

# Idearc Media

CL King

September 17, 2008



# Safe Harbor Statement

This presentation contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and 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, estimate, expect, 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:

- ➔ risks related to our substantial indebtedness;
- ➔ risks related to our declining revenue;
- ➔ limitations on our operating and strategic flexibility under the terms of our debt agreements;
- ➔ changes in our competitive position due to competition from other yellow pages directories 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;
- ➔ our ability to successfully identify and implement cost savings initiatives;
- ➔ our ability to access capital markets should we choose to do so and changes in our credit ratings;
- ➔ 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;
- ➔ changes in our operating performance;
- ➔ our ability to attract and retain qualified executives;
- ➔ our ability to maintain good relations with our unionized employees;
- ➔ changes in U.S. labor, business, political and/or economic conditions;
- ➔ changes in governmental regulations and policies and actions of regulatory bodies; and
- ➔ risks associated with our obligations under agreements entered into with Verizon in connection with our spin-off.

For a more detailed discussion of these and other factors, see the text under “Item 1A. Risk Factors” of Part I of our Annual Report on Form 10-K for the year ended Dec. 31, 2007. The forward-looking statements included in this presentation are made only as of the date of presentation, and we undertake no obligation to update the forward-looking statements to reflect subsequent events or circumstances.

**This presentation includes certain non-GAAP financial measures as defined under SEC rules. As required by those rules, a reconciliation of those measures to the most directly comparable GAAP measure are included in this presentation and are available on our website at <http://ir.idearc.com>.**



# **Scott W. Klein**

## **Chief Executive Officer**



# Agenda

- Introduction
- The Future
- Financials
- Q&A

# Scott W. Klein – Preparing for Idearc



# The Plan is Straight-forward

## ■ Three Key Areas of Focus

- ➔ Accelerate Revenue Growth
- ➔ Improve Margins and Reduce Expense
- ➔ Build a High Performance Culture

# I Looked, Listened, and Learned

- Intense group and one-on-one meetings
  - ➔ Direct reports
  - ➔ Top leaders
  - ➔ Sales
  - ➔ Sales support
  - ➔ Consultants (McKinsey, PWC, EY, NECG)

# Key Areas of Focus

## ■ Accelerate revenue growth

### ➔ Sales Rep Productivity

- ➔ Tablet Automation

- ➔ Simplified Sales Prep Process

- ➔ More Client Facing Time

### ➔ Product and Pricing Simplification

### ➔ Customer Live Meetings

### ➔ Multi-product Bundles

# Accelerating Revenue Growth – Sales Productivity By Salesperson will Improve

	<u>Premise</u>	<u>Telesales</u>
<u>Idearc</u>	\$ 1.1 million	\$ .6 million
<u>Industry Benchmark</u>	\$ 1.5 million	\$ .7 million
<u>Variance</u>	- 27%	- 14%

# SMLocal Sales Performance 2008

	<u>Total Sales</u>	<u>Avg. Weekly Sales</u>	<u>Avg. Weekly Customer Sales</u>
<u>First 6 Months</u>	\$ 19 million	\$ 795 thousand	29
<u>June – July '08</u>	\$ 11 million	\$ 1.4 million	60
<u>Change</u>		+ 76%	+ 107%

# Key Areas of Focus

## ■ Improve Margins and Reduce Expense

- ➔ Centralize Finance/Accounting, Marketing, Human Resources, and Operations
- ➔ Outsource whenever appropriate
- ➔ Increase accounts receivable focus
- ➔ Reduce real estate
- ➔ Shutdown unprofitable businesses
  - ➔ Expansion markets
  - ➔ Products
- ➔ De-layer sales management
- ➔ Reduce severance programs

