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PROPOSED COUNSEL FOR THE DEBTORS AND DEBTORS IN POSSESSION

**IN THE UNITED STATES BANKRUPTCY COURT  
FOR THE NORTHERN DISTRICT OF TEXAS**

**IN RE:**

**IDEARC INC., *et al.***

**DEBTORS.**

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**Case No. 09-31828 (BJH)**

**(Chapter 11)**

**(Joint Administration Requested)**

**AFFIDAVIT OF SAMUEL D. JONES, EXECUTIVE VICE PRESIDENT, CHIEF  
FINANCIAL OFFICER AND TREASURER OF IDEARC INC., IN SUPPORT OF  
CHAPTER 11 PETITIONS AND FIRST DAY MOTIONS**

Samuel D. Jones, being duly sworn, deposes and states:

1. I am Executive Vice President, Chief Financial Officer and Treasurer of Idearc Inc. ("Idearc") and Chief Financial Officer for its affiliated debtors and debtors in possession (collectively, the "Debtors")<sup>1</sup>. In this capacity, I am generally familiar with the Debtors' day-to-day operations, businesses and financial affairs, and books and records.

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<sup>1</sup> In addition to Idearc, Inc., the following entities are debtors in these related cases: Idearc Information Services LLC, Idearc Media LLC, Idearc Media Services – East Inc., Idearc Media Services – West Inc., Idearc Media Sales – West Inc., Idearc Media Sales – East LLC, Idearc Media Sales – East Co., License Application Corporation, and Second License Application Corporation.



2. On March 31, 2009 (the "Petition Date"), the Debtors filed their voluntary petitions (the "Cases") for relief under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"). The Debtors are operating their businesses and managing their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code.

3. I submit this affidavit (the "Affidavit") to assist the Court and other parties in interest in understanding the circumstances that compelled the commencement of these chapter 11 cases. To enable the Debtors to minimize the adverse effects of the commencement of their chapter 11 cases on their businesses, the Debtors have requested various types of relief in their "first day" motions and applications (each, a "First Day Motion," collectively, the "First Day Motions"). The First Day Motions seek relief intended to allow the Debtors to effectively transition into chapter 11 and to minimize disruption of the Debtors' business operations, thereby preserving and maximizing the value of the Debtors' estates. I am very familiar with the content of each First Day Motion (including the exhibits thereto), and I believe that the relief sought in each First Day Motion: (a) is necessary to enable the Debtors to operate in chapter 11 with minimal disruption or loss of productivity and value; (b) constitutes a critical element to achieving a successful reorganization of the Debtors; and (c) best serves the Debtors' estates and creditors' interests.

4. Except as otherwise indicated, all facts set forth herein are based upon my personal knowledge of the Debtors' operations and finances, information learned from my review of relevant documents, or information supplied to me by other members of the Debtors' management and the Debtors' professionals. I am authorized to submit this Affidavit on behalf of the Debtors, and if called upon to testify, I could and would testify competently to the facts set forth herein.

5. This Affidavit is divided into two parts. Section I of this Affidavit describes the Debtors' corporate structure and business operations, their capital structure, and the circumstances surrounding the commencement of these Cases. Section II sets forth the relevant facts in support of each of the First Day Motions and the relief they seek, which the Debtors believe is crucial to their successful reorganization.

**I.**  
**FACTUAL BACKGROUND**<sup>2</sup>

**A. The Debtors' Corporate Structure and Business Operations**

6. Idearc is the direct or indirect parent company of each of the other Debtors. Idearc is also the indirect parent company of a certain non-debtor entity located in the United Kingdom. Business operations in the United States are carried out by the Debtors, with the Debtors' headquarters located at DFW Airport, Texas. The chart annexed hereto as **Exhibit A** illustrates the Debtors' corporate structure.

7. The Debtors, with more than 125 years of experience in the print directory business, are one of the largest publishers of yellow pages directories in the United States, publishing their directories in more than 350 markets in thirty-four states across the United States and the District of Columbia. The Debtors are also one of the nation's leading online local search providers. As of the Petition Date, the Debtors employ approximately 6,100 employees comprised of sales employees, sales management and non-sales employees. In 2008, the Debtors generated revenues of approximately \$2,973,000,000 primarily derived from their print product advertising sales and online media advertising sales.

