SUPERMEDIA INC.
Form 10-Q
August 03, 2011
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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, DC 20549**

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# FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**

**FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011**

**Commission file number: 1-32939**

# SUPERMEDIA INC.

(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| **Delaware**<br>(State of Incorporation) | **20-5095175**<br>(I.R.S. Employer Identification No.) |
| **2200 West Airfield Drive, P.O. Box 619810**<br>**D/FW Airport, TX**<br>(Address of Principal Executive Offices) | **75261**<br>(Zip Code) |

Registrant s telephone number, including area code: **(972) 453-7000**

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer o | Accelerated filer x |
| Non-accelerated filer o | Smaller reporting company o |

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the Registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court. x Yes o No

As of July 29, 2011, there were 15,505,454 shares of the Registrant s common stock outstanding.

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**FORWARD-LOOKING STATEMENTS**

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. You should not place undue reliance on these statements. These forward-looking statements include statements that reflect the current views of our senior management with respect to our financial performance and future events with respect to our business and industry in general. Statements that include the words may, could, should, would, believe, anticipate, forecast, estin preliminary, intend, plan, project, outlook and similar statements of a future or forward-looking nature identify forward-looking statements. Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

- our inability to provide assurance for the long-term continued viability of our business;
- reduced advertising spending and contract cancellations by our clients, which causes reduced revenue;
- declining use of print yellow pages directories by consumers;
- competition from other yellow pages directory publishers and other traditional and new media, and our ability to anticipate or respond to changes in technology and user preferences;
- changes in our operating performance;
- our post-restructuring financial condition, financing requirements and cash flow;
- limitations on our operating and strategic flexibility and the ability to operate our business, finance our capital needs or expand business strategies under the terms of our debt agreements;
- failure to comply with the financial covenants and other restrictive covenants in our debt agreements;
- limited access to capital markets and increased borrowing costs resulting from our leveraged capital structure and debt ratings;

- our ability to resolve any remaining bankruptcy claims;

- changes in the availability and cost of paper and other raw materials used to print our directories and our reliance on third-party providers for printing, publishing and distribution services;

- credit risk associated with our reliance on small- and medium-sized businesses as clients;

- our ability to attract and retain qualified key personnel;

- our ability to maintain good relations with our unionized employees;

- changes in labor, business, political and economic conditions;

- changes in governmental regulations and policies and actions of federal, state and local municipalities; and

- the outcome of pending or future litigation and other claims.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this and other reports we file with the Securities and Exchange Commission (the SEC ), including the information in Item 1A. Risk Factors in Part I of our Annual Report on Form 10-K for the year ended December 31, 2010 and in all subsequent filings with the SEC. If one or more events related to these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. All forward-looking statements included in this report are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**SuperMedia Inc. and Subsidiaries**

**Consolidated Statements of Operations**

**(Unaudited)**

| | Three Months Ended June 30, 2011 | Three Months Ended June 30, 2010 | Six Months Ended June 30, 2011 | Six Months Ended June 30, 2010 |
|---|---|---|---|---|
| | (in millions, except per share amounts) | | | |
| **Operating Revenue** | **$ 421** | $ 247 | **$ 859** | $ 401 |
| **Operating Expense** | | | | |
| Selling | **112** | 113 | **228** | 222 |
| Cost of sales (exclusive of depreciation and amortization) | **106** | 103 | **216** | 192 |
| General and administrative | **53** | 45 | **118** | 97 |
| Depreciation and amortization | **44** | 47 | **88** | 95 |
| **Total Operating Expense** | **315** | 308 | **650** | 606 |
| | | | | |
| **Operating Income (Loss)** | **106** | (61) | **209** | (205) |
| Interest expense, net | **57** | 71 | **114** | 143 |
| **Income (Loss) Before Reorganization Items and Provision (Benefit) for Income Taxes** | **49** | (132) | **95** | (348) |
| | | | | |
| Reorganization items | **1** | 1 | **1** | 3 |
| **Income (Loss) Before Provision (Benefit) for Income Taxes** | **48** | (133) | **94** | (351) |
| | | | | |
| Provision (benefit) for income taxes | **19** | (50) | **35** | (125) |
| **Net Income (Loss)** | **$ 29** | $ (83) | **$ 59** | $ (226) |
| **Basic and diluted earnings (loss) per common share** | **$ 1.89** | $ (5.55) | **$ 3.79** | $ (15.10) |
| **Basic and diluted weighted-average common shares outstanding** | **15.1** | 15.0 | **15.1** | 15.0 |

See Notes to Consolidated Financial Statements.

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**SuperMedia Inc. and Subsidiaries**

**Consolidated Balance Sheets**

**(Unaudited)**

| | At June 30, 2011 | At December 31, 2010 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 180** | $ 174 |
| Accounts receivable, net of allowances of $81 and $89 | **175** | 210 |
| Accrued taxes receivable | **3** | |
| Deferred directory costs | **183** | 199 |
| Prepaid expenses and other | **18** | 13 |
| Total current assets | **559** | 596 |
| Property, plant and equipment | **121** | 122 |
| Less: accumulated depreciation | **40** | 28 |
| | **81** | 94 |
| Goodwill | **1,707** | 1,707 |
| Intangible assets, net | **411** | 481 |
| Pension assets | **47** | 42 |
| Other non-current assets | **4** | 6 |
| Total assets | **$ 2,809** | $ 2,926 |
| **Liabilities and Stockholders Equity (Deficit)** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | **$ 123** | $ 236 |
| Deferred revenue | **96** | 114 |
| Deferred tax liabilities | **10** | 2 |
| Other | **17** | 17 |
| Total current liabilities | **246** | 369 |
| Long-term debt | **2,135** | 2,171 |
| Employee benefit obligations | **351** | 355 |
| Non-current deferred tax liabilities | **4** | 22 |
| Unrecognized tax benefits | **39** | 37 |
| Other liabilities | | 2 |
| Stockholders equity (deficit): | | |
| Common stock ($.01 par value; 60 million shares authorized, 15,507,322 and 15,489,936 shares issued and outstanding in 2011 and 2010, respectively) | | |
| Additional paid-in capital | **208** | 206 |
| Retained earnings (deficit) | **(137)** | (196) |
| Accumulated other comprehensive (loss) | **(37)** | (40) |
| Total stockholders equity (deficit) | **34** | (30) |
| Total liabilities and stockholders equity (deficit) | **$ 2,809** | $ 2,926 |

See Notes to Consolidated Financial Statements.

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**SuperMedia Inc. and Subsidiaries**

**Consolidated Statements of Cash Flows**

**(Unaudited)**

| | Six Months Ended June 30, 2011 | 2010 |
|---|---|---|
| | (in millions) | |
| **Cash Flows from Operating Activities** | | |
| Net income (loss) | **$ 59** | $ (226) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization expense | **88** | 95 |
| Employee retirement benefits | **9** | 6 |
| Deferred income taxes | **(12)** | (171) |
| Provision for uncollectible accounts | **35** | 30 |
| Stock-based compensation expense | **2** | 2 |
| Changes in current assets and liabilities: | | |
| Accounts receivable and unbilled accounts receivable | | 558 |
| Deferred directory costs | **16** | (144) |
| Other current assets | **(5)** | |
| Accounts payable and accrued liabilities | **(132)** | 143 |
| Other, net | **(11)** | (7) |
| Net cash provided by operating activities | **49** | 286 |
| **Cash Flows from Investing Activities** | | |
| Capital expenditures (including capitalized software) | **(7)** | (21) |
| Net cash used in investing activities | **(7)** | (21) |
| **Cash Flows from Financing Activities** | | |
| Repayment of long-term debt | **(36)** | (177) |
| Net cash used in financing activities | **(36)** | (177) |
| Increase in cash and cash equivalents | **6** | 88 |
| Cash and cash equivalents, beginning of year | **174** | 212 |
| Cash and cash equivalents, end of period | **$ 180** | $ 300 |

See Notes to Consolidated Financial Statements.

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**SuperMedia Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**Note 1**

**General**

SuperMedia Inc. and its subsidiaries (collectively, SuperMedia, We, Our, Us, or the Company ) sells advertising solutions to our clients and places their advertising into our various advertising media. Our advertising media include Superpages yellow page directories, Superpages.com, our online local search resource, the Superpages.com network, an online advertising network, Superpages direct mailers, and Superpages mobile, our local search application for wireless subscribers. The Company offers the SuperGuarantee program, which is a consumer focused program designed to make it easier and faster for consumers to find businesses they trust.

We are the official publisher of Verizon Communications Inc. ( Verizon ) print directories in the markets in which Verizon is currently the incumbent local telephone exchange carrier. We use the Verizon brand on our print directories in these and other specified markets. We also have agreements with FairPoint Communications, Inc. ( FairPoint ) and Frontier Communications Corporation ( Frontier ) in various Northeast and Midwest markets in which FairPoint and Frontier are the local exchange carriers. These agreements include a publishing agreement, a branding agreement and a non-competition agreement, each of which has a term expiring in 2036.

