DEX MEDIA INC
Form S-1/A
January 24, 2005
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As filed with the Securities and Exchange Commission on January 24, 2005

Registration No. 333-121859

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 2

to

FORM S-1

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

Dex Media, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**14-1855759**	**2741**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**	**(Primary Standard Industrial Classification Code Number)**

198 Inverness Drive West

Englewood, Colorado 80112

(303) 784-2900

(Address, including zip code, and telephone number, including area code, of the registrant s principal executive offices)

Frank M. Eichler, Esq.

Senior Vice President and General Counsel

Dex Media, Inc.

198 Inverness Drive West

Englewood, Colorado 80112

(303) 784-2900

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price[2]	Amount of Registration Fee[3]
Common stock, par value $.01 per share[1]	$ 517,500,000	$ 60,910
Preferred stock purchase rights[4]		

(1) Includes shares of common stock issuable upon exercise of the underwriters option to purchase additional shares of common stock.
(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) under the Securities Act.
(3) Previously paid.
(4) The preferred stock purchase rights initially will trade together with the common stock. The value attributable to the preferred stock purchase rights, if any, is reflected in the offering price of the common stock.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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Subject to Completion. Dated January 24, 2005.

PRELIMINARY PROSPECTUS

18,000,000 Shares

Common Stock

DEX MEDIA, INC.

All of the shares of common stock in this offering are being sold by the selling stockholders identified in this prospectus. We will not receive any of the proceeds from the sale of the shares by the selling stockholders.

Our common stock is listed on the New York Stock Exchange under the symbol DEX. The last reported sale price of our common stock on the New York Stock Exchange on January 21, 2005 was $24.60 per share.

Investing in our common stock involves risks. See Risk Factors beginning on page 13 to read about factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds, before expenses, to the selling stockholders	$	$

To the extent that the underwriters sell more than 18,000,000 shares of common stock, the underwriters have the option for a period of 30 days after the date of this prospectus to purchase up to an additional 2,700,000 shares of common stock from the selling stockholders at the initial public offering price less underwriting discounts and commissions.

The underwriters expect to deliver the shares to purchasers on , 2005.

Morgan Stanley **Lehman Brothers** **Merrill Lynch & Co.**

Deutsche Bank Securities **Goldman, Sachs & Co.** **Wachovia Securities**

Banc of America Securities LLC **Credit Suisse First Boston**
JPMorgan **Friedman Billings Ramsey**

The date of this prospectus is , 2005.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The selling stockholders are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to those jurisdictions.

This offering is only being made to persons in the United Kingdom whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 or the UK Financial Services and Markets Act 2000 (FSMA), and each underwriter has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of the shares of common stock in circumstances in which section 21(1) of FSMA does not apply to us. Each of the underwriters agrees and acknowledges that it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the shares of common stock in, from or otherwise involving the United Kingdom.

The shares of common stock may not be offered, transferred, sold or delivered to any individual or legal entity other than to persons who trade or invest in securities in the conduct of their profession or trade (which includes banks, securities intermediaries (including dealers and brokers), insurance companies, pension funds, other institutional investors and commercial enterprises which as an ancillary activity regularly invest in securities) in the Netherlands.

On August 19, 2002, Dex Holdings, the former parent of Dex Media, entered into two purchase agreements with Qwest to acquire the directory businesses of Qwest Dex, the directory services subsidiary of Qwest, in two separate phases, for an aggregate consideration of approximately $7.1 billion (excluding fees and expenses). In

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connection with the first phase, Dex Holdings assigned its right to purchase the directory businesses in the Dex East States to its indirect subsidiary, Dex Media East. Dex Media East consummated the first phase of the acquisition on November 8, 2002 and currently operates the acquired directory businesses in the Dex East States. In connection with the second phase, Dex Holdings assigned its right to purchase the directory businesses in the Dex West States to its indirect subsidiary, Dex Media West. Dex Media West consummated the second phase of the acquisition on September 9, 2003 and currently operates the acquired directory businesses in the Dex West States. Dex Holdings was dissolved on January 5, 2005.

Unless the context otherwise requires, in this prospectus:

Dex Media, we, our or us refers collectively to Dex Media, Inc. and its consolidated subsidiaries and their predecessors;

Predecessor and Dex East refer to the historical operations of Qwest Dex Holdings, Inc. and its subsidiary in Colorado, Iowa, Minnesota, Nebraska, New Mexico, North Dakota and South Dakota, or, collectively, the Dex East States, prior to November 8, 2002;

Dex Media East refers to Dex Media East LLC, an indirect wholly owned subsidiary of Dex Media;

Dex Media West refers to Dex Media West LLC, an indirect wholly owned subsidiary of Dex Media;

Dex West refers to the historical operations of Qwest Dex Holdings, Inc. and its subsidiary in Arizona, Idaho, Montana, Oregon, Utah, Washington and Wyoming, or, collectively, the Dex West States;

Dex Holdings refers to Dex Holdings LLC, the former parent of Dex Media;

Dex States refers to collectively the Dex East States and the Dex West States;

Qwest refers to Qwest Communications International Inc. and its subsidiaries, including Qwest Corporation, the local exchange carrier subsidiary of Qwest, or Qwest LEC;

Qwest Dex refers collectively to Qwest Dex, Inc. and its parent, Qwest Dex Holdings, Inc.;

Predecessor Period refers to the period from January 1, 2002 through November 8, 2002 for Dex East;

Successor Period refers to the period from November 9, 2002 through December 31, 2002 for Dex Media;

Combined Year 2003 refers collectively to the year ended December 31, 2003 for Dex Media and the period from January 1, 2003 through September 9, 2003 for Dex West;

Combined Year 2002 refers collectively to the Successor Period, the Predecessor Period, and the year ended December 31, 2002 for Dex West;

Combined Year 2001 refers collectively to the year ended December 31, 2001 for Dex East and the year ended December 31, 2001 for Dex West;

Combined Successor and Predecessor Period refers collectively to the Successor Period and the Predecessor Period;

directory refers to telephone directory; and

Transactions refers to the Dex East Acquisition, the Dex West Transactions, the Notes Offerings, our initial public offering, the redemption of (i) our outstanding 5% Series A preferred stock for $125.7 million plus accrued and unpaid dividends, (ii) $183.8 million of Dex Media East s outstanding 12 ^{1}/8% senior subordinated notes due 2012, and (iii) $18.2 million of Dex Media West s outstanding 9 ^{7}/8% senior subordinated notes due 2013 and the payment of a final lump sum of $20.0 million to our Sponsors to terminate the annual advisory fees paid to our Sponsors under our management consulting agreements.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. Because this is only a summary, it does not contain all of the information that may be important to you. You should read this entire prospectus and should consider, among other things, the matters set forth under Risk Factors, Unaudited Pro Forma Financial Information, Management s Discussion and Analysis of Financial Condition and Results of Operations, our consolidated financial statements and related notes thereto and the consolidated financial statements of Dex Media West and related notes thereto appearing elsewhere in this prospectus before making your investment decision.

Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters over-allotment option is not exercised. Certain historical information, including certain historical financial data, included in this prospectus is that of our Predecessor and/or of Dex West.

Our Company

We are the exclusive publisher of the official yellow pages and white pages directories for Qwest in the following states where Qwest is the primary incumbent local exchange carrier: Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming, or collectively, the Dex States. We have been publishing directories for over 100 years. Our contractual agreements with Qwest grant us the right to be the exclusive incumbent publisher of the official yellow pages and white pages directories for Qwest in the Dex States until November 2052 and prevent Qwest from competing with us in the directory products business in the Dex States until November 2042.

We seek to bring buyers together with our advertising customers through a cost-effective, bundled advertising solution that includes print, CDROM and Internet-based directories. We generate our revenues primarily through the sale of print directory advertising. For the year ended December 31, 2003, after giving pro forma effect to the Transactions, we generated $1,631.1 million in revenue, $909.7 million in EBITDA and $31.6 million in net loss. For the nine months ended September 30, 2004, after giving pro forma effect to the Transactions, we generated $1,236.3 million in revenue, $675.6 million in EBITDA and $16.8 million in net loss. Our ability to generate EBITDA, along with low capital expenditure requirements and cash income taxes, allows our business to provide significant free cash flow. See Summary Historical and Pro Forma Financial Data.

For the Combined Year 2003, we published 259 directories and distributed approximately 43 million copies of these directories to business and residential customers throughout the Dex States. In addition, our Internet-based directory, DexOnline.com, which provides an integrated complement to our print directories, includes more than 15 million business listings and 200 million residential listings from across the United States. Approximately 96% of our revenue from directory services for the Combined Year 2003 came from the sale of advertising in yellow pages directories, and approximately 4% of our revenue from directory services for the same period came from the sale of advertising in white pages directories.

We believe that our advertising customers value: (i) our lower cost per usage versus other directories and higher return on investment than other forms of local advertising; (ii) our broad distribution to potential buyers of our advertisers products and services; (iii) our ability to provide potential buyers with an authoritative reference source to search for products and services; and (iv) the quality of our client service and support. We have advertising customers across a diverse range of industries and we believe our customer retention rates exceed the averages of other incumbent publishers, or those owned by or affiliated with incumbent local exchange carriers. In 2003, we had over 400,000 local advertising accounts consisting primarily of small and medium-sized businesses and over 4,000 national advertising accounts.

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Our Industry

The U.S. directory advertising industry generated approximately $14 billion in revenues in 2003, of which Dex Media generated $1.6 billion after giving pro forma effect to the Transactions, and has been characterized by stability and revenue growth in every year since 1985. Unlike overall advertising spending, directory advertising revenues have grown despite changes in the U.S. economy s business cycle. For example, during the last two recessions in 1991 and 2001, the U.S. directory advertising industry experienced positive growth, while other major advertising media, including radio, television and newspapers, experienced revenue declines.

We believe that this growth is a result of several advantages that directory advertising has relative to other forms of advertising. First, directory advertising is often the primary form of paid advertising used by small and medium-sized businesses due to its low cost relative to other media, broad demographic distribution, enduring presence and high usage rates. Second, we believe that directory advertising is attractive to businesses looking to advertise their products or services because consumers generally view telephone directories as a free, comprehensive, single source of information. Third, we believe that the directional nature of directory advertising is especially valuable to advertisers because directory advertisements reach consumers at a time when buyers are actively seeking information and are prepared to make a purchase. Finally, we believe that directory advertising generates a higher return on investment for small and medium-sized businesses than most other major media, including newspapers, television, radio and the Internet.

Over the past decade, growth by independent publishers and out-of-territory expansion by some incumbent publishers have significantly increased competition in the directory advertising industry. However, the directory advertising industry is still largely dominated by the incumbent publishers, as evidenced by their generating approximately 86% of the industry s total revenue in 2003.

Our Strengths

While the directory advertising industry has become increasingly competitive, we believe that we possess the following strengths that will enable us to continue to compete successfully in the local advertising market:

Scale and leading market position. We are the fourth largest directory publisher in the United States and the exclusive directory publisher for Qwest in the Dex States. We believe that our scale and our incumbent position provide us with a substantial competitive advantage over independent directory advertising providers. Further, both our strong brand and long history as the incumbent yellow pages directory positions us as the official directory for both consumers and local advertisers, many of whom select our directories as their primary advertising medium.

Superior value proposition for our target advertisers. We believe that directory advertising provides our target advertisers with a greater value proposition than other media. We believe that our directory advertising has a lower cost per usage than other competing directories and higher return on investment than other local advertising alternatives, including newspapers, television, radio and the Internet.

Established and experienced sales force. As of September 30, 2004, we had 1,013 sales representatives who have been employed by Dex for an average of nine years. We believe that our sales force s experience, tenure and local market knowledge is a competitive advantage which has enabled us to develop longstanding relationships with our advertisers and was a key factor in our ability to exceed the average revenue growth of the incumbent industry for the Combined Year 2003.

Attractive market demographics. In 2003, the Dex States on a percentage basis experienced greater job creation and gross state product growth than the United States as a whole. In addition, we believe our markets are economically diverse, limiting our exposure to economic downturns in specific sectors of the economy.

Stable and recurring revenue. Our business produces stable and recurring revenue because of our large diversified customer base, high account retention and renewal rates and limited exposure to national advertising. For the Combined Year 2003, our account renewal rate was 91%, no single account contributed more than 0.3% of total revenue (excluding Qwest) and no single directory heading contributed more than 2.8% of total revenue.

Strong financial profile generates significant free cash flow. Our business generates significant free cash flow due to its recurring revenue combined with the high margins associated with our incumbent position, low capital expenditures and favorable tax position. For the nine months ended September 30, 2004, we generated $354.2 million in cash provided by operating activities and $306.2 million in free cash flow. For the year ended December 31, 2003, on a pro forma basis giving effect to the Transactions, we generated $909.7 million in EBITDA and $31.6 million in net loss from $1,631.1 million of revenue. For the nine months ended September 30, 2004, after giving pro forma effect to the Transactions, we generated $675.6 million in EBITDA and $16.8 million in net loss from $1,236.3 million of revenue. Over the past three years ending December 31, 2003, we have invested an average of $37.5 million per year in capital expenditures on a combined basis, including capitalized software development costs. We also benefit from the favorable income tax treatment associated with the $6.8 billion step-up in the tax basis of our assets from the Acquisitions, as defined below, which is amortized for tax purposes on a straight-line basis for 15 years. In 2003 and for the nine months ended September 30, 2004, our free cash flow, along with proceeds from our initial public offering in July 2004, allowed us to repay $405.1 million and $539.4 million, respectively, of our indebtedness.

Experienced management team. We have assembled a strong and experienced senior management team across all areas of our organization, including sales, finance, operations, marketing and customer service. Our senior management team has an average of approximately 20 years of experience in their respective areas of expertise.

Our Strategy

We intend to leverage our incumbent position and strong brand while maintaining an entrepreneurial culture that encourages our employees to identify and capitalize on new opportunities to enhance our position in the Dex States. We believe that our directory advertisements enable our customers to connect with potential buyers in a very cost effective manner, which, when combined with our competitive strengths, will allow us to grow our revenues and cash flows. The principal elements of our business strategy include:

Introducing new products that enhance the value proposition for our customers. We have a long history of introducing and selling new products, product extensions and other innovations that offer creative opportunities for our advertisers to find new customers and generate additional revenue for their products and services. Over the past three years, our new product introductions have included: Dex Web Clicks, leader advertisements, Spanish yellow pages, white pages repeating corner advertisements, dining guides and top tabs. As the incumbent directory publisher in the Dex States, we have a large number of existing advertisers to whom we can effectively market our new products to generate additional revenue. We believe that our ability to innovate our product line will continue to serve as a competitive advantage.

Increasing revenue and customer growth through segmented pricing. Historically, the directory advertising industry has utilized a simplified approach to pricing, with set rates based upon the size and features (e.g., use of color, graphics, etc.) of the advertisement regardless of heading category. We are now instituting a more sophisticated pricing strategy, which prices advertisements by heading category. We believe that implementing this strategy will improve revenue growth by allowing us to respond to the different demand characteristics of various heading categories and to better align our pricing with our customers perceptions of value.

Further penetrating our addressable markets through enhanced sales force productivity. We believe a significant opportunity exists for our established local sales force to further penetrate the addressable

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markets that we serve and increase the sales of our services to existing customers. Over the past year, we have taken a number of steps to improve sales force effectiveness including: (i) servicing our customers on a more cost-effective means based on the revenue generated by such customers, (ii) rescheduling the launch and duration of sales campaigns to maximize available selling days and (iii) implementing standardized sales practices and procedures across all markets.

Increasing the value proposition for our customers through a content-driven Internet strategy. We currently provide an Internet-based directory, DexOnline.com, which includes fully searchable content derived from more than 240,000 yellow pages advertisements from our directories. The site incorporates free text search capabilities, with a single search box that is similar in design and functionality to popular search engines. We believe that the competitive advantage of DexOnline.com versus search engines is that our content is structured to deliver information from our printed directories on local services and products within the Dex States. We are also reviewing opportunities to expand our electronic product line in appropriately structured and cost-effective relationships with other Internet directory providers, portals and search engines. We are committed to developing these opportunities in a manner that will benefit us, and at a scale which is justified by usage and utility to our advertisers.

Strengthen our competitive position by aggressively promoting our superior value proposition. We are investing in brand awareness campaigns that reinforce the benefits that our directories and DexOnline.com offer to advertisers and consumers. Our marketing plan highlights the advantages we enjoy as an incumbent publisher by positioning us as the official directory with the broad distribution, high usage and low cost per usage, which are attributes that advertisers require.

Enhancing our operational efficiency by converting to the Amdocs software system. We are in the process of migrating from our legacy process management infrastructure to Amdocs, an industry-standard software system, that will allow us to better manage every aspect of our production cycle from initial sales call through distribution of our directories. We expect the implementation of this system will allow us to improve our operational efficiency and benefit from the associated cost savings.

You should also consider the many risks we face that could limit our ability to implement our business strategies, including:

- our inability to introduce new products in the future could adversely affect our ability to generate additional revenue;
- if we do not successfully implement our new segmented pricing strategy, we may not fully realize the expected growth of our revenues;
- if we experience a significant turnover of our sales force, we will incur additional costs in the hiring and training of new sales force personnel;
- the ability of search engines to provide local products and services content in a cost-effective manner could adversely affect our Internet strategy;
- competition from other yellow pages publishers has reduced, and may continue to reduce, our revenue growth trend;
- a significant decline in consumer usage could adversely affect our business; and
- our failure to utilize the capabilities of the Amdocs software system could adversely affect our planned operational efficiencies.

In addition, while we may implement individual elements of our strategies, the benefits derived from such implementation may be mitigated in part, or in whole, if we suffer from one or more of the risks described in this prospectus. See Risk Factors and Cautionary Notice Regarding Forward-Looking Statements.

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Our History

On August 19, 2002, Dex Holdings, the former parent of Dex Media, entered into two purchase agreements with Qwest to acquire the directory businesses of Qwest Dex, the directory services subsidiary of Qwest, for an aggregate consideration of approximately $7.1 billion (excluding fees and expenses). The acquisition was structured to be completed in two phases to accommodate the regulatory requirements in the applicable states. In the first phase, consummated on November 8, 2002, Dex Media East acquired Qwest Dex s directory businesses in the Dex East States for a total consideration of approximately $2.8 billion (excluding fees and expenses). We refer to the acquisition of Dex East, or the Dex East Acquisition, and the financing thereof, collectively, as the Dex East Transactions. In the second phase, consummated on September 9, 2003, Dex Media West acquired Qwest Dex s directory businesses in the Dex West States for a total consideration of approximately $4.3 billion (excluding fees and expenses). Dex Holdings was dissolved on January 5, 2005. We refer to the acquisition of Dex West, or the Dex West Acquisition, and the financing thereof, collectively, as the Dex West Transactions, and together with the Dex East Transactions, the Acquisition Transactions. We refer to the Dex East Acquisition and the Dex West Acquisition, collectively, as the Acquisitions.

For federal income tax purposes, the Acquisitions were treated as asset purchases and Dex Media East, Inc. and Dex Media West, Inc., the direct parents of Dex Media East and Dex Media West, respectively, generally have a tax basis in the acquired assets equal to the purchase price for the applicable Acquisition. Upon the consummation of the Dex East Acquisition and the Dex West Acquisition, Dex Media East and Dex Media West, respectively, each became a stand-alone company separate from Qwest. In this prospectus, we have made certain estimates of stand-alone costs associated with operating as a separate entity from Qwest. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

In connection with the Acquisitions, we entered into contractual agreements with Qwest, which grant us the exclusive right to be its and its successors and assignees official directory publisher in the Dex States until November 7, 2052. In addition, Qwest agreed not to compete with us in the directory products business in the Dex States until November 7, 2042. See The Acquisition Transactions.

Financing of Dex East Acquisition

In connection with the Dex East Acquisition, Dex Media East entered into credit facilities comprised of a Tranche A term loan facility in an aggregate principal amount of $530.0 million, a Tranche B term loan facility in an aggregate principal amount of $700.0 million and a revolving credit facility comprised of commitments in an aggregate principal amount of $100.0 million. In addition, Dex Media East and Dex Media East Finance Co., a wholly owned subsidiary of Dex Media East, issued $450.0 million of their 9 $^{7}/8$% senior notes due 2009 and $525.0 million of their 12 $^{1}/8$% senior subordinated notes due 2012. See Description of Our Indebtedness.

Also in connection with the Dex East Acquisition, The Carlyle Group, or Carlyle, and Welsh, Carson, Anderson & Stowe, or WCAS and together with Carlyle, the Sponsors, and their assignees and designees, or the Equity Investors, provided an aggregate of $655.0 million in equity contributions, which represented approximately 20% of the purchase price of the Dex East Acquisition (including fees and expenses).

Financing of Dex West Acquisition

In connection with the Dex West Acquisition, Dex Media West entered into credit facilities comprised of a Tranche A term loan facility in an aggregate principal amount of $960.0 million, a Tranche B term loan facility in an aggregate principal amount of $1,200.0 million and a revolving credit facility comprised of commitments in an aggregate principal amount of $100.0 million. We refer to the Dex Media East credit facilities and Dex Media West credit facilities, collectively, as our subsidiaries credit facilities. In addition, Dex Media West and Dex Media West Finance Co., a wholly owned subsidiary of Dex Media West, issued $385.0 million of their 8 $^{1}/2$% senior notes due 2010 and $780.0 million of their 9 $^{7}/8$% senior subordinated notes due 2013. Subsequent to the

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Dex West Acquisition, Dex Media West and Dex Media West Finance Co. issued $300.0 million of their 5 7/8% senior notes due 2011, the proceeds of which were used to repay a portion of Tranche A terms loans under Dex Media West s credit facilities. We refer to the senior notes and the senior subordinated notes of Dex Media East and Dex Media West, collectively, as the subsidiary notes. See Description of Our Indebtedness.

Also in connection with the Dex West Acquisition, the Equity Investors provided an aggregate of $962.0 million in equity contributions (of which $50.0 million was contributed to Dex Media East), which represented approximately 20% of the purchase price of the Dex West Acquisition (including fees and expenses). In addition, Dex Media East borrowed an additional $160.0 million under the Dex Media East Tranche A term loan facility, the proceeds of which, along with the $50.0 million of equity contributions to Dex Media East, were paid by us to Qwest as a portion of the consideration for the Dex West Acquisition.

Financing by Dex Media

On November 10, 2003, we issued $500.0 million in aggregate principal amount of our 8% notes due 2013 and $389.0 million in aggregate principal amount at maturity of our 9% discount notes due 2013. On February 11, 2004, we issued an additional $361.0 million in aggregate principal amount at maturity of our 9% discount notes due 2013. We distributed the gross proceeds of approximately $1.0 billion from these offerings to Dex Holdings, our former parent. Dex Holdings distributed the gross proceeds from these offerings to its equity holders. We did not receive any of the proceeds from these offerings. Our 9% discount notes due 2013 issued in February 2004 are not fungible, and do not trade as a single class, with our 9% discount notes due 2013 issued in November 2003. We refer to our 8% notes due 2013 and both series of our 9% discount notes due 2013, collectively, as our notes and the issuance of our notes as the Notes Offerings. See Description of Our Indebtedness.

On July 27, 2004, we consummated our initial public offering of common stock, or our initial public offering. The proceeds we received from our initial public offering were used to redeem: (i) all of our outstanding 5% Series A preferred stock, which was held by our Sponsors and management, for approximately $125.7 million plus accrued and unpaid dividends, (ii) $183.8 million in aggregate principal amount of Dex Media East s outstanding 12 1/8% senior subordinated notes due 2012 at a redemption price of 112.125% of principal, plus accrued and unpaid interest and (iii) $18.2 million in aggregate principal amount of Dex Media West s outstanding 9 7/8% senior subordinated notes due 2013 at a redemption price of 109.875% of principal, plus accrued and unpaid interest.

Recent Developments

Dex Media West Bond Offering and Credit Agreement Amendment

On November 24, 2004, Dex Media West amended its credit facilities to, among other things, allow for a repricing of its Tranche B term loans on terms more favorable to Dex Media West. In connection with the repricing, Dex Media West and Dex Media West Finance Co. issued $300.0 million of their 5 7/8% senior notes due 2011. Dex Media West used the gross proceeds of the offering to repay Tranche A term loans under its credit facilities.

Dex Media East Credit Agreement Amendment

On November 24, 2004, Dex Media East amended its credit facilities to, among other things, allow for the repricing of the Tranche B term loans on more favorable terms to Dex Media East.

Declaration of a Quarterly Dividend

On December 14, 2004, Dex Media announced a quarterly cash dividend of $0.09 per common share, payable January 31, 2005, to shareholders of record as of January 3, 2005.

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Our Corporate Structure

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(1) Issuer of our notes. Obligor under the contingent support obligations in respect of our subsidiaries credit facilities.

(2) Guarantor under the Dex Media East credit facilities.

(3) Borrower under the Dex Media East credit facilities.

(4) Co-issuer of the Dex Media East 9 $^{7}/8$% senior notes due 2009 and 12 $^{1}/8$% senior subordinated notes due 2012.

(5) Employer of Dex Media East s and Dex Media West s non-senior management personnel.

(6) Guarantor under the Dex Media West credit facilities.

(7) Borrower under the Dex Media West credit facilities.

(8) Co-issuer of the Dex Media West 8 $^{1}/2$% senior notes due 2010, 5 $^{7}/8$% senior notes due 2011 and 9 $^{7}/8$% senior subordinated notes due 2013.

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The Offering

Common stock being offered by the selling stockholders	18,000,000 shares
Common stock outstanding	150,306,662 shares
Use of proceeds	All of the shares of common stock offered hereby will be sold by the selling stockholders. We will not receive any proceeds from the sale of shares by the selling stockholders.
Preferred stock purchase rights	Each share of common stock offered hereby will have associated with it one preferred stock purchase right under the rights agreement. Each of these rights entitles its holder to purchase one one-thousandth of a share of Series A junior participating preferred stock at a purchase price specified in the rights agreement under the circumstances provided therein. See Description of Capital Stock Anti-Takeover Effects of Provisions of Delaware Law and our Charter Documents Rights Plan.
New York Stock Exchange symbol	DEX.
Risk factors	See Risk Factors beginning on page 13 of this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.

Unless we specifically state otherwise, all information in this prospectus assumes:

no exercise of the over-allotment option granted by the selling stockholders in favor of the underwriters and

the number of shares of common stock outstanding as of the date of this prospectus excludes 6,251,650 shares of common stock reserved but not yet issued under Dex Media s stock option plans, under which options to purchase 5,005,995 shares of common stock are outstanding as of the date of this prospectus with a weighted average exercise price of $5.18 per share.

Our principal executive offices are located at 198 Inverness Drive West, Englewood, Colorado 80112. Our telephone number is (303) 784-2900. Our internet address is *http://www.dexmedia.com*. The contents of our website are not part of this prospectus.

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Summary Historical and Pro Forma Financial Data

The summary historical financial data as of December 31, 2002 and 2003 and for the year ended December 31, 2001, the period from January 1, 2002 to November 8, 2002, the period from November 9, 2002 to December 31, 2002 and the year ended December 31, 2003 have been derived from our consolidated financial statements and related notes thereto included in this prospectus, which have been audited by KPMG LLP, independent registered public accounting firm. The summary historical financial data as of December 31, 2001 have been derived from our consolidated financial statements and related notes thereto not included in this prospectus, which have been audited by KPMG LLP, independent registered public accounting firm. The summary historical financial data as of September 30, 2004 and for the nine months ended September 30, 2003 and 2004 have been derived from our unaudited consolidated financial statements and related notes thereto, which have been prepared on a basis consistent with our annual consolidated financial statements, included in this prospectus. The summary historical financial data as of September 30, 2003 have been derived from our unaudited consolidated financial statements and related notes thereto, which have been prepared on a basis consistent with our annual consolidated financial statements. In the opinion of management, such unaudited financial data reflects all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for the nine months ended September 30, 2004 are not necessarily indicative of the results to be expected for the full year or any future period.

On November 8, 2002, we consummated the Dex East Acquisition. Periods of our Predecessor reflect the historical basis of accounting of Qwest Dex s operations in the Dex East States, and periods of the Successor reflect the effects of purchase accounting for the Dex East Acquisition. On September 9, 2003, we consummated the Dex West Acquisition. The results of operations of Dex Media West are included in our historical results of operations for the period from September 10, 2003 to December 31, 2003 and the nine months ended September 30, 2004 and reflect the effects of purchase accounting for the Dex West Acquisition. Accordingly, the results of operations for periods of the Predecessor are not comparable to the results of operations for periods of the Successor and our results of operations prior to the Dex West Acquisition are not comparable to our results of operations subsequent to the Dex West Acquisition.

The summary pro forma statement of operations for the year ended December 31, 2003 and the nine months ended September 30, 2004 give pro forma effect to the Dex West Transactions, the Notes Offerings, our initial public offering, the redemption of (i) our outstanding 5% Series A preferred stock for $125.7 million plus accrued and unpaid dividends, (ii) $183.8 million of Dex Media East s outstanding 12 1/8% senior subordinated notes due 2012, and (iii) $18.2 million of Dex Media West s outstanding 9 7/8% senior subordinated notes due 2013 and the payment of a final lump sum of $20.0 million to our Sponsors to terminate the annual advisory fees paid to our Sponsors under our management consulting agreements as if each were completed on January 1, 2003. The summary pro forma statement of operations for the year ended December 31, 2003 and the nine months ended September 30, 2004 also eliminates the non-recurring effects on revenue and cost of revenue resulting from purchase accounting adjustments related to the Acquisitions.

We have historically operated as the directory business of Qwest Dex in the Dex States. Because our relationship with Qwest Dex, as well as Qwest and its other affiliates, changed as a result of the Acquisitions, our cost structure has changed from that reflected in our summary historical operating results and the historical operating results of Dex West included elsewhere in this prospectus. As a result, our summary historical results of operations, financial position and cash flows and those of Dex West would have been different if we had operated as a stand-alone company without the shared resources of Qwest and its affiliates. The summary pro forma financial data is for informational purposes only and should not be considered indicative of actual results that would have been achieved had the Transactions actually been consummated on the date indicated and do not purport to be indicative of results of operations as of any future date or for any future period. The following data should be read in conjunction with Unaudited Pro Forma Financial Information, Management s Discussion and Analysis of Financial Condition and Results of Operations, The Acquisition Transactions, our consolidated financial statements and related notes thereto and the combined financial statements of Dex West and related notes thereto included elsewhere in this prospectus.

