SUPERMEDIA INC.
Form 10-Q
April 26, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

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

For the transition period from to

Commission File Number: 1-32939

SUPERMEDIA INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**20-5095175**
(State of Incorporation)	(I.R.S. Employer Identification Number)
2200 West Airfield Drive, P.O. Box 619810 D/FW Airport, TX	**75261**
(Address of Principal Executive Offices)	(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 o
Non-accelerated filer o	Smaller reporting company x

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 PRECEEDING 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 April 19, 2013, there were 15,638,010 shares of the Registrant s common stock outstanding.

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FORWARD-LOOKING STATEMENTS

Some statements included in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the federal securities laws. Statements that include the words may, will, could, should, would, believe, anticipate, fo estimate, expect, preliminary, intend, plan, project, outlook and similar statements of a future or forward-looking nature identify forwa statements. 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. 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 risks related to the following:

- the potential adverse impacts of failure to complete, or delay in completing, the proposed merger with Dex One Corporation (Dex One);

- the business uncertainties and contractual restrictions arising from the timing and closing of the proposed merger with Dex One, including the possible inability to consummate the proposed merger on the terms originally contemplated;

- the risk that anticipated cost savings, growth opportunities and other financial and operating benefits as a result of the proposed merger may not be realized or may take longer to realize than expected;

- the risk that benefits from the transaction may be significantly offset by costs incurred in integrating Dex One and the Company;

- difficulties in connection with the process of integrating Dex One and the Company if the transaction with Dex One is consummated, including: coordinating geographically separate organizations; integrating business cultures, which could prove to be incompatible; difficulties and costs of integrating information technology systems; and the potential difficulty in retaining key officers and personnel;

- the risks related to the impact either Dex One s or the Company s voluntary case under Chapter 11 of title 11 of the United States Code (the Bankruptcy Code) to consummate the proposed merger (together, Chapter 11 cases) could have on the Company s business operations, financial condition, liquidity or cash flow;

- the risks related to other parties objecting to the Chapter 11 cases and the resulting cost and expenses of delays in either Chapter 11 case;

- risks that the combined company will incur significant, non-recurring costs in connection with the administration of the Chapter 11 cases.
- our inability to provide assurance for the long-term continued viability of our business;
- reduced advertising spending and increased 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;
- our ability to anticipate or respond to changes in technology and user preferences;
- changes in our operating performance;
- 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 credit agreement;
- failure to comply with the financial covenants and other restrictive covenants in our credit agreement;
- limited access to capital markets and increased borrowing costs resulting from our leveraged capital structure and debt ratings;

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- changes in the availability and cost of paper and other raw materials used to print our directories;
- 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, 2012. 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

Debtor and Debtor-In-Possession

Consolidated Statements of Comprehensive Income

(Unaudited)

	Three Months Ended March 31, 2013		2012	
	(in millions, except per share amounts)			
Operating Revenue	**$**	**293**	$	363
Operating Expense				
Selling		**75**		90
Cost of sales (exclusive of depreciation and amortization)		**75**		86
General and administrative		**11**		41
Depreciation and amortization		**31**		40
Total Operating Expense		**192**		257
Operating Income		**101**		106
Interest expense, net		**38**		46
Income Before Gains on Early Extinguishment of Debt and Provision for Income Taxes		**63**		60
Gains on early extinguishment of debt				28
Income Before Provision for Income Taxes		**63**		88
Provision for income taxes		**23**		26
Net Income	**$**	**40**	$	62
Basic and diluted earnings per common share	**$**	**2.55**	$	3.97
Basic and diluted weighted-average common shares outstanding		**15.4**		15.2
Comprehensive Income				
Net income	**$**	**40**	$	62
Adjustments for pension and post-employment benefits, net of taxes		**(18)**		
Total Comprehensive Income	**$**	**22**	$	62

See Notes to Consolidated Financial Statements.

