



Communications Workers of America  
International Brotherhood of Electrical Workers



October 22, 2009

Dear Representative/Senator:

Telecommunications and Internet access provide vital services for Americans. Unfortunately, these services and workers in your state may be at risk as a result of the proposed divestiture by Verizon of all or part of its landline operations. Driven by tax avoidance goals, Verizon wants to shed much of its operations so that it can claim hundreds of millions of dollars in federal tax benefits, thereby unjustly enriching itself at the cost of service and employment. Your help is needed to ensure that the transaction, as currently structured, doesn't undermine the interests of your constituents.

For several years, Verizon has been seeking to unload operations in states around the country through the use of an esoteric tax loophole known as a "Reverse Morris Trust" (RMT). In taking advantage of this loophole, Verizon wants to shift assets to a subsidiary that it will then merge with Frontier Communications. The new operation will be loaded up with debt, depriving it of the capital needed to maintain current services and provide system upgrades. The victims will be customers, communities and workers in areas served by the new entity.

Verizon is seeking to utilize the RMT provisions to avoid taxes on \$3.3 billion. It has created a subsidiary for the sole purpose of merging it into Frontier Communications. Verizon shareholders will end up with nearly 70 percent of Frontier's stock while Frontier will be loaded up with more than \$3.4 billion in additional debt. If unchecked, this RMT transaction will result in Verizon dumping landlines in 14 states. The motivation behind these transactions is tax avoidance, not consumer benefit. Indeed, to receive benefits under this tax loophole, a company must transfer its operations to a smaller entity – an entity that simply does not have the experience, capabilities or capital to ensure the success of its suddenly expanded operations in the future.

Our concerns are not hypothetical: they are based on the fact that the same scheme was used by Verizon in three Northeastern states served by FairPoint Communications. In a similar tax avoidance-driven effort, Verizon shed its operations in Vermont, New Hampshire, and Maine and numerous news articles have laid truth to the claims made during those transactions that it would end up having a detrimental impact on consumers, communities and workers. FairPoint assumed a massive debt and does not have the resources to maintain service, retain workers and create the new digital infrastructure that was to allow its customers to enjoy a 21<sup>st</sup> century communications infrastructure. FairPoint executives have stated that the company is on the verge of bankruptcy.

Your help in making sure that your constituents do not face a similar fate is needed. Eliminating the benefits of the RMT -- which are the driving force behind this transaction -- would help ensure that telecommunications services, now, and in the

future, are there for those who need it. Eliminating the RMT would not prohibit an entity that truly wants to operate the system and ensure the provision of 21<sup>st</sup> Century services from acquiring the assets. It will ensure, however, that federal tax dollars will not subsidize downgrades in service, safety, and employment.

Please contact either Debbie Goldman (CWA) at (202) 434-1194 or Bob Erickson (IBEW) at (202) 728-6220 with any questions you might have and to signal your support for our efforts.

We look forward to working with you on this important matter.

Sincerely,

A handwritten signature in black ink, appearing to be 'Larry Cohen', written in a cursive style.

Larry Cohen  
President, CWA

A handwritten signature in black ink, appearing to be 'Edwin D. Hill', written in a cursive style.

Edwin D. Hill  
President, IBEW