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<sup>2</sup> Nothing contained herein shall constitute an admission by the Debtors of the validity, extent or enforceability or any pre-petition obligation or any lien or security interest asserted by any party in connection with the Debtors' property.

8. Through their various companies, the Debtors manage and deliver print, online and wireless publishing and advertising services on multiple platforms including: yellow pages, white pages, magazines, online directory and search services, web site design and hosting services, direct mail and directory and information services for wireless subscribers. The Debtors' products include print yellow pages, print white pages, Superpages.com, Superpages Mobile, Switchboard.com, LocalSearch.com, and online local search resources.

9. In 2008, the Debtors published more than 1,200 distinct directory titles. These directories are designed to meet the advertising needs of local and national businesses and the information needs of consumers. The Debtors' multitude of advertising options enables them to create customized advertising programs that are responsive to specific customer needs. The Debtors' yellow pages and white pages directories are also efficient sources of information for consumers, featuring a comprehensive list of businesses in local markets.

10. Superpages.com, the first online local search resource to offer advertisers both fixed-fee and performance-based product options, has evolved into a leading online product for traditional and non-traditional advertisers because of the Debtors' focus on delivering relevant content, supplying advanced technology and attracting increased traffic. Consumers conducted more than 23 billion network searches in 2008 using the Superpages.com network. With an increasing emphasis on the online market, the Debtors have entered into more than 250 distribution agreements with online search and other Internet sites to increase online traffic to extend the Debtors' advertisers' online reach. Many of these distribution agreements bring end-users directly into the Superpages.com network. Superpages.com now has more than 20.9 million business listings and tens of millions of residential listings in the United States.

**B. The Verizon Spin-off**

11. Idearc was formed in 2006 as a Delaware corporation in anticipation of a spin-off of Verizon Communications Inc.'s ("Verizon") directory operations. The spin-off occurred on November 17, 2006 through a tax-free distribution by Verizon of its shares of Idearc common stock to Verizon's shareholders, who received one share of Idearc common stock for every twenty shares of Verizon common stock. In connection with the spin-off, Verizon transferred to Idearc all of Verizon's ownership interest in Verizon Information Services Inc. and other assets, liabilities, businesses and employees primarily related to Verizon's domestic print and internet yellow pages directories publishing operations (the "Contribution"). As a result of the spin-off, Idearc became an independent public company, although Idearc continues to have a number of significant commercial arrangements with Verizon. Idearc is the exclusive official publisher of Verizon print directories in the markets where Verizon is the incumbent local exchange carrier, and Idearc uses the Verizon brand and logo in its print directories in both incumbent and expansion markets.

12. As part of the spin-off, Idearc incurred \$9,115,000,000 of debt, comprised of senior unsecured notes in the amount of \$2,850,000,000 and senior secured term loan facilities in an aggregate amount of \$6,265,000,000, consisting of: (1) the tranche A term loan facility of \$1,515,000,000 (the "Tranche A Facility"); (2) a tranche B term loan facility of \$4,750,000,000 (the "Tranche B Facility"); and (3) a \$250,000,000 revolving credit facility.

13. In exchange for the Contribution, Idearc: (1) issued to Verizon additional shares of Idearc common stock to be distributed to Verizon's stockholders pro rata in the spin-off; (2) issued to Verizon senior unsecured notes and a portion of the loan proceeds under the Tranche B Facility; and (3) transferred to Verizon approximately \$2,400,000,000 in cash generated from the

proceeds of the loans under the Tranche A Facility, and from the proceeds of the remaining portion of the loans under the Tranche B Facility.

**C. The Debtors' Prepetition Indebtedness**

14. Idearc is indebted to a large syndicate of lenders in the aggregate outstanding principal amount of not less than \$6,400,000,000 (plus accrued and unpaid interest) pursuant to a senior secured Credit Agreement (as amended, supplemented or otherwise modified, the "Senior Credit Facility"), dated as of November 17, 2006, among Idearc, the lenders from time to time parties thereto, and JPMorgan Chase Bank, N.A., as administrative agent for such lenders. The Senior Credit Facility consists of: (1) a Tranche A Term Loan Facility in the approximate outstanding principal amount of \$1,515,000,000; (2) a Tranche B Term Loan Facility in the approximate outstanding principal amount of \$4,655,000,000; and (3) a Revolving Credit Facility in the approximate outstanding principal amount of \$250,000,000. The Senior Credit Facility is secured by substantially all of Idearc's present and after acquired assets, and is guaranteed on a secured basis by substantially all of Idearc's subsidiaries, including each of the Debtors herein.