***Basis of Presentation***

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ). Pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC ), the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring items and accruals, necessary to fairly present the financial position, results of operations and cash flows of SuperMedia Inc. and its subsidiaries. These unaudited interim financial statements do not contain all information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP and, as such, should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of results of operations for the 2011 fiscal year.

The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. Certain prior period amounts have been reclassified to conform to current year presentation.

On December 31, 2009, upon emergence from bankruptcy, the Company adopted fresh start accounting in accordance with U.S. GAAP. Accordingly, the Company s 2010 financial results were significantly impacted. At December 31, 2009, the balances of deferred revenue and deferred directory costs were adjusted to their fair value of zero, which had a significant non-cash impact on our 2010 operating results. As a result, approximately $846 million of deferred revenue ($826 million net of estimated sales allowances) and $213 million of deferred directory costs were not recognized in our 2010 annual consolidated statement of operations. These non-cash fresh start adjustments only impacted our 2010 consolidated statements of operations and do not affect current year results. Likewise, these non-cash fresh start adjustments did not affect cash flows as client billing and collection activities remained unchanged.

***Recent Accounting Pronouncements***

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update 2011-04 ( ASU 2011-04 ), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amends Accounting Standards Codification 820, *Fair Value Measurement*. The amended guidance changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, the amendments clarify the FASB s intent about the application of existing fair value measurement requirements. The guidance provided in ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. The provisions are effective for the Company s first quarter ending March 31, 2012. We do not expect the adoption of these provisions to have a significant effect on our consolidated financial statements.

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In December 2010, the FASB issued Accounting Standards Update No. 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (Topic 350) Intangibles Goodwill and Other* ( ASU 2010-28 ). ASU 2010-28 amends the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires performing Step 2 if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The amendments in ASU 2010-28 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of ASU 2010-28 did not have an impact on the Company s consolidated financial position or results of operations.

**Note 2**

**Earnings (Loss) Per Share**

Basic earnings (loss) per share are computed by dividing net income (loss) available to common stockholders by the number of weighted-average common shares outstanding during the reporting period. Diluted earnings per share are calculated to give effect to all potentially dilutive common shares that were outstanding during the reporting period. The effect of potentially dilutive common shares for the three and six months ended June 30, 2011 was not material, and due to the reported net loss for the three and six months ended June 30, 2010, the effect of potentially dilutive common shares was anti-dilutive and therefore not included in the calculation of diluted earnings (loss) per share in those periods.

During 2011 and 2010, certain employees and certain non-management directors were granted restricted stock awards, which entitles those participants to receive non-forfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of the Company s common stock. As such, these unvested restricted stock awards met the definition of a participating security. Participating securities are defined as unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) and are included in the computation of earnings per share pursuant to the two-class method. At June 30, 2011, there were 381,792 such participating securities outstanding. Under the two-class method, all earnings, whether distributed or undistributed, are allocated to each class of common stock and participating securities based on their respective rights to receive dividends. However, the net loss from continuing operations in the three and six months ended June 30, 2010 was not allocated to these participating securities, as these awards do not share in any loss generated by the Company.

The following table sets forth the calculation of basic and diluted earnings (loss) per share for the three and six months ended June 30, 2011 and 2010:

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **(in millions, except per share amounts)** | | | |
| Net income (loss) | **$ 29** | $ (83) | **$ 59** | $ (226) |
| Less allocation of income to participating unvested restricted stock units | **(1)** | N/A | **(2)** | N/A |
| Net income (loss) available to common stockholders | **28** | (83) | **57** | (226) |
| Weighted-average common shares outstanding | **15.1** | 15.0 | **15.1** | 15.0 |
| Basic and diluted earnings (loss) per share | **$ 1.89** | $ (5.55) | **$ 3.79** | $ (15.10) |

**Note 3**

**Additional Financial Information**

***Consolidated Statements of Operations***

During the three and six months ended June 30, 2010, the Company recorded a $16 million general and administrative expense reduction related to the favorable non-recurring, non-cash resolution of state operating tax claims.

During the three and six months ended June 30, 2011, the Company recorded $1 million of reorganization items, in accordance with provisions established by the applicable reorganization accounting rules, compared to $1 million and $3 million for the three and six months ended June 30, 2010, respectively. Reorganization items

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represent charges that are directly associated with the reorganization process under Chapter 11 of the bankruptcy code and primarily consist of professional fees directly associated with our Chapter 11 reorganization.

During the three and six months ended June 30, 2011, the Company made payments of $1 million associated with reorganization items, compared to $8 million and $25 million for the three and six months ended June 30, 2010, respectively.

***Balance Sheet***

The following table sets forth additional information on accounts payable and accrued liabilities:

| | At June 30, 2011 | At December 31, 2010 |
|---|---|---|
| | (in millions) | |
| Accounts payable and accrued liabilities: | | |
| Accounts payable | **$ 16** | $ 17 |
| Accrued expenses | **28** | 27 |
| Accrued salaries and wages | **67** | 107 |
| Accrued taxes | **11** | 84 |
| Accrued interest | **1** | 1 |
| Accounts payable and accrued liabilities | **$ 123** | $ 236 |

***Cash Flow***

The following table sets forth certain financial information related to cash payments:

| | Six Months Ended June 30, | |
|---|---|---|
| | 2011 | 2010 |
| | (in millions) | |
| Income taxes, net of amounts refunded | **$ 121** | $ (93) |
| Interest, net | **114** | 143 |

During the six months ended June 30, 2010, the Company received a federal income tax refund of $94 million.

***Comprehensive Income (Loss)***

The following table sets forth the computation of total comprehensive income (loss):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | | **(in millions)** | | |
| Net income (loss) | **$ 29** | $ (83) | **$ 59** | $ (226) |
| Other comprehensive income (loss), net of taxes: | | | | |
| Adjustments for pension and post-employment benefits | **5** | 2 | **3** | 2 |
| Total comprehensive income (loss) | **$ 34** | $ (81) | **$ 62** | $ (224) |

As of June 30, 2011, the balance in accumulated other comprehensive loss includes an unrealized loss of $37 million (net of tax of $23 million) related to pension and other post-employment benefits.

As of December 31, 2010, the balance in accumulated other comprehensive loss includes an unrealized loss of $40 million (net of tax of $24 million) related to pension and other post-employment benefits.

***Fair Values of Financial Instruments***

The Company s financial assets and liabilities required to be measured at fair value on a recurring basis include cash and cash equivalents held in money market funds. At June 30, 2011, the Company s cash and cash equivalents

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were valued at $180 million using Level 1 inputs where the fair value is based on quoted prices in active markets for identical assets. The fair values of trade receivables and accounts payable approximate their carrying amounts due to their short-term nature. The fair values of debt instruments are determined based on debt with similar maturities and credit quality discounted at current quoted market rates.

The following table sets forth the carrying amount and fair value for total debt obligations at June 30, 2011 and December 31, 2010:

| | At June 30, 2011 | | At December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | | (in millions) | | |
| Total debt obligations | **$ 2,135** | **$ 1,276** | $ 2,171 | $ 1,496 |

**Note 4**

**Intangible Assets**

The following table sets forth the details of the Company s intangible assets:

| | At June 30, 2011 | | | At December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | | | (in millions) | | | |
| | Gross | Accumulated Amortization | Net | Gross | Accumulated Amortization | Net |
| Intangible assets: | | | | | | |
| Client relationships | **$ 497** | **$ 149** | **$ 348** | $ 497 | $ 100 | $ 397 |
| Internal use software | **101** | **63** | **38** | 99 | 46 | 53 |
| Patented technologies | **34** | **17** | **17** | 34 | 11 | 23 |
| Marketing-related intangibles | **8** | | **8** | 8 | | 8 |
| Total intangible assets | **$ 640** | **$ 229** | **$ 411** | $ 638 | $ 157 | $ 481 |

Amortization expense for intangible assets was $37 million and $74 million for the three and six months ended June 30, 2011, respectively. Amortization expense for intangible assets was $40 million and $81 million for the three and six months ended June 30, 2010, respectively.

Amortization expense is estimated to be $143 million in 2011, $128 million in 2012, $104 million in 2013 and $100 million in 2014 for the intangible assets as of June 30, 2011.

**Note 5**

**Debt Obligations**

The following table sets forth the Company s outstanding debt obligations on the consolidated balance sheets as of June 30, 2011 and December 31, 2010:

| | Interest Rates | Original Maturity | | At June 30, 2011 | | At December 31, 2010 |
|---|---|---|---|---|---|---|
| | | | | (in millions) | | |
| Senior secured term loans | ABR + 7.00% | 2015 | **$** | **2,135** | $ | 2,171 |

***Senior Secured Term Loan Agreement***

On December 31, 2009, the Company emerged from bankruptcy and entered into a loan agreement with certain financial institutions and with JPMorgan Chase Bank, N.A., as administrative agent and collateral agent. On December 13, 2010, the loan agreement was amended (the Loan Agreement ). Under the Loan Agreement, the senior secured term loans bear interest at an annual rate equal to, at the Company s option, either (i) the Alternate Base Rate ( ABR ) plus an Applicable Margin, or (ii) adjusted London Inter-Bank Offered Rate ( LIBOR ) plus an Applicable Margin. The Applicable Margin is 7.0% for loans with interest rates determined by reference to ABR and 8.0% for loans with interest rates determined by reference to adjusted LIBOR. The senior secured term loans have a floor interest rate of 4.0% in the case of ABR and 3.0% in the case of LIBOR. As long as interest rates

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remain at or below 4.0% for ABR and 3.0% for LIBOR, which is currently the case, our effective interest rate will be 11.0%.