# Key Areas of Focus

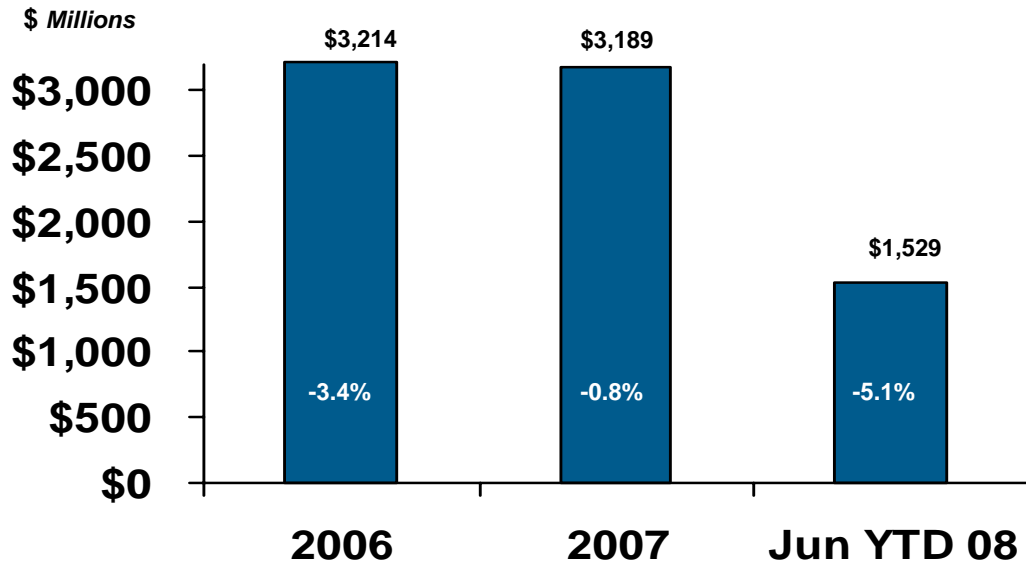
## ■ Build A High Performance Culture

- ➔ Align everything
  - ➔ Set realistic objectives
  - ➔ Monitor and report via metric and dashboards
  - ➔ Pay for performance
- ➔ Communicate regularly and directly
  - ➔ Provide easy input mechanisms
  - ➔ Share the spoils
- ➔ Rejuvenate succession planning and appraisals

# Dee Jones

## Chief Financial Officer

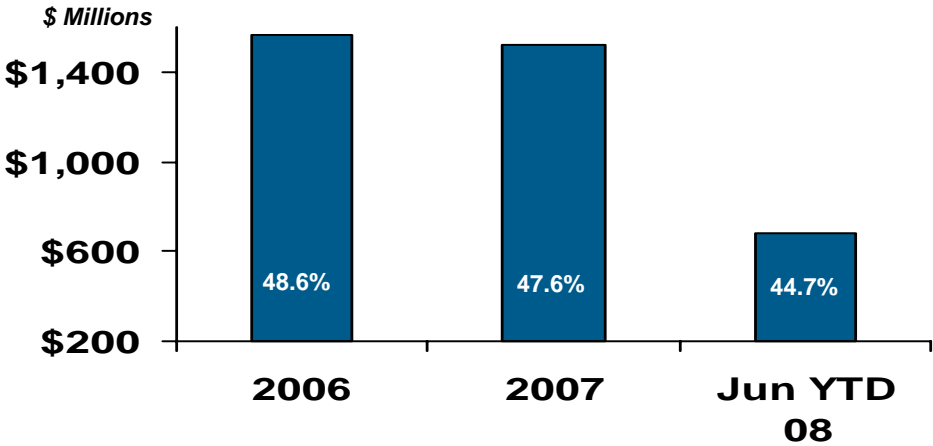
# Revenue Base is Substantial



Adjusted Amortized Multi-Product Revenues (Growth Rate %)

- 2008 Guidance: Mid single digit decline in amortized multi-product revenues (Reiterated as of July 29, 2008)
- Idearc's focus is to stabilize then grow print and continue to grow digital

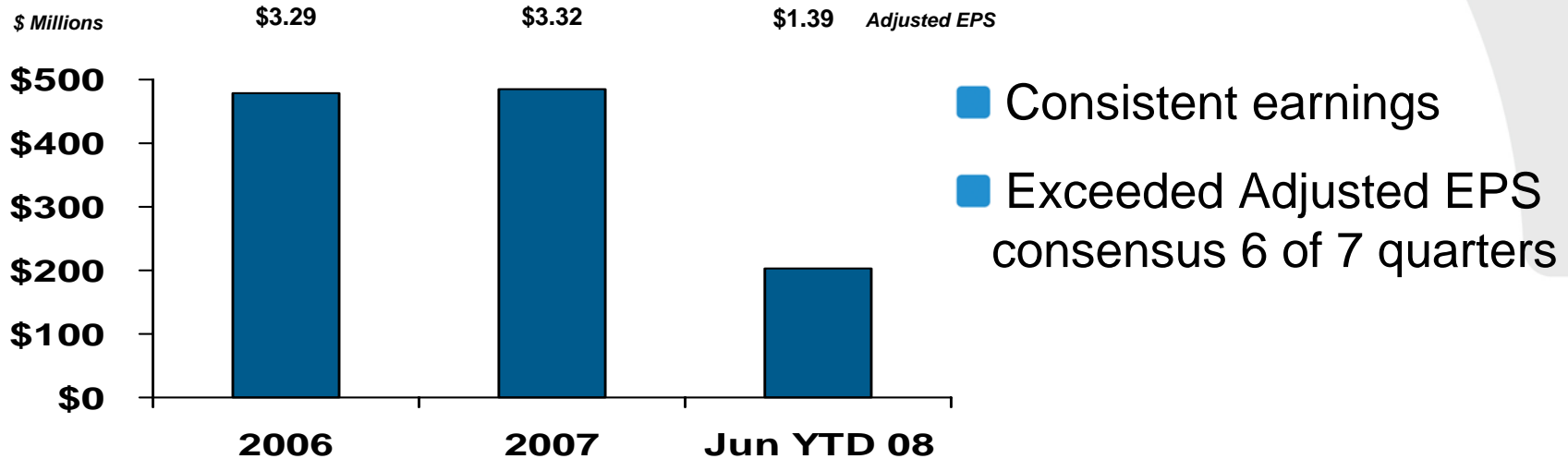
# EBITDA Margins are Historically Strong