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	Predecessor		Dex Media					
					Unaudited Nine Months Ended September 30,			Unaudited Pro Forma Nine Months Ended September 30,
	Year Ended December 31,	January 1, 2002 to November 8,	November 9, 2002 to December 31,	Year Ended December 31,			Unaudited Pro Forma Year Ended December 31,	
	2001	2002	2002	2003	2003	2004	2003	2004
Statement of operations data:								
Revenue[a]	$ 666,207	$ 589,896	$ 58,097	$ 882,772	$ 506,981	$ 1,189,467	$ 1,631,129	$ 1,236,280
Cost of revenue[a]	209,050	177,360	19,906	265,333	152,239	363,905	491,253	374,416
General and administrative expense[b]	47,610	49,606	20,502	146,480	79,008	188,187	218,104	186,187
Depreciation and amortization expense	12,707	9,258	33,299	305,420	183,526	331,649	482,156	331,649
Merger-related expenses[c]	3,859							
Impairment charges[d]	6,744							
Total operating expenses	279,970	236,224	73,707	717,233	414,773	883,741	1,191,513	892,252
Operating income (loss)	386,237	353,672	(15,610)	165,539	92,208	305,726	439,616	344,028
Other (income) expense:								
Interest income	(2,971)	(721)	(71)	(1,380)	(694)	(1,278)	(1,380)	(1,278)
Interest expense[e]	112,944	87,165	27,866	277,626	162,344	387,255	480,630	373,271
Other (income) expense, net[f]	7,417	3,506	3,578	12,058	11,299	60	12,058	60
Provision (benefit) for income taxes	108,292	106,629	(18,879)	(47,729)	(32,006)	(32,046)	(20,091)	(11,183)
Net income (loss)	$ 160,555	$ 157,093	$ (28,104)	$ (75,036)	$ (48,735)	$ (48,265)	$ (31,601)	$ (16,842)
Per share data:[g]								
Net income (loss) per share:								
Basic	n/a	n/a	$ (0.55)	$ (1.09)	$ (0.93)	$ (0.39)	(0.21)	(0.11)
Diluted	n/a	n/a	$ (0.55)	$ (1.09)	$ (0.93)	$ (0.39)	(0.21)	(0.11)
Weighted average common shares outstanding:								
Basic	n/a	n/a	52,400,000	76,459,950	58,601,905	135,341,843	149,119,976	149,964,394
Diluted	n/a	n/a	52,400,000	76,459,950	58,601,905	135,341,843	149,119,976	149,964,394
Cash dividends declared per common share	n/a	n/a		4.59	$	$ 1.53	5.03	1.68
Statements of cash flows data:								
Net cash provided by operating activities	280,404	240,868	77,382	380,385	243,816	354,207		
Net cash (used in) provided by investing activities	(7,401)	(13,367)	(2,803,668)	(4,366,631)	(4,372,599)	(42,848)		
Net cash (used in) provided by financing activities	(218,178)	(192,255)	2,763,912	3,956,036	4,140,770	(314,997)		
Other financial data:								
EBITDA[h]	391,527	359,424	14,111	458,901	264,435	637,315	909,714	675,617
Free cash flow[i]	n/a	n/a	n/a	n/a	n/a	306,174		
Capital expenditures	7,401	13,367	3,513	40,548	25,632	48,033		

Cash paid for interest			648	197,192	107,713	310,293		
Other operational data:								
Local account renewal rate	93%	92%	92%	91%	n/a	n/a		
Number of directories published	150	130	20	182	202	213		
Balance sheet data (at period end):								
Total cash and cash equivalents	54,825	n/a	37,626	7,416	$ 49,613	3,778	n/a	n/a
Working capital (deficit)[j]	(1,266,857)	n/a	29,354	(8,341)	57,132	(138,137)	n/a	n/a
Total assets	347,647	n/a	3,021,674	7,290,378	7,429,314	6,995,652	n/a	n/a
Total debt	1,390,920	n/a	2,207,130	6,097,434	5,519,243	5,838,910	n/a	n/a
Stockholders (deficit) equity	(1,250,187)	n/a	623,379	760,772	1,534,489	695,457	n/a	n/a

(a) Our revenue and cost of revenue for the twelve months following the consummation of the Dex East Acquisition were $85.9 million and $22.2 million lower, respectively, and our revenue and cost of revenue for the twelve months following the consummation of the Dex West Acquisition were $120.6 million and $31.6 million lower, respectively, than our revenue and cost of revenue would have otherwise been because the Acquisitions have been accounted for under the purchase method of accounting. Under the purchase method of accounting, the deferred revenue and deferred directory costs associated with directories that had previously been published were not carried over to our balance sheet. The purchase method of accounting has not affected our revenue and directory costs in periods subsequent to this twelve-month period and has no impact on cash flows.

(b) Includes bad debt expense and, for the nine-months ended September 30, 2004, $20.0 million paid to our Sponsors to terminate the annual advisory fees paid under our management consulting agreements.

(c) Merger-related expenses reflect expenses incurred in connection with Qwest s acquisition of US WEST, or the Merger, including contractual settlements incurred to cancel various commitments no longer deemed necessary as a result of the Merger, severance and employee-related expenses and rebranding expenses.

(d) Impairment charges reflect capitalized software costs that were written off as certain internal software projects were discontinued.

(e) Pro forma interest expense reflects an estimated weighted average interest rate on our subsidiaries credit facilities of approximately 4%. A 0.125% increase or decrease in the assumed interest rate applicable to our subsidiaries credit facilities would change pro forma interest expense and income before taxes by approximately $4 million for the year ended December 31, 2003.

(f) In 2001, other (income) expense, net represents charges for a permanent decline in the value of investments. In 2002 and 2003, other (income) expense, net represents commitment fees related to the financing of the Dex West Acquisition.

(g) The historical per share information gives effect to our initial public offering, including the stock split of each share of common stock outstanding immediately prior to our initial public offering into 10 shares of common stock but does not give effect to the redemption of all of our outstanding 5% Series A preferred stock. Pro forma per share information is derived from the weighted average number of shares of common stock outstanding after giving effect to our initial public offering, including the redemption of all of our outstanding 5% Series A preferred stock, the increase in the number of our authorized shares of capital stock to 700 million shares of common stock and 250 million shares of preferred stock and the split of each share of common stock outstanding immediately prior to our initial public offering into 10 shares of common stock.

(h) EBITDA represents net income (loss) before provision (benefit) for income taxes, interest expense, net and depreciation and amortization expense. The following table summarizes the calculation of EBITDA for the periods indicated:

	Predecessor		Dex Media					
					Unaudited		Unaudited	Unaudited
					Nine months ended September 30,			Pro forma Nine months ended September 30,
(In thousands)	Year ended December 31, 2001	January 1, 2002 to November 8, 2002	November 9, 2002 to December 31, 2002	Year ended December 31, 2003	2003	2004	Pro forma Year ended December 31, 2003	2004
Net income (loss)	$ 160,555	$ 157,093	$ (28,104)	$ (75,036)	$ (48,735)	$ (48,265)	$ (31,601)	$ (16,842)
Adjustments to net income (loss):								
Provision (benefit) for income taxes	108,292	106,629	(18,879)	(47,729)	(32,006)	(32,046)	(20,091)	(11,183)
Interest expense, net	109,973	86,444	27,795	276,246	161,650	385,977	479,250	371,993
Depreciation and amortization expense	12,707	9,258	33,299	305,420	183,526	331,649	482,156	331,649
EBITDA	$ 391,527	$ 359,424	$ 14,111	$ 458,901	$ 264,435	$ 637,315	$ 909,714	$ 675,617

EBITDA for the period from November 9, 2002 to December 31, 2002, for the year ended December 31, 2003 and for the nine months ended September 30, 2003 and 2004 includes the effects of purchase accounting adjustments recorded upon the consummation of the Dex East Acquisition and the Dex West Acquisition, as applicable. These purchase accounting adjustments relate to the portion of deferred revenue and related deferred costs associated with directories published and distributed prior to the Acquisitions that were not carried over to our balance sheet due to purchase accounting. As a result of such purchase accounting adjustments, revenue and cost of revenue were reduced by $41.5 million and $10.6 million, respectively, for the period from November 9, 2002 to December 31, 2002. As a result of the Dex Media East and the Dex Media West purchase accounting adjustments, revenue and cost of revenue were reduced by $83.7 million and $22.8 million, respectively, for the nine months ended September 30, 2003 and revenue and cost of revenue were reduced by $118.2 million and $32.6 million, respectively, for the year ended December 31, 2003. As a result of the Dex Media West purchase accounting adjustments, revenue and cost of revenue were reduced by $46.8 million and $10.5 million, respectively, for the nine months ended September 30, 2004. As a result, EBITDA was reduced by $30.9 million, $60.9 million, $85.6 million and $36.3 million for the period from November 9, 2002 to December 31, 2002, the nine months ended September 30, 2003, the year ended December 31, 2003 and the nine months ended September 30, 2004.

Management uses EBITDA as a measure of operating performance of its directory publishing business. Excluding certain items from net income (loss) allows management to view trends and changes in margins and pre-tax profitability, excluding the effects of interest expense, and amortization of intangible assets recorded in the acquisition and depreciation of property and equipment. EBITDA is also used by management to assess the ability of Dex Media to satisfy its debt service, capital expenditures and working capital requirements, and to assess certain covenants in our borrowing arrangements that are tied to similar measures. However, EBITDA presented in this prospectus is calculated in a different manner than comparable terms in our and our subsidiaries debt agreements, which permit the exclusion of certain items as defined.

The use of EBITDA instead of net income has limitations, including the inability to determine profitability, the exclusion of interest expense, net and significant cash requirements associated therewith, and the exclusion of income tax expenses or benefits which ultimately may be realized through the payment or receipt of cash. Amortization expense, although a material component of net income, will be comprised substantially of amortization of acquired intangible assets by Dex Media. Management believes it is acceptable to exclude depreciation from net income because Dex Media has not historically been required to invest significant amounts in property, plant or equipment in its primary business. Net income and a reconciliation of net income to EBITDA are provided above to compensate for these limitations.

EBITDA is not calculated under GAAP and should not be considered in isolation or as a substitute for net income, cash flows or other income or cash flow data prepared in accordance with GAAP or as a measure of our profitability or liquidity. While EBITDA and similar variations thereof are frequently used as a measure of operations and the ability to meet debt service requirements, these terms are not necessarily comparable to other similarly titled captions of other companies due to the potential inconsistencies in the method of calculation.

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(i) Free cash flow represents cash provided by operating activities less capital expenditures.
The following table summarizes the calculation of free cash flow for the nine months ended September 30, 2004:

(In thousands)	
Cash provided by operating activities	$ 354,207
less capital expenditures	(48,033)
Free cash flow	$ 306,174

Management believes free cash flow is an important liquidity metric because it measures, during a given period, the amount of cash generated that is available for principal payment on debt obligation, payment of dividends and other non-operating cash needs. Free cash flow is not a measure determined in accordance with GAAP and should not be considered a substitute for Operating income, Net income, Cash provided by operating activities or any other measure determined in accordance with GAAP. We believe this non-GAAP liquidity measure is useful when considered in addition to the most directly comparable GAAP measure of Cash provided by operating activities because free cash flow includes investments in operational assets. Free cash flow does not represent residual cash available for discretionary expenditures since it excludes cash required for debt repayment.

(j) Working capital is defined as current assets less current liabilities. Working capital includes cash and short-term borrowings that were not acquired or assumed by Dex Media from Qwest Dex. The following table summarizes the effects of these items on working capital for the period of the Predecessor indicated:

(In thousands)	December 31, 2001
Working capital (deficit)	$ (1,266,857)
Cash and cash equivalents	(54,825)
Short-term borrowings	1,390,920
Working capital, excluding cash and short-term borrowings	$ 69,238

Working capital, excluding cash and short-term borrowings is included in this prospectus to provide additional information with respect to the working capital of Dex Media, as it excludes cash and short-term borrowings that were not acquired or assumed by Dex Media from Qwest Dex.

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RISK FACTORS

You should carefully consider the risks described below as well as the other information contained in this prospectus before investing in our common stock. Any of the following risks could materially adversely affect our business, financial condition or results of operations.

Risks Related to Our Business

The loss of any of our key agreements with Qwest could have a material adverse effect on our business.

In connection with the Acquisitions, we entered into several agreements with Qwest, including a publishing agreement, a non-competition agreement and billing and collection services agreements. Under the publishing agreement, we are the exclusive official publisher of directories for Qwest in the Dex States until November 7, 2052. We believe that acting as the exclusive official publisher of directories for the incumbent telephone company provides us with a competitive advantage. Under the non-competition agreement, Qwest agreed until November 7, 2042 not to sell directory products consisting principally of listings and classified advertisements for subscribers in the geographic areas in the Dex States in which Qwest provides local telephone service that are directed primarily at customers in those geographic areas. Under the billing and collection services agreements, as amended, Qwest has agreed until December 31, 2008 to continue to bill and collect, on behalf of Dex Media East and Dex Media West, amounts owed by our accounts, which are also Qwest local telephone customers, for our directory services. For the Combined Year 2003, Qwest billed approximately 45% of our local account billings on our behalf as part of Qwest s telephone bill and held these collections in joint accounts with Qwest s own collections. The termination of any of these agreements or the failure by Qwest to satisfy its obligations under these agreements could have a material adverse effect on our business. See The Acquisition Transactions Agreements between Us, Dex Media East and/or Dex Media West and Qwest.

Qwest is currently highly leveraged and has a significant amount of debt service obligations over the near term and thereafter. In addition, Qwest has faced and may continue to face significant liquidity issues as well as issues relating to its compliance with certain covenants contained in the agreements governing its indebtedness. Based on Qwest s public filings and announcements, Qwest has taken measures to improve its near-term liquidity and covenant compliance. However, Qwest still has a substantial amount of indebtedness outstanding and substantial debt service requirements. Consequently, it may be unable to meet its debt service obligations without obtaining additional financing or improving operating cash flow. Accordingly, we cannot assure you that Qwest will not ultimately seek protection under U.S. bankruptcy laws. In any such proceeding, our agreements with Qwest, and Qwest s ability to provide the services under those agreements, could be adversely impacted. For example:

- Qwest, or a trustee acting on its behalf, could seek to reject our agreements with Qwest as executory contracts under U.S. bankruptcy law, thus allowing Qwest to avoid its obligations under such contracts. Loss of substantial rights under these agreements could effectively require us to operate our business as an independent directory business, which could have a material adverse effect on our business.

- Qwest could seek to sell certain of its assets, including the assets relating to Qwest s local telephone business, to third parties pursuant to the approval of the bankruptcy court. In such case, the purchaser of any such assets might be able to avoid, among other things, our publishing agreement and non-competition agreement with Qwest.

- We may have difficulties obtaining the funds collected by Qwest on our behalf pursuant to the billing and collection service agreements at the time such proceeding is instituted, although pursuant to such agreements, Qwest prepares settlement statements 10 times per month for each state in the Dex States summarizing the amounts due to Dex Media East and Dex Media West and purchases Dex Media East s and Dex Media West s accounts receivable billed by it within approximately nine business days following such settlement date. Further, if Qwest continued to bill our customers pursuant to the billing and collection services agreement following any such bankruptcy filing, customers of Qwest may be

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less likely to pay on time, or at all, bills received, including the amount owed to us. Qwest has completed the preparation of its billing and collection system so that we will be able to transition from the Qwest billing and collection system to our own billing and collection system within approximately two weeks should we choose to do so. See The Acquisition Transactions Agreements between Us, Dex Media East and/or Dex Media West and Qwest Billing and Collection Services Agreements.

Our substantial indebtedness could adversely affect our financial condition and impair our ability to operate our business.

We are a highly leveraged company. As of September 30, 2004, after giving effect to the issuance of Dex Media West s 5⁷/8% senior notes due 2011 and the application of the proceeds therefrom, our total indebtedness was $5,838.9 million, including $2,566.4 million of indebtedness under our subsidiaries credit facilities, $1,135.0 million of our subsidiaries senior notes, $1,103.1 million of our subsidiaries senior subordinated notes, $500.0 million of our 8% notes due 2013 and $534.4 million ($750.0 million at maturity) of our 9% discount notes due 2013. As of September 30, 2004, our ratio of total indebtedness to stockholders equity was 8.4 to 1.0. This level of indebtedness could have important consequences to you, including the following:

- the agreements governing our indebtedness substantially limit our ability to access the cash flow and value of our subsidiaries and, therefore, to pay interest and/or principal on the indebtedness of Dex Media;
- our indebtedness limits our ability to borrow money or sell stock to fund our working capital, capital expenditures, acquisitions and debt service requirements;
- our interest expense could increase if interest rates in general increase because a substantial portion of our indebtedness bears interest at floating rates;
- our indebtedness may limit our flexibility in planning for, or reacting to, changes in our business and future business opportunities;
- we are more highly leveraged than some of our competitors, which may place us at a competitive disadvantage;
- our indebtedness may make us more vulnerable to a downturn in our business or the economy;
- a substantial portion of our cash flow from operations is dedicated to the repayment of our indebtedness, including indebtedness we may incur in the future, and will not be available for other purposes; and
- there would be a material adverse effect on our business and financial condition if we were unable to service our indebtedness or obtain additional financing, as needed.

Despite our substantial indebtedness, we may still incur significantly more debt. This could exacerbate the risks described above.

Although covenants under (1) the indentures governing the subsidiary notes limit the ability of our subsidiaries to incur additional indebtedness, (2) our subsidiaries credit facilities limit our ability and the ability of our subsidiaries to incur additional indebtedness and (3) the indentures governing our notes limit our ability and the ability of our subsidiaries to incur additional indebtedness, the terms of our subsidiaries credit facilities and the indentures permit Dex Media and our subsidiaries to incur significant additional indebtedness in the future if conditions are satisfied, including indebtedness under our subsidiaries revolving credit facilities. As of September 30, 2004, our subsidiaries had $199.1 million available for additional borrowing under our subsidiaries revolving credit facilities. See Description of Our Indebtedness Our Subsidiaries Credit Facilities.

Dex Media is a holding company with no operations of its own and depends on our subsidiaries for cash.

Dex Media has no operations of its own and derives all of its cash flow and liquidity from its two principal operating subsidiaries, Dex Media East and Dex Media West. Dex Media therefore depends on distributions from

Dex Media East and Dex Media West to meet its debt service obligations and to pay dividends on our common stock. Because of the substantial leverage of Dex Media East and Dex Media West, and the dependence of Dex Media upon the operating performance of its subsidiaries to generate distributions to it, there can be no assurance that we will have adequate funds to fulfill our obligations in respect of our indebtedness when due or pay dividends on our common stock. In connection with our subsidiaries credit facilities, Dex Media entered into support agreements providing that, upon an acceleration of Dex Media East s or Dex Media West s credit facility, Dex Media is obligated to partially repay such subsidiary s credit facilities using a portion of any proceeds received by Dex Media from certain extraordinary events relating to the other subsidiary, including, for example, certain asset sale proceeds and excess distribution proceeds. A portion of any proceeds received from such extraordinary events from time to time is required to be pledged to secure Dex Media s obligations under the applicable support agreement. See Description of Our Indebtedness Our Subsidiaries Credit Facilities Support Agreement.

As of September 30, 2004, our subsidiaries had total indebtedness of approximately $4,804.5 million. Furthermore, $199.1 million was available to our subsidiaries for additional borrowing under our subsidiaries revolving credit facilities. In the event of bankruptcy, liquidation or dissolution of a subsidiary, following payment by the subsidiary of its liabilities, such subsidiary may not have sufficient assets to make payments to Dex Media.

The indentures governing our subsidiaries notes may restrict Dex Media s access to the cash flow and other assets of our subsidiaries that may be needed to make payments on its indebtedness or the payment of dividends on its common stock.

The indentures governing the subsidiary notes significantly restrict our subsidiaries from paying dividends and otherwise transferring assets to Dex Media. We cannot assure you that the agreements governing our current and future indebtedness or other agreements will permit us to engage in transactions to fund scheduled interest and principal payments on our indebtedness when due, and no assurances can be given as to the timing or cost of, or our ability to, effectuate any refinancing or renegotiation, if such transactions are necessary. If we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances. We cannot assure you that any such actions, if necessary, could be effected on commercially reasonable terms, or at all.

Specifically, the indentures relating to the senior notes and the senior subordinated notes of Dex Media East prohibit Dex Media East and its restricted subsidiaries from distributing funds to Dex Media if the amount of such distribution, together with all other restricted payments made by Dex Media East since November 8, 2002, would exceed the sum of (i) 50% of the adjusted consolidated net income accrued by Dex Media East since January 1, 2003, (ii) the aggregate net proceeds from the sale of capital stock of Dex Media East, (iii) the amount of debt issued after the date of the indenture relating to the senior notes or senior subordinated notes that is subsequently converted into capital stock, and (iv) certain amounts of payments received or credited to Dex Media East by its unrestricted subsidiaries. In addition, in order to make any such distributions of funds to Dex Media, Dex Media East would have to meet the leverage tests relating to the issuance of indebtedness under the indentures relating to its senior notes and senior subordinated notes. There is no specific exception to this restriction that would permit funds to be distributed to Dex Media to make interest payments on our indebtedness or the payment of dividends on its common stock.

The indentures relating to the senior notes and the senior subordinated notes of Dex Media West permit Dex Media West and its restricted subsidiaries to make one or more distributions to Dex Media with an aggregate amount not to exceed $50.0 million each fiscal year for the sole purpose of paying interest on Dex Media s debt obligations. However, the same indentures prohibit Dex Media West and its restricted subsidiaries from distributing funds to Dex Media in excess of $50.0 million each fiscal year to service interest on Dex Media s debt obligations or for any other purpose if the amount of such distribution, together with all other restricted

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payments made by Dex Media West since September 9, 2003, would exceed the sum of (i) 100% of the adjusted earnings before interest, tax, depreciation and amortization accrued since January 1, 2004 less 1.4 times the consolidated interest expense for the same period, (ii) the aggregate net proceeds from the sale of capital stock of Dex Media West, (iii) the amount of debt issued after the date of the indenture relating to the senior notes or senior subordinated notes that is subsequently converted into capital stock, and (iv) certain amounts of payments received or credited to Dex Media West by its unrestricted subsidiaries. In addition, in order to make any such distributions of funds to Dex Media, Dex Media West would have to meet the leverage tests relating to the issuance of indebtedness under the indentures relating to its senior notes and senior subordinated notes.

The terms of our subsidiaries credit facilities may limit our subsidiaries ability to pay dividends to Dex Media.

Although the terms of our subsidiaries credit facilities permit Dex Media East and Dex Media West to pay cash dividends to Dex Media in an amount not to exceed 42% and 58%, respectively, of regularly scheduled cash interest payable on the initial $250.0 million of our 8% notes due 2013 (provided that no event of default is continuing or would result therefrom), Dex Media East or Dex Media West, as applicable, may not pay dividends on its 42% or 58% portion, as applicable, of the regularly scheduled interest payments on the remaining $250.0 million of the $500.0 million of our 8% notes due 2013 unless Dex Media East or Dex Media West, as applicable, meets an interest coverage ratio for the four consecutive fiscal quarters prior to the payment of the dividend. Furthermore, in the event that (1) Dex Media East or Dex Media West, as the case may be, is unable to pay any dividends to be used for payment of cash interest on our 8% notes due 2013 because an event of default is continuing or would result therefrom or (2) Dex Media East or Dex Media West is unable to pay dividends in excess of its 42% or 58% portion, respectively, of the interest payments on $250.0 million of the $500.0 million of our 8% notes due 2013, the other subsidiary will not be permitted by the terms of its credit facility to pay dividends in excess of its 42% or 58% portion, as applicable, of the cash interest payments to replace the dividends that cannot be paid by the other subsidiary.

Additionally, although the terms of our subsidiaries credit facilities permitted Dex Media to issue discount notes, such credit facilities do not specifically permit the payment of dividends to Dex Media to pay cash interest on our 9% discount notes due 2013 when cash interest becomes payable on May 15, 2009. Accordingly, any dividend to Dex Media for payment of cash interest on our 9% discount notes due 2013 must be permitted to be paid pursuant to the general dividend basket of each of our subsidiaries credit facilities, which restricts Dex Media East (including its immediate parent and its subsidiaries) and Dex Media West (including its immediate parent and its subsidiaries), as applicable, from paying dividends to Dex Media in excess of $5.0 million and $12.5 million per year, respectively, if Dex Media East (including its immediate parent and its subsidiaries) or Dex Media West (including its immediate parent and its subsidiaries), as applicable, does not comply with a coverage ratio and a leverage ratio test. In any event, any such dividend would be limited to a portion of excess cash flow (as defined in the Dex Media East and Dex Media West credit facilities). If Dex Media East and Dex Media West are not able to pay Dex Media dividends under the general dividend basket of our subsidiaries credit facilities in amounts sufficient to meet Dex Media s obligations to pay cash interest on our 9% discount notes due 2013 once cash payments become due, we will need to refinance or amend our subsidiaries credit facilities before such date. We cannot assure you that we will be able to refinance or amend our subsidiaries credit facilities on commercially reasonable terms or at all.

Our subsidiaries may enter into additional agreements or financings in the future which could further limit Dex Media s ability to access the assets and cash flow of our subsidiaries.

Our subsidiaries are permitted under the terms of our subsidiaries credit facilities, the indentures governing the subsidiary notes and the terms of other indebtedness to enter into other agreements or incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to Dex Media. In addition to these contractual restrictions and prohibitions, the laws of our subsidiaries jurisdiction of organization may restrict or prohibit the making of distributions, the

payment of dividends or the making of loans by our subsidiaries to Dex Media. The indentures governing our notes do not significantly limit our subsidiaries from entering into agreements restricting such distributions, dividends or loans. We cannot assure you that the agreements governing the current and future indebtedness of our subsidiaries, other agreements of our subsidiaries and statutory restrictions will permit our subsidiaries to provide Dex Media with sufficient dividends, distributions or loans to fund scheduled interest and principal payments on our indebtedness when due.

We operate in the competitive directory advertising industry.

The U.S. directory advertising industry is competitive. There are a number of independent directory publishers, such as TransWestern Publishing Company LLC and the U.S. business of Yell Group Ltd., with which we compete in one or more of the Dex States. In addition, we compete with other directory publishers in some of our markets, including Verizon Communications Inc., and these other directory publishers could elect to publish directories in the future in any of our markets in which they do not currently publish directories. For example, new competitive directories were introduced in six of our top ten markets in 2003 compared to just one new competitive directory in 2002. In the Dex States, our competitors publish and deliver approximately 550 directories. Our two largest competitors are Yell Group and Verizon. On average, there are two to three competing directories in each of our local markets. Through our Internet-based directory, we compete with these publishers and with other Internet sites providing classified directory information, such as Switchboard.com, yellowpages.com, Citysearch.com and Zagat.com, and with search engines and portals, such as Yahoo!, Google, MSN and others, some of which have entered into affiliate agreements with other major directory publishers. We cannot assure you that we will be able to compete effectively with these other companies, some of which may have greater resources than we do, for advertising in the future. Competition from other yellow pages publishers affects our ability to attract and retain advertisers and to increase advertising rates. The effect of competition and the current economic cycle on our revenue, excluding the effects of purchase accounting, can be seen in the decreasing revenue growth trend, on a combined revenue basis, of 4.3%, 2.8% and 2.6% in 2001, 2002 and 2003, respectively. We expect that competition will continue to impact future revenue growth. In addition, we compete against other media, including newspapers, radio, television, the Internet, billboards and direct mail, for business and professional advertising, and we cannot assure you that we will be able to compete successfully against these and other media for such advertising.

The Telecommunications Act of 1996 effectively opened local telephone markets to increased competition. Consequently, there can be no assurance that Qwest will remain the dominant local telephone service provider in its local service area. If Qwest were no longer the dominant local telephone service provider in its local service area, we may not realize some of the anticipated benefits under our publishing agreement with Qwest, which could have a material adverse effect on our business.

We could be materially adversely affected by declining usage of printed yellow pages directories.

We believe that overall usage of printed yellow pages directories in the United States and in the Dex States declined by a compound annual rate of approximately 2% between 1998 and 2003. Notwithstanding these declines in usage, we have been able to increase our annual revenue in recent years through, among other things, increases in our advertising prices and new product offerings and enhanced features such as color advertisements and awareness products. There can be no assurance that usage of our print yellow pages directories will not continue to decline at the existing rate or more severely. In addition, there can be no assurance that we will be able to continue to increase prices or increase revenues from new product offerings and enhanced features. Any declines in usage could impair our ability to maintain or increase our advertising prices, cause businesses that purchase advertising in our yellow pages directories to reduce or discontinue those purchases and discourage businesses that do not purchase advertising in our yellow pages directories from doing so.

Although we believe that the decline in the usage of our printed directories will be offset in part by an increase in usage of our Internet-based directory, we cannot assure you that such increase in usage will result in additional Internet revenue. Any of the factors that may contribute to a decline in usage of our printed directories, or a combination of them, could impair our directory services revenue and have a material adverse effect on our business.

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Qwest, the former owner of our business, is the subject of ongoing investigations by the SEC and the U.S. Attorney s office.

On March 8, 2002, Qwest, the former owner of our business, received a request from the Denver regional office of the SEC to voluntarily produce documents and information as part of an informal inquiry into certain of its accounting practices. On April 3, 2002, the SEC issued an order authorizing a formal investigation of Qwest. The matters under investigation include, among others, the revenue recognition practices of Qwest Dex. In addition, two former Chief Executive Officers (one of whom is our current Chief Executive Officer) and two former Chief Financial Officers (one of whom is our current Vice President, Financial Planning and Analysis) of Qwest Dex were subpoenaed in August 2002 and have provided documents and testimony to the SEC. In the investigation, the SEC may issue additional subpoenas seeking documents and/or testimony from other current and former Qwest Dex employees. On October 21, 2004, without admitting or denying the allegations in the SEC s complaint, Qwest consented to the entry of a judgment enjoining it from violating the antifraud, reporting, books and records, internal control, proxy and securities registration provisions of the federal securities laws. As part of the judgment, Qwest agreed to pay a civil penalty of $250.0 million and $1.00 disgorgement. The SEC is continuing its investigation of Qwest s financial reporting. We cannot assure you that the SEC investigation will not result in any further enforcement action against Qwest Dex, its employees or those of our employees who were formerly employees of Qwest Dex.

In addition, on July 9, 2002, Qwest was informed by the U.S. Attorney s Office for the District of Colorado that it had begun a criminal investigation of Qwest. Although the U.S. Attorney s Office has not disclosed the subject matter of the investigation, it has indicated that it is investigating the matters under inquiry in the SEC investigation. It is not clear whether this investigation involves the business or management of Qwest Dex s directory business (other than its former revenue recognition policy under the point of publication method) or employees who historically worked for the Qwest Dex business, most of whom are now our employees. We do not have any knowledge that former employees of Qwest Dex are the subject of the U.S. Attorney s investigation. None of the former employees of Qwest Dex have informed us that they are the targets of the U.S. Attorney s investigation or have been contacted by the U.S. Attorney s office in connection with the investigation. Although we acquired only the assets of the Qwest Dex business located in the Dex States and not the Qwest Dex corporate entity and we did not assume in the Acquisitions any liabilities relating to the SEC or the U.S. Attorney s Office investigations, there can be no assurances that these investigations or other investigations will not have a material adverse effect on our business.

