

UNITED STATES DISTRICT COURT
 NORTHERN DISTRICT OF TEXAS
 DALLAS DIVISION

U.S. BANK NATIONAL	§	
ASSOCIATION, Litigation Trustee of the	§	
Idearc Inc. <i>et al.</i> Litigation Trust,	§	
	§	
Plaintiff,	§	
	§	
v.	§	CIVIL ACTION NO.
	§	3:10-CV-1842-G
	§	
VERIZON COMMUNICATIONS INC.,	§	(JURY DEMANDED)
VERIZON FINANCIAL SERVICES, LLC,	§	
GTE CORPORATION and	§	
JOHN W. DIERCKSEN	§	
	§	
Defendants.	§	

PLAINTIFF’S AMENDED COMPLAINT AND JURY DEMAND (EXPURGATED)

U.S. Bank National Association, Litigation Trustee (the “Trustee”) of the Idearc Inc. et al Litigation Trust (the “Trust” or “Plaintiff”) hereby files this Amended Complaint and Jury Demand against Verizon Communications Inc. (“Verizon”), Verizon Financial Services, LLC (“VFS”), GTE Corporation (“GTE”) and John W. Diercksen (“Diercksen”). This Amended Complaint is filed and served before all Defendants have served their initial responsive pleading.

I.

NATURE OF THE ACTION

1. Verizon is one of the largest telecommunications, broadband and television programming providers in the United States. Sometime prior to November of 2006, Verizon devised a scheme under which it would obtain approximately \$9.5 billion – not in the marketplace, but through the use of lawyers and Wall Street investment bankers. At that time, a declining part of Verizon’s business was its yellow pages telephone directory business. Verizon

had generated substantial revenues from its print directory business in the past, but by 2006 that business segment's revenues had been steadily declining each year for several years (for example, revenue dropped by \$169 million between 2005 and 2006 alone). This was due, among other reasons, to the public's declining use of paper telephone directories and increased use of alternative information sources, such as the internet. Although Verizon had started its own on-line directory website, the revenue generated by that portion of Verizon's business was extremely small compared to the revenue generated by Verizon's print directory business and its profit margins were much smaller. In 2006, the revenue from the internet business was only approximately \$230 million compared to approximately \$2.978 billion for the print directory business. Moreover, Verizon faced stiff competition in the internet directory business from numerous other companies – companies which were spending huge sums of money to obtain competitive advantage of the internet revolution. At that time, the historical print directory business was in decline and the viability of internet directory services was yet to be determined. Successful conversion from print to internet was far from assured. In fact, by June of 2005 Verizon recognized that it was unlikely that its directory business would be able to effectively come up with a strategy to compete with the electronic media competitors. This made it very doubtful that Verizon would be able to offset the continuing decline in its print directory revenues with increases in revenues from internet based business. Faced with this unfavorable business situation, Verizon embarked on a plan to turn lemons into lemonade.

2. Verizon determined that it could obtain approximately \$9.5 billion by undertaking a complicated “spin-off” transaction through which Verizon's print and on-line directory businesses would become a stand-alone company, Idearc, Inc. (“Idearc”). Verizon would reap this windfall to the injury of Idearc and Idearc's creditors by stripping Idearc of cash and

burdening Idearc with massive debt. On or about November 17, 2006, Verizon spun-off Idearc as a stand-alone company (the “Spin-off”). In the process, Verizon caused Idearc to (a) transfer almost \$2.5 billion in cash to Verizon’s wholly owned subsidiary, VFS, and (b) incur approximately \$9 billion of debt, the proceeds of which were either given to Verizon to retain or used to pay off Verizon’s outstanding debt. Immediately after the Spin-off, Idearc’s balance sheet reflected that its debts exceeded its assets by approximately \$9 billion. Not surprisingly, after limping along for a period of time, Idearc went bankrupt.

3. To be able to complete the Spin-off, Verizon first needed Idearc’s board of directors to approve the transaction. This is where Diercksen played a key role. In November 2006, Diercksen was Verizon’s Executive Vice President for Strategic Planning. Diercksen participated in devising and implementing the Spin-off plan. Rather than allow an Idearc board of directors made up of individuals who were not under Verizon’s control to consider whether the Spin-off was in Idearc’s best interests, Verizon made its Vice President, Diercksen, the sole member of Idearc’s board. Diercksen then acted as Idearc’s sole board member to approve the Spin-off in violation of his fiduciary duties as a board member. He also violated his duties as a board member by authorizing Idearc to pay dividends to Verizon through the Spin-off. In furtherance of Verizon’s scheme, immediately after approving the Spin-off as the sole director of Idearc, Diercksen “changed hats” and signed on behalf of Verizon all of the key contracts Verizon entered into with Idearc to implement the Spin-off. Diercksen’s clear conflict of interest, standing on both sides of the transaction, prevented him from undertaking an independent and fair analysis of the transaction on behalf of Idearc.

4. Through proceedings in federal court in the Northern District of Texas, Idearc was reorganized under Chapter 11 of the United States Bankruptcy Code. Pursuant to Idearc’s

plan of reorganization in the bankruptcy, the Plaintiff Trust was created and assigned certain causes of action, including Idearc's claims against Verizon and former officers and directors of Verizon and Idearc. The beneficiaries of the Trust are creditors of Idearc and its subsidiaries with claims of approximately \$6 billion.

5. Verizon effectively removed approximately \$9.5 billion from Idearc without providing Idearc with reasonably equivalent value in exchange. Verizon cast Idearc adrift, burdened with an anchor of debt around its neck, insolvent and without adequate resources to survive.

6. Because Verizon received a fraudulent transfer through the actions described above, either (a) the transfers and obligations incurred by Idearc in connection with the Spin-off should be avoided and Verizon should be required to return to the Trust the consideration Verizon received in connection with the Spin-off or (b) the Trust should be awarded a monetary judgment against Verizon in the amount of the difference between the consideration that Verizon received in connection with the Spin-off and the value of the assets received by Idearc. Likewise, Verizon and Diercksen are jointly and severally liable to the Trust as a result of Diercksen's breaches of duty in his role as a member of Idearc's board of directors.

II.

JURISDICTION AND VENUE

7. This Court has subject matter jurisdiction under 28 U.S.C. § 1334 because, among other things, some of the causes of action arise under the United States Bankruptcy Code. The Court also possesses jurisdiction over this cause because, as shown below in paragraphs 9 – 13 there is complete diversity of citizenship between the parties. The amount in controversy exceeds \$75,000, excluding interest and costs.

8. Venue is proper under 28 U.S.C. § 1409 and also because a substantial part of the events or omissions giving rise to the Trust's claims occurred in the Northern District of Texas. 28 USC § 1391(a)(2) & (b)(2).

III.

THE PARTIES

9. U.S. Bank National Association is a national banking association. Its principal place of business is located at 800 Nicollet Mall, Minneapolis, Minnesota 55402. It is the Trustee of the Trust. Therefore, the Trust is a citizen of Minnesota.

10. Verizon is a corporation organized under the laws of Delaware with its principal place of business at 140 West St., New York, New York 10007. Therefore, Verizon is a citizen of Delaware and New York. Defendant Verizon has appeared in this lawsuit.

11. VFS is a limited liability company organized under the laws of Delaware with its principal place of business in Delaware. VFS' sole member is Verizon. Therefore, VFS is a citizen of Delaware and New York. Defendant VFS has appeared in this lawsuit.

12. GTE is a corporation organized under the laws of New York with its principal place of business at 140 West St., New York, New York 10007. Therefore, GTE is a citizen of New York. Defendant GTE has appeared in this lawsuit.

13. John W. Diercksen ("Diercksen") is a citizen of Connecticut and resides at 47 Puritan Road, Trumbull, Connecticut 06611-4972. Defendant Diercksen has appeared in this lawsuit.

IV.

FURTHER FACTUAL BACKGROUND

A. The “Spin-Off.”

14. Prior to November 2006, Verizon concluded that it should divest itself of certain of its business activities, including its directory business. Verizon wisely concluded that the business of print directories was in decline since people, particularly younger people, increasingly utilize electronic means to identify providers of goods and services. Verizon determined to rid itself of its directory business at a time when the overheated capital markets were wildly financing all sorts of improvident ventures.

15. Verizon’s directory business was not the only operation that Verizon jettisoned during that period of market exuberance. Verizon sold its Hawaiian operations, Hawaiian Telecom. Verizon also sold its Northern New England operations to Fairpoint Communications, Inc. By December of 2008, both Hawaiian Telecom and Fairpoint were in bankruptcy.

