

IDEARC INC.  
Form DEF 14A  
March 14, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A  
(Rule 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934  
(Amendment No. )**

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**IDEARC INC.**

**(Name of Registrant as Specified In Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)**

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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- Fee paid previously with preliminary materials:
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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March 14, 2008

Dear Idearc Stockholder:

You are invited to attend Idearc Inc.'s 2008 annual meeting of stockholders. The meeting will be held on May 1, 2008, beginning at 9:00 a.m., local time, at the Hilton Dallas/Southlake Town Square hotel, located at 1400 Plaza Place, Southlake, Texas 76092.

Information about the meeting is presented in the following notice of annual meeting of stockholders and proxy statement. At the meeting, management will report on the company's operations. The report will be followed by a question-and-answer session. We hope that you will be able to attend the annual meeting.

Under new Securities and Exchange Commission rules, we are providing stockholders access to our proxy materials over the Internet. We believe that the new rules will allow us to provide our stockholders with the information they need while lowering the costs of delivery.

Please take a few minutes to sign, date and return the proxy card or to vote using the Internet or telephone voting procedures described on the proxy card.

We look forward to seeing you on May 1.

Sincerely,

Frank P. Gatto  
Acting Chief Executive Officer

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To be held on May 1, 2008**

The 2008 annual meeting of stockholders of Idearc Inc. (the *company*) will be held on Thursday, May 1, 2008, at 9:00 a.m., local time, at the Hilton Dallas/Southlake Town Square hotel, located at 1400 Plaza Place, Southlake, Texas 76092. The meeting will be held for the following purposes:

1. To elect six directors to serve until the 2009 annual meeting of stockholders;
2. To consider and take action upon a proposal to approve the 2008 incentive compensation plan;
3. To ratify the appointment of Ernst & Young LLP as the company's independent registered public accounting firm for 2008; and
4. To transact such other business as may properly come before the meeting.

Information concerning the matters to be voted upon at the meeting is set forth in the accompanying proxy statement. Holders of record of the company's common stock as of the close of business on March 3, 2008, are entitled to notice of, and to vote at, the meeting.

**By Order of the Board of Directors,**

William G. Mundy  
*Executive Vice President  
and General Counsel*

D/FW Airport, Texas  
March 14, 2008

**IMPORTANT**

**Whether or not you plan to attend the meeting in person, please vote by signing, dating and promptly returning the proxy card or by using the Internet or telephone voting procedures described on the proxy card.**

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**IDEARC INC.  
P.O. Box 619810  
2200 West Airfield Drive  
D/FW Airport, TX 75261**

## **PROXY STATEMENT**

This proxy statement provides information in connection with the solicitation of proxies by the board of directors (the *board*) of Idearc Inc. (the *company*) for use at the company's 2008 annual meeting of stockholders or any postponement or adjournment thereof (the *annual meeting*). This proxy statement also provides information you will need in order to consider and to act upon the matters specified in the accompanying notice of annual meeting of stockholders.

Under rules recently adopted by the Securities and Exchange Commission (*SEC*), we are providing stockholders access to our proxy materials for the annual meeting over the Internet. Stockholders will receive a printed copy of the proxy materials only upon request. A notice of Internet availability of proxy materials will be mailed to stockholders on or about March 17, 2008. The notice will provide instructions on how to access the proxy materials over the Internet and how to request a printed copy of the proxy materials.

Holders of record of the company's common stock as of the close of business on March 3, 2008, are entitled to vote at the annual meeting. Each holder of record as of that date is entitled to one vote for each share of common stock held. On March 3, 2008, there were 146,679,450 shares of common stock outstanding.

You cannot vote your shares of common stock unless you are present at the annual meeting or you have previously given your proxy. You can vote by proxy in one of three convenient ways:

in writing: sign, date and return the proxy card;

by telephone: within the U.S. or Canada, call the toll-free telephone number shown on your proxy card and follow the instructions; or

by Internet: visit the website shown on your proxy card and follow the instructions.

You may revoke your proxy at any time prior to the vote at the annual meeting by:

delivering a written notice revoking your proxy to the company's corporate secretary at the address above;

delivering a new proxy bearing a date after the date of the proxy being revoked; or

voting in person at the annual meeting.

All properly executed proxies, unless revoked as described above, will be voted at the annual meeting in accordance with your directions on the proxy. With respect to the election of directors, you may vote for all nominees, withhold your vote for all nominees, or withhold your vote as to one or more specific nominees. If a properly executed proxy

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does not provide instructions, the shares of common stock represented by your proxy will be voted:

FOR the election of the six director nominees to serve until the company's 2009 annual meeting of stockholders;

FOR adoption of the 2008 incentive compensation plan;

FOR ratification of the appointment of Ernst & Young LLP as the company's independent registered public accounting firm for 2008; and

at the discretion of the proxy holders with regard to any other matter that is properly presented at the annual meeting.

A majority of the outstanding shares of common stock must be present, in person or by proxy, to constitute a quorum at the annual meeting. The directors will be elected by a plurality of the votes cast by holders of the company's common stock. If you withhold authority to vote for a director nominee, your shares will not be counted in the vote for the director nominee. The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting will be required to approve the 2008 incentive compensation plan. In addition, the New York Stock Exchange ( *NYSE* ) rules require that the total votes cast on the approval of the 2008 incentive compensation plan represent greater than 50% of the shares outstanding as of the record date.

Those who fail to return a proxy or attend the annual meeting will not count towards determining any required vote or quorum. Stockholders and brokers returning proxies or attending the meeting who abstain from voting on the election of our directors will count towards determining a quorum. Brokers holding shares of record for customers are not entitled to vote on certain matters unless they receive voting instructions from their customers. In the event that a broker does not receive voting instructions for these matters from its customers, a broker may notify us that it lacks voting authority to vote those shares. These broker non-votes refer to votes that could have been cast on the matter in question by brokers with respect to uninstructed shares if the brokers had received their customers' instructions. These broker non-votes will be included in determining whether a quorum exists. Even if you do not instruct your broker how to vote on the election of directors or the ratification of our independent registered public accounting firm for 2008, your broker may exercise its discretion to vote your shares on these proposals. Your broker may not vote on the approval of the 2008 incentive compensation plan without your instruction. To be sure your shares are voted in the manner you desire, you should instruct your broker how to vote your shares.

The proxy card also provides voting instructions for any shares of company common stock that you may hold in a company benefit plan.

The company is soliciting your proxy and will pay the cost of preparing this proxy statement and the proxy card and the costs of any mailing. The company has retained Georgeson Inc. to assist in the solicitation of proxies for the annual meeting. For these services, the company will pay Georgeson \$7,500 and will reimburse Georgeson for reasonable out-of-pocket expenses. Additionally, employees of the company may solicit proxies personally and by telephone. The company's employees will receive no compensation for soliciting proxies other than their regular salaries. The company may request banks, brokers and other custodians, nominees and fiduciaries to forward copies of these proxy materials to their principals and to request authority for the execution of proxies. The company may reimburse such persons for their expenses in so doing.



**PROPOSAL 1**  
**ELECTION OF DIRECTORS**

The board currently consists of seven members, of whom six are standing for re-election. Each director serves a term that expires at the annual meeting. In June 2007, Jonathan Miller was appointed a director by the board upon the recommendation of the nominating and corporate governance committee. Mr. Miller was recommended to the nominating and corporate governance committee by a director search firm. Each of the director nominees listed below is an incumbent director whose nomination to serve on the board was recommended by the nominating and corporate governance committee and approved by the board. The director nominees, if elected, will serve until the 2009 annual meeting of stockholders, or until their earlier resignation or removal. Each of the director nominees has indicated a willingness to serve as a director if elected. If any director nominee becomes unable to serve, the board may designate a substitute nominee, in which case the designated proxy holders, Frank Gatto and Michael Pawlowski, will vote for such substitute nominee.

