SUPERMEDIA INC.
Form 10-Q
July 29, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

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, 2010

Commission file number: 1-32939

SUPERMEDIA INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware (State of Incorporation)	**20-5095175** (I.R.S. Employer Identification No.)
2200 West Airfield Drive, P.O. Box 619810 **D/FW Airport, TX** (Address of Principal Executive Offices)	**75261** (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). o 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 x	Smaller reporting companyo

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 23, 2010, there were 15,506,948 shares of the Registrant s common stock outstanding.

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FORWARD-LOOKING STATEMENTS

Certain 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:

- our post-restructuring financial condition, financing requirements and cash flow;
- the inability to provide assurance for the long-term continued viability of our business;
- 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;
- results from any 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 recent debt ratings;
- reduced advertising spending by our clients and contract cancellations resulting from the current economic environment, which drives reduced revenues;
- 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;
- declining use of print yellow pages directories by consumers;

- our ability to complete the implementation of our plan of reorganization and the discharge of our Chapter 11 bankruptcy cases, including successfully resolving any remaining claims;
- any negative client, vendor, carrier and third-party responses resulting from the implementation of our confirmed plan of reorganization;
- the impact that the filing for and emerging from Chapter 11 bankruptcy has had and could continue to have on our business operations, financial condition, liquidity or cash flow;
- 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 and distribution services;
- increased credit risk associated with our reliance on small- and medium-sized businesses as clients, in the current economic environment;
- changes in our operating performance;
- 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 regulatory bodies; and
- the outcome of pending or future litigation and other claims.

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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, 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, 2009. 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)

	Successor Company Three Months Ended June 30, 2010	Predecessor Company Three Months Ended June 30, 2009	Successor Company Six Months Ended June 30, 2010	Predecessor Company Six Months Ended June 30, 2009
	(in millions, except per share amounts)			
Operating Revenue	**$ 247**	$ 651	**$ 401**	$ 1,325
Operating Expense				
Selling	**113**	164	**222**	361
Cost of sales (exclusive of depreciation and amortization)	**103**	148	**192**	299
General and administrative	**45**	106	**97**	230
Depreciation and amortization	**47**	17	**95**	34
Total Operating Expense	**308**	435	**606**	924
Operating Income (Loss)	**(61)**	216	**(205)**	401
Interest expense (income), net	**71**	(3)	**143**	151
Income (Loss) Before Reorganization Items and Provision (Benefit) for Income Taxes	**(132)**	219	**(348)**	250
Reorganization items	**1**	9	**3**	405
Income (Loss) Before Provision (Benefit) for Income Taxes	**(133)**	210	**(351)**	(155)
Provision (benefit) for income taxes	**(50)**	68	**(125)**	(54)
Net Income (Loss)	**$ (83)**	$ 142	**$ (226)**	$ (101)
Basic and diluted earnings (loss) per common share	**$ (5.55)**	$ 0.97	**$ (15.10)**	$ (0.69)
Basic and diluted weighted-average common shares outstanding	**15**	147	**15**	147
Dividends declared per common share	**$**	$	**$**	$

See Notes to Consolidated Financial Statements.

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SuperMedia Inc. and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

	At June 30, 2010	At December 31, 2009
	(in millions)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 300**	$ 212
Accounts receivable, net of allowances of $53 and $0	**212**	291
Unbilled accounts receivable	**146**	655
Accrued taxes receivable		132
Deferred directory costs	**168**	24
Prepaid expenses and other	**18**	17
Total current assets	**844**	1,331
Property, plant and equipment	**113**	107
Less: accumulated depreciation	**14**	
	99	107
Goodwill	**1,707**	1,707
Intangible assets, net	**546**	614
Pension assets	**59**	65
Other non-current assets	**6**	10
Total assets	**$ 3,261**	$ 3,834
Liabilities and Stockholders Equity (Deficit)		
Current liabilities:		
Current maturities of long-term debt	**$ 2**	$
Accounts payable and accrued liabilities	**173**	232
Deferred revenue	**73**	
Deferred tax liabilities	**58**	218
Other	**16**	19
Total current liabilities	**322**	469
Long-term debt	**2,571**	2,750
Employee benefit obligations	**307**	325
Non-current deferred tax liabilities	**46**	55
Unrecognized tax benefits	**35**	33
Other liabilities	**2**	2
Stockholders equity (deficit):		
Common stock ($.01 par value; 60 million shares authorized, 15,504,937 and 14,996,952 shares issued and outstanding in 2010 and 2009, respectively)		
Additional paid-in capital	**202**	200
Retained earnings (deficit)	**(226)**	
Accumulated other comprehensive income	**2**	
Total stockholders equity (deficit)	**(22)**	200
Total liabilities and stockholders equity (deficit)	**$ 3,261**	$ 3,834

See Notes to Consolidated Financial Statements.