15. In order to hedge the variability in cash flows attributable to changes in the floating rate of interest under the Senior Credit Facility, Idearc entered into a series of interest rate swap agreements with certain financial institutions. Such interest rate swap agreements have notional amounts totaling approximately \$5,510,000,000 as of the business day immediately preceding the Petition Date.<sup>3</sup> As of the business day immediately preceding the Petition Date, Idearc's estimated termination liability under the interest rate swap agreements was

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<sup>3</sup> In addition, the Debtors entered into two forward swap transactions effective March 31, 2009 with notional amounts of approximately \$1,700,000,000. Such forward swaps replace notional amount \$1,710,000,000 of swaps that matured on March 31, 2009.

approximately \$498,000,000. In addition, in order to lock in the benefit on Idearc's bank debt of the difference between one month and three month LIBOR through September 2010, Idearc entered a "basis swap" having a notional amount of \$1,100,000,000 effective September 30, 2008. As of the business day immediately preceding the Petition Date, the estimated termination value in Idearc's favor under the basis swap was approximately \$1,900,000. Idearc's obligations to the swap counterparties under the interest rate swap agreements are secured on a *pari passu* basis by the same collateral securing Idearc's obligations under the Senior Credit Facility.

16. In addition to the Debtors' secured debt, Idearc also has issued \$2,850,000,000 in senior unsecured notes. The senior unsecured notes, originally issued on or about November 17, 2006 in a private placement pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended (the "Securities Act"), were exchanged in the second quarter of 2007 for an equal principal amount of a new issue of senior unsecured notes registered under the Securities Act. The senior unsecured notes are structurally subordinated to Idearc's obligations under the Senior Credit Facility to the extent of the value of the assets securing such indebtedness under the facility. Additionally, the senior unsecured notes are guaranteed by substantially all of Idearc's subsidiaries.

**D. Events Leading to the Commencement of the Debtors' Chapter 11 Cases**

17. The prolonged economic downturn facing the United States economy has adversely affected the Debtors' businesses given that substantially all of their net revenues are derived from the sale of advertising. Expenditures by advertising companies are particularly sensitive to economic conditions and tend to decline in a recession or economic uncertainty. Moreover, the Debtors' economic hardships have been compounded by slowed growth in the economy as a result of declining business and consumer confidence.

18. The Debtors' operations have also been impacted by the highly competitive directory advertising industry in the United States. The Debtors compete with many different advertising media, including newspapers, radio, television, the internet, billboards, direct mail, telemarketing and other yellow pages directory publishers. The Debtors compete with Yellowbook in the majority of their markets, and with AT&T, R.H. Donnelley and White Publishing. Competition has adversely affected the Debtors' financial performance with respect to cost per reference, quality, features, usage leadership and distribution.

19. Declining use of print yellow page directories has also adversely affected the Debtors' businesses. Overall references to print yellow pages directories in the United States declined from 14.5 billion in 2005 to 13.4 billion in 2007. This decline can be attributed to increased use of internet search providers, particularly in business-to-business and retail categories, as well as the proliferation of very large retail stores for which consumers and businesses may not reference the yellow pages.

20. The combination of these economic and financial events has impaired the Debtors' liquidity and ability to perform in the future, making it necessary and appropriate for the Debtors to seek restructuring of their balance sheets and ultimately, to commence these bankruptcy proceedings in order to maximize the value of their assets for the benefit of creditors and other constituencies under chapter 11 of the Bankruptcy Code.

21. The Debtors have undertaken extensive efforts pre-petition to reach out to parties-in-interest in order to minimize the disruption of their operations and cash flow, as well as the time in which they hope to achieve confirmation of a plan of reorganization. In that regard, the Debtors have met with representatives of the secured lenders under the Credit Facility and holders of their unsecured notes. Negotiations with the Debtors' secured lender group have



resulted in an agreement with the agent and a steering group of the secured lenders under the Credit Facility which provides for the following to be included in a proposed plan of reorganization:

(a) The Debtors' secured debt will be reduced from \$7 billion today to a pro forma level of \$3 billion, with a 12% interest rate, and a 6-year term.

