

**IN THE UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION**

IN RE: IDEARC ERISA LITIGATION

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Master Docket: 3-09cv2354-N

**AMENDED CONSOLIDATED CLASS ACTION COMPLAINT FOR
VIOLATIONS OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT**

Plaintiffs Bruce Fulmer and Randy Kopp (“Plaintiffs”) allege the following based upon personal information as to themselves and the investigation of Plaintiffs’ counsel, which included a review of U.S. Securities and Exchange Commission (“SEC”) filings by Idearc, Inc. (“Idearc” or the “Company”), including the Company’s proxy statements (Forms 14A), annual reports (Forms 10-K), quarterly reports (Forms 10-Q), current reports (Forms 8-K), and the annual reports (Forms 11-K) filed on behalf of the Idearc Savings Plan for Management Employees (the “Management Plan”), the Idearc Savings and Security Plan for New York and New England Associates (the “North Plan”), and the Idearc Savings and Security Plan for Mid-Atlantic Associates (the “Mid-Atlantic Plan”) (all plans subsequently merged into the Management Plan (collectively, the “Plan”)); a review of the Form 5500s filed by the Plan with the U.S. Department of Labor (“DOL”); and a review of available documents governing the operations of the Plan. Plaintiffs believe that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

INTROUCTION

1. Upon information and belief, the Management Plan, the North Plan, and the Mid-Atlantic Plan were all merged into the Management Plan on or about December 18, 2008 pursuant to action taken by the Employee Benefits Committee of Defendant Idearc.

2. Plaintiffs bring this action on behalf of the Plan and all participants and beneficiaries in the Plan (“Participants”) to recover losses to the Plan for which the fiduciaries of the Plan are liable pursuant to Sections 409 and 502(a)(2) of the Employee Retirement Income Security Act (“ERISA”), 29 U.S.C. §§ 1109 and 1132(a)(2). In addition, under ERISA § 502(a)(3), 29 U.S.C. § 1132(a)(3), Plaintiffs seek other equitable relief from Defendants, including, without limitation, a constructive trust, restitution, equitable tracing, and other monetary relief.

3. From November 21, 2006 through March 31, 2009, inclusive (the “Class Period”), the Plan acquired and held shares of Idearc common stock (“Idearc Stock” or “Company Stock”), in the Idearc Company Stock Fund, which was offered as one of the retirement saving options in the participant contribution component of the Plan.

4. Upon information and belief, on or about November 17, 2008, *without a Plan amendment*, Defendants exercised their discretion under the Plan and prevented Plan Participants from making further new investments into the Idearc Company Stock Fund.

5. Defendants, each having certain responsibilities regarding the management and investment of Plan’s assets, breached their fiduciary duties to the Plan and Participants by failing to prudently and loyally manage the Plan’s investment in Company Stock by, among other things: (i) continuing to offer Company Stock as a retirement saving option; (ii) continuing to acquire and hold shares of Company Stock in the Plan when it was imprudent to do so; (iii) failing to provide complete and accurate information to Participants regarding the Company’s financial condition and the prudence of investing in Company Stock; and (iv) maintaining the Plan’s pre-existing investment in Company Stock, all during a time period as set forth below when Company Stock was no longer a prudent investment for the Plan.

6. As a result of Defendants' breaches of their fiduciary duties, as alleged herein, the Plan suffered substantial losses, resulting in the depletion of millions of dollars of the retirement savings and anticipated retirement income of the Participants. Under ERISA, the breaching fiduciaries are obligated to restore to the Plan the losses resulting from the breaches of their fiduciary duties.

7. Because Plaintiffs' claims apply to Participants as a whole, and because ERISA authorizes Participants such as Plaintiffs to sue for plan-wide relief for breach of fiduciary duty, Plaintiffs bring this as a class action on behalf of all Participants during the Class Period. Plaintiffs also bring this action as Participants seeking plan-wide relief for breach of fiduciary duty on behalf of the Plan.

8. In addition, because the information and documents on which Plaintiffs' claims are based are, for the most part, in Defendants' exclusive possession, certain of Plaintiffs' allegations are by necessity made upon information and belief. At such time as Plaintiffs have had the opportunity to conduct additional discovery, Plaintiffs will, to the extent necessary and appropriate, amend the Complaint or, if required, seek leave to amend to add such other additional facts as are discovered that further support each of the following Counts below.

JURISDICTION AND VENUE

9. ***Subject Matter Jurisdiction.*** This is a civil enforcement action for breaches of fiduciary duties brought pursuant to ERISA § 502(a), 29 U.S.C. § 1132(a). This Court has original, exclusive subject matter jurisdiction over this action pursuant to the specific jurisdictional statute for claims of this type, ERISA § 502(e)(1), 29 U.S.C. § 1132(e)(1). In addition, this Court has subject matter jurisdiction pursuant to the general jurisdictional statute for "civil actions arising under the . . . laws . . . of the United States." 28 U.S.C. § 1331.

10. **Personal Jurisdiction.** ERISA provides for nation-wide service of process, ERISA § 502(e)(2), 29 U.S.C. § 1132(e)(2). All of Defendants are residents of the United States, and this Court, therefore, has personal jurisdiction over them. This Court also has personal jurisdiction over Defendants pursuant to Fed. R. Civ. P. 4(k)(1)(A), because they are all subject to the jurisdiction of a court of general jurisdiction in this District.

11. **Venue.** Venue is proper in this District. Idearc maintains its corporate headquarters in this district at 2200 West Airfield Drive, P.O. Box 619810, D/FW Airport, Texas, 75261-9810, and the Company filed for protection in bankruptcy in the United States Bankruptcy Court for the Northern District of Texas.

PARTIES

Plaintiffs

12. **Plaintiff Bruce Fulmer** (“Fulmer”) is a former Idearc employee and is a participant in the Plan.

13. **Plaintiff Randy Kopp** (“Kopp”) is a former Idearc employee and is a participant in the Plan.

The Company

14. **Non-party Idearc** and its subsidiaries are one of the nation’s largest providers of yellow and white pages directories and related advertising products. On March 31, 2009 (the “Petition Date”), the Company and its domestic subsidiaries filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (the “Bankruptcy Court”). The cases are being jointly administered under Case No. 09-31828.

15. 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, and on December 22, 2009, the Bankruptcy Court entered an order approving and confirming the Amended Plan.

16. On December 31, 2009, the debtors consummated the reorganization and emerged from the Chapter 11 bankruptcy proceedings.

17. On January 4, 2010, the Company changed its corporate name from Idearc Inc. to SuperMedia Inc.

Defendants

A. Director Defendants

18. *Defendant Scott W. Klein* (“Klein”) was, at all relevant times, Chief Executive Officer and Director of the Company. During the Class Period, Defendant Klein signed Idearc’s SEC Forms 10-K and 10-Q, as well as the accompanying Sarbanes-Oxley certifications. Further, during the Class Period, Defendant Klein was a fiduciary within the meaning of ERISA because he, along with the other members of the Idearc Board of Directors, exercised control over the Company, which served as the Plan Administrator, a named fiduciary under the Plan with the purported final, conclusive and binding authority to interpret and administer the Plan. Moreover, the Company, through its Board of Directors, claimed the authority to amend the Plan, in whole or in part. Klein also possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan’s assets through the appointment of other Plan fiduciaries.

19. *Defendant Donald B. Reed* (“Reed”) was, at all relevant times, a Director of the Company. Defendant Reed also signed the Company’s Form S-8, dated March 27, 2007. Defendant Reed is also Chair of the HR Committee (defined below). During the Class Period,

Defendant Reed was a fiduciary within the meaning of ERISA because he, along with the other members of the Idearc Board of Directors, exercised control over the Company, which served as the Plan Administrator, a named fiduciary under the Plan with the purported final, conclusive and binding authority to interpret and administer the Plan. Reed also possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan's assets through the appointment of other Plan fiduciaries.

20. ***Defendant Stephen L. Robertson*** ("Robertson") was, at all relevant times, a Director of the Company. Defendant Robertson also signed the Company's Form S-8, dated March 27, 2007. Defendant Robertson is also a member of the HR Committee. During the Class Period, Defendant Robertson was a fiduciary within the meaning of ERISA because he, along with the other members of the Idearc Board of Directors, exercised control over the Company, which served as the Plan Administrator, a named fiduciary under the Plan with the purported final, conclusive and binding authority to interpret and administer the Plan. Robertson also possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan's assets through the appointment of other Plan fiduciaries.

21. ***Defendant Thomas S. Rogers*** ("Rogers") was, at all relevant times, a Director of the Company. Defendant Rogers also signed the Company's Form S-8, dated March 27, 2007. During the Class Period, Defendant Rogers was a fiduciary within the meaning of ERISA because he, along with the other members of the Idearc Board of Directors, exercised control over the Company, which served as the Plan Administrator, a named fiduciary under the Plan with the purported final, conclusive and binding authority to interpret and administer the Plan.

Rogers also possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan's assets through the appointment of other Plan fiduciaries.

22. **Defendant Paul E. Weaver** ("Weaver") was, at all relevant times, a Director of the Company. Defendant Weaver also signed the Company's Form S-8, dated March 27, 2007. During the Class Period, Defendant Weaver was a fiduciary within the meaning of ERISA because he, along with the other members of the Idearc Board of Directors, exercised control over the Company, which served as the Plan Administrator, a named fiduciary under the Plan with the purported final, conclusive and binding authority to interpret and administer the Plan. Weaver also possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan's assets through the appointment of other Plan fiduciaries.

23. **Defendant John J. Mueller** ("Mueller") was, at all relevant times, Chairman and Director the Company. Defendant Mueller also signed the Company's Form S-8, dated March 27, 2007. During the Class Period, Defendant Mueller was a fiduciary within the meaning of ERISA because he, along with the other members of the Idearc Board of Directors, exercised control over the Company, which served as the Plan Administrator, a named fiduciary under the Plan with the purported final, conclusive and binding authority to interpret and administer the Plan. Mueller also possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan's assets through the appointment of other Plan fiduciaries.

24. **Defendant Jerry V. Elliott** ("Elliott") was, at all relevant times, a Director of the Company. Defendant Elliot also signed the Company's Form S-8, dated March 27, 2007.

Defendant Elliott is also a member of the HR Committee. During the Class Period, Defendant Elliot was a fiduciary within the meaning of ERISA because he, along with the other members of the Idearc Board of Directors, exercised control over the Company, which served as the Plan Administrator, a named fiduciary under the Plan with the purported final, conclusive and binding authority to interpret and administer the Plan. Elliott also possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan's assets through the appointment of other Plan fiduciaries.

25. Defendants Klein, Reed, Robertson, Rogers, Weaver, Mueller, and Elliot are hereinafter collectively referred to as the "Director Defendants."

26. Pursuant to Plan documents, the Company was designated as the Plan Administrator. Through its Board of Directors, Idearc, as the Plan Administrator, appointed the members of the Benefits Committee (defined below) to administer the Plan. Thus, the Board of Directors appointed the members of the Benefits Committee:

The Plan Administrator [the Company] shall appoint an Employee Benefits Committee, consisting of at least three but no more than eleven persons, which shall have the powers as may be necessary to enable it to administer the plan, except for the powers vested in the Company, the Trustee and the investment managers. The Plan Administrator shall adopt rules for the operation of the Committee. The Committee shall have the authority to adopt such further rules, not consistent with those adopted by the Plan Administrator, as the Committee may find appropriate. The Plan Administrator and the Committee may each employ or retain persons to render advice with regard to any of its responsibilities under the Plan. A member of the Committee shall serve until a successor is appointed, until he is removed by the Plan Administrator, or until he resigns from the Committee.

See The Idearc Savings Plan for Management Employees ("Management Plan Document"), Article 10, § 10.2, at IDEAI0000403.

B. Officer Defendants

27. ***Defendant Katherine J. Harless*** (“Harless”) was, at all relevant times, Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) of the Company. Defendant Harless signed the Company’s Form S-8, dated March 27, 2007. Defendant Harless also had the power to appoint the Trustee of the Management Plan. *See* Management Plan Document, Article XI, § 11.01 at IDEAI0001394 (“The Trustee shall be appointed by the Chief Financial Officer of the Company (or his delegate) by appropriate instrument, which powers in the Trustee as to the investment, reinvestment, control and distribution of the funds of the Plan as the Chief Financial Officer of the Company (or his delegate) shall approve and as shall be in accordance with the Plan. The Chief Financial Officer of the Company (or his delegate) may remove any Trustee at any time, upon reasonable notice, and upon such removal or upon the resignation of any Trustee the Chief Financial Officer of the Company (or his delegate) shall designate a successor Trustee, subject to the terms of the Trust Agreement”). During the Class Period, Defendant Harless was a fiduciary within the meaning of ERISA because she exercised discretionary authority or discretionary control with respect to the appointment of the Plan fiduciaries and with respect to the management of the Plan, she possessed discretionary authority or discretionary responsibility in the administration of the Plan, and she exercised authority or control with respect to the management of the Plan’s assets.

28. ***Defendant Frank P. Gatto*** (“Gatto”) served as acting Chief Executive Officer (“CEO”) of Idearc from February 26, 2008 through May 30, 2008. Defendant Gatto also served as Idearc’s Executive Vice President-Operations from January 2008 through February 2008. Defendant Gatto served as President of Idearc’s Northeast region from June 2005 to January 2008 and served as Senior Vice President-Operations from September 2001 to June 2005.

During the Class Period, Defendant Gatto was a fiduciary within the meaning of ERISA because he exercised discretionary authority or discretionary control with respect to the management of the Plan, he possessed discretionary authority or discretionary responsibility in the administration of the Plan, and she exercised authority or control with respect to the management of the Plan's assets.

C. The Employee Benefits Committee Defendants

29. *Defendant the Employee Benefits Committee* ("Benefits Committee"). The Benefits Committee is comprised of certain Company employees/officers appointed by the Board of Directors or the HR Committee (defined below) on behalf of the Company as Plan Administrator. The Benefits Committee is charged with the day-to-day management and administration of the Plan and/or management and disposition of the Plan's assets.

30. Pursuant to the Employee Benefits Committee Charter:

The Board of Directors of Idearc or the Human Resources Committee of the Board of Directors of Idearc (collectively, the "**Board**") shall appoint qualified individuals to serve as members of the [Benefits] Committee. The members of the [Benefits] Committee shall serve until their resignation, death or removal. Any member may resign at any time by mailing a written resignation to the Board. Any member may be removed by the Board at any time, with or without cause. Vacancies may be filled by the Board from time to time. The Human Resources Committee of the Board of Directors of Idearc shall set the number of [Benefits] Committee members in accordance with the terms of the Benefits Plans and shall have direct oversight responsibility for the Committee.

See Idearc Inc. Employee Benefits Committee Charter at IDEAI0006640 (emphasis in original).

31. The Benefits Committee is empowered with the following responsibilities:

The [Benefits] Committee has the responsibility for the general administration of each Benefit Plan and, if applicable, for the administration of investment of plan assets for each Benefit Plan. With respect to each Benefit Plan, the [Benefits] Committee has all powers necessary to administer such Benefit Plan, including, but not limited to, those rights, powers, duties and authorities enumerated in each Benefit Plan, and also has the following rights, powers, duties and authorities:

- to review annually the actuarial assumptions and actuarial valuation of all defined benefit plans;
- to select and terminate all non-investment related service providers for the Benefit Plan when appropriate;
- to select third party administrators, recordkeepers, attorneys, actuaries, accountants and other non-investment related service providers that the Committee deems necessary to properly assist the Committee in the administration of the Benefit plan;
- to review and approve the adoption of any new trust agreements, non-investment related service agreements, insurance contracts or HMO contracts for the Benefit Plan;
- to monitor and oversee the Benefit Plan to assure that it is in compliance with all government regulations;
- to oversee the administration of the Benefit Plan and recommend any amendments needed for the Benefit Plan;
- to review the investment policy of the funds of the Benefit Plan with the periodic establishment of investment goals and allocation of dollars;
- to review with investment advisor(s) past performance and appropriateness of current investment strategy for the funds of the Benefit Plan;
- to select and terminate investment advisors, investment managers, investment options for plan participants and all other investment-related service providers for the Benefit Plan when appropriate;
- to select third part administrators, recordkeepers, attorneys, actuaries, accountants and other service providers that the Committee deems necessary to properly assist the Committee in the investment of plan assets; and
- to review, approve and adopt any amendments to the Benefit Plan necessary to maintain compliance with applicable law, or in other respects, so long as such amendment does not materially alter the cost of providing benefits under the Benefit Plan.

Id., at IDEAI0006640-0006641.