Restrictive covenants in our subsidiaries credit facilities and the indentures may restrict our ability to pursue our business strategies.

Our subsidiaries credit facilities, the indentures governing the subsidiary notes and/or the indentures governing our notes limit Dex Media s ability and/or the ability of our subsidiaries, among other things, to:

- access the cash flow and value of our subsidiaries and, therefore, to pay interest and/or principal on the indebtedness of Dex Media or to pay dividends on the common stock of Dex Media;
- incur additional indebtedness;
- issue preferred stock;
- pay dividends or make distributions in respect of Dex Media s or the applicable subsidiary s capital stock or to make certain other restricted payments or investments;
- sell assets, including capital stock of Dex Media s or the applicable subsidiary s future restricted subsidiaries;

agree to payment restrictions affecting Dex Media s or the applicable subsidiary s future restricted subsidiaries;

consolidate, merge, sell or otherwise dispose of all or substantially all of Dex Media s or the applicable subsidiary s assets;

- enter into transactions with Dex Media s or the applicable subsidiary s affiliates;
- incur liens;
- designate any of Dex Media s or the applicable subsidiary s future subsidiaries as unrestricted subsidiaries; and
- enter into new lines of businesses.

In addition, our subsidiaries credit facilities include other and more restrictive covenants and prohibit our subsidiaries from prepaying our other indebtedness while indebtedness under our subsidiaries credit facilities is outstanding. The agreements governing our subsidiaries credit facilities also require our subsidiaries to achieve specified financial and operating results and maintain compliance with specified financial ratios. Our subsidiaries ability to comply with these ratios may be affected by events beyond our control.

The restrictions contained in the indentures governing the subsidiary notes, the indentures governing our notes and the agreements governing our subsidiaries credit facilities could limit our ability to plan for or react to market conditions or meet capital needs or otherwise restrict our activities or business plans and adversely affect our ability to finance our operations, strategic acquisitions, investments or alliances or other capital needs or to engage in other business activities that would be in our interest.

A breach of any of these restrictive covenants or our inability to comply with the required financial ratios could result in a default under the agreements governing our subsidiaries credit facilities. If a default occurs, the lenders under our subsidiaries credit facilities may elect to declare all borrowings outstanding, together with accrued interest and other fees, to be immediately due and payable or prevent our subsidiaries from making distributions to Dex Media in order for Dex Media to make payments on its indebtedness, either of which could result in an event of default under such indebtedness. The lenders will also have the right in these circumstances to terminate any commitments they have to provide further borrowings. If we are unable to repay outstanding borrowings when due, the lenders under our subsidiaries credit facilities will also have the right to proceed against the collateral, including our available cash, granted to them to secure the indebtedness. If the indebtedness under our subsidiaries credit facilities, the subsidiary notes and our notes were to be accelerated, we can make no assurances that our assets would be sufficient to repay in full that indebtedness and our other indebtedness. See Description of Our Indebtedness.

Our business could suffer if there is a prolonged economic downturn.

We derive our net revenue from the sale of advertising in our directories. Our advertising revenue, as well as those of yellow pages publishers in general, generally does not fluctuate widely with economic cycles. However, a prolonged national or regional economic recession could have a material adverse effect on our business.

Our dependence on third-party providers of printing, distribution and delivery services could materially adversely affect us.

We depend on third parties for the printing and distribution of our directories. Dex Media East and Dex Media West each have contracts with two companies, R.R. Donnelley & Sons Company, or Donnelley, and Quebecor World Directory Sales Corporation, or Quebecor, for the printing of our directories, which expire on December 31, 2011 and July 30, 2008, respectively. Because of the large print volume and specialized binding of directories, there are only a small number of companies in the printing industry that could service our needs. Accordingly, the inability or unwillingness of Donnelley or Quebecor to provide printing services to us on acceptable terms or at all could have a material adverse effect on our business.

We have a contract with a single company, Product Development Corporation, or PDC, for the distribution of our directories. This contract expires on May 31, 2009. There are only a small number of companies that could service our distribution needs. Accordingly, the inability or unwillingness of PDC to provide distribution services to us on acceptable terms or at all could have a material adverse effect on our business. We have a contract with Matson Integrated Logistics, or Matson, to provide logistical support and to

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transport our printed directories from our printers locations to PDC. This contract expires on December 31, 2008. We rely on Matson s services extensively for our transportation and logistical needs, and only a small number of companies could service our transportation needs. Accordingly, any disruptions in the services provided to us by Matson or by a third party upon termination of the contracts with Matson could have a material adverse effect on our business.

Fluctuations in the price or availability of paper could materially adversely affect us.

The principal raw material that we use is paper. For the Combined Year 2003, paper costs equaled 3.6% of our revenue and 11.8% of our cost of revenue, excluding the effects of purchase accounting. Approximately 97% of the paper that we use is supplied by two companies: Nippon Paper Industries USA Co., Ltd. (formerly Daishowa America Co., Ltd.), or Nippon, and Norske Skog Canada (USA), Inc., or Norske. Pursuant to our agreements with Nippon and Norske, they are required to provide up to 60% and 40% of our annual paper supply, respectively. Prices under the two agreements are set each year based on prevailing market rates. If, in a particular year, the parties to either of the agreements are unable to agree on repricing, either party may terminate the agreement. The contract with Nippon expires on December 31, 2009 and the contract with Norske expires on December 31, 2008. Furthermore, we purchase paper used for the covers of our directories from Spruce Falls, Inc., or Spruce Falls. Pursuant to an agreement between Spruce Falls and us, Spruce Falls is required to provide 100% of our annual cover stock paper supply. Prices under this agreement are negotiated each year. If, in a particular year, Spruce Falls and we are unable to agree on repricing, either party may terminate this agreement. This agreement expires on December 31, 2006.

We do not engage in hedging activities to limit our exposure to paper price increases. The price of paper may fluctuate significantly in the future. Changes in the supply of or demand for paper could affect delivery times and prices. We cannot assure you that we will continue to have access to paper in the necessary amounts or at reasonable prices or that any increases in the cost of paper will not have a material adverse effect on our business. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

We could be materially adversely affected by turnover among sales representatives or loss of key personnel.

We depend on our ability to identify, hire, train and retain qualified sales personnel. A loss of a significant number of experienced sales representatives would likely result in fewer sales of advertising in our directories and could materially adversely affect our business. We expend significant resources and management time in identifying and training our sales representatives. Our ability to attract and retain qualified sales personnel depends, however, on numerous factors, including factors that we cannot control, such as conditions in the local employment markets in which we operate. We cannot assure you that we will be able to hire or retain a sufficient number of sales representatives to achieve our financial objectives.

Furthermore, we depend on the continued services of key personnel, including George Burnett, our President and Chief Executive Officer, Robert M. Neumeister, Jr., our Executive Vice President and Chief Financial Officer, Marilyn B. Neal, our Executive Vice President and Chief Operating Officer, and other members of our senior management and regional sales management personnel. Although we believe that we could replace our key employees within a reasonable time should the need arise, the loss of key personnel could have a material adverse effect on our business.

We may be materially adversely affected by our practice of extending credit to small and medium-sized businesses.

For the Combined Year 2003, approximately 82% of our revenue, excluding the effects of purchase accounting, was generated through the sale of advertising to local businesses, which are generally small and medium-sized businesses. In the ordinary course of our directory operations, we extend credit to these customers for advertising purchases. As of December 31, 2003, we had approximately 399,000 accounts with local businesses to which we extended credit. Full collection of delinquent accounts can take many months or may never occur. For the Combined Year 2003, bad debt expense for all of our accounts amounted to approximately $55.8 million, or 3.4% of our revenue, excluding the effects of purchase accounting. Small and medium-sized businesses tend to have fewer financial resources and higher rates of failure than do larger businesses. Consequently, although we attempt to mitigate exposure to the risks that result from extending credit to small and medium-sized businesses through credit screening and the collection of advance payments under certain circumstances, we cannot assure you that we will not be materially adversely affected by our practice of extending credit to small and medium-sized businesses.

Our sales of advertising to national accounts is coordinated by third parties that we do not control.

Approximately 15% of our revenue for the Combined Year 2003 was derived from the sale of advertising to national or large regional chains, such as rental car companies, insurance companies and pizza delivery businesses, that purchase advertising in several of the directories that we publish. In order to sell advertising to these accounts, we contract with approximately 160 certified marketing representatives, or CMRs, which are independent third parties that act as agents for national companies and design their advertisements, arrange for the placement of those advertisements in directories and provide billing services. As a result, our relationships with these national advertisers depend significantly on the performance of these third party CMRs whom we do not control. In particular, we rely on one of our CMRs, TMP Worldwide Inc., or TMP, whose billings were approximately 4% of our revenue for the Combined Year 2003. Although we believe that our relationship with TMP is mutually beneficial and that those CMRs with whom we have existing relationships or other third parties could service our needs if TMP were unable or unwilling to provide its services to us on acceptable terms or at all, such inability or unwillingness could materially adversely affect our business. In addition, any decline in the performance of TMP or the other CMRs with whom we contract could harm our ability to generate revenue from our national accounts and could materially adversely affect our business.

We may be subject to work stoppages, which could increase our operating costs and disrupt our operations.

As of September 30, 2004, approximately 67% of our workforce was represented by various local labor unions. If our unionized workers were to engage in a strike, work stoppage or other slowdown in the future, we could experience a significant disruption of our operations and an increase in our operating costs, which could have a material adverse effect on us. In addition, if a greater percentage of our work force becomes unionized, our business and financial results could be materially adversely affected.

Future changes in Qwest s directory publishing obligations in the Dex States may increase our costs.

Pursuant to the publishing agreement, we are required to discharge Qwest s regulatory obligation to publish white pages directories covering each service territory in the Dex States where it provides local telephone service as the incumbent service provider. If the staff of a state public utility commission in a Dex State were to impose additional or changed legal requirements in any of Qwest s service territories with respect to this obligation, we would be obligated to comply with these requirements on behalf of Qwest, even if such compliance were to increase our publishing costs. Pursuant to the publishing agreement, Qwest will only be obligated to reimburse us for one half of any material net increase in our costs of publishing directories that satisfy Qwest s publishing obligations (less the amount of any previous reimbursements) resulting from new governmental legal requirements, and this obligation will expire on November 7, 2009. Our competitive position relative to competing directory publishers could be adversely affected if we are not able to recover from Qwest that portion of our increased costs that Qwest has agreed to reimburse and, moreover, we cannot assure you that we would be able to increase our revenue to cover any unreimbursed compliance costs.

Our conversion to the Amdocs software system may disrupt our operations or we may not be able to realize the improvement in our operational efficiency and the associated cost savings.

We are in the process of migrating from our legacy process management infrastructure to Amdocs, an industry-standard software system. The conversion from our existing software system to the Amdocs software system is complicated and is expected to take several months for us to fully complete in all of the Dex States. During the conversion, we may experience a disruption to our business. We cannot assure you that any disruption caused by the conversion to Amdocs will not materially adversely affect our business or that we will be able to realize the anticipated cost savings as result of our conversion to Amdocs. In addition, if we are unable to convert to Amdocs, we will be unable to fully implement our segmented pricing strategy.

We are controlled by Carlyle and WCAS, whose interests may not be aligned with yours.

Carlyle and WCAS will own, after giving effect to this offering, approximately 51.9% of our common stock, or approximately 50.1% if the underwriters exercise their over-allotment option in full. The Sponsors have the power to control our affairs and policies. The Sponsors also control the election of directors, the appointment of management, the entering into of mergers, sales of substantially all of our assets and other extraordinary transactions. The directors so elected have the authority, subject to the terms of our debt, to issue additional stock, implement stock repurchase programs, declare dividends and make other decisions. The interests of the Sponsors could conflict with your interests. For example, the Sponsors could cause us to make acquisitions that increase the amount of our indebtedness or sell revenue-generating assets. Additionally, the Sponsors are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. The Sponsors may also pursue acquisition opportunities that may be complementary to our business, and as a result, those acquisition opportunities may not be available to us. So long as the Sponsors continue to own a significant amount of the outstanding shares of our common stock, they will continue to be able to strongly influence or effectively control our decisions.

Upon completion of this offering, our Sponsors as a group will continue to control a majority of our outstanding common stock. As a result, we are a controlled company within the meaning of the New York Stock Exchange corporate governance standards. Under the New York Stock Exchange rules, a company of which more than 50% of the voting power is held by a group is a controlled company and may elect not to comply with certain New York Stock Exchange corporate governance requirements, including (1) the requirement that a majority of the board of directors consist of independent directors, (2) the requirement that the nominating committee be composed entirely of independent directors, (3) the requirement that the compensation committee be composed entirely of independent directors, and (4) the requirement for an annual performance evaluation of the nominating and corporate governance and compensation committees. Following this offering, we intend to continue to avail ourselves of these exemptions. As a result, we will not have a majority of independent directors and our nominating and compensation committees may not consist entirely of independent directors. Accordingly, you may not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

Risks Related to Our Common Stock

Our common stock price may be volatile.

Our common stock price may fluctuate in response to many things, including but not limited to:

our quarterly or annual earnings or those of other companies in our industry;

changes in earnings estimates or recommendations by research analysts who track our common stock or the stocks of other companies in our industry or failure of analysts to cover our common stock;

new laws or regulations or new interpretations of laws or regulations applicable to our business;

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changes in accounting standards, policies, guidance, interpretations or principles;

changes in general conditions in the U.S. and global economies or financial markets, including those resulting from war, incidents of terrorism or responses to such events; and

sale of common stock by our directors and executive officers and the selling stockholders.

Some companies that have had volatile market prices for their securities have been subject to securities class action suits filed against them. If a suit were to be filed against us, regardless of the outcome, it could result in substantial costs and a diversion of our management s attention and resources. This could have a material adverse effect on our business, results of operations and financial condition.

We may be restricted from paying cash dividends on our common stock in the future.

We currently intend to declare and pay regular quarterly cash dividends on our common stock. Any payment of cash dividends will depend upon our financial condition, earnings, legal requirements, restrictions in our debt agreements and other factors deemed relevant by our board of directors. The terms of our subsidiaries credit facilities, the indentures governing the subsidiary notes and/or the indentures governing our notes may restrict us from paying cash dividends on our common stock. See The indentures governing our subsidiaries notes may restrict Dex Media s access to the cash flow and other assets of our subsidiaries that may be needed to make payment on its indebtedness or the payment of dividends on its common stock, The terms of our subsidiaries credit facilities may limit our subsidiaries ability to pay dividends to Dex Media and Our subsidiaries may enter into additional agreements or financings in the future which could further limit Dex Media s ability to access the assets and cash flow of our subsidiaries. Furthermore, we will be permitted under the terms of our debt agreements to incur additional indebtedness that may severely restrict or prohibit the payment of dividends. We cannot assure you that the agreements governing our current and future indebtedness will permit us to pay dividends on our common stock. See Description of Our Indebtedness.

Shares eligible for future sale may adversely affect our common stock price.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales may occur, could cause the market price of our common stock to decline. This could also impair our ability to raise additional capital through the sale of our equity securities. Under our amended and restated articles of incorporation, we are authorized to issue up to 700 million shares of common stock, of which approximately 150.3 million shares of common stock were outstanding as of the date of this prospectus and approximately 5.0 million shares of common stock will be issuable upon the exercise of outstanding stock options. We, our directors, officers and the selling stockholders have entered into lock-up agreements described under the caption Underwriting. The lock-up agreements provide that parties to such agreements shall not sell shares of our common stock until at least 90 days after the date of this prospectus. We have entered into a stockholders agreement with the Sponsors granting certain demand and piggyback registration rights to the Sponsors. The amended and restated management stockholders agreement and the sponsor stockholders agreement both provide for piggyback registration rights for certain of our stockholders. We cannot predict the size of future issuances of our common stock or the effect, if any, that future sales and issuances of shares of our common stock would have on the market price of our common stock. See Certain Relationships and Related Transactions and Shares Eligible for Future Sale.

Delaware law and our charter documents may impede or discourage a takeover, which could cause the market price of our shares to decline.

We are a Delaware corporation and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change of control would be beneficial to our existing stockholders. In addition, provisions of our amended and restated certificate of

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incorporation and by-laws may also make it more difficult for, or prevent a third party from, acquiring control of us without the approval of our board of directors. These provisions include:

- a classified board of directors;
- limitations on the removal of directors;
- the sole power of the board of directors to fill any vacancy on the board of directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- the ability of our board of directors to designate one or more series of preferred stock and issue shares of preferred stock without stockholder approval; and
- the inability of stockholders to act by written consent or to call special meetings.

Our incorporation under Delaware law, the ability of our board of directors to create and issue a new series of preferred stock, our stockholder rights plan, the acceleration of the vesting of the outstanding stock options upon a change of control of Dex Media and certain other provisions of our amended and restated certificate of incorporation and by-laws could impede a merger, takeover or other business combination involving Dex Media or the replacement of our management or discourage a potential investor from making a tender offer for our common stock, which, under certain circumstances, could reduce the market value of our common stock. See Description of Capital Stock.

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CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. These statements relate to future events or our future financial performance, and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include, among other things, those listed in Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Stand-Alone Company and elsewhere in this prospectus. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expects, intends, plans, anticipates, believes, estimates, continue or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially. In evaluating these statements, you should specifically consider various factors, including the risks outlined in Risk Factors. These factors may cause our actual results to differ materially from any forward-looking statement.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These forward-looking statements are made as of the date of this prospectus and, except as required under the federal securities laws and the rules and regulations of the SEC, we assume no obligation to update or revise them or to provide reasons why actual results may differ.

We do not undertake any responsibility to release publicly any revisions to these forward-looking statements to take into account events or circumstances that occur after the date of this prospectus. Additionally, we do not undertake any responsibility to update you on the occurrence of any unanticipated events which may cause actual results to differ from those expressed or implied by the forward-looking statements contained in this prospectus.

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MARKET AND INDUSTRY DATA

Unless otherwise indicated, information contained in this prospectus concerning the U.S. directory advertising industry, the U.S. advertising industry and their respective segments, our general expectations concerning such industries and their segments and our market position and market share within such industries and their segments are derived from data from various third party sources. We have not independently verified any of such information and cannot assure you of its accuracy or completeness. In addition, this prospectus presents similar information based on management estimates. Such estimates are derived from third party sources as well as data from our internal research and on assumptions made by us, based on such data and our knowledge of the U.S. directory advertising industry, which we believe to be reasonable. Our internal research has not been verified by any independent source. While we are not aware of any misstatements regarding any industry or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under the caption Risk Factors in this prospectus.

Data on U.S. directory advertising industry revenue and corresponding market position and market share within the industry are based on U.S. directory advertising sales. A few of our competitors utilize the point of publication method of accounting under which revenue and expenses are recognized when a directory is published. We utilize the deferral and amortization method of accounting under which revenue and expenses are recognized over the lives of the directories. As a result, while we believe that the information presented herein with respect to ourselves and our competitors is comparable, comparisons made beyond the scope of those made in this prospectus may be impacted by the differing accounting methods. Except where otherwise noted, the calculation of advertiser renewal and retention rates is based on local advertisers and excludes the loss of advertisers as a result of business failures, which we believe is the customary calculation method in our industry.

The DEX® trademark referred to in this prospectus is a registered trademark of Dex Media. The QWEST DEX® and QWEST DEX ADVANTAGE® trademarks referred to in this prospectus are registered trademarks of Qwest and are used by us under license.

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USE OF PROCEEDS

All of the shares of common stock being offered in this offering are being sold by the selling stockholders, including the over-allotment shares, if any. We will not receive any of the proceeds from the sale of these shares.

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PRICE RANGE OF COMMON STOCK

Our common stock began trading on the New York Stock Exchange on July 22, 2004 and is traded under the symbol DEX. Prior to that date, there was no public market for our common stock. The following table sets forth the high and low closing sales prices of the common stock.

	High	Low
Fiscal Year Ended December 31, 2004		
Third Quarter (beginning July 22, 2004)	$ 22.01	$ 17.80
Fourth Quarter	25.24	20.60
Fiscal Year Ended December 31, 2005		
First Quarter (through January 20, 2005)	$ 25.01	$ 23.67

As of January 21, 2005, there were 45 stockholders of record of our common stock.

The last reported sale price of our common stock on the New York Stock Exchange on January 21, 2005 was $24.60 per share.

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DIVIDEND POLICY

On December 14, 2004, we declared a quarterly cash dividend of $0.09 per share of common stock, payable January 31, 2005 to stockholders of record as of January 3, 2005. We intend to continue paying quarterly cash dividends on our common stock at an annual rate of $0.36 per share. However, there can be no assurance that we will declare or pay any cash dividends. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors and will depend upon many factors, including our financial condition, earnings, legal requirements, restrictions in our debt agreements and other factors our board of directors deems relevant. The terms of our indebtedness may also restrict us from paying cash dividends on our common stock under some circumstances. See Risk Factors The indentures governing our subsidiaries notes may restrict Dex Media s access to the cash flow and other assets of our subsidiaries that may be needed to make payment on its indebtedness or the payment of dividends on its common stock, The terms of our subsidiaries credit facilities may limit our subsidiaries ability to pay dividends to Dex Media, Our subsidiaries may enter into additional agreements or financings in the future which could further limit Dex Media s ability to access the assets and cash flow of our subsidiaries, We may be restricted from paying cash dividends on our common stock in the future and Description of Our Indebtedness.

On November 10, 2003, we made a distribution of approximately $750.2 million to our stockholders with the proceeds received from the 8% notes due 2013 and 9% discount notes due 2013 issued in November 2003, and on February 17, 2004, we made another distribution of approximately $250.5 million to our stockholders with the proceeds received from the 9% discount notes due 2013 issued in February 2004.

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CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of September 30, 2004. The table does not give effect to the $300.0 million offering of 5 7/8% senior notes due 2011 by Dex Media West and Dex Media West Finance Co. and the application of the proceeds therefrom.

The information in this table should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto included elsewhere in this prospectus.

(In thousands)	September 30, 2004 (unaudited)
Cash and cash equivalents	$ 3,778
Total debt:	
Subsidiary debt:	
Dex Media East credit facilities:	
Revolving credit facility[(1)]	$
Term loan facilities	998,427
Dex Media West credit facilities:	
Revolving credit facility[(2)]	
Term loan facilities	1,868,000
Senior notes:	
9 7/8% senior notes of Dex Media East	450,000
8 1/2% senior notes of Dex Media West	385,000
Senior subordinated notes:	
12 1/8% senior subordinated notes of Dex Media East	341,250
9 7/8% senior subordinated notes of Dex Media West	761,800
Dex Media debt:	
8% notes	500,000
9% discount notes	263,887
9% discount notes	270,546
Total debt	5,838,910
Stockholders equity:	
Common stock, $0.01 par value	1,503
Additional paid-in capital	847,169
Accumulated deficit	(151,405)
Accumulated other comprehensive loss	(1,810)
Total stockholders equity	695,457
Total capitalization	$ 6,534,367

(1)

Total availability of $100 million. As of September 30, 2004, Dex Media East had $99.1 million available under such revolving credit facility ($0.9 million was committed under a stand-by letter of credit).

(2) Total availability of $100 million. As of September 30, 2004, Dex Media West had $100.0 million available under such revolving credit facility.

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UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information of Dex Media has been derived by the application of pro forma adjustments to the historical consolidated financial statements of Dex Media and the combined financial statements of Dex West included elsewhere in this prospectus. The Dex Media pro forma statement of operations for the year ended December 31, 2003 and the nine months ended September 30, 2004 give pro forma effect to the Dex West Transactions, the Notes Offerings, our initial public offering, the redemption of (i) our outstanding 5% Series A preferred stock for $125.7 million plus accrued and unpaid dividends, (ii) $183.8 million of Dex Media East s outstanding 12 1/8% senior subordinated notes due 2012 and (iii) $18.2 million of Dex Media West s outstanding 9 7/8% senior subordinated notes due 2013 and the payment of a final lump sum of $20.0 million to our Sponsors to terminate the annual advisory fees paid to our Sponsors under our management consulting agreements as if each were completed on January 1, 2003. The pro forma statement of operations for the year ended December 31, 2003 and the nine months ended September 30, 2004 also eliminates the non-recurring effects on revenue and cost of revenue resulting from purchase accounting adjustments related to the Acquisitions in the applicable periods. We refer to the adjustments relating to the Dex West Transactions and the Dex East Transactions as the Acquisitions Transactions Adjustments, the adjustments relating to the Notes Offerings as the Notes Adjustments and the adjustments relating to our initial public offering and the use of proceeds therefrom as the IPO Adjustments. The adjustments, which are based upon available information and upon assumptions that management believes to be reasonable, are described in the accompanying notes.

The pro forma financial information is for informational purposes only and should not be considered indicative of actual results that would have been achieved had the Dex West Transactions, the Notes Offerings and our initial public offering been completed on the date indicated and does not purport to be indicative of results of operations as of any future date or for any future period. The pro forma financial information does not give effect to (i) all of the stand-alone costs related to operating as a separate entity from Qwest, (ii) the $300.0 million offering of 5 7/8% senior notes due 2011 by Dex Media West and Dex Media West Finance Co. and the application of proceeds therefrom and (iii) the repricing of the Tranche B term loans for both Dex Media East s and Dex Media West s credit facilities on November 24, 2004. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview Stand-Alone Company. The pro forma financial information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations, The Acquisition Transactions, the historical consolidated financial statements of Dex Media and the notes thereto and the historical consolidated financial statements of Dex Media West and the notes thereto, in each case included elsewhere in this prospectus.

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Dex Media

Unaudited pro forma statement of operations

For the year ended December 31, 2003

(in thousands, except per share data)	Dex Media Historical Year Ended December 31, 2003(i)	Dex West Historical January 1 to September 9, 2003	Acquisitions Transactions Adjustments	Subtotal	Notes Adjustments	IPO Adjustments	Total
Revenue	$ 882,772	$ 630,160	$ 118,197(a)	$ 1,631,129	$	$	$ 1,631,129
Operating expenses:							
Cost of revenue	265,333	193,282	32,638(b)	491,253			491,253
General and administrative expense (including bad debt expense)	146,480	74,241	1,383(c)	222,104		(4,000)(c)	218,104
Depreciation and amortization expense	305,420	8,153	168,583(d)	482,156			482,156
Total operating expenses	717,233	275,676	202,604	1,195,513		(4,000)	1,191,513
Operating income	165,539	354,484	(84,407)	435,616		4,000	439,616
Other (income) expense:							
Interest income	(1,380)	(2,336)	2,336(e)	(1,380)			(1,380)
Interest expense	277,626	113,627	32,354(f)	423,607	81,520(f)	(24,497)(f)	480,630
Other expense, net	12,058			12,058			12,058
(Loss) income before income taxes	(122,765)	243,193	(119,097)	1,331	(81,520)	28,497	(51,692)
Provision (benefit) for income taxes	(47,729)	91,441	(43,194)(g)	518	(31,694)(g)	11,085(g)	(20,091)
Net income (loss)	(75,036)	151,752	(75,903)	813	(49,826)	17,412	(31,601)
Dividend on Series A preferred stock	8,594			8,594		(8,594)(h)	
Net income (loss) available to common shareholders	$ (83,630)	$ 151,752	$ (75,903)	$ (7,781)	$ (49,826)	$ 26,006	$ (31,601)
Basic loss per common share							$ (0.21)
Diluted loss per common share							$ (0.21)
Weighted average common shares, basic and diluted							149,119,976

See accompanying notes to unaudited pro forma statements of operations.

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Dex Media

Unaudited pro forma statement of operations

For the nine months ended September 30, 2004

(in thousands, except per share data)	Dex Media Historical Nine Months Ended September 30, 2004[i]	Acquisitions Transactions Adjustments	Notes Adjustments	IPO Adjustments	Total
Revenue	$ 1,189,467	$ 46,813[(a)]	$	$	$ 1,236,280
Operating expenses:					
Cost of revenue	363,905	10,511[(b)]			374,416
General and administrative expense	188,187			(2,000)[(c)]	186,187
Depreciation and amortization expense	331,649				331,649
Total operating expenses	883,741	10,511		(2,000)	892,252
Operating income	305,726	36,302		2,000	344,028
Other (income) expense:					
Interest income	(1,278)				(1,278)
Interest expense	387,255		2,370[(f)]	(16,354)[(f)]	373,271
Other expense, net	60				60
(Loss) income before income taxes	(80,311)	36,302	(2,370)	18,354	(28,025)
Benefit (provision) for income taxes	(32,046)	14,485[(g)]	(946)[(g)]	7,324[(g)]	(11,183)
Net (loss) income	(48,265)	21,817	(1,424)	11,030	(16,842)
Dividend on Series A preferred stock	3,929			(3,929)[(h)]	
Net income (loss) available to common shareholders	$ (52,194)	$ 21,817	$ (1,424)	$ 7,101	$ (16,842)
Basic loss per common share					$ (0.11)
Diluted loss per common share					$ (0.11)
Weighted average common shares, basic and diluted					149,964,394

See accompanying notes to unaudited pro forma statements of operations.

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DEX MEDIA

Notes to unaudited pro forma statements of operations

Our revenue and cost of revenue for the twelve months following the consummation of the Dex East Acquisition were $85.9 million and $22.2 million lower, respectively, and our revenue and cost of revenue for the twelve months following the consummation of the Dex West Acquisition were $120.6 million and $31.6 million lower, respectively, than our revenue and cost of revenue would have been because the Acquisitions have been accounted for under the purchase method of accounting. Under the purchase method of accounting, the deferred revenue and deferred directory costs associated with directories that had previously been published were not carried over to our balance sheet. The purchase method of accounting will not affect our revenue and directory costs in periods subsequent to this twelve-month period. These purchase accounting adjustments relating to the Acquisitions are non-recurring and have no impact on cash flows.

(a) For the year ended December 31, 2003, the pro forma adjustment to revenue reflects the effects of Dex Media purchase accounting on amortization of deferred revenue related to Dex Media East and Dex Media West of $44.4 million and $73.8 million, respectively. For the nine months ended September 30, 2004, the pro forma adjustment to revenue reflects the effects of Dex Media purchase accounting on amortization of deferred revenue related to Dex Media West of $46.8 million.