All of the Company s present and future domestic subsidiaries (other than a certain insignificant subsidiary) are guarantors under the Loan Agreement. In addition, the obligations under the Loan Agreement are secured by a lien on substantially all of the Company s and its domestic subsidiaries tangible and intangible assets, including a mortgage on certain real property.

***Debt Covenants and Maturities***

As of June 30, 2011, the Company is in compliance with all of the covenants of its Loan Agreement.

The Company has a mandatory debt principal payment due after each fiscal quarter prior to the December 31, 2015 maturity date on the outstanding senior secured term loans in an aggregate amount equal to 67.5% of the amount of any increase in the Company s Available Cash, as defined in the Loan Agreement. The Company has the right to make early payments at par on the senior secured term loans in whole or in part, from time to time, without premium or penalty, subject to specified requirements as to size and manner of payments.

During the three and six months ended June 30, 2011, the Company made a $36 million estimated mandatory principal payment.

**Note 6**

**Employee Benefits**

***Pension and Other Post-Employment Benefit Costs***

The Company provides pension and other post-employment benefits ( OPEB ) to many of its employees. The Company s pension plans are noncontributory defined benefit pension plans. The pension plans include the SuperMedia Pension Plan for Management Employees and the SuperMedia Pension Plan for Collectively Bargained Employees. The assets of the two plans are held in a master trust. The Company also maintains a nonqualified pension plan for certain employees. The Company s OPEB includes post-employment health care and life insurance plans for the Company s retirees and their dependents that are both contributory and noncontributory and include a limit on the Company s share of cost for current and future retirees.

*Net Periodic Cost*

The following tables set forth the benefit costs (income) related to the Company s pension and post-employment health care and life insurance plans for the three and six months ended June 30, 2011 and 2010:

| | Pension | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | **2011** | **2010** | **2011** | **2010** |
| | (in millions) | | | |
| Service cost | **$ 1** | $ 1 | **$ 2** | $ 2 |
| Interest cost | **6** | 7 | **13** | 14 |
| Expected return on plan assets | **(8)** | (11) | **(18)** | (19) |
| Actuarial loss, net | | | | |
| Settlement loss | **1** | 1 | **3** | 1 |
| Net periodic benefit cost (income) | **$** | $ (2) | **$** | $ (2) |

For the three and six months ended June 30, 2011, the Company recorded pension settlement losses of $1 million and $3 million, respectively. For the three and six months ended June 30, 2010, the Company recorded pension settlement losses of $1 million. The settlement losses were related to employees that received lump-sum distributions. These charges were recorded in accordance with applicable accounting guidance for settlements associated with defined benefit pension plans, which requires that settlement gains and losses be recorded once prescribed payment thresholds have been reached.

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| | Health Care and Life | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| | (in millions) | | | |
| Service cost | **$ 1** | $ | **$ 1** | $ 1 |
| Interest cost | **4** | 3 | **8** | 7 |
| Actuarial loss, net | | | | |
| Net periodic benefit cost | **$ 5** | $ 3 | **$ 9** | $ 8 |

***Savings Plans Benefits***

The Company sponsors a defined contribution savings plan to provide opportunities for eligible employees to save for retirement on a tax-deferred basis and non-tax-deferred basis. Substantially all of the Company s employees are eligible to participate in the plan. Under the plan, a certain percentage of eligible employee contributions are matched with Company cash allocated to the participants current investment elections. The Company recognizes savings plan expenses based on its matching obligation attributable to participating employees. For the three and six months ended June 30, 2011, the Company recorded total savings plan expenses of $3 million and $7 million, respectively. For the three and six months ended June 30, 2010, the Company recorded total savings plan expenses of $4 million and $10 million, respectively. During 2011, the Company reduced its savings plan match benefit to eligible employees.

***Severance Benefits***

During the three and six months ended June 30, 2011, the Company recorded severance expense of $2 million and $9 million, respectively. For the same periods, the Company paid severance benefits of $9 million and $13 million, respectively. During the three and six months ended June 30, 2010, the Company recorded severance expense of $2 million and $4 million, respectively. For the same periods, the Company paid severance benefits of $2 million and $3 million, respectively. The payment amounts for the six months ended June 30, 2011 and 2010 include severance payments related to restructuring activities.

**Note 7**

**Stock-Based Compensation**

The 2009 Long-Term Incentive Plan (the 2009 Plan ) provides for several forms of incentive awards to be granted to designated eligible employees, non-management directors, consultants and independent contractors providing services to the Company. The maximum number of shares of SuperMedia common stock authorized for issuance under the 2009 Plan is 1,500,000. During 2010 and 2011, the Company granted equity awards under the 2009 Plan to certain employees and to certain of our non-management directors.

***Restricted Stock***

The 2009 Plan provides for grants of restricted stock. These awards are classified as equity awards based on the criteria established by the applicable accounting rules for stock-based compensation. The fair value of the restricted stock awards was determined based on the price of SuperMedia common stock on the date of grant.

During 2010, certain employees were granted restricted stock awards that vest over three years in equal installments on the first, second, and third anniversaries of the grant date. All unvested shares of restricted stock will immediately terminate upon the employee s termination of employment with the Company for any reason on or before the third anniversary date of the award, except that the Compensation Committee of the Board of Directors, at its sole option and election, may permit the unvested shares not to terminate if the employee is terminated without cause. If a change in control occurs on or before the third anniversary of the grant date, all unvested shares of restricted stock will immediately vest. Grant award recipients would receive all regular cash dividends if the Company were to declare dividends.

During 2011, certain non-management directors were granted restricted stock awards that vest one year after the grant date. All unvested shares of restricted stock will immediately terminate if a non-management director ceases to be a member of the board of directors of the Company on or before the vesting date. If a change in control occurs on or before the vesting date, all unvested shares of restricted stock will immediately vest. Grant award recipients would receive all regular cash dividends if the Company were to declare dividends.

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A portion of the cost related to these awards is included in the Company s compensation expense for the three and six months ended June 30, 2011 and 2010.

Changes in the Company s outstanding restricted stock awards were as follows:

| | Restricted Stock Awards | | Weighted-Average Grant-Date Fair Value |
|---|---|---|---|
| Outstanding restricted stock at January 1, 2011 | 427,867 | $ | 27.01 |
| Granted | 63,488 | | 8.82 |
| Vested | (88,658) | | 38.00 |
| Forfeitures | (20,905) | | 37.93 |
| Outstanding restricted stock at June 30, 2011 | 381,792 | $ | 20.84 |

***Restricted Stock Units***

The 2009 Plan provides for grants of restricted stock units ( RSUs ) that can be settled in cash, shares of SuperMedia common stock or a combination thereof. These awards are classified as either liability or equity awards, based on the criteria established by the applicable accounting rules for stock-based compensation.

During 2010, certain non-management directors were granted RSU awards that vest over three years in equal installments on the first, second, and third anniversaries of the grant date. If a director ceases to be a member of the board of directors of the Company on or before the third anniversary date of the award, the RSUs will vest on a prorated basis by dividing the number of days commencing on the anniversary vesting date or date of award, as applicable, and ending on the date of separation from service by, (i) 1,095 days if the date of separation from service occurs prior to the first anniversary date of the award, (ii) 730 days if the date of separation from service occurs after the first anniversary date of the award but before the second anniversary date of the award, and (iii) 365 days if the date of separation from service occurs after the second anniversary date of the award but before the third anniversary date of the award, and the number of RSUs remaining will immediately terminate. If a change in control occurs on or before the third anniversary date of the award, all unvested RSUs will immediately vest.

During 2011, certain employees were granted RSUs that vest over three years in equal installments on the first, second, and third anniversaries of the grant date. All unvested RSUs will immediately terminate upon the employee s termination of employment with the Company for any reason on or before the third anniversary date of the award, except that the Compensation Committee of the Board of Directors, at its sole option and election, may permit the unvested RSUs not to terminate if the employee is terminated without cause. If a change in control occurs on or before the third anniversary date of the award, all unvested shares of RSUs will immediately vest.

The fair value of the RSUs was determined based on the price of SuperMedia common stock on the date of grant. The RSUs are settled in stock and, therefore, classified as an equity award. No dividends are payable on the RSUs. However, dividend equivalents, equal to the amount of the dividend that would have been paid on an equivalent number of shares of SuperMedia common stock, are granted in the form of additional RSUs. The dividend equivalent RSUs are subject to the same vesting, forfeiture and other terms and conditions applicable to the RSUs.