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SuperMedia Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

	Successor Company	Predecessor Company
	Six Months Ended June 30,	
	2010	2009
	(in millions)	
Cash Flows from Operating Activities		
Net loss	**$ (226)**	$ (101)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Non-cash reorganization items		403
Depreciation and amortization expense	**95**	34
Employee retirement benefits	**6**	12
Deferred income taxes	**(171)**	(158)
Provision for uncollectible accounts	**30**	122
Stock-based compensation expense	**2**	5
Changes in current assets and liabilities		
Accounts receivable	**558**	(78)
Deferred directory costs	**(144)**	18
Other current assets		9
Accounts payable and accrued liabilities	**143**	18
Other, net	**(7)**	(23)
Net cash provided by operating activities	**286**	261
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	**(21)**	(21)
Acquisitions		(3)
Net cash used in investing activities	**(21)**	(24)
Cash Flows from Financing Activities		
Repayment of long-term debt	**(177)**	(188)
Net cash used in financing activities	**(177)**	(188)
Increase in cash and cash equivalents	**88**	49
Cash and cash equivalents, beginning of year	**212**	510
Cash and cash equivalents, end of period	**$ 300**	$ 559

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, Successor Company, or the Company) is one of the largest pages directories publishers in the United States as measured by revenues, and we believe that we have a strong presence in the online local search market. On December 31, 2009, the Company emerged from bankruptcy and changed its name to SuperMedia. SuperMedia is the successor company to Idearc Inc. (collectively, Idearc, or Predecessor Company) which filed for Chapter 11 protection under the United States Bankruptcy Code (the Bankruptcy Code) in March 2009. The terms SuperMedia, We, Our, Us, and the Company, when used in this repo respect to the period prior to SuperMedia s emergence from bankruptcy, are references to Idearc, and when used with respect to the period commencing after SuperMedia s emergence, are references to SuperMedia. These references include the subsidiaries of SuperMedia Inc. or Idearc Inc.

On May 15, 2009, Idearc submitted a joint plan of reorganization and disclosure statement for consideration by the Bankruptcy Court and the affected creditors; on September 8, 2009, the Company filed its First Amended Joint Plan of Reorganization (the Amended Plan) with the Bankruptcy Court, which was later modified on November 19, 2009; on December 22, 2009, the Bankruptcy Court entered an order approving and confirming the Amended Plan; and, finally, on December 31, 2009, the Company emerged from bankruptcy and changed its name to SuperMedia. As a result of SuperMedia s emergence from Chapter 11 of the Bankruptcy Code, SuperMedia Inc. is the successor registrant to Idearc Inc. pursuant to Rule 12g-3 under the Securities Exchange Act of 1934.

We are the exclusive official publisher of Verizon Communications Inc. 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 a number of agreements with FairPoint Communications Inc. in connection with the transfer by Verizon to FairPoint of certain local telephone exchange assets in Maine, New Hampshire and Vermont. These agreements included a publishing agreement, a branding agreement, and a non-competition agreement, each of which has a term expiring in 2036.

On July 1, 2010, Verizon completed the sale to Frontier Communications Corp. of its local telephone exchange assets in 14 states, including Arizona, Idaho, Illinois, Indiana, Michigan, Nevada, North Carolina, Ohio, Oregon, South Carolina, Washington, West Virginia, Wisconsin, and a small number of local telephone exchanges in California, including those bordering Arizona, Nevada and Oregon. In accordance with the terms of our commercial agreements with Verizon, Frontier has entered into publishing, branding and non-competition agreements on substantially the same terms with the Company for these local telephone exchanges, 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 the Company. 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, 2009. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of operating results to be expected in future periods.