32. The Benefits Committee “shall semi-annually (or at other times as the Committee or Board deem advisable) provide a report to the Board regarding (a) the financial status of each Benefit Plan that is a qualified plan, (b) any changes to a Benefit Plan, (c) any changes to Attachment A and (d) such information as the Committee or Board deems appropriate.” *Id.*, at IDEAI0006643.

33. Pursuant to Section 21.6 for the North Plan Document, the Named Fiduciaries are:

Idearc, the Trustee, *the [Benefits] Committee*, the Claims Administrator, the Plan Administrator and the Appeals Administrator, are each named fiduciaries as that term is used in ERISA, with respect to the particular duties and responsibilities which are assigned to each of them under this Plan with respect to which they exercise discretion. Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan. The named fiduciaries of the Plan may delegate to other persons the duties and responsibilities assigned to them hereunder.

The named fiduciaries have full and absolute discretion in the exercise of each and every aspect of their authority under the Plan, including without limitation and where applicable, the authority to determine any person's right to benefits under the Plan, the correct amount and form of any benefits, the authority to decide any appeal, the authority to review and correct the actions of any prior administrative committee, and all the rights, powers, and authorities specified in this Article and the Plan.

See North Plan Document, 21, § 21.6 at IDEAI0000226 (emphasis added).

34. The Benefits Committee may, in its sole discretion, “(1) eliminate, and/or change the underlying composition of, any investment option described in subsection (a), . . . and (2) designate one or more existing or new Funds as successor Funds for any Fund or Funds which are eliminated from the Plan.” *See* Management Plan Document, Article 6, § 6.01(2)(b), at IDEAI0000380.

35. “The Plan Administrator and *the [Benefits] Committee* are each a named fiduciary as that term is used in ERISA with respect to the particular duties and responsibilities herein allocated to it.” *See* Management Plan Document, Article 10, § 10.7, at IDEAI0000405 (emphasis added).

36. The Benefits Committee is a named fiduciary. *See* Amendment and Restatement of Master Trust Agreement for Idearc Inc. Master Savings Trust and JPMorgan Chase Bank, N.A. (“Trust Agreement”), at IDEAI0000957.

37. The Benefits Committee serves at the pleasure of the Board of Directors or the

HR Committee of the Board of Directors and consists of “(a) the most senior HR [Human Resources] officer of the Company (who shall serve as chairperson), (b) the executive in the HR department responsible for benefit strategy, administration, funding and investments, (c) VP-Finance/Treasurer, (d) Director of Compensation, and (e) General Counsel of the Company or his delegate (who shall serve as counsel and secretary)” *See* IDEAI0006630.

38. ***Defendant Georgia Scaife*** (“Scaife”) was, at all relevant times, Co-Chair of the Benefits Committee. *See* IDEAI0000657. During the Class Period, Defendant Scaife served as an Executive Vice President of Human Resources and Employee Administration at Idearc responsible for human resources and employee administration services, including associate relations, compensation and benefits, payroll administration, training and development, staffing, diversity, business compliance and employee communications. During the Class period, Defendant Scaife was a fiduciary within the meaning of ERISA because she exercised discretionary authority or discretionary control with respect to the appointment of the Plan fiduciaries and with respect to the management of the Plan, she possessed discretionary authority or discretionary responsibility in the administration of the Plan, and she exercised authority or control with respect to the management of the Plan’s assets.

39. ***Defendant Samuel D. Jones*** (“Jones”) was, at all relevant times, Co-Chair of the Benefits Committee. *See* IDEAI0000657. Defendant Jones also signed (i) the Management Plan, (ii) the Mid-Atlantic Plan, and (iii) the North Plan Form 11-Ks, dated June 30, 2008 as Co-Chair of the Benefits Committee. Defendant Jones also served as Executive Vice President, Chief Financial Officer (“CFO”), and Treasurer of Idearc from September 1, 2008 through the present. Defendant Jones also served as acting CFO and Treasurer of Idearc from November 26, 2007 through August 30, 2008. Defendant Jones has also served as Senior Vice President of

Investor Relations since November 2006, and as Executive Director-Financial Planning and Analysis from June 2002 to October 2006. During the Class Period, Defendant Jones signed Idearc's SEC Forms 10-K and 10-Q, as well as the accompanying Sarbanes-Oxley certifications. Further, during the Class Period, Defendant Jones was a fiduciary within the meaning of ERISA because he exercised discretionary authority or discretionary control with respect to the appointment of the Plan fiduciaries and with respect to the management of the Plan, he possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan's assets.

40. ***Defendant William Gist*** ("Gist") was, at all relevant times, a member of the Benefits Committee. *See* IDEAI0000657. Defendant Gist is also Director of Benefits. Defendant Gist signed the North Plan Form 5500 for year ended 2007. IDEAI0001524. During the Class Period, Defendant Gist was a fiduciary within the meaning of ERISA because he exercised discretionary authority or discretionary control with respect to the appointment of the Plan fiduciaries and with respect to the management of the Plan, he possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan's assets.

41. ***Defendant Steven Gaberich*** ("Gaberich") was, at all relevant times, a member of the Benefits Committee. *See* IDEAI0000657. Defendant Gaberich is also Director of Compensation. During the Class Period, Defendant Gaberich was a fiduciary within the meaning of ERISA because he exercised discretionary authority or discretionary control with respect to the appointment of the Plan fiduciaries and with respect to the management of the Plan, he possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan's

assets.

42. ***Defendant Clifford Wilson*** (“Wilson”) was, at all relevant times, a member of the Benefits Committee. *See* IDEAI0000657. Defendant Wilson is also the Assistant Treasurer of the Company. During the Class Period, Defendant Wilson was a fiduciary within the meaning of ERISA because he exercised discretionary authority or discretionary control with respect to the appointment of the Plan fiduciaries and with respect to the management of the Plan, he possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan’s assets.

43. ***Defendant Billy Mundy*** (“Mundy”) was a member of the Benefits Committee. *See* Idearc Inc. Minutes of Meeting of Employee Benefits Committee, dated June 29, 2007 at IDEAI0006652. Defendant Mundy is also Executive Vice President, General Counsel and Secretary of the Company. During the Class Period, Defendant Mundy was a fiduciary within the meaning of ERISA because he exercised discretionary authority or discretionary control with respect to the appointment of the Plan fiduciaries and with respect to the management of the Plan, he possessed discretionary authority or discretionary responsibility in the administration of the Plan, and he exercised authority or control with respect to the management of the Plan’s assets.

44. ***Defendant Andrew Coticchio*** (“Coticchio”) was a member of the Benefits Committee. *See* Idearc Inc. Minutes of Meeting of Employee Benefits Committee, dated June 29, 2007 at IDEAI0006652. Defendant Coticchio served as Executive Vice President, CFO, and Treasurer of Idearc from 2003 through November 26, 2007. Defendant Coticchio remained an employee of the Company through December 31, 2007. During the Class Period, Defendant Coticchio signed Idearc’s SEC Forms 10-Q and 10-K, as well as the accompanying Sarbanes-

Oxley certifications. Defendant Coticchio served as CFO since March 2003, Treasurer since October 2006 and Executive Vice President since November 2006. Defendant Coticchio also signed the Company's Form S-8, dated March 27, 2007. Defendant Coticchio also had the power to appoint the Trustee of the Management Plan. *See* Management Plan Document, Article XI, § 11.01 at IDEAI0001394.

45. Defendants Scaife, Jones, Gist, Gaberich, Wilson, Mundy, and Coticchio are hereinafter collectively referred to as the "Benefits Committee Defendants."

D. The Human Resources Committee Defendants

46. *Defendant the Human Resources Committee* (the "HR Committee") was created by the Company's Board of Directors. *See* IDEAI0006625. The HR Committee has the power to remove and appoint the Benefits Committee members. *See* Minutes of Meeting of Human Resources Committee, dated October 17, 2007 at IDEAI0006635.

47. Defendant HR Committee is comprised of the following Director defendants: (a) Reed (Chair); (b) Robertson; and (c) Elliott (collectively, the "HR Committee Defendants").

48. At the October Meeting of the Human Resources Committee, dated October 17, 2007, Defendant HR Committee (and its members) approved and reaffirmed the following persons as members of the Benefits Committee: "(i) the most senior HR officer of the Corporation (who shall serve as co-chair); (ii) the Chief Financial Officer of the Corporation (who shall serve as co-chair); (iii) the executive in the HR department responsible for benefit strategy, administration, funding and investments; and (v) the director of compensation of the Corporation." *See* IDEAI0006636.

49. Because the HR Committee had the power to appoint the Benefits Committee members, it also had the duty to monitor the Benefits Committee members.

50. *Defendants John Does 1-20* and Defendant HR Committee were persons who had the duty and responsibility to properly appoint, monitor and inform the members of the Benefits Committee and/or other persons who exercised day-to-day responsibility for the management and administration of the Plan and its assets. John Does 1-20 and Defendant HR Committee failed to properly appoint, monitor and inform such persons in that these Defendants failed to adequately inform such persons about the true financial and operating condition of the Company or, alternatively, these Defendants did adequately inform such persons of the true financial and operating condition of the Company (including the financial and operating problems being experienced by Idearc during the Class Period identified herein) but nonetheless continued to allow such persons to offer Idearc Stock as investment options under the Plan when the market prices of Idearc Stock was artificially inflated and when Idearc Stock was not a prudent investment for Participants' retirement accounts under the Plan. Liability is only asserted against each of these Defendants for such periods of time as these Defendants acted as a fiduciary with respect to the Plan.

E. Defendants Harless, Coticchio, Jones, Gatto, Mundy, Wilson, Klein and Scaife's Knowledge Of The Company's Financial Instability And Potential Bankruptcy

51. Defendants Harless (fiduciary of the Plans with the power to appoint the Trustee of the Management Plan), Coticchio (member of the Benefits Committee), Jones (Co-Chair of the Benefits Committee) and Gatto, Mundy, Wilson, Klein and Scaife were the Company's top executive officers charged with not only developing the Company's business strategy, but also overseeing the implementation and execution of that strategy during the Class Period. Nothing was more important to Defendants than making sure that the Company appeared to be a viable concern, with a strong cash flow and manageable debt levels. As such, Defendants Harless, Coticchio, Jones, Gatto, Mundy, Wilson, Klein and Scaife monitored and either knew or should

have known that their statements and representations to Plan Participants were inaccurate and omitted material information.

52. Defendants Harless, Coticchio, Jones, Gatto, Mundy, Wilson, Klein and Scaife knew or should have known by at least February 2007 that the Company's bad debt levels were increasing and were going to continue to increase. For example, in the beginning of the fourth quarter of 2006 ("4Q06"), specifically October 2006 before the spin-off from Verizon was complete, the Company began to experience a sharp increase in the uncollected receivables that would need to be written off as bad debt expenses. According to a former Idearc Area President ("CW1")¹, in conjunction with the spin-off of the Company from Verizon, Harless instructed Coticchio to cut his FY07 budget. As part of the budget cuts, according to information provided by CW1 in the Securities Action, Coticchio eliminated the entire staff responsible for pursuing collection of outstanding receivables due to the Company. As a result, , according to information provided by CW1 in the Securities Action , CW1 saw uncollectible receivables increase from 5% to approximately 9% of total revenues billed by CW1's region between February 2007 and July 2008, an increase also experienced by the Company's three other Area Presidents, including defendant Gatto when he served as President of Idearc's Northeast region to January 2008. According to information provided by CW1 in the Securities Action, by February 2007, uncollectible receivables amounted to \$80-\$100 million Company-wide. By the end of June 2008, these receivables had climbed to between \$250-\$270 million.

53. According to information provided by CW1 in the Securities Action, the

¹ The allegations concerning information provided by the various confidential witnesses, denominated "CW____" herein, are taken from the Consolidated Class Action Complaint for Violations of the Federal Securities Laws and Jury Demand in the action *Buettgen v. Harless, et al.*, Civil Action 3:09-cv-00791-K (Consolidated with Nos. 3:09-cv-00938-K; 3:09-cv-1049-K and 3:09-cv-1552-K, filed in the United States District Court for the Northern District of Texas, Dallas Division on February 11, 2010, and sustained by the Hon. Ed Kinkeade, U.S.D.J., by Order dated August 11, 2010 (the "Securities Action").

Company deliberately did not pursue collections during all of 2007 and part of 2008. The decision to suspend these efforts happened between October 2006, as part of the spin-off transition strategy, and February 2007. According to information provided by CW1 in the Securities Action, CW1 sent four or five emails between February 2007 and June 2008 to Defendants Harless, Coticchio, Jones and the Head of the Credit Department Carol Desmond Donahue, expressing concern about the significant rise in uncollected receivables in CW1's region and urging that people and measures be put into place that would allow the Company to identify non-paying customers more quickly, to resume collection efforts in earnest, and to get customers on payment plans in order to successfully recoup overdue payments. However, no measures were put into place. According to information provided by CW1 in the Securities Action, CW1's emails also addressed the fact that the Company's credit policy was not being followed consistently, *i.e.*, that the Company was routinely extending credit to customers without checking their credit histories, and that was also causing uncollected receivables to increase.

54. The increase in uncollected receivables not only impacted the Company's income during 2007 and 2008, but also contributed to its ability to grow revenues going forward. According to information provided by CW1 in the Securities Action, the Company's policy was that in order to sell a renewal or up sell to an existing customer for the next book to be published, the customer had to either be current on its payments for ads/listings in the existing book or delinquent by no more than 60 to 90 days. Because customer recognition of the Company's name and the new separate yellow pages invoices was very poor after the spin-off, at renewal time the Company discovered that many customers were found to be delinquent and renewal sales could not be made because the outstanding payments could not be resolved before the renewal cut-off date occurred.

55. According to information provided by CW1 in the Securities Action, however, new ad sales were made to existing customers with delinquent accounts despite the Company's official policy prohibiting it. According to information provided by CW1 in the Securities Action, this occurred because "the systems couldn't talk to each other." The Company used two different computer systems, one for print sales and a separate one for Internet sales. According to information provided by CW1 in the Securities Action, CW1 identified the print sales system as "VAST" and the Internet sales system as "Vision." Because these two systems could not share information with each other, a print account that showed up in VAST as delinquent did not show up in the Vision Internet sales system as delinquent, and so new Internet sales could be made to a customer who was delinquent in making print ad payments, and *vice versa*.

56. According to information provided by CW1 in the Securities Action, by 2008, customer collections became "a very big issue" because, by then, it was crystal clear that uncollectible receivables was "an identifiable, growing issue." Though some temporary staff was brought in to focus on collections during the first half of 2008, the Company's systems were so inefficient that it was taking a lot of the sales staff's time just to identify which accounts were delinquent, in addition to sending out notices of delinquency and then seeking payments from customers, in order to allow for new listing and advertising renewal sales to be made.

57. Another factor impacting the rising bad debt levels at the Company was customer confusion concerning the transition to the Company's direct billing of fees owed for yellow page ads. According to information provided by CW1 in the Securities Action, according to CW1, beginning in December 2006, the Company began to bill customers directly for yellow page customer fees that had been previously billed by Verizon. Prior to the spin-off, yellow page customers were billed for their listing and advertisements as a line item within their Verizon

phone bills. In the years prior to the spin-off, the sales force counseled their customers to never pay stand alone invoices because of the high instance of billing fraud in the yellow page industry from fake providers. After the spinoff, the Company began to direct bill these customers, using invoices without any reference to Verizon, or processing direct credit or bank card debits also without reference to Verizon. This caused a tremendous amount of customer confusion, and consequently, customers, believing the billings/debits to be bogus, simply did not pay the invoices or disputed the credit or bank card debits believing them to be from a bogus provider. As a result, the Company's uncollected receivables increased substantially.

58. According to information provided by CW1 in the Securities Action, this customer confusion was a direct result of the handling of the transition of the billing from Verizon to Idearc. The "transition team" was led by Defendant Coticchio, and the head of the Credit Department, Carol Desmond Donahue, was also part of that transition team. The effort to notify customers about the change in billing practices as a result of the spin-off consisted of sending one or two letters to customers shortly after the spin-off to inform them about the new billing practices and identify the Company as the new provider handling their yellow pages accounts.

59. According to information provided by CW1 in the Securities Action, CW1 is a former Idearc Area President. CW1 held this position at Idearc and predecessor companies, GTE and Verizon, from 2003 through July 2008. According to information provided by CW1 in the Securities Action, during his or her tenure at Idearc, CW1 attended the weekly executive meetings which typically took place on Monday mornings at 9:00 am in the Executive Conference Room on the third floor of the headquarters office in Dallas. This conference room was next door to Defendant Harless's office, and across the hall from the Board Room. These

meetings usually lasted several hours, often times requiring lunch to be delivered to the attendees. Sometimes these meetings lasted all day, were held twice a week, or were held every other week. According to information provided by CW1 in the Securities Action, in addition to CW1 and the other Area Presidents, Defendants Harless, Coticchio, Jones and Gatto would attend these meetings, along with the Head of Human Resources (upon information and belief this person is Defendant Georgia Scaife), Head of Public Relations, and sales executive Mike Pawlowski. Beginning in June 2008 when he joined Idearc, Defendant Klein also attended these meetings.