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SuperMedia Inc. and Subsidiaries

Debtor and Debtor-In-Possession

Consolidated Balance Sheets

(Unaudited)

	At March 31, 2013	At December 31, 2012
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 152**	$ 105
Accounts receivable, net of allowances of $36 and $39	**115**	119
Accrued taxes receivable		2
Deferred directory costs	**123**	128
Prepaid expenses and other	**21**	22
Assets held for sale	**21**	21
Total current assets	**432**	397
Property, plant and equipment	**102**	99
Less: accumulated depreciation	**73**	70
	29	29
Goodwill	**704**	704
Intangible assets, net	**195**	221
Pension assets	**58**	56
Other non-current assets	**3**	3
Total assets	**$ 1,421**	$ 1,410
LIABILITIES AND STOCKHOLDERS (DEFICIT)		
Current liabilities:		
Current maturities of long-term debt	**$ 36**	$
Accounts payable and accrued liabilities	**110**	109
Deferred revenue	**65**	66
Deferred tax liabilities	**6**	3
Other	**14**	17
Total current liabilities	**231**	195
Long-term debt	**1,406**	1,442
Employee benefit obligations	**104**	109
Non-current deferred tax liabilities	**73**	81
Unrecognized tax benefits	**45**	44
Stockholders (deficit):		
Common stock ($.01 par value; 60 million shares authorized, 15,638,956 and 15,664,432 shares issued and outstanding in 2013 and 2012, respectively)		
Additional paid-in capital	**215**	214
Retained (deficit)	**(704)**	(744)
Accumulated other comprehensive income	**51**	69
Total stockholders (deficit)	**(438)**	(461)
Total liabilities and stockholders (deficit)	**$ 1,421**	$ 1,410

See Notes to Consolidated Financial Statements.

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SuperMedia Inc. and Subsidiaries

Debtor and Debtor-In-Possession

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended March 31, 2013	2012
	(in millions)	
Cash Flows from Operating Activities		
Net income	**$ 40**	$ 62
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	**31**	40
Gains on early extinguishment of debt		(28)
Employee retirement benefits	**(31)**	6
Deferred income taxes	**6**	(8)
Provision for uncollectible accounts	**3**	6
Stock-based compensation expense	**1**	1
Changes in current assets and liabilities:		
Accounts receivable and unbilled accounts receivable	**1**	8
Deferred directory costs	**5**	10
Other current assets	**1**	1
Accounts payable and accrued liabilities	**(5)**	8
Other, net	**(1)**	(1)
Net cash provided by operating activities	**51**	105
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	**(4)**	(2)
Net cash used in investing activities	**(4)**	(2)
Cash Flows from Financing Activities		
Repayment of long-term debt		(35)
Other, net		(1)
Net cash used in financing activities		(36)
Increase in cash and cash equivalents	**47**	67
Cash and cash equivalents, beginning of year	**105**	90
Cash and cash equivalents, end of period	**$ 152**	$ 157

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. (SuperMedia, we, our, us or the Company), is one of the largest yellow pages directory publishers in the United States as measured by revenue. We also offer digital advertising solutions. We place our clients business information into our portfolio of local media solutions, which includes the Superpages directories, Superpages.com, our digital local search resource on both desktop and mobile devices, the Superpages.com network, a digital syndication network that places local business information across more than 250 websites, and our mobile sites and mobile applications. In addition, we offer solutions for social media, digital content creation and management, reputation management and search engine optimization.

We primarily operate and are the official publisher in the markets in which Verizon Communications Inc. (Verizon), or its formerly owned properties now owned by FairPoint Communications, Inc. (FairPoint) and Frontier Communications Corporation (Frontier), are the incumbent local exchange carriers. We use their brands on our print directories in these and other specified markets. We have a number of agreements with them that govern our publishing relationship; including publishing agreements, branding agreements, and non-competition agreements, 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, 2012. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of results of operations for the 2013 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.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2012-02 (ASU 2012-02), *Testing Indefinite-Lived Intangible Assets for Impairment*, which amends Accounting Standards Codification (ASC) 350, *Intangibles Goodwill and Other*. The amended guidance allows entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying value. Otherwise, the quantitative impairment test is not required. ASU 2012-02 is effective for interim and annual periods beginning after September 15, 2012. The Company has adopted the provisions of ASU 2012-02 as required.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02 (ASU 2013-02), *Reporting of Amounts Reclassified Out of Accumulated Comprehensive Income*, which amends ASC 220, *Comprehensive Income*. The amended guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S GAAP to be reclassified in their entirety from accumulated other comprehensive income to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that