A portion of the costs of this award is included in the Company s compensation expense for the three and six months ended June 30, 2011 and 2010.

Changes in the Company s outstanding restricted stock units were as follows:

| | Restricted Stock Units | | Weighted-Average Fair Value |
|---|---|---|---|
| Outstanding RSUs at January 1, 2011 | 12,093 | $ | 33.09 |
| Granted | 67,500 | | 7.47 |
| Dividend equivalents | | | |
| Payments | | | |
| Forfeitures | | | |
| Outstanding RSUs at June 30, 2011 | 79,593 | $ | 11.36 |

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***Stock Options***

The 2009 Plan provides for the grant of stock options. These awards are classified as equity awards based on the criteria established by the applicable accounting rules for stock-based compensation.

During 2010, the Company granted a stock option award that vests over three years in equal installments on the first, second, and third anniversaries of the grant date and has a ten year term from the date of grant.

During 2011, certain employees were granted stock option awards that vest over three years in equal installments on the first, second, and third anniversaries of the grant date and have a ten year term from the date of grant.

A stock option holder may pay the option exercise price in cash by delivering unrestricted shares to the Company having a value at the time of exercise equal to the exercise price, by a cashless broker-assisted exercise, by a combination of these methods or by any other method approved by the Compensation Committee of the Company s Board of Directors. Options may not be re-priced without the approval of the Company s stockholders.

The fair value of each option award is estimated on the grant date using the Black-Scholes option pricing model. The model incorporates assumptions regarding inputs as follows:

- Expected volatility is a blend of the historical volatility of SuperMedia common stock over its history and the historical volatility of thirteen of SuperMedia s peers;
- Expected life is calculated based on the average life of the remaining vesting term and the remaining contractual life of each award; and
- The risk-free interest rate is determined using the U.S. Treasury zero-coupon issue with a remaining term equal to the expected life of the option.

A portion of the cost related to these stock option awards is included in the Company s compensation expense for the three and six months ended June 30, 2011.

Changes in the Company s outstanding stock option awards were as follows:

| | Number of Stock Option | Weighted-Average | Weighted-Average | Aggregate Intrinsic Value |
|---|---|---|---|---|

| | Awards | Exercise price | Remaining Contractual Term (years) | (per share) |
|---|---|---|---|---|
| Outstanding stock option awards at January 1, 2011 | 150,000 | $ 7.25 | 9.94 | $ 1.46 |
| Granted | 214,274 | 8.54 | 10.00 | 0.00 |
| Exercises | | | | |
| Forfeitures/expirations | (2,900) | 8.82 | 0.00 | 0.00 |
| Outstanding stock option awards at June 30, 2011 | 361,374 | $ 8.00 | 9.57 | $ 0.00 |

***Stock-Based Compensation Expense***

The compensation expense recognized for the three and six months ended June 30, 2011, related to stock-based compensation was $1 million and $2 million, respectively.  The compensation expense recognized for the three and six months ended June 30, 2010, related to stock-based compensation was $2 million.  These costs are recorded as part of general and administrative expense on the Company s consolidated statements of operations.

As of June 30, 2011, unrecognized compensation expense related to the unvested portion of the Company s restricted stock and restricted stock unit awards was approximately $8 million and is expected to be recognized over a weighted-average period of approximately 1.9 years.

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**Note 8**

**Income Taxes**

Income taxes for the six months ended June 30, 2011 and 2010 have been included in the accompanying consolidated financial statements on the basis of an estimated annual effective tax rate. In determining the estimated annual effective tax rate, the Company included interest expense and the tax effect of other one-time discrete items. The Company anticipates the effective tax rate, including interest expense and other one-time discrete items, to approximate 37% for 2011. Our effective tax rate for 2011 may be subject to changes in future periods. The full year effective tax rate for 2010 was 35.3%.

On March 23, 2010, the Patient Protection and Affordable Care Act was signed into law, which was amended on March 30, 2010 by the Health Care and Education Reconciliation Act of 2010. These acts include provisions that eliminate a future tax deduction related to Medicare Part D subsidies received on or after January 1, 2013. This change in tax law required the Company to record a non-cash income tax charge of $7 million to reduce the associated deferred tax asset during the three months ended March 31, 2010.

**Note 9**

**Litigation**

The Company is subject to various lawsuits and other claims in the normal course of business. In addition, from time to time, the Company receives communications from government or regulatory agencies concerning investigations or allegations of noncompliance with laws or regulations in jurisdictions in which the Company operates.

The Company establishes reserves for the estimated losses on specific contingent liabilities, for regulatory and legal actions where the Company deems a loss to be probable and the amount of the loss can be reasonably estimated. In other instances, the Company is not able to make a reasonable estimate of liability because of the uncertainties related to the outcome or the amount or range of potential loss. The Company does not expect that the ultimate resolution of pending regulatory and legal matters in future periods, including the matters described below, will have a material adverse effect on its business, results of operations or financial condition.

On April 20, 2009, a lawsuit was filed in the district court of Tarrant County, Texas, against certain of the Company s officers and directors (but not against the Company or its subsidiaries) on behalf of Jack B. Corwin as Trustee of The Jack B. Corwin Revocable Trust, and Charitable Remainder Stewardship Company of Nevada, and as Trustee of the Jack B. Corwin 2006 Charitable Remainder Unitrust (the Corwin case). The *Corwin* case generally alleges that at various times in 2008 and 2009, the named Company officers and directors made false and misleading representations, or failed to state material facts, which made their statements misleading regarding the Company s financial performance and condition. The suit brings fraud and negligent misrepresentation claims and alleges violations of the Texas Securities Act and Section 27 of the Texas Business Commerce Code. The plaintiffs seek unspecified compensatory damages, exemplary damages, and reimbursement for litigation expenses. On June 3, 2009, the plaintiffs filed an amended complaint with the same allegations adding two additional Company directors as party defendants. On June 10, 2010, the court in the *Buettgen* case granted the Company s motion staying discovery in the *Corwin* case pursuant to the provisions of the Private Securities Litigation Reform Act, after which the parties agreed to a scheduling order consistent with the prior *Buettgen* stay order. The Company plans to honor its indemnification obligations and vigorously defend the lawsuit on the defendants behalf.

On April 30, 2009, May 21, 2009, and June 5, 2009, three separate putative class action securities lawsuits were filed in the U.S. District Court for the Northern District of Texas, Dallas Division, against certain of the Company s current and former officers (but not against the Company or its subsidiaries). The suits were filed by Jan Buettgen, John Heffner, and Alan Goldberg as three separate named plaintiffs on behalf of purchasers of the Company s common stock between August 10, 2007 and March 31, 2009, inclusive. On May 22, 2009, a putative class action securities lawsuit was filed in the U.S. District Court for the Eastern District of Arkansas against two of the Company s current officers (but not against the Company or its subsidiaries). The suit was filed by Wade L. Jones on behalf of purchasers of the Company s bonds between March 27, 2008 and March 30, 2009, inclusive. On August 18, 2009, the Wade Jones case from Arkansas federal district court was transferred to be consolidated with the cases filed in Texas. The complaints are virtually identical and generally allege that the defendants violated federal securities laws by issuing false and misleading statements regarding the Company s financial performance and condition. Specifically, the complaints allege violations by the defendants of Section 10(b) of the Exchange Act, Rule 10b-5 under the Exchange Act and Section 20 of the Exchange Act. The plaintiffs are seeking unspecified compensatory damages and reimbursement for litigation expenses. Since the filing of the complaints, all four cases have been consolidated into one court in the Northern District of Texas and a lead plaintiff and lead plaintiffs

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attorney have been selected (the Buettgen case). On April 12, 2010, the Company filed a motion to dismiss the entire *Buettgen* complaint. On August 11, 2010, in a one line order without an opinion, the Court denied the Company s motion to dismiss. Subsequently, the Court entered a scheduling order setting out a timetable for proceedings to consider class certification and administratively closing the case. The plaintiffs have filed their class certification motion and the Company filed its opposition on January 14, 2011. On May 19, 2011, the Court granted the plaintiffs motion certifying a class. Subsequently, the Fifth Circuit Court of Appeals denied the Company s petition for an interlocutory appeal of the class certification order. The Company plans to honor its indemnification obligations and vigorously defend the lawsuit on the defendants behalf.