The directors will be elected by a plurality of the votes cast at the annual meeting. A withheld vote is not considered a vote cast and will have no effect on the outcome of the election of directors.

*The board recommends a vote **FOR** each of the six director nominees listed below.*

**Jerry V. Elliott**, age 48, has served as a director of the company since December 2006. Mr. Elliott currently serves as chief financial officer of Cengage Learning Inc. and is an adjunct professor at the United States Military Academy at West Point. He also currently serves on the boards of directors of Tekelec, Inc. and SunCom Wireless Holdings, Inc. Previously, he served as president, chief executive officer and director of Global Signal Inc., a publicly traded real estate investment trust that rents tower space to wireless carriers, from April 2006 until it was acquired by Crown Castle International in January 2007. From December 2005 to April 2006, Mr. Elliott served as president of Citizens Communications Co., a provider of communication services to rural areas and small to medium-sized towns. He served as chief financial officer of Citizens Communications from February 2002 to November 2005 and as a director from September 2004 until April 2006. Prior to holding these positions, Mr. Elliott was a Managing Director Media and Communications in Morgan Stanley's investment banking group, a partner at the law firm of Shearman & Sterling LLP and an accountant at Arthur Andersen LLP.

**Jonathan F. Miller**, age 51, has served as a director of the company since June 2007. Mr. Miller currently is a private investor, investing in early stage venture companies and advising a number of private equity firms. He is also a founding partner of Velocity Interactive Group, a private investment firm, specializing in the digital media and communication sectors. From August 2002 until November 2006, Mr. Miller served as chairman and chief executive officer of America Online, Inc. Before joining America Online, he served as president and chief executive officer of USA Information Services (now IAC/InterActiveCorp), which at the time of his service included businesses such as Ticketmaster, CitySearch, Expedia and Match.com. Mr. Miller has also held positions at Viacom, the National Basketball Association and Public Broadcasting Service station WGBH in Boston, Massachusetts. Mr. Miller currently serves as a director of Premier Exhibitions, Inc. and TM Entertainment & Media, Inc. Mr. Miller also currently serves as a member of the board of trustees of the American Film Institute, Emerson College and WYNC (New York Public Radio).

**Donald B. Reed**, age 63, has served as a director of the company since November 2006. Mr. Reed currently serves on the boards of directors of CSG Systems International Inc. and Intervoice, Inc. From May 2000 to January 2003, he served as chief executive officer of Cable and Wireless Global, or C&W, a unit of Cable & Wireless plc (UK). C&W provided Internet protocol and data services to business customers in the United States, Europe and Japan. Mr. Reed served in various other executive positions at C&W from June 1998 to May 2000. He also served for 30 years in

various executive positions at New England Telephone, NYNEX Corporation and Bell Atlantic Corporation, including as NYNEX's vice president of government affairs in Washington, D.C., vice president of NYNEX Human Resources, president of NYNEX Information Resources, the directory operations of NYNEX, and president and group executive of NYNEX Corporation.

**Stephen L. Robertson**, age 56, has served as a director of the company since November 2006. Mr. Robertson is currently a business consultant. Previously, he served as president of Convergys International, a unit of Convergys Corporation, from 2002 to 2005. Convergys Corporation, or Convergys, is a global outsourcing solutions company. Mr. Robertson also served as Convergys executive vice president of North American operations from 2000 to 2002 and as Convergys president of telecom solutions from 1996 to 2000. Prior to joining Convergys, he served 22 years in the telecommunications industry with Cincinnati Bell Corporation and Southwestern Bell Corporation. Mr. Robertson also served on the respective senior executive committees of Convergys and Cincinnati Bell Corporation. In 2007, he successfully completed an exam to be certified as having core competencies as a board member following completion of an executive education program sponsored by the UCLA Anderson School of Management.

**Thomas S. Rogers**, age 53, has served as a director of the company since November 2006. Mr. Rogers currently serves as president and chief executive officer of TiVo Inc., a position he has held since July 2005. He also currently serves on the board of directors of TiVo Inc., a provider of television-based interactive and entertainment services. Mr. Rogers previously served as chairman of the board of Teleglobe International Holdings, Ltd., a provider of international voice, data, Internet and mobile roaming services, from November 2004 to February 2006. He also serves as chairman of TRget Media LLC, a media industry investment and operations advisory firm. Mr. Rogers served as the senior operating executive for media and entertainment for Cerberus Capital Management, a large private equity firm, from 2004 to July 2005. Prior to holding that position, he served as chairman and chief executive officer of Primedia, Inc., a print, video and online media company, from October 1999 to April 2003. From January 1987 until October 1999, Mr. Rogers held positions with National Broadcast Company, Inc., including president of NBC Cable and executive vice president.

**Paul E. Weaver**, age 62, has served as a director of the company since December 2006. Mr. Weaver currently serves as a director of AMN Healthcare Services Inc., is chairman of the board of the Ellis Island/Statue of Liberty Foundation and serves on the Corporate Advisory Board of the University of Michigan Business School. Mr. Weaver was a vice chairman of PricewaterhouseCoopers LLP, until 2006. During his more than 30 years at PricewaterhouseCoopers, Mr. Weaver served as the lead partner on a number of the firm's largest global clients and held various management positions, including serving as a vice chairman of the firm and chairman of the firm's global technology practice group, focusing on the technology, infocomm, entertainment and media industries.

**PROPOSAL 2**  
**APPROVAL OF THE 2008 INCENTIVE COMPENSATION PLAN**

The board and the human resources committee believe that incentive-based compensation programs are an important element of the company's continued financial and operational success. In February 2008, the board adopted the company's 2008 incentive compensation plan (the *incentive plan*) to replace our original long term incentive plan. The board approved the incentive plan upon the recommendation of the human resources committee, subject to stockholder approval at the 2008 annual meeting of stockholders. If our stockholders approve the incentive plan, we will issue no more than 350,000 shares under our original long term incentive plan after December 31, 2007, for new awards and dividend equivalents under outstanding awards.

Under NYSE rules, we are required to obtain stockholder approval of the incentive plan. In addition, stockholder approval is necessary to ensure that our ability to deduct for tax purposes compensation paid under the incentive plan will not be limited by Section 162(m) of the Internal Revenue Code. Although we do not expect to grant stock options at this time, stockholder approval of the plan is also required if we wish to grant incentive stock options to employees under Section 422 of the Internal Revenue Code.

You are being asked to approve the incentive plan. You should read and understand the terms of the incentive plan before you vote. A summary of the incentive plan is provided below and is qualified in its entirety by reference to the full text of the incentive plan. A copy of the incentive plan is attached to this proxy statement as Appendix A. The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting is required to approve the incentive plan. Abstentions will be counted toward a quorum and considered shares present in person or by proxy and entitled to vote. Accordingly, abstentions will have the effect of a vote against this proposal. Broker non-votes will have no effect on the approval of this proposal other than with respect to the NYSE requirement that the votes cast represent greater than 50% of the shares outstanding as of the record date. Broker non-votes will not be counted as votes cast.

As of March 10, 2008, the closing price of the company's common stock was \$5.06.

*The board recommends a vote FOR proposal 2.*

**Material Provisions of the Incentive Plan**

*Purposes*

The purposes of the incentive plan are to:

optimize the company's profitability and growth through incentives that are consistent with the company's goals and that link the interests of participants to the interests of stockholders;

provide participants with incentives for excellence in individual performance;

provide flexibility to the company in its ability to motivate, attract and retain the services of participants who make significant contributions to the company's success; and

allow participants to share in the success of the company.

*Administration*

The incentive plan will be administered by the human resources committee (the *committee* ). The committee will have full authority to interpret and oversee the operation of the incentive plan. The committee may delegate its administrative duties and powers, subject to limitations set forth in the incentive plan. The committee may also delegate to one or more officers, within the limitations set forth in the incentive plan, the authority to designate award recipients and to determine the amount, timing and term of awards (other than performance-based awards) for participants other than directors and executive officers.

