

**IN THIS ISSUE:**

Huge Federal Tax Loophole Behind Sale  
Rural Broadband – The Reality  
Verizon’s Lessons from the Past  
YOU can make the difference!  
Lobby Day October 14

Communications Workers of America District 2 | 900 Lee Street, East, Suite 1212, Charleston WV 25301 | 304-342-2023

## The Verizon Sale in a Nutshell

***In a deal that enriches Verizon*** and leaves the state of West Virginia and its residents out in the cold, Verizon proposes to sell off all of its land line operations in West Virginia to Frontier, a small Connecticut based company.

The acquisition of phone lines in WV will put \$3.3 billion in cash into Verizon’s coffers and \$5.3 billion of Frontier stock will go to Verizon shareholders. Verizon clearly chose Frontier to avoid paying taxes on the \$3.3 billion it will get, not because this deal is better for West Virginians. By choosing a much smaller company, Verizon is able to take advantage of the “Reverse Morris Trust” tax loophole (see section below).

Verizon’s been busy spinning off companies in similar tax free deals all of which have had disastrous effects for consumers and Verizon employees. In New England Verizon sold its landlines to FairPoint and now FairPoint is on the verge of bankruptcy. Ditto for Hawaiian Telcom which bought Verizon’s operations in Hawaii in 2005 and has already filed for bankruptcy. Another bankrupt spinoff, Idearc, was originally Verizon’s yellow pages company.

Questions about Frontier’s ability to service Verizon’s customers abound. In a state that sees its share of wind and flood damage, how quickly will Frontier be able to restore service during emergency situations? How will Frontier be able to provide broadband service when it lacks the technology and high-capacity fiber lines? If it’s buried in debt from purchasing Verizon’s land lines, how will it have the money to invest in its employees and new technology?

Verizon’s corporate greed puts West Virginians at risk in terms of quality and security of service. At a time when other states are expanding broadband and creating the jobs that come with it, Verizon is pushing West Virginia back decades.

## Huge Federal Tax Loophole Behind the Sale to Frontier

It seems that no big corporate deal is ever complete without taking advantage of a huge tax loophole. The Verizon/Frontier deal is no exception, taking advantage of a tax-avoidance technique known as “The Reverse Morris Trust.”

Here’s how it works for Verizon and against West Virginians:

Verizon spins off a subsidiary which then merges with a much smaller, unrelated acquisition corporation (Frontier). To make it a tax-free transaction, the shareholders of Verizon must own a majority of the stock in the post-acquisition company which in West Virginia will be Frontier.

In this deal, Verizon will receive \$3.3 billion tax-free and Verizon shareholders—who can’t vote on the deal—will end up as involuntary owners of about 68 percent of increasingly debt-ridden Frontier.



### Lobby Day October 14

CWA will hold a special “Lobby Day” on, Wednesday, Oct. 14, during the West Virginia Legislature’s interim meetings.

The day at the State Capitol will begin with a light breakfast and a brief training session. Our purpose will be to let legislators know we oppose the sale of Verizon’s land lines to Frontier Communications. We’ll ask that they support us and write the Public Service Commissioners to register that support.

The training session will help you with effective methods to use when talking with your legislators and we’ll provide you with maps of the Capitol and any supporting materials you might need.

Call **304-342-2023** for more information.

# YOU Can Make the Difference!

**We need CWA members** to get involved and inform the public about this impending disaster. Verizon is a huge corporation with lots of money and resources which they will use in order to push this deal through. This is a "all hands on deck" situation for CWA members, their families and neighbors.

The entire Verizon-Frontier deal can only close if it is approved by the West Virginia Public Service Commission.

Here are some activities you can do to help:

- Write letters to editors of your newspaper.
- Meet with your legislators
- Ask your county commissioners to adopt a resolution objecting to the sale
- Write or call the Governor
- Attend rallies
- Distribute information to co-workers, friends & family.

Name \_\_\_\_\_

Address \_\_\_\_\_

Address Line 2 \_\_\_\_\_

Email \_\_\_\_\_

Phone \_\_\_\_\_

### Tear off and send to:

CWA  
900 Lee St., E, Suite 1212  
Charleston WV 25301



## January 12, 2010: PSC Hearing Begins

# Rural Broadband – The Reality

Recently the news has been filled with stories about the \$7 billion dollars in stimulus funds earmarked for expanding rural broadband coverage. Senator Rockefeller & Congressman Mollohan worked hard to ensure this money was made available to benefit West Virginia residents in rural districts.

The 3rd Annual CWA Survey of Internet speeds (available at speedmatters.org) recently found that West Virginia currently ranks 33 in the country with an average download speed of 4.6 mbps. In addition, nearly 60 percent of the homes in West Virginia lack broadband access, according to the Federal Communications Commission.

Verizon is planning to sell its control of nearly 5 million telephone landlines in 14 rural states including West Virginia to Frontier Communications Corp., a small Connecticut company with insufficient resources to provide truly high-speed Internet access.

Frontier currently provides only DSL service which is 97 times slower than Verizon's current high speed fiber-optic cable services.

It will take decades for Frontier to have the resources to bring high-speed fiber-optic cable service to West Virginia. In fact, it's unlikely that Frontier will be able to maintain the current level of service in West Virginia.

# Verizon's Lessons from the Past

One of the most frightening aspects of the Verizon sale to Frontier is how many similar deals, involving Verizon selling off operations to smaller companies, have failed miserably ending in bankruptcy with customers and employees suffering the consequences.

*"Those who have not learned from the past are condemned to repeat it"*

– George Santayana

One thing the deals have in common is major profit for Verizon and major risk for the smaller company – all at the expense of customers and employees who depend upon the company for vital communication service or their livelihoods.

Here is a list of deals in the past five years involving Verizon operations being sold off to a smaller corporation with the end results:

DEAL	RESULT
Hawaiian Telcom bought Verizon's operations in Hawaii	Hawaiian Telcom declares bankruptcy
FairPoint buys Verizon's operations in New England	FairPoint's service has been a disaster for customers and it is on the verge of bankruptcy
Verizon's yellow pages business is spun off into an independent company - Idearc	Idearc declared bankruptcy in 2009

With these cold, hard facts is there really any reason West Virginia should put its telecommunications future at risk in order to increase Verizon's profits?