16. Verizon attempted to sell its yellow pages directory business in 2005, but was unable to consummate a sale. Verizon then moved to plan “B” – spin-off Idearc, burden it with the maximum amount of debt possible, then strip Idearc of cash, including proceeds of the loans Verizon caused Idearc to undertake.

17. To take advantage of the distorted capital markets, Verizon caused Idearc to borrow billions of dollars from JP Morgan Chase Bank, N.A. (“Chase”) and other lenders, (including Verizon). The credit agreement for the Chase loan (the “Credit Agreement”) by itself burdened Idearc with over six and a half billion dollars of debt.

18. On November 17, 2006, in exchange for the contribution from Verizon to Idearc of its failing print and on-line directory publishing business, Verizon caused Idearc to (i) assume

contractual obligations; (ii) issue to Verizon 145,851,861 shares of Idearc's common stock, (iii) issue to Verizon two unsecured notes in equal amounts aggregating \$2.850 billion in debt (the "Unsecured Notes"), (iv) become indebted to Verizon in the amount of \$4.3 billion pursuant to a Credit Agreement dated November 17, 2006 (the "Verizon Tranche B") that Verizon had caused Idearc to execute, and (v) transfer to Verizon \$2,441,532,374.71 in cash (the "Cash") from loans Verizon caused Idearc to undertake (collectively, (i) - (v) are the "Fraudulent Consideration"). Also, on November 17, 2006, Verizon spun-off its shares in Idearc to Verizon's shareholders. Following the Spin-off, Verizon exchanged with its debt holders the Unsecured Notes it was issued and the \$4.3 billion Verizon Tranche B for outstanding Verizon debt, thereby reducing Verizon's outstanding indebtedness by approximately \$7.1 billion (the "Verizon Exchange").

19. The transfers that occurred on November 17, 2006, referenced in the prior paragraph are more particularly identified as follows:

Item Transferred	Transferor	Initial Transferee	Further Information
\$2,441,532,374.71	Idearc	VFS	wire transfer made for credit to Verizon
\$4,300,000,000 indebtedness	Idearc	Verizon	pursuant to the Credit Agreement
\$1,425,000,000 promissory note	Idearc	Verizon	
\$1,425,000,000 promissory note	Idearc	Verizon	
145,851,861 Idearc shares (4.1 Billion)	Idearc	Verizon	
Contractual liabilities	Verizon	Idearc	The "Spin Off Agreements"

20. Because the Spin-off was structured by Verizon to be a tax free reorganization, Verizon contributed to Idearc all of Verizon's interests in Idearc Information Services, LLC ("IIS") and other assets that were associated with the directories business of Verizon, which, on information and belief, consisted primarily of licenses to use business software. Verizon also entered into a series of agreements with Idearc, or its subsidiaries, including, but not limited to, a publishing agreement, a non competition agreement, a branding agreement, a billing and collection agreement, a listing license agreement, an intellectual property agreement, a tax sharing agreement, an employee matters agreement and a transition services agreement (the "Spin-off Agreements").

B. The Spin-Off Saddles Idearc with \$9 Billion in Debt and Other Contractual Obligations.

21. The Spin-off was designed and directed by Verizon and implemented through Diercksen, Verizon's Executive Vice President for Strategic Planning, with the assistance of other Verizon officers and directors. Rather than remain on a sinking ship, Diercksen resigned his position as a director of Idearc the day before the Spin-off and remained at Verizon to enjoy the benefits Verizon received in the Spin-off.

22. As a result of the Spin-off, Verizon received from Idearc cash, notes and stock, which the market erroneously valued at more than \$14 billion for Verizon's dying directory publishing business that was worth far less. The books and records of Idearc, prepared in accordance with Generally Accepted Accounting Principles, reflected that after the Spin-off Idearc was insolvent by approximately \$9 billion with total obligations in excess of \$10 billion. As of December 31, 2006, Idearc's post Spin-off balance sheet showed the following (in billions):

Assets: \$1,318,000,000

Liabilities: \$10,164,000,000

Shareholders Equity: negative \$8,846,000,000

23. The consummation of the Spin-off rendered Idearc insolvent and left it with unreasonably small assets to support its ongoing business. As such, the net effect of the Spin-off was to burden Idearc with \$9 billion of new debt without Idearc receiving a reasonably equivalent value of assets in return. The value of the assets Verizon transferred to Idearc, was worth billions less than the Fraudulent Consideration conveyed to Verizon. The Spin-off left Idearc cash deficient, in a dying industry, and heavily burdened with debt.

24. The Unsecured Notes and the Verizon Tranche B required Idearc to make substantial interest payments (the "Interest Payments"). The Verizon Exchange represented the present value of the future payments scheduled to be made by Idearc pursuant to the Unsecured Notes and the Verizon Tranche B, including the Interest Payments. The Verizon Exchange benefitted Verizon by relieving Verizon of \$7.1 billion of its debt. Between November 17, 2006 and December 31, 2008 Idearc made Interest Payments of approximately \$1.2 billion to the holders of the Verizon Tranche B and the holders of the Unsecured Notes. Consequently, Verizon benefitted from the payment of the Interest Payments since it received the present value of the scheduled Interest Payments in the Verizon Exchange.

C. Burdened by the Spin-Off Debt, Idearc files for Chapter 11 Bankruptcy Protection.

25. As could be anticipated, with a declining business and burdened by massive debt from the Spin-off, Idearc, and substantially all of its subsidiaries, filed petitions for relief under Chapter 11 of the United States Bankruptcy Code on March 31, 2009, a mere 28 months after the Spin-off.

26. On May 7, 2009, Idearc's attorney described to the bankruptcy court the debt load and initial capital structure that Verizon forced upon Idearc as:

It's simply the company, when this spin occurred two and a half years ago it was saddled with too much debt. And that became a problem that the company recognized proactively and very aggressively and moved to remedy in the context of filing this Chapter 11 case.

27. In stark contrast, Verizon received approximately \$9.5 billion in cash and notes from Idearc through the Spin-off. Verizon's SEC filings reflected a benefit to Verizon of approximately \$9 billion:

On November 17, 2006 we completed the spin-off of Idearc to shareowners of Verizon. Verizon distributed a dividend of one share of Idearc common stock for every 20 shares of Verizon common stock. Cash was paid for fractional shares. The distribution of Idearc common stock is considered a tax free transaction for us and for our shareowners, except for the cash payments for fractional shares which are generally taxable. Idearc now owns what was the Verizon domestic print and Internet yellow pages directories publishing operations, which had been the principal component of our Information Services segment. This transaction resulted in an increase of nearly \$9 billion in shareowners' equity, as well as a reduction of total debt by more than \$7 billion and we received approximately \$2 billion in cash.

(emphasis added)

28. Idearc subsequently filed its *First Amended Plan of Reorganization of Idearc Inc., et al., Debtors* (the "Plan"). After hearings to consider confirmation of the Plan, the Plan was confirmed on December 22, 2009. The Plan relieved Idearc of approximately \$6 billion of debt and valued the reorganized Idearc at approximately \$4 billion.

29. To facilitate the implementation of the Plan, the Trust was created. Pursuant to the Plan, the Trust received the Litigation Trust Rights (as defined in the Plan, the "Litigation Trust Rights"), including the causes of action against Verizon, VFS, GTE and Diercksen set forth in this Complaint.

30. Pursuant to the Plan, and section 1123(b)(3)(B) of the Bankruptcy Code, the Trustee is “designated as the Debtors’ and the Estates’ representative and the successor in interest to the Debtors and the Estates for all purposes with respect to all Litigation Trust Rights, including, without limitation, the commencement, prosecution, settlement and collection thereof.”

31. As such, Plaintiff files this suit to prosecute Litigation Trust Rights granted to the Trust pursuant to the confirmed Plan.

V.

CAUSES OF ACTION

Count 1: Fraudulent Transfer Against Verizon and VFS (TEX. BUS. & COM. CODE ANN. §§ 24.005 and 24.008 (Vernon 2008) and 11 U.S.C. §§ 544(b) and 550)

32. Plaintiff incorporates the foregoing allegations by reference for all purposes.

33. The transfer of the Fraudulent Consideration to Verizon and VFS was made with actual intent to hinder, delay, or defraud creditors of Idearc.

34. Idearc did not receive reasonably equivalent value in exchange for the Fraudulent Consideration given to Verizon and VFS in connection with the Spin-off. The directory business assets received by Idearc in connection with the Spin-off were worth much less than the Fraudulent Consideration transferred by Idearc.

