginia (along with those scattered across 13 other states) to Frontier is all about corporate greed. Verizon chose a much smaller company like Frontier to take advantage of a tax loophole – not because the deal will be better for West Virginia. Indeed, Verizon will walk away with \$3.3 billion tax free while placing West Virginia consumers, workers and communities at significant risk.

## Verizon has a bad track record with similar sales. Is Frontier next?

- FairPoint, the company that bought Verizon's northern New England properties, recently filed for bankruptcy because of its massive debt and its failure to integrate the former Verizon operations.
- Hawaiian Telcom, the company to which Verizon sold its Hawaii operations in 2005, filed for bankruptcy because of its massive debt and failure to integrate the former Verizon operations.
- Idearc, the yellow pages company that Verizon spun off, has also filed for bankruptcy.

## Wall Street wins, West Virginia loses.

- Frontier continually pays out more to shareholders than it earns in net income. Frontier's dividends were 173% of net income in 2008 and 199% for the first nine months of 2009.
- Frontier also transfers a much higher percentage of its cash to stockholders and spends a much lower percentage on capital investments than Verizon.

## Frontier's debt will increase by \$3.3 billion.

- Frontier has not been able to obtain financing yet for the \$3.3 billion in debt it will incur to pay off Verizon.
- How good can Frontier's financial health be when it is forcing many of its workers to take 12 unpaid "furlough" days during the year?

## Frontier plans to cut operating expenses by \$500 million a year – placing consumers and workers at risk.

- To appease Wall Street – and show that the deal will be profitable – Frontier has stated that it will cut \$500 million in annual expenses from the operations it will acquire.
- Frontier refuses to publicly state exactly where these cuts will be made – but based on past experience with such acquisitions - we can assume that cuts will be made with jobs, service quality, and broadband build out.

## Frontier has no plans to offer truly high-speed internet.

- Frontier has NOT yet made any specific commitments to deploy the fiber we need to enable truly high speed internet
- Frontier has not demonstrated that it will have the resources needed to invest in high speed fiber to the home.

## **Frontier will be hard pressed to smoothly integrate West Virginia's systems.**

- Verizon's 617,000 West Virginia access lines will have to be cut over from the existing Bell Atlantic systems to Frontier's systems. This has never been done before.
- Every other recent attempt to smoothly integrate Verizon's systems has failed.
- Frontier has had problems with its own past integration attempts; for example, it took Frontier seven years to integrate the Rochester Telephone operations it acquired and when it did there were problems with billing and dispatch systems.

## **Jobs will likely be lost.**

- Frontier's plan to cut annual expenses by \$500 million is a direct threat to jobs.
- Frontier has a history of significantly cutting jobs.

## **Service quality will likely suffer.**

- Frontier will be acquiring an aging plant that needs a lot of investment just to meet existing standards for service quality.
- How will Frontier be able to make such investments when it is cutting \$500 million in annual expenses and integrating complex computer systems?

## **West Virginia is better off with Verizon than it will be with Frontier.**

- There is no question that Verizon is much less susceptible to financial and operational problems than Frontier.
- Frontier is not likely to be able to simultaneously meet its increased debt obligations, integrate Verizon's computer systems, cut annual costs by \$500 million, pay out more in dividends than it earns in profits and expand broadband.
- There will be no safety net for anyone once the deal is closed. When Frontier falters, we will be the ones left to pick up the pieces.

**The proposed transaction should be denied.** The proposed deal can only be closed if it is approved by the West Virginia Public Service Commission. We believe that the PSC should deny the sale since the risks to West Virginia are much greater than any supposed benefits.

## **There is a better alternative – state officials should ensure that Verizon meet its responsibilities to West Virginia.**

- The PSC could implement stronger service standards and penalties and the Governor and the Legislature could implement policies that have proven effective in stimulating broadband.
- There is a precedent for increased investment by Verizon following a failed attempt to sell. After Verizon failed to sell its upstate New York lines, it changed course and invested in fiber to the home in a number of communities.