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provide additional detail about those amounts. ASU 2013-02 is effective for interim and annual periods beginning after December 15, 2012. The Company has adopted the provisions of ASU 2013-02 as required.

Note 2

Bankruptcy Filing and Proposed Merger with Dex One

Bankruptcy Filing

On March 18, 2013, SuperMedia and all of its domestic subsidiaries filed voluntary bankruptcy petitions in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) for reorganization relief under the provisions of Chapter 11 of the Bankruptcy Code. Concurrently with the bankruptcy petition, SuperMedia filed and requested confirmation of a prepackaged plan of reorganization (the prepackaged plan). The prepackaged plan seeks to effect the proposed merger and related transactions contemplated by our Merger Agreement (as defined below) with Dex One Corporation (Dex One), which is discussed in more detail below. Also on March 18, 2013, Dex One and its domestic subsidiaries filed separate voluntary bankruptcy petitions in the Bankruptcy Court, and Dex One is seeking approval of its separate prepackaged plan of reorganization (together with SuperMedia s prepackaged plan, the prepackaged plans).

The Merger Agreement allows us to complete the proposed merger and the other transactions contemplated by the Merger Agreement, including required amendments (the financing amendments) to SuperMedia s and Dex One s respective credit agreements (collectively, the transaction) through Chapter 11 cases, if either SuperMedia or Dex One does not obtain its stockholders approval of the Merger Agreement or unanimous lender approval of the financing amendments.

At a special meeting on March 13, 2013, our stockholders voted to approve and adopt the Merger Agreement and the proposed merger in the event that we were able to obtain unanimous lender approval of the transaction. In addition, prior to the March 13, 2013 voting deadline, our stockholders and lenders voted to accept the prepackaged plan in the event that we were unable to obtain unanimous lender approval of the transaction and, alternatively, elected to effect the transaction through Chapter 11 cases. Similarly, Dex One s stockholders also voted to approve and adopt the Merger Agreement and the proposed merger in the event that Dex One was able to obtain unanimous lender approval of the transaction, and Dex One s stockholders and lenders voted to accept the prepackaged plan in the event Dex One was not able to obtain unanimous lender approval of the transaction.

Subsequent to the special meeting, our board of directors determined that we had not obtained the unanimous lender approval required to effect the transaction outside of court. Accordingly, on March 18, 2013, we filed our voluntary bankruptcy petition in order to seek approval of the prepackaged plan and the completion of the transaction. The hearing to consider confirmation of the prepackaged plan is scheduled to commence on April 29, 2013 with April 18, 2013 as the last date for filing and serving objections to confirmation of the prepackaged plan.

There can be no assurance that the Bankruptcy Court will confirm the prepackaged plans in a timely manner. While operating under Chapter 11, the Company s operations are subject to oversight by the Bankruptcy Court, which could lead to uncertainties as to the realization of assets and satisfaction of obligations in the normal course of business.

Our prepackaged plan, including the effects of the transaction, could result in changes to our current debt and equity ownership structure. The prepackaged plan and the effects of the transaction will also result in our assets and liabilities being re-valued under applicable accounting guidelines.

Merger Agreement

On August 20, 2012, SuperMedia, Dex One, Newdex Inc. (Newdex), and Spruce Acquisition Sub, Inc. (Merger Sub) entered into an Agreement and Plan of Merger (the Original Merger Agreement, and as amended and restated, the Merger Agreement), providing for a business combination of SuperMedia and Dex One. The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, Dex One will be merged with and into Newdex, with Newdex continuing as the surviving corporation, and Merger Sub will be merged with and into SuperMedia, with SuperMedia continuing as the surviving corporation (the Mergers). As a result of the Mergers, Newdex will become a newly listed company and SuperMedia will become a direct wholly owned subsidiary of Newdex.