Adjusted Pro Forma EBITDA (non-GAAP) (Margin %)

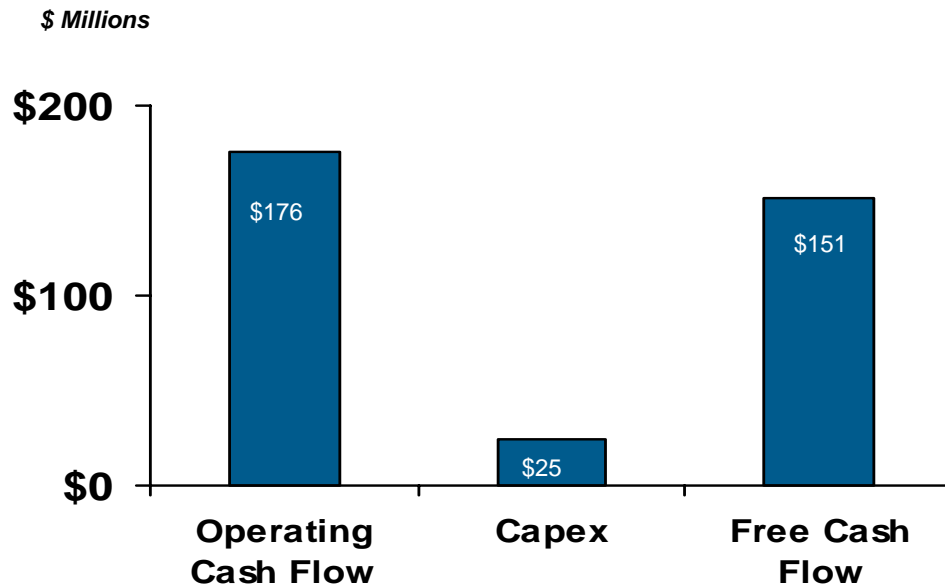


# Net Income Results are Predictable



Net Income / EPS (Adjusted Pro Forma non-GAAP)

# Free Cash Flow Conversion is Strong



- Business continues to successfully convert results into cash flow
- Cash balance at 6/30 of \$127M

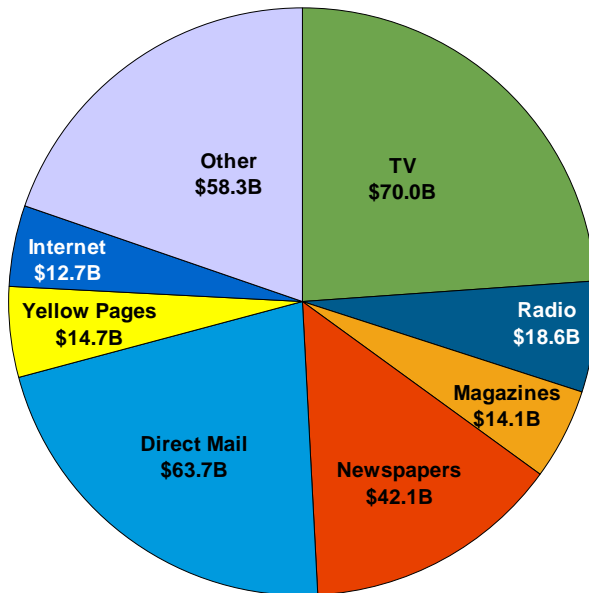
June YTD 2008 Cash Flow

**Questions?**

# Appendix

# Advertising Industry

## Projected 2008 Advertising Spending



Source: The Insider's Report – Robert Coen Presentation of Advertising Expenditures, UniversalMcCann, 12/07