(b) For the year ended December 31, 2003, the pro forma adjustment to cost of revenue reflects the effects of Dex Media purchase accounting on amortization of deferred directory costs related to Dex Media East and Dex Media West of $11.6 million and $21.1 million, respectively. For the nine months ended September 30, 2004, the pro forma adjustment to cost of revenue reflects the effects of Dex Media purchase accounting on amortization of deferred directory costs related to Dex Media West of $10.5 million.

(c) The pro forma adjustment to general and administrative expense for the Acquisition Transactions reflects the pro rata adjustment for management fees of $1.4 million related to Dex Media West for the period from January 1 to September 9, 2003. Management fees represent a $4.0 million annual fee to be paid to the Sponsors under the management agreement ($2.0 million each for Dex Media East and Dex Media West). The pro forma adjustment to general and administrative expense for our initial public offering reflects the elimination of the $4.0 million in annual management fees paid to the Sponsors pursuant to the management agreements.

(d) The pro forma adjustment to depreciation and amortization reflects the effects of amortization of intangible assets of $168.6 million related to Dex Media West. The pro forma financial statements reflect an allocation to tangible assets, liabilities, goodwill and identified intangible assets. For purposes of the unaudited pro forma financial statements, the underlying expected useful lives and related amortization periods of identifiable intangible assets are as follows:

	Amortization Period(i)
Local customer relationships	20 years(ii)
National customer relationships	25 years(ii)
Non-compete/Publishing agreements	39 years
Qwest Dex trademark agreement	4 years
Dex trademark	Indefinite

Advertising agreement	14 years

(i) See Note 7 to our audited consolidated financial statements for the year ended December 31, 2003 included elsewhere in this prospectus for our determination of identifiable intangible assets acquired, underlying useful lives and related amortization periods.

(ii) Annual amortization is calculated using a declining method in relation to estimated retention lives of acquired customers.

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(e) The pro forma adjustment eliminates interest income relating to cash and cash equivalents that were not acquired in the Dex West Acquisition.

(f) The pro forma adjustments to interest expense reflect the following (in thousands):

	Year Ended December 31, 2003	Nine Months Ended September 30, 2004
Dex Media West:		
Revolving credit facility	$ 1,436	
Tranche A term loan	31,144	
Tranche B term loan	38,762	
Senior notes	22,377	
Senior subordinated notes	52,262	
Pro forma interest expense for the period from January 1 to September 9, 2003	145,981	
Less: Dex West historical interest expense	(113,627)	
Dex Media West Transactions adjustment	$ 32,354	
Dex Media:		
November notes	$ 35,096	
November discount notes	22,856	
February discount notes	23,568	$ 2,370
Notes Adjustments	$ 81,520	$ 2,370
Dex Media East:		
Revolving credit facility	$ 268	$ 156
Senior subordinated notes	(22,898)	(15,266)
Dex Media West:		
Revolving credit facility	$	$
Senior subordinated notes	(1,867)	(1,244)
IPO adjustments	$ (24,497)	$ (16,354)

Pro forma adjustments for the November 2003 offerings include interest expense for the period from January 1 to November 10, 2003. The pro forma adjustment for the February 2004 offering includes interest expense for the year ended December 31, 2003 and for the period from January 1, 2004 through February 10, 2004.

The IPO adjustment related to interest expense reflects the impact of the redemption of $183.8 million of Dex Media East senior subordinated notes and $18.2 million of Dex Media West senior subordinated notes, and the effects of the additional borrowings under the Dex Media East revolving credit facility used to partially fund the $20.0 million paid to eliminate the annual fees related to the management services agreements.

(g) The estimated tax effect of the pro forma adjustments has been included at our estimated effective tax rate for the period presented. The estimated effective tax rate is based upon our Federal statutory rate of 35% and our average state income tax rate, net of Federal tax benefit.

(h) The pro forma adjustment to dividend on 5% Series A preferred stock reflects the redemption of $126.5 million of 5% Series A preferred stock, which was held by our Sponsors and management, with a portion of the proceeds of our initial public offering.

(i) Includes results of operations of Dex Media West subsequent to September 9, 2003, the date of the consummation of the Dex West Acquisition.

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SELECTED HISTORICAL FINANCIAL DATA

The selected historical financial data as of December 31, 2002 and 2003 and for the year ended December 31, 2001, the period from January 1, 2002 to November 8, 2002, the period from November 9, 2002 to December 31, 2002 and the year ended December 31, 2003 have been derived from our consolidated financial statements included elsewhere in this prospectus, which have been audited by KPMG LLP, independent registered public accounting firm. The selected historical financial data as of December 31, 2000 and 2001 and for each of the years ended December 31, 1999 and 2000 have been derived from our Predecessor s combined financial statements not included in this prospectus, which have been audited by KPMG LLP, independent registered public accounting firm. The selected historical financial data as of December 31, 1999 and as of and for the nine months ended September 30, 2003 and 2004 were derived from our unaudited consolidated financial statements which, in the case of the nine months ended September 30, 2003 and as of and for the nine months ended September 30, 2004, are included in this prospectus. In the opinion of management, the unaudited financial data for the nine months ended September 30, 2003 and 2004 reflect all adjustments, consisting only of normal and recurring adjustments, necessary for a fair presentation of the results for those periods. The results of operations for the nine months ended September 30, 2004 are not necessarily indicative of the results to be expected for the full year.

On November 8, 2002, we consummated the Dex East Acquisition. The periods of our Predecessor reflect the historical basis of accounting of Qwest Dex for operations in the Dex East States, and the periods of our Successor reflect the effects of purchase accounting for the Dex East Acquisition. On September 9, 2003, we consummated the Dex West Acquisition. The results of operations of Dex Media West are included in our historical results of operations for the period from September 10, 2003 to December 31, 2003 and the nine months ended September 30, 2004 and reflect the effects of purchase accounting for the Dex West Acquisition. Accordingly, the results of operations for the periods of the Predecessor are not comparable to the results of operations for the periods of the Successor. The following data should be read in conjunction with Unaudited Pro Forma Financial Information, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes thereto included elsewhere in this prospectus.

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	Predecessor				**Dex Media**			
	Year ended December 31,			**January 1, 2002 to November 8,**	**November 9, 2002 to December 31,**	**Year ended December 31,**	**Nine Months Ended September 30,**	
(Dollars in thousands, except per share data)	**1999**	**2000**	**2001**	**2002**	**2002**	**2003**	**2003**	**2004**
Statement of operations data:								
Revenue[a]	$ 600,906	$ 637,894	$ 666,207	$ 589,896	$ 58,097	$ 882,772	$ 506,981	$ 1,189,467
Cost of revenue[a]	231,764	238,326	209,050	177,360	19,906	265,333	152,239	363,905
General and administrative expense[b]	87,027	49,288	47,610	49,606	20,502	146,480	79,008	188,187
Depreciation and amortization expense	14,162	15,329	12,707	9,258	33,299	305,420	183,526	331,649
Merger-related expense[c]		5,788	3,859					
Impairment charges[d]			6,744					
Total operating expenses	332,953	308,731	279,970	236,224	73,707	717,233	414,773	883,741
Operating income (loss)	267,953	329,163	386,237	353,672	(15,610)	165,539	92,208	305,726
Other (income) expense:								
Interest income	(2,808)	(915)	(2,971)	(721)	(71)	(1,380)	(694)	(1,278)
Interest expense	126,596	123,501	112,944	87,165	27,866	277,626	162,344	387,255
Other (income) expense, net[e]		(14,481)	7,417	3,506	3,578	12,058	11,299	60
Provision (benefit) for income taxes	58,531	90,903	108,292	106,629	(18,879)	(47,729)	(32,006)	(32,046)
Net income (loss)	$ 85,634	$ 130,155	$ 160,555	$ 157,093	$ (28,104)	$ (75,036)	$ (48,735)	(48,265)
Balance sheet data (at period end):								
Total cash and cash equivalents	$	$	$ 54,825	n/a	$ 37,626	$ 7,416	$ 49,613	$ 3,778
Total assets	298,587	313,112	347,647	n/a	3,021,674	7,290,378	7,429,314	6,995,652
Total debt	1,741,255	1,602,654	1,390,920	n/a	2,207,130	6,097,434	5,519,243	5,838,910
Stockholders (deficit) equity	(1,672,775)	(1,492,517)	(1,250,187)	n/a	623,379	760,772	1,534,489	695,457
Per share data[f]:								
Net income (loss) per share:								
Basic	n/a	n/a	n/a	n/a	$ (0.55)	$ (1.09)	$ (0.93)	$ (0.39)
Diluted	n/a	n/a	n/a	n/a	$ (0.55)	$ (1.09)	$ (0.93)	$ (0.39)
Weighted average common shares outstanding:								
Basic	n/a	n/a	n/a	n/a	52,400,000	76,459,950	58,601,905	135,341,843
Diluted	n/a	n/a	n/a	n/a	52,400,000	76,459,950	58,601,905	135,341,843
Cash dividends declared per common share					$	$ 4.59	$	$ 1.53
Statements of cash flows data:								
Net cash provided by operating activities	120,284	121,211	280,404	240,868	77,382	380,385	243,816	354,207
Net cash (used in) provided by investing	(19,119)	(5,280)	(7,401)	(13,367)	(2,803,668)	(4,366,631)	(4,372,599)	(42,848)

activities								
Net cash (used in) provided by financing activities	(101,165)	(115,931)	(218,178)	(192,255)	2,763,912	3,956,036	4,140,770	(314,997)
Other operational data:								
Local account renewal rate	94%	94%	93%	92%	92%	91%	n/a	n/a
Number of directories published	153	152	150	130	20	182	202	213

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(a) Our revenue and cost of revenue for the twelve months following the consummation of the Dex East Acquisition were $85.9 million and $22.2 million lower, respectively, and our revenue and cost of revenue for the twelve months following the consummation of the Dex West Acquisition were $120.6 million and $31.6 million lower, respectively, than our revenue and cost of revenue would have been because the Acquisitions have been accounted for under the purchase method of accounting. Under the purchase method of accounting, the deferred revenue and deferred directory costs associated with directories that had previously been published were not carried over to our balance sheet. The purchase method of accounting will not affect our revenue and directory costs in periods subsequent to this twelve-month period. The purchase accounting adjustments relating to the Acquisitions are non-recurring and have no impact on cash flows.

(b) Includes bad debt expense and, for the nine-months ended September 30, 2004, $20.0 million paid to our Sponsors to terminate the annual advisory fees paid under our management consulting agreements.

(c) Merger-related expenses reflect expenses incurred in connection with Qwest s acquisition of US WEST, or the Merger, including contractual settlements incurred to cancel various commitments no longer deemed necessary as a result of the Merger, severance and employee-related expenses and rebranding expenses.

(d) Impairment charges reflect capitalized software costs that were written off as certain internal software projects were discontinued.

(e) In 2000, other (income) expense, net includes a $15.9 million gain related to the sale of investments, net of losses on asset sales of $1.5 million. In 2001 other (income) expense, net represents a permanent decline in the value of investments. In 2002 and 2003, other (income) expense, net includes commitment fees related to the financing of the Dex West Acquisition.

(f) The historical per share information gives effect to our initial public offering, including the stock split of each share of common stock outstanding immediately prior to our initial public offering into 10 shares of common stock but does not give effect to the redemption of all of our outstanding 5% Series A preferred stock.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Background

The following discussion and analysis of our financial condition and results of operations covers periods prior to and subsequent to the consummation of the acquisitions of the assets of Qwest Dex in the Dex East States (Dex East Acquisition) on November 8, 2002 and the assets of Qwest Dex in the Dex West States (Dex West Acquisition) on September 9, 2003 (together, the Acquisitions). References to Predecessor or Dex East refer to the historical operations of Qwest Dex Holdings, Inc. and its subsidiary in the Dex East States prior to November 8, 2002. References to Dex West refer to the historical operations of Qwest Dex Holdings, Inc. and its subsidiary in the Dex West States prior to September 9, 2003. Pursuant to generally accepted accounting principles (GAAP), Dex East is considered to be the predecessor to Dex Media.

We have operated as a stand-alone company since the Dex East Acquisition. The Dex East Acquisition and the Dex West Acquisition have been accounted for under the purchase method of accounting. Under this method, the pre-acquisition deferred revenue and related deferred costs associated with directories that were published prior to the acquisition dates were not carried over to our balance sheet. The effect of this accounting treatment is to reduce revenue and related costs that would otherwise have been recognized during the twelve months subsequent to the acquisition dates.

Prior to the Dex East Acquisition, Qwest Dex Holdings, Inc. and its subsidiary operated the directory businesses of Dex East and Dex West as one business. In this Management s Discussion and Analysis of Financial Condition and Results of Operations section, we have provided a discussion and analysis of (1) the historical results of Dex Media for the nine months ended September 30, 2004 compared to the combined results of Dex Media and Dex West for the nine months ended September 30, 2003, (2) the combined results of Dex Media for the year ended December 31, 2003 and Dex West for the period from January 1, 2003 through September 9, 2003 (the Combined Year 2003) compared to the combined results of our Predecessor for the period from January 1, 2002 through November 8, 2002, Dex Media for the period from November 9, 2002 through December 31, 2002 and Dex West for the year ended December 31, 2002 (the Combined Year 2002), (3) the Combined Year 2002 compared to the combined results of our Predecessor for the year ended December 31, 2001 and Dex West for the year ended December 31, 2001 (the Combined Year 2001), (4) the historical results of Dex Media for the year ended December 31, 2003 compared to the combined results of our Predecessor for the period from January 1, 2002 through November 8, 2002 (the Predecessor Period) and Dex Media for the period from November 9, 2002 through December 31, 2002 (the Successor Period) (together, the Combined Successor and Predecessor Period 2002), (5) the Combined Successor and Predecessor Period 2002 compared to the historical results of our Predecessor for the year ended December 31, 2001. For purposes of discussion and analysis, we have compared the combined results of Dex Media and Dex West for the applicable periods. We have also provided separate discussion and analysis of our historical results, including our historical results subsequent to the Dex East Acquisition and the historical results of our Predecessor for periods prior to the Dex East Acquisition.

We have provided the combined results described in the previous paragraph because (1) we believe that such financial information is important to an investor s understanding of Dex Media s future operations due to the Dex West Acquisition and (2) Dex Media, Dex East and Dex West were under common management for all periods presented. In the following discussion and analysis, we, our or us refers to (1) Dex Media or (2) Dex Media and Dex West combined, as applicable.

The discussion and analysis of historical periods of the Predecessor and periods prior to the Dex West Acquisition do not reflect the significant impact that the Acquisitions have had on us, including significantly increased leverage and liquidity requirements. In addition, the statements in the discussion and analysis regarding

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industry outlook, our expectations regarding the future performance of our business and the other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Risk Factors . Our actual results may differ materially from those contained in any forward-looking statements. See Cautionary Notice Regarding Forward-Looking Statements. You should read the following discussion together with the sections entitled Risk Factors, Unaudited Pro Forma Financial Information, Selected Historical Financial Data and the consolidated financial statements and related notes thereto included elsewhere in this prospectus.

As a result of our conversion to the Amdocs software system (discussed below), certain of our customer account categories will be reclassified, which may result in a change in how we report our total number of customer accounts.

Our Business

We are the largest directory publisher in the Dex States and the fourth largest directory publisher in the U.S. For the Combined Year 2003, we published 259 directories and distributed approximately 43 million copies of these directories to business and residential consumers in the Dex States. For the nine months ended September 30, 2004 and 2003, we published 213 and 202 directories, respectively, and distributed 34.0 million and 31.8 million copies, respectively, of these directories to business and residential consumers in the Dex States. We also provide related services, including an Internet-based directory, direct marketing lists and the sale of Dex directories and other publishers directories outside of the normal delivery schedule. For the Combined Year 2003, we generated $1,512.9 million in revenue. For the nine months ended September 30, 2004, we generated $1,189.5 million in revenue. Excluding the effects of purchase accounting adjustments to deferred revenue, our revenue for the Combined Year 2003 would have been $1,631.1 million and for the nine months ended September 30, 2004 would have been $1,236.3 million. Approximately 97% and 98% of our total revenue, excluding the effects of purchase accounting, for the Combined Year 2003 and for the nine months ended September 30, 2004, respectively, was generated from the publication of directories. For the Combined Year 2003, approximately 96% and 4% of our directory services revenue, excluding the effects of purchase accounting, came from the sale of advertising in yellow pages directories and white pages directories, respectively.

Stand-Alone Company

Our Predecessor historically operated as the directory business of Qwest Dex in the Dex East States and not as a stand-alone company. Dex West historically operated as the directory business of Qwest Dex in the Dex West States and not as a stand-alone company. The combined financial statements included in this prospectus for the periods prior to November 8, 2002 (the Predecessor Financial Statements) have been derived from the historical financial statements of Qwest Dex, and include the activities of Qwest Dex for business conducted in the Dex East States prior to the Dex East Acquisition. To prepare the Predecessor Financial Statements, management of Qwest Dex either specifically identified, assigned or apportioned all revenue and expenses of Qwest Dex to either Dex East or Dex West. Whenever possible, account balances and specific amounts that directly related to Dex East or Dex West were assigned directly to Dex East or Dex West, as appropriate. Substantially all of the Predecessor s revenue and cost of revenue have been directly assigned on a directory-by-directory basis. When no direct assignment was feasible, account balances were apportioned using a variety of factors based on revenue and/or cost causative relationships to the account balance being apportioned. These specific identifications, assignments and apportionments are believed to be reasonable; however, the resulting amounts could differ from amounts that would have been determined if the Predecessor had operated on a stand-alone basis. Note 3(v) to our consolidated financial statements included in this prospectus sets forth additional information regarding such identification, assignments and apportionments. Because of the Predecessor s relationship with Qwest Dex as well as Qwest and its other affiliates, the Predecessor s historical results of operations and cash flows are not necessarily indicative of what they would have been had the Predecessor operated without the shared resources of Qwest and its affiliates. Accordingly, the results of operations and cash flows for periods prior to November 8, 2002 and for periods prior to the Dex West Acquisition are not indicative of our future results of operations and cash flows.

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Historically, the Predecessor reimbursed Qwest for services it and its affiliates provided to Dex East based upon either (1) tariffed or negotiated contract rates, (2) market prices or (3) fully distributed costs (FDC). FDCs include costs associated with employees of Qwest or Qwest affiliates that were entirely dedicated to functions within Qwest Dex, many of whom became our employees upon consummation of the Acquisitions. Such fully distributed employee costs were paid by Qwest Dex through shared payroll and benefit systems as incurred. Other affiliate service costs were paid by Qwest Dex based upon presentation of periodic billings from Qwest or affiliates of Qwest. For more detail regarding how the Predecessor historically reimbursed Qwest for services Qwest and its affiliates provided to the Predecessor, see Note 16 to our audited consolidated financial statements included in this prospectus. The allocation methodologies are consistent with the guidelines established for Qwest reporting to federal and state regulatory bodies. The historical costs for services provided to the Predecessor by Qwest affiliates may not necessarily reflect the expenses that we will incur as an independent entity.

After the Acquisitions, Qwest continued to provide certain services to us that they had historically provided to the Predecessor, including but not limited to support services relating to information technology services and payroll services, pursuant to a transition services agreement. We have terminated the transition services agreement with Qwest as of December 31, 2003 with services provided internally or through arrangements with third parties.

Our Strategy

Our strategy is centered on building relationships with our major account groups: small and medium-sized local businesses and national companies doing business in the Dex States. We plan to continue to build our knowledge of their businesses and develop value-added content that can be distributed to our business and residential consumers in a variety of forms. Currently, the primary method of distribution is our print directories. We also use the Internet and CD-ROMs to deliver our content. We plan to continue evaluating different methods of distribution as markets and electronic device acceptance change, particularly in the digital space. Additionally, we will look to enhance print product offerings, Internet-related products and distribution.

Maximizing the utility of our content is an important aspect of our overall strategy. To accomplish this, we plan to continue innovating new products such as advertising on book spines, covers and tabs, expanding on market segmentation such as bilingual directories in select markets, and enhancing our distribution platforms. In addition, we plan to continue evaluating our related businesses based on the utility of these product offerings to our advertisers and consumers.

Also, now that we are a stand-alone company, our strategy is to focus on improving our infrastructure in order to achieve a more efficient cost structure and improve revenue opportunities in the long-term. Beginning in 2004, we began replacing our entire production system with Amdocs technology in a phased deployment. The first phase was deployed on June 1, 2004, with the last phase expected to be completed in 2005.

Results of Operations

Overview

Our condensed consolidated financial statements included herein have been prepared on the basis of the deferral and amortization method of accounting, under which revenue and expenses are initially deferred and then recognized ratably over the life of each directory, commencing in the month of delivery. In 2003, we determined that the 12-month lives of 13 directories published in December 2002 would be extended. The new editions of these 13 directories were published in January 2004, in most cases. These extensions were made to more efficiently manage work and account flow. The lives of the new editions of these directories are expected to be 12 months thereafter. These extensions did not have a significant impact on our results of operations for the nine months ended September 30, 2004, or the year ended December 31, 2003 and are not expected to have a material effect on revenue or cost of revenue in future periods under the deferral and amortization method of accounting.

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Revenue

We derive virtually all of our revenue from the sale of advertising in our printed directories, which we refer to as directory services revenue. We also provide related services, including an Internet-based directory, other Internet-related products, direct marketing lists and the sale of Dex directories and other publishers directories outside of the normal delivery schedule, which we refer to collectively as other revenue. Growth in directory services revenue is affected by several factors, including changes in the quantity and size of advertisements sold, as well as the proportion of premium advertisements sold, changes in the pricing of advertising, changes in the quantity and mix of advertising purchased per account and the introduction of additional products which generate incremental revenue. Directory services revenue may also increase through the publication of new printed directories.

Our revenue and cost of revenue for the twelve months following the consummation of each of the Acquisitions were lower than they would have been had the Acquisitions not occurred because the Acquisitions have been accounted for under the purchase method of accounting. Under the purchase method of accounting, deferred revenue and deferred directory costs associated with the directories published and distributed prior to the Acquisitions were not carried over to our balance sheet at the time of purchase. The effect of this accounting treatment is to reduce revenue and related costs that would otherwise be recognized in the twelve months subsequent to the Acquisitions. The purchase method of accounting will not affect our revenue and directory costs in periods subsequent to September 2004. These purchase accounting adjustments are non-recurring and have no impact on cash flows.

We enter into transactions, such as exclusivity arrangements, sponsorships and other media access transactions, where our products and services are promoted by a third party and, in exchange, we carry that party s advertisement. We account for these transactions in accordance with Emerging Issues Task Force (EITF) Issue No. 99-17, *Accounting for Advertising Barter Transactions.* Revenue and expense related to such transactions are included in the consolidated statements of operations consistent with reasonably similar items sold or purchased for cash. These related revenue items are currently included in local directory services revenue. The revenue from such transactions for the nine months ended September 30, 2004 was lower than expected, and we believe this component of our revenue, which represents less than 1% of total revenue for the period, will continue at this level for the foreseeable future. The revenue and related expense have no impact on EBITDA or cash flow.

In certain cases, we enter into agreements with accounts that involve the delivery of more than one product or service. We allocate revenue for such arrangements in accordance with EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables.*

As part of the Advertising Commitment Agreement dated September 9, 2003 between Qwest and us, Qwest agreed to purchase from us, under a take-or-pay arrangement, a minimum of $20.0 million annually in advertising services over a 15-year period beginning with the date of the acquisition of Dex East on November 8, 2002. If Qwest purchases more than $20.0 million of advertising in any one year pursuant to such agreement, up to $5.0 million of the excess would be carried over to the subsequent year s minimum advertising purchase commitment. In addition, as part of the agreement, we agreed to allocate $2.9 million of advertising purchased in 2002 to the 2003 advertising purchase commitment.

Cost of Revenue

We account for cost of revenue under the deferral and amortization method of accounting. Accordingly, our cost of revenue recognized in a reporting period consists of (1) costs incurred in that period and recognized in that period, principally sales salaries and wages, (2) costs incurred in a prior period, a portion of which is amortized and recognized in the current period, and (3) costs incurred in the current period, a portion of which is amortized and recognized in that period and the balance of which is deferred until future periods. Consequently, there will be a difference between the cost of revenue recognized in any given period and the costs incurred in the given period, which may be significant.

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Costs incurred in the current period and subject to deferral include direct costs associated with the publication of directories, including sales commissions, paper, printing, transportation, distribution and pre-press production, and employee and systems support costs relating to each of the foregoing. Sales commissions include commissions paid to employees for sales to local advertisers and to CMRs, which act as our channel to national advertisers. All deferred costs related to the sale and production of directories are recognized ratably over the life of each directory under the deferral and amortization method of accounting, with cost recognition commencing in the month of delivery.

General and Administrative Expense

Our general and administrative expense consists primarily of the costs of advertising, promotion and marketing, administrative staff, pension and other post-retirement benefits, information technology, training, account billing, corporate management, office and facilities expense and bad debt expense. All of our general and administrative expense is recognized in the period in which it is incurred. Historically, our general and administrative expense has included the costs of other services that were shared among Qwest affiliates, including real estate, information technologies, finance and human resources. However, since we have terminated the transition services agreements with Qwest as of December 31, 2003, we now incur these costs directly. Our general and administrative expense has increased as a stand-alone company and may continue to increase as we complete our transition to a stand-alone company.

Income Tax Provision

We account for income taxes under the asset and liability method of accounting. Deferred tax assets and liabilities are recorded to reflect the future tax consequences of temporary differences between the financial reporting bases of assets and liabilities and their tax bases at each year end. Deferred tax assets and liabilities are measured using the enacted income tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Deferred tax assets and liabilities are adjusted for future income tax rate changes in the year the changes are enacted. Deferred tax assets are recognized for operating losses and tax credit carry forwards if management believes, based upon existing evidence, that it is more likely than not that the carry forward will be utilized. All deferred tax assets are reviewed for realizability and valuation allowances are recorded if it is more likely than not that the deferred tax assets will not be realized.

Items Affecting Comparability Between Periods

Our revenue and cost of revenue for the twelve months following the consummation of the Dex East Acquisition were $85.9 million and $22.2 million lower, respectively, than our revenue and cost of revenue would have been otherwise because the Dex East Acquisition was accounted for under the purchase method of accounting. Our revenue and cost of revenue for the twelve months following the consummation of the Dex West Acquisition were $120.6 million and $31.6 million lower, respectively, than our revenue and cost of revenue would have been otherwise because the Dex West Acquisition was accounted for under the purchase method of accounting. Under the purchase method of accounting, deferred revenue and related deferred directory costs associated with directories that had previously been published and distributed were not carried over to our balance sheet. The effect of this accounting treatment is to reduce revenue and related costs that would otherwise have been recognized in the twelve months subsequent to the Acquisitions. The purchase method of accounting will not affect our revenue and directory costs subsequent to 2004. These purchase accounting adjustments are non-recurring and have no historical or future cash impact.

Dex Media financial information for the periods prior to the consummation of the Dex East Acquisition on November 8, 2002 reflect a historic basis of accounting. Financial information for the periods subsequent to the consummation of the Dex East Acquisition reflect a purchase accounting basis. As a result of the differing bases of accounting, the financial information for these respective periods are not comparable.

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Upon the consummation of the Dex East Acquisition, we became a stand-alone company. Operating as a separate entity from Qwest increased our costs subsequent to the date of the Dex East Acquisition. In addition, we believe that we have incurred incremental pension and benefit costs as a stand-alone entity. The increase in pension costs results from the elimination of pension credits included in our Predecessor s historical results related to Qwest s over-funded pension plan from which Dex Media will no longer benefit. Additionally, Dex Media is expected to incur increased employee benefit costs due to separation from Qwest s larger employee base. Other additional incremental costs relate primarily to post-retirement pension and other post-employment medical benefits, and to employee medical insurance and other employee related benefits. We have incurred certain stand-alone costs in connection with operating as a separate entity from Qwest. Future stand-alone costs incurred are unpredictable due to various factors. In addition, prior to our initial public offering, we paid an annual management fee of $4.0 million to the Sponsors. In connection with our initial public offering, the annual management consulting fees payable under the management consulting agreements with the Sponsors were terminated.

Historically, we have been included in the consolidated federal income tax returns filed by Qwest. Our Predecessor and Dex West had an informal agreement with Qwest pursuant to which we were required to compute our provision for income taxes on a separate return basis and pay to, or receive from, Qwest the separate U.S. federal income tax return liability or benefit so computed, if any. For federal income tax purposes, the Acquisitions are treated as an asset purchase and we generally have a tax basis in the acquired assets equal to the purchase price. As a result, for tax purposes, we will be able to depreciate assets, primarily intangibles, with a higher tax basis after the consummation of the Acquisitions. These step-ups in tax basis for intangibles, which will be amortized over 15 years, should significantly reduce our cash taxes over that period.

In connection with the Acquisitions, we incurred substantial indebtedness. As a result, we incur significant interest expense and we have significant repayment obligations. The interest expense relating to this debt adversely affects our net income.

Results of Operations

Nine Months Ended September 30, 2004 compared to the Combined Nine Months Ended September 30, 2003

We have provided the following combined results of Dex Media and Dex West because (1) we believe that such financial information is important to an investor s understanding of the impact of the Dex West Acquisition on Dex Media s future financial results and (2) Dex Media and Dex West were under common management for all periods presented. The financial information for the combined nine months ended September 30, 2003 includes the financial information of Dex Media for the nine months ended September 30, 2003 and Dex West for the period from January 1 to September 9, 2003. Because our relationship with Qwest Dex Holdings and Qwest Dex, as well as Qwest and its other affiliates, changed as a result of the Acquisitions, our cost structure has changed from that reflected in our historical results of operations, including the combined results of operations that follow. There were no significant transactions between Dex Media and Dex West to consider in combining the results as described above. Although we have provided these combined results in order to provide a more meaningful discussion of the periods presented, this presentation is not in accordance with generally accepted accounting principles and the results of operations for the periods presented are not comparable due to the change in basis of assets that resulted from the Dex West Acquisition.

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The results of operations below include adjustments for the effects of purchase accounting for both periods presented and therefore are not comparable. Please refer to the section Items Affecting Comparability Between Periods and the discussion below for detail regarding the effects of these adjustments.

(Dollars in thousands)	Nine Months ended September 30, 2004	Combined Nine Months ended September 30, 2003
Revenue:		
Local directory services	$ 1,010,937	$ 957,604
National directory services	151,545	150,427
Total directory services	1,162,482	1,108,031
Other revenue	26,985	29,110
Total revenue	1,189,467	1,137,141
Cost of revenue	363,905	345,521
Gross profit	$ 825,562	$ 791,620
Gross margin	69.4%	69.6%
General and administrative expense, including bad debt expense and termination of annual advisory fees	$ 188,187	$ 153,249

Revenue

Total revenue increased by $52.3 million or 4.6%, to $1,189.5 million for the nine months ended September 30, 2004 from $1,137.1 million for the combined nine months ended September 30, 2003. Total revenue for the nine months ended September 30, 2004 and the combined nine months ended September 30, 2003 was $46.8 million and $83.7 million lower, respectively, than it would have been due to the effects of purchase accounting. Excluding the effects of purchase accounting, total revenue increased $15.5 million, or 1.3%. Total revenue, excluding the effects of purchase accounting, included $1,209.2 million in directory services revenue and $27.0 million in revenue for all other products for the nine months ended September 30, 2004.