***Term***

The incentive plan will become effective as of March 4, 2008, subject to stockholder approval at the 2008 annual meeting of stockholders. The incentive plan will terminate ten years from the effective date, or earlier in specified circumstances under the plan.

***Eligibility***

All employees, non-management directors and consultants and independent contractors providing services to us or any of our subsidiaries are eligible to participate in the incentive plan. The committee, acting in its discretion, is authorized to designate which eligible persons will actually receive awards under the plan. We have approximately 7,200 employees and expect to issue awards annually to approximately 170 senior employees.

***Types of Awards***

The incentive plan is an omnibus plan under which we can make the following types of awards:

Restricted Stock

Restricted Stock Units

Stock Options

Stock Appreciation Rights

Deferred Stock Units

Performance Shares

Performance Share Units

Other Stock-Based Awards

Performance-Based Cash Incentive Awards

***Shares Available for Awards***

We may issue 12 million shares of common stock under the incentive plan, subject to adjustment for changes in our capital structure or a reorganization of the company. Shares issued under the incentive plan may be authorized and unissued shares, treasury shares or any combination of the two. Shares forfeited or repurchased or underlying the unexercised portion of an award that terminates, expires, is canceled or is settled in cash will be available for further awards under the incentive plan. Shares withheld or delivered to pay the exercise or purchase price of an award or to satisfy tax withholding obligations will also be available for further awards under the plan.

***Award Limits***

No more than 2 million shares of common stock may be covered by stock-based awards granted to any participant under the plan in a calendar year. The maximum amount that a participant may earn for any calendar year under cash incentive awards under the plan is \$10 million. Of the shares available for issuance under the plan, a maximum of 12 million shares may be issued pursuant to incentive stock options.

***Descriptions of Awards***

*Restricted Stock and Restricted Stock Units.* Restricted stock is common stock that is issued subject to restrictions, vesting and other conditions as determined by the committee. Shares of restricted stock generally vest on the basis of the satisfaction of performance conditions established by the committee and/or continuing employment or other service for a specified period of time. Unless otherwise determined by the committee, recipients of restricted stock are entitled to vote their shares of restricted stock and to receive the dividends paid on the shares, which may also be subject to vesting and other conditions.

A restricted stock unit is a right to receive one share of our common stock or cash equal to the value of one share at the end of a specified period, subject to transfer restrictions and other conditions as determined by the committee. Restricted stock units generally vest on the basis of the satisfaction of performance conditions established by the committee and/or continuing employment or other service for a specified period of time. The holder of a restricted stock unit award has no rights as a stockholder with respect to the

underlying shares unless and until the award vests and the award is settled in shares. However, the committee may provide for the payment of dividend equivalents in the form of cash or shares in an amount equal to the dividends that would have been payable if the shares were outstanding.

*Performance Shares and Performance Share Units.* A performance share is a share of common stock that is issued subject to vesting and/or other conditions that are based on the achievement of pre-established performance goals, as determined by the committee. A performance share unit is a restricted stock unit award under which the number of shares and/or the vesting of the award is subject to the achievement or level of achievement of pre-established performance goals, as determined by the committee. Performance share units are payable in cash or shares as set forth in the applicable award agreement. Performance share awards and performance share unit awards may be structured in a manner that will qualify for the performance-based exception from the tax deductibility limitation imposed by Section 162(m) of the Internal Revenue Code.

*Stock Options.* A stock option is a right to purchase shares of our common stock at a price fixed on the grant date, subject to restrictions and conditions as determined by the board. Grants of options under the incentive plan may be incentive stock options or non-qualified stock options under the Internal Revenue Code. The exercise price may not be less than the fair market value of our common stock on the option grant date. A participant may pay the exercise price in cash, by delivering unrestricted shares to the company having a value at the time of exercise equal to the exercise price, by a cashless broker-assisted exercise, by a combination of these methods or any other method approved by the committee. Options may not be re-priced in the absence of stockholder approval. No option may be exercisable after the tenth anniversary of the grant date. The holder of an option will have no rights as a stockholder with respect to the underlying shares unless and until the shares are issued upon exercise.

*Stock Appreciation Rights (SARs).* A stock appreciation right, or SAR, entitles a participant to receive upon exercise a payment equal to the difference between the grant price of the SAR and the market price of our common stock on the date of exercise. The settlement of an SAR may be in the form of cash, shares, a combination of cash and shares or in any other manner, as determined by the committee. The grant price of an SAR may not be less than the fair market value of our common stock on the grant date. SARs may not be re-priced without stockholder approval. No SARs may be exercisable after the tenth anniversary of the grant date.

*Deferred Stock Units.* A deferred stock unit is a right to receive one share of our common stock or cash equal to the value of one share, subject to deferred distribution or payment conditions and other restrictions, as determined by the committee. The committee may allow a participant to defer receipt of all or a portion of his annual base salary and incentive compensation, other than stock options or SARs, and instead receive an award of deferred stock units. The number of deferred stock units payable is calculated by dividing (1) the amount of the deferred compensation by (2) the fair market value of our common stock on the date the compensation is payable. Upon the grant of deferred stock units, we will establish a notional account for the participant and will record the number of shares underlying the deferred stock units. No shares will be issued to the participant at the time of grant. The committee may provide for the payment of dividend equivalents in the form of cash or shares in an amount equal to the dividends that would have been payable if the shares were outstanding.

*Other Stock-Based Awards.* The committee may grant other awards denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of our common stock. These awards may include stock bonuses, dividend equivalents (either alone or in conjunction with other awards, including with respect to awards outstanding under our original long term incentive plan), convertible or exchangeable debt securities, other rights convertible or exchangeable into shares, purchase rights for shares and share-based awards designed to comply with or take advantage of applicable laws outside of the United States.



*Performance-Based Cash Incentive Awards.* The committee may grant cash incentive awards, including short- and long-term cash incentive awards subject to the attainment of specified performance goals established by the committee. At the end of the applicable performance period, the committee will determine whether and to what extent the performance goals are achieved and to what extent each cash incentive award has been earned. The committee will have the flexibility to structure cash incentive awards under the incentive plan in a

manner that is intended to qualify for the performance-based exception from the tax deductibility limitation imposed by Section 162(m) of the Internal Revenue Code.

***Performance Measures***

The committee may establish conditions based on the achievement of performance measures for awards that are intended to qualify for the performance-based exception from the tax deductibility limitation imposed by Section 162(m) of the Internal Revenue Code. The measures may be based on company-wide performance or performance of a business unit, department, function or subsidiary of the company. The performance measures may include a comparison of the company's performance as measured against the performance of a group of comparator companies, a published or special index or a stock market index. The following performance measures may be used under the incentive plan:

net earnings or net income (before or after taxes, depreciation and amortization);

earnings per share;

net sales or revenue growth;

net operating profit;

return measures (including, but not limited to, return on assets, capital, invested capital, equity, sales or revenue);

cash flow (including, but not limited to, operating cash flow, free cash flow, cash flow return on equity and cash flow return on investment);

earnings before taxes, interest, depreciation, and/or amortization;

operating income before or after interest, taxes, depreciation and/or amortization;

gross or operating margins;

productivity ratios;

share price (including, but not limited to, growth measures and total stockholder return);

expense targets;

debt measures (including, but not limited to, debt multiples);

margins;

operating efficiency;

market share;

customer satisfaction;

working capital targets and change in working capital;

market value added; and

economic value added (calculated as net operating profit after tax minus the sum of capital multiplied by the cost of capital).

For any performance-based award, the committee may allow for adjustments to performance measures for specified events set forth in the incentive plan to the extent allowed by Section 162(m) of the Internal Revenue Code.

***Amendment and Termination***

The board or the committee may, at any time, amend, suspend or terminate the incentive plan in whole or in part, except that any change that requires stockholder approval under applicable law, regulation or rule will

not be effective unless we obtain stockholder approval. No termination, amendment, suspension or modification of the incentive plan or an award agreement may materially adversely affect any prior award under the incentive plan, without the written consent of the participant holding the award.