- U.S. companies spend almost \$300 billion a year on advertising
- Of that, almost a third is in the types of media that Idearc offers

# GAAP to Non - GAAP Reconciliations

# Adjusted Pro Forma (Non-GAAP)

## Year Ended 12/31/07 compared to Year Ended 12/31/06

(dollars in millions, except per share amounts)

Unaudited	Year Ended 12/31/07	Year Ended 12/31/06	% Change
<b>Operating Revenue</b>			
Print products	\$ 2,900	\$ 2,978	(2.6)
Internet	285	230	23.9
Other	4	6	(33.3)
<b>Total Operating Revenue</b>	<b>3,189</b>	<b>3,214</b>	<b>(0.8)</b>
<b>Operating Expense</b>			
Selling	733	682	7.5
Cost of sales (exclusive of depreciation and amortization)	617	593	4.0
General and administrative	321	378	(15.1)
Depreciation and amortization	88	89	(1.1)
<b>Total Operating Expense</b>	<b>1,759</b>	<b>1,742</b>	<b>1.0</b>
<b>Operating Income</b>	<b>1,430</b>	<b>1,472</b>	<b>(2.9)</b>
Interest expense, net	676	702	(3.7)
<b>Income Before Provision for Income Taxes</b>	<b>754</b>	<b>770</b>	<b>(2.1)</b>
Provision for income taxes	270	290	(6.9)
<b>Net Income</b>	<b>\$ 484</b>	<b>\$ 480</b>	<b>0.8</b>
<b>Basic and Diluted Earnings per Common Share <sup>(2)</sup></b>	<b>\$ 3.32</b>	<b>\$ 3.29</b>	<b>0.9</b>
Basic and diluted weighted-average common shares outstanding (in millions)	146	146	

### Notes:

- (1) These consolidated statements of income provide a comparison of the year ended December 31, 2007 adjusted pro forma results to the year ended December 31, 2006 adjusted pro forma results. The following schedules provide reconciliations from our reported GAAP results to adjusted pro forma non-GAAP results for the periods shown above.
- (2) The number of shares issued in the spin-off on November 17, 2006 was approximately 146 million. For basic and diluted earnings per share calculations for 2006, it was assumed that approximately 146 million shares were outstanding for the entire period. Restricted stock awards granted in 2007 had no material impact on the calculation of diluted earnings per common share.

# Adjusted Pro Forma (Non-GAAP)

## June YTD 2008 compared to June YTD 2007

(dollars in millions, except per share amounts)

Unaudited	6 Mos. Ended 6/30/08	6 Mos. Ended 6/30/07	% Change
<b>Operating Revenue</b>			
Print products	\$ 1,379	\$ 1,468	(6.1)
Internet	148	141	5.0
Other	2	2	-
<b>Total Operating Revenue</b>	<b>1,529</b>	<b>1,611</b>	<b>(5.1)</b>
<b>Operating Expense</b>			
Selling	370	376	(1.6)
Cost of sales (exclusive of depreciation and amortization)	304	314	(3.2)
General and administrative	172	151	13.9
Depreciation and amortization	40	44	(9.1)
<b>Total Operating Expense</b>	<b>886</b>	<b>885</b>	<b>0.1</b>
<b>Operating Income</b>	<b>643</b>	<b>726</b>	<b>(11.4)</b>
Interest expense, net	329	337	(2.4)
<b>Income Before Provision for Income Taxes</b>	<b>314</b>	<b>389</b>	<b>(19.3)</b>
Provision for income taxes	111	143	(22.4)
<b>Net Income</b>	<b>\$ 203</b>	<b>\$ 246</b>	<b>(17.5)</b>
<b>Basic and Diluted Earnings per Common Share <sup>(2)</sup></b>	<b>\$ 1.39</b>	<b>\$ 1.69</b>	<b>(17.8)</b>
Basic and diluted weighted-average common shares outstanding (in millions)	146	146	

### Notes:

- (1) These consolidated statements of income provide a comparison of the six months ended June 30, 2008 adjusted pro forma results to the six months ended June 30, 2007 adjusted pro forma results. The following schedules provide reconciliations from our reported GAAP results to adjusted pro forma non-GAAP results for the periods shown above.
- (2) Equity based awards granted in 2007 and 2008 had no material impact on the calculation of diluted earnings per common share.