Total directory services revenue, which consists of local and national directory services revenue, increased $54.5 million, or 4.9% to $1,162.5 million for the nine months ended September 30, 2004 from $1,108.0 million for the combined nine months ended September 30, 2003. Total directory services revenue for the nine months ended September 30, 2004 and the combined nine months ended September 30, 2003 was $46.8 million and $83.7 million lower, respectively, than it would have been due to the effects of purchase accounting. Excluding the effects of purchase accounting, total directory services revenue increased $17.6 million, or 1.5%.

Directory services revenue is affected by a variety of volume and pricing factors. Volume related factors include quantity of advertisements sold, the change in mix of advertisements among our product families, the proportion of advertisements sold with premium features and the volume of promotional services obtained from our advertisers in exchange for our publication of their advertisement in our directories. Pricing factors include price increases related to our standard rates that may be made from time to time in varying markets for varying categories, offset by discount programs that may be initiated in local markets for certain advertiser headings. Such factors generally affect the dollar volume of orders initiated in a period which are recognized as revenue over the life of a given directory, beginning in the month of delivery. Multiple factors contribute to changes in revenue, and although no single factor can be distinguished as the primary cause, improvements in product mix and pricing, combined with stable account renewal, contributed to our changes in directory services revenue.

Local directory services revenue increased $53.3 million, or 5.6%, to $1,010.9 million for the nine months ended September 30, 2004 compared to $957.6 million for the combined nine months ended September 30, 2003. Local directory services revenue for the nine months ended September 30, 2004 and the combined nine months

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ended September 30, 2003 was $9.6 million and $45.9 million lower, respectively, than it would have been due to the effects of purchase accounting. Excluding the effects of purchase accounting, local directory services revenue increased $17.0 million, or 1.7%. Local directory services revenue, excluding the effects of purchase accounting, accounted for 82.5% and 82.2% of revenue for the nine months ended September 30, 2004 and the combined nine months ended September 30, 2003, respectively.

Revenue from national advertisers increased $1.1 million, or 0.7%, to $151.5 million for the nine months ended September 30, 2004, as compared to $150.4 million for the combined nine months ended September 30, 2003. Revenue from national advertisers for the nine months ended September 30, 2004 and the combined nine months ended September 30, 2003 was $37.2 million and $37.8 million lower, respectively, than it would have been due to the effects of purchase accounting. Excluding the effects of purchase accounting, revenue from national advertisers increased $0.5 million, or 0.3%. Revenue from national advertisers, excluding the effects of purchase accounting, for the nine months ended September 30, 2004 accounted for 15.3% of revenue as compared to 15.4% of revenue for the nine months ended September 30, 2003.

Other revenue decreased by $2.1 million, or 7.3%, to $27.0 million for the nine months ended September 30, 2004 from $29.1 million for the combined nine months ended September 30, 2003. In 2004, we substantially reduced the number of products in our direct marketing services product line which represented $1.1 million of the decline between periods.

Cost of Revenue

Cost of revenue recognized was $363.9 million for the nine months ended September 30, 2004 compared to $345.5 million for the combined nine months ended September 30, 2003. Recognized cost of revenue for the nine months ended September 30, 2004 and the combined nine months ended September 30, 2003 was $10.5 million and $22.8 million lower than it would have been, respectively, due to the effects of purchase accounting. Excluding the effects of purchase accounting, cost of revenue recognized increased $6.1 million, or 1.7%. Cost of revenue recognized represented 30.3% of revenue, excluding the effects of purchase accounting, for the nine months ended September 30, 2004, compared to 30.2% of revenue for the combined nine months ended September 30, 2003.

For the nine months ended September 30, 2004 and for the combined nine months ended September 30, 2003, we incurred costs subject to deferral and amortization of $378.4 million and $359.4 million, respectively. The $19.0 million, or 5.3%, increase in incurred costs was primarily due to increased on-going support costs related to our new production system and to the shifts in publication schedules of 13 directories from December 2003 to the first quarter of 2004, which totaled $14.9 million.

Employee costs incurred decreased by $5.4 million, or 3.2%, to $165.6 million for the nine months ended September 30, 2004 from $171.0 million for the combined nine months ended September 30, 2003. The decrease is a result of changes to sales incentives and a reduction in the number of employees.

Direct costs of publishing incurred, which primarily include paper, printing and distribution, increased $14.2 million, or 12.2%, to $130.6 million for the nine months ended September 30, 2004 from $116.4 million for the combined nine months ended September 30, 2003. The differences in directory publication schedules between the periods contributed $10.7 million of the increase.

Contracting and professional fees incurred increased $13.2 million to $20.7 million from $7.5 million for the nine months ended September 30, 2004 and the combined nine months ended September 30, 2003, respectively. The increase is primarily due to on-going support related to our new production system, including operation and maintenance which offsets savings in information technology and operations resulting from reductions in headcount in those areas.

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Other costs of revenue incurred, which primarily includes systems expense, office and facilities expense and national commissions, was $61.5 million for the nine months ended September 30, 2004 compared to $64.5 million for the combined nine months ended September 30, 2003.

Gross Profit

Our gross profit was $825.6 million for the nine months ended September 30, 2004 compared to $791.6 million for the combined nine months ended September 30, 2003. Excluding the effects of purchase accounting, gross profit for the nine months ended September 30, 2004 and the combined nine months ended September 30, 2003 were $861.9 million and $852.5 million, respectively. Gross margin, excluding the effects of purchase accounting, decreased to 69.7% for the nine months ended September 30, 2004 from 69.8% for the combined nine months ended September 30, 2003.

General and Administrative Expense

General and administrative expense, excluding depreciation and amortization, increased $35.0 million, or 22.8%, to $188.2 million for the nine months ended September 30, 2004 from $153.2 million for the combined nine months ended September 30, 2003. The increase was primarily due to the termination of annual advisory fees, increases in employee costs, advertising expense and contracting and professional fees all of which are offset by decreases in bad debt expense and other expenses.

Employee costs increased $18.0 million, or 50.0%, to $54.0 million from $36.0 million for the nine months ended September 30, 2004 and for the combined nine months ended September 30, 2003. Employee costs include salaries and wages, benefits and other employee costs. Salaries and wages increased $5.2 million, or 23.2%, to $27.6 million for the nine months ended September 30, 2004 from $22.4 million for the combined nine months ended September 30, 2003. The increase in salaries and wages was due to additional stand-alone costs resulting from operating as a separate entity from Qwest. Prior to 2004, the functions of finance, human resources, real estate and information technology were provided primarily by Qwest and were included in other general and administrative expense as affiliate expenses. Benefits increased $3.9 million, or 34.2%, to $15.3 million for the nine months ended September 30, 2004 from $11.4 million for the combined nine months ended September 30, 2003. This increase is primarily due to higher costs of medical benefits and to the absence of pension credits in 2004 related to Qwest s over-funded pension plan from which benefits were recognized in 2003. Other employee costs increased $8.9 million for the nine months ended September 30, 2004 to $11.1 million from $2.2 million for the combined nine months ended September 30, 2003. The increase is primarily related to accrued severance costs of $8.5 million related to the planned workforce reduction as a result of the efficiencies gained by the replacement of our core production platform with technology from Amdocs.

Advertising increased $11.8 million, or 85.5%, to $25.6 million for the nine months ended September 30, 2004 from $13.8 million for the combined nine months ended September 30, 2003 due to increased media advertising and exclusivity arrangements designed to increase consumer awareness, including promoting the new Dex trademark and product offerings. Advertising as a percent of revenue, excluding the effects of purchase accounting, increased to 2.1% for the nine months ended September 30, 2004 compared to 1.1% for the combined nine months ended September 30, 2003.

Contracting and professional fees increased $3.1 million, or 12.3%, to $28.3 million for the nine months ended September 30, 2004 from $25.2 million for the nine months ended September 30, 2003. The increase is primarily due to higher legal fees and increased use of external collection agencies for collection of past due receivables.

Bad debt expense decreased $5.7 million, or 14.5%, to $33.6 million for the nine months ended September 30, 2004 from $39.3 million for the combined nine months ended September 30, 2003. Bad debt expense as a percent of total revenue, excluding the effects of purchase accounting, was 2.7% for the nine months ended

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September 30, 2004 compared to 3.2% for the nine months ended September 30, 2003. The decrease in bad debt expense is primarily a result of improved and accelerated collection efforts on local advertiser accounts. In addition, in 2004 there was a decline in direct write-offs of national accounts as compared to the prior year.

In connection with our initial public offering, we paid $10.0 million to each of our two Sponsors to eliminate the $4.0 million aggregate annual fee payable under the management consulting agreements. This non-recurring termination fee was not incurred in the prior year period. The annual advisory fee paid in prior periods is included in contracting and professional fees.

All other general and administrative expense decreased $12.2 million, or 31.4%, to $26.7 million for the nine months ended September 30, 2004 from $38.9 million for the combined nine months ended September 30, 2003. For the nine months ended September 30, 2003, other general and administrative expense included affiliate charges from Qwest, including finance, human resources, real estate and information technology while the costs of such expenses were incurred directly in salaries and wages for the nine months ended September 30, 2004.

Combined Year 2003 compared to the Combined Year 2002

We have provided the following combined results because (1) we believe that such financial information is important to an investor s understanding of the impact of the Dex West Acquisition on Dex Media s future financial results and (2) Dex Media, Dex East and Dex West were under common management for all periods presented. The financial information for the Combined Year 2003 includes the financial information of Dex Media for the year ended December 31, 2003 and the financial information of Dex West for the period from January 1, 2003 through September 9, 2003. The financial information for the Combined Year 2002 is the result of the aggregation of the historical financial results of our Predecessor for the period from January 1, 2002 through November 8, 2002, Dex Media for the period from November 9, 2002 through December 31, 2002 and Dex West for the year ended December 31, 2002. Because our relationship with Qwest Dex Holdings and Qwest Dex, as well as Qwest and its other affiliates, changed as a result of the Acquisitions, we expect that our cost structure will change from that reflected in our historical results of operations, including combined results of operations that follow. There were no significant transactions between Dex Media (including our Predecessor) and Dex West to consider in combining the results as described above. Although we have provided these combined results in order to provide a more meaningful discussion of the periods presented, this presentation is not in accordance with generally accepted accounting principles and the periods presented are not comparable due to the change in basis of assets that resulted from the Acquisitions.

The results of operations below include adjustments for the effects of purchase accounting for both periods presented and therefore are not comparable. Please refer to the section Items Affecting Comparability Between Periods and the discussion below for detail regarding the effects of these adjustments.

(Dollars in thousands)	Combined Year 2003	Combined Year 2002
Revenue:		
Local directory services	$ 1,288,938	$ 1,279,297
National directory services	182,511	231,379
Total directory services	1,471,449	1,510,676
Other revenue	41,483	37,516

Total revenue	1,512,932	1,548,192
Cost of revenue	458,615	479,022
Gross profit	1,054,317	1,069,170
Gross margin	69.7%	69.1%
General and administrative expense, including bad debt expense	$ 220,722	$ 163,832

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Revenue

Total revenue decreased by $35.3 million, or 2.3%, to $1,512.9 million for the Combined Year 2003 from $1,548.2 million for the Combined Year 2002. The effects of purchase accounting for deferred revenue totaled $118.2 million and $41.5 million for the Combined Year 2003 and the Combined Year 2002, respectively. Excluding the effects of purchase accounting in each combined year, total revenue would have been $1,631.1 million for the Combined Year 2003, a $41.4 million, or 2.6%, increase from $1,589.7 million for the Combined Year 2002. Total revenue, excluding the effects of purchase accounting, for the Combined Year 2003 included $1,589.6 million in directory services revenue and $41.5 million in revenue for all other products. The increase in total revenue, excluding the effects of purchase accounting, is substantially due to increases in local directory service revenue and revenue from national advertisers, as discussed below.

Total directory services revenue, which consists of local and national directory services revenue, decreased $39.2 million, or 2.6%, to $1,471.4 million for the Combined Year 2003 from $1,510.7 million for the Combined Year 2002. Excluding the effects of purchase accounting in each combined year, total directory services revenue increased by $37.4 million, or 2.4%, to $1,589.6 million for the Combined Year 2003 from $1,552.2 million for the Combined Year 2002.

Directory services revenue is affected by a variety of volume and pricing factors. Volume related factors include quantity of ads sold, the change in mix of ads among our product families and the proportion of ads sold with premium features. Pricing factors include certain price increases that are applied by product and market and that are offset by discount programs that may be offered in select local markets for targeted products or headings. Such factors generally affect the dollar volume of orders initiated in a period which are recognized as revenue over the life of a given directory, beginning in the month of publication. Multiple factors contribute to changes in revenue, and although no single factor can be distinguished as the primary cause, improvements in product mix and pricing, combined with stable customer retention, contributed to our increased directory services revenue, excluding the effect of purchase accounting.

Local directory services revenue increased $9.6 million, or 0.8%, to $1,288.9 million for the Combined Year 2003 compared to $1,279.3 million for the Combined Year 2002. The effects of purchase accounting on local directory services revenue totaled $50.5 million and $27.1 million for the Combined Year 2003 and the Combined Year 2002, respectively. Excluding the effects of purchase accounting in each combined year, local directory services revenue increased by $33.0 million, or 2.5%, to $1,339.4 million for the Combined Year 2003 from $1,306.4 million for the Combined Year 2002. Local directory services revenue, excluding the effects of purchase accounting in each combined year, accounted for 82.1% and 82.2% of revenue for the Combined Year 2003 and the Combined Year 2002, respectively.

Revenue from national advertisers, including Qwest, decreased $48.9 million, or 21.1%, to $182.5 million for the Combined Year 2003 compared to $231.4 million for the Combined Year 2002. The effects of purchase accounting on revenue from national advertisers totaled $67.7 million and $14.4 million for the Combined Year 2003 and the Combined Year 2002, respectively. Excluding the effects of purchase accounting in each combined year, revenue from national advertisers, including Qwest, increased $4.4 million, or 1.8%, to $250.2 million for the Combined Year 2003 compared to $245.8 million for the Combined Year 2002. Revenue from national advertisers, including Qwest, excluding the effects of purchase accounting in each combined year, accounted for 15.3% and 15.5% of revenue for the Combined Year 2003 and the Combined Year 2002, respectively.

Other revenue increased by $4.0 million, or 10.6%, to $41.5 million for the Combined Year 2003 from $37.5 million for the Combined Year 2002.

Cost of revenue

Cost of revenue recognized was $458.6 million for the Combined Year 2003 compared to $479.0 million for the Combined Year 2002. Cost of revenue recognized reflects reductions to costs related to purchase accounting

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of $32.6 million and $10.6 million for the Combined Year 2003 and the Combined Year 2002, respectively. Excluding the effects of purchase accounting for deferred costs, cost of revenue recognized would have been $491.2 million for the Combined Year 2003 compared to $489.6 million for the Combined Year 2002. Cost of revenue recognized, excluding the effects of purchase accounting, represented 30.1% of revenue for the Combined Year 2003, compared to 30.8% for the Combined Year 2002.

For the Combined Year 2003 and the Combined Year 2002, we and our Predecessor incurred costs subject to deferral and amortization of $486.5 million and $476.3 million, respectively. Costs subject to deferral and amortization include certain employee costs, direct costs of publishing, sales commissions, systems costs and other costs.

Employee costs incurred increased by $22.7 million, or 11.9%, to $213.6 million for the Combined Year 2003 from $190.9 million for the Combined Year 2002. This increase was primarily a result of increases in the number of employees, higher cost of medical insurance and higher sales commissions and sales incentives paid to employees.

Direct costs of publishing incurred, which include paper, printing and distribution, were $158.6 million and $176.0 million for the Combined Year 2003 and the Combined Year 2002, respectively. The decrease is primarily a result of differences in directory publication schedules between the periods.

National commissions incurred decreased by $1.9 million, or 3.9%, to $47.0 million for the Combined Year 2003 from $48.9 million for the Combined Year 2002.

Systems costs incurred increased $7.3 million, or 27.3%, to $34.0 million for the Combined Year 2003 from $26.7 million for the Combined Year 2002 as a result of increased technology spending associated with being a stand-alone entity.

Other cost of revenue incurred, which primarily includes contractor and professional fees and office and facilities expense, decreased by $0.5 million, or 1.5%, to $33.3 million for the Combined Year 2003 from $33.8 million for the Combined Year 2002.

Gross profit

Our gross profit was $1,054.3 million for the Combined Year 2003 compared to $1,069.2 million for the Combined Year 2002. Excluding the effects of purchase accounting in each combined year, gross profit for the Combined Year 2003 would have been $1,139.9 million compared to $1,100.1 million for the Combined Year 2002. Gross margin, excluding the effects of purchase accounting, increased to 69.9% for the Combined Year 2003 from 69.2% for the Combined Year 2002.

General and administrative expense

General and administrative expense, excluding depreciation and amortization, increased $56.9 million, or 34.7%, to $220.7 million for the Combined Year 2003 from $163.8 million for the Combined Year 2002. The increase was primarily due to increases in employee costs, bad debt expense, advertising, contractor and professional fees and other general and administrative expense associated with operating as a stand-alone company.

Employee costs increased $48.3 million to $69.4 million for the Combined Year 2003 from $21.1 million for the Combined Year 2002 primarily due to increases in salaries and wages and employee benefits of $32.7 million and $14.0 million, respectively. Salaries and wages increased as a result of additional stand-alone costs resulting from operating as a separate entity from Qwest, including additional employees in information technology, finance and human resources. The services related to the stand-alone costs were previously provided to our Predecessor by Qwest, and were included in other general and administrative expense as affiliate transactions in the Predecessor Period, as further discussed below. Salary and wages also includes an increase in bonus expense for the Combined Year 2003 compared to the Combined Year 2002. Employee benefits increased due to additional costs related to transitioning to a stand-alone entity including pension and other post-retirement expense of $11.7 million for the Combined Year 2003 compared to pension credits, net of other post-retirement expense, of $2.4 million for the Combined Year 2002.

Bad debt expense increased $7.2 million, or 14.8%, to $55.8 million for the Combined Year 2003 from $48.6 million for the Combined Year 2002 due to the effects of weak local economies and aging receivables. Bad debt expense as a percent of total revenue, excluding the effects of purchase accounting, was 3.4% for the Combined Year 2003 compared to 3.1% for the Combined Year 2002.

Advertising increased $20.1 million to $26.8 million for the Combined Year 2003 from $6.7 million for the Combined Year 2002 due to efforts to increase customer awareness, including promoting the new Dex trademark and product offerings. Advertising as a percent of revenue, excluding the effects of purchase accounting, increased to 1.6% from 0.4% for the Combined Year 2003 compared to the Combined Year 2002, respectively.

Contractor and professional fees increased $15.1 million, or 57.4%, to $41.4 million for the Combined Year 2003 from $26.3 million for the Combined Year 2002. The increase in contractor and professional fees is primarily due to increased spending for consulting and contract labor in connection with transitioning to a stand-alone entity as well as management fees for which there was minimal comparable cost in the Combined Year 2002.

All other general and administrative expense decreased $33.8 million, or 55.3%, to $27.3 million for the Combined Year 2003 from $61.1 million for the Combined Year 2002. The Combined Year 2002 includes ten months of allocations from Qwest, including costs for information technology, finance and human resource services. The costs of these services are incurred directly in salaries and wages, advertising and contractor and professional fees in the Combined Year 2003.

Combined Year 2002 compared to the Combined Year 2001

We have provided the following combined results because (1) we believe that such financial information is important to an investor s understanding of the impact of the Acquisitions on Dex Media s future financial results and (2) Dex Media, Dex East and Dex West were under common management for all periods presented. The financial information for the Combined Year 2002 is the result of the aggregation of the historical financial results of our Predecessor for the period of January 1, 2002 to November 8, 2002, our historical financial results for the period of November 9, 2002 to December 31, 2002 and the historical financial results of Dex West for the year ended December 31, 2002. The financial information for the Combined Year 2001 is the result of the aggregation of the historical financial results of our Predecessor for the year ended December 31, 2001 and Dex West for the year ended December 31, 2001. Because our relationship with Qwest Dex, as well as Qwest and its other affiliates, changed as a result of the Acquisitions, we expect that our cost structure will change from that reflected in our historical results of operations, including combined results of operations that follow. There were no significant transactions between Dex Media (including our Predecessor) and Dex West to consider in combining the results as described above. Although we have provided these combined results in order to provide a more meaningful discussion of the periods presented, this presentation is not in accordance with generally accepted accounting principles due to the change in the basis that resulted from the Acquisitions.

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The results of operations below include the effects of purchase accounting for both periods presented and therefore are not comparable. Please refer to the section Items Affecting Comparability Between Periods and the discussion below for detail regarding the effects of these adjustments.

(Dollars in thousands)	Combined Year 2002	Combined Year 2001
Revenue		
Local directory services	$ 1,279,297	$ 1,259,752
National directory services	231,379	245,129
Total directory services	1,510,676	1,504,881
Other revenue	37,516	41,538
Total revenue	1,548,192	1,546,419
Cost of revenue	479,022	481,782
Gross profit	1,069,170	1,064,637
Gross margin	69.1%	68.8%
General and administrative expense, including bad debt expense	$ 163,832	$ 122,583

Revenue

Total revenue increased by $1.8 million, or 0.1%, to $1,548.2 million for the Combined Year 2002 from $1,546.4 million for the Combined Year 2001. Total revenue for the Combined Year 2002 included $1,510.7 million in directory services revenue and $37.5 million in revenue for all other products. The effects of purchase accounting for deferred revenue totaled $41.5 million for the Combined Year 2002. Excluding the effects of purchase accounting, total revenue would have been $1,589.7 million for the Combined Year 2002, a $43.3 million, or 2.8%, increase from $1,546.4 million for the Combined Year 2001. Total revenue, excluding the effects of purchase accounting for the Combined Year 2002, included $1,552.2 million in directory services revenue and $37.5 million in revenue for all other products. The increase in total revenue, excluding the effects of purchase accounting, is substantially due to increases in local directory service revenue and revenue from national advertisers, as discussed below.

Total directory services revenue, which consists of local and national directory services revenue, increased $5.8 million, or 0.4%, to $1,510.7 million for the Combined Year 2002 from $1,504.9 million for the Combined Year 2001. Excluding the effects of purchase accounting, total directory services revenue increased by $47.3 million, or 3.1%, to $1,552.2 million for the Combined Year 2002 from $1,504.9 million for the Combined Year 2001.

Directory services revenue is affected by a variety of volume and pricing factors. Volume related factors include quantity of ads sold, the change in mix of ads among our product families and the proportion of ads sold with premium features. Pricing factors include certain price increases that are applied by product and market and that are offset by discount programs that may be offered in select local markets for targeted products or headings. Such factors generally affect the dollar volume of orders initiated in a period which are recognized as revenue over the life of a given directory, beginning in the month of delivery. Multiple factors contribute to changes in revenue, and although no single factor can be distinguished as the primary cause, improvements in product mix and pricing, combined with stable customer retention, contributed to our increased directory services revenue.

Local directory services revenue increased $19.5 million, or 1.6%, to $1,279.3 million for the Combined Year 2002 compared to $1,259.8 million for the Combined Year 2001. Excluding the effects of purchase accounting of $27.1 million for the Combined Year 2002, local directory services revenue increased by $46.6 million, or 3.7%, to $1,306.4 million from $1,259.8 million for the Combined Year 2001. Local directory services revenue, excluding the effects of purchase accounting for the Combined Year 2002 accounted for 82.2% of revenue compared to 81.5% of revenue for the Combined Year 2001.

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Revenue from national advertisers, including Qwest, decreased $13.8 million, or 5.6%, to $231.4 million for the Combined Year 2002 compared to $245.1 million for the Combined Year 2001. Excluding the effects of purchase accounting of $14.4 million for the Combined Year 2002, revenue from national advertisers, including Qwest, increased $0.7 million, or 0.3%, to $245.8 million compared to $245.1 million for the Combined Year 2001. Revenue from national advertisers, including Qwest, excluding the effects of purchase accounting for the Combined Year 2002, accounted for 15.5% of revenue compared to 15.9% of revenue for the Combined Year 2001.

Other revenue decreased by $4.0 million, or 9.7%, to $37.5 million for the Combined Year 2002 from $41.5 million for the Combined Year 2001.

Cost of revenue

Cost of revenue recognized was $479.0 million for the Combined Year 2002 compared to $481.8 million for the Combined Year 2001. Excluding the effects of purchase accounting for deferred costs of $10.6 million for the Combined Year 2002, cost of revenue recognized would have been $489.6 million for the Combined Year 2002 compared to $481.8 million for the Combined Year 2001. Cost of revenue recognized represented 30.8% of revenue for the Combined Year 2002, compared to 31.2% for the Combined Year 2001.

For the Combined Year 2002 and the Combined Year 2001, we incurred costs subject to deferral and amortization of $476.3 million and $480.3 million, respectively. Costs subject to deferral and amortization include employee costs, direct costs of publishing, sales commissions and other costs.

Employee costs incurred increased by $5.6 million, or 3.0%, to $190.9 million for the Combined Year 2002 from $185.3 million for the Combined Year 2001. This increase in salaries and wages resulted from annual wage increases and higher commission payments associated with revenue growth.

Direct costs of publishing incurred, which include paper, printing and distribution, were $176.0 million and $178.0 million for the Combined Year 2002 and the Combined Year 2001, respectively. The decrease was due in part to a reduction in the number of copies printed resulting from increased demand for CD-Rom versions of our directories.

National commissions incurred decreased by $14.3 million, or 22.6%, to $48.9 million for the Combined Year 2002 from $63.2 million for the Combined Year 2001.

Other cost of revenue incurred, which primarily includes contractor and professional fees, office and facilities expense, system costs and other expenses, increased by $6.7 million, or 12.5%, to $60.5 million for the Combined Year 2002 from $53.8 million for the Combined Year 2001.

Gross profit

Our gross profit was $1,069.2 million for the Combined Year 2002 compared to $1,064.6 million for the Combined Year 2001. Excluding the effects of purchase accounting for the Combined Year 2002, gross profit would have been $1,100.1 million compared to $1,064.6 million for the Combined Year 2001. Gross margin, excluding the effects of purchase accounting for the Combined Year 2002 increased to 69.2% compared to 68.8% for the Combined Year 2001.

General and administrative expense

General and administrative expense, excluding depreciation and amortization, increased $41.2 million, or 33.6%, to $163.8 million for the Combined Year 2002 from $122.6 million for the Combined Year 2001.

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Employee costs increased $22.9 million to $21.1 million for the Combined Year 2002 from a credit of $1.8 million for the Combined Year 2001. Included in employee costs are employee pension benefits which increased $14.7 million, to a credit of $2.4 million from a credit of $17.4 million for the Combined Year 2001.

Bad debt expense increased $2.5 million, or 5.4%, to $48.6 million for the Combined Year 2002 from $46.1 million for the Combined Year 2001. Bad debt expense, excluding the effects of purchase accounting for the Combined Year 2002, was 3.1% as a percent of total revenue compared to 3.0% for the Combined Year 2001.

Advertising decreased $9.7 million, or 59.1%, to $6.7 million for the Combined Year 2002 from $16.4 million for the Combined Year 2001. Advertising as a percent of revenue decreased to 0.4% from 1.1% for the Combined Year 2002 and the Combined Year 2001, respectively.

Contractor and professional fees were $26.3 million and $8.1 million for the Combined Year 2002 and the Combined Year 2001, respectively. The increase resulted primarily from professional fees related to the acquisition of Dex East and increased expenses related to marketing research.

All other general and administrative expense increased $7.3 million, or 13.6%, to $61.1 million for the Combined Year 2002 from $53.8 million for the Combined Year 2001.

Historical Results of Operations of Dex Media

Nine Months Ended September 30, 2004 compared to the Nine Months Ended September 30, 2003

The nine months ended September 30, 2004 include the results of operations for Dex Media West, whereas the results of operations for the nine months ended September 30, 2003 do not include the results of Dex West prior to the Dex West Acquisition on September 9, 2003. Consequently, the periods presented are non-comparable. As such, we have provided a comparison of the nine months ended September 30, 2004 to the combined nine months ended September 30, 2003 under Results of Operations Nine Months Ended September 30, 2004 compared to the Nine Months Ended September 30, 2003. In addition and as described further below, in connection with the acquisition of Dex West, we acquired intangible assets subject to amortization and incurred significant indebtedness.

Amortization of Intangibles

In connection with the Dex West Acquisition, we recorded significant intangible assets at the date of the Dex West Acquisition. Substantial portions of these assets have definite lives and are subject to amortization. For the nine months ended September 30, 2004 and 2003, we recognized $309.3 million and $174.8 million, respectively, in amortization expense related to our identifiable intangible assets.

Interest Expense

We incurred significant indebtedness in connection with the Dex West Acquisition. As such, interest expense subsequent to and prior to the Dex West Acquisition are not comparable. We recognized interest expense of $387.3 million and $162.3 million for the nine months ended September 30, 2004 and 2003, respectively. Interest expense for the nine months ended September 30, 2004 includes $46.3 million of amortization of deferred financing costs, including the write off of $5.6 million deferred financing costs in conjunction with our subsidiaries senior subordinated note redemption. Interest expense for the nine months ended September 30, 2004 also includes $30.6 million of accretion on discount notes, $24.1 million of early redemption premiums and an accelerated payment of $6.3 million accrued interest paid to redeem a portion of our subsidiaries senior subordinated notes. Interest expense for the nine months ended September 30, 2003 includes $14.1 million of amortization of deferred financing costs.

Income Taxes

SFAS No. 109 requires that we recognize deferred income tax assets on net operating losses to the extent realization of these assets is more likely than not. As of September 30, 2004, we have recorded $99.8 million of deferred income tax assets resulting primarily from net operating loss carryforwards. Based upon current projections of income and expenses, we have determined that it is more likely than not that we will utilize these deferred tax assets before the expiration of the net operating loss carryforward periods. Accordingly, no valuation allowance has been recorded.

