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Does Verizon's CAF-II refusal mean another wireline asset sale is coming?

September 9, 2015 | By [Sean Buckley](#)

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EDITOR'S CORNER



Sean Buckley

Verizon's (NYSE: VZ) recent decision to [turn down the \\$144 million](#) of the second phase of the FCC's Connect America Fund (CAF-II) comes at a time when new rumors have emerged that it could hang up more of its wireline assets.

Karl Bode, editor of *Broadband Reports*, said in talks with unnamed sources, a potential sale of another [large part of its wireline network territory](#) is in play and could be carried out early next year.



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Many will likely see this move as another sign that Verizon does not see the remaining wireline markets, particularly those towns in Tier 2-3 markets, as a priority to the company.

However, the telco did tell the FCC in a letter that it accepted \$48.5 million on behalf of Frontier on the condition that its deal to sell off its wireline assets in California, Florida and Texas gets all of the necessary state, local and federal regulatory approvals. Thus far, [the FCC approved the deal](#), clearing a major federal regulatory hurdle.

For the markets outside of California, Florida and Texas, along with states declined by AT&T (NYSE: T) and several other carriers like CenturyLink (NYSE: CTL) and Windstream, the remaining CAF-II money will be awarded through a future reverse auction conducted by the FCC.

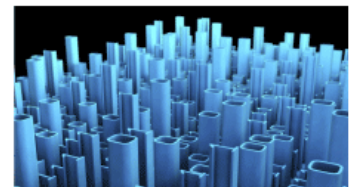
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Critics have long argued that Verizon has been turning its back on its wireline network, particularly the copper network. It has also raised the ire of local communities like Buffalo, N.Y. for refusing to build out FiOS. The telco has been clear that it has no plans to expand FiOS to any new markets outside of those where it has established a franchise agreement.

One of Verizon's greatest wireline network critics is the Communications Workers of America (CWA) union. The union, which is process of negotiating a new labor deal with the telco, claims that the telco abandoning its existing copper network. CWA has asked that [federal and state regulators](#) in the 11 states where Verizon operates investigate its claims that the telco is not performing necessary repairs and maintenance on its copper landline networks.

In California, the state PUC recently [launched an investigation](#) into AT&T (NYSE: T) and Verizon's (NYSE: VZ) management of their copper networks.

Perhaps not surprisingly, Verizon has dismissed claims that it is abandoning its copper network. Earlier this year, Verizon asked the FCC to not create new rules to curb what is known as "de-facto" copper retirement, a process where a telco lets their copper degrade to a point where they have no choice but to replace it with fiber.

Whether the CWA's claims or the California PUC's investigation proves any neglect, speculation about the future of Verizon's wireline network continues to rise as the telco continues to shift more of its focus onto wireless. The more telling element came earlier this year when Verizon's CEO Lowell McAdam told investors that some of its wireline assets would be better in someone else's hands.

So who would be the potential bidders for Verizon's remaining wireline assets?

Given its record with Verizon, Frontier is a likely candidate. Not long after McAdam made his proclamation, it signed a deal for Frontier to purchase its wireline assets in California, Texas and Florida -- three former GTE states. What's more, Frontier had previously successfully purchased and integrated Verizon's rural assets in 14 states in 2010. What this means is that Frontier has a familiarity with the Verizon assets, particularly those in Tier 2 and Tier 3 markets, and would be able to create strategy to quickly integrate them into their fold.

But Frontier is not the only potential suitor that could purchase the assets.

In what could be another interesting shakeup, French [telecom conglomerate Altice](#) could be another potential bidder. Such a deal could be relevant to Altice as they look to establish a greater foothold in the U.S. market. Altice is already in the process of purchasing regional cable provider Suddenlink for \$9.8 billion.

A Citigroup research report from analyst Michael Rollins that emerged in June suggested that Altice could snap up Verizon's wireline assets to further expand its U.S. presence instead of buying another cable firm like Cablevision. Like its purchase of Suddenlink, the key element for Altice is instant broadband access.

Verizon may still be one of the U.S. the largest wireline operators, but it's clear that by not taking the CAF-II funds that it might have other plans for its wireline assets that may not deem as core to its future strategies.--[Sean](#)

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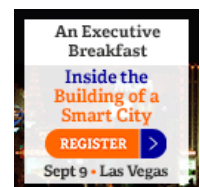
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