# Reconciliation from Reported (GAAP) to Adjusted Pro Forma (Non-GAAP) Year Ended 12/31/05

Unaudited	Pro Forma Items					Year Ended 12/31/05 Adjusted Pro Forma (Non-GAAP)
	Year Ended 12/31/05 Reported (GAAP)	Pension OPEB Reduction <sup>(4)</sup>	Printing Contract <sup>(5)</sup>	Hawaii Operations <sup>(6)</sup>	Debt <sup>(7)</sup>	
<b>Operating Revenue</b>						
Print products	\$ 3,147	\$ -	\$ -	\$ (22)	\$ -	\$ 3,125
Internet	197	-	-	-	-	197
Other	30	-	(24)	-	-	6
<b>Total Operating Revenue</b>	<b>3,374</b>	<b>-</b>	<b>(24)</b>	<b>(22)</b>	<b>-</b>	<b>3,328</b>
<b>Operating Expense</b>						
Selling	652	(25)	-	(2)	-	625
Cost of sales (exclusive of depreciation and amortization)	624	(9)	(43)	(2)	-	570
General and administrative	370	(6)	-	(2)	-	362
Depreciation and amortization	91	-	-	-	-	91
<b>Total Operating Expense</b>	<b>1,737</b>	<b>(40)</b>	<b>(43)</b>	<b>(6)</b>	<b>-</b>	<b>1,648</b>
<b>Operating Income</b>	<b>1,637</b>	<b>40</b>	<b>19</b>	<b>(16)</b>	<b>-</b>	<b>1,680</b>
Interest expense (income), net	(16)	-	-	-	718	702
<b>Income Before Provision for Income Taxes</b>	<b>1,653</b>	<b>40</b>	<b>19</b>	<b>(16)</b>	<b>(718)</b>	<b>978</b>
Provision for income taxes	630	16	7	(6)	(280)	367
<b>Net Income</b>	<b>\$ 1,023</b>	<b>\$ 24</b>	<b>\$ 12</b>	<b>\$ (10)</b>	<b>\$ (438)</b>	<b>\$ 611</b>
<b>Basic and Diluted Earnings per Share <sup>(1)</sup></b>	<b>\$ 7.01</b>	<b>\$ .16</b>	<b>\$ .08</b>	<b>\$ (.07)</b>	<b>\$ (3.00)</b>	<b>\$ 4.19</b>
Operating income	\$ 1,637	\$ 40	\$ 19	\$ (16)	\$ -	\$ 1,680
Depreciation and amortization	91	-	-	-	-	91
<b>EBITDA (non-GAAP) <sup>(2)</sup></b>	<b>\$ 1,728</b>	<b>\$ 40</b>	<b>\$ 19</b>	<b>\$ (16)</b>	<b>\$ -</b>	<b>\$ 1,771</b>
Operating income margin <sup>(3)</sup>	48.5%					50.5%
Impact of depreciation and amortization	2.7%					2.7%
<b>EBITDA margin (non-GAAP) <sup>(2)</sup></b>	<b>51.2%</b>					<b>53.2%</b>

## Notes:

- (1) The number of shares issued in the spin-off of Idearc on November 17, 2006 was approximately 146 million. For basic and diluted earnings per share calculations it was assumed that approximately 146 million shares were outstanding for the entire period.
- (2) EBITDA is a non-GAAP measure that represents operating income before interest, taxes, depreciation, and amortization. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by total operating revenue.
- (3) Operating income margin is calculated by dividing operating income by total operating revenue.
- (4) On-going pension costs are expected to be reduced, primarily as a result of the Internal Revenue Code 414(l) pension asset transfer from the Verizon pension plan as the result of the Idearc spin-off from Verizon. This pro forma adjustment reflects the expected on-going pension and other post-employment benefit cost levels for this historical period.
- (5) In 2006, Idearc exited the commercial printing business and entered into a printing contract with a third party. This pro forma adjustment is to reflect the impact of exiting the commercial print business (\$24 million in revenue and \$22 million in costs) and a reduction in printing cost rates during this historical period.
- (6) Reflects the elimination of Hawaii operations, which were sold in May 2005.
- (7) As a result of the spin on November 17, 2006, Idearc now has \$9.1 billion of debt and will incur interest expense that it did not incur in the past. This pro forma adjustment is to reflect the ongoing interest expense levels during this historical period.