60. According to information provided by CW1 in the Securities Action, at the weekly executive meetings, CW1 and the other participants reviewed monthly and quarterly financial statements, prepared for investor conference calls, and discussed the Company's rising uncollectible receivables and the appropriate reserve level that should be booked. Further, upon information and belief, during 2007, Defendants Harless and Coticchio had very contentious exchanges during these meetings concerning the reason for the rising receivables and who was to blame for the situation. According to information provided by CW1 in the Securities Action, in the weekly meetings, CW1 witnessed Harless asking Coticchio why the uncollectible receivable number was rising and Coticchio responding that it was because he had to lay off the people handling collections because Harless demanded that he cut his budget. According to information provided by CW1 in the Securities Action, Harless would comment that it was Coticchio's bad choice to cut that department to reduce his budget; to which Coticchio would respond that Harless approved that decision when he proposed the cuts to her earlier in 2007.

61. According to information provided by CW1 in the Securities Action, during the weekly meetings, the participants also reviewed in detail the sales results from each region

contained in the New, Increase, Decrease & Cancel Reports, or “NIDC Reports.” According to information provided by CW1 in the Securities Action, the figures in these reports were what Idearc executives “lived by.” According to information provided by CW1 in the Securities Action, the NIDC Reports were prepared and distributed every two weeks, and cumulative quarterly and annual NIDC Reports reflecting cumulative data for these time periods were also prepared and reviewed in the meetings that occurred around quarter-end and year-end, respectively. However, the reports were highly customizable, and so reports could be generated covering a single pay period, and reflecting region-by-region, state-by-state, city-by-city, and even book-by-book (meaning individual Yellow Pages directories for particular areas within a city). The NIDC Reports contained five separate data categories on sales revenues, including: (1) revenues generated from new customer accounts; (2) existing customer accounts that generated increased revenues from the prior period; (3) existing customer accounts that generated revenues for the period but that decreased from the prior period; (4) existing accounts that canceled their accounts or orders during the period covered by the report; and (5) the “Book Net,” which represented the cumulative net revenues for the period covered by the report from the New, Increase, Decrease, and Cancel segments of the report.

62. According to information provided by CW1 in the Securities Action, the NIDC Reports discussed in the weekly executive meetings showed increasing revenue losses during 2007, particularly in the California, Arizona and Florida regions hit hardest by the housing decline. According to information provided by CW1 in the Securities Action during 2006 much of the revenue gains the Company enjoyed came from advertisements and listings for customers offering housing-related products and services, such as general contractors, garage door opener installation, locksmiths, remodeling contractors, among others. As a result of the housing crisis

that began in 2007, these types of accounts declined very significantly in 2007.

63. The Company's former Director of Training ("CW2"), provided information in the Securities Action confirming that after the spin-off and during the billing transition, customer confusion caused uncollected receivables to dramatically increase. Like CW1, according to information provided by CW2 in the Securities Action, CW2 attributed this increase to customers not recognizing the Company name as their new yellow page account service provider. According to information provided by CW2 in the Securities Action, CW2 was the Company's Director of Training from January 2006 until leaving the Company in 2008. According to information provided by CW2 in the Securities Action, CW2's job was to train the sales staff and communicate Company policy changes to the sales staff. CW2 worked in the Company's Dallas headquarters. According to information provided by CW2 in the Securities Action, CW2 attended monthly meetings with each of the Area Presidents and their management teams, including CW1. According to information provided by CW2 in the Securities Action, during these meetings, the participants would discuss the events or factors affecting the particular region, including financial performance of the regions and training support needed from CW2's department.

64. "CW3," a former Idearc Sales Consultant, also provided information in the Securities Action and confirmed that after the spin-off, customers were not adequately informed of the switch from Verizon to Idearc. According to information provided by CW3 in the Securities Action, CW3 worked as an Idearc Sales Consultant in the Dallas-area between September 2006 and June 2007. According to information provided by CW3 in the Securities Action, CW3's duties included interacting with customers, making cold sales calls and fielding customer questions concerning their accounts. According to information provided by CW3 in

the Securities Action, CW3 fielded many calls from frustrated customers looking for an explanation for their receipt of an invoice from the Company, or disputing a credit or bank card debit. According to information provided by CW3 in the Securities Action, CW3 was not permitted to give the customers information about the spin-off, or the new billing procedures, and as a result customers cancelled their accounts and disputed the charges.

65. Contributing to the Company's increasing bad debt levels, were the extreme relaxation of credit policies during the Class Period. According to information provided by CW3 in the Securities Action, Defendants Harless, Coticchio, Gatto and Jones participated in the decisions to alter the credit policies during the Class Period. CW2's department was responsible for communicating these changes to the sales staff and drafted memoranda, or "Sales Bulletins," describing the changed policies. According to information provided by CW3 in the Securities Action, prior to distribution to the sales staff, CW2's department, in conjunction with Idearc's legal department, would submit the Sales Bulletins to Harless and the other upper management team members for review and comment.

66. A former Idearc Sales Manager in the Dallas area, CW4, also provided information in the Securities Action. According to information provided by CW4 in the Securities Action, the Company modified the requirements for when a credit check was required. Prior to the Class Period, the Company required a credit check on all accounts generating more than \$450 in fees. During the course of the Class Period, this minimum credit threshold increased almost 100% to \$850. According to information provided by CW4 in the Securities Action, even when a credit check was required, the Company did not run detailed credit checks through credit reporting agencies such as TRW. Instead, personnel in the Company's Credit Department simply entered the tax identification number of the individual or business into its

VCAN computer system. VCAN would then assign a dollar figure equal to the monthly dollar amount the sales representative was permitted to sell to that customer. According to information provided by CW4 in the Securities Action, part of CW4's job responsibilities included initiating credit checks, when required, through the Company's Credit Department.

67. The Company also improperly recognized revenue on pay-per-click on line ad sales known as "PBAP." According to information provided by CW4 in the Securities Action, a PBAP sale entailed the customer agreeing to pay up to a specific maximum "spend limit" per month for the total number of clicks its ad received, based upon an agreed upon dollar amount per click. However, instead of recognizing the revenue associated with the actual number of clicks the customer was billed for, the maximum spend limit was entered into the Vision system as the total sale amount and recognized as revenue by the Company. According to information provided by CW4 in the Securities Action, in CW4's experience, the actual number of clicks a PBAP sale would generate were vastly lower – as much as 90% – on virtually every PBAP sale with which CW4 was familiar. According to information provided by CW4 in the Securities Action, CW4, as with all other sales representative personnel, received commissions at the end of each pay period on the sales made and recorded as revenue by the Company. According to information provided by CW4 in the Securities Action, CW4 received commissions on the maximum spend limit for each PBAP sale made.

68. According to information provided by CW4 in the Securities Action, the Company also improperly recognized revenue on print ad sales. According to information provided by CW4 in the Securities Action, sales of directory listings and ad space in the Company's print publications occurred at least one quarter, and as much as one year, before publication of the book. These sales efforts were known internally as "campaigns" and the

length of the campaign varied depending on the size of the book and the geographic area it served. The Company recognized the revenue on these campaigns at the time of the sales, not at the time of the publication of the books. According to information provided by CW4 in the Securities Action, CW4, as with all other sales representative personnel, received commissions at the end of each pay period on the sales made and recorded as revenue during that period. Upon information and belief, CW4 reported that the commissions associated with CW4's print sales were paid to him or her during the pay period in which the sale was made.

69. Knowing that the bad debt levels were rising as described by CW1, Defendants Harless and Coticchio took affirmative measures to alter Idearc's books to reflect a lower level of bad debt receivables. According to Ms. Charma Meek ("Meek"), who was then the wife of Dane Beck, Idearc's Chief Executive Accounting Officer Dane Beck ("Beck"), immediately prior to and during the Class Period, Defendants Harless and Coticchio attempted to lower the level of bad debt receivables on Idearc's books. Beck told Meek that beginning in or about April 2007, Defendants Harless and Coticchio instructed Beck to "alter accounts receivable and doubtful accounts to look like Verizon." According to Ms. Meek, Beck explained that this meant he was directed to move doubtful accounts into accounts receivable so that they appeared collectible on Idearc's financial statements. On that particular day in April 2007, Beck informed Ms. Meek that he had moved \$3 million of doubtful accounts to the Company's accounts receivable.

70. Based on all the foregoing, Defendants Harless, Coticchio, Jones, Gatto, Mundy, Wilson, Klein and Scaife knew or should have known that Idearc was in desperate financial trouble during the Class Period and that therefore the information being given to Plan Participants about the prudence of investing in Company Stock was inaccurate and omitted

material information and, as fiduciaries, they should have acted to protect to protect their wards, the Plan Participants..

71. Based on all the foregoing, Defendants Harless, Coticchio, Jones, Gatto, Mundy, Wilson, Klein and Scaife knew or should have known that during the Class Period Idearc Company Stock was not a prudent investment for retirement accounts and, as fiduciaries, they should have acted to protect to protect their wards, the Plan Participants.

CLASS ACTION ALLEGATIONS

72. Plaintiffs bring this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of themselves and the following class of persons similarly situated (the “Class”):

All persons who were Participants in or beneficiaries of the Plan at any time between November 21, 2006 and March 31, 2009, inclusive (the “Class Period) and whose accounts held Company Stock or units in the Idearc Stock Fund, but excluding all named Defendants and their heirs or successors in interest.

73. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to Plaintiffs at this time, and can only be ascertained through appropriate discovery.

74. Common questions of law and fact exist as to all members of the Class and predominate over any questions affecting solely individual members of the Class. Among the questions of law and fact common to the Class are:

- (a) whether Defendants each owed a fiduciary duty to Plaintiffs and members of the Class;
- (b) whether Defendants breached their fiduciary duties to Plaintiffs and members of the Class by failing to act prudently and solely in the interests of the Plan’s Participants and beneficiaries; and

(c) whether Defendants violated ERISA.

75. Plaintiffs' claims are typical of the claims of the members of the Class because Plaintiffs and the other members of the Class each sustained a diminution of vested benefits arising out of Defendants' wrongful conduct in violation of federal law as complained of herein.

76. Plaintiffs will fairly and adequately protect the interests of the members of the Class and have retained counsel competent and experienced in class action, ERISA, and complex civil and commercial litigation. Plaintiffs have no interests antagonistic to or in conflict with those of the Class.

77. Class action status in this ERISA action is warranted under Rule 23(b)(1)(B) because prosecution of separate actions by the members of the Class would create a risk of adjudications with respect to individual members of the Class which would, as a practical matter, be dispositive of the interests of the other members of the Class or parties to the actions, or substantially impair or impede their ability to protect their interests.

78. Class action status is also warranted under the other subsections of Rule 23(b) because: (i) prosecuting separate actions by the members of the Class would create a risk of establishing incompatible standards of conduct for Defendants; (ii) Defendants have acted or refused to act on grounds generally applicable to the Class, thereby making appropriate final injunctive, declaratory, or other appropriate equitable relief with respect to the Class as a whole; and (iii) questions of law or fact common to members of the Class predominate over any questions affecting only individual members and a class action is superior to the other available methods for the fair and efficient adjudication of this controversy.

79. In the alternative, Plaintiffs request that the Court allow them to proceed in a derivative capacity under ERISA Section 502(a)(2), 29 U.S.C. § 1132(a)(2). Section 502(a)(2),

29 U.S.C. § 1132(a)(2) states that “[a] civil action may be brought -- “ “by the Secretary [of Labor], or by a participant, beneficiary or fiduciary for appropriate relief under section 1109 of this title[.]” ERISA Section 409(a), 29 U.S.C. § 1109(a), sets forth that:

Any person who is a fiduciary with respect to a plan who breaches any of the responsibilities, obligations, or duties imposed upon fiduciaries by this subchapter shall be personally liable *to make good to such plan any losses to the plan resulting from each such breach, and to restore to such plan any profits of such fiduciary which have been made through use of assets of the plan by the fiduciary*, and shall be subject to such other equitable or remedial relief as the court may deem appropriate, including removal of such fiduciary.

(Emphasis added).

THE PLAN

A. The Management Plan

80. The Management Plan is an “employee pension benefit plan” as defined by §§ 3(3) and (3)(2)(A) of ERISA, 29 U.S.C. §§ 1002(3) and 1002(2)(A).

81. The Management Plan is a legal entity that can sue or be sued. ERISA § 502(d)(1), 29 U.S.C. § 1132(d)(1).

82. In this action for breach of fiduciary duty, the Management Plan is neither a plaintiff nor a defendant. Rather, Plaintiffs request relief for the benefit of the Management Plan and for the benefit of its Participants.

83. The Management Plan is “defined contribution plan” or “individual account” plan within the meaning of ERISA § 3(34), 29 U.S.C. § 1002(34), in that the Management Plan provides for individual accounts for each participant and for benefits based solely upon the amount contributed to the Participants’ account, and any income, expenses, gains and losses, and any forfeitures of accounts of other Participants which may be allocated to such Participants’ accounts. Consequently, retirement benefits provided by the Management Plan are based solely

on the amounts allocated to each individual's account.

84. The Management Plan is a voluntary contribution plan whereby Participants make contributions to the Management Plan and direct the Management Plan to purchase investments with those contributions from options pre-selected by Defendants which are then allocated to Participants' individual accounts.

85. The Management Plan Participants may invest their contributions and employer contributions in one or more of the investment options offered by the Management Plan. Investment income, representing interest and dividends, and changes in the fair value of investments, are credited to each participant on a daily basis based upon individual investment options selected.

86. The Management Plan's 2008 Form 11-K states in relevant part:

The Plan is funded by employee contributions up to a maximum of 25% (16% for highly compensated employees) of compensation and by employer-matching contributions, which are paid in cash. The maximum percentage a non-highly compensated employee may contribute to the Plan was increased from 16% to 25% effective as of January 1, 2007. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Employer-matching contributions are credited to a participant's account in accordance with the participant's current contribution investment selections. The employer-matching contribution for management employees is 100% of the initial 6% of the participant's contributions of eligible compensation for each pay period. For union-represented employees, the employer-matching contribution is 100% of the initial 4% and 50% of the next 2% of the participant's contributions of eligible compensation for each pay period. Additionally, Idearc may make a discretionary, performance-based contribution to management employees participating in the Plan in an amount up to 50% of the participant's matched contributions for the Plan year. Employees attaining the age of 50 or older can elect to make catch-up contributions to the Plan of up to 60% of eligible compensation, subject to certain limitations.

87. In or around December 19, 2008, the Benefits Committee approved the mergers of the Mid-Atlantic Plan and the North Plan into the Management Plan. *See* IDEAI0000658.

88. Pursuant to the Management Plan Document, the Company was the “Plan Administrator.” *See* Management Plan Document at IDEAI0001352; *see also* Article X, § 10.1 at EDEAI0001389. Further, pursuant to the Management Plan Document, the Plan Administrator (the Company acting through its Board of Directors) appointed the Benefits Committee. *Id.* at § 10.2.

89. The Plan Administrator and the Benefits Committee were named fiduciaries of the Management Plan. *See* Management Plan Document, Article X, § 10.07 at IDEAI0001391.

90. The Plan Administrator had the discretionary authority to interpret the Plan and decide all matters arising under the Plan. Further, “[t]he Plan Administrator’s determination on any and all questions arising out of the interpretation or administration of the Plan” was “final, conclusive and binding on all parties.” *See* Management Plan Document, Article X, § 10.06(a)-(b).

91. While the Management Plan provided that the Company Stock Portfolio was to be “invested principally in Company Shares” (*see* Management see Management Plan Document, Article VI, § 6.01 at IDEAI0001373), the Plan Administrator (the Company, by action of its Board of Directors) – a named fiduciary of the Plan - had the authority, as settlor, to amend any and all provisions of the Plan, in whole or in part. *See* Management Plan Document, Article XII, § 12.01 (a) at IDEAI0001396.

92. As alleged below, the Company, as Plan Administrator, ultimately determined to eliminate future investments in Idearc stock and terminated the Plan feature that allowed Plan Participants from making new investments in the Company stock as of November 2008.

B. The North Plan

93. The North Plan is an “employee pension benefit plan” as defined by §§ 3(3) and

(3)(2)(A) of ERISA, 29 U.S.C. §§ 1002(3) and 1002(2)(A).