35. At the time of the Spin-off, Idearc (a) was engaged, or was about to engage, in a business or a transaction for which the remaining assets of Idearc were unreasonably small in relation to the business or transaction and/or (b) intended to incur, or believed, or reasonably should have believed, that Idearc would incur debts beyond Idearc’s ability to pay as they became due.

36. Verizon and VFS chose to take advantage of a distorted capital market to shift the risk of billions of dollars of debt obligations from itself to Idearc and Idearc's creditors. Verizon and VFS set adrift a failing business, burdened by massive debt without resources to repay the debt when it became due. This doomed structure was designed and implemented by Verizon and VFS for their own benefit through Diercksen, simultaneously an officer of Verizon and the sole director of Idearc. Verizon and VFS knew that the Spin-off would hinder, delay and defraud creditors of Idearc but proceeded to consummate the transactions.

37. At all times relevant to the Spin-off, there were actual creditors of Idearc holding unsecured claims allowable within the meaning of 11 U.S.C. §§ 502 and 544(b), including, but not limited to, trade creditors, Chase and the lenders pursuant to the Credit Agreement.

38. Pursuant to TEX. BUS. & COM. CODE ANN. §§ 24.005 and 24.008 (Vernon 2008) and 11 U.S.C. §§ 544(b) and 550, either (a) the transfers and obligations incurred by Idearc in connection with the Spin-off should be avoided, and Verizon and VFS should be required to return to the Trust the Fraudulent Consideration Verizon and VFS received in connection with the Spin-off or (b) the Trust should be awarded a monetary judgment against Verizon and VFS in the amount of the difference between the consideration that Verizon and VFS received in connection with the Spin-off and the value of the assets received by Idearc. The Trust also requests all further relief the Court determines the circumstances may require.

Count 2: Fraudulent Transfer Against Verizon and VFS (TEX. BUS. & COM. CODE ANN. §§ 24.006 and 24.008 (Vernon 2008) and 11 U.S.C. §§ 544(b) and 550)

39. Plaintiff incorporates the foregoing allegations by reference for all purposes.

40. Idearc did not receive reasonably equivalent value in exchange for the Fraudulent Consideration given to Verizon and VFS in connection with the Spin-off.

41. Idearc was insolvent at the time of the Spin-off or became insolvent as a result of the Fraudulent Consideration given to Verizon and VFS in connection with the Spin-off. The value of the assets of the doomed directory business transferred to Idearc was worth far less than the Fraudulent Consideration.

42. At all times relevant to the Spin-off, there were actual creditors of Idearc holding unsecured claims allowable within the meaning of 11 U.S.C. §§ 502 and 544(b) including, but not limited to trade creditors, Chase and the lenders pursuant to the Credit Agreement.

43. Pursuant to TEX. BUS. & COM. CODE ANN. §§ 24.006 and 24.008 (Vernon 2008) and 11 U.S.C. §§ 544(b) and 550, either (a) the transfers and obligations incurred by Idearc in connection with the Spin-off should be avoided and Verizon and VFS should be required to return to the Trust the Fraudulent Consideration Verizon and VFS received in connection with the Spin-off or (b) the Trust should be awarded a monetary judgment against Verizon and VFS in the amount of the difference between the consideration that Verizon and VFS received in connection with the Spin-off and the value of the assets received by Idearc. The Trust also requests all further relief the Court determines the circumstances may require.

Count 3: Breach of Fiduciary Duty Against Diercksen

44. Plaintiff incorporates the foregoing allegations by reference for all purposes.

45. As a director of Idearc, Diercksen owed fiduciary duties to Idearc and its creditors. Diercksen's actions set forth above, including but not limited to approving the Spin-off as the sole member of Idearc's board of directors and conceiving of and implementing the Spin-off, violated his fiduciary duties. As a result of his conflict of interest, Diercksen violated his fiduciary duties as the sole director of Idearc, approving a transaction for the benefit of Verizon to the detriment of Idearc and its creditors. Moreover, as addressed further in Count 9,

Diercksen violated his fiduciary duties to Idearc by authorizing a dividend to Idearc's shareholder in violation of Delaware law and other actions.

46. In light of the foregoing, (a) the Trust is entitled to recover from Diercksen the actual damages that it suffered as a result of Diercksen's breaches of fiduciary duty, and (b) Diercksen is required to forfeit to the Trust all benefits that he received as result of his breaches of fiduciary duty.

Count 4: Aiding and Abetting a Breach of Fiduciary Duty Against Verizon and VFS

47. Plaintiff incorporates the foregoing allegations by reference for all purposes.

48. Verizon and VFS were aware of Diercksen's fiduciary duties as a director of Idearc, but aided and abetted Diercksen's breaches of fiduciary duty throughout the process of conceiving and implementing the Spin-off. As such, Verizon, VFS and Diercksen are jointly and severally liable (a) for the actual damages that the Trust suffered as a result of Diercksen's breaches of fiduciary duty and (b) must forfeit to the Trust all benefits they received in connection with Diercksen's breaches of fiduciary duty.

Count 5: Fraudulent Transfer Against Verizon and VFS (TEX. BUS. & COM. CODE ANN. §§ 24.005, 24.006 and 24.008 (Vernon 2008) and 11 U.S.C. §§ 544(b) and 550)

49. Plaintiff incorporates the foregoing allegations by reference for all purposes.

50. On November 17, 2006, Verizon caused Idearc Media Corp. ("IMC"), one of the debtor subsidiaries of Idearc, to loan \$475,410,408 ("the IMC loan") to Idearc. In exchange for this loan IMC received a one page illiquid demand note (the "IMC Note") with a value of much less than the amount loaned.

51. The IMC Loan was combined with money borrowed and immediately transferred by Idearc to VFS. IMC had guaranteed the borrowings under the Credit Agreement.

52. The transfer of the IMC Loan was made with actual intent to hinder, delay, or defraud creditors of IMC.

53. IMC did not receive reasonably equivalent value in exchange for the IMC Loan given to Idearc in connection with the Spin-off.

54. At the time of the IMC Loan, IMC (a) was engaged, or was about to engage, in a business or a transaction for which the remaining assets of IMC were unreasonably small in relation to the business or transaction and/or (b) intended to incur, or believed, or reasonably should have believed, that IMC would incur debts beyond IMC's ability to pay as they became due.

55. IMC was insolvent at the time of the IMC Loan, or became insolvent as a result of the IMC Loan.

56. Verizon and VFS chose to strip IMC of the funds represented by the IMC Loan. Verizon and VFS set adrift a failing business, burdened by massive debt without resources to repay the debt when it became due. This doomed structure was designed and implemented by Verizon and VFS for their own benefit through Diercksen. Verizon and VFS knew that the IMC Loan would hinder, delay and defraud creditors of IMC but proceeded to consummate the transaction. Both VFS and Verizon benefitted from the IMC Loan since VFS is a subsidiary of Verizon.

57. At all times relevant to the IMC Loan, there were actual creditors of IMC holding unsecured claims allowable within the meaning of 11 U.S.C. §§ 502 and 544(b), including, but not limited to, trade creditors, Chase and the lenders pursuant to the Credit Agreement.

58. Pursuant to TEX. BUS. & COM. CODE ANN. §§ 24.005, 24.006 and 24.008 (Vernon 2008) and 11 U.S.C. §§ 544(b) and 550, either (a) the IMC Loan should be avoided and Verizon

and VFS should be required to return to the Trust the amount of the IMC Loan or (b) the Trust should be awarded a monetary judgment against Verizon and VFS in the amount of the difference between the IMC Loan and the value of the IMC Note. The Trust also requests all further relief the Court determines the circumstances may require.

Count 6: Fraudulent Transfer Against GTE and Verizon (TEX. BUS. & COM. CODE ANN. §§ 24.005, 24.006 and 24.008 (Vernon 2008) and 11 U.S.C. §§ 544(b) and 550)

59. Plaintiff incorporates the foregoing allegations by reference for all purposes.

60. On November 16, 2006, Verizon caused Idearc Information Services, LLC (“IIS”), one of the debtor subsidiaries of Idearc, to distribute to GTE all of IIS’ assets, including the outstanding stock held by IIS of Verizon International Holdings, Inc., Verizon GmbH, Verizon International Telecom Services, Inc. (“TSI”), any remaining assets or liabilities held by IIS in TSI, any cash held by IIS, any debt owed to IIS by VFS, IIS’s interest in GTE Directories (B) Sdn. Bhd and all of IIS’s liabilities, other than the outstanding common stock of IMC and License Application Corporation and any other assets related to the directory business of Verizon (the “GTE Distribution”). In exchange for the GTE Distribution, IIS received nothing.