The Company adopted the guidance on financial reporting by entities that have filed petitions with the Bankruptcy Court from March 31, 2009, the Petition Date, until emergence from Chapter 11 Bankruptcy on December 31, 2009, the effective date of our Amended Plan. This 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

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for losses that are realized from the reorganization process are classified as reorganization items in the consolidated statements of operations. The consolidated balance sheet at December 31, 2009 reflects the impact of the Amended Plan and the effects of the adoption of fresh start accounting. The consolidated financial statements for the periods ended prior to December 31, 2009 do not include the effect of any changes in the Company s capital structure and changes in fair value of assets and liabilities as a result of fresh start accounting. The historical financial statements of Idearc (Predecessor Company) are presented separately from SuperMedia (Successor Company) results in this report and future reports. As a result of the adoption of fresh start accounting on December 31, 2009, the post-emergence financial results are not comparable to our pre-emergence financial results.

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.

Impact of Fresh Start Accounting

In connection with the adoption of fresh start accounting, the Company anticipates significant non-cash impacts to its 2010 results of operations. At December 31, 2009, the balances of deferred revenue and deferred directory costs were adjusted to their fair value of zero. As a result, approximately $846 million of deferred revenue and $215 million of deferred directory costs will not be recognized in our 2010 consolidated statement of operations which would have otherwise been recorded by the Predecessor. These non-cash fresh start adjustments will only impact our 2010 consolidated statement of operations, will not affect future years results, and do not affect cash flows as client billing and collection activities remain unchanged.

In addition, at December 31, 2009, the fair values of certain intangible assets were increased in connection with the Company s adoption of fresh start accounting in the amount of $555 million, resulting in anticipated amortization expense in 2010 of approximately $111 million, which would not have been recorded by the Predecessor. For additional information on our fresh start accounting adjustments, see Note 2 to the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* (ASU 2010-06). ASU 2010-06 provides amendments to Accounting Standards Codification 820, *Fair Value Measurements and Disclosures*, by requiring new disclosures for transfers in and out of Levels 1 and 2 of the fair value measurement hierarchy, and expands disclosures related to activity in Level 3 fair value measurements. ASU 2010-06 also clarifies existing disclosures on the level of detail required for assets and liabilities measured at fair value from their respective line items on the statement of financial position, and the valuation techniques and inputs used in fair value measurements that fall within Level 2 or Level 3 of the fair value hierarchy. The provisions of ASU 2010-06 are effective for interim and annual reporting periods beginning after December 15, 2009, except for disclosure of information about sales, issuances and settlements on a gross basis for assets and liabilities classified as Level 3, which will be effective for reporting periods beginning after December 15, 2010. The Company has adopted the applicable provisions of ASU 2010-06 as required.

Note 2

Reorganization Items

During the three and six months ended June 30, 2010, the Company recorded reorganization items of $1 million and $3 million, respectively, in the consolidated statements of operations compared to $9 million and $405 million for the three and six months ended June 30, 2009, respectively. These items were recorded in accordance with provisions established by the applicable reorganization accounting rules. Reorganization items represent charges that are directly associated with the reorganization process under Chapter 11 of the Bankruptcy Code, and include certain expenses (including professional fees), realized gains and losses and provisions for losses resulting from the reorganization.

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The following table sets forth the reorganization items included in the consolidated statement of operations for the three and six months ended June 30, 2010 and 2009:

	Successor Company	Predecessor Company	Successor Company	Predecessor Company
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Fair value adjustment associated with interest rate swap derivatives	**$**	$	**$**	$ 279
Write-off of deferred losses associated with interest rate swap derivatives		7		124
Other	**1**	2	**3**	2
Total reorganization items	**$ 1**	$ 9	**$ 3**	$ 405

Other reorganization expenses for the three and six months ended June 30, 2010 and 2009 primarily consist of professional fees directly associated with our Chapter 11 reorganization.

In March 2009 we filed for Chapter 11 Bankruptcy, which constituted an event of default under our then existing interest rate swap agreements. As a result, these interest rate swap agreements were no longer deemed financial instruments required to be remeasured at fair value each reporting period, but became liabilities which were recorded based on management s estimate of the amount to settle the obligations. This resulted in a non-cash charge of $279 million that was recognized as a reorganization item in the accompanying consolidated statement of operations for the six months ended June 30, 2009.

During 2009, deferred losses in accumulated other comprehensive loss associated with the interest rate swaps were remeasured to reflect the component of forecasted interest rate payments that were likely to occur. This resulted in non-cash charges of $7 million and $124 million that represented a proportional reduction in cash flows based on the renegotiated lower underlying debt obligations, which were recognized as reorganization items in the accompanying consolidated statements of operations for the three months and six months ended June 30, 2009, respectively.

