

SUPERMEDIA INC.
Form 10-Q
October 30, 2012
Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

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

For the transition period from _____ to _____

Commission File Number: 1-32939

SUPERMEDIA INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State of Incorporation)

20-5095175
(I.R.S. Employer Identification Number)

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 No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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 October 25, 2012, there were 15,666,456 shares of the Registrant's common stock outstanding.

Table of Contents

TABLE OF CONTENTS

			Page No.
		<u>Forward-Looking Statements</u>	i
<u>PART I - FINANCIAL INFORMATION</u>			
<u>Item</u>	<u>1.</u>	<u>Financial Statements</u>	1
<u>Item</u>	<u>2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item</u>	<u>3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>Item</u>	<u>4.</u>	<u>Controls and Procedures</u>	26
<u>PART II - OTHER INFORMATION</u>			
<u>Item</u>	<u>1.</u>	<u>Legal Proceedings</u>	28
<u>Item</u>	<u>1A.</u>	<u>Risk Factors</u>	30
<u>Item</u>	<u>2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item</u>	<u>3.</u>	<u>Defaults Upon Senior Securities</u>	34
<u>Item</u>	<u>4.</u>	<u>Mine Safety Disclosures</u>	34
<u>Item</u>	<u>5.</u>	<u>Other Information</u>	34
<u>Item</u>	<u>6.</u>	<u>Exhibits</u>	35

Table of Contents

FORWARD-LOOKING STATEMENTS

Some statements included in this report constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and the federal securities laws. Statements that include the words may, will, could, should, would, believe, anticipate, forecast, estimate, expect, preliminary, intend, plan, project, outlook and similar statements of a future or forward-looking nature identify forward-looking 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 inability to provide assurance for the long-term continued viability of our business;
- reduced advertising spending and increased contract cancellations by our clients, which causes reduced revenue;
- declining use of print yellow pages directories by consumers;
- competition from other yellow pages directory publishers and other traditional and new media;
- our ability to anticipate or respond to changes in technology and user preferences;
- changes in our operating performance;
- limitations on our operating and strategic flexibility and the ability to operate our business, finance our capital needs or expand business strategies under the terms of our credit agreement;
- failure to comply with the financial covenants and other restrictive covenants in our credit agreement;
- limited access to capital markets and increased borrowing costs resulting from our leveraged capital structure and debt ratings;

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- changes in the availability and cost of paper and other raw materials used to print our directories;
- our reliance on third-party providers for printing, publishing and distribution services;
- credit risk associated with our reliance on small- and medium-sized businesses as clients;
- our ability to attract and retain qualified key personnel;
- our ability to maintain good relations with our unionized employees;
- changes in labor, business, political and economic conditions;
- changes in governmental regulations and policies and actions of federal, state and local municipalities;
- the outcome of pending or future litigation and other claims;
- the potential adverse impacts of failure to complete, or delay in completing the proposed merger with Dex One Corporation (Dex) as a result of obtaining consents from the stockholders and secured creditors of Dex or the Company;
- the possibility that our merger agreement with Dex could be unilaterally terminated by either party;
- the business uncertainties and contractual restrictions arising from the timing and closing of the proposed merger with Dex, including the possible inability to consummate the proposed transaction on the terms set forth in the merger agreement;
- the significant costs associated with the potential transaction with Dex;

Table of Contents

- the risk that we may not timely or successfully realize the anticipated cost savings, growth opportunities and other financial and operating benefits as a result of the transaction; and
- difficulties in connection with the process of integrating Dex and the Company, including the risk that benefits from the transaction may be significantly offset by costs incurred in integrating the companies.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this and other reports we file with the Securities and Exchange Commission (the "SEC"), including the information in Item 1A. Risk Factors in Part I of our Annual Report on Form 10-K for the year ended December 31, 2011 as updated in the subsequent quarterly reports on Form 10-Q. 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.