61. IIS also guaranteed the borrowings under the Credit Agreement.

62. The transfer of the GTE Distribution was made with actual intent to hinder, delay, or defraud creditors of IIS.

63. IIS did not receive reasonably equivalent value in exchange for the GTE Distribution.

64. At the time of the GTE Distribution, IIS (a) was engaged, or was about to engage, in a business or a transaction for which the remaining assets of IIS were unreasonably small in relation to the business or transaction and/or (b) intended to incur, or believed, or reasonably should have believed, that IIS would incur debts beyond IIS’s ability to pay as they became due.

65. IIS was insolvent at the time of the GTE Distribution, or became insolvent as a result of the GTE Distribution.

66. Verizon and GTE chose to strip IIS of the assets represented by the GTE Distribution. Verizon and GTE set adrift a failing business, burdened by massive debt without resources to repay the debt when it became due. This doomed structure was designed and implemented by Verizon and GTE for their own benefit through Diercksen. Verizon and GTE knew that the GTE Distribution would hinder, delay and defraud creditors of IIS but proceeded to consummate the transaction. Both GTE and Verizon benefitted from the GTE Distribution since GTE is a subsidiary of Verizon.

67. At the times relevant to the avoidability of the GTE Distribution, there were actual creditors of IIS holding unsecured claims allowable within the meaning of 11 U.S.C. §§ 502 and 544(b), including, but not limited to, trade creditors, Chase and the lenders pursuant to the Credit Agreement.

68. Pursuant to TEX. BUS. & COM. CODE ANN. §§ 24.005, 24.006 and 24.008 (Vernon 2008) and 11 U.S.C. §§ 544(b) and 550, either (a) the GTE Distribution should be avoided and Verizon and GTE should be required to return to the Trust the amount of the GTE Distribution or (b) the Trust should be awarded a monetary judgment against Verizon and GTE in the amount of the GTE Distribution. The Trust also requests all further relief the Court determines the circumstances may require.

Count 7: Fraudulent Transfer Against Verizon (11 U.S.C. §§ 548 and 550)

69. Plaintiff incorporates the foregoing allegations by reference for all purposes.

70. The transfer of the Interest Payments subsequent to March 31, 2007, in an amount in excess of \$1,000,000,000 was made within two years before the Petition Date.

71. The Interest Payments were made as designed by Verizon and Diercksen in connection with the Spin-off. Because Verizon and Diercksen controlled Idearc at the time Idearc undertook the obligation to pay the Interest Payments, the transfer of the Interest Payments was made with actual intent to hinder, delay or defraud an entity to which Idearc was or later became indebted on or after the date that the Interest Payments were made.

72. Since Idearc did not receive reasonably equivalent value in exchange for the Fraudulent Consideration given to Verizon and VFS in connection with the Spin-off, Idearc did not receive reasonably equivalent value in exchange for the Interest Payments which were made as contemplated by the Spin-off.

73. Idearc was insolvent at the time of the Interest Payments, or became insolvent as a result of the Interest Payments.

74. At the time of the Interest Payments, Idearc (a) was engaged, or was about to engage, in a business or a transaction for which the remaining assets of Idearc were unreasonably small in relation to the business or transaction and/or (b) intended to incur, or believed, or reasonably should have believed, that Idearc would incur debts beyond Idearc's ability to pay as they became due.

75. Pursuant to 11 U.S.C. §§ 548(a)(1)(A) and 550, either (a) the Interest Payments that were made subsequent to March 31, 2007 should be recovered or (b) the Trust should be awarded a monetary judgment against Verizon, as the entity for whose benefit the Interest Payments were made, in the amount of the Interest Payments. The Trust also requests all further relief the Court determines the circumstances may require.

***Count 8: Unlawful Dividend Against Diercksen and Verizon
(Del. Code Ann. tit. 8 §§170, 173 & 174)***

76. Plaintiff incorporates the foregoing allegations by reference for all purposes.

77. As stated more fully above, while acting as Idearc's sole director, Diercksen authorized and approved Idearc making the dividends described in this complaint directly to and for the benefit of Idearc's shareholder Verizon. Diercksen willfully, or at a minimum negligently, authorized and approved the dividends to Verizon even though Idearc lacked a surplus or net profits under which the dividends could legitimately occur pursuant to Del. Code Ann. tit. 8 §§170, 173 & 174. Diercksen is, therefore, liable to the Trust for the full amount of the unlawful dividends.

78. Verizon received the dividends, both directly and indirectly, in bad faith and with knowledge of facts indicating the dividends were unlawful. Consequently, Verizon is likewise liable to the Trust for the full amount of the unlawful dividends.

Count 9: Promoter Liability and Breach of Fiduciary Duty

79. Plaintiff incorporates the foregoing allegations by reference for all purposes.

80. The allegations of fact in this Count 9 are intended to supplement the factual allegations of Counts 1 through 8 as well.

81. In 2005, Bear Stearns and others approached Verizon with a plan to promote and capitalize a new business to facilitate the Spin-off. That new business eventually became known as Idearc.

82. Under the plan, Verizon would convert billions of dollars of existing Verizon debt into commercial paper. This commercial paper would then be conveniently purchased in the market place by investment banks to facilitate a "tax free" debt for debt exchange through which Verizon would retire \$6 to \$9 billion of debt in exchange for Idearc debt.

83. The tax scheme envisioned that Verizon would form a new company (referred to hereafter as “Spinco” or Idearc) into which Verizon would transfer the directories business and simultaneously load up Spinco with billions of dollars of debt. This debt, Idearc debt, would replace Verizon commercial paper and also supply billions in cash to Verizon.

84. Through the tax scheme, Verizon stood to avoid tax on the spread between the book value of the directories business (roughly \$2.5 billion) and the inflated amounts transferred by Idearc for the directories business (which the market erroneously valued at over \$14 billion).

85. The only downside to Verizon was having to cover the friction costs of its investment bankers who were purchasing the Verizon commercial paper and to pay fees north of \$100 million in return for the bankers manipulating the financial markets and marketing overvalued Idearc paper.

86. In addition to getting \$9.5 billion tax free, the plan would enable Verizon to unload a dying business for billions more than its actual value.

87. To facilitate the tax free spin, Verizon had to manufacture “business purposes” for the Spin and conceal its real motives. This accomplished three goals. The first goal was to justify “spin” treatment to the IRS and secure a favorable tax ruling from the IRS.

88. The second goal was to avoid registering Idearc securities under the 1933 Securities Act. Under the promotional scheme, Verizon was only required to file a Form 10 under the 1934 Securities Exchange Act, easing the path for a later private placement of Idearc’s highly questionable Unsecured Notes. A private placement of the Unsecured Notes allowed Verizon to market the notes without strict adherence to GAAP.

89. The third purpose was to generate excitement in the financial markets. No one participating in the debt for debt exchange who knew the real deal wanted to be left holding

Idearc debt. For the debt for debt “tax free” exchange to happen, Verizon had to promote Idearc as a profitable, growing business so that the Idearc debt could be quickly flipped in the market.

90. In truth, the only reason for the Spin was for Verizon to shed a losing asset for far more than actual value in a tax free transaction. In the summer of 2005, Verizon conducted a study of the directories business which concluded that it was likely at its peak perceived value with a significant risk of decline. The study specifically acknowledged that the value of the directories business was tied to its growth rate – and the value would dramatically differ based on how the market viewed its future growth rate. In fact, this study showed that if historical declines in the print business were not completely reversed, and dramatic gains in online revenues and profitability were not achieved, the value of the business would be less than half of the optimistic values developed by Verizon. Verizon knew that such gains were not likely to occur.

91. Further analysis by Verizon concluded, however, that the market did not yet perceive the growth problems the industry would likely continue to have in the face of stiff increased competition. Because many of the directories businesses were owned by large telecom businesses, independent detailed numbers relating to their financial results were hard to obtain in the market (the large telecoms only provided high level numbers). The market was also not as knowledgeable about the likely results of efforts by the Verizon directories business to change its fortunes – attempts which Verizon knew were largely failing, and which resulted in continued and increasing declines in revenues and profits. Recognizing the mismatch in information, Verizon knew it had to promptly divest itself of the directories business to take advantage of its information advantage before the market discovered what was really happening.

92. The real but undisclosed intent in promoting Idearc to the market was shared at the highest levels of Verizon.

93. Approving the promotion, then CEO Seidenberg remarked privately that the directories business was undergoing a “secular” change and would never compete with the Internet. He thought the only answer was to strip it down and sell off markets. A true and correct copy of the CEO’s e-mail is attached as Exhibit “A.”

