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The Two Sides of Verizon's Deal Making

By DENNIS K. BERMAN

Verizon Communications Inc. boss Ivan Seidenberg may be one of the best deal makers of his time, or one of the worst.

Today, three of Verizon's most significant divestitures are either in bankruptcy or near it. As they say on Wall Street, it all depends on what side of the trade you're on.

Verizon's former yellow-pages unit, which goes by the ungainly name of Idearc, sought court refuge from creditors in May; Verizon's former Hawaiian telecom franchise, purchased by Carlyle Group, filed for bankruptcy in December, and FairPoint Communications, which absorbed landlines from Verizon in a complicated divestment, is close to going under, the company said in a July securities filing. In all, these companies have lost upward of $13 billion in value and counting.

This should make Mr. Seidenberg a hero to Verizon investors. Not only did he bail out of the assets at the right moment, he extracted prices that literally sucked the life out of the buyers.

If only it were that simple. In the case of Idearc and FairPoint, their buyers happened to include Verizon shareholders themselves. They received controlling interests in the newly formed companies.

That is a good thing for those who sold out early. Those who didn't are now sitting on Idearc and FairPoint stock trading at three cents and 54 cents a share, down from around $28 and $10, respectively, when the spinoffs began.

How did Idearc go from birth to bankruptcy in under 900 days? Back in 2006, private-equity firms were scrambling to buy directories companies, reasoning that their steady cash flows could support very high levels of debt.

Verizon's tax-free spinoff was in essence a do-it-yourself leveraged buyout, with the company's own shareholders the buyers of a highly indebted company, eagerly financed by banks and high-yield bond buyers. Verizon was taking what the market gave it.

It took too much. The incursions of Internet advertising and the decaying U.S. economy soon overwhelmed Idearc, whose revenue fell nearly 9% over the past year. Once worth $5 billion in equity and $9.2 billion in debt, its bankruptcy advisers now peg its value at around $3 billion.

"It was a victim of a time when people's perception of risk and reward were shaped by the environment," said one person who worked on the original transaction.

Verizon officials say they are proud of their deals. "These asset sales made sense for the acquiring

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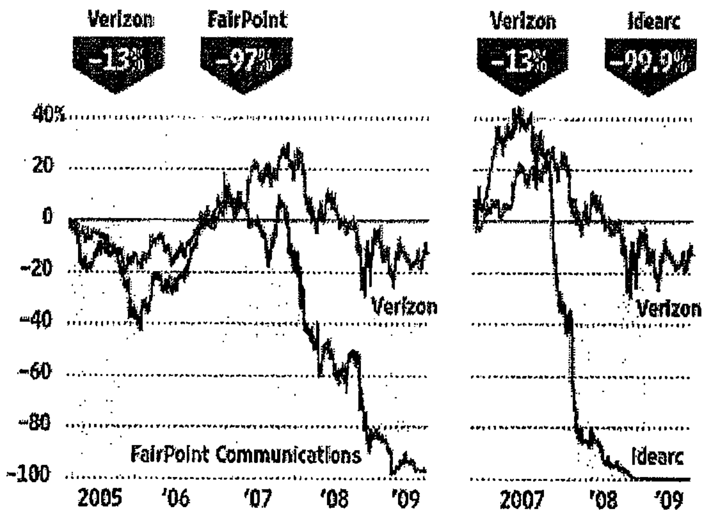
Legacy Assets

Verizon shares vs. the performance of two Verizon spinoffs, FairPoint Communications and Idearc



Source: WSJ Market Data Group

companies at the time they were bought and have proven to add significant value for Verizon shareholders since then," said Verizon spokesman Peter Thonis.

There are nonetheless consequences for a deal-making machine like Verizon -- with at least 18 transactions in the past seven years -- to leave a string of busted companies in its wake.

These things matter greatly to how state and federal regulators perceive the company. Maine, New Hampshire, Vermont and Hawaii each are in an uproar over the FairPoint divestiture, with much of the ire directed at Verizon. "It was a great deal for Verizon," said New Hampshire's public consumer advocate, Meredith Hatfield. "Whether it was a great deal for New Hampshire consumers is a different question."

It matters to market perceptions, too. "Could you be the next FairPoint?" barked CNBC's Jim Cramer in an interview with the chief executive of Frontier Communications Inc., which bought five million rural landlines from Verizon in May.

But perhaps being a good deal maker means not worrying about the past. Mr. Seidenberg is today focused on Verizon's fiber-optic service FiOS, which was funded in part by the three divestitures. He hasn't uttered the word "Idearc" in public in two and a half years.

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