***Transferability of Awards***

Awards will not be transferable, other than by will or the laws of descent and distribution. The committee may determine that any transfer in violation of the incentive plan is null and void.

***Forfeiture of Awards***

The committee may specify in an award agreement that the award is subject to reduction, cancellation, forfeiture or recoupment upon termination of employment for cause, violation of material company policies, breach of restrictive covenants or other events specified by the committee.

***Change in Control***

Unless provided otherwise in an award agreement, in the event a change in control of the company occurs, each award outstanding under the incentive plan immediately prior to the change in control may be assumed and converted into an alternative award by the acquiring company, upon similar vesting and other terms and conditions, subject to post-change in control severance protection. In general, except as otherwise determined by the committee, any outstanding award that is not assumed and converted into an alternative award will become fully vested immediately before the change in control, and the holder of the award will realize the full value of the award upon or in connection with the change in control.

Under the incentive plan, a change in control is defined as:

the acquisition of 40% or more of our common stock except in connection with a merger or consolidation where a majority of the directors of the surviving entity were directors of the company prior to the transaction;

a change in a majority of the members of our board, without the approval of the then incumbent members of the board;

the completion of a merger or consolidation unless (a) a majority of the directors of the surviving entity were directors of the company prior to the transaction or (b) the transaction is a recapitalization of the company in which no person, entity, or group beneficially owns 40% or more of the combined voting stock of the surviving entity;

a sale of all or substantially all of our assets unless the sale is to an entity in which our shareholders own at least 50% of the voting stock in substantially the same proportions as their ownership of the company immediately prior to the sale;

stockholder approval of a complete liquidation or dissolution of the company; or

any other event designated by our board as a change in control or required to be reported as a change in control on a Form 8-K under the Securities Exchange Act of 1934.

***Tax Withholding***

Our obligation to make payments or issue unrestricted shares in connection with any award will be subject to and conditioned upon the satisfaction by the holder of applicable tax withholding obligations. We may require a participant to pay an amount sufficient to satisfy applicable withholding taxes or deduct or withhold the amount from any payments otherwise owed to the participant, whether or not under the incentive plan. The committee may allow a participant to satisfy a withholding tax obligation in whole or in part by having us withhold shares that would otherwise be issued to the participant, or by having the participant deliver shares to us, with a value equal to the minimum amount of the withholding obligation.

## **Federal Income Tax Consequences**

The following is a summary of anticipated federal income tax consequences associated with stock-based awards under the incentive plan.

### ***Stock-Settled Awards Other than Options and SARs***

In general, a participant who receives restricted stock or other stock settled awards under the plan will realize ordinary income at the time the restricted stock becomes vested or the participant receives vested shares in settlement of the award in an amount equal to the then fair market value of the shares, and we will be entitled to a corresponding deduction (subject to potentially applicable deduction limitations under Section 162(m) of the Internal Revenue Code). The participant's tax basis in the shares will generally be equal to the value of the shares on the date that ordinary income is realized, and the participant's tax holding period for the shares will generally begin on that date. Gain or loss on a subsequent sale of the shares will be long- or short-term capital gain or loss, depending on whether the sale occurs more than one year after the participant's holding period begins.

### ***Stock Options***

The grant of a stock option is not a taxable event. In general, a participant who receives an option that does not qualify as an incentive stock option under Section 422 of the Internal Revenue Code will realize ordinary income at the time the option is exercised equal to the difference between the then value of the shares acquired by the exercise of the option over the option exercise price paid for the shares, and we will be entitled to a corresponding deduction. The participant's tax basis for the shares will be equal to the value of the shares on the date ordinary income is realized and the participant's tax holding period for shares will begin on that date. Gain or loss on a subsequent sale of the shares will be long- or short-term capital gain or loss, depending on whether the sale occurs more than one year after the participant's holding period begins.

If a participant receives a stock option that qualifies as an incentive stock option under Section 422 of the Internal Revenue Code, the participant will not realize income at the time the option is exercised (although the difference between the value of the shares and the exercise price will be taken into account as income for alternative minimum tax purposes), but will realize taxable income when the option shares are subsequently sold. If the participant sells the option shares more than two years after the date the option is granted and more than one year after the date the option is exercised, any gain or loss realized on the sale will be long-term capital gain or loss, and we will not be entitled to a deduction. On the other hand, if the participant sells the option shares before the end of either of those periods, any gain realized on the sale will be taxable as ordinary income to the extent of the difference between the value of the shares on the date the option was exercised and the exercise price paid for the shares, and any remaining gain will be capital gain. In general, we will be entitled to a deduction equal to the ordinary income realized by the participant upon the sale of the option shares.

### ***Stock Appreciation Rights (SARs)***

The grant of an SAR will not result in any immediate tax consequence to us or to the participant. Generally, the participant will realize ordinary income upon the exercise of an SAR, equal to the value of the shares or the cash payment issued or made in settlement of the award, and we will be entitled to a corresponding deduction.

### ***Tax Deductibility Limitation***

The Internal Revenue Code limits the allowable tax deduction that may be taken by us for compensation paid to some of our executive officers. The limit is \$1,000,000 per executive per year, but qualified performance-based

compensation is excluded from the limitation. Under the incentive plan, stock options, SARs, and performance-based stock and performance-based cash incentive awards may qualify as performance-based compensation not subject to the \$1,000,000 limitation. Restricted stock and other share-based awards that are not performance based would be subject to the limitation unless the vesting and settlement of the awards are subject to the achievement of performance goals established under the incentive plan.

## Plan Benefits

In the first quarter of 2008, the committee approved short-term cash incentive awards, performance share unit awards and restricted stock awards under the incentive plan for some of our officers and other employees, subject to stockholder approval of the incentive plan at the 2008 annual meeting of stockholders. The actual amounts that will be paid under the short-term cash incentive awards and performance share unit awards will depend on the attainment of specified performance measures. As a result, the amounts payable under these awards are not determinable at this time.

The table below sets forth the restricted stock awards and the amounts or shares payable under the performance-based awards if the target levels of performance are attained, for the following:

the individuals named in the Summary Compensation Table;

all of our executive officers as a group;

all of our non-management directors as a group; and

all of our non-executive officers as a group.

Name and Position	Dollar Value of Target Short- Term Cash Incentive Awards	Target Number of Performance Share Units	Number of Shares of Restricted Stock
Frank P. Gatto <i>Acting Chief Executive Officer</i>	\$ 280,000	59,549	25,521
Samuel D. Jones <i>Acting Chief Financial Officer and Treasurer</i>	156,000	31,500	13,500
W. Scott Hanle (1) <i>President Sales</i>		51,705	22,159
William G. Mundy (2) <i>Executive Vice President and General Counsel</i>	264,000	56,146	24,063
Katherine J. Harless (3) <i>Former President and Chief Executive Officer</i>			
Andrew Coticchio (4) <i>Former Executive Vice President and Chief Financial Officer</i>			
Executive Group	1,576,000	322,025	138,012
Non-Executive Director Group			
Non-Executive Officer Employee Group		1,037,847	711,163

(1)



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In February 2008, Mr. Hanle was granted a short-term cash incentive award under a separate company incentive plan.

- (2) Mr. Mundy is retiring effective March 31, 2008. Accordingly, we do not expect that he will receive the performance share units and restricted stock.
- (3) Ms. Harless served as president and chief executive officer of the company through February 16, 2008.
- (4) Mr. Coticchio served as executive vice president, chief financial officer and treasurer of the company through November 26, 2007.