Year ended December 31, 2003 compared to the Combined Successor and Predecessor Period

The following discussion and analysis is based on the historical financial information of Dex Media. For the periods prior to the consummation of the of Dex East Acquisition on November 8, 2002, the historical financial information of Dex Media is that of our Predecessor. For the periods subsequent to November 8, 2002, the historical financial information of Dex Media is primarily that of Dex Media East. The financial information for the periods prior to November 8, 2002 reflect the historical basis of accounting of Qwest Dex, Inc. s operations in the Dex East States, while the financial information for the periods subsequent to November 8, 2002 reflect the effects of purchase accounting; therefore, the financial information for these periods is not comparable. In reviewing the following information, it should be noted that there is significant additional non-comparability among the periods presented because Dex Media consummated the Dex West Acquisition on September 9, 2003 and therefore the results of operations for the year ended December 31, 2003 include the operations of Dex Media West since its acquisition.

The results of operations below include adjustments for the effects of purchase accounting for both periods presented and therefore are not comparable. Please refer to the section Items Affecting Comparability Between Periods and the discussion below for detail regarding the effects of these adjustments.

(Dollars in thousands)	**Year ended December 31, 2003**	**Combined Successor and Predecessor Period 2002**
Revenue		
Local directory services	$ 768,144	$ 536,402
National directory services	88,162	95,076
Total directory services	856,306	631,478
Other revenue	26,466	16,515
Total revenue	882,772	647,993
Cost of revenue	265,333	197,266
Gross profit	617,439	450,727
Gross margin	69.9%	69.6%
General and administrative expense, including bad debt expense	$ 146,480	$ 70,108

Revenue

Total revenue increased by $234.8 million, or 36.2%, to $882.8 million for the year ended December 31, 2003 from $648.0 million for the Combined Successor and Predecessor Period. The effects of purchase accounting for deferred revenue totaled $118.2 million and $41.5 million for the year ended December 31, 2003 and the Combined Successor and Predecessor Period, respectively. Excluding the effects of purchase accounting in each year, total revenue would have been $1,001.0 million for the year ended December 31, 2003, which includes 113 days of Dex Media West revenue, a $311.5 million, or 45.2%, increase from $689.5 million for the Combined Successor and Predecessor Period. Total revenue, excluding the effects of purchase accounting, included $974.5 million in directory services revenue and $26.5 million in revenue for all other products. The increase in total revenue, excluding the effects of purchase accounting, is substantially due to increases in local directory service revenue and revenue from national advertisers, as discussed below.

Total directory services revenue, which consists of local and national directory services revenue, increased $224.8 million, or 35.6%, to $856.3 million for the year ended December 31, 2003 from $631.5 million for the

Combined Successor and Predecessor Period. Excluding the effects of purchase accounting in each year, total directory services revenue increased by $301.5 million, or 44.8%, to $974.5 million for the year ended December 31, 2003 from $673.0 million for the Combined Successor and Predecessor Period.

Directory services revenue is affected by a variety of volume and pricing factors. Volume related factors include quantity of ads sold, the change in mix of ads among our product families and the proportion of ads sold with premium features. Pricing factors include certain price increases that are applied by product and market and that are offset by discount programs that may be offered in select local markets for targeted products or headings. Such factors generally affect the dollar volume of orders initiated in a period which are recognized as revenue over the life of a given directory, beginning in the month of delivery. Multiple factors contribute to changes in revenue, and although no single factor can be distinguished as the primary cause, improvements in product mix and pricing, combined with stable customer retention, contributed to our increased directory services revenue, excluding the effect of purchase accounting.

Local directory services revenue increased $231.7 million, or 43.2%, to $768.1 million for the year ended December 31, 2003 compared to $536.4 million for the Combined Successor and Predecessor Period. The effects of purchase accounting on local directory services revenue totaled $50.5 million and $27.1 million for the year ended December 31, 2003 and the Combined Successor and Predecessor Period, respectively. Excluding the effects of purchase accounting in each year, local directory services revenue increased by $255.1 million, or 45.3%, to $818.6 million for the year ended December 31, 2003 from $563.5 million for the Combined Successor and Predecessor Period. Local directory services revenue, excluding the effects of purchase accounting in each year, accounted for 81.8% and 81.7% of revenue for the year ended December 31, 2003 and the Combined Successor and Predecessor Period, respectively.

Revenue from national advertisers, including Qwest, decreased $6.9 million, or 7.3%, to $88.2 million for the year ended December 31, 2003 compared to $95.1 million for the Combined Successor and Predecessor Period. The effects of purchase accounting on revenue from national advertisers totaled $67.7 million and $14.4 million for the year ended December 31, 2003 and the Combined Successor and Predecessor Period, respectively. Excluding the effects of purchase accounting in each year, revenue from national advertisers, including Qwest, increased $46.4 million, or 42.4%, to $155.9 million for the year ended December 31, 2003 compared to $109.5 million for the Combined Successor and Predecessor Period. Revenue from national advertisers, including Qwest, excluding the effects of purchase accounting in each year, accounted for 15.6% and 15.9% of revenue for the year ended December 31, 2003 and the Combined Successor and Predecessor Period, respectively.

Other revenue increased by $10.0 million, or 60.3%, to $26.5 million for the year ended December 31, 2003 from $16.5 million for the Combined Successor and Predecessor Period.

Cost of revenue

Cost of revenue recognized was $265.3 million for the year ended December 31, 2003 compared to $197.3 million for the Combined Successor and Predecessor Period. Cost of revenue recognized reflects reductions to costs related to purchase accounting of $32.6 million and $10.6 million for the year ended December 31, 2003 and the Combined Successor and Predecessor Period, respectively. Excluding the effects of purchase accounting for deferred costs, cost of revenue recognized would have been $297.9 million for the year ended December 31, 2003, which includes 113 days of expense for Dex Media West, compared to $207.9 million for the Combined Successor and Predecessor Period. Cost of revenue recognized, excluding the effects of purchase accounting, represented 29.8% of revenue for the year ended December 31, 2003, compared to 30.2% for the Combined Successor and Predecessor Period.

For the year ended December 31, 2003 and the Combined Successor and Predecessor Period, we and our Predecessor incurred costs subject to deferral and amortization of $297.3 million and $207.2 million, respectively. Costs subject to deferral and amortization include certain employee costs, direct costs of publishing, sales commissions, systems costs and other costs.

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Employee costs incurred increased by $43.0 million, or 50.2%, to $128.7 million for the year ended December 31, 2003 from $85.7 million for the Combined Successor and Predecessor Period. This increase was primarily a result of increases in the number of employees, higher cost of medical insurance and higher sales commissions and sales incentives paid to employees.

Direct costs of publishing incurred, which include paper, printing and distribution, were $97.8 million and $76.5 million for the year ended December 31, 2003 and the Combined Successor and Predecessor Period, respectively. The increase is primarily a result of the inclusion of 113 days of expense for Dex Media West for the year ended December 31, 2003 offset by differences in directory publication schedules between the periods.

National commissions incurred increased by $5.4 million, or 24.0%, to $27.9 million for the year ended December 31, 2003 from $22.5 million for the Combined Successor and Predecessor Period.

Systems costs incurred increased $11.2 million to $20.8 million for the year ended December 31, 2003 from $9.6 million for the Combined Successor and Predecessor Period as a result of increased technology spending associated with being a stand-alone entity.

Other cost of revenue incurred, which primarily includes contractor and professional fees and office and facilities expense, increased by $9.2 million, or 71.3%, to $22.1 million for the year ended December 31, 2003 from $12.9 million for the Combined Successor and Predecessor Period.

Gross profit

Our gross profit was $617.4 million for the year ended December 31, 2003 compared to $450.7 million for the Combined Successor and Predecessor Period. Gross profit for the year ended December 31, 2003 includes the operations of Dex Media West subsequent to the Dex West Acquisition on September 9, 2003. The operations of Dex West are not included in the 2002 Combined Successor and Predecessor Period. Excluding the effects of purchase accounting in each year, gross profit for the year ended December 31, 2003 would have been $703.0 million compared to $481.6 million for the Combined Successor and Predecessor Period. Gross margin, excluding the effects of purchase accounting, increased to 70.2% for the year ended December 31, 2003 from 69.8% for the Combined Successor and Predecessor Period.

General and administrative expense

General and administrative expense, excluding depreciation and amortization, increased $76.4 million to $146.5 million for the year ended December 31, 2003, which includes 113 days of expense for Dex Media West, from $70.1 million for the Combined Successor and Predecessor Period. The increase was primarily due to the inclusion of 113 days of expense for Dex Media West in 2003 not in 2002 and due to increases in employee costs, bad debt expense, advertising, contractor and professional fees and other general and administrative expense associated with operating as a stand-alone company.

Employee costs increased $40.2 million to $49.9 million for the year ended December 31, 2003 from $9.7 million for the Combined Successor and Predecessor Period primarily due to increases in salaries and wages and employee benefits of $26.6 million and $10.7 million, respectively. Salaries and wages increased as a result of additional stand-alone costs resulting from operating as a separate entity from Qwest, including additional employees in information technology, finance and human resources. The services related to the stand-alone costs were previously provided to our Predecessor by Qwest, and were included in other general and administrative expense in periods of the Predecessor, as further discussed below. Salary and wages also includes an increase in bonus expense for the year ended December 31, 2003 compared to the Combined Successor and Predecessor Period. Employee benefits increased due to additional costs related to transitioning to a stand-alone entity including pension and other post-retirement expense of $9.0 million for the year ended December 31, 2003 compared to pension credits, net of other post-retirement expense, of $1.7 million for the Combined Successor and Predecessor Period.

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Bad debt expense increased $17.5 million to $34.8 million for the year ended December 31, 2003 from $17.3 million for the Combined Successor and Predecessor Period due to the effects of weak local economies and aging receivables. Bad debt expense as a percent of total revenue, excluding the effects of purchase accounting, was 3.5% for the year ended December 31, 2003 compared to 2.5% for the Combined Successor and Predecessor Period.

Advertising increased $16.2 million to $19.9 million for the year ended December 31, 2003 from $3.7 million for the Combined Successor and Predecessor Period due to efforts to increase customer awareness, including promoting the new Dex trademark and product offerings. Advertising as a percent of revenue, excluding the effects of purchase accounting, increased to 2.0% from 0.5% for the year ended December 31, 2003 and the Combined Successor and Predecessor Period, respectively.

Contractor and professional fees increased $16.7 million to $30.8 million for the year ended December 31, 2003 from $14.1 million for the Combined Successor and Predecessor Period. The increase in contractor and professional fees is primarily due to increased spending for consulting and contract labor in connection with transitioning to a stand-alone entity as well as management fees for which there was minimal comparable cost for the Combined Successor and Predecessor Period.

All other general and administrative expense decreased $14.2 million, or 56.1%, to $11.1 million for the year ended December 31, 2003 from $25.3 million for the Combined Successor and Predecessor Period. The Combined Successor and Predecessor Period includes ten months of allocations from Qwest, including costs for information technology, finance and human resource services. The costs of these services are incurred directly in salaries and wages, advertising and contractor and professional fees in 2003.

Amortization of intangibles

In connection with the Acquisitions, we recorded significant intangible assets at each respective acquisition date. Substantial portions of these assets have definite lives and are subject to amortization. For the year ended December 31, 2003 and the Successor Period, we recognized $290.1 million and $31.8 million, respectively, in amortization expense related to our identifiable intangible assets. There were no comparable expenses in periods of the Predecessor.

Interest expense

We incurred significant indebtedness in connection with the Acquisitions. As such, interest expense between the Predecessor Period and the Successor Period is not comparable. We recognized interest expense of $277.6 million and $27.9 million, for the year ended December 31, 2003 and the Successor Period, respectively.

Other expense

Other expense consists primarily of accrued fees to various financial institutions for financing commitments relating to the Dex West Acquisition. The obligation for such fees was extinguished in connection with the consummation of the Dex West Acquisition on September 9,

2003. For the year ended December 31, 2003 and the Successor Period we recognized $11.7 million and $2.6 million in other expense related to the accrual of such fees.

Income taxes

SFAS No. 109 requires that we recognize deferred income tax assets on net operating losses to the extent realization of such assets is more likely than not. As of December 31, 2003 we have recorded $69.2 million of deferred income tax assets resulting primarily from net operating loss carryforwards of $140.7 million. Based upon current projections of income and expenses, we have determined that it is more likely than not that we will utilize these deferred tax assets before the expiration of the net operating loss carryforward periods. Accordingly, no valuation allowance has been recorded.

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Combined Successor and Predecessor Period compared to the year ended December 31, 2001

For purposes of comparison and analysis, the Successor Period from November 9 to December 31, 2002 has been combined with the Predecessor Period from January 1 to November 8, 2002 for the Combined Successor and Predecessor Period and the financial information for the year ended December 31, 2001 is that of our Predecessor. Although we have provided these combined results in order to provide a more meaningful discussion of the periods presented, this presentation is not in accordance with generally accepted accounting principles due to the change in basis of our assets that resulted from the Dex East Acquisition.

The results of operations below include adjustments for the effects of purchase accounting for both periods presented and therefore are not comparable. Please refer to the section Items Affecting Comparability Between Periods and the discussion below for detail regarding the effects of these adjustments.

(Dollars in thousands)	Combined Successor and Predecessor 2002 Period	Year ended December 31, 2001
Revenue		
Local directory services	$ 536,402	$ 540,640
National directory services	95,076	107,410
Total directory services	631,478	648,050
Other revenue	16,515	18,157
Total revenue	647,993	666,207
Cost of revenue	197,266	209,050
Gross profit	450,727	457,157
Gross margin	69.6%	68.6%
General and administrative expense, including bad debt expense	$ 70,108	$ 47,610

Revenue

Total revenue decreased by $18.2 million, or 2.7%, to $648.0 million for the Combined Successor and Predecessor Period from $666.2 million for the year ended December 31, 2001. The effects of purchase accounting for deferred revenue totaled $41.5 million for the Combined Successor and Predecessor Period. Excluding the effects of purchase accounting, total revenue would have been $689.5 million for the Combined Successor and Predecessor Period, a $23.3 million, or 3.5%, increase from $666.2 million for the year ended December 31, 2001. Total revenue, excluding the effects of purchase accounting for the Combined Successor and Predecessor Period, included $673.0 million in directory services revenue and $16.5 million in revenue for all other products. The increase in total revenue, excluding the effects of purchase accounting for the Combined Successor and Predecessor Period, is substantially due to increases in local directory service revenue and revenue from national advertisers, as discussed below.

Total directory services revenue, which consists of local and national directory services revenue, decreased $16.6 million, or 2.6%, to $631.5 million for the Combined Successor and Predecessor Period from $648.1 million for the year ended December 31, 2001. Excluding the effects of purchase accounting for the Combined Successor and Predecessor Period, total directory services revenue increased by $24.9 million, or 3.8%, to $673.0 million for the Combined Successor and Predecessor Period from $648.1 million for the year ended December 31, 2001.

Directory services revenue is affected by a variety of volume and pricing factors. Volume related factors include quantity of ads sold, the change in mix of ads among our product families and the proportion of ads sold with premium features. Pricing factors include certain price increases that are applied by product and market and that are offset by discount programs that may be offered in select local markets for targeted products or headings. Such factors generally affect the dollar volume of orders initiated in a period which are recognized as revenue

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over the life of a given directory, beginning in the month of delivery. Multiple factors contribute to changes in revenue, and although no single factor can be distinguished as the primary cause, improvements in product mix and pricing, combined with stable customer retention, contributed to our increased directory services revenue.

Local directory services revenue decreased $4.2 million, or 0.8%, to $536.4 million for the Combined Successor and Predecessor Period compared to $540.6 million for the year ended December 31, 2001. The effects of purchase accounting on local directory services revenue totaled $27.1 million for the Combined Successor and Predecessor Period. Excluding the effects of purchase accounting for the year ended December 31, 2002, local directory services revenue increased by $22.9 million, or 4.2%, to $563.5 million for the Combined Successor and Predecessor Period from $540.6 million for the year ended December 31, 2001. Local directory services revenue, excluding the effects of purchase accounting for the Combined Successor and Predecessor Period, accounted for 81.7% and 81.2% of total revenue for the Combined Successor and Predecessor Period and the year ended December 31, 2001, respectively.

Revenue from national advertisers, including Qwest, decreased $12.3 million, or 11.5%, to $95.1 million for the Combined Successor and Predecessor Period compared to $107.4 million for the year ended December 31, 2001. The effects of purchase accounting on revenue from national advertisers totaled $14.4 million for the Combined Successor and Predecessor Period. Excluding the effects of purchase accounting in each year, revenue from national advertisers, including Qwest, increased $2.1 million, or 2.0%, to $109.5 million for the Combined Successor and Predecessor Period compared to $107.4 million for the year ended December 31, 2001. Revenue from national advertisers, including Qwest, excluding the effects of purchase accounting for the Combined Successor and Predecessor Period, accounted for 15.9% of revenue compared to 16.1% of revenue for the year ended December 31, 2001.

Other revenue decreased by $1.6 million, or 9.0%, to $16.5 million for the Combined Successor and Predecessor Period from $18.2 million for the year ended December 31, 2001.

Cost of revenue

Cost of revenue recognized was $197.3 million for the Combined Successor and Predecessor Period compared to $209.1 million for the year ended December 31, 2001. Cost of revenue recognized reflects reductions to costs related to purchase accounting of $10.6 million for the Combined Successor and Predecessor Period. Excluding the effects of purchase accounting for deferred costs, cost of revenue recognized would have been $207.9 million for the Combined Successor and Predecessor Period. Cost of revenue recognized, excluding the effects of purchase accounting for the Combined Successor and Predecessor Period, represented 30.2% of revenue as compared to 31.4% for the year ended December 31, 2001.

For the Combined Successor and Predecessor Period and the year ended December 31, 2001, we incurred costs subject to deferral and amortization of $207.2 million and $208.1 million, respectively. Costs subject to deferral and amortization include employee costs, direct costs of publishing, sales commissions and other costs.

Employee costs incurred increased by $4.6 million, or 5.7%, to $85.7 million for the Combined Successor and Predecessor Period from $81.1 million for the year ended December 31, 2001. This increase in salaries and wages resulted from annual wage increases and higher commission payments associated with revenue growth.

Direct costs of publishing incurred, which include paper, printing and distribution were $76.5 million and $77.3 million for the Combined Successor and Predecessor Period and the year ended December 31, 2001, respectively. The decrease was due in part to a reduction in the number of copies printed resulting from increased demand for CD-Rom versions of our directories.

National commissions incurred decreased by $4.6 million, or 17.0%, to $22.5 million for the Combined Successor and Predecessor Period from $27.1 million for the year ended December 31, 2001.

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Other cost of revenue incurred, which primarily includes contractor and professional fees and office and facilities expense, system costs and other expenses, decreased by $0.1 million, or 0.4%, to $22.5 million for the Combined Successor and Predecessor Period from $22.6 million for the year ended December 31, 2001.

Gross profit

Our gross profit was $450.7 million for the Combined Successor and Predecessor Period compared to $457.2 million for the year ended December 31, 2001. Excluding the effects of purchase accounting for the Combined Successor and Predecessor Period, gross profit would have been $481.6 million. Gross margin, excluding the effects of purchase accounting for the Combined Successor and Predecessor Period, increased to 69.8% from 68.6% for the year ended December 31, 2001.

General and administrative expense

General and administrative expense, excluding depreciation and amortization, increased $22.5 million, or 47.3%, to $70.1 million for the Combined Successor and Predecessor Period from $47.6 million for the year ended December 31, 2001. The increase was primarily due to increases in benefits and contracting and professional fees.

Employee costs increased $12.8 million to $9.7 million for the Combined Successor and Predecessor Period from a credit of $3.1 million for the year ended December 31, 2001. Included in employee costs are employee benefits which increased $11.5 million, to $1.7 million from a credit of $9.8 million for the year ended December 31, 2001. The increase in employee benefits resulted from the incurrence of pension credits of $1.7 million for the Combined Successor and Predecessor Period compared to pension credits of $9.6 million for the year ended December 31, 2001.

Bad debt expense increased $1.2 million, or 7.5%, to $17.3 million for the Combined Successor and Predecessor Period from $16.1 million for the year ended December 31, 2001. Bad debt expense as a percent of total revenue, excluding the effects of purchase accounting for the Combined Successor and Predecessor Period, was 2.5% compared to 2.4% for the year ended December 31, 2001.

Advertising decreased $3.3 million, or 47.1%, to $3.7 million for the Combined Successor and Predecessor Period from $7.0 million for the year ended December 31, 2001. Advertising as a percent of revenue, excluding the effects of purchase accounting for the Combined Successor and Predecessor Period, was 0.5% compared to 1.1% for the year ended December 31, 2001.

Contractor and professional fees were $14.1 million for the Combined Successor and Predecessor Period compared to $3.6 million for the year ended December 31, 2001. The increase resulted primarily from professional fees related to the acquisition of Dex East and increased expenses related to marketing research.

All other general and administrative expense increased $1.3 million, or 5.4%, to $25.3 million for the Combined Successor and Predecessor Period from $24.0 million for the year ended December 31, 2001.

Income taxes

SFAS No. 109 requires that we recognize deferred income tax assets on net operating losses to the extent realization of such assets is more likely than not. As of December 31, 2002 we have recorded $21.2 million of deferred income tax assets resulting primarily from net operating loss carryforwards of $40.7 million. Based upon current projections of income and expenses, we have determined that it is more likely than not that we will utilize these deferred tax assets before the expiration of the net operating loss carryforward periods. Accordingly, no valuation allowance has been recorded.

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Liquidity and Capital Resources

Overview

Following the Acquisitions, our primary source of liquidity continues to be cash flow generated from the operations of our subsidiaries. Our subsidiaries also have availability under their revolving credit facilities, subject to certain conditions.

In connection with the Acquisitions, we incurred $3,653.0 million of borrowings under our subsidiaries credit facilities and $2,140.0 million of indebtedness with the issuance of outstanding subsidiary notes. On November 10, 2003, we issued $500.0 million of 8% notes due 2013 and $389.0 million aggregate principal amount at maturity of 9% discount notes due 2013 for aggregate gross proceeds of $750.2 million. On February 11, 2004, we issued an additional $361.0 million aggregate principal amount at maturity of 9% discount notes due 2013 for gross proceeds of $250.5 million. The gross proceeds of $750.2 million and $250.5 million were paid by us as a distribution to our parent and ultimately to the Sponsors. As a result of these issuances, our liquidity requirements have significantly increased due to increased debt service obligations. These notes are expected to be serviced and repaid from distributions from Dex Media East and Dex Media West, subject in each case to restrictions contained in our subsidiaries respective debt agreements. As of September 30, 2004, we had outstanding $5,838.9 million in aggregate indebtedness due to aggregate debt repayments since the Acquisitions of $994.5 million, accretion on the 9% discount notes due 2013 of $33.8 million and foreign currency exchange loss through November 2003 of $6.0 million. In connection with our initial public offering, Dex Media East redeemed $183.8 million in aggregate principal amount of its 12 $^{1}/8$% senior subordinated notes at a redemption price of 112.125% plus accrued and unpaid interest and Dex Media West redeemed $18.2 million of its 9 $^{7}/8$% senior subordinated notes at a redemption price of 109.875% plus accrued and unpaid interest on August 26, 2004. A portion of the proceeds from our initial public offering was used to fund the redemption obligations.

Our subsidiaries credit facilities each consist of revolving credit and term loan facilities. The revolving credit facility for Dex Media East expiring in November 2008 and the revolving credit facility for Dex Media West expiring in September 2009 are each comprised of total principal of up to $100.0 million, both of which are available for general corporate purposes, subject to certain conditions. Our subsidiaries term loan facilities consist of Tranche A term loan facilities and Tranche B term loan facilities. The Tranche A term loan facility and Tranche B term loan facility for Dex Media East mature in November 2008 and May 2009, respectively. The Tranche A term loan facility and Tranche B term loan facility for Dex Media West mature in September 2009 and March 2010, respectively.

Our subsidiaries credit facilities bear interest, at their option, at either:

- a base rate used by JPMorgan Chase Bank, N.A. (JPMorgan Chase Bank) plus an applicable margin; or

- a eurocurrency rate on deposits for one, two, three or six-month periods (or nine or twelve-month periods if, at the time of the borrowing, all lenders agree to make such a duration available), plus an applicable margin.

The applicable margins on loans under our subsidiaries revolving credit facilities, the Tranche A term loan facilities and the Tranche B term loan facilities are subject to change depending on the leverage ratio of Dex Media East or Dex Media West, as applicable. In addition to paying interest on outstanding principal amounts under our subsidiaries credit facilities, our subsidiaries are required to pay an annual commitment fee of 0.375% (reduced from 0.500% when the credit facilities were amended on June 11, 2004) to the lenders for the unused commitments under our subsidiaries revolving credit facilities. The commitment fees are payable quarterly in arrears.

On June 11, 2004, we entered into amended and restated credit agreements to, among other things, (i) reduce the applicable margins on loans under our subsidiaries credit facilities and the commitment fees on their revolving credit facilities, (ii) permit the redemption of (A) all of our 5% Series A preferred stock, which was held by our Sponsors and management, plus accrued and unpaid dividends, (B) up to 35% of Dex Media East s outstanding 12 1/8% senior subordinated notes due 2012 and its associated redemption premium, plus accrued and unpaid interest, and (C) up to 35% of Dex Media West s outstanding 9 7/8% senior subordinated notes due 2013 and its associated redemption premium, plus accrued and unpaid interest, in each case, from proceeds from our initial public offering, (iii) make a final lump sum payment to our Sponsors to terminate the annual advisory fees payable under the management consulting agreements, (iv) permit Dex Media East and Dex Media West to distribute to us the funds required to pay dividends on our common stock if and when such dividends are declared, in an amount up to $70.0 million annually, and (v) permit Dex Media East and Dex Media West to distribute to us up to an aggregate of $10.0 million annually to pay our incremental operating expenses and the corporate overhead costs and expenses directly attributed to us having become a publicly traded company. The amendments to the credit agreements, except the repricing of the applicable margins and commitment fees which were effective on June 11, 2004, were effective immediately upon the consummation of our initial public offering.

On November 24, 2004, Dex Media East and Dex Media West amended their respective credit agreements, which included a further reduction in the applicable margins on loans under the Tranche B term loan facilities. In addition, Dex Media West repaid $300.0 million of its Tranche A term loans with the proceeds of the offering of its 5 7/8% senior notes.

Our subsidiaries credit facilities contain negative and affirmative covenants and requirements affecting us, domestic subsidiaries that we create or acquire and our subsidiaries, with certain exceptions set forth in our subsidiaries credit agreements. Our subsidiaries credit facilities contain the following negative covenants and restrictions, among others: restrictions on liens, sale-leaseback transactions, incurrence of debt, payment of dividends and other restricted junior payments, redemptions and stock repurchases, consolidations and mergers, acquisitions, asset dispositions, investments, loans, advances, changes in line of business, changes in fiscal year, restrictive agreements with subsidiaries, transactions with affiliates, capital expenditures, amendments to charter, by-laws and other material documents, hedging agreements and inter-company indebtedness. Our subsidiaries credit facilities also require Dex Media East or Dex Media West, as applicable, to meet certain financial covenants, including leverage ratios, an interest coverage ratio and a fixed charges coverage ratio.

Dex Media East and Dex Media West each entered into a billing and collection services agreement with Qwest LEC upon the consummation of the respective Acquisitions, which were renewed effective November 1, 2004. Under these renewed agreements, Qwest LEC will continue until December 31, 2008 to bill and collect, on our behalf, amounts owed by our accounts, that are also Qwest local telephone customers, for our directory services. In 2003, Qwest LEC billed approximately 47% of our revenue, excluding the effects of purchase accounting, on our behalf, and we billed the remaining 53% directly. Qwest LEC bills the account on the same billing statement on which it bills the customer for local telephone service. In connection with the Acquisitions, we developed and continue to maintain the ability to transition those accounts billed by Qwest from the Qwest LEC billing and collection system to our own billing and collection system within approximately two weeks should we choose to do so.

Sources of Liquidity

Nine months ended September 30, 2004

Net cash provided by operations was $354.2 million and $243.8 million for the nine months ended September 30, 2004 and 2003, respectively. Cash provided by operations was generated primarily from cash receipts from the sale of directory advertisements, reduced by cash disbursements for cost of revenue incurred, general and administrative expenses and interest expense.

Net cash used for investing activities was $42.8 million and $4,372.6 million for the nine months ended September 30, 2004 and 2003, respectively. The principal use of cash for investing activities for the nine months ended September 30, 2004 was expenditures for property, plant and equipment and software. The principal use of cash flows for investing activities for the nine months ended September 30, 2003 was $4.3 billion consideration paid in connection with the Dex West Acquisition.

Net cash (used for) and provided by financing activities was $(315.0 million) and $4,140.8 million for the nine months ended September 30, 2004 and 2003, respectively. Significant uses of cash flows for the nine months ended September 30, 2004 included $539.4 million of total debt repayments including $202.0 million for the redemption of our subsidiaries senior subordinated notes in conjunction with our initial public offering, $250.5 million of distributions to our parent and ultimately to the Sponsors and $128.5 million for the redemption of preferred stock including accumulated and unpaid dividends. Significant sources of cash flows in the nine months ended September 30, 2004 included $250.5 million of long-term borrowings and $375.0 million from the issuance of common stock in our initial public offering. The main uses of cash flows for the nine months ended September 30, 2003 were $229.9 million of repayments on long-term borrowings. The principal sources of cash flows for the nine months ended September 30, 2003 were borrowings of $3.5 billion under our subsidiaries senior credit facilities, issuance of preferred stock of $192.4 million and issuance of common stock of $769.6 million to fund the Dex West Acquisition.

Year ended December 31, 2003

Net cash provided by operations was $380.4 million for the year ended December 31, 2003, and $77.4 million for the Successor Period. Cash provided by operations was generated primarily from cash receipts from the sale of directory advertisements, reduced by cash disbursements for cost of revenue incurred, general and administrative expenses and interest expense.

Net cash used for investing activities was $4,366.6 million and $2,803.7 million for the year ended December 31, 2003 and the Successor Period, respectively. The principal use of cash flows for investing activities for the year ended December 31, 2003 was $4,344.5 million for the acquisition of Dex West (which includes $54.4 million in acquisition fees), $31.4 million for capitalized software and $9.1 million of property, plant and equipment purchases. These were offset by $17.2 million in proceeds received from the disposition of our investment in a partnership interest held by Dex Media International Inc. (formerly LCI International Inc.). The principal use of cash flows for investing activities for the Successor Period was the $2,754.0 million purchase price and the $44.2 million payment of fees related to the Dex East Acquisition.