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

SuperMedia Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(in millions, except per share amounts)			
Operating Revenue	\$ 330	\$ 399	\$ 1,042	\$ 1,258
Operating Expense				
Selling	83	106	261	334
Cost of sales (exclusive of depreciation and amortization)	79	96	249	312
General and administrative	4	48	78	166
Depreciation and amortization	39	43	119	131
Impairment charge		1,003		1,003
Total Operating Expense	205	1,296	707	1,946
Operating Income (Loss)	125	(897)	335	(688)
Interest expense, net	40	58	129	172
Income (Loss) Before Reorganization Items, Gains on Early Extinguishment of Debt and Provision for Income Taxes	85	(955)	206	(860)
Reorganization items	(1)		(1)	(1)
Gains on early extinguishment of debt			51	
Income (Loss) Before Provision for Income Taxes	84	(955)	256	(861)
Provision for income taxes	32	13	78	48
Net Income (Loss)	\$ 52	\$ (968)	\$ 178	\$ (909)
Basic and diluted earnings (loss) per common share	\$ 3.27	\$ (63.97)	\$ 11.36	\$ (60.15)
Basic and diluted weighted-average common shares outstanding	15.3	15.1	15.3	15.1
Comprehensive Income (Loss)				
Net income (loss)	\$ 52	\$ (968)	\$ 178	\$ (909)
Adjustments for pension and post-employment benefits, net of taxes	(36)	9	137	12
Total Comprehensive Income (Loss)	\$ 16	\$ (959)	\$ 315	\$ (897)

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See Notes to Consolidated Financial Statements.

Table of Contents

SuperMedia Inc. and Subsidiaries

Consolidated Balance Sheets

(Unaudited)

	At September 30, 2012	At December 31, 2011
	(in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 94	\$ 90
Accounts receivable, net of allowances of \$43 and \$59	117	147
Accrued taxes receivable		27
Deferred directory costs	130	155
Prepaid expenses and other	11	12
Total current assets	352	431
Property, plant and equipment	128	127
Less: accumulated depreciation	70	53
	58	74
Goodwill	704	704
Intangible assets, net	250	345
Pension assets	74	75
Other non-current assets	6	4
Total assets	\$ 1,444	\$ 1,633
LIABILITIES AND STOCKHOLDERS (DEFICIT)		
Current liabilities:		
Current maturities of long-term debt	\$ 1	\$ 4
Accounts payable and accrued liabilities	105	126
Deferred revenue	68	82
Deferred tax liabilities	7	4
Other	12	18
Total current liabilities	193	234
Long-term debt	1,474	1,741
Employee benefit obligations	104	364
Non-current deferred tax liabilities	100	43
Unrecognized tax benefits	43	39
Stockholders (deficit):		
Common stock (\$.01 par value; 60 million shares authorized, 15,666,504 and 15,468,740 shares issued and outstanding in 2012 and 2011, respectively)		
Additional paid-in capital	213	210
Retained (deficit)	(789)	(967)
Accumulated other comprehensive income (loss)	106	(31)
Total stockholders (deficit)	(470)	(788)
Total liabilities and stockholders (deficit)	\$ 1,444	\$ 1,633

See Notes to Consolidated Financial Statements.

Table of Contents**SuperMedia Inc. and Subsidiaries****Consolidated Statements of Cash Flows****(Unaudited)**

	Nine Months Ended September 30,	
	2012	2011
	(in millions)	
Cash Flows from Operating Activities		
Net income (loss)	\$ 178	\$ (909)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization expense	119	131
Gains on early extinguishment of debt	(51)	
Employee retirement benefits	(30)	12
Deferred income taxes	(22)	(32)
Provision for uncollectible accounts	15	50
Stock-based compensation expense	3	3
Impairment charge		1,003
Changes in current assets and liabilities:		
Accounts receivable and unbilled accounts receivable	15	3
Deferred directory costs	25	36
Other current assets	2	(1)
Accounts payable and accrued liabilities	(4)	(139)
Other, net	(16)	(17)
Net cash provided by operating activities	234	140
Cash Flows from Investing Activities		
Capital expenditures (including capitalized software)	(9)	(11)
Net cash used in investing activities	(9)	(11)
Cash Flows from Financing Activities		
Repayment of long-term debt	(218)	(36)
Other, net	(3)	
Net cash used in financing activities	(221)	(36)
Increase in cash and cash equivalents	4	93
Cash and cash equivalents, beginning of year	90	174
Cash and cash equivalents, end of period	\$ 94	\$ 267

See Notes to Consolidated Financial Statements.

Table of Contents

SuperMedia Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1

General

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

We primarily operate as the official publisher in the markets in which Verizon Communications Inc. (Verizon) is the incumbent local exchange carrier and in certain markets owned by Fa