**PROPOSAL 3**  
**RATIFICATION OF APPOINTMENT OF**  
**ERNST & YOUNG LLP AS THE COMPANY S INDEPENDENT**  
**REGISTERED PUBLIC ACCOUNTING FIRM FOR 2008**

The audit committee has appointed Ernst & Young LLP as the company s independent registered public accounting firm for 2008. The board is asking stockholders to ratify this appointment. Although the company is not required to obtain stockholder ratification of the appointment of Ernst & Young, the board considers the selection of an independent registered public accounting firm to be an important matter to stockholders and considers a proposal for stockholders to ratify such appointment to be an opportunity for stockholders to provide input to the audit committee and the board on a key corporate governance issue.

The affirmative vote of a majority of the shares present in person or represented by proxy and entitled to vote at the annual meeting is required to ratify the appointment of Ernst & Young. Abstentions will be counted toward a quorum and considered shares present in person or by proxy and entitled to vote. Accordingly, abstentions will have the effect of a vote against this proposal.

Representatives of Ernst & Young are expected to be present at the annual meeting and will be offered the opportunity to make a statement if they so desire. They will also be available to answer questions.

*The board recommends a vote **FOR** proposal 3.*

## CORPORATE GOVERNANCE

### Corporate Governance Guidelines

The company is committed to maintaining the highest standards of business conduct and corporate governance, which we believe are essential to running our business efficiently, serving our stockholders well and maintaining our integrity in the marketplace. The company has adopted a code of conduct for directors, officers and employees and corporate governance guidelines, which, together with our certificate of incorporation, by-laws and board committee charters, form our framework for governance. All of these documents are publicly available on our website at [www.idearc.com](http://www.idearc.com) or may be obtained free of charge upon written request to: Idearc Inc., P.O. Box 619810, 2200 West Airfield Drive, D/FW Airport, TX 75261, Attention: Investor Relations.

### Director Independence

As part of the company's corporate governance guidelines, the board has established a policy requiring a majority of the members of the board to be independent. Our board currently consists of seven directors, of whom six are standing for re-election. Each of these six directors is independent (as defined by our corporate governance guidelines). For a director to be independent, the board must determine, among other things, that the director does not have any direct or indirect material relationship with the company. The guidelines for determining director independence are set forth in our corporate governance guidelines, which conform to the independence requirements of the NYSE corporate governance standards. Applying these independence standards, the board has determined that Jerry V. Elliott, Jonathan F. Miller, Donald B. Reed, Stephen L. Robertson, Thomas S. Rogers and Paul E. Weaver are all independent directors.

### Director Nominations

**Qualifications.** In considering nominees for election as director, the nominating and corporate governance committee considers a number of factors. Characteristics expected of all directors include integrity, high personal and professional ethics, sound business judgment and the ability and willingness to commit sufficient time to the board. In evaluating the suitability of individual board members, the committee takes into account many factors, including the candidate's general understanding of marketing, finance and other disciplines relevant to the success of a large publicly traded company in today's business environment, understanding of the company's business and technology, educational and professional background and personal accomplishments.

**Stockholder Recommendations.** The nominating and corporate governance committee will evaluate any director candidates recommended by a stockholder according to the same criteria as a candidate identified by the nominating and corporate governance committee. The company has never received any recommendations for director candidates from stockholders.

Stockholders may recommend candidates at any time, but to be considered by the nominating and corporate governance committee for inclusion in the company's proxy statement for the next annual meeting of stockholders, recommendations must be submitted in writing no later than 120 days in advance of the first anniversary of the date of the company's proxy statement mailed to stockholders for the preceding year's annual meeting of stockholders. A stockholder's notice must contain the following:

the name and address of the stockholder recommending the director candidate for consideration, the name of the director candidate and the written consent of the stockholder and the director candidate to be publicly

identified;

a written statement by the director candidate agreeing to be named in the company's proxy materials and to serve as a member of the board (and any committee of the board to which the director candidate is assigned to serve by the board) if nominated and elected;

a written statement by the stockholder and director candidate agreeing to make available to the nominating and corporate governance committee all information reasonably requested in connection with the nominating and corporate governance committee's consideration of the director candidate; and

the director candidate's name, age, business and residential address, principal occupation or employment, number of shares of the company's common stock and other securities beneficially owned, a resume or similar document detailing personal and professional experiences and accomplishments, and all other information relating to the director candidate that would be required to be disclosed in a proxy statement or other filing made in connection with the solicitation of proxies for the election of directors pursuant to the Securities Exchange Act of 1934, as amended, the rules of the SEC and the NYSE corporate governance standards.

The stockholder's notice must be signed by the stockholder recommending the director candidate for consideration and sent to the following address: Idearc Inc., P.O. Box 619810, 2200 West Airfield Drive, D/FW Airport, TX 75261, Attention: Corporate Secretary (Nominating and Corporate Governance Committee Communication/Director Candidate Recommendation).

### **Communications with the Board**

Any stockholder and other interested party may communicate with the board, any board committee, the non-management directors or any other individual director. All written communications must identify the recipient and the author and be forwarded by certified mail to: Idearc Inc., P.O. Box 619810, 2200 West Airfield Drive, D/FW Airport, TX 75261, Attention: Corporate Secretary. The corporate secretary will act as agent for the directors in facilitating these communications.

### **Code of Conduct**

The company has adopted a code of conduct applicable to all of its directors and employees, including the chief executive officer, chief financial officer and chief accounting officer. The purpose of the code of conduct is to, among other things, focus our directors, officers and employees on areas of ethical risk, provide guidance to help them recognize and deal with ethical issues, provide mechanisms to report unethical or unlawful conduct and to help enhance and formalize our culture of integrity, respect and accountability. The company will post information regarding any amendment to, or waiver from, its code of conduct on its website under the Investor Relations tab as required by applicable law.

## THE BOARD, ITS COMMITTEES AND ITS COMPENSATION

### The Board

Under the company's corporate governance guidelines, each director is expected to devote the time necessary to appropriately discharge his or her responsibilities, review all meeting materials distributed in advance of a meeting and be prepared to discuss the business to be presented and is strongly encouraged to attend and participate in all board meetings and meetings of board committees on which he or she serves. During 2007, the board held 15 meetings. Each director attended at least 75% of the total number of meetings of the board and committees on which he or she served during the period he or she was a director.

The board has established a policy that its non-management directors meet regularly in executive session, without members of management present. A non-management director presides over each executive session. In 2007, our chairman of the board had this responsibility. In 2008, the board appointed Donald B. Reed to serve as lead director. In that capacity, Mr. Reed will preside over executive sessions of the non-management directors.

As part of the company's corporate governance guidelines, the board has adopted a policy that strongly encourages each director to attend each stockholder meeting. All board members who were directors at the time of the meeting attended the company's 2007 annual meeting of stockholders.

### Board Committees

The board has three standing committees: audit committee, human resources committee and nominating and corporate governance committee, each of which is described below. Each committee operates under a written charter adopted by the board. All of the charters are publicly available on our website at [www.idearc.com](http://www.idearc.com) under the Investor Relations tab. You may also obtain a copy of our charters upon written request to our investor relations department at our principal executive offices.

Upon the nominating and corporate governance committee's recommendations, the board appoints committee members annually. The table below sets forth the current composition of our board committees.

	<b>Audit Committee</b>	<b>Human Resources Committee</b>	<b>Nominating and Corporate Governance Committee</b>
Jerry V. Elliott	ü	ü	
Jonathan F. Miller			ü
Donald B. Reed		ü(Chair)	ü(Chair)
Stephen L. Robertson	ü	ü	
Thomas S. Rogers			ü
Paul E. Weaver	ü(Chair)		

Subject to their re-election at the annual meeting, the composition of the board committees for 2008 is expected to remain the same.