On November 25, 2009, three former Bell retirees brought a class action lawsuit in the U.S. District Court for the Northern District of Texas, Dallas Division, against both the Verizon employee benefits committee and pension plans and the Company s employee benefits committee (the EBC ) and pension plans. All three named plaintiffs are receiving the single life monthly annuity pension benefits. All complain that Verizon transferred them against their will from the Verizon pension plans to the Company pension plans at or near the Company s spin-off from Verizon. The complaint alleges that both Verizon and Company defendants failed to provide requested plan documents, which would entitle the plaintiffs to statutory penalties under ERISA; that both Verizon and Company defendants breached their fiduciary duty for refusal to disclose pension plan information; and other class action counts aimed solely at the Verizon defendants. The plaintiffs seek class action status, statutory penalties, damages and a reversal of the employee transfers. The Company defendants filed their motion to dismiss the entire complaint on March 10, 2010. On October 18, 2010, the Court ruled on the pending motion dismissing all the claims against the Company pension plans and all of the claims against the Company s EBC relating to the production of documents and statutory penalties for failure to produce same. The only claims remaining against the Company are procedural ERISA claims against the Company s EBC. On November 1, 2010, the Company s EBC filed its answer to the complaint. On November 4, 2010, the Company s EBC filed a motion to dismiss one of the two remaining procedural ERISA claims against the EBC. Pursuant to an agreed order, the plaintiffs have obtained class certification against the Verizon defendants and discovery has commenced. After obtaining permission from the Court, the Plaintiffs filed another amendment to the complaint, alleging a new count against the Company s EBC. The Company s EBC filed another motion to dismiss the amended complaint and all defendants plan to file a summary judgment motion before the deadline set by the scheduling order. The Company plans to honor its indemnification obligations and vigorously defend the lawsuit on the defendants behalf.

On December 10, 2009, a former employee with a history of litigation against the Company filed a putative class action lawsuit in the U.S. District Court for the Northern District of Texas, Dallas Division, against certain of the Company s current and former officers, directors and members of the Company s EBC. The complaint attempts to recover alleged losses to the various savings plans that were allegedly caused by the breach of fiduciary duties in violation of ERISA by the defendants in administrating the plans from November 17, 2006 to March 31, 2009. The complaint alleges that: (i) the defendants wrongfully allowed all the plans to invest in Idearc common stock, (ii) the defendants made material misrepresentations regarding the Company s financial performance and condition, (iii) the defendants had divided loyalties, (iv) the defendants mismanaged the plan assets, and (v) certain defendants breached their duty to monitor and inform the EBC of required disclosures. The plaintiffs are seeking unspecified compensatory damages and reimbursement for litigation expenses. At this time, a class has not been certified. The plaintiffs have filed a consolidated complaint. The Company filed a motion to dismiss the entire complaint on June 22, 2010. On March 16, 2011, the Court granted the Company defendants motion to dismiss the entire complaint; however, the plaintiffs have replead their complaint. The Company defendants have filed another motion to dismiss the new complaint. The briefing on the motion is complete and the Company awaits the order of the Court. The Company plans to honor its indemnification obligations and vigorously defend the lawsuit on the defendants behalf.

On November 15, 2010, a group of publishers led by the Local Search Association (formerly the Yellow Pages Association) and including the Company (collectively, the Publishers ), filed a lawsuit in the U.S. District Court for the Western District of Washington challenging Ordinance 123427 enacted by the City of Seattle that requires all publishers of print yellow pages directories distributed in the City of Seattle to (a) obtain a license from the City, (b) pay a tax to distribute the directory publications in addition to general business taxes already paid by publishers and other businesses generally operating within the City, and (c) participate in a City-run opt-out registry that encourages all residents of Seattle to stop receiving print yellow pages directories ( the Ordinance ). The suit challenges the Ordinance as a content-based restriction on speech, violating the first amendment of the U.S. Constitution and the commerce clause of the U.S. Constitution. On February 10, 2011, the Publishers filed a motion for preliminary injunction seeking to enjoin the operation of the Ordinance before the upcoming publication of the Qwest Dex Seattle Yellow Pages. After no order was forthcoming from the Court, the Publishers filed a motion for a temporary restraining order with the

court seeking to immediately enjoin the operation of the Ordinance. On May 8, 2011, the court denied both motions. On May 11, 2011, the Publishers filed a notice of appeal with the court. On

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May 13, 2011, the Publishers filed a motion with the United States Court of Appeal for the 9th Circuit seeking to enjoin the Ordinance pending the appeal and to expedite an appeal. On May 24, 2011, the Court of Appeals denied the Publishers motion for an injunction, but granted the Motion for an expedited appeal. After briefing was complete, oral argument was presented to a 9th Circuit appellate panel. The Publishers await the order of the appellate court.

On April 26, 2011, the Company received a letter from the Philadelphia Equal Employment Opportunity Commission ( EEOC ) on behalf of a former employee indicating that the EEOC was conducting an investigation for a possible nationwide class claim. The former employee was terminated after failing to memorize a sales pitch. The EEOC alleges that the Company may have systematically discriminated against older employees and employees with disabilities by requiring them to memorize a sales pitch. The Company is cooperating with the agency.

On July 1, 2011, several former employees filed a Fair Labor Standards Act ( FLSA ) collective action against the Company, all its subsidiaries, the current Chief Executive Officer and the former Chief Executive Officer in the U.S. District Court for the Northern District of Texas, Dallas Division. The complaint alleges that the Company improperly calculated the rate of pay when it paid overtime to certain of its hourly sales employees. The answer to the complaint is not yet due.

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**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.**

**Overview**

SuperMedia Inc. and its subsidiaries (collectively, SuperMedia, We, Our, Us, or the Company ) sells advertising solutions to our clients and places their advertising into our various advertising media. Our advertising media include Superpages yellow page directories, Superpages.com, our online local search resource, the Superpages.com network, an online advertising network, Superpages direct mailers, and Superpages mobile, our local search application for wireless subscribers. The Company offers the SuperGuarantee program, which is a consumer focused program designed to make it easier and faster for consumers to find businesses they trust.

We are the official publisher of Verizon Communications Inc. ( Verizon ) print directories in the markets in which Verizon is currently the incumbent local telephone exchange carrier. We use the Verizon brand on our print directories in these and other specified markets. We also have agreements with FairPoint Communications, Inc. ( FairPoint ) and Frontier Communications Corporation ( Frontier ) in various Northeast and Midwest markets in which FairPoint and Frontier are the local exchange carriers. These agreements include a publishing agreement, a branding agreement and a non-competition agreement, each of which has a term expiring in 2036.

***Basis of Presentation***

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States ( U.S. GAAP ). Pursuant to the rules and regulations of the United States Securities and Exchange Commission (the SEC ), the accompanying unaudited consolidated financial statements contain all adjustments, consisting of normal recurring items and accruals, necessary to fairly present the financial position, results of operations and cash flows of SuperMedia Inc. and its subsidiaries. These unaudited interim financial statements do not contain all information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP and, as such, should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of results of operations for the entire 2011 fiscal year.

The preparation of these financial statements requires management to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. Certain prior period amounts have been reclassified to conform to current year presentation.

On December 31, 2009, upon emergence from bankruptcy, the Company adopted fresh start accounting in accordance with U.S. GAAP. Accordingly, the Company s 2010 financial results were significantly impacted. At December 31, 2009, the balances of deferred revenue and deferred directory costs were adjusted to their fair value of zero, which had a significant non-cash impact on our 2010 operating results. As a result, approximately $846 million of deferred revenue ($826 million net of estimated sales allowances) and $213 million of deferred directory costs were not recognized in our 2010 annual consolidated statement of operations. These non-cash fresh start adjustments only impacted our 2010 consolidated statements of operations and do not affect current year results. Likewise, these non-cash fresh start adjustments did not affect cash flows as client billing and collection activities remained unchanged.

**Advertising Sales**

We have been experiencing reduced advertising sales and revenue over the past several years driven by reduced advertiser renewals, reflecting continued competition from other advertising media (including the Internet, cable television, newspaper and radio) and a weak economy. For the three and six months ended June 30, 2011, net advertising sales declined 16.7% and 17.5%, respectively, compared to the same periods in 2010. For the three and six months ended June 30, 2010 net advertising sales declined 16.4% and 18.3%, respectively, compared to the same periods in 2009. If the factors driving these declines continue, then we will continue to experience declining advertising sales and revenues.

Advertising sales for the three and six months ended June 30, 2011 include negative adjustments of $2 million, or 0.4%, and $11 million, or 1.1%, respectively, related to the financial distress and operational wind down of a single certified marketing representative firm in our third-party national sales channel.  As of June 2011, responsibility for these accounts has been transitioned to other certified marketing representative firms.

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**Results of Operations**

We emerged from Chapter 11 bankruptcy and adopted fresh start accounting on December 31, 2009. As required by U.S. GAAP, the implementation of fresh start accounting at December 31, 2009 included adjustments to deferred revenue and deferred directory costs and had a significant non-cash impact on our consolidated results of operations in 2010, but had no impact on the underlying cash, working capital assumptions or operation of our business. As a result of the application of fresh start accounting, the Company s 2010 financial statements are not comparable with our 2011 financial statements. However, in our discussion of the results of operations, the three and six months ended June 30, 2011 have been compared to the three and six months ended June 30, 2010 in our consolidated statements of operations. In this discussion, we quantify the impacts of fresh start accounting on our 2010 consolidated results of operations.

The financial information and the discussion below should be read in conjunction with the accompanying consolidated financial statements and notes thereto. Our operating results for any quarter may not be indicative of our operating results in any future period.

***Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010***

The following table sets forth our consolidated operating results for the three months ended June 30, 2011 and 2010:

| **Three Months Ended June 30,** | **2011** | **2010** | **Change** | **% Change** |
|---|---|---|---|---|
| | | **(in millions, except %)** | | |
| **Operating Revenue** | $ 421 | $ 247 | $ 174 | 70.4% |
| | | | | |
| **Operating Expense** | | | | |
| Selling | 112 | 113 | (1) | (0.9) |
| Cost of sales (exclusive of depreciation and amortization) | 106 | 103 | 3 | 2.9 |
| General and administrative | 53 | 45 | 8 | 17.8 |
| Depreciation and amortization | 44 | 47 | (3) | (6.4) |
| **Total Operating Expense** | 315 | 308 | 7 | 2.3 |
| | | | | |
| **Operating Income (Loss)** | 106 | (61) | 167 | NM |
| Interest expense, net | 57 | 71 | (14) | (19.7) |
| **Income (Loss) Before Reorganization Items and Provision (Benefit) for Income Taxes** | 49 | (132) | 181 | NM |
| Reorganization items | 1 | 1 | | |
| **Income (Loss) Before Provision (Benefit) for Income Taxes** | 48 | (133) | 181 | NM |
| Provision (benefit) for income taxes | 19 | (50) | 69 | NM |
| **Net Income (Loss)** | $ 29 | $ (83) | $ 112 | NM |

***Operating Revenue***

Operating revenue of $421 million in the three months ended June 30, 2011 increased $174 million, or 70.4%, compared to $247 million in the three months ended June 30, 2010. This increase was due primarily to the exclusion of approximately $265 million of amortized revenue from

the three months ended June 30, 2010, as required by fresh start accounting. This increase was partially offset by reduced advertiser renewals, reflecting continued competition from other advertising media (including the Internet, cable television, newspaper and radio) and a weak economy.

***Operating Expense***

Operating expense of $315 million in the three months ended June 30, 2011 increased $7 million, or 2.3%, compared to $308 million in the three months ended June 30, 2010, for the reasons described below. Our operating expenses for the three months ended June 30, 2010 exclude approximately $88 million of costs, as required by fresh start accounting.

*Selling.* Selling expense of $112 million in the three months ended June 30, 2011 decreased $1 million, or 0.9%, compared to $113 million in the three months ended June 30, 2010. This decrease resulted primarily from lower

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employee related costs, reduced advertising costs associated with our national advertising program and lower contract services costs, partially offset by higher sales commissions. The increase in sales commissions was primarily due to the exclusion of approximately $33 million of sales commissions from the three months ended June 30, 2010, as required by fresh start accounting.

*Cost of Sales*. Cost of sales of $106 million in the three months ended June 30, 2011 increased $3 million, or 2.9%, compared to $103 million in the three months ended June 30, 2010. This increase was primarily due to increased printing and distribution costs as a result of the exclusion of approximately $33 million of printing and distribution costs from the three months ended June 30, 2010, as required by fresh start accounting. This increase was partially offset by reduced employee related costs.

*General and Administrative.* General and administrative expense of $53 million in the three months ended June 30, 2011 increased $8 million, or 17.8%, compared to $45 million in the three months ended June 30, 2010. The increase was primarily driven by a $16 million expense reduction recorded during the three months ended June 30, 2010 related to the favorable non-recurring, non-cash resolution of state operating tax claims. This increase was partially offset by lower contract services costs and reduced employee related costs. Bad debt expense was $18 million for the three months ended June 30, 2011 and June 30, 2010, although bad debt expense as a percentage of total operating revenue decreased. Bad debt expense as a percent of total operating revenue was 4.3% for the three months ended June 30, 2011, compared to 7.3% for the three months ended June 30, 2010. Approximately $22 million of bad debt expense was excluded from general and administrative expense for the three months ended June 30, 2010, as required by fresh start accounting.

*Depreciation and Amortization.* Depreciation and amortization expense of $44 million in the three months ended June 30, 2011 decreased $3 million, or 6.4%, compared to $47 million in the three months ended June 30, 2010. This decrease was primarily due to lower amortization expense associated with capitalized internal use software.

***Interest expense, net***

Interest expense, net of interest income, of $57 million in the three months ended June 30, 2011 decreased $14 million, or 19.7%, compared to $71 million in the three months ended June 30, 2010, due to lower outstanding long-term debt obligations.

***Reorganization items***

Reorganization items of $1 million during the three months ended June 30, 2011 and 2010 primarily represent professional fees associated with our emergence from Chapter 11 bankruptcy.

***Provision (benefit) for income taxes***

Provision (benefit) for income taxes of $19 million in the three months ended June 30, 2011 increased $69 million, compared to a benefit of ($50) million in the three months ended June 30, 2010, primarily due to the impact of the items described above. Our effective tax rates for the three months ended June 30, 2011 and 2010 were 39.6% and 37.6%, respectively. The results for the three months ended June 30, 2011 and 2010, include the effects of one-time discrete items. We anticipate our effective tax rate, including interest expense and other one-time discrete items, to approximate 37% for 2011. Our effective tax rate for 2011 may be subject to changes in future periods. Our full year effective tax rate for 2010 was 35.3%.

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***Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010***

The following table sets forth our operating results for the six months ended June 30, 2011 and 2010:

| Six Months Ended June 30, | 2011 | 2010 | Change | % Change |
|---|---|---|---|---|
| | | (in millions, except %) | | |
| **Operating Revenue** | $ 859 | $ 401 | $ 458 | 114.2% |
| | | | | |
| **Operating Expense** | | | | |
| Selling | 228 | 222 | 6 | 2.7 |
| Cost of sales (exclusive of depreciation and amortization) | 216 | 192 | 24 | 12.5 |
| General and administrative | 118 | 97 | 21 | 21.6 |
| Depreciation and amortization | 88 | 95 | (7) | (7.4) |
| **Total Operating Expense** | 650 | 606 | 44 | 7.3 |
| | | | | |
| **Operating Income (Loss)** | 209 | (205) | 414 | NM |
| Interest expense, net | 114 | 143 | (29) | (20.3) |
| **Income (Loss) Before Reorganization Items and Provision (Benefit) for Income Taxes** | 95 | (348) | 443 | NM |
| Reorganization items | 1 | 3 | (2) | (66.7) |
| **Income (Loss) Before Provision (Benefit) for Income Taxes** | 94 | (351) | 445 | NM |
| Provision (benefit) for income taxes | 35 | (125) | 160 | NM |
| **Net Income (Loss)** | $ 59 | $ (226) | $ 285 | NM |

***Operating Revenue***

Operating revenue of $859 million for the six months ended June 30, 2011 increased $458 million, or 114.2%, compared to $401 million for the six months ended June 30, 2010. This increase was due primarily to the exclusion of approximately $644 million of amortized revenue in the six months ended June 30, 2010, as required by fresh start accounting. This increase was partially offset by reduced advertiser renewals, reflecting continued competition from other advertising media (including the Internet, cable television, newspaper and radio) and a weak economy.

***Operating Expense***

Operating expense of $650 million for the six months ended June 30, 2011 increased $44 million, or 7.3%, compared to $606 million for the six months ended June 30, 2010 for the reasons described below. Our operating expenses for the six months ended June 30, 2010 exclude approximately $210 million of costs, as required by fresh start accounting.

*Selling.* Selling expense of $228 million for the six months ended June 30, 2011 increased $6 million, or 2.7%, compared to $222 million for the six months ended June 30, 2010. This increase resulted primarily from higher sales commissions as a result of the exclusion of approximately $76 million of sales commissions from the six months ended June 30, 2010, as required by fresh start accounting. The higher sales commissions

were partially offset by lower employee related costs, reduced advertising costs associated with our national advertising program and lower contract services costs.

*Cost of Sales*. Cost of sales of $216 million for the six months ended June 30, 2011 increased $24 million, or 12.5%, compared to $192 million for the six months ended June 30, 2010. This increase was primarily due to increased printing and distribution costs as a result of the exclusion of approximately $82 million of printing and distribution costs from the six months ended June 30, 2010, as required by fresh start accounting. This increase was partially offset by reduced employee related costs.

*General and Administrative.* General and administrative expense of $118 million for the six months ended June 30, 2011 increased $21 million, or 21.6 %, compared to $97 million for the six months ended June 30, 2010. The increase was primarily driven by a $16 million expense reduction recorded during the six months ended June 30, 2010 related to the favorable non-recurring, non-cash resolution of state operating tax claims. Additionally, the increase was driven by higher bad debt expense, increased severance costs and higher settlement losses in 2011 associated with our pension plans. These increases were partially offset by lower contract services costs and reduced employed related costs. Bad debt expense of $35 million for the six months ended June 30, 2011, increased by $5 million, or 16.7%, compared to $30 million for the six months ended June 30, 2010, although bad debt expense as a percentage of total operating revenue decreased. Bad debt expense as a percent of total operating

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revenue was 4.1% for the six months ended June 30, 2011, compared to 7.5% for the six months ended June 30, 2010. Approximately $52 million of bad debt expense was excluded from general and administrative expense for the six months ended June 30, 2010, as required by fresh start accounting.