Net cash provided by financing activities was $3,956.0 million and $2,763.9 million for the year ended December 31, 2003 and for the Successor Period, respectively. The principal sources of cash flows provided by financing activities for year ended December 31, 2003 came from proceeds from issuance of long term debt and preferred and common stock, totaling $5,250.2 million, obtained in relation to the consummation of the Dex West Acquisition in September of 2003. Significant uses of cash flows for financing activities for the year ended December 31, 2003 includes $750.2 million in distributions to our parent, $405.1 million of net repayments on long-term borrowings, and $125.4 million in payment of deferred financing costs related to the Dex West Acquisition. The principal source of cash flows provided by financing activities for the Successor Period were proceeds from issuance of long term debt and preferred and common stock, totaling $2,910.0 million, obtained in relation to the consummation of the Dex East Acquisition in November of 2002. Significant uses of cash flows for financing activities for the Successor Period included $50.0 million of net repayments on long-term borrowings and $96.1 million in payment of deferred financing costs related to the Dex East Acquisition.

Our ability to make payments on and to refinance our indebtedness and to fund planned capital expenditures will depend to a large extent on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under our subsidiaries credit facilities will be adequate to meet our future liquidity needs for at least the next 12 months.

We cannot assure you, however, that our business will generate cash flow from operations in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. The restrictive covenants under our subsidiaries note indentures and credit agreements prohibit us from commingling the funds of our

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subsidiaries. They also prohibit our subsidiaries from borrowing any funds from each other. Despite the restrictive covenants under our subsidiaries note indentures and credit agreements limiting our ability to incur additional indebtedness and dispose of our assets, we have multiple sources of limited liquidity that we may access to meet our ongoing business needs, including:

i. Cash from operating cash flow.

ii. Up to $199.1 million of our subsidiaries revolving facilities available to our subsidiaries as of September 30, 2004.

iii. Other unsecured indebtedness up to an aggregate principal amount of $360.0 million, of which our subsidiaries may incur up to an aggregate principal amount of $125.0 million.

iv. Our subsidiaries may sell, or dispose of, assets up to $10.0 million and $15.0 million annually for Dex Media East and Dex Media West, respectively, subject to an aggregate amount of $20.0 million and $30.0 million, respectively.

v. The proceeds from any debt issuance, which our subsidiaries may use as long as the respective leverage ratio of Dex Media East and Dex Media West is at or below 4.0 to 1.0.

vi. Our subsidiaries may use the proceeds from any equity offering as follows: a) 50%, if the respective leverage ratio is above 4.0 to 1.0 or b) 100%, if the respective leverage ratio is at or below 4.0 to 1.0.

Our subsidiaries credit agreements and indentures of the senior notes and senior subordinated notes permit our subsidiaries to pursue the option of financing capital expenditures with capital leases as long as the aggregate outstanding balance of capital leases is not in excess of $30.0 million at any time for Dex Media East and $45.0 million at any time for Dex Media West. As of September 30, 2004, the consolidated outstanding balance of capital leases was $0.9 million.

Our access to liquidity will improve when the respective leverage ratios of Dex Media East and Dex Media West drop below 4.0 to 1.0. The leverage ratios can be improved by reducing debt levels or increasing the amount of earnings before interest, taxes, depreciation and amortization (EBITDA). When our subsidiaries leverage ratio is under 4.0 to 1.0, our subsidiaries may retain any proceeds from debt or equity issuances for any business purpose, except for the optional repayment of non-credit facility related debt with equity proceeds. If our subsidiaries use equity proceeds to optionally repay a cumulative amount of non-credit facility related debt in excess of $20.0 million, our subsidiaries are required to repay equal amounts of debt under the term facilities with the proceeds from the same equity issuances. We cannot provide you any assurance that the leverage ratio of Dex Media East or Dex Media West will drop below 4.0 to 1.0.

Uses of Liquidity

We expect that our primary liquidity requirements will be for debt service on our indebtedness, our subsidiaries credit facilities and notes, capital expenditures and working capital. During the nine months ended September 30, 2004, we used cash generated from operations in excess of liquidity requirements to make optional repayments under our subsidiaries credit facilities.

Our capital expenditure requirements over the last three years (including the combined Predecessor Period and Successor Period) averaged $21.0 million per year, or 2.7% of average total revenue, excluding the effects of purchase accounting. We expect that our capital expenditures in 2004 will not be materially greater than in the Combined Year 2003. During 2004, we expect that our capital expenditures will include approximately $34 million related to software development and implementation related to the replacement of our production system with technology from Amdocs.

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The following table sets forth, as of December 31, 2003, debt, lease and employment agreement obligations for the next several years:

(Dollars in Thousands)	2004	2005	2006	2007	2008	2009 and Thereafter	Total
Debt, Lease and Employment Agreement Obligations:							
Long-Term Debt	$ 71,023	$ 276,688	$ 357,175	$ 402,114	$ 688,065	$ 4,302,369	$ 6,097,434
Operating Leases	15,152	12,904	10,850	8,099	5,332	6,268	58,605
Capital Leases	805	830	437	25			2,097
Employment Agreements[1]	3,525	2,988	306				6,819
Total Debt, Lease and Employment Agreement Obligations	$ 90,505	$ 293,410	$ 368,768	$ 410,238	$ 693,397	$ 4,308,637	$ 6,164,955

(1) The amounts set forth above represent the amount of base salary payable to the executives during the initial term of employment assuming that all such executives remain employed by us until the end of the initial term. For additional information regarding the employment agreements of certain of our senior executive officers, please see Executive Compensation-Employment Agreements.

Our subsidiaries, Dex Media East and Dex Media West, together made required and optional repayments in an aggregate principal amount of $337.4 million of their respective credit facilities and redeemed $202.0 million under their senior subordinated notes during the nine months ended September 30, 2004, using the excess cash flow generated from operations and a portion of the net proceeds from our initial public offering. As a result of the repayments, our consolidated debt portfolio, consisting of the amounts borrowed under the credit facilities, senior notes, senior subordinated notes and discount notes, is comprised of 57.2% fixed rate debt and 42.8% floating rate debt as of September 30, 2004. Mandatory repayments or optional repayments under the Dex Media East and Dex Media West credit facilities in the future will cause the percentage of fixed rate debt in the debt portfolio to increase. As fixed rate debt as a percentage of total debt increases, the effective interest rate of our debt portfolio will rise. Due to the current low interest rate environment, the floating rate debt under the credit facilities have significantly lower interest rates than the fixed interest rates of senior notes and senior subordinated notes. If short-term interest rates rise, the effective interest rate of the portfolio will also increase.

Tranche A and Tranche B of Dex Media East s term loan credit facilities have required quarterly principal repayments that were scheduled to begin September 30, 2003 and continue until the maturity dates of the facilities. Any optional repayment is applied to reduce the subsequent scheduled repayments of each tranche, in direct order of the first four scheduled repayments, and thereafter, ratably. As a result of the optional and mandatory repayments that have been made through December 31, 2004, the next mandatory repayment is due on March 31, 2005 in an amount of $26.3 million.

Tranche A and Tranche B of Dex Media West s term loan credit facilities have required quarterly principal repayments that were scheduled to begin June 30, 2004 and continue until the maturity dates of the facilities. Any optional repayment is applied to reduce the subsequent scheduled repayments of each tranche, in direct order of the first four scheduled repayments, and thereafter, ratably. As a result of the optional repayments that have been made through December 31, 2004, the required quarterly repayments for each tranche in the period from June 30, 2004 to March 31, 2005 were reduced to zero. The first mandatory repayment is now due on June 30, 2005 in an amount of $26.7 million.

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At December 31, 2003, the aggregate amounts of required principal payments on long-term debt are as follows (in thousands):

2004	$ 71,023
2005	276,688
2006	357,175
2007	402,114
2008	688,065
Thereafter	4,302,369
	$ 6,097,434

On November 10, 2003, we issued $500.0 million of 8% notes due 2013 and $389.0 million aggregate principal amount at maturity of 9% discount notes due 2013 for gross proceeds of $750.2 million. The gross proceeds of $750.2 million were paid by us as a distribution to our parent. Our parent distributed the gross proceeds from the offering to its equity holders. We did not receive any of the proceeds from the offering. These notes are expected to be serviced and repaid from distributions to us from Dex Media East and Dex Media West, subject in each case to restrictions contained in our subsidiaries respective debt agreements. Accordingly, our subsidiaries cash requirements will increase in May 2009 when cash interest becomes payable on our 9% discount notes.

On February 11, 2004, we issued another $361.0 million aggregate principal amount at maturity of 9% discount notes due 2013 for gross proceeds of $250.5 million. The gross proceeds of $250.5 million were paid by us as a distribution to our parent. Our parent distributed the gross proceeds from the offering to its equity holders. We did not receive any of the proceeds from the offering. These discount notes defer interest until May 2009 at which time Dex Media East and Dex Media West will be expected to service and repay this debt in the form of distributions to us, subject in each case to restrictions contained in our subsidiaries respective debt agreements.

We have no operations of our own and we derive all of our cash flow and liquidity from our subsidiaries. We depend on the earnings and the distribution of funds from Dex Media East and Dex Media West to meet our liquidity needs. Although our subsidiaries are not obligated to make funds available to us for any purpose, Dex Media East and Dex Media West are expected to make cash distributions of up to $8.4 million and $11.6 million, respectively, to us semi-annually to service our cash interest obligations on the 8% notes due 2013, subject to certain covenant requirements under the subsidiary note indentures and the credit agreements. Particularly, Dex Media East s indentures relating to the senior notes and the senior subordinated notes prohibit Dex Media East from distributing funds to us if the amount of such distribution, together with all other restricted payments made since November 8, 2002, would exceed the sum of (i) 50% of the adjusted consolidated net income accrued by Dex Media East since January 1, 2003, (ii) the aggregate net proceeds from the sale of capital stock of Dex Media East, (iii) the amount of debt issued after the date of the indenture relating to the senior notes or senior subordinated notes that is subsequently converted into capital stock, and (iv) certain amounts of payments received or credited to Dex Media East by its unrestricted subsidiaries. In addition, in order to make any such distributions of funds to Dex Media, Dex Media East would have to meet the leverage tests relating to the issuance of indebtedness under the indentures relating to its senior notes and senior subordinated notes. The indentures relating to the senior notes and the senior subordinated notes of Dex Media West permit Dex Media West and its restricted subsidiaries to make one or more distributions to Dex Media with an aggregate amount not to exceed $50.0 million each fiscal year for the sole purpose of paying interest on Dex Media s debt obligations. However, the indentures prohibit Dex Media West and its restricted subsidiaries from distributing funds to Dex Media in excess of $50.0 million each fiscal year to service interest on Dex Media s debt obligations or for any other purpose if the amount of such distribution, together with all other restricted payments made by Dex Media West since September 9, 2003, would exceed the sum of (i) 100% of the adjusted earnings before interest, tax, depreciation and amortization accrued since January 1, 2004 less 1.4 times the consolidated interest expense for the same period, (ii) the aggregate net proceeds from the sale of capital stock of Dex Media

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West, (iii) the amount of debt issued after the date of the indenture relating to the senior notes or senior subordinated notes that is subsequently converted into capital stock, and (iv) certain amounts of payments received or credited to Dex Media West by its unrestricted subsidiaries. In addition, in order to make any such distributions of funds to Dex Media, Dex Media West would have to meet the leverage tests relating to the issuance of indebtedness under the indentures relating to its senior notes and senior subordinated notes.

Although the terms of Dex Media East s credit facilities permit Dex Media East to pay cash distributions to us in an amount not to exceed 42% of the regularly scheduled interest payments on the initial $250.0 million of the $500.0 million of 8% notes due 2013, Dex Media East must meet an interest coverage ratio for the four consecutive fiscal quarters prior to the payment of the distribution to us to cover Dex Media East s 42% portion of the regularly scheduled interest payments on the remaining $250.0 million of the $500.0 million of 8% notes due 2013. In addition, the terms of Dex Media West s credit facilities permit Dex Media West to pay cash dividends to us in an amount not to exceed 58% of the regularly scheduled interest payments on the initial $250.0 million of the $500.0 million of 8% notes due 2013, Dex Media West must meet an interest coverage ratio for the four consecutive fiscal quarters prior to the payment of the dividend to us to cover Dex Media West s 58% portion of the regularly scheduled interest payments on the remaining $250.0 million of the $500.0 million of 8% notes due 2013.

Additionally, although the terms of our subsidiaries credit facilities permitted Dex Media to issue the outstanding discount notes, such credit facilities do not specifically permit the payment of dividends to Dex Media to pay cash interest on the outstanding discount notes when cash interest becomes payable on such notes on May 15, 2009. Accordingly, any dividend to Dex Media for payment of cash interest on the outstanding discount notes must be permitted to be paid pursuant to the subsidiaries indentures described in the previous paragraph and the general dividend basket of each of our subsidiaries credit facilities, which restricts Dex Media East (including its immediate parent and its subsidiaries) and Dex Media West (including its immediate parent and its subsidiaries), as applicable, from paying dividends to Dex Media in excess of $5.0 million and $12.5 million per year, respectively, if Dex Media East (including its immediate parent and its subsidiaries) or Dex Media West (including its immediate parent and its subsidiaries), as applicable, does not comply with a coverage ratio and a leverage ratio test; furthermore, assuming the applicable parties comply with such tests, any such dividend would be limited to a portion of excess cash flow (as defined in the Dex Media East and Dex Media West credit facilities). If Dex Media East and Dex Media West are not able to pay Dex Media dividends under the general dividend basket of our subsidiaries credit facilities in amounts sufficient to meet our obligations to pay cash interest on the outstanding discount notes once cash payments become due, we will need to refinance or amend our subsidiaries credit facilities before such date. We cannot assure you that we will be able to refinance or amend our subsidiaries credit facilities on commercially reasonable terms or at all.

Furthermore, our subsidiaries are permitted under the terms of our subsidiaries credit facilities, the indentures governing the subsidiary notes and the terms of other indebtedness to enter into other agreements or incur additional indebtedness that may severely restrict or prohibit the making of distributions, the payment of dividends or the making of loans by such subsidiaries to us. In addition to these contractual restrictions and prohibitions, the laws of our subsidiaries jurisdiction of organization may restrict or prohibit the making of distributions, the payment of dividends or the making of loans by our subsidiaries to us. We cannot assure you that the agreements governing the current and future indebtedness of our subsidiaries, other agreements of our subsidiaries and statutory restrictions will permit our subsidiaries to provide us with sufficient dividends, distributions or loans to fund scheduled interest and principal payments on our indebtedness when due.

In addition to the limitations on distributions, dividends or loans to Dex Media by our subsidiaries mentioned above, our subsidiaries credit facilities, the indentures governing our notes, the terms of our other indebtedness or any future agreements may prohibit or limit our ability to, among other things, dispose of assets (including the stock of our subsidiaries), issue additional indebtedness, or issue equity securities, which transactions could provide funds to make payments on our notes if not prohibited or limited. In addition, even if such transactions were permitted, use of the proceeds therefrom for payment on our notes may be prohibited or

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limited by agreements governing our current and future indebtedness. The indentures governing our notes will not significantly limit our subsidiaries from entering into agreements restricting such distributions, dividends or loans. We cannot assure you that the agreements governing our current and future indebtedness or other agreements will permit Dex Media to engage in transactions to fund scheduled interest and principal payments on our indebtedness when due, if such transactions are necessary. See Risk Factors The indentures governing our subsidiaries notes may restrict Dex Media s access to the cash flow and other assets of our subsidiaries that may be needed to make payment on its indebtedness or the payment of dividends on its common stock, The terms of our subsidiaries credit facilities may limit our subsidiaries ability to pay dividends to Dex Media and Our subsidiaries may enter into additional agreements or financings in the future which could further limit Dex Media s ability to access the assets and cash flow of our subsidiaries.

In addition, we cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to our subsidiaries under our subsidiaries revolving credit facilities in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. Further, if we consummate an acquisition, our debt service requirements could increase. We may need to refinance all or a portion of our indebtedness on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. See Risk Factors The indentures governing our subsidiaries notes may restrict Dex Media s access to the cash flow and other assets of our subsidiaries that may be needed to make payment on its indebtedness or the payment of dividends on its common stock, The terms of our subsidiaries credit facilities may limit our subsidiaries ability to pay dividends to Dex Media and Our subsidiaries may enter into additional agreements or financings in the future which could further limit Dex Media s ability to access the assets and cash flow of our subsidiaries.

Quantitative and Qualitative Disclosure About Market Risk

Interest Rate Risk

As of September 30, 2004, we had no borrowings outstanding under our subsidiaries revolving credit facilities (although $0.9 million was committed under a stand-by letter of credit), and $2,866.4 million of debt outstanding under our subsidiaries term loan facilities. Our subsidiaries revolving credit facilities and term loan facilities are subject to variable rates. Accordingly, our earnings and cash flow are affected by changes in interest rates. As required by the terms of these credit facilities, we have hedged a portion of our interest rate risk. The interest rate swap agreements, which became effective May 8, 2003, have an aggregate notional amount of $370.0 million, with applicable fixed rates ranging from 2.354% to 4.085%. They will expire in various terms ranging from November 2004 to May 2008. The notional amount of our interest rate cap totals $200.0 million, has a cap interest rate of 4.75% and expires in May 2005. Assuming we had incurred this level of borrowings on January 1, 2004 with interest rate under these borrowings, our interest expense for the nine months ended September 30, 2004 would have increased by $12.7 million. In October 2004, we entered into four fixed interest rate swaps with an aggregate notional amount of $300.0 million, with applicable preset monthly rates ranging from 1.901% to 3.610%. They will expire in October 2006. We do not intend to use any financial derivative instruments for speculative purposes.

Foreign Currency Exchange Risk

On November 10, 2003, Dex Media East restructured its credit facilities to replace the Euro-denominated portion of its tranche B term loan facility with a larger US dollar denominated tranche B term loan facility. In connection with this restructuring, Dex Media East eliminated the currency risk exposure in the tranche B term loan facility and terminated the cross currency swap that had been in place since November 2002. In addition, a one-percent prepayment fee totaling $6.2 million was paid in connection with the restructuring and is included in interest expense. Dex Media East realized a total, after-tax gain of $3.1 million from this cross-currency swap since its inception.

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Material Trends, Known Facts and Uncertainties

Advertising Revenue

Directory services revenue is our most significant source of revenue. Competition from other yellow pages publishers affects our ability to attract and retain advertisers and to increase advertising rates. The effect of competition and the current economic cycle on our revenue, excluding the effects of purchase accounting, can be seen in the decreasing revenue growth trend, on a combined revenue basis, of 4.3%, 2.8% and 2.6% in 2001, 2002 and 2003, respectively. We expect that competition will continue to impact future revenue growth. We expect to develop increasing levels of internet related revenue; however, this is a highly competitive industry and is at the early stage of its development, making future direction of internet advertising for directory-related information difficult to forecast.

Paper Prices

Paper is our principal raw material. Substantially all of the paper that we use (other than for covers) is supplied by two companies: Nippon Paper Industries USA, Co., Ltd. (formerly Daishowa America Co., Ltd) and Norske Skog Canada (USA), Inc. Prices under the two agreements are negotiated each year based on prevailing market rates, which have been declining consistent with general U.S. market trends for directory paper over the last three years. After recent favorable trends, during the second half of 2004, pulp prices have been increasing at rates higher than the general inflation rate. This may ultimately result in upward pressure on our paper prices.

Stand-Alone Costs

Historically, Dex East and Dex West reimbursed Qwest for services Qwest and its affiliates provided to Dex East and Dex West based upon either (1) tariffed or negotiated contract rates, (2) market prices or (3) fully distributed costs (FDC). The historical costs for services provided to Dex East and Dex West by Qwest affiliates do not reflect the expenses that we have begun to incur as a stand-alone entity. As of December 31, 2003, we completed the replacement of the services provided by Qwest and Qwest LEC with services provided internally or through arrangements with third parties. The costs we incur on a stand-alone basis are not comparable to historical costs for services previously provided by Qwest and its affiliates.

Usage

Based on industry sources, overall usage of printed yellow pages directories in the U.S. and in the Dex States has declined by a compound annual rate of approximately 2% between 1998 and 2003. Several factors, including the publication of competing directories and the increased usage of Internet-based directories, could cause usage of our printed directories to continue to decline. Any declines in usage could limit our ability to maintain or increase our advertising prices, cause businesses that purchase advertising in our yellow pages directories to reduce or discontinue those purchases and discourage businesses that do not purchase advertising in our yellow pages directories from doing so. Any of these factors could affect our ability to generate revenue and have a material adverse effect on our business.

On-Line Migration

Although we remain primarily focused on our printed directories, we also market an Internet-based directory service, DexOnline.com (formerly Qwestdex.com), to our advertisers. We view our Internet-based directory as a complement to our print product rather than as a stand-alone business. We believe that any decline in the usage of our printed directories could be offset in part by an increase in usage of our Internet-based directory. We also believe that increased usage of Internet-based directories will continue to support overall usage and advertising rates in the U.S. directory advertising industry and could provide us with growth in advertisements. However, if we cannot provide services over the Internet successfully or compete successfully with other Internet-based directory services, our business could be negatively impacted.

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Bond Ratings

In anticipation of the initial public offering of our common stock and the use of a portion of the proceeds to reduce debt, on May 17, 2004, Standard & Poor s Rating Group revised the outlook on our credit ratings to stable from negative.

On July 28, 2004, Moody s Investor Service Inc. upgraded the credit ratings of our notes and our subsidiaries credit facilities, senior notes and senior subordinated notes by two notches. The ratings upgrades do not have any immediate impact on our financing costs.

	Credit Ratings Assigned By Moody s Investor Service, Inc. prior to July 28, 2004	Current Credit Ratings Assigned by Moody s Investor Service, Inc.	Notches Below Investment Grade	Current Credit Ratings Assigned by Standard & Poor s Rating Group	Notches Below Investment Grade
Dex Media s notes	Caa2	B3	6	B	5
Subsidiaries credit facilities	B1	Ba2	2	BB	3
Subsidiaries senior notes	B3	B1	4	B	5
Subsidiaries senior subordinated notes	Caa1	B2	5	B	5

Competition

The U.S. directory advertising industry is competitive. There are a number of independent directory publishers and publishers affiliated with local exchange carriers with which we compete in one or more of the Dex States. For example, new competitive directories were introduced in six of our top ten markets in 2003 compared to just one new competitive directory in 2002.

Through our Internet-based directory, we compete with these publishers and with other Internet sites providing classified directory information. In addition, we compete against other forms of media, including newspapers, radio, television, the Internet, billboards and direct mail, for business and professional advertising.

The foregoing discussion of material trends, known facts and uncertainties should not be construed as exhaustive or as an admission regarding the adequacy of disclosure made by us. We disclaim any intention or obligation to update or revise forward-looking statements, whether as a result of new information, future events or otherwise.

Critical Accounting Policies and Estimates

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The effect and any associated risks related to these policies on our business operations is discussed throughout Management s Discussion and Analysis of Financial Condition and Results of Operations where these policies affect our reported and expected financial results.

Revenue Recognition

The sale of advertising in printed directories published by us is our primary source of revenue. We recognize revenue ratably over the life of each directory using the deferral and amortization method of accounting, with revenue recognition commencing in the month of delivery. Our directories are initially published with an estimated 12-month useful life, although we may revise the estimate of a directory life subsequent to its publication in order to better manage account and production workflow as it relates to other directories published in the same period. Because we generally have the right to bill and collect revenue related to the extension of directory publishing dates, a revision in the estimated life of a given directory should not have a significant impact on our results of operations or cash flows.

Cost of Revenue

Direct costs related to the sales, production and distribution of directories are recognized ratably over the life of each directory under the deferral and amortization method of accounting, with cost recognition commencing in the month of delivery. Direct costs include sales commissions, graphics costs and the costs of printing, publishing and distribution. Revisions in the estimated useful lives of directories after their initial publication may cause the acceleration or deceleration of cost recognition related to the amortization of deferred directory costs. Although we cannot predict the extent such changes could have on future cost recognition, the movement of book publishing dates has historically had a minimal impact on cost recognition between periods.

Allowance for Doubtful Accounts and Bad Debt Expense

We periodically make judgments regarding the collectibility of outstanding receivables and provide appropriate allowances when collectibility becomes doubtful. Although we believe our allowance for doubtful accounts adequately reflects that portion of our receivables that are uncollectible, we may revise our estimates in future periods based upon new circumstances and such revisions may be material.

Income Taxes

It is our determination that it is more likely than not that we will utilize our deferred tax assets before the expiration of the net operating loss carryforward period. This determination is based upon our estimation of projected book and taxable income and expense over the next several years. To the extent our projections vary significantly from actual results, a portion of our deferred tax benefits may not be realizable, resulting in a charge to income tax expense.

Basis of Allocation for Periods of the Predecessor

In order to divide the Qwest Dex combined financial statements between Dex East and Dex West, it was necessary for management of Qwest Dex to make certain assignments and apportionments. Wherever possible, account balances and specific amounts that directly related to Dex East or Dex West were assigned directly to Dex East or Dex West, as appropriate. A substantial portion of the Predecessor s revenue and cost of revenue have been directly assigned on a directory-by-directory basis. When no direct assignment was feasible, account balances were apportioned using a variety of factors based on revenue and/or cost causative relationships to the account balance being apportioned. Expense accounts subject to apportionment primarily consisted of overhead costs and related items that have historically been shared with Qwest Dex.

We believe that such specific identifications, assignments and apportionments are reasonable; however, the resulting amounts could differ from amounts that would have been determined if Dex East and Dex West operated on a stand-alone basis. Because of Dex East s and Dex West s relationship with Qwest Dex, as well as Qwest and its other affiliates, the revenue and expenses are not necessarily indicative of what they would have been had Dex East and Dex West operated without the shared resources of Qwest and its affiliates. Accordingly, the Predecessor s combined financial statements are not necessarily indicative of future results of operations.

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BUSINESS

We are the exclusive publisher of the official yellow pages and white pages directories for Qwest in the following states where Qwest is the primary incumbent local exchange carrier: Arizona, Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington and Wyoming, or collectively the Dex States. Our contractual agreements with Qwest grant us the right to be the exclusive incumbent publisher of the official yellow pages and white pages directories for Qwest in the Dex States until November 2052 and prevent Qwest from competing with us in the directory products business in the Dex States until November 2042.

We seek to bring buyers together with our advertising customers through a cost-effective, bundled advertising solution that includes print, CDROM and Internet-based directories. We generate our revenues primarily through the sale of print directory advertising. For the year ended December 31, 2003, after giving pro forma effect to the Transactions, we generated $1,631.1 million in revenue, $909.7 million in EBITDA, and $31.6 million in net loss. For the nine months ended September 30, 2004, after giving pro forma effect to the Transactions, we generated $1,236.3 million in revenue, $675.6 million in EBITDA and $16.8 million in net loss. Our ability to generate EBITDA, along with low capital expenditure requirements and cash income taxes, allows our business to provide significant free cash flow. See Prospectus Summary Summary Historical and Pro Forma Financial Data.

During 2003, we published 259 directories and distributed approximately 43 million copies of these directories to business and residential customers throughout the Dex States. In addition, our Internet-based directory, DexOnline.com, which provides an integrated complement to our print directories, includes more than 15 million business listings and 200 million residential listings from across the United States. Approximately 96% of our revenue from directory services for the Combined Year 2003 came from the sale of advertising in yellow pages directories, and approximately 4% of our revenue from directory services for the same period came from the sale of advertising in white pages directories.

We believe that our advertising customers value: (i) our lower cost per usage versus other directories and higher return on investment than other forms of local advertising; (ii) our broad distribution to potential buyers of our advertisers products and services; (iii) our ability to provide potential buyers with an authoritative reference source to search for products and services; and (iv) the quality of our client service and support. We have advertising customers across a diverse range of industries and we believe our customer retention rates exceed the averages of other incumbent publishers, or those owned by or affiliated with incumbent local exchange carriers. In 2003, we had over 400,000 local advertising accounts consisting primarily of small and medium-sized businesses and over 4,000 national advertising accounts.

Industry Overview and Outlook

Directory advertising competes with all other forms of media advertising, including television, radio, newspapers, the Internet, outdoor and direct mail. The entire U.S. advertising market was $245.5 billion in 2003, with directory advertising estimated to have captured a 5.7% share of the advertising market. Unlike other advertising, directory advertising is characterized as primarily directional advertising, or advertising targeted at consumers who are actively seeking information and are prepared to purchase a product or service. Historically, the U.S. directory advertising industry has been dominated by the large publishing businesses of regional bell operating companies, or RBOCs, and other incumbent local telephone companies. Over the past few years, RBOC mergers have reduced the number of RBOC-affiliated publishers to four: SBC Directory Operations, Verizon Information Services, BellSouth Advertising & Publishing Corp. and Dex Media.

Directory Advertising Market Size

The U.S. directory advertising industry generated approximately $14 billion in revenues in 2003, with a total circulation of approximately 540 million directories. The industry is characterized by steady and consistent

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growth with revenue increasing at a 3.0%, 3.9% and 3.9% compounded annual growth rate in the periods 1998 to 2003, 1993 to 2003 and 1988 to 2003, respectively. The following chart depicts the estimated size and growth of the U.S. directory advertising industry since 1985.

U.S. Directory Advertising Revenue: 1985 2003

Local Versus National Advertising

While directory advertising is sold on both a local and national basis, local advertising from small and medium-sized businesses constitutes the majority of directory advertising revenue. As shown in the table below, over the last seven years local directory advertising constituted approximately 85% of total revenue for the U.S. directory advertising industry. This is consistent with our experience, where in 2003, local advertising made up approximately 82% of our directory advertising revenue, excluding the effects of purchase accounting.

Local Versus National U.S. Print Directory Advertising: 1997 2003

(Dollars in billions)	1997	% of total	1998	% of total	1999	% of total	2000	% of total	2001	% of total	2002	% of total	2003	% of total	CAGR 97- 03
Local	$ 9.7	85.1%	$ 10.1	84.2%	$ 10.7	84.3%	$ 11.1	84.1%	$ 11.5	84.6%	$ 11.7	84.8%	$ 11.8	84.9%	3.3%
% growth yearly	*NA*		*4.1%*		*5.9%*		*3.7%*		*3.6%*		*1.7%*		*0.9%*		
National	1.7	14.9%	1.9	15.8%	2.0	15.7%	2.1	15.9%	2.1	15.4%	2.1	15.2%	$ 2.1	15.1%	3.6%
% growth yearly	*NA*		*11.8%*		*5.3%*		*5.0%*		*0.0%*		*0.0%*		*0.0%*		
Total Print	$ 11.4	100.0%	$ 12.0	100.0%	$ 12.7	100.0%	$ 13.2	100.0%	$ 13.6	100.0%	$ 13.8	100.0%	$ 13.9	100.0%	3.4%
% growth yearly	*NA*		*5.3%*		*5.8%*		*3.9%*		*3.0%*		*1.5%*		*0.7%*		

Competition Within the Industry

Presently, the industry can be divided into two major groups of directory advertising publishers: incumbent publishers, which includes the directory businesses of RBOCs and other incumbent local telephone companies, and independents, such as TransWestern Publishing Company LLC and the U.S. business of Yell Group Ltd. As shown in the table below, the independents revenues have increased over the last seven years, yet the incumbent publishers remain the dominant players, with an 86.5% share of total 2003 revenue for the U.S. directory advertising industry.