### Audit Committee

The audit committee oversees our accounting and financial reporting processes and the audits of the company's financial statements. The functions and responsibilities of the audit committee include:

establishing, monitoring and assessing the company's policies and procedures with respect to business practices, including the adequacy of the company's internal controls over accounting and financial reporting;

reviewing the annual audited financial statements and quarterly financial statements with management and the independent registered public accounting firm;

reviewing with management and the independent registered public accounting firm the scope and the planning of the annual audit;

engaging the company's independent registered public accounting firm and conducting an annual review of the independence of that firm;

pre-approving all audit and permitted non-audit services to be performed by the company's independent registered public accounting firm;

reviewing the findings and recommendations of the independent registered public accounting firm and management's response to the recommendations of that firm;

overseeing the internal audit function;

overseeing compliance with applicable legal and regulatory requirements, including ethical business standards;

establishing procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls or auditing matters;

establishing procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;

preparing the Audit Committee Report to be included in our annual proxy statement; and

reviewing the adequacy of the audit committee charter on an annual basis.

During 2007, the audit committee held nine meetings. Our independent registered public accounting firm reports directly to the audit committee. Each member of the audit committee has the ability to read and understand fundamental financial statements. The board has determined each member of the audit committee is independent as defined by the NYSE corporate governance standards and Rule 10A-3 of the Securities Exchange Act of 1934. The board has also determined that Mr. Weaver meets the requirements of an audit committee financial expert as defined by the rules of the SEC.

### **Human Resources Committee**

The human resources committee establishes, administers and reviews the company's policies, programs and procedures for compensating our executive officers and the board. The functions and responsibilities of the human resources committee include:

evaluating the performance of and determining the compensation for the company's executive officers, including its chief executive officer;

administering and making recommendations to the board with respect to the company's equity incentive plan;

overseeing regulatory compliance with respect to compensation matters;

reviewing and approving employment and severance arrangements with the company's senior management;



reviewing director compensation policies and, as appropriate, making recommendations to the board;

preparing the Human Resources Committee Report to be included in the annual proxy statement;

overseeing preparation of the Compensation Discussion and Analysis to be included in the annual proxy statement; and

reviewing the adequacy of the human resources committee charter on an annual basis.

During 2007, the human resources committee held ten meetings. The board has determined that each member of the human resources committee is independent as defined by the NYSE corporate governance standards.

## Nominating and Corporate Governance Committee

The functions and responsibilities of the nominating and corporate governance committee include:

- developing and recommending corporate governance principles and procedures applicable to the board and the company's employees;
- recommending committee composition and assignments;
- identifying individuals qualified to become directors;
- recommending director nominees;
- recommending whether incumbent directors should be nominated for re-election to the board; and
- reviewing the adequacy of the nominating and corporate governance committee charter on an annual basis.

During 2007, the nominating and corporate governance committee held three meetings. The board has determined that each member of the nominating and corporate governance committee is independent as defined by the NYSE corporate governance standards. In 2007, the nominating and corporate governance committee retained a director search firm to help the committee identify and evaluate qualified director nominees for consideration by the committee.

## Director Compensation

**Annual Cash Compensation.** The table below summarizes the components of cash compensation payable to our non-management directors for board service during 2007. A director who is an employee of the company does not receive additional compensation for serving as a director.

Cash retainer for Board service	\$ 60,000
Chairman of the Board	\$ 60,000
Audit Committee chair	\$ 15,000
Human Resources Committee chair	\$ 10,000
Nominating and Corporate Governance Committee chair	\$ 10,000

**Annual Equity-Based Compensation.** Non-management directors also receive an annual restricted stock award equal to \$90,000 divided by the closing price of our common stock on the grant date. The shares of restricted stock vest on the first anniversary of the grant. Dividends are not payable on the unvested shares of restricted stock. However, dividend equivalents, in an amount equal to the dividend that would have been paid on the unvested shares of restricted stock, are credited to the director. Dividend equivalents are paid in cash on the vesting date.

**One-Time Equity-Based Compensation.** Non-management directors who join the board will receive a one-time award of restricted stock valued at \$85,000. In February 2007, our then-current non-management directors received a one-time award of restricted stock valued at \$170,000 as an initial inducement to serve on the board, as compensation for board formation activities in 2006 and to provide a significant equity stake in the company at the start of board service. These one-time awards vest on the third anniversary of the grant date. Dividends are not payable on the unvested shares of restricted stock. However, dividend equivalents, in an amount equal to the dividend that would have been paid on the unvested shares of restricted stock, are credited to the director. Dividend equivalents are paid in

cash on the vesting date.

**Director Compensation Table.** The table below sets forth the compensation earned by each of our directors who served as a non-management director during 2007.

Name (1)	Fees Earned or		Total
	Paid in Cash (2)	Stock Awards (3)	
Jerry V. Elliott	\$ 60,000	\$ 129,571	\$ 189,571
Jonathan F. Miller (4)	35,000	59,490	94,490
John J. Mueller (5)	130,000	129,571	259,571
Donald B. Reed	70,000	129,571	199,571
Stephen L. Robertson	60,000	129,571	189,571
Thomas S. Rogers	60,000	129,571	189,571
Paul E. Weaver	75,000	129,571	204,571

- (1) Katherine J. Harless, the company's former president and chief executive officer, is not included in this table because she was an employee of the company during 2007 and, therefore, did not receive compensation for her service as a director. See Executive Compensation Summary Compensation Table on page 33 for a discussion of the compensation received by Ms. Harless as an employee of the company.
- (2) Includes cash retainers for serving as chairman of the board and/or as a committee chair in 2007 as follows: Mr. Mueller \$60,000 as chairman of the board and \$10,000 as chair of the nominating and corporate governance committee; Mr. Reed \$10,000 as chair of the human resources committee; and Mr. Weaver \$15,000 as chair of the audit committee.
- (3) Represents the expense recognized for financial reporting purposes for 2007 with respect to awards of restricted stock for each of the non-management directors. These dollar amounts were computed in accordance with Financial Accounting Standards Board Statement No. 123(R), Share-Based Payment ( *FAS 123R* ), excluding the impact of estimated forfeitures related to service-based vesting conditions, as required under SEC regulations. These dollar amounts reflect the company's accounting expense for these awards and do not reflect the actual value that may be realized by the non-management directors. The value of the right to receive dividend equivalents was included in the grant date fair value under FAS 123R. Accordingly, dividend equivalents are not reported separately. Except for Mr. Miller, the grant date fair value of each non-management director's annual and one-time restricted stock awards was \$90,007 and \$170,033, respectively. For Mr. Miller, the grant date fair value of his annual and one-time restricted stock awards was \$52,508 and \$85,034, respectively. See note 13 to the consolidated financial statements in the company's annual report on Form 10-K for the year ended December 31, 2007, for a description of the assumptions used in determining the accounting expense associated with these awards. As of December 31, 2007, each non-management director held 7,451 shares of restricted stock, except for Mr. Miller who held 3,827 shares of restricted stock.
- (4) Mr. Miller joined the board in June 2007. His annual cash retainer was prorated based on his term of service.
- (5) Mr. Mueller resigned from the board in February 2008.

### Stock Ownership Guideline

In April 2007, the human resources committee adopted a stock ownership guideline for non-management directors to align their interests with those of the company's stockholders and to strengthen the company's commitment to sound corporate governance. The stock ownership guideline provides that each non-management director is required to own 7,000 shares. This number was determined by dividing \$200,000 by the company's closing stock price on January 31, 2007, and rounding up to the nearest 1,000 shares. Each non-management director is expected to comply with the ownership guideline within five years of becoming a director and to maintain ownership of at least 7,000 shares while serving as a director or until the company changes the guideline.

Until a non-management director meets the required stock ownership guideline, he or she is required to retain at least 75% of the shares received as equity-based compensation from the company, other than shares sold to satisfy withholding tax obligations. If a non-management director does not meet the required ownership guideline within the permitted timeframe or subsequently falls below the guideline, he or she will not be eligible to receive any equity-based compensation for the year in which the circumstance occurs and in any subsequent year during which the circumstance continues.

Shares counted towards meeting the ownership guideline include (a) shares owned outright by a non-management director, or his or her immediate family members residing in the same household, and (b) shares of restricted stock held by a non-management director, whether or not vested.