94. The North Plan is a legal entity that can sue or be sued. ERISA § 502(d)(1), 29 U.S.C. § 1132(d)(1).

95. In this action for breach of fiduciary duty, the North Plan is neither a plaintiff nor a defendant. Rather, Plaintiffs request relief for the benefit of the North Plan and for the benefit of its Participants.

96. The North Plan is “defined contribution plan” or “individual account” plan within the meaning of ERISA § 3(34), 29 U.S.C. § 1002(34), in that the North Plan provides for individual accounts for each participant and for benefits based solely upon the amount contributed to the Participants’ account, and any income, expenses, gains and losses, and any forfeitures of accounts of other Participants which may be allocated to such Participants’ accounts. Consequently, retirement benefits provided by the North Plan are based solely on the amounts allocated to each individual’s account.

97. The North Plan is a voluntary contribution plan whereby Participants make contributions to the North Plan and direct it to purchase investments with those contributions from options pre-selected by Defendants which are then allocated to Participants’ individual accounts.

98. The North Plan Participants may invest their contributions and employer contributions in one or more of the investment options offered by the North Plan. Investment income, representing interest and dividends, and changes in the fair value of investments, are credited to each participant on a daily basis based upon individual investment options selected.

99. The North Plan’s 2008 Form 11-K states in relevant part:

The Plan is funded by employee contributions up to a maximum of 25% of compensation (16% for highly compensated employees) and by employer-matching contributions, which are paid in cash.

The maximum percentage a non-highly compensated employee may contribute to the Plan was increased from 16% to 25% effective as of January 1, 2007. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Employer-matching contributions are credited to a participant's account in accordance with the participant's current contribution investment selections. The employer-matching contribution is equal to 82% of the initial 6% of the participants' contributions of eligible compensation for each pay period. Employees attaining the age of 50 or older can elect to make additional before-tax catch-up contributions to the Plan of up to 60% of eligible compensation, subject to certain limitations.

100. The Benefits Committee is the Plan Administrator of the North Plan. *See* Idearc Savings and Security Plan for New York and New England Associates – Summary Plan Description (“North Plan SPD”), at IDEAI0001476.

101. As the North Plan Administrator, the Benefits Committee “shall have such powers as may be necessary to enable it to administer the Plan, except for powers reserved to Idearc or the Trustee, or delegated to Claims and Appeals Administrators, the Benefit Administrator” *See* North Plan Document, Article 21, § 21.2 at IDEAI0002823.

102. Pursuant to the North Plan Document, “Idearc, the Trustee, the Claims Administrator, the Plan Administrator [the Benefits Committee] and the Appeals Administrator, are each named fiduciaries as that term is used in ERISA, with respect to the particular duties and responsibilities which are assigned to each of them under this Plan, with respect to which they exercise discretion.” *See id.* at Article 21, § 21.6 at IDEAI0002842.

C. The Mid-Atlantic Plan

103. The Mid-Atlantic Plan is an “employee pension benefit plan” as defined by §§ 3(3) and (3)(2)(A) of ERISA, 29 U.S.C. §§ 1002(3) and 1002(2)(A).

104. The Mid-Atlantic Plan is a legal entity that can sue or be sued. ERISA § 502(d)(1), 29 U.S.C. § 1132(d)(1).

105. In this action for breach of fiduciary duty, the Mid-Atlantic Plan is neither a plaintiff nor a defendant. Rather, Plaintiffs request relief for the benefit of the Mid-Atlantic Plan and for the benefit of its Participants.

106. The Mid-Atlantic Plan is “defined contribution plan” or “individual account” plan within the meaning of ERISA § 3(34), 29 U.S.C. § 1002(34), in that the Mid-Atlantic Plan provides for individual accounts for each participant and for benefits based solely upon the amount contributed to the Participants’ account, and any income, expenses, gains and losses, and any forfeitures of accounts of other Participants which may be allocated to such Participants’ accounts. Consequently, retirement benefits provided by the Mid-Atlantic Plan are based solely on the amounts allocated to each individual’s account.

107. The Mid-Atlantic Plan is a voluntary contribution plan whereby Participants make contributions to the Mid-Atlantic Plan to purchase investments with those contributions from options pre-selected by Defendants which are then allocated to Participants’ individual accounts.

108. The Mid-Atlantic Plan Participants may invest their contributions and employer contributions in one or more of the investment options offered by the Mid-Atlantic Plan. Investment income, representing interest and dividends, and changes in the fair value of investments, are credited to each participant on a daily basis based upon individual investment options selected.

109. The Mid-Atlantic Plan’s 2008 Form 11-K states in relevant part:

The Plan is funded by employee contributions up to a maximum of 25% of compensation (16% for highly compensated employees) and by employer-matching contributions, which are paid in cash. The maximum percentage a non-highly compensated employee may contribute to the Plan was increased from 16% to 25% effective as of January 1, 2007. Participants may also contribute amounts representing distributions from other qualified defined benefit or defined contribution plans. Employer-matching contributions are credited to a participant’s account in accordance with the participant’s current contribution investment selections.

The employer-matching contribution is equal to 82% of the initial 6% of the participants' contributions of eligible compensation for each pay period. Employees attaining the age of 50 or older can elect to make catch-up contributions to the Plan of up to 60% of eligible compensation, subject to certain limitations.

110. The Benefits Committee is the Plan Administrator of the Mid-Atlantic Plan. *See* Mid-Atlantic Plan Document, Article 23, § 23.1 at IDEAI0000324.

111. The Plan Administrator “shall have such powers as may be necessary to enable it to administer the Plan, except for powers reserved to Idec or the Trustee, or delegated to Claims and Appeals Administrator, the Benefit Administrator *See Id.*, at § 23.2.

112. The Benefits Committee is a named fiduciary. *See id.*, at § 23.6 at IDEAI0000235.

D. The Trust Agreement

113. The Trust Agreement indicated that initially the Company Stock Fund would be one of the investment alternatives. Defendants admitted, however, that it was unclear whether the Company Stock Fund was mandatory for all times, no matter what the circumstances. Thus any ambiguity in the drafting should be construed against drafter:

As specified by the Plans, a Sponsor Stock Fund shall be an Investment Alternative. The Sponsor Stock Fund shall be invested primarily in common stock of the Sponsor which constitutes “qualifying employer securities” within the meaning of Section 407 of ERISA (the “Sponsor Stock Fund”). It shall be the duty of the Sponsor to determine that such investment is not prohibited by Sections 406 or 407 of ERISA. The Plan Administrator has determined that the establishment of the Sponsor Stock Fund is a settlor function and, as such, the Sponsor Stock Fund will be an Investment Option until removed by a plan amendment. ***To the extent it is determined that the establishment of the Sponsor Stock Fund is not a settlor function and except to the extent that control over investments in such qualifying employer securities is assigned to participants, the Plan Administrator shall at all times have the full and exclusive fiduciary responsibility with respect to the investment of the Sponsor Stock Fund, including fiduciary responsibility to monitor the continuing appropriateness of such Sponsor Stock Fund as an Investment Alternative under the Plan.*** [...].

See Trust Agreement at IDEAI0000963 (emphasis added).

114. Since Defendants admit it is unclear whether the initial establishment of a Sponsor Stock Fund is a “settlor function,” the issue of whether the initial establishment of the Sponsor Stock Fund, or the issue of whether its continued offering in the future no matter what new circumstance arise, is a question of fact and all ambiguities in the drafting are construed against Defendants.

115. Moreover, the Company’s Form S-8 filed with the SEC on June 16, 2009 states in relevant part that, “[o]n November 17, 2008, the Company terminated the Plan feature that allowed Plan Participants to invest in Idearc stock funds holding shares of Common Stock. Accordingly, as of November 17, 2008, no new investments in Common Stock could be made under the Plan.” *See* Form S-8, dated June 16, 2009 at IDEAI0002748. *See* Form S-8, dated June 16, 2009 at IDEAI0002748.

116. As noted above, the Company is the “Plan Administrator,” a named fiduciary under the Plan. *See* Management Plan Document at IDEAI0001352; *see also* Article X, §§ 10.1, 10.7 at IDEAI0001389, IDEAI0001391. The decision to effectively eliminate future investment in Idearc Stock as a Plan investment option was made by the Company in its capacity as Plan fiduciary. The modification or amendment of the Plan to give effect to that decision was made by the Company in its capacity as settlor of the Plan. *See* Management Plan Document, Article XII, § 12.01, at IDEAI0001396.

117. Further, pursuant to the Unanimous Written Consent of the Employee Benefits Committee in Lieu of a Special Meeting, dated November 21, 2008, the Benefits Committee implemented an automatic liquidation of the Company Stock within the Plan to be effective December 23, 2008 and then “re-evaluated the automatic liquidation of Idearc Inc. common

stock held in the Idearc Company Stock Fund and the Idearc Company Stock Portfolio based upon the decline of the current market price of the common stock and determined to cancel the automatic liquidation of Idearc Inc. common stock held in the Idearc Company Stock Fund and the Idearc Company Stock Portfolio, which was scheduled for December 23, 2008” *See* IDEAI0006682.

118. While that automatic liquidation was not, ultimately, implemented, the Benefits Committee’s determination that it had the authority to implement the liquidation (and the subsequent reversal of that decision) *without an amendment to the Plan* further evidences that Defendants had discretionary control over the Sponsor Stock Fund.

119. The foregoing elimination of the Company Stock Fund as a future investment option by the Company in November 2008, as well as the actions of the Benefits Committee in December 2008 to authorize the automatic liquidation of the Company stock held in the Plan, demonstrate that offering the Company’s Stock as an investment option was subject to the discretionary determinations of the Plan’s named fiduciaries.

**D. Fiduciary Communications –
Incorporation Of SEC Filings Into The Plan**

120. Defendants were required under ERISA to furnish certain information to the Plan Participants. For example, ERISA § 101, 29 U.S.C. § 1021, requires that fiduciaries furnish a Summary Plan Description (“SPD”) to the Plan Participants. ERISA § 102, 29 U.S.C. § 1022, provides that the SPD must apprise Participants of their rights under the Plan. The SPD and all information contained or incorporated therein constitutes a representation in a fiduciary capacity upon which Participants were entitled to rely in determining the identity and responsibilities of fiduciaries under the Plan and in making decisions concerning their benefits and investment and management of assets allocated to their accounts:

The format of the summary plan description must not have the effect of misleading, misinforming or failing to inform participants and beneficiaries. Any description of exceptions, limitations, reductions, and other restrictions of plan benefits shall not be minimized, rendered obscure or otherwise made to appear unimportant. Such exceptions, limitations, reductions, or restrictions of plan benefits shall be described or summarized in a manner not less prominent than the style, captions, printing type, and prominence used to describe or summarize plan benefits. The advantages and disadvantages of the plan shall be presented without either exaggerating the benefits or minimizing the limitations. The description or summary of restrictive plan provisions need not be disclosed in the summary plan description in close conjunction with the description or summary of benefits, provided that adjacent to the benefit description the page on which the restrictions are described is noted.

29 C.F.R. § 2520.102-2(b).

121. The Idearc Savings Plan for Management Employees Summary Plan Description (“Management Plan SPD”); the Idearc Savings and Security Plan for Mid-Atlantic Associates Summary Plan Description (“Mid-Atlantic Plan SPD”); and the Idearc Savings and Security Plan for New York and New England Associates Summary Plan Description (“North Plan SPD”) (collectively, the “SPDs”) state that:

This book is the summary plan description (“SPD”) for the Plan, a plan subject to federal law under the Employee Retirement Income Security Act of 1974 (“ERISA”) and its subsequent amendments. This book meets ERISA's requirements for an SPD and is based on Plan provisions effective January 1, 2008. It updates and replaces all previous SPDs and other descriptions of the Plan.

In addition, this SPD constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933.

See IDEAI0001761; IDEAI0001234; and IDEAI0001448 (emphasis added); *see also* 17 CFR § 230.428.

122. All three SPDs, therefore, constitute part of the Section 10(a) prospectus included in Idearc’s Form S-8, dated March 27, 2007 (the “Form S-8”). Pursuant to the Securities Act of 1933, 15 U.S.C. § 77j, and Commodity and Securities Exchanges Form S-8, 55 Fed. Reg. 23909-

01, Item 3 (June 13, 1990) (Incorporation of Documents by Reference), the Form S-8, of which the SPDs are part, explicitly incorporates by reference the following Idearc periodic reports:

ITEM 3. Incorporation of Documents by Reference.

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance therewith, files reports and other information with the Commission. The following documents, or portions thereof, filed by the Company with the Commission pursuant to the Exchange Act, are incorporated by reference in this Registration Statement:

- (1) The description of the Common Stock contained in the Company's Form 10 for Registration of Securities, as amended, filed on November 1, 2006, File No. 001-32939;
- (2) *The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed on March 8, 2007, File No. 001-32939; and*
- (3) *All other reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act since the end of the fiscal year ended December 31, 2006.*

In addition to the foregoing, all documents subsequently filed by the Company with the Commission pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, prior to the filing of a post-effective amendment that (i) indicates that all securities offered under this Registration Statement have been sold, or (ii) deregisters all securities then remaining unsold under this Registration Statement, shall be deemed to be incorporated by reference into this Registration Statement and to be a part of this Registration Statement from the date of filing of such documents.

Any statement contained in a document incorporated by reference in this Registration Statement will be deemed to be modified or superseded for purposes of this Registration Statement to the extent that a statement contained herein or in any subsequently filed document that is also incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

IDEAI0002692 (Emphasis added). Moreover, Idearc is required to disseminate that prospectus to employees pursuant to the Securities Act of 1933 (15 U.S.C. § 77j; Rule 428, 17 C.F.R. § 230.428). Therefore, the SPDs, as part of the prospectus contained in the Form S-8, incorporated by reference Idearc's periodic filings with the SEC.

123. Upon information and belief, Defendants regularly communicated with the Company employees, including the Plan Participants, about the Company's performance, future financial and business prospects, and Idearc Stock through periodic SEC filings and in other ways. Other fiduciary communications were directed specifically at employees/Participants at all-employee meetings, on the Company's website, and in the Plan documents and materials which were disseminated to Participants, which expressly incorporated by reference the Company's misrepresentations and nondisclosures regarding the financial risks associated with Plan's investment in the Company Stock Fund and the Company Stock Fund's investment in Idearc stock. These communications were acts of Plan administration, and the persons responsible for the communications were ERISA fiduciaries in this regard.

124. Upon information and belief, Defendants attempted to communicate material information necessary for Participants to make informed decisions with respect to the investment of the Plan assets in the Company Stock Fund and in an attempt to comply with ERISA Section 404(c) by referencing and incorporating the Company's SEC filings into documents intended to convey plan-related information to Participants.

E. The Plan Fiduciaries

125. *Named Fiduciaries.* ERISA requires every plan to provide for one or more named fiduciaries of the plan pursuant to ERISA § 402(a)(1), 29 U.S.C. § 1002(21)(A). The person named as the "administrator" in the plan instrument is automatically a named fiduciary, and in the absence of such a designation, the sponsor is the administrator. ERISA § 3(16)(A), 29 U.S.C. § 1002(16)(A).

126. *De Facto Fiduciaries.* ERISA treats as fiduciaries not only persons explicitly named as fiduciaries under ERISA § 402(a)(1), but also any other persons who in fact perform

fiduciary functions. Thus, a person is a fiduciary to the extent “(i) he exercises any discretionary authority or discretionary control respecting management of such plan or exercises any authority or control respecting management of disposition of its assets, (ii) he renders investment advice for a fee or other compensation, direct or indirect, with respect to any moneys or other property of such plan, or has any authority or responsibility to do so, or (iii) he has any discretionary authority or discretionary responsibility in the administration of such plan.” ERISA § 3(21)(A)(i), 29 U.S.C. § 1002(21)(A)(i).

127. Each of the Defendants was a fiduciary with respect to the Plan and owed fiduciary duties to the Plan and its Participants under ERISA in the manner and to the extent set forth in the governing Plan documents, through their conduct, and under ERISA.

128. As fiduciaries, Defendants were required by ERISA § 404(a)(1), 29 U.S.C. § 1104(a)(1) to manage and administer the Plan and the Plan’s investments solely in the interest of the Plan’s Participants and beneficiaries and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

129. Plaintiffs do not allege that each Defendant was a fiduciary with respect to all aspects of the Plan’s management and administration. Rather, as set forth below, Defendants were fiduciaries to the extent of the specific fiduciary discretion and authority assigned to or exercised by each of them, and, as further set forth below, the claims against each Defendant are based on such specific discretion and authority.