94. This candid and truthful assessment was no where in the Form 10 or shared with the market in promotional materials. To the contrary, the Form 10 explained as a reason for the Spin-off to “facilitate the potential expansion and growth of” Idearc and to allow Idearc the ability to “execute a potential acquisition strategy more effectively.” The Form 10 also represented that internet capability was an important component of the service to be offered by Idearc.

95. Idearc could not strategically sell off markets to reduce debt, or for other corporate purposes, because to do so would potentially void the tax free status and expose Idearc to huge liability to Verizon resulting from the Spin.

96. While the Form 10 and advertising materials spoke in terms of how the Spin-off would free the hands of the management of Idearc to grow and expand the business, internal documentation described the business as a loser and management of the directories business as incompetent. In written materials sent to Defendant Diercksen by his team, Sophia Y. Xu described Idearc’s “rampant” bad credit problems and painted an over all “gloomy” picture of the business with no turn around in sight. Regarding management, she suggested finding better management and developing a “turn around story” using old management as a scapegoat. A true and correct copy of Ms. Xu’s March 25, 2006 e-mail is attached hereto as Exhibit “B.” Ms. Xu’s

recommendation was not followed and her insight proved prophetic. Kathy Harless, old management of the directories business, was installed as the CEO of Idearc and was fired one year after the Spin-off. Verizon did follow Ms. Xu's suggestion in one regard, however, and in the Form 10 blamed the directories' business poor results on the voluntary separation package that had previously been implemented by Idearc – a material fact Verizon knew was untrue.

97. Based on the study Verizon had conducted, it knew that the perceived view of the directories business' prospects was critical to the amount of debt it could place on the business – debt Idearc would have to pay back but the proceeds of which would go straight to Verizon. Verizon's own analysis questioned the likelihood of being able to meet forecast's done by the directories business as the business continued its decline, and based on historical information Verizon knew the business was worth billions less if it maintained its years long decline. Verizon hired a top level consulting group to examine the internal forecast. After spending hundreds of thousands of dollars, Verizon's fears were confirmed. Not only did the consultant confirm the directories business would likely continue to decline, its suggestions for improvement had been tried, and had failed. It was clear a new story would have to be developed if Verizon would be able to delever its own balance sheet as much as it wanted.

98. Verizon then charged its financial departments to come up with a new forecast. By modifying a few "assumptions," Verizon was able to produce a forecast with steady margins for the foreseeable future – at least on paper. By the time Verizon's financial engineers were done (by improving a sales margin here, cutting a few costs there, and "assuming" the business suggestions that had failed in the past would miraculously work now), the pro forma financial plan showed steady EBITDA for years to come. Verizon conveniently and actively ignored the fact that its own analyses showed the "forecast" was unlikely to be achievable in a number of

critical areas, such as electronic growth, print decline percentages, and other important areas. In fact, Verizon knew that the directories business was still declining and was facing increased pressure in key markets that exceeded what its peers were facing.

99. Once the financial teams at Verizon had decided what the forecast should be (at least what they needed it to be to support their desired level of debt), Verizon upper management (although including Diercksen in his dual roles) had to “arm twist” in on to the directories’ management team. Then Verizon used the “forecast” to raise debt and to snow the ratings agencies on the “bright” future of directories. Diercksen’s people also removed the original plan of record from the data room being used by the banks, rating agencies, and solvency company (see the April 19, 2006 e-mail attached at Exhibit “C”), and also directed directories’ management to not discuss the process and changes that had occurred with potential debt buyers.

100. To implement the fraudulent transfer and commit fraud on the market, it was essential that Verizon control Idearc’s professionals, such as its lawyers and consultants, and also to control access to information – keeping details away from any decision maker who might be “independent” of Verizon and not subject to Verizon’s control.

101. To head up the Spin for Verizon, Verizon selected Jeff Rosen, a merger and acquisition specialist at Debevoise and Plimpton in New York and long time Verizon attorney. Verizon also installed Mr. Rosen and his firm as Idearc’s counsel on the Form 10 and to provide counsel to Idearc on all aspects of the Spin-off, including the Debt.

102. [PARAGRAPH EXPURGATED AND FILED UNDER SEAL]

103. Verizon waited until the last minute to give Idearc a “brain” and to allow Idearc to hire counsel. Idearc hired Glen Hettinger at Fulbright in Dallas to represent Idearc post-spin, but Hettinger involved himself with the Spin-off transaction itself. Once hired, Hettinger

immediately expressed concern over the amount of debt to William Mundy, Verizon's in-house lawyer assigned to the directories business. Hettinger might cause trouble.

104. Verizon and Rosen knew the best way to control Hettinger and the "independent directors" he would counsel was to have them ratify and sign-off on the conduct of Diercksen as to all aspects of the Spin-off, forcing them to become participants in the scheme or be out of a job. So Verizon and Rosen demanded that the incoming board be seated *before* the Spin-off and ratify Diercksen's self-dealing behavior and the enormous debt. This act had to happen before Verizon lost control of Idearc.

105. At first, Hettinger, on behalf of the incoming Board, balked, saying that being seated before the Spin-off and ratifying what Diercksen had done would raise serious fiduciary duty issues. True and correct copies of e-mails addressing this are attached hereto as Exhibit "E."

106. Eventually, Hettinger and the incoming directors relented, thus forever becoming joined at the hip with Verizon and Rosen.

107. Diercksen resigned as sole director of Idearc on November 16, 2006, and on that same day, most of the "independent board members" executed written consents ratifying the Spin-off. However, at least one "independent" board member was so uninformed and so eager to ratify a spin he neither understood nor cared to understand, that he attempted to "ratify" Diercksen's actions on the 15th of November, before he was even a director of Idearc.

108. The Spin-off occurred on November 17, 2006.

109. The conduct happening behind the scenes was contrary to the disclosures in the Form 10. The Form 10 disclosed a potential conflict of interest and potential self-dealing between Verizon and Idearc pre-spin. However, the Form 10 also stated that an "independent

board” would approve the deal “post spin” on November 17, 2006 after Verizon lost control of Idearc. Verizon, Diercksen, the lawyers, and the “independent board” all knew this representation was false.

110. A promoter owes a fiduciary duty to a newly-formed corporation (Idearc) and future stockholders. The promoter’s liability as a fiduciary ends only after it completes the promotion and a truly independent board of directors takes charge. At no time did a truly independent board take charge before the Spin-off was effected.

111. Verizon and Diercksen were both promoters and as such both owed fiduciary duties to Idearc. They breached their duties. Plaintiff seeks actual damages, punitive damages, and forfeiture of all benefits received by Defendants in connection with the Spin-off.

112. The lawyers for Idearc, also owed fiduciary duties to Idearc. They breached those duties to Idearc.

113. Whether Verizon or Diercksen were themselves fiduciaries, each participated in the breach of the lawyers’ fiduciary duties to his clients, Idearc. As a result, Defendants are jointly and severally liable as fiduciaries in the eyes of the law.

114. Plaintiff seeks actual damages, punitive damages and forfeiture.

Count 10: Unjust Enrichment

115. Plaintiff incorporates the foregoing allegations by reference for all purposes.

116. Though named as a lender in the credit agreement with Idearc, Verizon never loaned a dime of the \$4.3 billion Tranche B loan to Idearc.

117. After inking the phantom loan, Verizon exchanged the Idearc indebtedness for Verizon’s own indebtedness, thereby deleveraging \$4.3 billion of Verizon debt.

118. In addition to agreeing to repay a loan that Verizon never really made, Idearc also transferred on November 17, 2006 cash to Verizon in the amount of \$2,441,532,374.71 and the Unsecured Notes. This sum was in addition to the shares of Idearc stock transferred to Verizon for distribution to Verizon shareholders. The Idearc stock was erroneously valued by the market at over \$4.1 billion.

119. These interested party transactions were negotiated when Defendant Diercksen was both an officer of Verizon and the sole director of Idearc.

120. Verizon's plan, at least initially, was to have the interested party transactions ratified by an independent board of Idearc on November 17, 2006, after their Spin-off. This never happened.

121. When Hettinger, the lawyer for the incoming Board, expressed concern over ratifying the Idearc actions and the Debt overseen by Diercksen, Verizon and Rosen (representing both the promoter and Idearc) started to get cold feet and demanded that the ratification take place before the Spin-off while Verizon still controlled Idearc.

122. Verizon's new plan was to have Diercksen resign as sole director of Idearc on November 16, 2006, and that same day cause the "independent board" to ratify the Spin-off by unanimous written consent in lieu of a directors' meeting.