The following table sets forth the number of shares held by each of the non-management directors that are standing for re-election at the 2008 annual meeting of stockholders, as of March 10, 2008.

<b>Name</b>	<b>Number of Shares Held</b>
Jerry V. Elliott	7,451
Jonathan F. Miller	3,827
Donald B. Reed	8,668
Stephen L. Robertson	7,458
Thomas S. Rogers	7,452
Paul E. Weaver	51,451

## COMPENSATION DISCUSSION AND ANALYSIS

### Overview

Decisions with respect to compensation for our executive officers, including our chief executive officer, are made by the human resources committee of our board of directors (the *committee*). The following discussion and analysis are focused primarily on the compensation for our executive officers during 2007, with additional detail provided for our named executive officers. Our *named executive officers* are the individual who served as our president and chief executive officer during 2007, the two individuals who served as our chief financial officer during 2007 and our three other most highly compensated executive officers for 2007. The compensation of our named executive officers is detailed in the tables and related information provided under *Executive Compensation* following this section, beginning on page 33. Frank P. Gatto was appointed acting chief executive officer in February 2008. His compensation is discussed below and in the executive compensation tables because he was a named executive officer of our company, but not our chief executive officer, during 2007.

When reviewing this discussion, it is important to note that in November 2006 the company was spun-off from Verizon Communications Inc. Prior to the spin-off, the company was a wholly owned subsidiary of Verizon. In connection with the spin-off, the company inherited various legacy compensation programs from Verizon. While 2007 compensation reflects decisions made by the committee, the committee is continuing to evaluate the company's compensation program and expects to further modify elements of the program as it determines appropriate to support the company's compensation philosophy and objectives, as well as its cost structure, as a stand-alone public company.

### Compensation Philosophy and Objectives

In making decisions with respect to compensation for executive officers, the committee 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.

**Elements of Our 2007 Compensation Program for Executive Officers**

Our 2007 compensation program for executive officers used the compensation elements summarized below.

<b>Element of Compensation Program</b>	<b>Employees Covered</b>	<b>Description</b>	<b>Key Objectives Promoted</b>
<i>Annual Cash Compensation</i>			
Base Salary	All salaried employees	Fixed annual cash compensation paid every two weeks during the year.	Designed to enable the company to attract and retain talented employees.
Short-Term Incentive	Approximately 2,500 employees	Variable cash compensation based on performance achieved against pre-established goals for a one-year period.	Designed to motivate and reward achievement of financial, operational and strategic business goals.
<i>Long-Term Equity-Based Compensation</i>			
Performance Units	Approximately 150 employees	Stock equivalents that vest based on the company's three-year total stockholder return versus a comparator group.	Designed to motivate and reward achievement of long-term operational and strategic business goals, align pay with performance and drive long-term stockholder value.
Restricted Stock	Approximately 90 employees	Shares of stock that vest as a result of continued employment with the company.	Designed to retain executives and align their interests with those of the company's stockholders.

*Retirement Benefits*

Savings Plan



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Available to approximately 7,000 eligible employees	A 401(k) retirement savings plan that enables employees to contribute a portion of their compensation with a company matching contribution of up to 6%. An additional company matching contribution of up to 3% may be awarded based on company performance.	Designed to be market competitive, given that most companies of our size provide a 401(k) plan with a matching contribution component.	
Management and Excess Pension Plans	Approximately 3,400 eligible employees hired before 2006	Retirement benefits provided by Verizon prior to the spin-off. The plans were frozen by Verizon in 2006. In connection with the spin-off, Verizon transferred the assets and liabilities under the plans for company employees to the company.	A legacy obligation transferred to the company in connection with the spin-off.

<b>Element of Compensation Program</b>	<b>Employees Covered</b>	<b>Description</b>	<b>Key Objectives Promoted</b>
<b><i>Employment and Severance Benefits</i></b>			
Employment Agreement	Former president and chief executive officer	Agreement providing for salary, incentive opportunities and severance benefits.	A legacy agreement assumed by the company in connection with the spin-off.
Severance Benefits absent a Change in Control	All 12 executive officers	Severance benefits equal to a multiple of salary and target short-term incentive award in the event of a termination by the company without cause.	Designed to enable the company to attract and retain talented executives. Also intended to protect the company's interests through restrictive post-employment covenants, including noncompetition and nonsolicitation.
Severance Benefits in connection with a Change in Control	All 12 executive officers	Severance benefits equal to a higher multiple of salary and target short-term incentive award in the event of a termination by the company without cause or by the executive for good reason following a change in control.	Designed to ensure that management is able to evaluate any potential change in control transaction objectively and provide for continuity of management in the event of a change in control.
<b><i>Other Benefits and Perquisites</i></b>			
Health Benefits	Available to approximately 7,000 eligible employees	Health, dental, vision, term life and disability insurance.	Customary benefits that enable the company to attract and retain employees as most companies of our size provide similar health benefits.
Whole Life Insurance	7 executive officers	A supplemental insurance program with a savings	A legacy benefit provided by Verizon.

component. Includes a payment for taxes associated with the portion of the premium reimbursed to the executive by the company.

Perquisites	All 12 executive officers	Includes flexible allowances, financial planning and annual physical exams.	Customary benefits generally consistent with similar perquisites provided by Verizon to its executives.
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**Committee’s Role in Establishing Compensation**

The committee approves or recommends to the board for approval all compensation decisions for our executive officers, including grants of equity awards. The committee believes that one of its key functions is to help ensure that our executives are fairly compensated based upon their performance and contribution to the company’s growth and profitability and that its compensation decisions support the company’s compensation philosophy and objectives, as well as stockholder interests. The committee chair sets the agenda for all committee meetings, with input from management and the committee’s advisor.

**Advisor to the Committee**

Prior to the spin-off, Verizon retained Hewitt Associates, LLC to initiate a review of our compensation program, including total compensation opportunities and individual pay components (*e.g.*, base salary, short-

term incentive and long-term equity-based compensation) for each of our executive officers. Hewitt was directed to identify a comparator group of publicly traded companies, provide comparative market data with respect to these companies and provide recommendations regarding our overall compensation program and the executive officers' pay levels. Based in part on Hewitt's recommendations, the committee recommended to the board for approval and the board approved several changes to our compensation program in the first quarter of 2007.

During 2007, the committee conducted a search for an independent advisor. At the committee's direction, the company's human resources department developed a list of advisor candidates. Candidates were then asked to submit a written proposal and references and to participate in a series of interviews with the committee and management. Based on this search process, the committee selected Exequity, LLP in September 2007 to serve as the committee's executive compensation advisor. Exequity reports directly to the committee and only provides services that are authorized by the committee.

### **Management's Role in Establishing Compensation**

The company's human resources department administers our executive compensation program. At the request of the committee or management, the executive vice president human resources and employee administration is responsible for making proposals to the committee for changes to our executive compensation program. The committee may also request its advisor to review and provide suggestions for changes to the compensation program. Our executive vice president human resources and employee administration is the primary management contact for the committee chair.

In 2007, our chief executive officer, executive vice president human resources and employee administration and general counsel attended committee meetings to discuss matters under consideration by the committee and to answer questions regarding those matters. Mr. Mueller, our former chairman of the board, was an ex-officio member of the committee and usually attended committee meetings. The committee also regularly meets in executive session without members of management present.

Our chief executive officer recommends to the committee changes in compensation for other executive officers based on an assessment of each individual's responsibilities and contribution to the company's results and potential for future contributions to the company's success. Neither the chief executive officer nor other executives are directly involved in recommendations of changes in the chief executive officer's compensation. The committee relies on its advisor for market data and other relevant information when considering the establishment of or changes to the chief executive officer's compensation.

### **Review of Compensation Program**

The company began a review of its compensation program shortly before its spin-off from Verizon. During 2007, the committee continued that review and began implementing changes to the legacy compensation programs the company inherited from Verizon. This process continues in 2008. The committee anticipates that additional modifications to our executive compensation program will be made in 2008.