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Following the announcement of the proposed Mergers, the current senior secured lenders for SuperMedia and Dex One formed a joint steering committee to evaluate the proposed amendments to the parties respective credit agreements as set forth in the Original Merger Agreement.

On December 5, 2012, SuperMedia, Dex One, Newdex, and Merger Sub entered into an Amended and Restated Agreement and Plan of Merger which amended and restated the Original Merger Agreement to, among other things, (i) extend the date on which a party may unilaterally terminate the Merger Agreement from December 31, 2012 to June 30, 2013, (ii) reduce the number of directors of Newdex after the effectiveness of the Mergers from eleven to ten, and (iii) provide that if either Dex One or SuperMedia is unable to obtain the requisite consents to the Mergers from its stockholders and to the contemplated amendments to its respective financing agreements from its senior secured lenders, the Mergers could be effected through the prepackaged plans.

Also on December 5, 2012, we entered into a Support and Limited Waiver Agreement (the Support Agreement) with certain of our senior secured lenders and the administrative agent under our senior secured credit facility. The Support Agreement sets forth the obligations and commitments of the parties with respect to the transaction. Specifically, the lenders party to the Support Agreement agreed, subject to the terms of the Support Agreement, (i) to support and take reasonable action in furtherance of the financing amendments and the Support Agreement, (ii) to timely vote to accept our prepackaged plan, and (iii) in the event that we elected to effect the Mergers through Chapter 11 cases, (a) to support approval of our lender disclosure statement and confirmation of our prepackaged plan, (b) to support certain relief to be requested by SuperMedia from the Bankruptcy Court, (c) to refrain from taking any action inconsistent with the confirmation of our prepackaged plan, and (d) not to propose, support, solicit, or participate in the formulation of any plan other than our prepackaged plan. On the same date, Dex One entered into a support agreement on substantially similar terms with the lenders and administrative agents under its senior secured credit facilities.

Subject to the terms of the Merger Agreement, which has been approved by the boards of directors of SuperMedia and Dex One, in each case by the unanimous vote of all directors voting (Messrs. Slater and McDonald, directors who may be deemed to have personal interests in the transaction, abstained from voting), at the effective time of the Mergers, (i) each outstanding share of Dex One common stock (other than shares held by SuperMedia, Dex One, Newdex or any of their respective subsidiaries) will be converted into the right to receive 0.20 shares of Newdex common stock, par value $0.001 per share (the Newdex Common Stock), which reflects a 1-for-5 reverse stock split of Dex One common stock, and (ii) each outstanding share of SuperMedia common stock (other than shares held by SuperMedia, Dex One, Newdex or any of their respective subsidiaries) will be converted into the right to receive 0.4386 shares of Newdex Common Stock. Outstanding SuperMedia stock options will be cancelled at the effective time of the Mergers and, to the extent that SuperMedia s closing stock price on the date of the Mergers exceeds the option strike price, will be settled in cash. All other outstanding SuperMedia equity awards will generally convert into Newdex Common Stock, after giving effect to the exchange ratio. Immediately after the completion of the Mergers, we anticipate that current SuperMedia stockholders will own approximately 40% and current Dex One stockholders will own approximately 60% of Newdex, the combined company.

Completion of the Mergers is subject to conditions, including, among others: (i) the Bankruptcy Court having confirmed the prepackaged plan of reorganization of such party substantially in the form provided in the Merger Agreement, (ii) SuperMedia and Dex One, and certain of their respective subsidiaries, having entered into a tax sharing agreement and a shared services agreement, and (iii) authorization having been obtained for the listing on the New York Stock Exchange or the Nasdaq Stock Market of the Newdex Common Stock to be issued as consideration in the Mergers.