# Reconciliation from Reported (GAAP) to Adjusted Pro Forma (Non-GAAP) Year Ended 12/31/06

(in millions, except per share amounts)

Unaudited	Year Ended 12/31/06		Transition Costs		Year Ended 12/31/06		Pro Forma Items			Year Ended 12/31/06
	Reported (GAAP)	Stock-Based Compensation <sup>(4)</sup>	Separation Costs <sup>(5)</sup>	Adjusted (Non-GAAP)	Pension OPEB Reduction <sup>(6)</sup>	Printing Contract <sup>(7)</sup>	Debt <sup>(8)</sup>	Adjusted Pro Forma (Non-GAAP)		
<b>Operating Revenue</b>										
Print products	\$ 2,978	\$ -	\$ -	\$ 2,978	\$ -	\$ -	\$ -	\$ 2,978		
Internet	230	-	-	230	-	-	-	230		
Other	13	-	-	13	-	(7)	-	6		
<b>Total Operating Revenue</b>	<b>3,221</b>	<b>-</b>	<b>-</b>	<b>3,221</b>	<b>-</b>	<b>(7)</b>	<b>-</b>	<b>3,214</b>		
<b>Operating Expense</b>										
Selling	712	-	-	712	(26)	-	-	686		
Cost of sales (exclusive of depreciation and amortization)	632	-	-	632	(8)	(28)	-	596		
General and administrative	441	(39)	(30)	372	(1)	-	-	371		
Depreciation and amortization	89	-	-	89	-	-	-	89		
<b>Total Operating Expense</b>	<b>1,874</b>	<b>(39)</b>	<b>(30)</b>	<b>1,805</b>	<b>(35)</b>	<b>(28)</b>	<b>-</b>	<b>1,742</b>		
<b>Operating Income</b>	<b>1,347</b>	<b>39</b>	<b>30</b>	<b>1,416</b>	<b>35</b>	<b>21</b>	<b>-</b>	<b>1,472</b>		
Interest expense, net	60	-	-	60	-	-	642	702		
<b>Income Before Provision for Income Taxes</b>	<b>1,287</b>	<b>39</b>	<b>30</b>	<b>1,356</b>	<b>35</b>	<b>21</b>	<b>(642)</b>	<b>770</b>		
Provision for income taxes	500	15	4	519	13	8	(250)	290		
<b>Net Income</b>	<b>\$ 787</b>	<b>\$ 24</b>	<b>\$ 26</b>	<b>\$ 837</b>	<b>\$ 22</b>	<b>\$ 13</b>	<b>\$ (392)</b>	<b>\$ 480</b>		
<b>Basic and Diluted Earnings per Common Share<sup>(1)</sup></b>	<b>\$ 5.40</b>	<b>\$ .17</b>	<b>\$ .18</b>	<b>\$ 5.74</b>	<b>\$ .15</b>	<b>\$ .09</b>	<b>\$ (2.69)</b>	<b>\$ 3.29</b>		
Operating income	\$ 1,347	\$ 39	\$ 30	\$ 1,416	\$ 35	\$ 21	\$ -	\$ 1,472		
Depreciation and amortization	89	-	-	89	-	-	-	89		
<b>EBITDA (non-GAAP)<sup>(2)</sup></b>	<b>\$ 1,436</b>	<b>\$ 39</b>	<b>\$ 30</b>	<b>\$ 1,505</b>	<b>\$ 35</b>	<b>\$ 21</b>	<b>\$ -</b>	<b>\$ 1,561</b>		
Operating income margin <sup>(3)</sup>	41.8%			43.9%				45.8%		
Impact of depreciation and amortization	2.8%			2.8%				2.8%		
<b>EBITDA margin (non-GAAP)<sup>(2)</sup></b>	<b>44.6%</b>			<b>46.7%</b>				<b>48.6%</b>		

## Notes:

(1) The number of shares issued in the spin-off on November 17, 2006 was approximately 146 million. For basic and diluted earnings per share calculations, it was assumed that approximately 146 million shares were outstanding for the entire period. No additional shares were issued through December 31, 2006.

(2) EBITDA is a non-GAAP measure that represents operating income before interest, taxes, depreciation, and amortization. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by total operating revenue.

(3) Operating income margin is calculated by dividing operating income by total operating revenue.

(4) The stock-based compensation charge reflects a one-time adjustment to record stock compensation expense of \$39 million associated with Verizon stock-based compensation and other stock-based awards that vested at the time of spin.

(5) Separation costs are costs associated with becoming a stand-alone entity as a result of the spin-off from Verizon.

(6) On-going pension costs are expected to be reduced, primarily as a result of the Internal Revenue Code 414(l) pension asset transfer from the Verizon pension plan as the result of the Idearc spin-off from Verizon. This reduction is partially offset by anticipated higher other post-employment benefit costs. This pro forma adjustment reflects the expected on-going pension and other post-employment benefit cost levels for this historical period.

(7) Reflects the impact of entering into a new printing contract which resulted in exiting the commercial printing business (\$7 million in revenue and \$4 million in costs) and a reduction in printing cost rates.