FACTUAL BASIS OF THE FIDUCIARY BREACHES

130. On November 17, 2006, Verizon Communication, Inc. (“Verizon”) spun off its directory operations in a tax free distribution of stock in Idearc, a newly formed corporation.

According to an Information Statement, attached as Ex. 99.1 to Amendment No. 4 to Form filed with the SEC on November 1, 2006, the Company expected to have approximate \$9.115 billion total debt following the spin-off, made up of \$2.85 billion in senior unsecured notes and \$6.265 billion in a Senior Credit Facility, secured by virtually all of Idearc's assets and guaranteed on a secured basis by substantially all of Idearc's subsidiaries. This Senior Credit Facility consisted of: (1) a \$1.515 billion Tranche A Loan Facility, (2) a \$4.655 billion Tranche B Loan Facility, and (3) a \$250 million Revolving Credit Facility.

131. Under a Tax Sharing Agreement executed between Idearc and Verizon, Idearc was precluded from restructuring debt, issuing equity, merging with another company, or consolidating or disposing of a significant portion of Idearc's assets for a period of two years after the tax free exchange in order to retain the tax free status of the spin-off from Verizon. The Tax Sharing Agreement also provided that Idearc was responsible for:

[A]ll Taxes . . . (ii) resulting from the Preliminary Restructuring, the Distribution, the Debt Exchange or any transaction associated therewith as described in the Ruling or the Distribution Agreement, to the extent that such Taxes arise as a result of any action taken by Spinco [Idearc] or any member of the Spinco Group following the Distribution (other than, in the case of the Tranche B Term Loan, the repayment thereof prior to the stated maturity in accordance with Section 2.10(b) of the Credit Agreement), or (iii) resulting from any breach of or inaccuracy in any representation, covenant or obligation of any member of the Spinco Group under this Agreement (collectively, "Spinco Taxes").

132. Therefore, in order to preserve the tax free status of the spin-off, the Officer Defendants knew or should have known it was imperative for Idearc to report that it was generating sufficient cash flow and liquidity to manage its staggering debt without resort to restructuring its debt or issuing equity. To do so, the Officer Defendants made public statements Defendants knew or should have known were materially inaccurate and misleading and which were incorporated into fiduciary communications to Plan participants as set forth below.

133. On November 21, 2006, the Company filed a Form 8-K with the SEC. A November 20, 2006 press release was appended to this fiduciary communication. It stated in relevant part:

Idearc Inc. (NYSE: IAR), one of the nation's largest providers of yellow and white pages directories and related advertising products, begins trading today, Nov. 20, with Katherine (Kathy) J. Harless, Idearc President and Chief Executive Officer, ringing the Opening Bell on the New York Stock Exchange.

"Idearc is a great company with a great future," said Harless. *"We are a media company with a multi-platform portfolio that truly places us in a category onto ourselves."*

(Emphasis added).

134. Defendant Harless's statement was materially inaccurate because Idearc was not a great company with a great future. As of the date of the fiduciary communication, the Company was experiencing a material decline in its paid customer advertising, and the Company was burdened with massive debt. Moreover, Idearc had no financing flexibility because, in order to retain the tax free status of the spin-off, Idearc was precluded from restructuring debt, issuing equity, merging with another company, or consolidating or disposing of a significant portion of Idearc's assets for a period of two years after the tax free exchange. In addition, Defendant Harless knew or should have known that:

- (a) during October 2006, the volume of past due receivables had mushroomed;
- (b) effective with the spin-off, Idearc had eliminated a great deal of the collection staff in order to cut operating costs; and
- (c) as a consequence of "a" and "b" above, the pursuit of past due receivables was largely ignored, effectively rendering them uncollectible.

135. By issuing financial statements that would increase Idearc's ability to issue stock

and/or obtain financing at a favorable rate at the end of the waiting period, the Company's management negligently and/or recklessly disregarded Idearc's mushrooming uncollectible receivables. By failing to write off uncollectible receivables, the Company's reported earnings and cash flow (which is a function of earnings) were artificially inflated during the Class Period. In addition, the Company's Class Period earnings and cash flow were artificially inflated by inaccurate and overstated billings sent to current and former customers, and, in some instances, to individuals who were not actually customers.

136. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

137. On February 8, 2007, the Company filed a Form 8-K with the SEC announcing its financial results for the three months and year ended December 31, 2006. A press release appended to this fiduciary communication stated in relevant part that:

. . . strong cash flow will fund a quarterly dividend for shareholders. The company also announced 2006 financial results consistent with expectations. ***Idearc's industry-leading business model, recurring revenue streams and strong cash flow enable the company to provide a solid cash return to shareholders, service debt and be opportunistic in evaluating investment opportunities.***

(Emphasis added).

138. The February 8, 2007 fiduciary communication was materially inaccurate because, as of the date of the fiduciary communication, the Company had been experiencing an

undisclosed material decline in its customer base and its collections of receivables, thereby causing cash flow to diminish. Defendants knew or should have known that the decline in the Company's customer base was due, at least in part, to a declining economy and in part to a name recognition issue and that it was unlikely that these financial problems would be reversed any time soon. Idearc found that customers were accustomed to dealing with Verizon (a known name), and they did not accept the unknown Idearc as a legitimate company. In addition, many customers refused to remit amounts billed by Verizon (prior to the spin-off) to Idearc. This was a serious financial problem because, due to Idearc's slashing of its collection staff, Idearc was unable to contact the many customers who refused to make remittances to Idearc in respect of amounts invoiced by Verizon. Defendants knew or should have known that in an effort to offset the Company's collections problems, Idearc relaxed its credit and collections policies and began making sales to less creditworthy customers. Thus, unbeknownst to the Plan Participants, Idearc routinely extended credit to customers without adequately checking their credit histories, and substantially relaxed the requirement criteria for when a credit check was necessary.

139. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

140. On March 8, 2007, the Company filed its 2006 Form 10-K with the SEC. This fiduciary communication touted the Company's purported success in tightening credit and

collection policies and reducing bad debts as follows:

(a) “In 2003, in order to reduce our bad debt expense, we implemented a new credit and collections program, which resulted in more stringent policies, process reengineering and system improvements.”

(b) “By the end of 2004, some aspects of the program were implemented. These initial efforts helped reduce our bad debt expense as a percent of total operating revenue from 8.1% in 2003 to 6.6% in 2004.”

(c) “During 2005, we continued to implement additional new processes, which further reduced our bad debt expense as a percent of total operating revenue to 4.9% in 2005.”

(d) “In 2006, these enhancements were fully implemented and our bad debt expense as a percent of total operating revenue was 4.3%.”

(e) “We manage collection of accounts receivable by conducting initial credit checks of new customers (under certain circumstances) and, where appropriate, requiring personal guarantees from business owners.”

(f) “We check all new orders from existing customers for payments that are past due to us prior to publishing the new order.”

(g) “When applicable, based on our credit policy, we use both internal and external data to decide whether to sell to a prospective customer.”

(h) “. . . we employ well-developed collection strategies using an integrated system of internal, external and automated means to engage with customers concerning payment obligations.”

141. Unbeknownst to the Plan Participants and the investing public, these statements

were materially inaccurate because, as of the date of the fiduciary communication, the Company had abandoned the tightening of its credit and collection policies and the reduction of bad debts. Further, by the date of this fiduciary communication, Idearc had eliminated a great deal of its collection staff in order to cut operating costs, thereby causing the pursuit of past due receivables to be ignored, effectively rendering them uncollectible. Moreover, the Company had been selling advertising to non-credit-worthy customers and had been recording fictitious billings to current, former, and non-existent customers.

142. In addition, the March 8, 2007 fiduciary communication implied that although there had been a “3.5% decline in customers from 2005 to 2006,” that this decline represented a loss of inconsequential business, because the decline in customers was primarily due to the loss of small customers with entry level programs.

143. Defendants knew or should have known that the foregoing statement was materially inaccurate because the customer loss included a wide range of customers which, in the aggregate, was material.

144. The 2006 Form 10-K was also materially inaccurate because, while publicly touting the Company’s “more stringent” credit and collections policies and claiming retention of the more desirable core customers, Idearc failed to disclose that it had, in fact, been experiencing a material decline in its customer base and had loosened credit policies in order to attract new business. In addition, the 2006 Form 10-K was materially inaccurate because, by the date of dissemination of this fiduciary communication, the Company failed to disclose that it had been selling advertising space to non-credit-worthy customers and had begun to accumulate a material amount of uncollectible receivables. The problem was exacerbated by the fact that Idearc did not have the collection staff required to pursue collection of the vast majority of the past due

amounts. Moreover, unbeknownst to the public, the Company had already begun to improperly boost reported earnings and cash flow by failing to write off uncollectible receivables, and by recording fictitious billings to current, former, and non-existent customers.

145. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

146. On May 3, 2007, the Company filed a Form 8-K with the SEC announcing its financial results for the three months ended March 31, 2007. A press release appended to this fiduciary communication reported cash flow from operations of \$201 million for the quarter, while touting:

- o Healthy cash flow that will fund another dividend to stockholders.
- o Improvement in multi-product advertising sales of more than 400 basis points, compared to the first quarter 2006.
- o More than 30 percent growth in Superpages.com revenue and a 36 percent increase in overall network searches.

147. The May 3, 2007 fiduciary communication was materially inaccurate because the reported \$201 million of cash flow from operations was materially overstated due to the inclusion of billing to non-credit-worthy customers, fictitious billing to (current, former, and non-existent) customers, and the understatement of the provision for bad debts as discussed above.

148. Defendants either knew or should have known the foregoing, and breached their

fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

149. On May 11, 2007, the Company filed its Form 10-Q for the quarterly period ended March 31, 2007 with the SEC. This fiduciary communication was materially inaccurate because it contained the financial data that appeared in the May 3, 2007 fiduciary communication, and because it incorporated the materially inaccurate 2006 Form 10-K by reference therein.

150. The May 11, 2007 Form 10-Q reported that the Company's bad debts had dropped to 4% of operating revenue for the quarter as compared to 4.3% for 2006, as a result of the Company's stringent policies. Discussing the Company's allowance for doubtful accounts, the March 31, 2007 Form 10-Q stated:

The allowance for doubtful accounts is calculated using a percentage of sales method based upon collection history and an estimate of uncollectible accounts. Management may exercise its judgment in adjusting the provision as a consequence of known items, including current economic factors and credit trends. Accounts receivable adjustments are recorded against the allowance for doubtful accounts.

151. The March 31, 2007 Form 10-Q also reported that operating revenue had decreased by \$7 million as compared to the first quarter of 2006 stating:

Operating revenue of \$806 million in the first quarter of 2007 decreased \$7 million, or 0.9%, compared to \$813 million in the first quarter of 2006 for the reasons described below.

Print Products. Revenue from print products of \$737 million in the first quarter of 2007 decreased \$15 million, or 2.0%, compared to \$752 million in the first quarter of 2006. This decline resulted

from reduced advertiser renewals, partially offset by the addition of new advertisers, increases in advertiser spending and revenue from new product offerings. We continued to face competition in the print directory market and from other advertising media, including cable television, radio and the Internet.

Internet. Internet revenue of \$68 million in the first quarter of 2007 increased \$16 million, or 30.8%, compared to \$52 million in the first quarter of 2006, as we continued to expand our product offerings, market reach and advertiser base. There was a significant improvement in growth rate, 30.8% in the first quarter of 2007 as compared to 6.1% in the first quarter of 2006, resulting from the introduction of performance-based advertising products and the technical benefits of the Inceptor asset acquisition. Performance-based products are still at an early stage of development and we anticipate a continued high revenue growth.

152. The March 31, 2007 Form 10-Q was materially inaccurate because, for the reasons cited above, the allowance for doubtful accounts was not based upon an estimate of uncollectible accounts, the provision for bad debts was not adjusted as a consequence of known items (including current economic factors and credit trends), and the explanation for the decrease in operating revenue failed to disclose that:

- (a) the Company had been experiencing a material decline in its customer base and, therefore, management had loosened credit policies in order to attract new customers;
- (b) as a result of the loosened credit policies, the Company had attracted new customers that were likely to default on payments;
- (c) the Company did not have the collection staff required to pursue collection of the vast majority of the past due amounts;
- (d) in order to report sales that approximated Wall Street's expectation, the Company continued to bill customers that had canceled their advertising, knowing that these customers would never pay the fictitious invoices that they had received;
- (e) in order to report sales that approximated Wall Street's expectation, the

Company began to record fictitious revenue by generating fictitious invoices to former, current, and non-existent customers;

(f) management had materially overstated net receivables, operating revenue, cash flow, and net income by failing to adjust the provision for uncollectible accounts receivable based upon its knowledge of the deterioration of the quality of the Company's customers and the fictitious billing; and

(g) due to the rapidly increasing build-up of uncollectible receivables, a liquidity crisis (resulting in an inability to meet obligations as they came due) was imminent.

153. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

154. On August 9, 2007, the Company filed a Form 8-K with the SEC announcing its financial results for the three and six months ended June 30, 2007. This fiduciary communication reported that during the quarter ended June 30, 2007, Idearc changed its accounting methodology associated with the recognition of sales commissions.

155. According to this document, “[s]ales commissions were previously expensed as incurred. Idearc is now deferring sales commissions and recognizing these costs over the life of the directory or advertising service”

156. The foregoing disclosure was inaccurate because it failed to disclose that the accounting change was effected solely in order to decrease reported expenses. The change had the effect of materially decreasing reported expenses for the quarter, thus, increasing reported operating earnings, net income, and cash flow from operations.

157. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

158. On August 10, 2007, the Company filed its Form 10-Q for the quarterly period ended June 30, 2007 with the SEC. This fiduciary communication was materially inaccurate because it contained the financial data that appeared in the August 9, 2007 fiduciary communication and because it incorporated the materially inaccurate 2006 Form 10-K by reference therein.

159. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

160. The June 30, 2007 Form 10-Q reported that bad debts remained at the 4% level, and that operating revenue increased \$3 million, or 0.4%, as compared to the second quarter of 2006. The June 30, 2007 Form 10-Q elaborated by stating in relevant part:

Operating revenue of \$805 million for the three months ended June 30, 2007 increased \$3 million, or 0.4%, compared to \$802 million for the three months ended June 30, 2006 for the reasons described below.

Print Products. Revenue from print products of \$731 million for the three months ended June 30, 2007 decreased \$15 million, or 2.0%, compared to \$746 million for the three months ended June 30, 2006. This decline resulted from reduced advertiser renewals, partially offset by the addition of new advertisers, increases in advertiser spending and revenue from new product offerings.

Internet. Internet revenue of \$73 million for the three months ended June 30, 2007 increased \$18 million, or 32.7%, compared to \$55 million for the three months ended June 30, 2006, as we continued to expand our product offerings, market reach and advertiser base. There was a significant improvement in growth rate, 32.7% for the three months ended June 30, 2007 as compared to 12.2% for the three months ended June 30, 2006, resulting from the introduction of performance-based advertising products and the technical benefits of the Inceptor asset acquisition.

161. The June 30, 2007 Form 10-Q stated that: “The allowance for doubtful accounts is calculated using a percentage of sales method based upon collection history and an estimate of uncollectible accounts. Management may exercise its judgment in adjusting the provision as a consequence of known items, including current economic factors and credit trends.”

162. Defendants knew or should have known that the August 9, 2007 fiduciary communication and the June 30, 2007 Form 10-Q was materially inaccurate because the allowance for doubtful accounts was not based upon an estimate of uncollectible accounts, the provision for bad debts was not adjusted as a consequence of known items (including current economic factors and credit trends), and the explanation for the decrease in operating revenue failed to disclose that:

(a) the Company had been experiencing a material decline in its customer

base and, therefore, management had loosened credit policies in order to attract new customers;

(b) as a result of the loosened credit policies, the Company had attracted new customers that were likely to default on payments;

(c) the Company did not have the collection staff required to pursue collection of the vast majority of the past due amounts;

(d) in order to report sales that approximated Wall Street's expectation, the Company continued to bill customers that had canceled their advertising, knowing that these customers would never pay the fictitious invoices that they had received;

(e) in order to report sales that approximated Wall Street's expectation, the Company began to record fictitious revenue by generating fictitious invoices to former, current, and non-existent customers;

(f) management had materially overstated net receivables, operating revenue, cash flow, and net income by failing to adjust the provision for uncollectible accounts receivable based upon its knowledge of the deterioration of the quality of the Company's customers and the fictitious billing; and

(g) due to the rapidly increasing build-up of uncollectible receivables, a liquidity crisis (resulting in an inability to meet obligations as they came due) was imminent.

163. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent

for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

164. On November 1, 2007, the Company filed a Form 8-K with the SEC. This fiduciary communication contained an appended November 1, 2007 press release which reported financial results for the three and nine months ended September 30, 2007. It quoted Defendant Coticchio as stating: “We experienced strong OIBITDA [operating income before interest, taxes, depreciation and amortization] and net income results, along with double-digit Internet revenue growth both on a quarterly and year-to-date basis. We were also prudent in managing our expenses, which contributed to OIBITDA and net income.”

165. The November 1, 2007 fiduciary communication reported a “healthy cash flow” which enabled the Company to fund “another quarterly dividend to stockholders.”

166. The fiduciary communication reported cash flow from operating activities of \$334 million for the nine months ended September 30, 2007. The staggering \$196 million increase, from \$138 million for the six months ended June 30, 2007 to \$334 million for the nine months ended September 30, 2007, was due to the creation of fictitious revenue and profits by over-billing current customers and billing customers that had canceled their advertising. Defendants knew or should have known that these customers would never pay the fictitious invoices that they had received and that this conduct of generating fictitious invoices to non-existent customers and of materially understating the provision for uncollectible accounts receivable caused the Idearc Stock to trade at artificially inflated prices.

167. The November 1, 2007 fiduciary communication was materially inaccurate because it reported financial results that included false revenue and profits generated by over-

billing current customers and billing customers that had canceled their advertising, knowing that these customers would never pay the fictitious invoices that they had received, by generating fictitious invoices to non-existent customers, and by materially understating the provision for uncollectible accounts receivable.

168. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

169. On November 5, 2007, the Company filed its Form 10-Q for the quarterly period ended September 30, 2007 with the SEC. This fiduciary communication was materially inaccurate because it contained the financial data that appeared in the November 1, 2007 fiduciary communication and because it incorporated the materially inaccurate 2006 Form 10-K by reference therein.

170. The November 5, 2007 Form 10-Q stated that bad debts had increased to 4.6% of revenue for the third quarter. Discussing operating revenue, this fiduciary communication stated:

Operating revenue of \$791 million for the three months ended September 30, 2007 decreased \$14 million, or 1.7%, compared to \$805 million for the three months ended September 30, 2006 for the reasons described below.

Print Products. Revenue from print products of \$721 million for the three months ended September 30, 2007 decreased \$22 million, or 3.0%, compared to \$743 million for the three months ended September 30, 2006. This decline resulted from reduced advertiser renewals, partially offset by the addition of new advertisers, increases in advertiser spending and revenue from new product offerings.

Internet. Internet revenue of \$69 million for the three months ended September 30, 2007 increased \$9 million, or 15.0%, compared to \$60 million for the three months ended September 30, 2006, as we continued to expand our product offerings, market reach and advertiser base. Internet growth of 15.0% continues to show positive signs, as a result of the continued introduction of performance-based advertising products and the benefits of the 2006 Inceptor asset acquisition. Third quarter Internet revenue was disproportionately affected by a \$4 million adjustment related to operational issues at one of our reseller channels, which we do not believe constitutes a continuing trend.

171. The November 5, 2007 fiduciary communication was materially inaccurate because the reported increase in bad debts, as well as the decrease in operating revenues and revenues from print products, were materially understated, and the reported internet revenue was materially overstated. In reporting these results, the Defendants knew or should have known that the Company failed to adjust the provision for uncollectible accounts receivable based on the deterioration of the quality of the Company's customers and the fictitious billing and, due to the rapidly increase build-up of uncollectible receivables, a liquidity crisis (resulting in an inability to meet obligations as they came due) was imminent.

172. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

173. On February 7, 2008, the Company filed a Form 8-K with the SEC. This fiduciary communication contained an appended February 7, 2008 press release which reported financial results for the fourth quarter and year ended December 31, 2007. It stated in relevant

part:

On February 6, 2008, the Idearc board of directors declared a quarterly dividend of 34.25 cents per outstanding share. The dividend will be paid on or about March 13, 2008, to stockholders of record at the close of business on February 21, 2008. Strong and stable cash flows underlie the Company's ability to maintain its dividend to stockholders.

* * *

[T]he Company reported OIBITDA of \$333 million for the fourth quarter 2007, a 11.7 percent increase compared to the same period in 2006.

174. Moreover, this fiduciary communication reported cash flow from operations of \$369 million for the year ended December 31, 2007. This figure was materially inaccurate due to the Company's recognition of revenue and purported profits generated by over-billing current customers and billing customers that had canceled their advertising (knowing that these customers would never pay the fictitious invoices that they had received), by generating fictitious invoices to non-existent customers, and by materially understating the provision for uncollectible accounts receivable.

175. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

176. On February 29, 2008, the Company filed its Form 10-K for the year ended December 31, 2007 with the SEC. This fiduciary communication stated that bad debts for the year had risen to 5% ("For 2007, bad debt expense represented approximately 5.0% of our net

revenue”) due to an “economic downturn.” Discussing the methodology by which the Company established its allowance for doubtful accounts, the February 29, 2008 fiduciary communication contained a representation regarding the calculation of the Company’s allowance for doubtful accounts that was substantially identical to the representation specified in paragraph 125 above.

177. The February 29, 2008 fiduciary communication also stated:

Our 2007 operating revenue of \$3,189 million declined \$32 million, or 1.0%, compared to \$3,221 million in 2006.

Print Products. Revenue from print products of \$2,900 million in 2007 decreased \$78 million, or 2.6%, from \$2,978 million in 2006. This decline resulted primarily from reduced advertiser renewals, partially offset by the addition of new advertisers, increases in advertiser spending and revenue from new product offerings. We continued to face competition in the print directory market and from other advertising media, including cable television, radio and the Internet.

Internet. Our Internet revenue of \$285 million in 2007 increased \$55 million, or 23.9%, from \$230 million in 2006, as we continued to expand our product offerings, market reach and advertiser base. We continue to add new product offerings through the introduction of new performance-based products. Additionally, in October 2007, we acquired Switchboard.com to increase the presence of our advertisers to consumers.

* * *

Of our total 2007 operating revenue of \$3,189 million, \$2,900 million, or 91.0% came from the sale of advertising in our print directories. Revenue from our Internet products, including Superpages.com, which we refer to as Internet revenue, was \$285 million, or 8.9% of our total 2007 operating revenue. Other revenue sources were \$4 million, or 0.1%, of our total 2007 operating revenue.

* * *

In 2007, we retained more than 84% of our local print customers from the previous year and exceeded 90% for our highest value customers. We base our local print customer renewal rate on the number of unique local print customers that have renewed advertising. We do not include customers that did not renew because they are no longer in business. Unique local print customers are counted once regardless of the number of advertisements they purchase or the number of directories in which they advertise. Our renewal rate would not be affected if any of these customers were to renew some, but not all, of their advertising. Our renewal rate reflects the importance of our directories to our local customers, for whom yellow pages

directory advertising is, in many cases, the primary form of advertising.

178. The February 29, 2008 fiduciary communication was materially inaccurate because the allowance for doubtful accounts was not based upon an estimate of uncollectible accounts, the provision for bad debts was not adjusted as a consequence of known items (including current economic factors and credit trends), and the explanation for the decrease in operating revenue failed to disclose that:

- (a) the Company had been experiencing a material decline in its customer base and, therefore, management had loosened credit policies in order to attract new customers;
- (b) as a result of the loosened credit policies, the Company had attracted new customers that were likely to default on payments;
- (c) the Company did not have the collection staff required to pursue collection of the vast majority of the past due amounts;
- (d) in order to report sales that approximated Wall Street's expectation, the Company continued to bill customers that had canceled their advertising, knowing that these customers would never pay the fictitious invoices that they had received;
- (e) in order to report sales that approximated Wall Street's expectation, the Company began to record fictitious revenue by generating fictitious invoices to former, current, and non-existent customers;
- (f) management had materially overstated net receivables, operating revenue, cash flow, and net income by failing to adjust the provision for uncollectible accounts receivable based upon its knowledge of the deterioration of the quality of the Company's customers and the fictitious billing; and

(g) due to the rapidly increasing build-up of uncollectible receivables, a liquidity crisis (resulting in an inability to meet obligations as they came due) was imminent.

179. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

180. On March 27, 2008, the Company filed a Form 8-K with the SEC. A March 27, 2008 press release was appended to this fiduciary communication. It quoted Defendant Jones as stating:

“Our view of 2008 is such that we anticipate mid-single digit percentage point declines in multi-product amortized revenue. And, as previously communicated, we anticipate some operating margin contraction due to the mix shift in revenues.”

181. The press release further stated:

Mr. Jones made it clear that he does not foresee any near-term liquidity issues for the Company. Regarding capital allocation, Mr. Jones told investors that the Idearc Board of Directors has decided to eliminate payment of dividends as part of the current capital allocation program and focus on improving the Company’s risk profile.

“This approach allows us to maximize flexibility as we work our way through a more challenging economic environment,” Mr. Jones explained. “While the Board certainly has the discretion to resume paying dividends in the future, it is keenly focused on an appropriate capital allocation program and risk profile for the enterprise. In light of current market conditions, we firmly believe this is the most financially prudent approach to capital allocation.”

182. On May 6, 2008, the Company filed a Form 8-K with the SEC. This fiduciary

communication contained an appended May 6, 2008 press release which quoted Defendant Gatto as stating: “The set of assets that make this business an attractive investment are still in place and the business fundamentals are still sound and solid.”

183. Defendant Gatto’s comments were materially inaccurate because Idearc was not “an attractive investment” and its business fundamentals were not “sound and solid” because:

(a) the Company had been experiencing a material decline in its customer base and, therefore, management had loosened credit policies in order to attract new customers;

(b) as a result of the loosened credit policies, the Company had attracted new customers that were likely to default on payments;

(c) the Company did not have the collection staff required to pursue collection of the vast majority of the past due amounts;

(d) in order to report sales that approximated Wall Street’s expectation, the Company continued to bill customers that had canceled their advertising, knowing that these customers would never pay the fictitious invoices that they had received;

(e) in order to report sales that approximated Wall Street’s expectation, the Company began to record fictitious revenue by generating fictitious invoices to former, current, and non-existent customers;

(f) management had materially overstated net receivables, operating revenue, cash flow, and net income by failing to adjust the provision for uncollectible accounts receivable based upon its knowledge of the deterioration of the quality of the Company’s customers and the fictitious billing; and

(g) due to the rapidly increasing build-up of uncollectible receivables, a

liquidity crisis (resulting in an inability to meet obligations as they came due) was imminent.

184. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

185. On May 8, 2008, the Company filed its Form 10-Q for the quarterly period ended March 31, 2008 with the SEC. This fiduciary communication was materially inaccurate because it incorporated the 2007 Form 10-K by reference therein.

186. The March 31, 2008 Form 10-Q disclosed net income of \$111 million for the quarter as compared to net income of \$103 million for the comparable quarter in 2007 without disclosing that the increase was due to (i) the issuance of fictitious invoices to former, current, and non-existent customers; (ii) the continuation of billing to customers that had canceled their advertising; (iii) the relaxation of credit policies; and (iv) the non-write-off of uncollectible receivables.

187. Defendants knew or should have known that the March 31, 2008 Form 10-Q was materially inaccurate because of the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to

continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

188. On July 29, 2008, the Company filed a Form 8-K with the SEC. This fiduciary communication contained an appended July 29, 2008 press release which reported (i) 2008 second quarter net income of \$76 million, a decrease of 30.3 percent compared to the same period in 2007, and (ii) general and administrative expense of \$118 million for the three months ended June 30, 2008 compared to \$97 million for the three months ended June 30, 2007.

189. On August 11, 2008, the Company filed its Form 10-Q for the quarterly period ended June 30, 2008 with the SEC. This fiduciary communication reported that operating revenue of \$759 million for the three months ended June 30, 2008 decreased \$46 million, or 5.7%, compared to \$805 million for the three months ended June 30, 2007. The sharp decrease was explained as follows:

Print Products. Revenue from print products of \$683 million for the three months ended June 30, 2008 decreased \$48 million, or 6.6%, compared to \$731 million for the three months ended June 30, 2007. This decline resulted from reduced advertiser renewals reflecting weaker economic conditions, partially offset by the addition of new advertisers and revenue from new product offerings. We continued to face competition in the print directory market and from other advertising media, including cable television, radio and the Internet.

Internet. Internet revenue of \$75 million for the three months ended June 30, 2008 increased \$2 million, or 2.7%, compared to \$73 million for the three months ended June 30, 2007, as we continued to expand our product offerings, market reach and advertiser base.

Bad debt expense of \$48 million for the three months ended June 30, 2008, increased by \$16 million, or 50.0%, compared to \$32 million for the three months ended June 30, 2007. The increased bad debt expense was influenced by the current weak economic environment, as well as a temporary relaxation of certain aspects of the Company's credit policy in mid-2007 associated with the transition of billing activities from Verizon. Bad debt expense as a percent of total operating revenue was 6.3% for the three months ended June 30, 2008 compared to 4.0% for the three months ended June 30, 2007.

(Emphasis added).

190. The June 30, 2008 Form 10-Q further stated: “Bad debt expense of \$87 million for the six months ended June 30, 2008, increased by \$23 million, or 35.9%, compared to \$64 million for the six months ended June 30, 2007. The increased bad debt expense was influenced by the current weak economic environment, *as well as a temporary relaxation of certain aspects of the Company’s credit policy in mid-2007 associated with the transition of billing activities from Verizon.*”

191. The June 30, 2008 Form 10-Q was materially inaccurate because the increased bad debt expense was not caused by a mid-2007 temporary relaxation of the Company’s credit policies.

192. The June 30, 2008 Form 10-Q was also materially inaccurate because it failed to disclose that (i) management had materially overstated net receivables, operating revenue and net income by failing to adjust the provision for uncollectible accounts receivable based upon its knowledge of the deterioration of the quality of the Company’s customers and the fictitious billing to customers, and that (ii) due to the rapidly increasing build-up of uncollectible receivables, a liquidity crisis (resulting in an inability to meet debt payments as they came due) was imminent.

193. Defendants either knew or should have known the foregoing, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of

that imprudent investment.

194. With the Company facing a potential de-listing from the New York Stock Exchange and with a few months remaining until the end of the two year waiting period, the Company began to explore financing alternatives. On October 30, 2008, the Company filed a Form 8-K with the SEC. This fiduciary communication stated:

As of September 30, 2008, Idearc had cash and cash equivalents of \$304 million. On October 24, 2008, the Company initiated borrowings of \$247 million under its existing \$250 million revolving credit facility. Idearc intends to use the funds from the revolving credit facility for general corporate purposes.

The Company has retained Merrill Lynch & Co. and Moelis & Company as financial advisors in connection with the review of alternatives related to the Company's capital structure. There can be no assurance that the Company will pursue transactions related to any such alternatives.

"Our objective is to maximize opportunities to help ensure that Idearc has an appropriate capital structure to support our strategic business objectives," Klein said. "We intend to look closely at all available opportunities to strengthen our balance sheet and improve our risk profile. At the same time, we will continue to manage our financial resources prudently, with a focus on maintaining sufficient liquidity and flexibility as we work our way through the current challenging economic environment. Fortunately, Idearc continues to generate significant cash flow."

(Emphasis added).

195. In addition, the October 30, 2008 fiduciary communication stated:

On October 24, 2008, the Company was notified by the New York Stock Exchange ("NYSE") that the Company is not in compliance with NYSE's continued listing criteria under Section 802.01C of the NYSE Listed Company Manual because the average closing price of the Company's common stock was less than \$1.00 over a consecutive 30 trading-day period. Under applicable NYSE rules, the Company generally has six months to return to compliance with this requirement. The Company expects that its common stock will remain listed on the NYSE during this six-month period.

If the average trading price of the Company's common stock does not sufficiently improve, the Company's Board of Directors and management intend to consider a reverse stock split and other possible alternatives. If the Board decides to seek stockholder approval for a reverse stock split, the Company must do so no later than its 2009 annual meeting of stockholders, which is scheduled currently for May 2009.

196. On October 30, 2008, the Company held a conference call during which Defendant Jones acknowledged that non-payments had increased and that “the provision rate for the third quarter was about 8.2% for bad debt.” News of the skyrocketing bad debts caused the price of the Company’s stock to drop 36%.

197. During this conference call, Defendant Klein stated:

In the earnings release, we noted that the company had cash and cash equivalents of 304 million as of September 30, 2008. In addition, on October 24, 2008, the company initiated borrowings of \$247 million under our existing \$250 million revolving credit facility. We do this to increase our cash position and preserve our financial flexibility during these challenging economic times. Fortunately, despite the challenging economic environment, we continue to generate a significant amount of cash. We intend to manage this cash prudently with a focus on maintaining sufficient liquidity and among other things flexibility in reinvesting in the business when it is appropriate to do so.