*Depreciation and Amortization.* Depreciation and amortization expense of $88 million for the six months ended June 30, 2011 decreased $7 million, or 7.4%, compared to $95 million for the six months ended June 30, 2010. This decrease was primarily due to lower amortization expense associated with capitalized internal use software.

***Interest expense, net***

Interest expense, net of interest income, of $114 million for the six months ended June 30, 2011 decreased $29 million, or 20.3%, compared to $143 million for the six months ended June 30, 2010 due to lower outstanding long-term debt obligations.

***Reorganization items***

Reorganization items for the six months ended June 30, 2011 of $1 million decreased $2 million, or 66.7%, compared to $3 million for the six months ended June 30, 2010, primarily due to lower professional fees associated with our emergence from Chapter 11 bankruptcy.

***Provision (benefit) for income taxes***

Provision for income taxes of $35 million for the six months ended June 30, 2011 increased $160 million, compared to a benefit for income taxes of ($125) million for the six months ended June 30, 2010, primarily due to the impact of the items described above. Our effective tax rates for the six months ended June 30, 2011 and 2010 were 37.2% and 35.6%, respectively. The results for the six months ended June 30, 2011 and 2010 include interest expense and the effects of one-time discrete items. During the six months ended June 30, 2010, we recorded a non-cash income tax charge of $7 million to reduce a deferred tax asset associated with eliminating a future tax deduction related to Medicare Part D subsidies received on or after January 1, 2013. We anticipate our effective tax rate, including interest expense and other one-time discrete items, to approximate 37% for 2011. Our effective tax rate for 2011 may be subject to changes in future periods. Our full year effective tax rate for 2010 was 35.3%.

**Liquidity and Capital Resources**

The following table sets forth a summary of cash flows for the six months ended June 30, 2011 and 2010:

| Six Months Ended June 30, | 2011 | 2010 (in millions) | Change |
|---|---|---|---|
| **Cash Flows Provided By (Used In):** | | | |
| Operating activities | $ 49 | $ 286 | $ (237) |
| Investing activities | (7) | (21) | 14 |
| Financing activities | (36) | (177) | 141 |
| **Increase In Cash and Cash Equivalents** | $ 6 | $ 88 | $ (82) |

Our primary source of funds continues to be cash generated from operations. For the six months ended June 30, 2011, net cash provided by operating activities decreased $237 million, or 82.9%, compared to the six months ended June 30, 2010 primarily due to income tax payments of approximately $121 million in 2011, which includes a federal tax payment of $72 million related to our 2010 income tax obligations. Additionally, during the six months ended June 30, 2010, we received a federal income tax refund of $94 million. The remaining decrease was primarily due to lower cash collections associated with lower revenues and higher severance payments, partially offset by reduced expenditures, lower interest payments due to our lower debt obligations and lower reorganization item payments.

Cash used in investing activities of $7 million during the six months ended June 30, 2011 decreased $14 million compared to $21 million during the six months ended June 30, 2010, primarily due to reduced capitalized internal use software expenditures.

Net cash used in financing activities of $36 million for the six months ended June 30, 2011 decreased $141 million compared to $177 million for the six months ended June 30, 2010. Net cash used in financing activities in the six months ended June 30, 2011 and 2010 represents the repayment of debt principal.

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We believe the net cash provided by our operating activities and existing cash and cash equivalents will provide sufficient resources to meet our working capital requirements, estimated principal and interest debt service requirements and other cash needs for the remainder of 2011.

**Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update 2011-04 ( ASU 2011-04 ), *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which amends Accounting Standards Codification 820, *Fair Value Measurement*. The amended guidance changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, the amendments clarify the FASB s intent about the application of existing fair value measurement requirements. The guidance provided in ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. The provisions are effective for the Company s first quarter ending March 31, 2012. We do not expect the adoption of these provisions to have a significant effect on our consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update No. 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (Topic 350) Intangibles Goodwill and Other* ( ASU 2010-28 ). ASU 2010-28 amends the criteria for performing Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts and requires performing Step 2 if qualitative factors indicate that it is more likely than not that a goodwill impairment exists. The amendments in ASU 2010-28 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of ASU 2010-28 did not have an impact on the Company s consolidated financial position or results of operations.

**Critical Accounting Policies**

There were no material changes to our critical accounting policies and estimates since December 31, 2010. For additional information on critical accounting policies, refer to Management s Discussion and Analysis in our 2010 Annual Report on Form 10-K.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that are material to our results of operations, financial condition or liquidity.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Our exposures to market risk have not changed materially since December 31, 2010. For quantitative and qualitative disclosures about our market risk, see Item 7A. Quantitative and Qualitative Disclosures about Market Risks in Part II of our 2010 Annual Report on Form 10-K.

**Item 4. Controls and Procedures.**

**Disclosure Controls**

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report to provide reasonable assurance that information we are required to disclose in reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms specified by the Securities and Exchange Commission. We note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving the stated goals under all potential future conditions.

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**Changes in Internal Control Over Financial Reporting**

There have not been any changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

The Company is subject to various lawsuits and other claims in the normal course of business. In addition, from time to time, the Company receives communications from government or regulatory agencies concerning investigations or allegations of noncompliance with laws or regulations in jurisdictions in which the Company operates.

The Company establishes reserves for the estimated losses on specific contingent liabilities, for regulatory and legal actions where the Company deems a loss to be probable and the amount of the loss can be reasonably estimated. In other instances, the Company is not able to make a reasonable estimate of liability because of the uncertainties related to the outcome or the amount or range of potential loss. The Company does not expect that the ultimate resolution of pending regulatory and legal matters in future periods, including the matters described below, will have a material adverse effect on its business, results of operations or financial condition.

On April 20, 2009, a lawsuit was filed in the district court of Tarrant County, Texas, against certain of the Company s officers and directors (but not against the Company or its subsidiaries) on behalf of Jack B. Corwin as Trustee of The Jack B. Corwin Revocable Trust, and Charitable Remainder Stewardship Company of Nevada, and as Trustee of the Jack B. Corwin 2006 Charitable Remainder Unitrust (the Corwin case). The *Corwin* case generally alleges that at various times in 2008 and 2009, the named Company officers and directors made false and misleading representations, or failed to state material facts, which made their statements misleading regarding the Company s financial performance and condition. The suit brings fraud and negligent misrepresentation claims and alleges violations of the Texas Securities Act and Section 27 of the Texas Business Commerce Code. The plaintiffs seek unspecified compensatory damages, exemplary damages, and reimbursement for litigation expenses. On June 3, 2009, the plaintiffs filed an amended complaint with the same allegations adding two additional Company directors as party defendants. On June 10, 2010, the court in the *Buettgen* case granted the Company s motion staying discovery in the *Corwin* case pursuant to the provisions of the Private Securities Litigation Reform Act, after which the parties agreed to a scheduling order consistent with the prior *Buettgen* stay order. The Company plans to honor its indemnification obligations and vigorously defend the lawsuit on the defendants behalf.

On April 30, 2009, May 21, 2009, and June 5, 2009, three separate putative class action securities lawsuits were filed in the U.S. District Court for the Northern District of Texas, Dallas Division, against certain of the Company s current and former officers (but not against the Company or its subsidiaries). The suits were filed by Jan Buettgen, John Heffner, and Alan Goldberg as three separate named plaintiffs on behalf of purchasers of the Company s common stock between August 10, 2007 and March 31, 2009, inclusive. On May 22, 2009, a putative class action securities lawsuit was filed in the U.S. District Court for the Eastern District of Arkansas against two of the Company s current officers (but not against the Company or its subsidiaries). The suit was filed by Wade L. Jones on behalf of purchasers of the Company s bonds between March 27, 2008 and March 30, 2009, inclusive. On August 18, 2009, the Wade Jones case from Arkansas federal district court was transferred to be consolidated with the cases filed in Texas. The complaints are virtually identical and generally allege that the defendants violated federal securities laws by issuing false and misleading statements regarding the Company s financial performance and condition. Specifically, the complaints allege violations by the defendants of Section 10(b) of the Exchange Act, Rule 10b-5 under the Exchange Act and Section 20 of the Exchange Act. The plaintiffs are seeking unspecified compensatory damages and reimbursement for litigation expenses. Since the filing of the complaints, all four cases have been consolidated into one court in the Northern District of Texas and a lead plaintiff and lead plaintiffs attorney have been selected (the Buettgen case). On April 12, 2010, the Company filed a motion to dismiss the entire *Buettgen* complaint. On August 11, 2010, in a one line order without an opinion, the Court denied the Company s motion to dismiss. Subsequently, the Court entered a scheduling order setting out a timetable for proceedings to consider class certification and administratively closing the case. The plaintiffs have filed their class certification motion and the Company filed its opposition on January 14, 2011. On May 19, 2011, the Court granted the plaintiffs motion certifying a class. Subsequently, the Fifth Circuit Court of Appeals denied the Company s petition for an interlocutory appeal of the class certification order. The Company plans to honor its indemnification obligations and vigorously defend the lawsuit on the

defendants behalf.