(8) In connection with the spin-off on November 17, 2006, Idearc issued \$9.1 billion of debt and will incur interest expense that it did not incur in the past. This pro forma adjustment is to reflect the ongoing interest expense levels during this historical period.

# Reconciliation from Reported (GAAP) to Adjusted Pro Forma (Non-GAAP) Year Ended 12/31/07

(in millions, except per share amounts)

Unaudited	Year Ended 12/31/07	Transition Costs		Year Ended 12/31/07 Adjusted Pro Forma (Non-GAAP)
		Reported (GAAP)	Stock-Based Compensation <sup>(3)</sup>	
<b>Operating Revenue</b>				
Print products	\$ 2,900	\$ -	\$ -	\$ 2,900
Internet	285	-	-	285
Other	4	-	-	4
<b>Total Operating Revenue</b>	<b>3,189</b>	<b>-</b>	<b>-</b>	<b>3,189</b>
<b>Operating Expense</b>				
Selling	732	-	-	732
Cost of sales (exclusive of depreciation and amortization)	616	-	-	616
General and administrative	410	(19)	(68)	323
Depreciation and amortization	88	-	-	88
<b>Total Operating Expense</b>	<b>1,846</b>	<b>(19)</b>	<b>(68)</b>	<b>1,759</b>
<b>Operating Income</b>	<b>1,343</b>	<b>19</b>	<b>68</b>	<b>1,430</b>
Interest expense, net	676	-	-	676
<b>Income Before Provision for Income Taxes</b>	<b>667</b>	<b>19</b>	<b>68</b>	<b>754</b>
Provision for income taxes	238	7	25	270
<b>Net Income</b>	<b>\$ 429</b>	<b>\$ 12</b>	<b>\$ 43</b>	<b>\$ 484</b>
<b>Basic and Diluted Earnings per Common Share</b>	<b>\$ 2.94</b>	<b>\$ .08</b>	<b>\$ .29</b>	<b>\$ 3.32</b>
Operating income	\$ 1,343	\$ 19	\$ 68	\$ 1,430
Depreciation and amortization	88	-	-	88
<b>EBITDA (non-GAAP)<sup>(1)</sup></b>	<b>\$ 1,431</b>	<b>\$ 19</b>	<b>\$ 68</b>	<b>\$ 1,518</b>
Operating income margin <sup>(2)</sup>	42.1%			44.8%
Impact of depreciation and amortization	2.8%			2.8%
<b>EBITDA margin (non-GAAP)<sup>(1)</sup></b>	<b>44.9%</b>			<b>47.6%</b>

**Notes:**

<sup>(1)</sup> EBITDA is a non-GAAP measure that represents operating income before interest, taxes, depreciation, and amortization. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by total operating revenue.

<sup>(2)</sup> Operating income margin is calculated by dividing operating income by total operating revenue.

<sup>(3)</sup> The stock-based compensation reflects a one-time incentive compensation award granted to most of the Company's employees in January 2007.

<sup>(4)</sup> Separation costs are costs associated with becoming a stand-alone entity as a result of the spin-off from Verizon.

# Reconciliation from Reported (GAAP) to Adjusted Pro Forma (Non-GAAP) Six Months ended June 30, 2008

(dollars in millions, except per share amounts)

Unaudited	6 Mos. Ended 6/30/08	Non-Recurring Items			6 Mos. Ended 6/30/08 <b>Adjusted Pro Forma (Non-GAAP)</b>
		Reported (GAAP)	Stock-Based Compensation <sup>(3)</sup>	Separation Costs <sup>(4)</sup>	
<b>Operating Revenue</b>					
Print products	\$ 1,379	\$ -	\$ -	\$ -	\$ 1,379
Internet	148	-	-	-	148
Other	2	-	-	-	2
<b>Total Operating Revenue</b>	<b>1,529</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,529</b>
<b>Operating Expense</b>					
Selling	370	-	-	-	370
Cost of sales (exclusive of depreciation and amortization)	304	-	-	-	304
General and administrative	197	(4)	(14)	(7)	172
Depreciation and amortization	40	-	-	-	40
<b>Total Operating Expense</b>	<b>911</b>	<b>(4)</b>	<b>(14)</b>	<b>(7)</b>	<b>886</b>
<b>Operating Income</b>	<b>618</b>	<b>4</b>	<b>14</b>	<b>7</b>	<b>643</b>
Interest expense, net	329	-	-	-	329
<b>Income Before Provision for Income Taxes</b>	<b>289</b>	<b>4</b>	<b>14</b>	<b>7</b>	<b>314</b>
Provision for income taxes	102	1	5	3	111
<b>Net Income</b>	<b>\$ 187</b>	<b>\$ 3</b>	<b>\$ 9</b>	<b>\$ 4</b>	<b>\$ 203</b>
<b>Basic and Diluted Earnings per Common Share</b>	<b>\$ 1.28</b>	<b>\$ .02</b>	<b>\$ .06</b>	<b>\$ .03</b>	<b>\$ 1.39</b>
Operating Income	\$ 618	\$ 4	\$ 14	\$ 7	\$ 643
Depreciation and Amortization	40	-	-	-	40
<b>EBITDA (non-GAAP)<sup>(1)</sup></b>	<b>\$ 658</b>	<b>\$ 4</b>	<b>\$ 14</b>	<b>\$ 7</b>	<b>\$ 683</b>
Operating Income margin <sup>(2)</sup>	40.4%				42.1%
Impact of depreciation and amortization	2.6%				2.6%
<b>EBITDA margin (non-GAAP)<sup>(1)</sup></b>	<b>43.0%</b>				<b>44.7%</b>