(b) Mandatory amortization will be \$60 million for each of the first two years following confirmation and \$40 million per year thereafter.

(c) Thirty-two and one-half per cent (32.5%) of surplus cash flow will be retained by the Debtors' with the balance being paid as additional amortization on the secured debt; and

(d) At confirmation, the Debtors will retain a cash balance of \$150 million.

22. In addition, the agent and the secured lenders have consented to the Debtors' use of cash collateral, enabling the Debtors to continue to fund operations from all but \$250 million of its more than \$600 million cash balance. The Debtors have agreed, subject to Bankruptcy Court approval to pay \$250 million of the cash collateral to the secured lenders as adequate protection.

## **II. FIRST DAY MOTIONS<sup>4</sup>**

23. Contemporaneously herewith, the Debtors have filed a number of First Day Motions and proposed orders and respectfully request that the Court consider entering the proposed orders granting such First Day Motions. I have reviewed each of the First Day Motions (and exhibits thereto) and the facts set forth therein are true and correct to the best of my knowledge, information and belief. Moreover, I believe that the relief sought in each of the First

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<sup>4</sup> Capitalized terms not otherwise defined herein have the meaning ascribed to them in each individual First Day Motion.

Day Motions and Orders (a) is vital to enable the Debtors to make the transition to, and operate in, chapter 11 with a minimum interruption or disruption to their businesses or loss of productivity or value and (b) constitutes a critical element in achieving the Debtors' successful reorganization.

**A. Motion for Order Pursuant to Federal Rule of Bankruptcy Procedure 1015(b) Directing Joint Administration**

24. Many of the motions, hearings, and orders that will arise in these chapter 11 cases will jointly affect each and every Debtor. I believe entry of an order directing joint administration of these cases will permit the Debtors to reduce fees and costs in connection with administration of the cases by avoiding the duplication of effort associated with, for example, filing multiple duplicative documents in the Debtors' various individual cases, monitoring each of the Debtors' individual dockets, and maintaining individual case files for each of the Debtors that will largely duplicate one another. In addition, it is my understanding that the ability of parties in interest to monitor these cases will be facilitated by having all pleadings grouped together on one docket. I believe that joint administration also will relieve the Court of the burden of entering duplicative orders and maintaining duplicative files. Finally, supervision of the administrative aspects of the chapter 11 cases by the Office of the United States Trustee for the Northern District of Texas will be less burdensome.

25. I believe the joint administration of these chapter 11 cases will not adversely affect the Debtors' respective creditors because this Motion requests only administrative, and not substantive, consolidation of the estates. For example, any creditor may still file a claim against a particular Debtor or its estate (or against multiple Debtors and their respective estates), intercompany claims among the Debtors will be preserved, and the Debtors will maintain separate records of assets and liabilities. Thus, individual creditor's rights will not be harmed by

the relief requested; by contrast, rather, the constituents will benefit from the cost reductions associated with the joint administration of the cases.

**B. Debtors' Emergency Motion for Order Pursuant to 11 U.S.C. §§ 105(a), 363(b), 363(c), 507(a), 1107(a) and 1108 and Federal Rule of Bankruptcy Procedure 6003 to Approve Payment of Prepetition Wages, Salaries, Commissions, Reimbursable Employee Expenses and Benefits in the Ordinary Course of Business**

26. The Debtors are seeking authority to pay all employees their wage Claims in the ordinary course of business. Additionally, the Debtors intend to continue all of their prepetition benefit programs, including, among others, the medical, dental, 401(k), and severance plans. This relief will allow the Debtors to manage employee concerns and prevent costly distractions and retention issues. Moreover, to minimize the personal hardship that the Employees would suffer if prepetition Employee-related obligations are not paid when due or as expected, and maintain morale and stability in the Debtors' workforce during this critical time, the Debtors seek authority, to be exercised in their sole discretion, to pay and honor certain prepetition claims.

27. Such prepetition claims include, but are not limited to, wages, salaries, commissions, bonuses, and other compensation, federal and state withholding taxes and other amounts withheld (including garnishments, Employees' share of insurance premiums, taxes, and 401(k) contributions), health benefits, insurance benefits, workers' compensation benefits, vacation time, sick leave, life and accidental death and dismemberment insurance, short and long-term disability coverage, and all other benefits that the Debtors have historically provided in the ordinary course of business (collectively, and as more fully described, the "Employee Wages and Benefits") and to pay all costs incident to the foregoing. The Debtors also seek authority, to be exercised in their sole discretion, to continue to reimburse Employees for various expenses. In addition, the Debtors request the right to modify, change, and discontinue any of

the Employee Wages and Benefits, and the policy related to reimbursable expenses, and to implement new Employee Wages and Benefits in the ordinary course of business during these chapter 11 cases in their sole discretion without the need for further Court approval.