123. In Verizon's rush to rig the actions by the "independent board," at least one of the incoming directors signed his written consent on November 15, before he became a director. Therefore, there never was a written consent or ratification by all of the board members. Under Delaware law, anything less than unanimous written consent by the board rendered the board action a nullity.

124. Pleading further, the “independent board” was in fact a sham and never acted independently of Verizon.

125. The conduct of those purporting to ratify the transaction was in complete disregard of their fiduciary duties, including the duty of oversight owed to Idearc.

126. Evidence of a lack of independence includes, but is not limited to, the following:

- a. When outside counsel advised that having the incoming board ratify before the Spin-off actions overseen by Diercksen as sole director raised a host of fiduciary duty issues and liabilities, the incoming board members acted anyway.
- b. When outside counsel advised there was no legal reason to ratify, the incoming board members acted to ratify anyway.
- c. The “independent board,” carefully selected by Verizon, had neither the time, the information, nor the competency to approve the Spin-off.
- d. Verizon forced the early vote so that it would take place before the Spin-off and without adequate time to investigate or hire outside consultants. Upon information and belief, Verizon stood ready to fire the “independent board” if it did not get in line.
- e. The actions of the incoming board were directed by hopelessly conflicted lawyers who represented both the promoter and Idearc, and who clearly preferred one client (Verizon) over the other.
- f. The incoming board never asked for a “fairness opinion” or even knew what one was.
- g. The incoming board was tainted by business dealings with Verizon.

127. The phantom loan and transfers were inside transactions and unfair to Idearc. These actions were never in good faith ratified or approved by disinterested board members. As such, these interested party agreements were void and voidable under Delaware law, and Verizon was unjustly enriched by at least \$9.5 billion.

Count 11: Alter Ego

128. Plaintiff incorporates the foregoing allegations by reference for all purposes.

129. Prior to the Spin-off, Idearc was a sham corporation organized and promoted by Verizon in order to perpetrate a fraud and commit public wrongs, including defrauding creditors and tax payers.

130. Prior to the Spin-off, Verizon never paid for any Idearc stock, never caused any Idearc stock to be issued to Verizon and failed to adhere to corporate formalities.

131. The actions of putative employees and officers of Idearc in reaching agreements concerning the Debt and the related Spin-off Agreements were in fact actions taken by agents of Verizon.

132. Stripped to its essence, Verizon refinanced and re-packaged its own debt as Idearc's debt to perpetrate a fraud.

133. The Court should pierce Idearc's corporate veil and hold Verizon liable for all of Idearc's debts, including all debt and other obligations incurred by Idearc in connection with or because of the Spin-off.

VI.

JURY TRIAL DEMAND

134. Plaintiff requests that all triable issues be determined by a jury.

VII.

PRAYER

WHEREFORE, PREMISES CONSIDERED, Plaintiff prays that this Court enter a judgment as set forth above, setting aside the transfer of the Fraudulent Consideration and the obligations incurred in connection therewith and that Plaintiff be awarded the relief requested herein, along with actual damages, punitive and/or exemplary damages, attorneys' fees, pre- and post-judgment interest at the maximum rates allowed by law, and such further and other relief to which Plaintiff may show itself entitled, both at law and in equity.

Respectfully submitted,

/s/ Patrick D. Keating

Werner A. Powers
State Bar No. 16218800
Robin Phelan
State Bar No. 15903000
Patrick D. Keating
State Bar No. 00794074

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**ATTORNEYS FOR U.S. BANK
NATIONAL ASSOCIATION
as Litigation Trustee on Behalf of the
Idearc Inc. et al. Litigation Trust**

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing instrument was served through the ECF system in accordance with the Federal Rules of Civil Procedure on the 17th day of February, 2012 upon:

T. Ray Guy
WEIL, GOTSHAL & MANGES, LLP
200 Crescent Court, Suite 300
Dallas, Texas 75201

/s/ Patrick D. Keating

D-2029790_1.DOC

EXHIBIT

“A”

From: Ivan Seidenberg
Sent: Friday, December 30, 2005 11:31 PM
To: John W. Dierksen
Cc: DOREEN A. TOBEN
Subject: Re: VIS - Draft Proposal

John and Doreen,

The outline appears very comprehensive and I suspect will help.....I have one general reaction...Perhaps it might just be how I read the Bisson proposal but I think McKinsey's work should be more weighted on the operational plan and develop a base case of cash flows and margin performance...All of the strategic questions about Manh, Superpages, the Brand and the residual relationships with VZ are fine but my assumption all along is that this business is going thru a major secular change..What we need is a new business model separate from VZ that will be competitive with the other print businesses...An independent owner would slash costs big time, sell markets, probably reduce or curtail the electronic activity and focus on cash..To me the issue is changing the base assumptions about the print sector rather than thinking this is a fix it up issue...My view is that we can tinker with operational improvements all we want, but this business is changing quickly...This is the same lesson we learned in the telco...I listened for ten years that we had the time and market position to deal with the technology shift and just in a flash wireless and cable ate us up...Perhaps McKinsey knows this, but I would hope they can develop an aggressive business model that would appeal to a different type of investor...In any event, proceed as you think appropriate....lgs

John W. Dierksen/EMPL/NY/Verizon
12/30/2005 03:45 PM

To Ivan Seidenberg/EMPL/NY/Verizon@VZNotes, DOREEN A. TOBEN/EMPL/NY/Verizon@VZNotes
cc
Subject VIS - Draft Proposal

Ivan,
Doreen,

One of the action items that we discussed last week was the use of McKinsey to help VIS develop a five year business plan for use in the spin analysis. Attached is a draft of McKinsey's proposed effort and the high level approach to be utilized. Please note that I have not agreed with Peter on the project fees so that is one area that requires additional discussion. Would appreciate your comments as we refine this proposal, have worked with Peter Bisson and as you will see from the attached there will be some bench marking and cost/revenue opportunities addressed in the plan development. Hopefully, this is in sync with your thinking, if it is I will share this with Kathy.

John

[attachment "VerizonVISIndependence.doc" deleted by Ivan Seidenberg/EMPL/NY/Verizon] [attachment "VerizonVISIndependenceExhibits.ppt" deleted by Ivan Seidenberg/EMPL/NY/Verizon]

EXHIBIT

“B”

From: John W. Diercksen
Sent: Friday, March 24, 2006 9:58 AM
To: Sophia Y. Xu; John P. Fitzgerald; Philip Seskin
Subject: Re: Dallas Trip report

Sophia,
Thank you for a very comprehensive report and I appreciate your attending the sessions. We should all try and talk today.
John

From: Sophia Y. Xu
Sent: 03/24/2006 02:15 AM
To: John Fitzgerald; John Diercksen; Philip Seskin
Subject: Dallas Trip report

Just got in from Dallas. While memory is fresh, I'm jotting down some observations/points so that you have some background before tomorrow's 10am Steering Committee call.

On the whole, you wouldn't be too surprised. I had pre-read all the presentations before boarding the plane, so there was hardly any surprise at all, other than the EXTENT of fall-off of EBITDA from '05-'06 and the "asks" from VZ. To pay them a deserved compliment, the presentations were cleanly laid out, very well-organized, tons of useful information. The presenters are OK speakers, but the underlying stories are gloomy. If I put a career pessimistic debt financier hat on, I would say the "turnaround" seems nowhere in sight. Out of the 100+ pages of charts, you couldn't find any rising or even flat bars. What is particularly disturbing is '06 year-to-date (through 3-4-06), nearly every region shows meaningful decline, double-digit declines are commonplace (which spooked bankers). NET7 (NY/Boston) and BigEast are the problem child as usual, WIIN/Genesis decline mildly. The only positive trend is WIIN Independent markets and Electronic yellow pages, but these are the two smallest pieces. It'd be very difficult to convince debt guys and rating agencies that the business is turning around when EBITDA in '06 will nosedive by \$140MM to \$1,513MM from '05 level; and revenue will fall by \$100MM just like in '05. By the time the Form 10 goes to print, we would have to show 1Q result; by the time we start roadshow, we'd show 2Q (in fact they would know full year 2005 by then), and if they don't even make the \$1,513MM, it really would undermine the credibility of the entire forecast. Note: none of the McKinsey's recommended investments/actions are baked in 2006, they start in 2007. Andy was very low-key presenting the sad projections, even with \$185MM annual "VZ corporate help", EBITDA still trends down all the way through 2010. I kinda felt sorry for him.