**Notes:**

- (1) EBITDA is a non-GAAP measure that represents earnings before interest, taxes, depreciation, and amortization. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by total operating revenue.
- (2) Operating income margin is calculated by dividing operating income by total operating revenue.
- (3) The stock-based compensation reflects costs associated with a one-time incentive compensation award granted to most of the Company's employees in January 2007.
- (4) Separation costs reflects costs associated with becoming a stand-alone entity as a result of the spin-off from Verizon.
- (5) Restructuring costs are associated with strategic organizational realignment and market exit activities.

# Reconciliation from Reported (GAAP) to Adjusted Pro Forma (Non-GAAP) Six Months ended June 30, 2007

Unaudited	6 Mos. Ended 6/30/07	Non-Recurring Items			6 Mos. Ended 6/30/07 Adjusted Pro Forma (Non-GAAP)
		Reported (GAAP)	Stock-Based Compensation <sup>(3)</sup>	Separation Costs <sup>(4)</sup>	
<i>(dollars in millions, except per share amounts)</i>					
<b>Operating Revenue</b>					
Print products	\$ 1,468	\$ -	\$ -	\$ -	\$ 1,468
Internet	141	-	-	-	141
Other	2	-	-	-	2
<b>Total Operating Revenue</b>	<b>1,611</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,611</b>
<b>Operating Expense</b>					
Selling	376	-	-	-	376
Cost of sales (exclusive of depreciation and amortization)	314	-	-	-	314
General and administrative	203	(17)	(35)		151
Depreciation and amortization	44	-	-	-	44
<b>Total Operating Expense</b>	<b>937</b>	<b>(17)</b>	<b>(35)</b>		<b>885</b>
<b>Operating Income</b>	<b>674</b>	<b>17</b>	<b>35</b>		<b>726</b>
Interest expense, net	337	-	-	-	337
<b>Income Before Provision for Income Taxes</b>	<b>337</b>	<b>17</b>	<b>35</b>		<b>389</b>
Provision for income taxes	125	6	12		143
<b>Net Income</b>	<b>\$ 212</b>	<b>\$ 11</b>	<b>\$ 23</b>		<b>\$ 246</b>
<b>Basic and Diluted Earnings per Common Share</b>	<b>\$ 1.45</b>	<b>\$ .08</b>	<b>\$ .16</b>		<b>\$ 1.69</b>
Operating Income	\$ 674	\$ 17	\$ 35		\$ 726
Depreciation and Amortization	44	-	-		44
<b>EBITDA (non-GAAP)<sup>(1)</sup></b>	<b>\$ 718</b>	<b>\$ 17</b>	<b>\$ 35</b>		<b>\$ 770</b>
Operating Income margin <sup>(2)</sup>	41.9%				45.1%
Impact of depreciation and amortization	2.7%				2.7%
<b>EBITDA margin (non-GAAP)<sup>(1)</sup></b>	<b>44.6%</b>				<b>47.8%</b>

**Notes:**

(1) EBITDA is a non-GAAP measure that represents earnings before interest, taxes, depreciation, and amortization. EBITDA margin is a non-GAAP measure calculated by dividing EBITDA by total operating revenue.

(2) Operating income margin is calculated by dividing operating income by total operating revenue.

(3) The stock-based compensation reflects costs associated with a one-time incentive compensation award granted to most of the Company's employees in January 2007.

(4) Separation costs reflects costs associated with becoming a stand-alone entity as a result of the spin-off from Verizon.