**C. Debtors' Emergency Motion for Order Pursuant to 11 U.S.C. §§ 105(A), 363(b), 364(b), 1107(a) and 1108 and Fed. R. Bankr. P. 6003 to (i) Approve Maintenance of Certain Prepetition Bank Accounts and Cash Management System; (ii) Waive Certain U.S. Trustee Guidelines; and (iii) Continue Current Investment Policies**

28. In the ordinary course of business, the Debtors' utilize an integrated, centralized cash management system under which funds are collected by the Debtors, transferred to various concentration accounts and disbursed, through other accounts, to pay operating expenses (collectively, the "Cash Management System"). This motion seeks authority for the Debtors to maintain their prepetition cash management systems after commencement of the Cases, including inter-company transfers and use of bank accounts. This facilitates the efficient operation of the Debtors by not requiring them to make artificial adjustments within their large and complex cash management system.

29. The Debtors' Cash Management System is managed primarily by the Debtors' treasury personnel at their corporate office at DFW Airport, Texas. The Cash Management System enables the Debtors to (a) monitor, forecast, and report the Debtors' cash position, (b) monitor collection and disbursement of funds, (c) control balances on deposit in the Debtors' accounts, and (d) move funds within the Cash Management System as necessary to meet the Debtors' cash needs, all of which are required to effect collection, disbursement, and movement of cash to support the Debtors' business activities.

**D. Debtors' Emergency Motion For Entry of Interim and Final Orders Under 11 U.S.C. §§ 105(a) and 366(A) Prohibiting Utilities from Discontinuing, Altering, or Refusing Service, (B) Establishing Procedures for Determining Adequate Assurances of Payment, and (C) Establishing Procedures for the Utilities to Opt Out of the Debtors' Proposed Procedures for Adequate Assurance**

30. In connection with the operation of their businesses and management of their properties, the Debtors obtain gas, water, sewer, electric, telephone, and other similar utility services provided by over seventy utility companies (the "Utility Providers"). I believe that uninterrupted utility services are essential to the Debtors' ongoing operations and, therefore, to the success of the Debtors' reorganization. Should the Utility Providers refuse or discontinue service, even for a brief period, I strongly believe that the Debtors' business operations would be severely disrupted. This would in turn adversely affect the Debtors' business operations, customer relationships, revenue and profits and would subsequently jeopardize the Debtors' reorganization efforts. Consequently, I believe that it is critical that utility services continue uninterrupted.

**E. Debtors' Emergency Motion, Pursuant to 11 U.S.C §§ 105, 361, 363, 506 and 552 and Fed. R. Bankr. P. 4001(B), for an Interim and Final Order (I) Authorizing the Use of Cash Collateral (II) Finding that Secured Interests are Adequately Protected, and/or (III) Granting Related Relief**

31. Given the encumbrances upon substantially all of the Debtors' assets, the Debtors are unable to continue their business operations absent some form of immediate relief from this Court. Approval of the use of the Debtors' assets that are or may become cash collateral (the "Cash Collateral") is required to fund the Debtors' day-to-day operations. The Debtors' proposed use of Cash Collateral will enhance and preserve the value of the Debtors' assets, including the Prepetition Lenders' Collateral, as a going concern for the benefit of the Debtors' estate and all of its creditors. Accordingly, the Debtors, the Agent, the Steering Committee, and the Prepetition Lenders seek, on an emergency basis, authorization of the interim use of Cash

Collateral until such time as the Court holds a Final Hearing on the Motion in accordance with an approved Cash Collateral Budget and on the terms set forth herein to, among other things, continue to maintain the Debtors as a going concern and to retain their ability to operate in the ordinary course of business.