During the six months ended June 30, 2010 and 2009, the Company made cash payments associated with reorganization items of $25 million and $1 million, respectively. These payments were primarily for professional fees directly associated with the Chapter 11 reorganization.

Note 3

Restructuring

During the three and six months ended June 30, 2010, the Company recorded $2 million and $4 million, respectively, of restructuring charges associated with its ongoing strategic organizational cost savings initiatives, compared to $1 million and $13 million for the three and six months ended June 30, 2009, respectively.

The following table sets forth the restructuring costs that are included in general and administrative expense in the consolidated statements of operations for the three and six months ended June 30, 2010 and 2009:

	Successor Company	Predecessor Company	Successor Company	Predecessor Company
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
		(in millions)		
Severance pay and benefits	$ **2**	$ 1	**$ 4**	$ 1
Capital restructuring pre-petition				10
Facilities charges				1
Other				1
Total restructuring expense	**$ 2**	$ 1	**$ 4**	$ 13

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The following table sets forth the balance of the restructuring accrual at June 30, 2010 and details the changes in the accrued liability through the first six months of 2010:

	Beginning Balance at January 1, 2010	Restructuring Expense	Payments	Ending Balance at June 30, 2010
		(in millions)		
Severance pay and benefits	$ 4	$ 4	$ (3)	$ 5

The Company anticipates there will be additional restructuring charges in subsequent periods.

Note 4

Earnings (Loss) Per Share

Basic earnings (loss) per share are computed by dividing net income (loss) 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. Due to the reported net loss for the three and six months ended June 30, 2010 and the six months ended June 30, 2009, the effect of potentially dilutive common shares was anti-dilutive and therefore not included in the calculation of diluted earnings per share. There was no effect on earnings per share related to the potentially dilutive common shares for the three months ended June 30, 2009.

The following table sets forth the calculation of basic and diluted earnings (loss) per share for the three and six months ended June 30, 2010 and 2009:

	Successor Company	Predecessor Company	Successor Company	Predecessor Company
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(in millions, except per share amounts)			
Income (loss) available to common stockholders	**$ (83)**	$ 142	**$ (226)**	$ (101)
Weighted-average common shares outstanding	**15**	147	**15**	147
Basic and diluted earnings (loss) per share	**$ (5.55)**	$ 0.97	**$ (15.10)**	$ (0.69)

Participating securities are defined as unvested share-based payment awards that contain nonforfeitable 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. During 2010, certain employees and certain non-management directors were granted restricted stock awards, which entitles those participants to receive nonforfeitable 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. At June 30, 2010, there were 428,985 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, none of the loss from continuing operations in the three and six months ended June 30, 2010, was allocated to these participating securities as these awards do not share in any loss generated by the Company.

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Note 5

Additional Financial Information

The tables that follow set forth additional financial information related to the Company s consolidated financial statements.

Balance Sheet

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

	At June 30, 2010	At December 31, 2009
	(in millions)	
Accounts payable and accrued liabilities:		
Accounts payable	**$ 19**	$ 39
Accrued expenses	**31**	50
Accrued salaries and wages	**83**	92
Accrued taxes	**39**	50
Accrued interest	**1**	1
Accounts payable and accrued liabilities	**$ 173**	$ 232

Cash Flow

The following table sets forth additional information on cash flow for the six months ended June 30, 2010 and 2009:

	Successor Company	Predecessor Company
	Six Months Ended June 30,	
	2010	2009
	(in millions)	
Cash paid:		
Income taxes, net of amounts refunded	**$ (93)**	$ 160
Interest, net	**143**	62

The Company received a federal income tax refund of $94 million during the six months ended June 30, 2010 compared to making income tax payments during the same period of 2009.

Interest paid, net was $143 million and $62 million for the six months ended June 30, 2010 and 2009, respectively. As a result of our bankruptcy filing on March 31, 2009, other than the adequacy protection payment and the allowed secured credit facility claim, the Company did not make any 2009 scheduled principal or interest payments after March 2009. See the Company s Annual Report on Form 10-K for the year ended December 31, 2009 for additional information.

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Comprehensive Income (Loss)

The following table sets forth the computation of total comprehensive income (loss) for the three and six months ended June 30, 2010 and 2009:

	Successor Company	Predecessor Company	Successor Company	Predecessor Company
	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(in millions)			
Net income (loss)				