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On November 25, 2009, three former Bell retirees brought a class action lawsuit in the U.S. District Court for the Northern District of Texas, Dallas Division, against both the Verizon employee benefits committee and pension plans and the Company s employee benefits committee (the EBC ) and pension plans. All three named plaintiffs are receiving the single life monthly annuity pension benefits. All complain that Verizon transferred them against their will from the Verizon pension plans to the Company pension plans at or near the Company s spin-off from Verizon. The complaint alleges that both Verizon and Company defendants failed to provide requested plan documents, which would entitle the plaintiffs to statutory penalties under ERISA; that both Verizon and Company defendants breached their fiduciary duty for refusal to disclose pension plan information; and other class action counts aimed solely at the Verizon defendants. The plaintiffs seek class action status, statutory penalties, damages and a reversal of the employee transfers. The Company defendants filed their motion to dismiss the entire complaint on March 10, 2010. On October 18, 2010, the Court ruled on the pending motion dismissing all the claims against the Company pension plans and all of the claims against the Company s EBC relating to the production of documents and statutory penalties for failure to produce same. The only claims remaining against the Company are procedural ERISA claims against the Company s EBC. On November 1, 2010, the Company s EBC filed its answer to the complaint. On November 4, 2010, the Company s EBC filed a motion to dismiss one of the two remaining procedural ERISA claims against the EBC. Pursuant to an agreed order, the plaintiffs have obtained class certification against the Verizon defendants and discovery has commenced. After obtaining permission from the Court, the Plaintiffs filed another amendment to the complaint, alleging a new count against the Company s EBC. The Company s EBC filed another motion to dismiss the amended complaint and all defendants plan to file a summary judgment motion before the deadline set by the scheduling order. The Company plans to honor its indemnification obligations and vigorously defend the lawsuit on the defendants behalf.

On December 10, 2009, a former employee with a history of litigation against the Company filed a putative class action lawsuit in the U.S. District Court for the Northern District of Texas, Dallas Division, against certain of the Company s current and former officers, directors and members of the Company s EBC. The complaint attempts to recover alleged losses to the various savings plans that were allegedly caused by the breach of fiduciary duties in violation of ERISA by the defendants in administrating the plans from November 17, 2006 to March 31, 2009. The complaint alleges that: (i) the defendants wrongfully allowed all the plans to invest in Idearc common stock, (ii) the defendants made material misrepresentations regarding the Company s financial performance and condition, (iii) the defendants had divided loyalties, (iv) the defendants mismanaged the plan assets, and (v) certain defendants breached their duty to monitor and inform the EBC of required disclosures. The plaintiffs are seeking unspecified compensatory damages and reimbursement for litigation expenses. At this time, a class has not been certified. The plaintiffs have filed a consolidated complaint. The Company filed a motion to dismiss the entire complaint on June 22, 2010. On March 16, 2011, the Court granted the Company defendants motion to dismiss the entire complaint; however, the plaintiffs have replead their complaint. The Company defendants have filed another motion to dismiss the new complaint. The briefing on the motion is complete and the Company awaits the order of the Court. The Company plans to honor its indemnification obligations and vigorously defend the lawsuit on the defendants behalf.

On November 15, 2010, a group of publishers led by the Local Search Association (formerly the Yellow Pages Association) and including the Company (collectively, the Publishers ), filed a lawsuit in the U.S. District Court for the Western District of Washington challenging Ordinance 123427 enacted by the City of Seattle that requires all publishers of print yellow pages directories distributed in the City of Seattle to (a) obtain a license from the City, (b) pay a tax to distribute the directory publications in addition to general business taxes already paid by publishers and other businesses generally operating within the City, and (c) participate in a City-run opt-out registry that encourages all residents of Seattle to stop receiving print yellow pages directories ( the Ordinance ). The suit challenges the Ordinance as a content-based restriction on speech, violating the first amendment of the U.S. Constitution and the commerce clause of the U.S. Constitution. On February 10, 2011, the Publishers filed a motion for preliminary injunction seeking to enjoin the operation of the Ordinance before the upcoming publication of the Qwest Dex Seattle Yellow Pages. After no order was forthcoming from the Court, the Publishers filed a motion for a temporary restraining order with the court seeking to immediately enjoin the operation of the Ordinance. On May 8, 2011, the court denied both motions. On May 11, 2011, the Publishers filed a notice of appeal with the court. On May 13, 2011, the Publishers filed a motion with the United States Court of Appeal for the 9th Circuit seeking to enjoin the Ordinance pending the appeal and to expedite an appeal. On May 24, 2011, the Court of Appeals denied the Publishers motion for an injunction, but granted the Motion for an expedited appeal. After briefing was complete, oral argument was presented to a 9th Circuit appellate panel. The Publishers await the order of the appellate court.

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On April 26, 2011, the Company received a letter from the Philadelphia Equal Employment Opportunity Commission ( EEOC ) on behalf of a former employee indicating that the EEOC was conducting an investigation for a possible nationwide class claim. The former employee was terminated after failing to memorize a sales pitch. The EEOC alleges that the Company may have systematically discriminated against older employees and employees with disabilities by requiring them to memorize a sales pitch. The Company is cooperating with the agency.

On July 1, 2011, several former employees filed a Fair Labor Standards Act ( FLSA ) collective action against the Company, all its subsidiaries, the current Chief Executive Officer and the former Chief Executive Officer in the U.S. District Court for the Northern District of Texas, Dallas Division. The complaint alleges that the Company improperly calculated the rate of pay when it paid overtime to certain of its hourly sales employees. The answer to the complaint is not yet due.

**Item 1A. Risk Factors.**

There are numerous factors that affect our business and results of operations, many of which are beyond our control. In addition to other information set forth in this Quarterly Report, you should carefully read and consider Item 1A. Risk Factors in Part I, and Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operation in Part II of our 2010 Annual Report, which contain a description of significant factors that might cause the actual results of operations in future periods to differ materially from those currently expected or desired. Set forth below is a risk factor that has been modified or has materially changed from the risk factors discussed in our 2010 Annual Report. The risk described in this Quarterly Report and in our 2010 Annual Report are not the only risks facing our Company. Additional risks and uncertainties are currently deemed immaterial based on management s assessment of currently available information, which remains subject to change, however, new risks that are currently unknown to us may surface in the future which materially adversely affect our business, financial condition, operating results or cash flow in the future.

***Laws and regulations directed at limiting or restricting the distribution of our print directories or shifting the costs and responsibilities of waste management related to our print directories could adversely affect our business.***

A number of states and municipalities are considering, and a limited number of municipalities have enacted, legislation or regulations that would limit or restrict our ability to distribute our print directories in the markets we serve. The most restrictive laws or regulations would prohibit us from distributing our print directories unless residents affirmatively opt in to receive our print directories. Other, less restrictive, laws or regulations would require us to allow residents to opt out of receiving our print directories. In addition, some states and municipalities are considering legislation or regulations that would shift the costs and responsibilities of waste management for discarded directories from municipalities to the producers of the directories. These laws and regulations will likely, if and where adopted, increase our costs to distribute our print directories, reduce the number of directories that are distributed, and negatively impact our ability to market our advertising to new and existing clients. If these or similar laws and regulations are widely adopted, our revenues, costs and profitability could be materially and adversely affected.

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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

The following table provides information about shares acquired from employees during the three months ended June 30, 2011 as payment of withholding taxes in connection with the vesting of restricted stock awarded to employees pursuant to the SuperMedia Inc. 2009 Incentive Compensation Plan and the SuperMedia Inc. Long Term Incentive Plan:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| April 1 April 30 | 110 | $ 6.50 | | |
| May 1 May 31 | | | | |
| June 1 June 30 | | | | |
| Total | 110 | $ 6.50 | | |

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. (Removed and Reserved).**

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

**Exhibits:**

3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K, filed January 25, 2010).

3.2 Third Amended and Restated By-Laws of the Registrant, dated July 28, 2010 (incorporated by reference to Exhibit 3.2 to the Registrant s Quarterly Report on Form 10-Q, filed July 29, 2010).

3.3 First Amendment to Third Amended and Restated By-Laws of the Registrant, dated as of October 4, 2010 (incorporated by reference to Exhibit 3.2 to the Registrant s Current Report on Form 8-K, filed October 8, 2010).

| | |
|---|---|
| 31.1 | Certification of Peter J. McDonald filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 31.2 | Certification of Samuel D. Jones filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 32.1 | Certification of Peter J. McDonald and Samuel D. Jones filed pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document |

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | SUPERMEDIA INC. |
|---|---|
| August 3, 2011 | /s/ Peter J. McDonald<br>Peter J. McDonald<br>Chief Executive Officer<br>(Principal Executive Officer) |
| August 3, 2011 | /s/ Samuel D. Jones<br>Samuel D. Jones<br>Chief Financial Officer and Treasurer<br>(Principal Financial and Accounting Officer) |

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