**F. Debtors' Emergency Motion for Entry of an Order Pursuant to Sections 105(a) and 1107(a) of the Bankruptcy Code to Establish Critical Vendor Payment Procedures**

32. The Debtors believe that the goods and services supplied by certain of their vendors are critical to their operations in that their businesses, or some arm of their businesses, could not continue to operate without access to such goods and services. As of the Petition Date, many of the vendors deemed critical by the Debtors have outstanding claims against the Debtors arising from prepetition deliveries of goods and prepetition performance of services. The Debtors anticipate that they will be able to continue to transact with a majority of the vendors on which their day-to-day business operations depend despite nonpayment by the Debtors of such vendors' prepetition claims. Nonpayment of the prepetition claims of certain of the Debtors' vendors, however, creates a significant risk of disruption to the Debtors' operations. Thus, the Debtors anticipate there will be instances in which payment of the prepetition claims of certain vendors will benefit all creditors because such payment will allow the Debtors' businesses to avoid a likely loss, or to gain a likely economic advantage, disproportionate to the amount of such vendors' prepetition claims.

33. In preparation for filing their chapter 11 cases, the Debtors evaluated the various vendors likely to have outstanding claims against the Debtors as of the Petition Date. The Debtors analyzed whether there were any providers of goods and services that are critical to their ability to operate their businesses. The Debtors distinguished certain of their vendors as "Critical Vendors" according to the criteria described more fully in the motion.

34. The Debtors perceive a risk that, for certain of their Critical Vendors, a default by the Debtors would extinguish the Debtors' access to necessary goods and services, because (i) the vendor providing the particular good or service will be put out of business by the Debtors' nonpayment, (ii) because the vendor will refuse to continue doing business with the Debtors if its prepetition claim remains unpaid, or (iii) because the vendor may choose to continue doing business with the Debtors only upon the condition that the Debtors provide trade term accommodations such as advance deposits or payment by wire transfer prior to delivery.

35. The Debtors anticipate that there may be instances in which the Debtors will require authority to pay the prepetition claim of a Critical Vendor that has refused to continue to deal with the Debtors, that is at risk of going out of business, or that has demanded trade term accommodations the Debtors cannot meet, because the Debtors will be unable to operate their businesses or an arm thereof without the goods and supplies provided by such Critical Vendor. The Debtors feel they will not be able to fulfill their duty to their estates and creditors to preserve the value of their businesses without the authority to pay the prepetition claims of those vendors the Debtors have identified as Critical Vendors as and when payments prove necessary.

36. Accordingly, the Debtors propose the establishment of the Critical Vendor Payment Procedures, as set forth more fully in the Motion, pursuant to which the Debtors would be authorized to pay Critical Vendors meeting the above-mentioned criteria to the extent necessary to ensure such vendors continue to provide goods and services to the Debtors, as and when such necessity arises, and to the extent the Debtors find, upon the advice of counsel, that such payment is warranted under existing law. The Debtors therefore only seek to pay those Critical Vendors who would themselves be shut down by nonpayment, who refuse to continue to do business with the Debtors on any other terms, or who demand trade terms with which the

Debtors are unable to comply within their budgetary constraints. The Debtors intend to follow up such payments with an accounting, filed with the Court and delivered to the U.S. Trustee, the administrative agent for the Debtors' prepetition secured lenders, and any official Committee, explaining why such payment was warranted under existing law. Such parties in interest would have thirty days to object to any payment made pursuant to the Critical Vendor Payment Procedures.

37. For the above-stated reasons, I believe that the establishment of the Critical Vendor Payment Procedures is in the best interest of the Debtors, their estates, and all parties in interest.

**G. Debtors' Emergency Motion for Entry of An Order Under 11 U.S.C. §§ 105(a), 506(a), 507(a)(8) and 541 and Fed. R. Bankr. P. 6003 Authorizing Payment of Prepetition Taxes and Fees**

38. By this Motion, the Debtors seek entry of an order authorizing them to pay, in their sole discretion, any prepetition tax and fee obligations including, without limitation, sales, use and excise taxes; payroll taxes; income or gross receipts taxes, real and personal property taxes; withholding taxes; any other types of taxes, fees or charges; and any penalty, interest or similar charges (collectively, the "Taxes and Fees") owing to certain federal, state and local governmental units (collectively, the "Governmental Units"), including but not limited to the payment of Taxes and Fees relating to tax audits that have been completed, are in progress or arise from prepetition periods.

