

Frontier to buy rural Verizon lines for \$5.3B

May 13 2009, By PETER SVENSSON , AP Technology Writer

(AP) -- Verizon Communications Inc. said Wednesday it reached a deal to sell scattered phone service areas outside its main Northeastern and Californian territories for \$5.3 billion in stock.

The buyer is Frontier Communications Corp., based in Stamford, Conn. The company focuses on serving small towns and rural areas and will triple in size with the deal.

The deal continues Verizon's strategy of focusing on its core areas, where it is upgrading its phone lines to [fiber optics](#), enabling it offer TV service and faster Internet access. It sold off its phone lines in Maine, New Hampshire and Vermont for \$2.3 billion last year to Fairpoint Communications Inc.

The agreement would give Frontier 4.8 million phone lines to residential and small business customers and 1 million broadband connections. Frontier currently has 2.3 million customers.

The sale includes all of Verizon's phone lines in Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia and Wisconsin as well as some assets in border areas of California.

Verizon shareholders will receive one share of Frontier stock for approximately every 4.2 shares of Verizon stock, depending on the price of Frontier shares at closing, which is expected within a year.

Frontier shares were up 39 cents, or 5.2 percent, at \$7.96 in premarket trading Wednesday. Verizon shares gained 9 cents to \$30.49.

Verizon is also extracting \$3.3 billion from the units before selling them off, by having them pay cash to the parent company and letting them assume debt.

Frontier will issue so much stock to Verizon shareholders that they will end up owning 68 percent of the company.

"This is a truly transformational transaction for Frontier," Maggie Wilderotter, Frontier's chief executive, said in a statement. "With more than 7 million access lines in 27 states, we will be the largest provider of voice, broadband and video services focused on rural to smaller city markets in the United States."

Frontier also said it is cutting its annual dividend to 75 cents from \$1, freeing cash to invest in the acquired areas, including for broadband buildouts. The cut takes its dividend yield to 9.9 percent.

Analyst Christopher King at Stifel Nicolaus noted that buyers of Verizon phone lines have fared badly in the past - Fairpoint is struggling with its debt load, and the buyer of Verizon's Hawaiian business is in bankruptcy. But Frontier will actually reduce its debt load relative to its earnings through the transaction, King said.

The roughly 11,000 workers that support the local landlines will move to Frontier with union contracts intact, Verizon said.

Verizon lines in Connecticut, Delaware, the District of Columbia, Florida, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, Texas and Virginia and most of California are not affected by the deal.

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