Sales organization is problematic. Sales Reps turnover is about 39% (in line with industry), phone rep could be as high as 70%. In 2003, the Voluntary Separation Package caused close to 80% turnover. It hit the business hard and they are still reeling from that. When a book is being canvassed, revenue really suffers when you lose salespeople. There was 1 or 2 fraud cases with sales people (in NY and Florida) causing loss of salesforce. Many reps only have 1-2 yrs tenure; 3+ years would make you a star. Exception is New England (anomaly because of extra lucrative union contract).

Bad credit problem is rampant. Customers cancel and just don't pay. Must be addressed.

Dee presented the Commercial agreements (he clearly looked uncomfortable). I think it shocked the bankers - so much one of them couldn't figure out how '06 EBITDA is \$1,513MM on one page and \$1,698MM in another. As to the value of their proposals (see Dee's email to you, which wasn't distributed to bankers). In each category (DLA, whitepage, B&C, etc) they run the costs to VZ in 15 year DCF. That understates. They should calculate those in perpetuity. If I re-calculate to perpetuity (except the advertising commitment which has a life of 10yrs), I get a total \$2,177 MM of value transfer from VZ to VIS, which equates to \$196MM per yr in after-tax cost to VZ, or \$301MM per yr pre-tax @35% tax rate. VIS told today's audience that they'd submitted the proposal to corporate but hadn't had any feedback and even put me on the spot, with full knowledge that none of us had received the proposal. I had to repeatedly urge Dee to send it. For the record, you all received an email from Dee Jones at 2:02 pm on Thursday and not a minute earlier.

With so much info flowing, the bankers were busy digesting, they were more silent than I'd have expected. Ferency left early but had a big grin over the "asks" and he made an early comment of how "grim" the picture seems. Shane was quiet and non-critical. I overheard in the ladies' women Kathy saying Shane is a very nice guy :-)

Here are my 2 cents. On the commercial agreements - DLA is the most reasonable, the rest, Well... VZ value transfer does not mask the erosion of core business -the "bridge" of EBITDA will tell rating agency everything (see page 8 and 9 of last section of your binder). It's a leaking bucket, adding more water doesn't stop or slow the leak. Is it worth giving up \$2+ bn value for \$1+ bn extra debt capacity? Two issues: a) will the lenders give you full credit for the "help" from corporate dollar-for-dollar; 2) funding \$9 bn is always a challenge with market capacity issue, the last \$1 bn debt may be hard to find anyway even with a good business.

On the business turnaround story, this is going to be tough but we have to give it a go. One way is to find better management (use the old ones as scapegoat) - I am in no position of going there, so leave that aside, I'd say spin the stories as creative as we can - do case studies of selected regions where they had improvement (like Keller is the poster child of FioS). Find more scapegoat/excuses, in Manhattan for example, blame on the voluntary separation package, 9-11, a fraud case (salesman violating policy) - you need to convince people bad events are behind you and not recurring. Find concrete actions plans, not slogans of "ROI+Reach=Revenues". Tough part is always to back up the action plans with defensible (ideally partly realized) numbers. Some of their new products do sound interesting and has realized revenues. McKinsey's investment "levers" are all good, but they kick in too little too late, "not in the bag" doesn't quite fly with debt guys. Future acquisition potential of internet companies - tough sell, lenders want to restrict acquisitions, they don't call it "negative covenants" for nothing.

I want to lift spirit by saying: I've seen much worse business than this and still got the deal done. Thank goodness directory is not a cost intensive business. Fixed cost is low and it's quite scalable, so if the revenue thins, margin still holds up admirably. The flip side is that, there isn't much more you can take out of cost, it's not enough to offset the topline revenue decline. We could consider going to other models - Yellowbook has much lower margin; DEX/RHD has much higher leverage ratio (7x) and pays no dividend .. whatever works, not my place to say..

I am going to bed. Will talk to you tomorrow at 10.
Sophia

EXHIBIT

“C”

From: Andre Chi
Sent: Wednesday, April 19, 2006 3:19 PM
To: "Wilson, Cliff" <Cliff.Wilson@vis.verizon.com>
Cc: John P. Fitzgerald; lindsay.flanagan@vis.verizon.com; Sophia Y. Xu
Subject: RE: Remove old business plan from Intralinks

Heads up, the Bear Stearns and JPMorgan financing teams have been added to Intralinks as reviewers of all publications.

-André Chi

"Wilson, Cliff" <Cliff.Wilson@vis.verizon.com>
04/18/2006 08:23 PM

To: Sophia Y. Xu/EMPL/NY/Verizon@VZNotes, lindsay.flanagan@vis.verizon.com, John P. Fitzgerald/EMPL/NY/Verizon@VZNotes
cc: Andre Chi/EMPL/NY/Verizon@VZNotes
Subject: RE: Remove old business plan from Intralinks

Hi Sophia
Original Plan of Record removed. Strategic Plan reflecting approved
Standalone adjustments forthcoming.
Regards
Cliff

-----Original Message-----

From: Sophia.Y.Xu@core.verizon.com [mailto: Sophia.Y.Xu@core.verizon.com]

Sent: Tuesday, April 18, 2006 6:10 PM
To: Wilson, Cliff; Linda Flanagan; John Fitzgerald
Cc: Andre Chi
Subject: Remove old business plan from Intralinks

Cliff/Linda,

Banks have requested opening dataroom to financing teams. Before we do that, please remove the old business model and replace it with the new plan (if you have it). If not, leave it blank, we don't want to show conflicting numbers. Andre will then open the dataroom. Thank you so much and for all your work on today's presentation.

Regards,
Sophia

EXHIBIT

“D”

**EXHIBIT REMOVED FOR
PUBLIC FILING**

EXHIBIT

“E”

From: Rosen, Jeffrey J.
Sent: Tuesday, November 07, 2006 06:41 PM
To: Hettinger, Glen J.

Cc: bill.mundy@verizon.com; philip.r.marx@verizon.com;
Alway, Suzie C.; ;

Subject: Re: Board ratification

Glen:

This is a response, or partial response, to both your messages. First, we do not think it is legally required for the new board literally to ratify or reenact the prior resolutions per se. We do think it is appropriate for the new board to approve the basic transaction and the underlying documents (which is why you requested the solvency opinion). Second, I think you already have copies of the resolutions we did, but am happy to have them resent. Third, I was not sure what sub guarantor resolutions you were referring to.

Jeff

Sent from my BlackBerry Wireless Handheld

Jeffrey J. Rosen
Debevoise & Plimpton LLP

-----Original Message-----

From: Hettinger, Glen J. <ghettinger@fulbright.com>
To: Hettinger, Glen J. <ghettinger@fulbright.com>; philip.r.marx@verizon.com <philip.r.marx@verizon.com>
CC: bill.mundy@verizon.com <bill.mundy@verizon.com>; Rosen, Jeffrey J. <jrosen@debevoise.com>
Sent: Tue Nov 07 12:52:59 2006
Subject: RE: Board ratification

Also, to make sure that we have this covered, it looks to us like you guys are driving the Sub Guarantor resolutions. Is that correct?

G

Fulbright & Jaworski L.L.P.
www.fulbright.com

-----Original Message-----

From: Hettinger, Glen J.
Sent: Tuesday, November 07, 2006 11:20 AM
To: 'philip.r.marx@verizon.com'
Cc: bill.mundy@verizon.com; Rosen, Jeffrey J.
Subject: RE: Board ratification

Phil:

We are drafting away today. It would be helpful if we could see the resolutions that the Old Board has adopted or is planning to adopt. Do you have them in one place that you could shoot to me?

Also, anticipating the question from the New Board, is there a legal reason that the New Board is "ratifying" what the Old Board does? I can't think of any reason that it is legally required. I would appreciate the benefit of any thinking that you or Debevoise have done on this topic.

G

Fulbright & Jaworski L.L.P.
www.fulbright.com

-----Original Message-----

From: philip.r.marx@verizon.com [mailto:philip.r.marx@verizon.com]
Sent: Tuesday, November 07, 2006 7:22 AM
To: Hettinger, Glen J.
Cc: bill.mundy@verizon.com; Rosen, Jeffrey J.
Subject: RE: Board ratification

Glen - Is Fulbright preparing the ratification (and other) resolutions for the Idearc Inc. board meeting? We would be happy to prepare them if that would be helpful. Were you proposing to approve the LTIP at the upcoming meeting?
Please send us a copy of any draft resolutions or board agendas.

Thanks

Philip Marx
(Office Phone) 908-559-6661 NEW NUMBER
(Office Fax) 908-696-2067 NEW NUMBER
philip.r.marx@verizon.com
Contact Information as of 3/27:
One Verizon Way
Basking Ridge, NJ 07920 - 1097
Mail Code: Vc54S404

"Hettinger, Glen

J."