39. The Debtors desire to avoid unnecessary disputes with the Governmental Units – and expenditures of time and money resulting from such disputes – over a myriad of issues that are typically raised by such entities as they attempt to enforce their rights to collect Taxes and Fees. For these reasons, I believe authorization to pay appropriate Taxes and Fees of certain Governmental Units is in the best interests of the Debtors, the estates, and all parties in interest.



**H. Debtors' Motion for Entry of an Order Pursuant to 11 U.S.C. §§ 105(a), 363(b), 363(c), 1107(a) and 1108 and Fed. R. Bankr. P. 6003 Authorizing the Debtors to Honor Certain Prepetition Customer Obligations**

40. It is my understanding that, by this Motion, the Debtors seek entry of an order authorizing them to honor their prepetition obligations to customers arising under essential, ordinary course customer warranty and promotion programs and other practices that are aimed at maintaining and improving existing customer satisfaction and attracting new customers (collectively, the "Customer Practices") and to continue such Customer Practices on a postpetition basis.

41. The Debtors have implemented and maintained, for their different business segments, a limited number of customer obligation and promotion programs and other Customer Practices. Because of the highly competitive nature of the industry in which the Debtors operate, the Debtors have determined, in the exercise of their business judgment, that honoring their prepetition obligations under the Customer Practices, and continuing the Customer Practices on a postpetition basis, is necessary in order to maintain sales volume, customer satisfaction and goodwill. Conversely, any interruption of the Customer Practices would disrupt the Debtors' business operations, reduce the Debtors' sales volume, generate adverse publicity and undermine the Debtors' customer base.

42. The success and ultimate viability of the Debtors' businesses are dependent upon the Debtors' continuing relationship with their customers. The Debtors believe that, in order to maintain such relationships and ensure customer loyalty, the Debtors must satisfy their prepetition obligations under the Customer Practices. In the competitive industries in which the Debtors operate, failure to honor prepetition obligations arising from customer obligations, sales allowances, promotion programs, customer discounts and other practices that are the same or

similar to the Debtors' competitors is likely to have a material adverse impact on the Debtors' ability to attract new customers and maintain existing ones.

43. If the Debtors are unable to settle routine commercial disputes with customers arising from prepetition transactions through various means, the Debtors will lose the flexibility necessary to prevent minor disputes from escalating and irreparably damaging customer relationships. Customer promotions and other incentives are essential elements of the business and must be offered for the Debtors' businesses to be competitive in the marketplace. For these reasons, I believe it is in the Debtors' best interests to honor the prepetition obligations under the Customer Practices.

**I. Debtors' Motion for Entry of an Order Under 11 §§ 105(a), 362, 363, 1107 and 1108 and Fed. R. Bankr. P. 6003 Authorizing Debtors to Maintain Existing Insurance Policies and to Pay Obligations**

44. By this Motion, the Debtors seek entry of an order authorizing the Debtors (a) to maintain the various insurance policies (each an "Insurance Policy" and, collectively, the "Insurance Policies")<sup>5</sup> which the Debtors have obtained through several third-party insurance providers, and to maintain all other insurance programs including, without limitation, programs and policies for general liability, global property and business income, automobile liability and physical damage, workers' compensation and employers liability, goods and cargo-in-transit coverage, directors and officers liability, special risk coverage, employment practices liability, fiduciary liability, umbrella and excess liability, and crime and aviation coverage (collectively, and together with the Insurance Policies, the "Insurance Programs"), and (b) to pay, in the

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<sup>5</sup> In addition to the Insurance Programs discussed herein, the Debtors maintain numerous insurance programs with respect to, among other things, employee health, dental, disability, and life insurance benefits. These programs are addressed in a separate motion filed contemporaneously herewith pertaining to the Debtors' employee wage policies and benefits programs.

Debtors' discretion, certain prepetition costs, fees and other obligations with respect to the Insurance Programs.

45. It is my understanding that the maintenance of insurance coverage is essential to the Debtors' businesses and is required under the Guidelines, the laws of the various states in which the Debtors operate and/or the Debtors' various financial agreements. Thus, the Debtors submit that they have articulated sound business reasons for the prepetition payments sought in this Motion.