U.S. Print Directory Market Share: 1997 2003

(Dollars in billions)	1997	% of total	1998	% of total	1999	% of total	2000	% of total	2001	% of total	2002	% of total	2003	% of total	CAGR 97- 03
Incumbent Publishers[1]	$ 10.6	93.0%	$ 11.0	91.7%	$ 11.5	90.6%	$ 11.8	89.7%	$ 12.1	89.2%	$ 12.2	88.2%	$ 12.0	86.5%	2.1%
% growth yearly	*NA*		*3.8%*		*4.6%*		*2.6%*		*2.5%*		*0.8%*		*(1.6)%*		
Independent Publishers	0.8	7.0%	1.0	8.3%	1.2	9.4%	1.4	10.3%	1.5	10.8%	1.6	11.8%	1.9	13.5%	15.5%
% growth yearly	*NA*		*25.0%*		*20.0%*		*16.7%*		*7.1%*		*6.7%*		*18.8%*		
Total Print	$ 11.4	100.0%	$ 12.0	100.0%	$ 12.7	100.0%	$ 13.2	100.0%	$ 13.6	100.0%	$ 13.8	100.0%	$ 13.9	100.0%	3.4%
% growth yearly	*NA*		*5.3%*		*5.8%*		*3.9%*		*3.0%*		*1.5%*		*0.7%*		

(1) Includes the directory businesses of RBOCs and other incumbent local telephone companies.

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As the table below illustrates, the U.S. directory advertising industry remains highly concentrated with the incumbent publishers, Dex Media, SBC, Verizon, BellSouth and Sprint, cumulatively generated approximately $12.2 billion, or 88.4%, of total U.S. directory advertising revenue in 2002. The independents segment is highly fragmented and comprised only 11.6% of total directory-related advertising revenue in 2002.

U.S. Directory Advertising Publishers: 2002

(Dollars in billions)

Company	2002 Revenue	Market Share
SBC	$ 4.5	32.6%
Verizon[1]	3.8	27.6%
BellSouth[1]	1.8	13.0%
Dex Media	1.6	11.6%
Yell Group[2]	0.8	5.8%
Sprint	0.5	3.6%
TransWestern	0.3	2.2%
Others	0.5	3.6%
Total	$ 13.8	100%

(1) Represents estimates of U.S. operations only.

(2) Represents the U.S. business of the Yell Group, Ltd., including the revenues of McLeod USA Media Group Inc., which Yell Group, Ltd. acquired in early 2002.

We believe incumbents have a number of advantages over their independent competitors. Incumbents typically can deliver a better value proposition to advertisers, largely due to user perception of accuracy and completeness that comes with their affiliation with the local telecom service provider. Incumbents also benefit from established usage patterns and customer bases. The majority of incumbent sales are made on premise in local offices calling on established clients.

These factors force independents to compete on price while they build their customer bases resulting in listing rates significantly lower than those prices for equivalent products listed by incumbents. Incumbents also benefit from an established operational infrastructure. Printing, publishing, and distribution channels benefit from established long-term relationships. The existing infrastructure, scale of business, and pricing premium allow incumbents to achieve significantly higher EBITDA margins than their independent competitors.

Competition with Other Media

We believe directory advertising is the preferred form of advertising for many small and medium-sized businesses due to its relatively low cost, broad demographic and geographic distribution, enduring presence and high customer usage rates. We believe that directory advertising is attractive to our customers because consumers may view directories as a free, comprehensive, single source of information. While overall advertising tends to track an economy s business cycle, directory advertising tends to be more stable and does not fluctuate widely with economic cycles due to its frequent use by small to medium-sized businesses, often as their principal or only form of advertising. Directory advertising is also less influenced by business cycles because failure to advertise in a given directory cannot be remedied until the replacement directory is published, which is usually one year later. Moreover, most directory publishers, including us, give priority placement within a directory classification to their longest-tenured advertisers. As a result, advertisers have a strong incentive to renew their directory advertising purchases from year to year, so as not to lose their priority placement within the directory.

As the table below highlights, in the last two recessions, in 1991 and 2001, directory advertising was one of the only media segments to show revenue growth. U.S. directory advertising industry revenue increased 3.4% and 3.0% in 1991 and 2001, respectively, while other major media segments declined.

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Advertising Spending by Media Category: 1990 2003

(Dollars in billions)

Year	U.S. Directories	Revenue Growth	Television[1]	Revenue Growth	Radio	Revenue Growth	Newspaper	Revenue Growth
1990	$ 8.9	n/a	$ 28.4	n/a	$ 8.7	n/a	$ 32.3	n/a
1991	$ 9.2	3.4%	$ 27.4	-3.5%	$ 8.5	-2.3%	$ 30.4	-5.9%
1992	$ 9.3	1.1%	$ 29.4	7.3%	$ 8.7	2.4%	$ 30.7	1.0%
1993	$ 9.5	2.2%	$ 29.7	1.0%	$ 9.5	9.2%	$ 32.0	4.3%
1994	$ 9.8	3.2%	$ 34.2	15.2%	$ 10.5	10.5%	$ 34.4	7.5%
1995	$ 10.2	4.1%	$ 37.8	10.5%	$ 11.3	7.6%	$ 36.3	5.5%
1996	$ 10.8	5.9%	$ 42.5	12.5%	$ 12.3	8.8%	$ 38.4	5.8%
1997	$ 11.4	5.6%	$ 44.1	3.8%	$ 13.5	9.8%	$ 41.7	8.6%
1998	$ 12.0	5.3%	$ 47.5	7.7%	$ 15.1	11.9%	$ 44.3	6.2%
1999	$ 12.7	5.8%	$ 52.6	10.7%	$ 17.2	13.9%	$ 46.6	5.4%
2000	$ 13.2	3.9%	$ 60.3	14.6%	$ 19.3	12.2%	$ 49.0	4.9%
2001	$ 13.6	3.0%	$ 54.6	-9.5%	$ 17.9	-7.3%	$ 44.3	-9.6%
2002	$ 13.8	1.5%	$ 58.4	7.0%	$ 18.9	5.6%	$ 44.0	-0.7%
2003	$ 13.9	0.7%	$ 60.7	3.9%	$ 19.1	1.1%	$ 44.8	1.8%
98- 03 CAGR		3.0%		5.0%		4.8%		0.2%

(1) Includes broadcast television and cable and satellite television; excludes barter syndication.

The Internet

Most major directory publishers, including us, operate an Internet-based directory business. The U.S. Internet directory market represented only a small portion of the total U.S. directory advertising market in 2002 with total revenue of approximately $347 million, having grown from approximately $263 million in 2001, an increase of approximately 32%. Industry sources estimate that 70% of 2001 Internet directory revenues were generated by print publishers. Publishers have increasingly bundled online advertising with their traditional print offerings in order to enhance total usage and advertiser value. We expect Internet directory usage to continue to grow steadily in support of overall directory usage.

Competitive Strengths

While the directory advertising industry has become increasingly competitive, we believe that we possess the following strengths that will enable us to continue to compete successfully in the local advertising market:

Scale and leading market position. We are the fourth largest directory publisher in the United States and the exclusive directory publisher for Qwest in the Dex States. We believe that our scale and our incumbent position provide us with a substantial competitive advantage over independent directory advertising providers. During 2003, we printed and distributed approximately 43 million directories. As the incumbent directory publisher in the Dex States, our directories benefit from strong brand recognition as the official yellow pages and have positioned us as the preferred directory for both consumers and local advertisers, many of whom select our directories as their primary advertising medium.

Superior value proposition for our target advertisers. We believe that directory advertising provides our target advertisers, which are primarily small and medium-sized businesses, with a greater value proposition than other media. Directory advertisements enable our advertisers to reach a broad target audience, providing a permanent reference source to search for particular products and services. In addition, we believe that the directional nature of directory advertising is a unique attribute to our media ensuring our advertisers reach their target customers at the key time when they are actively seeking information to make a purchase. Furthermore, we believe that our directory advertising has a lower cost per usage than other directories and higher return on investment than other local advertising alternatives, including newspapers, television, radio and the Internet.

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Established and experienced sales force. As of September 30, 2004, we had 1,013 sales representatives in 49 local offices who have been employed by Dex for an average of nine years. We believe that our sales force s experience, tenure and local market knowledge is a competitive advantage which has enabled us to develop longstanding relationships with our advertisers and was a key factor in our ability to exceed the average revenue growth of the incumbent industry for the Combined Year 2003. Our revenue growth (excluding the effects of purchase accounting) for the Combined Year 2003 was 2.6%.

Attractive market demographics. In 2003, the Dex States on a percentage basis experienced greater job creation and per capita gross state product growth than the United States as a whole. For the period 1995 through 2003, non-agricultural employment grew at an average compounded annual growth rate of 1.3% in the Dex States versus the national average of 1.2%. In addition, gross state product in the Dex States grew at an average compounded annual growth rate of 4.3% versus the national average of 3.3%. We believe our markets are economically diverse, limiting our exposure to economic downturns in specific sectors of the economy.

Stable and recurring revenue. Our business produces stable and recurring revenue because of our large diversified customer base, high account retention and renewal rates and limited exposure to national advertising. In addition, the pre-sold nature of directory advertising provides significant revenue and cash flow visibility as advertisers typically enter into one-year contracts and pay on a monthly basis. As of December 31, 2003, we had over 400,000 local advertising accounts, consisting primarily of small and medium-sized businesses. These local accounts generated approximately 82% of our revenue, excluding effects of purchase accounting, and, in many cases, use yellow pages directories as their primary form of advertising. Our account renewal rate was 91% in 2003. For the Combined Year 2003, no single account contributed more than 0.3% of our total revenue (other than Qwest, which accounted for 1.6% of our total revenue), with our top 10 customers (excluding Qwest) representing less than 1.5% of total revenue. In addition, no single directory heading contributed more than 2.8% of total revenue, with the top 10 directory headings accounting for 15.1% of total revenue.

Strong financial profile generates significant free cash flow. Our business generates significant free cash flow due to its recurring revenue combined with the high margins associated with our incumbent position, low capital expenditures and favorable tax position. For example, for the nine months ended September 30, 2004, we generated $354.2 million in cash provided by operating activities and $306.2 million in free cash flow. For the year ended December 31, 2003, on a pro forma basis giving effect to the Transactions, we generated $909.7 million in EBITDA and $31.6 million in net loss from $1,163.1 million of revenue. For the nine months ended September 30, 2004, after giving pro forma effect to the Transactions, we generated $675.6 million in EBITDA and $16.8 million in net loss from $1,236.3 million of revenue. Over the past three years ending December 31, 2003, we have invested an average of $37.5 million per year in capital expenditures on a combined basis, including capitalized software development costs. We also benefit from the favorable income tax treatment associated with the $6.8 billion step-up in the tax basis of our assets from the Acquisitions, as defined below, which is amortized for tax purposes on a straight-line basis for 15 years. In 2003 and for the nine months ended September 30, 2004, our free cash flow, along with proceeds from our initial public offering in July 2004, allowed us to repay $405.1 million and $539.4 million, respectively, of our indebtedness.

Experienced management team. We have assembled a strong and experienced senior management team across all areas of our organization, including sales, finance, operations, marketing and customer service. Our senior management team has an average of approximately 20 years of company experience in their respective areas of expertise.

Business Strategy

We intend to leverage our incumbent position and strong brand while maintaining an entrepreneurial culture that encourages our employees to identify and capitalize on new opportunities to enhance our position in the Dex States. We believe that our directory advertisements enable our customers to connect with potential buyers in a very cost effective manner, which, when combined with our competitive strengths, will allow us to grow our revenues and cash flows. The principal elements of our business strategy include:

Introducing new products that enhance the value proposition for our customers. We have a long history of introducing and selling new products, product extensions and other innovations that offer creative opportunities for our advertisers to find new customers and generate additional revenue for their products and services. As the incumbent directory publisher in the Dex States, we have a large number of existing advertisers to whom we can effectively market our new products to generate additional revenue. Within the last three years, we introduced the following new products: (i) Dex Web Clicks ™, (ii) targeted segment products within existing directories (local dining guides, golf guides and Spanish Yellow Pages), (iii) a new directory in Lincoln, Nebraska, (iv) two additional white pages directory products (repeating corner advertisement and color offerings) and (v) limited inventory products (e.g. leader advertisements and front cover gate folds). We believe that our ability to innovate our product line will continue to serve as a competitive advantage.

Increasing revenue and customer growth through segmented pricing. Historically, the directory advertising industry has utilized a simplified approach to pricing, with set rates based upon the size and features (e.g., use of color, graphics, etc.) of the advertisement regardless of heading category. We are now instituting a more sophisticated pricing strategy, which prices advertisements by heading category. We believe that implementing this strategy will improve advertiser retention and help drive revenue growth by allowing us to respond to the different demand characteristics of various heading categories and to better align our pricing with our customers perceptions of value.

Further penetrating our addressable markets through enhanced sales force productivity. We believe a significant opportunity exists for our established local sales force to further penetrate the addressable markets that we serve and increase the sales of our services to existing customers. Over the past year, we have taken a number of steps to improve sales force effectiveness including:

(i) servicing our customers on a more cost-effective means based on the revenue generated by such customers;

(ii) rescheduling the launch and duration of sales campaigns to maximize available selling days by allowing our salespeople to more efficiently allocate their time over a broader customer base during the publishing cycle; and

(iii) implementing standardized sales practices and procedures across all markets, including the introduction of PrepSmart, our proprietary sales preparation tool. PrepSmart provides critical account history and advertisement effectiveness to our salespeople, which can be shared with our customers to demonstrate the value of our product and the benefits of enhancements such as colored or larger sized advertisements. We expect our salespeople to offer our existing customers a more consultative approach to their marketing needs by using tools such as PrepSmart, thereby enhancing their relationships and increasing the sales of existing services.

Increasing the value proposition for our customers through a content-driven Internet strategy. We currently provide an Internet-based directory, DexOnline.com, which includes fully searchable content derived from more than 240,000 yellow pages advertisements from our directories. DexOnline.com includes more than 15 million business listings and more than 200 million residential listings from across the United States. The site incorporates free text search capabilities, with a single search box that is similar in design and functionality to popular search engines. We believe that the competitive advantage of DexOnline.com versus search engines is that our content is structured to deliver information from our printed directories on local services and products

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within the Dex States. We are also reviewing opportunities to expand our electronic product line in appropriately structured and cost-effective relationships with other Internet directory providers, portals and search engines. We are committed to developing these opportunities in a manner that will benefit us, and at a scale which is justified by usage and utility to our advertisers.

Strengthen our competitive position by aggressively promoting our superior value proposition. We are investing in brand awareness campaigns that reinforce the benefits that our directories and DexOnline.com offer to advertisers and consumers. Our marketing plan highlights the advantages we enjoy as an incumbent publisher by positioning us as the official directory with the broad distribution, high usage and low cost per usage, which are attributes that advertisers require.

Enhancing our operational efficiency by converting to the Amdocs software system. We are in the process of migrating from our legacy process management infrastructure to Amdocs, an industry-standard software system, that will allow us to better manage every aspect of our production cycle from initial sales call through distribution of our directories. The Amdocs system will enable us to: (i) consolidate our software systems and associated hardware; (ii) maintain a single customer database; (iii) implement a coordinated billing, credit and collection system; (iv) provide new mobile technology for the sales force; (v) automate the entering of customer orders; and (vi) implement our segmented pricing strategy. Upon completion of the Amdocs implementation, we will have reduced the number of process management systems from 54 to 13. We expect the implementation of this system will allow us to improve our operational efficiency and benefit from the associated cost savings.

In addition to our business strategies listed above, although we have no current plans to do so, we may from time to time in the future seek to grow our business by making acquisitions or entering into partnerships and joint ventures.

You should also consider the many risks we face that could limit our ability to implement our business strategies, including:

- our inability to introduce new products in the future could adversely affect our ability to generate additional revenue;
- if we do not successfully implement our new segmented pricing strategy, we may not fully realize the expected growth of our revenues;
- if we experience a significant turnover of our sales force, we will incur additional costs in the hiring and training of new sales force personnel;
- the ability of other search engines to provide local products and services content in a cost-effective manner could adversely affect our Internet strategy;
- competition from other yellow pages publishers has reduced, and may continue to reduce, our revenue growth trend;
- a significant decline in consumer usage could adversely affect our business; and
- our failure to utilize the capabilities of the Amdocs software system could adversely affect our planned operational efficiencies.

In addition, while we may implement individual elements of our strategies, the benefits derived from such implementation may be mitigated in part, or in whole, if we suffer from one or more of the risks described in this prospectus. See Risk Factors and Cautionary Notice Regarding Forward-Looking Statements.

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Markets

For the Combined Year 2003, we published 259 directories, including white pages, yellow pages and other specialty directories, and distributed approximately 43 million copies of these directories to business and residential consumers in metropolitan areas and local communities in the Dex States. Our directories are generally well-established in their communities and cover contiguous geographic areas to create a strong local market presence and to achieve selling efficiencies. The following table shows the percentage of directory services revenue and other data for the Combined Year 2003 for our directories in each state in which we operate:

(Circulation in millions) State	Percentage of directory services revenue[(1)]	Published directories	Total circulation
Washington	17.7%	23	5.0
Colorado	17.5%	34	6.7
Arizona	16.6%	26	10.6
Minnesota	12.5%	40	5.7
Oregon	9.3%	22	3.3
Utah	6.6%	14	2.7
New Mexico	5.0%	18	2.1
Iowa	4.4%	29	2.3
Idaho	3.0%	8	0.4
Nebraska	2.6%	11	1.6
Montana	1.8%	9	0.8
South Dakota	1.1%	7	0.6
Wyoming	1.1%	10	0.5
North Dakota	0.8%	8	0.6
Total	100.0%	259	42.9

(1) Excludes non-print related directory services revenue and includes revenue from affiliates.

We derive a significant portion of our printed revenue from the sale of directory advertising to businesses in large metropolitan areas. For the Combined Year 2003, 45.5% and 61.8% of our directory services revenue was from the sale of directory advertising in our five and ten largest geographic markets, respectively.

Products

Our main product is printed directories, which generated approximately 97% of our total revenue, excluding the effects of purchase accounting, for the Combined Year 2003. We also operate an Internet-based telephone directory and provide direct and database marketing services.

Printed Directories

For the Combined Year 2003, we published 259 printed directories, consisting of:

- 231 directories that contained both white and yellow pages;
- 11 directories that contained only yellow pages, which contains a listing of businesses by various directory headings as well as display and other paid advertisements;
- 12 directories that contained only white pages, which contains a listing of the names, addresses and phone numbers of residences and businesses in the area served, as well as display and other paid advertisements; and
- 5 specialty On the Go directories, which are yellow pages directory editions that are designed for use in the car.

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Whenever practicable, we combine the white and yellow pages sections into one volume.

Our directories are designed to meet the advertising needs of local and national businesses and the informational needs of consumers. The diversity of our advertising options enables us to create customized advertising programs that are responsive to specific customer needs and financial resources. Our yellow pages and white pages directories are also efficient sources of information for consumers, featuring a comprehensive list of businesses in the local market that are conveniently organized under approximately 4,400 directory headings.

Yellow Pages Directories. We offer businesses a basic listing at no charge in the relevant edition of our yellow pages directories. This listing includes the name, address and telephone number of the business and is included in alphabetical order in the relevant heading.

For the Combined Year 2003, we derived approximately 96% of our directory services revenue, excluding the effects of purchase accounting, from the sale of advertising in our yellow pages directories. A range of paid advertising options is available in our yellow pages directories, as set forth below:

Listing Options. An advertiser may enhance its complimentary listing in several ways. It may pay to have its listing placed in additional headings, highlighted or printed in bold or superbold text, which increases the visibility of the listing. An advertiser may also purchase extra lines of text to convey information such as hours of operation or a more detailed description of its business.

In-column Advertising Options. For greater prominence on a page, an advertiser may expand its basic alphabetical listing by purchasing advertising space in the column in which the listing appears. The cost of in-column advertising depends on the size and type of the advertisement purchased. In-column advertisements may include such features as bolding, special fonts, color and graphics.

Display Advertising Options. A display advertisement allows businesses to include a wide range of information, illustrations, photographs and logos. The cost of display advertisements depends on the size and type of advertisement purchased. Display advertisements usually are placed at the front of a heading, and are ordered first by size and then by advertiser seniority. This process of ordering provides a strong incentive to advertisers to increase the size of their advertisements and to renew their advertising purchases from year to year to ensure that their advertisements receive priority placement. Display advertisements range in size from a quarter column to as large as two pages (a double truck advertisement) and three pages (a triple truck advertisement).

Awareness Products. Our line of awareness products allows businesses to advertise in a variety of high-visibility locations on or in a directory. Each directory has a limited inventory of awareness products, which provide high value to advertisers and are priced at a premium to in-column and display advertisements. Our new awareness products include ink jet edge advertisements and front cover gate folds. Our other awareness products include:

Cover. Premium location advertisements are available on the front cover, inside front and back cover and the inside and outside back cover of a directory.

Spine. Premium location advertisements are available on the spine of yellow and white pages directories.

Tabs. A full-page, double-sided, hardstock, full-color insert that is bound inside and that separates key sections of the directory. These inserts enable advertisers to achieve prominence and increase the amount of information displayed to directory users.

Tip-On. Removable paper or magnet coupon placed on the front cover of the directory.

Banners. An ad sold at the bottom of any page in the Community or Government sections of the print directory.

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Delivery Bag. Used in the delivery of hand-delivered print directories. Between one and three advertisers per bag.

White Pages Directories. State public utilities commissions require Qwest, as the local exchange carrier in its local service area, to have white pages directories published to serve the local service areas. Qwest has contracted with us to publish these directories until November 7, 2052. By virtue of this agreement, we provide a white pages listing to every residence and business in a given area that sets forth the name, address and phone number of the residence or business in question unless they have requested to be a non-published or non-listed customer.

For the Combined Year 2003, we derived approximately 4% of our directory services revenue, excluding the effects of purchase accounting, from the sale of advertising in our white pages directories. Advertising options include bolding and highlighting for added visibility, extra lines for the inclusion of supplemental information and in-column and display advertisements. With a renewed focus on selling white pages advertising for the Combined Year 2003, we more than doubled our white pages revenue growth rate over the prior year. We still believe there is an untapped market for selling white pages advertising and intend to continue to pursue our opportunities with innovative new products such as the repeating corner ad and color offerings.

Internet-based Directory and Electronic Products

Although we remain primarily focused on our printed directories, we also market an Internet-based directory service, DexOnline.com (formerly Qwestdex.com), to our advertisers. All of the listings in our printed directories also appear in our Internet-based directory, which is available in real time to users and at no additional charge to our advertisers. We began to post the proprietary display advertisements we create for our printed directories on DexOnline.com in April 2003. We believe these proprietary display advertisements cannot currently be replicated by other Internet-based directories.

In January 2004, we introduced significant new search capabilities. DexOnline.com now includes fully searchable content from our more than 240,000 Yellow Pages advertisements. It also includes more than 15 million business listings and more than 200 million residential listings from across the United States. The new site incorporates free text search capability, with a single search box that is similar in its design and functionality to popular search engines. In addition, we have incorporated intelligence capabilities such as spell check and thesaurus. Users can now refine their searches using important selection criteria that include such things as specific product and brand names, hours of operation, payment options and locations.

We view our Internet-based directory as an integrated complement to our printed directories through expanded distribution capability rather than as a stand-alone business. We believe that increased usage of Internet-based directories, such as DexOnline.com, will serve to enhance overall Yellow Pages advertising usage thereby lowering our advertisers cost per thousand uses (CPMU) despite some growth in advertising rates.

To promote usage of our Internet-based directories, we have bundled some of our Internet products to enhance completeness with our print advertising products. We believe bundling will drive-up our usage rates, which will in turn increase the customer value proposition. As in our printed directories, businesses may pay to enhance their listings on DexOnline.com and for other premium advertising products. Options that are available include extra lines, replica advertisements, website and email link, pop-up windows, priority placement and banners.

Direct Marketing Services

We sell direct marketing lists of residents and businesses within the Dex States that allow our customers to purchase lists for their direct mail and telemarketing activities. We also have an extensive New Mover list that provides businesses access to current new business and/or residence lists in the Dex States. The lists we sell

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comply with do-not-call and do-not-mail requirements for the industry. While we provide customer names, addresses and telephone numbers to outside companies, this information does not include any private, non-published or non-listed information.

We also have insert programs through which we help businesses deliver messages and promotional offers to our customers in conjunction with directories delivered right to the mailbox or doorstep. Customers can choose between Total Market Coverage inserts in directories going to households and businesses within the Dex States, or New Mover Delivery inserts reaching the lucrative market of new movers within a few days of their new phone service connection.

Sales and Marketing

The marketing of directory advertisements is primarily a direct sales effort that requires both maintaining existing customers and developing new customers. Renewing customers comprise our core advertiser base, and a large number of these customers have advertised in our directories for many years. For the Combined Year 2003, we retained approximately 91% of our local advertising accounts from the previous year. This high renewal rate reflects the importance of our directories to our local customers, for whom yellow pages directory advertising is, in many cases, the primary form of advertising. Larger national companies also use advertising in our directories as an integral part of their national advertising strategy.

We believe that we have one of the most experienced sales forces in the U.S. directory advertising industry. We believe this experience has enabled our sales representatives to develop long-term relationships with our advertisers, which we believe promotes a high level of renewal among our customers.

Local Sales Force

As of September 30, 2004, our locally-based sales force was comprised of 1,013 quota-bearing sales representatives who average approximately nine years of employment with us. The sales force is divided into three principal groups:

Premise Sales Representatives. Our 449 premise sales representatives generally focus on high revenue customers. A premise sales representative typically interacts with customers on a face-to-face basis at the customer s place of business.

Telephone Sales Representatives. Our 374 telephone sales representatives generally focus on medium-sized customers. A telephone sales representative typically interacts with customers over the telephone. Telephone sales represent our principal source of new advertisers.

Centralized Sales Representatives. Our 190 centralized sales representatives include both centralized account representatives, who generally focus on the smallest accounts, and prospector sales representatives, who generally focus on customer acquisition.

We assign our customers among premise representatives and telephone representatives based on a careful assessment of a customer s expected advertising expenditures. This practice allows us to deploy our sales force in an effective manner. A majority of our sales force is decentralized and locally based, operating from 49 locations. We believe that our locally-based sales force facilitates the establishment of personal, long-term relationships with local advertisers necessary to maintain a high rate of customer renewal.

We believe that formal training is important to maintaining a highly productive sales force. Our sales force undergoes ongoing training, with new sales representatives receiving approximately eight weeks of training in their first year, including classroom training on sales techniques, our product portfolio, customer care and

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administration and standards and ethics. Following classroom training, they are accompanied on sales calls by experienced sales personnel for further training. Ongoing training and our commitment to developing the best sales practices are intended to ensure that sales representatives are able to give advertisers high-quality service and advice on appropriate advertising products and services.

We have well-established practices and procedures to manage the productivity and effectiveness of our sales force. Each sales representative has a specified customer assignment consisting of both new business leads and renewing advertisers and is accountable for meeting sales goals on a regular basis. Our sales representatives are compensated in the form of base salary and incentive-based compensation. Approximately two-thirds of the total compensation paid to our sales force is in the form of commissions and other incentive-based compensation, making sales force compensation largely tied to sales performance. Our sales force employees are represented by labor unions covered by collective bargaining agreements, which we believe reduce the rate of employee turnover. For the Combined Year 2003, we experienced 15% turnover among our sales representatives.

For purposes of managing our sales force, we divide the local service area into twelve territories. In each territory, between six and 16 sales managers supervise the performance of the sales representatives who are assigned to that territory. Every sales manager within a territory reports to the sales director for the territory, and the 12 sales directors report to the Senior Vice President of Sales for the relevant territory.

In 2002, our Predecessor began compensating our sales managers and directors pursuant to an incentive-based compensation plan that ties their compensation to their success in meeting specific sales targets. Prior to the Acquisitions, bonuses for our sales managers and directors were determined by our Predecessor by reference to Qwest s overall financial performance.

National Sales Force

In addition to our locally-based sales personnel, we have a separate sales channel to serve our national advertisers. National advertisers are typically national or large regional chains, such as rental car companies, insurance companies and pizza delivery businesses, that purchase advertisements in many yellow pages directories in multiple geographical regions. In order to sell to national advertisers, we use the services of third party certified marketing representatives, or CMRs. CMRs design and create advertisements for national companies and place those advertisements in yellow pages directories nationwide. Some CMRs are departments or subsidiaries of general advertising agencies, while others are specialized agencies that focus solely on directory advertising. The national advertiser pays the CMR, which then pays us after deducting its commission. We have contracts with approximately 160 CMRs and employ eight national sales managers to manage our selling efforts to national customers.

Customers

For the Combined Year 2003, we had over 400,000 accounts with local businesses which purchased advertising in our directories. Approximately 82% of our revenue, excluding the effects of purchase accounting, for the Combined Year 2003 was generated by the sale of our advertising to local businesses, which are generally small and medium-sized enterprises. Approximately 15% of our revenue, excluding the effects of purchase accounting, for the Combined Year 2003 was generated by sales to national advertisers. The remaining 3% of our revenue, excluding the effects of purchase accounting, for the Combined Year 2003 was generated from sources other than sales of advertising in our print directories, including Internet-based directory and direct marketing services.

We do not depend to any significant extent on the sale of advertising to a particular industry or to a particular advertiser. For the Combined Year 2003, no single directory heading accounted for more than 2.8% of our total revenue, no single account accounted for more than 0.3% of our total revenue (other than Qwest, which accounted for 1.6% of our total revenue), the top 10 customers (excluding Qwest) accounted for 1.5% of our total

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revenue and the top 10 directory headings accounted for approximately 15% of total revenue. The diversity of our customer base reduces exposure to adverse economic conditions that may affect particular geographic regions or particular industries and provides additional stability in operating results. The table below, which sets forth 2003 information relating to our largest directory headings demonstrates this diversity:

Directory heading	Percentage of directory services revenue
Attorneys	2.8%
Insurance	2.1%
Dentists	1.9%
Plumbing Contractors	1.7%
Auto Repair and Service	1.3%
Storage-Household and Commercial	1.3%
Glass-Auto, Plate, Window, etc.	1.2%
Physicians and Surgeons	1.0%
Roofing Contractors	1.0%
Restaurants	0.8%
Total	15.1%