As more fully described below, we are a party to that certain loan agreement with certain financial institutions and JPMorgan Chase Bank, N.A., as administrative agent and collateral agent (as amended, the Loan Agreement), providing for the issuance of $2,750 million of senior secured term loans with a maturity date of December 31, 2015. As part of the prepackaged plan, the Loan Agreement will be amended and restated to extend the maturity date to December 31, 2016 as well as modify certain other provisions, including the revision of interest rate spreads as follows:

	ABR	Eurodollar
Current Spread	7.00%	8.00%
Revised Spread	7.60%	8.60%

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The prepackaged plan will effect the transactions contemplated by the Merger Agreement, including the financing amendments, the tax sharing agreement and the shared services agreement.

The Merger Agreement contains certain termination rights for both SuperMedia and Dex One, including, among others, if the Mergers are not consummated on or before June 30, 2013. The Merger Agreement further provides that, upon termination of the Merger Agreement under specified circumstances following receipt from or announcement by a third party of an alternative transaction proposal, including termination of the Merger Agreement by SuperMedia or Dex One as a result of an adverse change in the recommendation of the Mergers by the other party s board of directors, SuperMedia may be required to pay to Dex One, or Dex One may be required to pay to SuperMedia, an expense reimbursement up to a maximum amount of $7.5 million.

The accompanying consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The ability of the Company to continue as a going concern is predicated upon, among other things, the successful completion of the SuperMedia prepackaged plan. While the Company is committed to pursuing completion of the SuperMedia prepackaged plan and the Mergers, there can be no assurance that the SuperMedia prepackaged plan will be approved as submitted to the Bankruptcy Court; and therefore, there is uncertainty about the Company s ability to realize its assets or satisfy its liabilities in the normal course of business. The Company s consolidated financial statements do not include any adjustments that might result from this uncertainty.

The Company is currently operating as debtors-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of Chapter 11 of the Bankruptcy Code and orders of the Bankruptcy Court. In general, debtors-in-possession are authorized under Chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without prior approval of the Bankruptcy Court. The Company business continues to generate positive cash flow necessary for daily operations.

While operating under bankruptcy, applicable accounting guidance requires that the financial statements distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses (including professional fees), realized gains and losses and provisions for losses that are realized from the reorganization and restructuring process will be classified as reorganization items on the consolidated statements of comprehensive income. There were no reorganization items during the three months ended March 31, 2013. Based on the terms of the prepackaged plan, no liabilities were identified as being subject to compromise at March 31, 2013.

Note 3

Earnings Per Share

Basic earnings per share are computed by dividing net income 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 months ended March 31, 2013 and 2012 was not material.

Certain employees and certain non-management directors have been 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 meet 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 March 31, 2013 and 2012, respectively, there were 167,802 and 372,388 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.

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The following table sets forth the calculation of the Company s basic and diluted earnings per share for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013	2012
	(in millions, except per share amounts)	
Net income	**$ 40**	$ 62
Less allocation of income to participating unvested restricted stock units	**(1)**	(1)
Net income available to common stockholders	**39**	61
Weighted-average common shares outstanding	**15.4**	15.2
Basic and diluted earnings per share	**$ 2.55**	$ 3.97

Note 4

Additional Financial Information

Consolidated Statements of Comprehensive Income

During the three months ended March 31, 2013, the Company recorded a $32 million credit to expense associated with the amortization of a deferred gain related to certain plan amendments associated with other post-employment benefits. This credit was recorded in general and administrative expense on the Company s consolidated statement of comprehensive income. For additional information related to the Company s other post-employment benefits, see Note 7.

During the three months ended March 31, 2013, the Company incurred $6 million of merger transaction costs associated with our proposed merger with Dex One, all of which represents professional fees, and was recorded as part of general and administrative expense on the Company s consolidated statement of comprehensive income.

During the three months ended March 31, 2012, the Company recorded a non-taxable gain of $28 million related to the early extinguishment of a portion of our senior secured term loans at below par. For additional information related to the Company s debt obligations, see Note 6.