198. Defendant Jones added: “Given the current market environment, and our current situation as well as the current status of the credit markets maximizing liquidity and flexibility about going ahead and drawing down the revolver, we believe it to be a prudent action.”

199. The foregoing statements were made during the October 30, 2008 conference call were materially inaccurate because the Defendants knew or should have known that the Company did not generate significant cash flow to continue as a going concern and because Defendants failed to disclose that the \$247 million draw against the Company’s \$250 million revolving credit facility was in contemplation of bankruptcy.

200. On November 6, 2008, the Company filed its Form 10-Q for the quarterly period ended September 30, 2008 with the SEC. This fiduciary communication stated that bad debt expense increased by 27.7% to \$60 million for the three months ended September 30, 2008 as compared to \$47 million for the three months ended September 30, 2007. It further stated that: “The increased bad debt expense was influenced by the current weak economic environment, *as*

well as the continuing effect of a temporary relaxation of certain aspects of our credit policy in mid-2007 associated with the transition of billing activities from Verizon.” (emphasis added).

201. The September 30, 2008 Form 10-Q was materially inaccurate because the increased bad debt expense was only minimally influenced by a weak economic environment, but was principally due to the rapidly increasing build-up of uncollectible receivables.

202. Defendants knew or should have known that the September 30, 2008 Form 10-Q was materially inaccurate, and breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or take any action to mitigate the effects of that imprudent investment.

203. On March 12, 2009, the Company filed a Form 8-K with the SEC. This fiduciary communication contained an appended press release which stated in relevant part:

As of December 31, 2008, Idearc had cash and cash equivalents of \$510 million. As previously reported, in October 2008, the Company borrowed \$247 million under its existing \$250 million revolving credit facility.

At December 31, 2008, the Company was in compliance with its quarterly leverage ratio covenant. However, based on current forecasts, the Company anticipates that it may be noncompliant with this covenant sometime in the first half of 2009. Additionally, because the December 31, 2008 financial statements the Company will provide to its lenders includes a report of its independent registered public accounting firm that contains an explanatory paragraph expressing doubt as to Idearc's ability to continue as a going concern, the Company will be noncompliant with a second covenant. Noncompliance with this covenant is considered an event of default under the senior secured facilities thirty days following notice of such default from the lenders. Upon an event of default, absent other potential remedies, the lenders may declare the total secured debt outstanding to be due and payable and upon acceleration, the Company's unsecured notes would also become due and payable.

Idearc has evaluated various options for restructuring its capitalization and debt service obligations to alleviate these covenant issues and to create a capital structure that will permit the Company to remain a going concern. Idearc and its advisors have considered various alternatives to strengthen its balance sheet and financial risk profile. Among these alternatives, the Company is currently considering a restructuring through a “pre-packaged”, “pre-negotiated”, or similar plan of reorganization under federal bankruptcy laws. Idearc and its advisors continue to work with representatives of holders of both the senior secured facilities and the senior unsecured notes in this regard. If the Company is unable to achieve a “pre-packaged”, “pre-negotiated”, or similar plan of reorganization, it would likely be necessary that the Company file for reorganization under federal bankruptcy laws in any event.

204. On March 12, 2009, the Company filed its Form 10-K for the year ended December 31, 2008 with the SEC. This fiduciary communication contained substantially the same disclosure as appeared in the March 12, 2009 press release as excerpted above. In addition, it stated that bad debt expense had increased from \$159 million for the year ended December 31, 2007 to \$206 million for the year ended December 31, 2008 due to “the current weak economic environment, as well as the continuing effect of a temporary relaxation of certain aspects of our credit policy in mid-2007 associated with the transition of billing activities from Verizon.”

205. The March 12, 2009 fiduciary communications were materially inaccurate for the because they failed to disclose that management had materially overstated net receivables, operating revenue and net income by failing to adjust the provision for uncollectible accounts receivable based upon its knowledge of the deterioration of the quality of the Company’s customers and the fictitious billing to customers.

206. Defendants breached their fiduciary duties by failing to provide Plan Participants with accurate information concerning one of their retirement benefits, namely the Company Stock Fund investment. Defendants also breached their fiduciary duties because they knew or should have known that it was imprudent for the Plan to invest in, and to continue to hold millions of dollars in, Idearc Stock, or, alternatively, by failing to disclose the foregoing and/or

take any action to mitigate the effects of that imprudent investment.

207. On March 31, 2009, the Company filed for protection under the U.S. bankruptcy laws.

THE LAW UNDER ERISA

208. ERISA § 502(a)(2), 29 U.S.C. § 1132(a)(2), provides, in pertinent part, that a civil action may be brought by a participant for relief under ERISA § 409, 29 U.S.C. § 1109.

209. ERISA § 409(a), 29 U.S.C. § 1109(a), “Liability for Breach of Fiduciary Duty,” provides, in pertinent part, that any person who is a fiduciary with respect to a plan who breaches any of the responsibilities, obligations, or duties imposed upon fiduciaries by this title shall be personally liable to make good to such plan any losses to the plan resulting from each such breach, and to restore to such plan any profits of such fiduciary which have been made through use of assets of the plan by the fiduciary, and shall be subject to such other equitable or remedial relief as the court may deem appropriate, including removal of such fiduciary.

210. ERISA § 404(a)(1)(A) and (B), 29 U.S.C. § 1104(a)(1)(A) and (B), provides, in pertinent part, that a fiduciary shall discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries, for the exclusive purpose of providing benefits to participants and their beneficiaries, and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

211. These fiduciary duties under ERISA § 404(a)(1)(A) and (B) are referred to as the duties of loyalty, exclusive purpose and prudence, and are the “highest known to the law.” They entail, among other things:

(a) the duty to conduct an independent and thorough investigation into, and continually to monitor, the merits of all the investment alternatives of a plan, including in this instance the Plan, which invested in Idearc Stock, to ensure that each investment is a suitable option for the Plan;

(b) the duty to avoid conflicts of interest and to resolve them promptly when they occur. A fiduciary must always administer a plan with an “eye single” to the interests of the Participants and beneficiaries, regardless of the interests of the fiduciaries themselves or the Plan’s sponsor; and

(c) a duty to disclose and inform, which encompasses: (i) a negative duty not to misinform; (ii) an affirmative duty to inform when the fiduciary knows or should know that silence might be harmful; and (iii) a duty to convey complete and accurate information material to the circumstances of Participants and beneficiaries.

212. ERISA § 405(a), 29 U.S.C. § 1105(a), “Liability for breach by co-fiduciary,” provides, in pertinent part, that “. . . [i]n addition to any liability which he may have under any other provision of this part, a fiduciary with respect to a plan shall be liable for a breach of fiduciary responsibility of another fiduciary with respect to the same plan in the following circumstances: (1) if he participates knowingly in, or knowingly fails to disclose, an act or omission of such other fiduciary, knowing such act or omission is a breach; (2) if, by his failure to comply with section 404(a)(1), 29 U.S.C. § 1104(a)(1), in the administration of his specific responsibilities which give rise to his status as a fiduciary, he has enabled such other fiduciary to commit a breach; or (3) if he has knowledge of a breach by such other fiduciary, unless he makes reasonable efforts under the circumstances to remedy the breach.”

213. Plaintiffs therefore bring this action under the authority of ERISA § 502(a)(2) for plan-wide relief under ERISA § 409(a) to recover losses sustained by the Plan arising out of the breaches of fiduciary duties by Defendants for violations under ERISA § 404(a)(1) and ERISA § 405(a).

DEFENDANTS' FIDUCIARY STATUS

214. ERISA requires every plan to provide for one or more named fiduciaries who will have “authority to control and manage the operation and administration of the plan.” § 402(a)(1), 29 U.S.C. § 1102(a)(1).

215. During the Class Period, all of the Defendants acted as fiduciaries of the Plan pursuant to § 3(21)(A) of ERISA, 29 U.S.C. § 1002(21)(A) and the law interpreting that section. As outlined herein, Defendants all had discretionary authority and control with respect to the management of the Plan and/or the management or disposition of the Plan’s investments and assets, and/or had discretionary authority or responsibility for the administration of the Plan.

216. During the Class Period, Defendants’ direct and indirect communications with the Plan’s Participants included statements regarding investments in Company Stock. Upon information and belief, these communications included, but were not limited to, SEC filings, annual reports, press releases, Company presentations made available to the Plan’s Participants via the Company’s website and the plan-related documents which incorporated and/or reiterated these statements. Defendants also acted as fiduciaries to the extent of this activity.

217. In addition, under ERISA, in various circumstances, non-fiduciaries who knowingly participate in fiduciary breaches may themselves be liable. To the extent any of the Defendants are held not to be fiduciaries, they remain liable as non-fiduciaries who knowingly participated in the breaches of fiduciary duty described below.

CAUSATION

218. Upon information and belief, the Plan suffered millions of dollars in losses in Plan benefits because substantial assets of the Plan was imprudently invested or allowed to be invested by Defendants in Idearc Stock during the Class Period, in breach of Defendants' fiduciary duties. These losses to the Plan were reflected in the diminished account balances of the Plan's Participants.

219. Defendants are responsible for losses in the Plan benefits caused by the Participants' direction of investment in Idearc Stock, because Defendants failed to take the necessary and required steps to ensure effective and informed independent participant control over the investment decision-making process, as required by ERISA § 404(c), 29 U.S.C. § 1104(c), and the regulations promulgated thereunder. Defendants provided inaccurate and incomplete information to the Plan Participants regarding the true health and ongoing profitability of the Company, thereby misrepresenting the Company's soundness as an investment vehicle. As a consequence, Participants could not exercise independent control over their investments in Idearc Stock, and Defendants remain liable under ERISA for losses caused by such investment.

220. Had Defendants properly discharged their fiduciary and/or co-fiduciary duties, including the provision of full and accurate disclosure of material facts concerning investment in Idearc Stock, eliminating such Company Stock as an investment alternative when it became imprudent, and/or divesting the Plan from its holdings of Idearc Stock when maintaining such an investment became imprudent, the Plan would have avoided a substantial portion of the losses that it suffered.

221. Also, reliance is presumed in an ERISA breach of fiduciary duty case.

Nevertheless, to the extent that reliance is an element of the claim, Plaintiffs relied to their detriment on the misstatements and omissions that Defendants made to the Plan Participants.

REMEDY FOR BREACHES OF FIDUCIARY DUTY

222. Defendants breached their fiduciary duties in that they knew or should have known the facts as alleged above, and therefore knew or should have known that the Plan's assets should not have been invested in Idearc Stock during the Class Period. As a consequence of Defendants' breaches, the Plan suffered significant losses.

223. ERISA § 502(a)(2), 29 U.S.C. § 1132(a)(2) authorizes a plan participant to bring a civil action for appropriate relief under ERISA § 409, 29 U.S.C. § 1109. Section 409 requires "any person who is a fiduciary . . . who breaches any of the . . . duties imposed upon fiduciaries . . . to make good to such plan any losses to the plan" Section 409 also authorizes "such other equitable or remedial relief as the court may deem appropriate"

224. With respect to calculation of the losses to a plan, breaches of fiduciary duty result in a presumption that, but for the breaches of fiduciary duty, the Participants and beneficiaries in the Plan would not have made or maintained their investments in the challenged investment and, where alternative investments were available, that the investments made or maintained in the challenged investment would have instead been made in the most profitable alternative investment available. In this way, the remedy restores the values of the Plan's assets to what they would have been if the Plan had been, properly administered.

225. Plaintiffs and the Class are therefore entitled to relief from Defendants in the form of: (a) a monetary payment to the Plan to make good to the Plan the losses to the Plan resulting from the breaches of fiduciary duties alleged above in an amount to be proven at trial based on

the principles described above, as provided by ERISA § 409(a), 29 U.S.C. § 1109(a); (b) injunctive and other appropriate equitable relief to remedy the breaches alleged above, as provided by ERISA §§ 409(a) and 502(a)(2-3), 29 U.S.C. §§ 1109(a) and 1132(a)(2-3); (c) reasonable attorney fees and expenses, as provided by ERISA § 502(g), 29 U.S.C. § 1132(g), the common fund doctrine, and other applicable law; (d) taxable costs; (e) interest on these amounts, as provided by law; and (f) such other legal or equitable relief as may be just and proper.

226. Under ERISA, each defendant is jointly and severally liable for the losses suffered by the Plan in this case.

DEFENDANTS SUFFERED FROM CONFLICTS OF INTEREST

227. As ERISA fiduciaries, Defendants were required to manage the Plan's investments, including the investment in Idearc Stock, solely in the interest of the Participants and beneficiaries, and for the exclusive purpose of providing benefits to Participants and their beneficiaries. This duty of loyalty requires fiduciaries to avoid conflicts of interest and to resolve them promptly when they occur.

228. Conflicts of interest arise when a company that invests plan assets in company stock founders. As the situation deteriorates, plan fiduciaries are torn between their duties as officers and directors for the company on the one hand, and to the plan and plan participants on the other. As courts have made clear, “[w]hen a fiduciary has dual loyalties, the prudent person standard requires that he make a careful and impartial investigation of all investment decisions.” *Martin v. Feilen*, 965 F.2d 660, 670 (8th Cir.1992) (citation omitted). Fiduciaries must avoid “placing themselves in a position where their acts as officers or directors of the corporation will prevent their functioning with the complete loyalty to participants demanded of them as trustees of a pension plan.” *Donovan v. Bierwirth*, 680 F.2d 263, 271 (2d Cir. 1982).

229. Defendants' personal wealth was also directly tied to the Company's financial performance. A large portion of Defendants' compensation packages were dependent upon the Company posting favorable financial results. Pursuant to Idearc's March 14, 2008 Proxy Statement, the Company's "Compensation Philosophy and Objectives" stated as follows:

In making decisions with respect to compensation for executive officers, the [human resources] committee [of the board] is guided by a pay-for-performance philosophy. The committee believes a *significant portion of each executive's total compensation opportunity should be tied to and vary with achievement of the company's financial, operational and strategic goals*. In designing the compensation program for executive officers, the committee seeks to achieve the following key objectives:

- Attract and Retain Talented Executives. The compensation program should provide each executive officer with a total compensation opportunity that is market competitive. This objective is intended to ensure that the company is not at a competitive disadvantage in attracting and retaining executives while maintaining an appropriate cost structure for the company.
- Motivate Executives. The compensation program should encourage the executive officers to achieve the company's goals.
- Alignment with Stockholders. The compensation program should align executives' interests with those of our stockholders, promoting actions that will have a long-term positive impact on total stockholder return.
- Compensation Should Be Transparent. The elements of the compensation program should be easily understood by both our executives and our stockholders.

(Emphasis added). These objectives remained consistent with the objectives outlined in Idearc's 2007 Proxy Statement.

230. In its March 14, 2008 Proxy Statement, the Company also disclosed 2007 compensation information for certain defendants. As to base salary: Defendant Harless earned \$650,000 (a 35% increase from 2006); Defendant Jones earned \$197,000 (a 4% increase from 2006); and Defendant Coticchio earned \$425,000 (a 38% increase from 2006).

231. The "Short-Term Incentive Compensation" guidelines were also set forth in the

Company's March 14, 2008 Proxy Statement:

In the first quarter of 2007, the committee recommended to the board for approval and the board approved target awards under the short term incentive plan for each executive officer. The target awards were set at a percentage of base salary. Later in the first quarter of 2007, the committee approved the remaining terms of the awards.

- ***Operating Income Before Interest, Taxes, Depreciation and Amortization (OIBITDA).*** The committee selected this metric because it *provides a measure of the company's performance and ability to service debt, pay dividends and reinvest in growth initiatives.* The committee also believed OIBITDA to be a strong indicator of the *company's cash flow.* The committee believed this metric to be important given the company's level of indebtedness following the spin-off. OIBITDA is a non-GAAP measure. The committee calculated OIBITDA by adding GAAP depreciation and amortization to GAAP operating income.

* * *

- **Print Published Revenue.** The committee selected this metric because it is useful for *evaluating the company's performance in its print business,* which is the company's largest and most profitable business. Print published revenue represents the total revenue value of directories published that will be amortized over the life of the directories, which is typically 12 months.
- **Internet Revenue.** The committee selected this metric because it is useful for *evaluating the company's performance in its Internet business, which the committee considers a growth engine for the company and important to the long-term success of the company.*

The committee set minimum, target and maximum levels of performance for each metric. The company's performance against each of these metrics was weighted to provide an overall, percentage-based measure of performance. The committee decided the performance metrics should be weighted 50% for OIBITDA and *50% for the revenue metrics to balance the company's focus on revenue growth and cash flows to service debt and other initiatives.* For the revenue metrics, the committee allocated more weight, 35%, to print published revenue, compared to 15% for Internet revenue, because of the significant portion of the company's overall revenue and profit represented by the print business.