In determining the compensation program for 2007, the committee considered the three main factors described below. The committee's actions were influenced by the fact that the company had been a stand-alone public company for less than two months in 2006. As a result, the committee placed greater emphasis on market competitiveness in making compensation decisions for our executive officers in 2007.

*Market Competitiveness.* The committee reviewed market data provided by its advisor for each of the executive officers. In future years, the committee expects to complete a market study near the beginning of each year to evaluate whether market movements would suggest changes to the compensation program and

pay levels of the executives.

*Internal Equity.* The committee considered the level of total compensation opportunity for the executive officers in relation to one another to ensure that each executive's contribution to company performance was appropriately reflected. The committee considered compensation in relation to other executive officers due to their similar scope of responsibility and impact on the company's

performance. The committee also considered the relationship between the compensation of our former president and chief executive officer and the company's other executive officers.

*Individual Performance.* The committee considered each individual executive's experience serving in his or her position and the potential for the executive to expand responsibilities and contributions to the company.

## **Employment Agreement**

In connection with the spin-off, the company assumed an existing employment agreement between our former president and chief executive officer and Verizon. The committee agreed with our former chief executive officer that it was appropriate for her to have an agreement as the chief executive of a new stand-alone public company. The agreement was to expire in June 2008, and provided for minimum short- and long-term incentive compensation opportunities as well as severance and other benefits. Following the spin-off, the committee approved an increase in base salary as described under the caption "Base Salary" below to reflect her additional responsibilities as president and chief executive officer of a stand-alone public company. For additional information about this agreement, see "Executive Compensation Summary Compensation Table Former CEO Employment Agreement" on page 35.

The committee has determined not to enter into employment agreements with the company's other executive officers. This decision was based on the committee's review of survey data for similarly positioned executives and the fact the executive officers receive severance protection and are subject to certain restrictive covenants under the company's executive transition plan. This plan was approved by the committee in April 2007 and was designed primarily to encourage executives and other key employees to remain employed by the company following the spin-off by providing certain severance protection against involuntary termination of employment with additional severance protection applicable to a termination of employment in connection with a change in control. For additional information about this plan, see "Executive Compensation Potential Payments Upon Termination or Change in Control Executive Transition Plan" on page 40.

## **Benchmarking and Comparator Group**

Based on Hewitt's advice, the committee reviewed aggregate compensation data from a survey group of more than 100 companies to use in a comparative analysis in determining executive compensation for 2007. From this survey group, the committee selected a comparator group of 15 publicly traded media and publishing companies having revenue and number of employees similar to the company. Although our company is not included in an identifiable peer group, the committee believed that this comparator group represented an appropriate mix of industry participants to use for benchmarking and comparative analysis. The following companies comprised the 2007 comparator group:

Belo Corp.	The New York Times Company
Dex Media, Inc.	PRIMEDIA Inc.
Dow Jones & Company, Inc.	R.H. Donnelley Corporation
Gannett Co., Inc.	The Reader's Digest Association, Inc.
John Wiley & Sons, Inc.	Scholastic Corporation
Knight-Ridder, Inc.	Tribune Company
The McGraw-Hill Companies, Inc.	The Washington Post Company
Meredith Corporation	

## **2007 Compensation Program**

To evaluate proposed base salary changes and incentive award opportunities for 2007, the committee reviewed compensation data from the comparator group. The committee used aggregate data from the larger survey group to confirm the competitiveness of its decisions before they were finalized. The committee's primary objectives were to align pay with performance and to establish a compensation program that was more heavily oriented toward short- and long-term incentive compensation.

In allocating total compensation opportunities between base salary and incentive opportunities, the committee set base salaries near the 50th percentile of the comparator group and provided performance-based incentive compensation, as a percent of base salary, at approximately the 75th percentile of the comparator group for similar executive positions. The combination of base salary and performance-based incentive compensation opportunities was intended to result in a total compensation opportunity between the 50th and 75th percentiles. While the committee used these percentiles as a guideline, it also considered individual performance, experience, potential for future contributions and internal pay equity. The committee believed this approach was consistent with our pay-for-performance philosophy because base salaries were generally targeted near the median for the comparator group, while total compensation was potentially higher than the median if performance objectives were achieved.

In establishing 2007 compensation for our former president and chief executive officer, the committee considered compensation paid to chief executive officers at companies in the comparator group. The committee also considered other factors, including (a) the terms of her employment agreement, (b) the minimum short- and long-term incentive award opportunities provided for under her employment agreement, (c) severance benefits and restrictive covenants provided for under her employment agreement and the company's long term incentive plan, and (d) the fact that prior to the spin-off she was a business unit president within Verizon and following the spin-off she was president and chief executive officer of a stand-alone public company. In allocating the total compensation opportunity for our former president and chief executive officer, the committee modified the policy described above due to the terms of her employment agreement. That agreement provided for minimum incentive award opportunities that were tied to base salary. Due to these minimum incentive awards and her one-time restricted stock award, the committee decided to set the base salary and performance-based incentive opportunities for our former president and chief executive officer below the 50th percentile. By setting these components of her compensation in this manner, the committee intended to provide her with a total compensation opportunity, including that portion of the one-time restricted stock award that vested on the first anniversary of the grant date, slightly above the 75th percentile.

### ***Base Salary***

Base salaries provide executives with a predictable level of income. The committee reviews base salaries of our executive officers on an annual basis. Any changes in base salary are generally effective at or near the beginning of the year. During the committee's review of base salaries for executive officers for 2007 the committee primarily considered market data provided by the committee's advisor, individual performance and experience of the executive officer and internal pay equity among all of our executive officers.

Based on its review, the committee increased the base salaries of the executive officers for 2007, in part to reflect their additional responsibilities as a result of the company becoming a stand-alone public company. In addition, the committee considered the mix of each executive officer's total compensation opportunity. The increases were generally consistent with the committee's decision to set base salaries near the 50th percentile of the comparator group. Our former president and chief executive officer, however, was provided a base salary below the 50th percentile due to the minimum performance-based incentive awards provided for under her employment agreement and the value of her one-time restricted stock award.



The following table sets forth the base salaries for 2006 and 2007 for our named executive officers.

Name	2006	2007	Percentage Increase
	Base Salary	Base Salary	
Katherine J. Harless <i>Former President and Chief Executive Officer</i>	\$ 483,000	\$ 650,000	35%
Samuel D. Jones (1) <i>Senior Vice President Investor Relations</i>	\$ 188,600	\$ 197,000	4%
Frank P. Gatto (2) <i>Executive Vice President Operations</i>	\$ 272,800	\$ 307,400	13%
W. Scott Hanle <i>President Sales</i>	\$ 269,700	\$ 303,900	13%
William G. Mundy <i>Executive Vice President and General Counsel</i>	\$ 244,300	\$ 330,000	35%
Andrew Coticchio <i>Former Executive Vice President and Chief Financial Officer</i>	\$ 308,500	\$ 425,000	38%

(1) Mr. Jones was appointed acting chief financial officer and treasurer in November 2007. In connection with his appointment, his base salary was increased to \$240,000.

(2) Mr. Gatto was appointed to the additional position of acting chief executive officer in February 2008.

### Short-Term Incentive Compensation

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. The awards were subject to the company achieving levels of performance for the following metrics:

*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. The committee also added the costs of stock-based compensation related to the one-time restricted stock awards granted in 2007 and added separation costs related to the spin-off. The committee retained discretion to adjust OIBITDA for unusual or one-time items.

*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. If the combined measure of performance was below 90%

achievement, no awards were payable. At 90% to 100% achievement, awards were payable on a scale from 25% to 100% of an executive officer's target award. At 100% to 112.5% achievement, awards were payable on a scale from 100% to 200% of the target award. The maximum award payable was equal to 200% of an executive officer's target award.

The following table sets forth the threshold, target and maximum levels of performance, the weights of each performance metric and actual performance for each of these metrics in 2007.