The following table sets forth the components of the Company s comprehensive income adjustments for pension and post-employment benefits for the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013			2012		
	Gross	Taxes	Net	Gross	Taxes	Net
	(in millions)					

Net income			**$ 40**			$ 62
Reclassifications included in net income:						
Amortization of prior service cost	**$ (32)**	**$ 12**	**(20)**	$	$	
Amortization of unrecognized net loss	**3**	**(1)**	**2**	1	(1)	
Total reclassifications included in net income	**$ (29)**	**$ 11**	**(18)**	$ 1	$ (1)	
Total other comprehensive income			**$ 22**			$ 62

The reclassifications included in net income reflected in the table above were recorded as part of general and administrative expense on the Company s consolidated statement of comprehensive income.

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The following table sets forth the balance of the Company s accumulated other comprehensive income. All balances in accumulated other comprehensive income are related to pension and other post-employment benefits.

	Gross	Taxes (in millions)	Net
Accumulated other comprehensive income December 31, 2012	$ 110	$ (41)	$ 69
Adjustments to pension and other post-employment benefits, net of amortization	(29)	11	(18)
Accumulated other comprehensive income March 31, 2013	**$ 81**	**$ (30)**	**$ 51**

Balance Sheet

Assets held for sale

During 2012, the Company entered into an agreement to sell its land and building in Los Alamitos, CA, for $21 million, subject to due diligence by the purchaser. The sale is scheduled to close during 2013. As such, the Company has reflected these assets as assets held for sale on the Company s consolidated balance sheet.

The following tables set forth additional financial information related to the Company s consolidated financial statements at March 31, 2013 and December 31, 2012:

	At March 31, 2013	At December 31, 2012
	(in millions)	
Accounts payable and accrued liabilities:		
Accounts payable	**$ 7**	$ 10
Accrued expenses	**25**	23
Accrued salaries and wages	**50**	62
Accrued taxes	**26**	14
Accrued interest	**2**	
Total accounts payable and accrued liabilities	**$ 110**	$ 109
Other current liabilities:		
Customer prepayments	**$ 13**	$ 14
Other	**1**	3
Total other current liabilities	**$ 14**	$ 17

Cash Flow

The following table sets forth certain financial information related to cash payments made by the Company during the three months ended March 31, 2013 and 2012:

	Three Months Ended March 31, 2013		2012
	(in millions)		
Income taxes, net of amounts refunded	**$**	**1**	$
Interest, net		**37**	46

Interest payments on our secured loans were $38 million and $47 million for the three months ended March 31, 2013 and 2012, respectively. The lower interest payments in 2013 were the result of principal payments which lowered our senior secured term loans balance.

Fair Values of Financial Instruments

The Company s financial assets or liabilities required to be measured at fair value on a recurring basis include cash and cash equivalents held in money market funds. The Company s money market funds of $77 million, both, as of March 31, 2013 and December 31, 2012, respectively, have been recorded at fair value using Level 2 inputs. The Company had $6 million held in certificates of deposit (CD s) both, as March 31, 2013 and December 31, 2012, that serve as collateral against letters of credit held with our insurance carriers. These CD s are classified as prepaid expenses and other on the consolidated balance sheets and are valued using Level 2 inputs. The fair value of

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the Company s money market funds and CD s classified as Level 2 are determined based on observable market data. 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 using Level 2 inputs based on the observable market data of a private exchange.

The following table sets forth the carrying amount and fair value of the Company s total debt obligations at March 31, 2013 and December 31, 2012:

	At March 31, 2013		At December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Total debt obligations	**$ 1,442**	**$ 1,059**	$ 1,442	$ 1,031

Severance Benefits

During the three months ended March 31, 2013 and 2012, the Company recorded severance expense of $3 million and $2 million, respectively. The Company paid severance benefits of $2 million in each of the same periods.

Note 5

Intangible Assets

The following table sets forth the details of the Company s intangible assets as of March 31, 2013 and December 31, 2012:

	At March 31, 2013			At December 31, 2012		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
	(in millions)					
Intangible assets:						
Client relationships						