(Emphasis added).

232. Based on certain defendants' "2007 performances," short term incentive

compensation based on these metrics was as follows: Defendant Harless – 86.1% of base salary or \$559,650; Defendant Jones – 49.7% of base salary or \$97,909; and Defendant Coticchio – 80% of base salary or \$340,000.

233. The Company's March 14, 2008 Proxy statement set forth the following information regarding "Long-Term Equity-Based Compensation":

The [human resources] committee believes generally that equity awards should provide a payout only if long-term performance goals are achieved. Consistent with this objective, the committee determined that ***the company's total stockholder return should be used as the performance metric for long-term incentive awards granted in 2007***. Total stockholder return ("TSR") is a non-GAAP measure and is based on the change in the company's closing stock price on the first and last trading days of a three-year performance period. The calculation of TSR will include the assumed reinvestment of any dividends paid during the performance period.

(Emphasis added).

234. The Company also disclosed compensation information pertaining to certain Defendants in its Fiscal Year 2008 10-KA. As to base salary, for the year 2008, Defendant Klein earned \$1,000,000; and Defendant Jones earned \$325,000 (an increase from \$240,000 in 2007). In addition to their base salaries, Defendant Klein received 50% of his salary (\$500,000); and Defendant Jones received 28.4% of his salary (\$92,300) in the form of short-term incentive awards based on the Company's 2008 performance. However, under the terms of his employment agreement, Defendant Klein was entitled to a minimum short-term incentive payout for 2008 of \$500,000, regardless of the level achievement of these performance metrics and goals.

235. Certain Defendants' compensation was directly tied to the performance of the Company and the price of Idearc's Stock. Accordingly, certain Defendants were motivated to inflate the perceived success of the Company and boost its apparent performance, because the better the Company's performance and, consequently, the higher the price of the Company's

Stock, the larger certain Defendants' salaries and incentive compensation.

236. Some Defendants may have had no choice in tying their compensation to Idearc Stock (because compensation decisions were out of their hands), but Defendants did have the choice of whether to keep the Plan Participants' and beneficiaries' retirement savings invested in Idearc Stock or whether to properly inform Participants of material negative information concerning the above-outlined Company problems.

237. Finally, any signal to the market that the Company was not a sound, long term investment, such as the Plan's divestiture of Idearc Stock, would have called into question Defendants' job performance as corporate officers. Rather than have anyone question their soundness as leaders of Idearc, Defendants chose to remain silent and let the Plan continue to hold and acquire Idearc Stock.

238. These conflicts of interest put Defendants in the position of having to choose between their own interests as directors, executives, and stockholders, and the interests of the Plan's Participants and beneficiaries, in whose interests Defendants were obligated to loyally serve with an "eye single."

239. Defendants did nothing to protect the Plan and the Plan's Participants from the inevitable losses the Plan would suffer.

240. While the above Defendants protected themselves, they stood idly by as the Plan lost millions of dollars because of its investment in Idearc Stock.

CAUSES OF ACTION

FIRST CLAIM: INVESTMENT IN IDEARC STOCK (AGAINST ALL DEFENDANTS)

241. Plaintiffs reallege and incorporate herein by reference the allegations set forth above.

242. Pursuant to ERISA § 409(a), 29 U.S.C. § 110(a), any fiduciary who breaches any of the responsibilities, obligations or duties imposed by ERISA § 404 shall be personally liable to make good to a plan any losses to that plan resulting from each breach and shall be subject to such other equitable and remedial relief as the court may deem appropriate.

243. Pursuant to ERISA § 404, Defendants had a duty to discharge their duties with respect to the Plan solely in the interests of the Participants and for the exclusive purpose of providing benefits to the Participants. Defendants' selection, monitoring, and continuation of the investment alternatives under the Plan were subject to the above-described fiduciary duties. By continuing to offer Idearc Stock as an investment under the Plan, in light of Idearc's true adverse financial and operating condition, Defendants breached each of these fiduciary duties.

244. As a consequence of Defendants' breaches, the Plan suffered losses.

245. Defendants are individually liable to make good to the Plan any losses to the Plan resulting from each breach.

246. Pursuant to ERISA § 502(a)(3), 11 U.S.C. § 1132(a)(3), the Court should also award appropriate equitable relief, including in the form of restitution.

**SECOND CLAIM: INACCURATE DISCLOSURES AND NONDISCLOSURE OF
MATERIAL INFORMATION PERTAINING TO A PLAN BENEFIT
(AGAINST ALL DEFENDANTS)**

247. Plaintiffs reallege and incorporate herein by reference the allegations set forth above.

248. Pursuant to ERISA § 409(a), 29 U.S.C. § 110(a), any fiduciary who breaches any of the responsibilities, obligations or duties imposed by ERISA § 404 shall be personally liable to make good to a plan any losses to that plan resulting from each breach and shall be subject to such other equitable and remedial relief as the court may deem appropriate.

249. Pursuant to ERISA § 404, Defendants had a duty to discharge their duties with respect to the Plan solely in the interests of the Participants and for the exclusive purpose of providing benefits to the Participants.

250. Defendants breached these fiduciaries in that they made materially inaccurate representations and omitted to disclose material information bearing on a Plan benefit, to wit, the Company Stock Fund, as alleged above.

251. The Plan Participants relied upon, and are presumed to have relied upon, Defendants' materially inaccurate representations and omitted to disclose material information bearing on a Plan benefit, to wit, the Company Stock Fund, to their detriment.

252. As a consequence of Defendants' materially inaccurate representations and failure to disclose material information, the Plan suffered losses.

253. Defendants are individually liable to make good to the Plan any losses to the Plan resulting from each breach.

254. Pursuant to ERISA § 502(a)(3), 11 U.S.C. § 1132(a)(3), the Court should also award appropriate equitable relief, including in the form of restitution.

**THIRD CLAIM: DIVIDED LOYALTY
(AGAINST ALL DEFENDANTS)**

255. Plaintiffs reallege and incorporate herein by reference the allegations set forth above.

256. Pursuant to ERISA § 409(a), 29 U.S.C. § 110(a), any fiduciary who breaches any of the responsibilities, obligations or duties imposed by ERISA § 404 shall be personally liable to make good to a plan any losses to that plan resulting from each breach and shall be subject to such other equitable and remedial relief as the court may deem appropriate.

257. Pursuant to ERISA § 404, Defendants had a duty to discharge their duties with respect to the Plan solely in the interests of the Participants and for the exclusive purpose of providing benefits to the Participants.

258. Defendants breached their fiduciary obligations when they acted in their own interests rather than solely in the interests of the Participants and Beneficiaries.

259. As a consequence of these breaches, the Plan suffered losses.

260. Defendants are individually liable to make good to the Plan any losses to the Plan resulting from each breach.

261. Pursuant to ERISA § 502(a)(3), 11 U.S.C. § 1132(a)(3), the Court should also award appropriate equitable relief, including in the form of restitution.

**FOURTH CLAIM: MISMANAGEMENT OF PLAN ASSETS
(AGAINST ALL DEFENDANTS)**

262. Plaintiffs reallege and incorporate herein by reference the allegations set forth above.

263. Pursuant to ERISA § 409(a), 29 U.S.C. § 110(a), any fiduciary who breaches any of the responsibilities, obligations or duties imposed by ERISA § 404 shall be personally liable to make good to a plan any losses to that plan resulting from each breach and shall be subject to such other equitable and remedial relief as the court may deem appropriate.

264. Pursuant to ERISA § 404(a)(1), 29 U.S.C. § 1104(a)(1), Defendants were required to discharge their duties with respect to the Plan solely in the interests of the Participants with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and of like aims, and to divest investments in the Plan so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

265. Defendants breached these duties in that the Plan invested in Idearc Stock when the price of Idearc Stock was artificially inflated and when Idearc Stock was not a prudent retirement investment, thereby failing to divest assets so as to minimize the risk of large losses.

266. As a consequence of these breaches, the Plan suffered losses.

267. Defendants are individually liable to make good to the Plan any losses to the Plan resulting from each breach.

268. Pursuant to ERISA § 502(a)(3), 11 U.S.C. § 1132(a)(3), the Court should also award appropriate equitable relief, including in the form of restitution.

FIFTH CLAIM: BREACH OF THE DUTY TO PROPERLY APPOINT, MONITOR AND INFORM THE BENEFITS COMMITTEE AND MEMBERS OF THE BENEFITS COMMITTEE (AGAINST THE MONITORING DEFENDANTS ONLY)

269. Plaintiffs reallege and incorporate herein by reference the allegations set forth above.

270. Director Defendants and HR Committee Defendants (collectively, the “Monitoring Defendants”) had the duty and responsibility to properly appoint, monitor and inform the members of the Benefits Committee and/or other persons who exercised day-to-day responsibility for the management and administration of the Plan and its assets.

271. The Monitoring Defendants failed to properly appoint, monitor and inform such persons in that the Monitoring Defendants failed to adequately inform such persons about the true financial and operating condition of the Company or, alternatively, the Monitoring Defendants did adequately inform such persons of the true financial and operating condition of the Company (including the financial and operating problems being experienced by Idearc during the Class Period identified herein) but, nonetheless, continued to allow such persons to offer Idearc Stock as an investment option under the Plan even though the market price of Idearc

Stock was artificially inflated and Idearc Stock was not a prudent investment for Participants' retirement accounts under the Plan.

272. As a consequence of these breaches, the Plan suffered losses.

273. The Monitoring Defendants are individually liable to make good to the Plan any losses to the Plan resulting from each breach.

274. Pursuant to ERISA § 502(a)(3), 11 U.S.C. § 1132(a)(3), the Court should also award appropriate equitable relief, including in the form of restitution.

**SIXTH CLAIM: BREACHES OF CO-FIDUCIARY DUTIES IN
VIOLATION OF ERISA § 405 (BY ALL DEFENDANTS)**

275. Plaintiffs reallege and incorporate herein by reference the allegations set forth above.

276. This Count alleges co-fiduciary liability against all Defendants.

277. As alleged above, during the Class Period, Defendants were named fiduciaries pursuant to ERISA § 402(a)(1), 29 U.S.C. § 1102(a)(1), *de facto* fiduciaries within the meaning of ERISA § 3(21)(A), 29 U.S.C. § 1002(21)(A), or both. Thus, they were bound by the duties of loyalty, exclusive purpose, and prudence.

278. As alleged above, ERISA § 405(a), 29 U.S.C. § 1105, imposes liability on a fiduciary, in addition to any liability which he may have under any other provision, for a breach of fiduciary responsibility of another fiduciary with respect to the same plan if knows of a breach and fails to remedy it, knowingly participates in a breach, or enables a breach. Defendants breached all three provisions.

279. ***Knowledge of a Breach and Failure to Remedy.*** ERISA § 405(a)(3), 29 U.S.C. § 1105, imposes co-fiduciary liability on a fiduciary for a breach by another fiduciary if he has knowledge of a breach by such other fiduciary, unless he makes reasonable efforts under the

circumstances to remedy the breach. Each Defendant knew of the breaches by the other fiduciaries and made no effort to remedy those breaches.

280. Idearc, through its officers and employees, was unable to meet its business goals, engaged in highly risky and inappropriate business practices, withheld material information from the market, and profited from such practices.

281. Because Defendants knew of the Company's failures and inappropriate business practices, they also knew that Defendants were breaching their duties by continuing to maintain Plan investments in Company Stock. Yet they failed to undertake any effort to remedy these breaches. Instead, they compounded them by downplaying the significance of Idearc's failed and inappropriate business practices and by obfuscating the risk that these practices posed to the Company, and, thus, to the Plan.

282. ***Knowing Participation in a Breach.*** ERISA § 405(a)(1), 29 U.S.C. § 1105(1), imposes liability on a fiduciary for a breach of fiduciary responsibility of another fiduciary with respect to the same plan if he participates knowingly in, or knowingly undertakes to conceal, an act or omission of such other fiduciary knowing such act or omission is a breach. Idearc knowingly participated in the fiduciary breaches of Defendants who failed to prudently and loyally manage the Plan in that it benefited from the sale or contribution of its stock at prices that were disproportionate to the risks for the Plan Participants.

283. ***Enabling a Breach.*** ERISA § 405(a)(2), 29 U.S.C. § 1105(2), imposes liability on a fiduciary if, by failing to comply with ERISA § 404(a)(1), 29 U.S.C. § 1104(a)(1), in the administration of his specific responsibilities which give rise to his status as a fiduciary, he has enabled another fiduciary to commit a breach.

284. The Monitoring Defendants' failure to monitor the Benefits Committee

Defendants which enabled these committees to breach their fiduciary duties.

285. As a direct and proximate result of the breaches of fiduciary duties alleged herein, the Plan, and indirectly Plaintiffs and the Plan's other Participants and beneficiaries, lost millions of dollars of retirement savings.

286. Pursuant to ERISA §§ 409 and 502(a)(2), 29 U.S.C. §§ 1109(a) and 1132(a)(2), all Defendants are liable to restore the losses to the Plan caused by their breaches of fiduciary duties alleged in this Court and to provide other equitable relief as appropriate.

**SEVENTH CLAIM: FAILURE TO AVOID CONFLICTS OF INTEREST
(BREACHES OF FIDUCIARY DUTIES IN VIOLATION OF ERISA
§§ 404 AND 405 (BY ALL DEFENDANTS))**

287. Plaintiffs reallege and incorporate herein by reference the allegations set forth above.

288. At all relevant times, as alleged above, Defendants were fiduciaries within the meaning of ERISA § 3(21)(A), 29 U.S.C. § 1002(21)(A). Consequently, they were bound by the duties of loyalty, exclusive purpose and prudence.

289. ERISA § 404(a)(1)(A), 29 U.S.C. § 1104(a)(1)(A), imposes on a plan fiduciary a duty of loyalty – that is, a duty to discharge his duties with respect to a plan solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to participants and beneficiaries.

290. Defendants breached their duty to avoid conflicts of interest and to promptly resolve them by, *inter alia*: failing to timely engage independent fiduciaries who could make independent judgments concerning the Plan's investments in the Company's own securities and by otherwise placing their own and/or the Company's interests above the interests of the Participants with respect to the Plan's investment in Idearc Stock.

291. As a consequence of Defendants' breaches of fiduciary duty, the Plan suffered at least millions of dollars in losses. If Defendants had discharged their fiduciary duties to prudently manage and invest the Plan's assets, the losses suffered by the Plan would have been minimized or avoided altogether.

292. As a direct and proximate result of the breaches of fiduciary duties alleged herein, the Plan suffered losses, and indirectly the Plan's Participants, lost a significant portion of their retirement investments.

293. Pursuant to ERISA §§ 409, 502(a)(2), 29 U.S.C. §§ 1109(a), 1132(a)(2), Defendants are liable to restore the losses to the Plan caused by their breaches of fiduciary duties alleged in this Count and to provide other equitable relief as appropriate.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs pray for:

A Declaration that Defendants, and each of them, have breached their ERISA fiduciary duties to the Participants;

B. Declaration that Defendants, and each of them, are not entitled to the protection of ERISA § 404(c)(1)(B), 29 U.S.C. § 1104(c)(1)(B);

C. An Order compelling Defendants to make good to the Plan all losses to the Plan resulting from Defendants' breaches of their fiduciary duties, including losses to the Plan resulting from imprudent investment of the Plan's assets, and to restore to the Plan all profits Defendants made through use of the Plan's assets, and to restore to the Plan all profits which the Participants would have made if Defendants had fulfilled their fiduciary obligations;

D. Imposition of a Constructive Trust on any amounts by which any Defendants was unjustly enriched at the expense of the Plan as the result of breaches of fiduciary duty;

E. Actual damages in the amount of any losses the Plan suffered, to be allocated among the Participants' individual accounts in proportion to the accounts' losses

G. Attorneys' fees pursuant to 29 U.S.C. § 1132(g) and/or the common fund doctrine; and

H. An Order for equitable restitution and other appropriate equitable and injunctive relief against Defendants.

JURY DEMAND

Plaintiffs demand trial by jury.

Dated: March 30, 2011

Respectfully submitted,

By: *s/Roger F. Claxton*

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CERTIFICATE OF SERVICE

I hereby certify that on this 30th day of March, 2011, I electronically filed the foregoing document with the clerk of court for the U.S. District Court, Northern District of Texas, using the electronic case filing system of the court. The electronic case filing system sent a "Notice of Electronic Filing" to the following attorneys of record who have consented in writing to accept this notice as service of this document by electronic means:

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I further certify that a true and correct copy of the foregoing document was sent by first class mail to counsel listed below that have not consented in writing to accept this notice by electronic means:

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s/Roger F. Claxton
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