**J. Motion to Authorize the Debtors to File a Consolidated List of the 50 Largest General Unsecured Creditors**

46. The Debtors will seek authority on the Petition Date to prepare a list of creditors in lieu of submitting a formatted mailing matrix, file a consolidated list of the Debtors' fifty largest unsecured creditors and mail initial notices. After consultation with KCC (as defined below), I believe that preparing the consolidated list in the format or formats currently maintained in the ordinary course of business will be sufficient to permit the notice, claims and balloting agent to promptly notice all applicable parties. It is my understanding that this motion has been filed to facilitate a smooth and efficient administration of these Cases and to reduce the administrative burden associated therewith. Therefore, it is in the best interest of the Debtors' estates to avoid the costs and risks associated with preparing and filing separate matrices.

**K. Debtors' Emergency Motion for Entry of an Order, Pursuant to 11 U.S.C. §§ 105(a), 327, 328 and 330, Authorizing the Debtors to Employ and Compensate Certain Professionals Utilized in the Ordinary Course of the Debtors' Businesses**

47. The Debtors will seek authority on the Petition Date to retain and compensate certain Professionals utilized in the ordinary course of the Debtors' businesses (each, an "OCP"). Due to the number of OCPs that are regularly retained by the Debtors, it would be burdensome to

both the Debtors and this Court to request each such OCP to apply separately for approval of its employment and compensation.

**L. Debtors' Emergency Motion Pursuant to Section 105(a) of the Bankruptcy Code and Bankruptcy Rules 1015(c) and 9007, Seeking Authority to Implement Certain Notice and Case Management Procedures**

48. It is my understanding that the approval of the proposed administrative procedures in this Motion is in the best interest of the Debtors, their estates, and their creditors. The nature of the Debtors' financial difficulties has placed significant demands on the Debtors, their personnel and professionals. In addition to the discharge of their ordinary duties, the Debtors' personnel now carry the additional burdens imposed by the commencement of these chapter 11 cases. The proposed case management procedures, by authorizing the Debtors to schedule Omnibus Hearing dates, by establishing clear timelines for the filing of requests for relief, and by allowing, with certain exceptions, electronic service, will assist the Debtors' management in organizing the Debtors' time and directing the attention of its personnel to issues raised in their chapter 11 cases. It will also reduce the cost of administration of these chapter 11 cases.

**M. Application, Pursuant to 11 U.S.C. §§ 327, 328 & 329 and Rules 2014, 2016 and 6003 of the Federal Rules of Bankruptcy Procedure, for an Interim and Final Order Authorizing the Employment and Retention of Fulbright & Jaworski L.L.P. as Attorneys for the Debtors**

49. The Debtors seek to retain Fulbright & Jaworski L.L.P. ("Fulbright") because of Fulbright's recognized expertise and extensive experience and knowledge in the field of debtors' protection, creditors' rights, and business reorganizations under chapter 11 of the Bankruptcy Code.

50. I am aware that Fulbright has been actively involved in major chapter 11 cases and has represented debtors in many cases. In preparing for its representation of the Debtors in

these chapter 11 cases, Fulbright has become familiar with the Debtors' businesses and many of the potential legal issues that may arise in the context of these chapter 11 cases. The Debtors believe that Fulbright is both well-qualified and uniquely able to represent them in these chapter 11 cases in an efficient and timely manner.

**N. Application, pursuant to 28 U.S.C. § 156(c) and Rule 2002 of the Federal Rules of Bankruptcy Procedure, for Entry of an Order Authorizing the Retention of Kurtzman Carson Consultants LLC**

51. It is my understanding that believe that the Debtors' estates, and particularly their creditors, will benefit from the Debtors' retention of Kurtzman Carson Consultants LLC ("KCC") in these Cases as notice, claims and balloting agent. It is my understanding that KCC is fully equipped to handle the volume of mailing involved in properly sending the required notices to and processing the claims of creditors and other interested parties in these Cases.

**CONCLUSION**

Having read each of the First Day Motions, I believe the relief set forth in each, as demonstrated above, is tailored to the Debtors' restructuring goals and will be critical to the Debtors' ability to achieve a successful reorganization.

Dated: March 31, 2009

/s/ Samuel D. Jones

Samuel D. Jones  
Chief Financial Officer and Executive Vice  
President of Investor Relations, Idearc Inc.

Dated: March 31, 2009

Respectfully submitted,

FULBRIGHT & JAWORSKI L.L.P.

/s/ Toby L. Gerber

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PROPOSED COUNSEL FOR THE DEBTORS AND DEBTORS  
IN POSSESSION

# Idearc Corporate Structure as of March 31, 2009