To: <ghettinger@fulbright.com> "Rosen, Jeffrey J."
<jrosen@debevoise.com>

cc: 11/02/2006 10:10

AM Philip R.
Marx/EMPL/PA/Verizon@VZNotes,
bill.mundy@vis.verizon.com

Subject RE: Board ratification

Thanks for the note. We are having an org meeting this morning at 10:00 CST to make sure we have our ducks in a row for the board side of things.

1. Yes, the resolutions adopted to date would be very helpful.
2. We will need to coordinate with someone at HLHZ. Let me know how best to proceed on this front.
3. Please include us in any closing checklists that you are working on. This will help us make sure that we are doing everything that you are counting on us to do.
4. I have all the exhibits to the Form 10 and we have been following the Exchange Agreement and the Credit Agreement. We are also in the loop on opinion. Looking at your closing checklists will help us make sure we are not missing something.

Thanks for thinking of us this morning.

I am copying Bill, too.

Glen

Fulbright & Jaworski L.L.P.

From: Rosen, Jeffrey J. [<mailto:jrosen@debevoise.com>]
Sent: Thursday, November 02, 2006 9:03 AM
To: Hettinger, Glen J.
Cc: philip.r.marx@verizon.com
Subject: Board ratification

As sole director, John Diercksen has approved the fundamental actions required to be taken by Spinco in connection with the transaction. My understanding is that the new board will take office on about the 10th and, in connection with our prior conversation, will then ratify the various steps and agreements in the transaction, approve the LTIP and take whatever other actions are required. Would you like a copy of the resolutions Diercksen signed to help prepared for your board actions? Do you have the documents? Should someone at Verizon be coordinating with Houlihan? Let me know how we can help.

Best,

J.

=====
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and it cannot be used by any taxpayer, for the purpose of avoiding
penalties that may be imposed under U.S. Federal tax law.
=====

Jeffrey J. Rosen
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1-212-909-6000) and then delete and discard all copies of the e-mail.
Thank you.

From: Hettinger, Glen J.
Sent: Tuesday, November 07, 2006 3:15 PM
To: 'Mundy, Bill'
Subject: RE: Board ratification

I will compose an email and run it by you. I will make it respectful and diplomatic and see what we get back.

G

Fulbright & Jaworski L.L.P.
www.fulbright.com

-----Original Message-----

From: Mundy, Bill [mailto:bill.mundy@verizon.com]
Sent: Tuesday, November 07, 2006 9:09 AM
To: Hettinger, Glen J.
Subject: RE: Board ratification

I think that I have all of the former resolutions, but I will need to look. There were not a lot of them. I like your idea of asking Marx why the new board needs to ratify these. In one sense I would like to be able to tell the new board that they don't have to worry about what has previously been acted upon by the Verizon board.

Bill Mundy
Phone: 972-453-7920
Fax: 972-453-6829

-----Original Message-----

From: Hettinger, Glen J. [mailto:ghettinger@fulbright.com]
Sent: Tuesday, November 07, 2006 9:00 AM
To: Mundy, Bill
Subject: RE: Board ratification

There is no reason to do it. Rosen pretty much confessed to me that there was no legal effect.

Want me to ask Marx why?

Rosen hinted that it would "make the banks feel better"

Do we have a complete set of the resolutions that the Old Board has done or is doing?

I would like that to draft.

Should I ask Marx for that?

G

Fulbright & Jaworski L.L.P.

www.fulbright.com

-----Original Message-----

From: Mundy, Bill [mailto:bill.mundy@verizon.com]
Sent: Tuesday, November 07, 2006 8:56 AM
To: Hettinger, Glen J.
Subject: FW: Board ratification

Why does the "new" board have to ratify the old board's resolutions?
Just fyl, I thought that I should probably package up all of the actions that
"old" board has made for the director designees. Attached is an executive
summary of the resolutions that were passed last week.

Bill Mundy
Phone: 972-453-7920
Fax: 972-453-6829

-----Original Message-----

From: philip.r.marx@core.verizon.com
[mailto:philip.r.marx@core.verizon.com]
Sent: Tuesday, November 07, 2006 7:22 AM
To: Hettinger, Glen J.
Cc: Mundy, Bill; Rosen, Jeffrey J.
Subject: RE: Board ratification

Glen - Is Fulbright preparing the ratification (and other) resolutions for the
Idearc Inc. board meeting? We would be happy to prepare them if that would be
helpful. Were you proposing to approve the LTIP at the upcoming meeting?
Please send us a copy of any draft resolutions or board agendas.

Thanks

Philip Marx
(Office Phone) 908-559-6661 NEW NUMBER
(Office Fax) 908-696-2067 NEW NUMBER
philip.r.marx@verizon.com
Contact Information as of 3/27:
One Verizon Way
Basking Ridge, NJ 07920 - 1097
Mail Code: Vc54S404

"Hettinger, Glen

J."

<ghettinger@fulbr

To

ight.com>

"Rosen, Jeffrey J."

From: Hettinger, Glen J.
Sent: Wednesday, November 08, 2006 12:07 PM
To: 'bill.mundy@verizon.com'
Cc: Hughes, Thomas W.

The more I have thought about Rosen's answer, the more I have become convinced that our board should not take its seat until AFTER the documents have ALL been executed and delivered. Let's talk ASAP

From: "Hettinger, Glen J." <ghettinger@fulbright.com>
Sent: Wednesday, November 08, 2006 2:57 PM
To: "Mundy, Bill" <bill.mundy@vis.verizon.com>; Philip R. Marx
Cc: "Rosen, Jeffrey J." <jrosen@debevoise.com>
Subject: RE: LTIP; execution of documents

Importance: High

Phil, I am adding Jeff to this string.

Here is what we think makes the most sense.

1. Do not put the new board in place until the 17th.

The current board has brought the transaction to this point. Changing boards will only raise a host of issues about the new board members' fiduciary responsibilities and liabilities for the week during which Spinco is still a wholly owned subsidiary that would be best to avoid. Also, I do not think there is any benefit Verizon to inserting the new members prior to the actual Spin date. Under this scenario, there would be no need for "ratification" of the debt deals or the Spin Off Agreements -- the pre spin Board has already approved everything, and all the documents could be executed and binding agreements before the new board members step in. When they step in on the 17th (or late on the 16th -- we should do a timeline), the newly elected board members could handle the "going forward" items, such as establishing committees; making independence and financial literacy findings; adopting committee charters, governance policies, codes of ethics, etc; designating a full state of officers; adopting indemnification agreements; approving the LTIP; dealing with executive compensation; and setting a dividend policy.

2. On the same note, it would be fine with us if HLHZ delivered is fairness update to the Old Board. Our concern has only been that the Spinco receive an opinion, not the constitution of the board at the time the opinion was rendered.

3. We would anticipate the New Board approving the LTIP and taking the other actions required of it on the 17th -- immediately pre Spin -- an VZ could consent to the LTIP at the same time.

Please let me know if you would like to discuss this. I am available almost all day.

Glen Hettinger

Fulbright & Jaworski L.L.P.
www.fulbright.com

-----Original Message-----

From: Mundy, Bill [mailto:bill.mundy@verizon.com]
Sent: Wednesday, November 08, 2006 8:32 AM
To: philip.r.marx@verizon.com
Cc: Hettinger, Glen J.
Subject: RE: LTIP; execution of documents

1



VZNIDEARC-00277670

Phil, no board meeting this Friday. We are actually looking at the 17th as the first meeting. I'll talk to Glen about how we should handle the LTIP piece.

Bill Mundy
Phone: 972-453-7920
Fax: 972-453-6829

-----Original Message-----

From: philip.r.marx@core.verizon.com
[mailto:philip.r.marx@core.verizon.com]
Sent: Wednesday, November 08, 2006 8:29 AM
To: Mundy, Bill
Cc: gheltinger@fulbright.com
Subject: LTIP; execution of documents

Bill - Is the new Idearc Inc. board planning on approving the LTIP at its meeting this Friday? If so, I presume that you would like Verizon, as sole shareholder to execute a consent approving the Board's action; if you send us a draft of your resolution and a copy of the LTIP agreement, we can get that prepared. John Diercksen has limited availability on Friday, so I would like to get started on this as soon as possible.

I just wanted to remind you that we plan to execute the Exchange Agreement today and the Distribution Agreement tomorrow. We will need five (5) executed original signature pages for each document. Debevoise should be sending around the execution copy of the Exchange Agreement later today.

Thanks

Philip Marx
(Office Phone) 908-559-6661 NEW NUMBER
(Office Fax) 908-696-2067 NEW NUMBER
philip.r.marx@verizon.com
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